UniCredit Bank

Meeting real needs with concrete solutions.

2011 Consolidated Reports and Accounts

Celebrating with three million young Europeans.

Bank Austria is one of the main sponsors of the *Donauinselfest*, or Danube Island Festival, one of the largest open-air events in Europe. The 29th annual celebration of *Donauinselfest* will take place from 22 to 24 June, 2012 in Vienna. Each year, this free public festival attracts as many as three million young people from all over Europe. To appreciate the scale of this event, last year's festival featured 18 "festival islands" and 11 stages spread across 4.5 km and involved more than 2000 artists. The bank's significant sponsorship of *Donauinselfest* underscores Bank Austria's strong support for the social and cultural development of young people from across Europe.

Donauinselfest, Wien, Danube Island

UniCredit Bank

Every day, life presents new challenges and opportunities. Every day, we each have a new story to tell that involves tangible needs and requires clear answers.

In this year's annual report, we illustrate our way of banking with stories of the people, businesses and institutions who use our customized solutions. You will read stories about how we worked together to promote sports in schools and how we gave a boost to long-established industrial firms by enabling them to update their machinery. You will also learn about how we have supported the development of new computer systems and have provided broad support to the green economy.

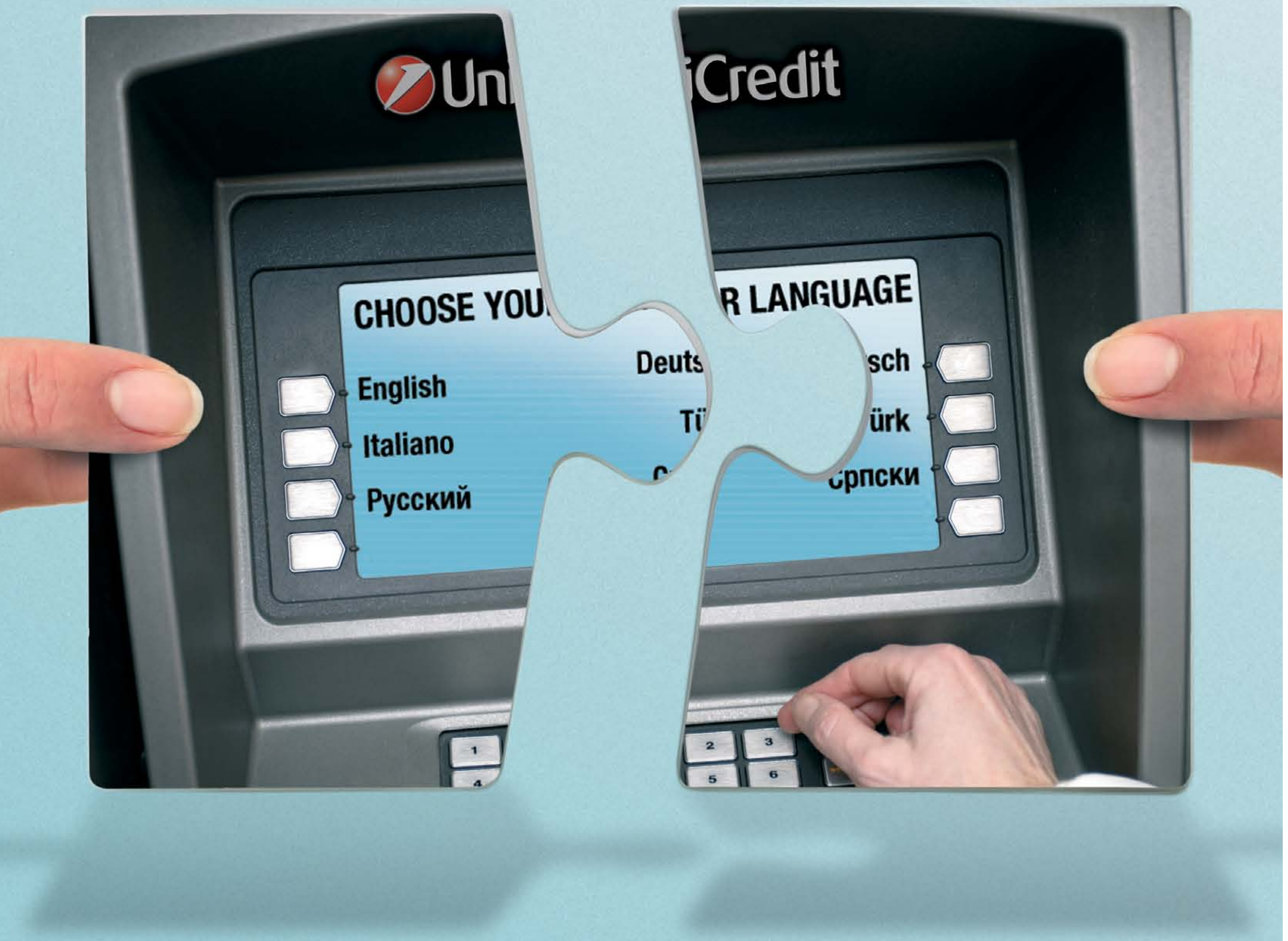
These stories were built on entrepreneurship, courageous innovation, respect for tradition, and our strong bonds with local communities.

We strongly believe that being a bank today means making a concrete difference, day in and day out, for those who have chosen to do business with us. It means facing challenges together and creating a world of new opportunities.

These are true stories - snapshots of ordinary life that shape the mosaic of our daily work. At UniCredit, we are creating a world of relationships, where our stakeholders can best meet the changing needs of the times.

2011 Consolidated Reports and Accounts

Speaking the language of our clients.



As a result of expanded international mobility, many citizens who work in Austria do not speak German. These are citizens of other nationalities and cultures, who need to communicate in their own languages when discussing delicate subjects such as banking transactions. Bank Austria's *Banking Without Borders* programme guarantees that such customers, on any given day, will have access to an employee who speaks his or her own language. Additionally, in Vienna, five branches provide documentation and product literature in several languages other than German. An effective answer to a multicultural society.

Contents

Overview 2011/2010

UniCredit bank Serbia, joint stock company

	2011 000 RSD	2010 000 RSD	2011 000 EUR	2010 000 EUR
Business results				
Operating income	11,410,785	8,560,560	109,047	81,144
Profit/(Loss) before tax	5,046,618	3,987,250	48,228	37,794
Net profit(Loss) for the period	4,540,133	3,590,674	43,388	34,035
Key figures				
Return on equity before tax	13.57%	14.40%	13.57%	14.40%
Return on equity after tax	12.21%	12.97%	12.21%	12.97%
Cost-Income ratio	33.70%	39.11%	33.70%	39.11%
Net fee and commission income to operating income	14.54%	14.46%	14.54%	14.46%
Balance sheet figures				
Balance sheet total	198,568,042	166,982,149	1,897,614	1,582,796
Loans to customes	131,157,030	114,830,093	1,253,401	1,088,455
Shareholders` equity	42,321,059	32,073,031	404,441	304,015
Indices (in accordance with NBS regulations)				
Core capital	40,435,597	31,385,030	386,422	297,494
Total capital	29,982,103	26,507,634	286,524	251,261
Risk Weighted assets	139,746,042	155,044,462	1,335,482	1,469,641
Capital adequacy ratio	21.45%	17.10%	21.45%	17.10%
Stuff number (heads)	977	925	977	925
Network - number of locations	75	72	75	72

Streamlining banking through innovative technology.

In Ukraine, PSJC “Ukrsotsbank”, operating under the trademark of UniCredit Bank™, created *FlexCube*, a fully centralized system for managing the territory’s commercial banking activities.
The programme’s implementation centralized Legal, HR, Back Office and IT functions, transferring them to the same office where a legal team is available to serve customers.
The FlexCube project has improved the servicing of bank accounts, local payments and credit cards. A 10-year agreement outsourcing the information technology system to IBM will allow for improved service and reduced costs. Moreover, Experian has developed FEBO (Fast Evaluation Business Opportunities), a retail evaluation system that manages workflow and measures risk and opportunity. FEBO, which in 2012 was smoothly integrated with FlexCube, is a first step in portfolio management and credit risk reduction. Innovation is a real need and this is a real solution for the benefit of all PSJC “Ukrsotsbank”, customers.

Executive Board

UniCredit Bank Serbia achieved very solid business and financial results in 2011, significantly improving both its competitive position and reputation on the local market. The Bank strongly increased the number of clients and broadened the scope of customer services. Notably, the number of foreign investors, both industrial and portfolio investors, who chose UniCredit as their main bank in Serbia, has risen strongly.

Despite the difficult market conditions, UniCredit Bank continued to demonstrate its strong commitment to the local economy, as is evidenced by the increase of its balance sheet by 19% year-on-year. At the end of 2011, UniCredit ranked third among Serbian banks in terms of total assets. Over the same period, by further improving efficiency of customer related processes and credit risk controls, the Bank managed to increase its net profit after tax by 29% in comparison to the previous year, thereby confirming its position among the most profitable commercial banks on the market.

At the end of 2011 total assets stood at RSD 198.6 billion.
Net loans approved to retail clients and companies increased by 12% to the total amount of RSD 132.3 billion, while client’s deposits increased by the same percentage, to the amount of RSD 78.8 billion. Net profit after taxes reached RSD 4.54 billion. Such strong growth of business results was supported by a further capital increase in the amount of RSD 5.75 billion, bringing the bank’s total capital to the amount of RSD 42.3 billion.

During 2011, UniCredit Bank Serbia continued to invest in expanding and modernizing its network and increasing the number of employees. The number of branches in Serbia increased to 75 and staff levels were increased by 7% to 977.

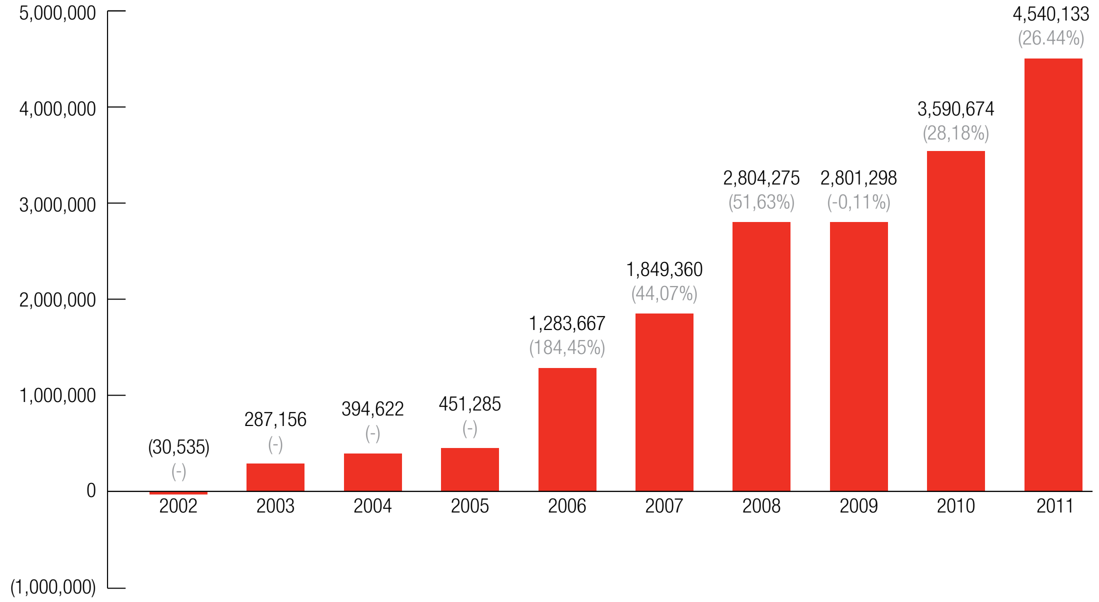
Despite the challenging environment, 2011 was another very successful year for UniCredit in Serbia. Many new customers have chosen us as their main bank, among them the largest foreign investors in the country. Customer satisfaction stayed at very high levels and our skilled staff is highly motivated. This enabled us to maintain our strong growth dynamics, to upscale our customer services and to become Serbia’s third largest bank in terms of assets and net profit. Our ambitious for Serbia will of course not end there and we are very confident that UniCredit Bank Serbia is equipped, capable and ready to do more in the future.

We would take this opportunity to express our gratitude to our customers, business partners and local community for their confidence and to all our employees for their biggest contribution to make year 2011 valuable for further development of the Bank on the Serbian market.

Being part of UniCredit, one of Europe’s leading banking groups, we are also keen to let our customers in Serbia benefit from the advantages of a large network in 22 countries, cutting-edge advisory and financial capabilities, and most importantly in times of a difficult economic environment, our financial solidity and supportive everyday behavior in every customer-related activity. With our high customer orientation, and also with healthy portion of ambition and positive energy, we are looking forward to moving together with our customers towards new goals and challenges.

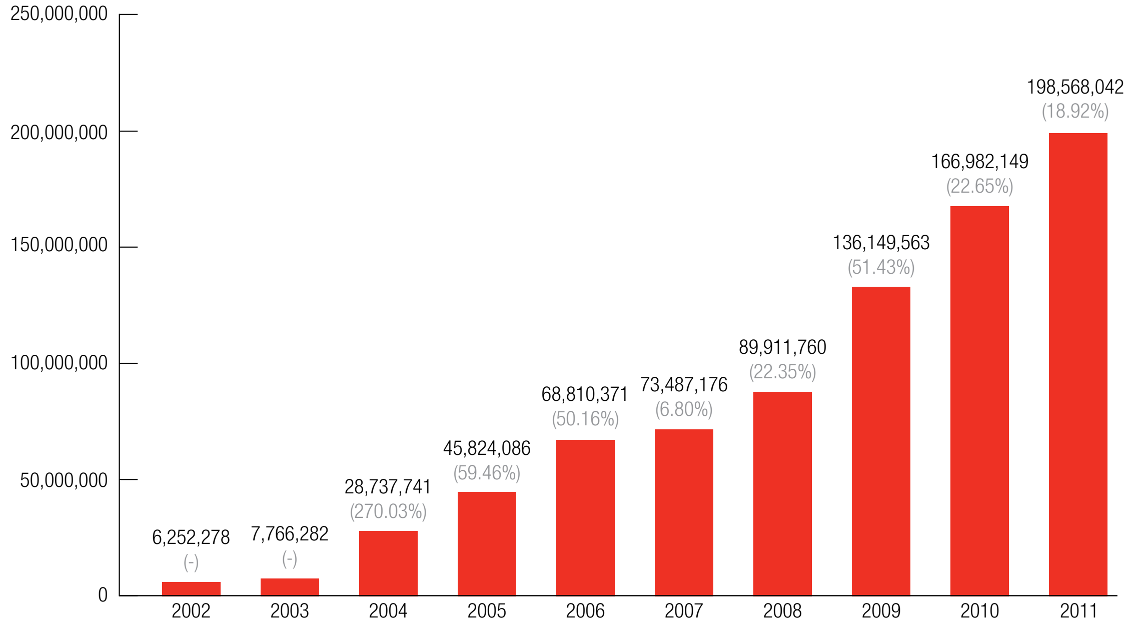
Analysis of results

Neto profit after tax
in RSD 000



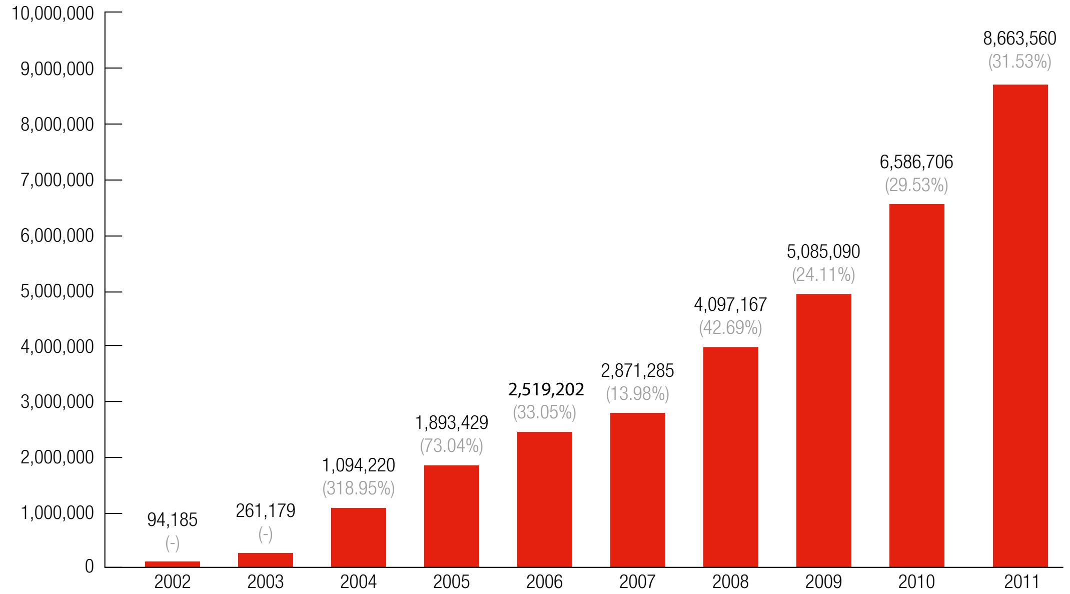
In 2011 net profit after tax increased year-on-year by 26%.

Total assets
in RSD 000



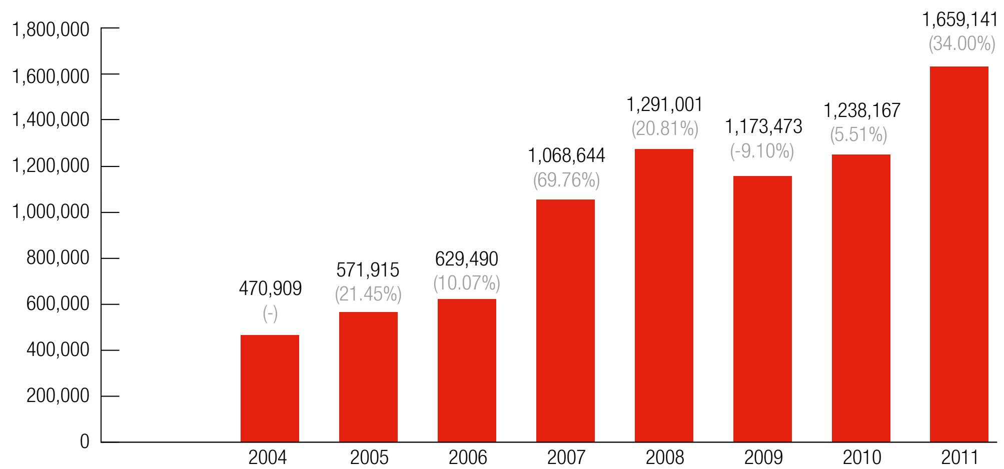
Total assets increased for 19% in 2011 and reached mio RSD 198.568

Neto interest income
in RSD 000



Net interest income increased for 31% in 2011 and reached mio RSD 8.664.

Net fee income
in RSD 000

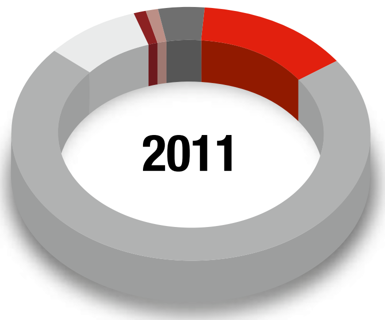


Net fee income increased by 34% comparing to 2010.

Analysis of results *(continued)*

Structure of assets 2011
in RSD 000

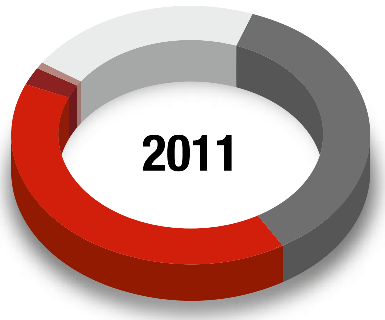
Cash, cash equivalents and non-pledged trading assets	4%	7,805,681
Loans and advances to banks	20%	40,332,426
Loans and advances to clients	66%	131,157,030
Investment securities	8%	16,068,959
Property, equipment and intangible assets	1%	2,018,871
Other assets	1%	1,185,075
	100.00%	198,568,042



Loans and advances to clients have the major share with 66% in total assets.

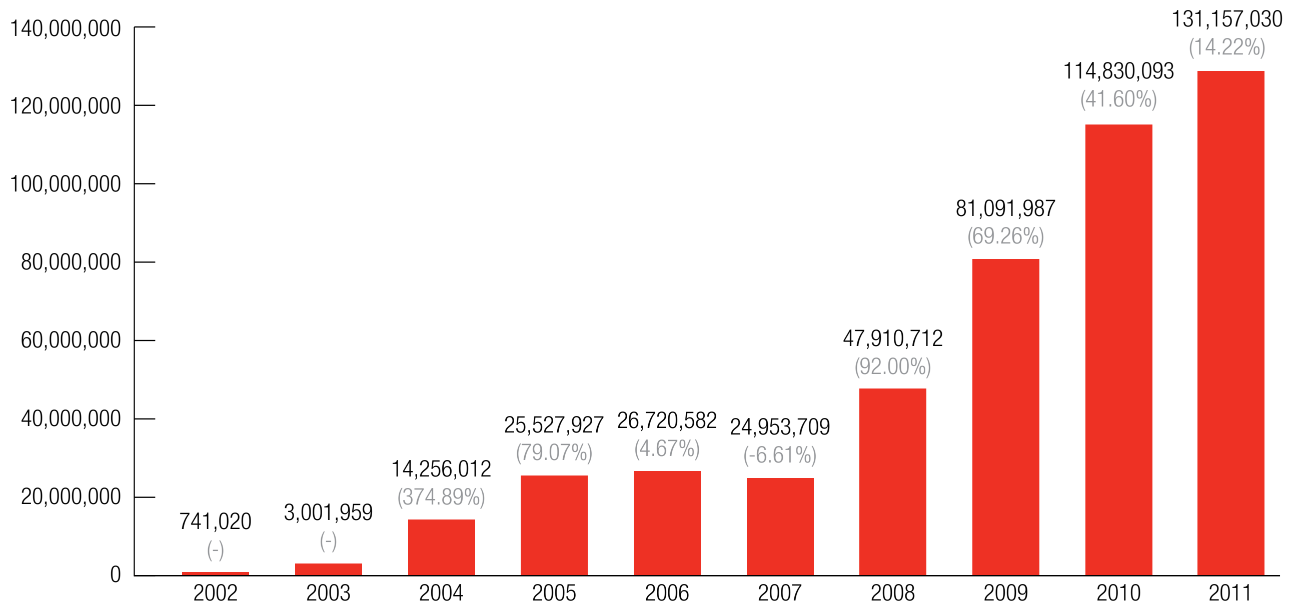
Structure of liabilities 2011.
in RSD 000

Due to other banks	36%	71,766,766
Due to customers	40%	79,576,141
Subordinated liabilities	2%	3,142,149
Other liabilities	1%	1,761,927
Shareholdders' equity	21%	42,321,059
	100.00%	198,568,042



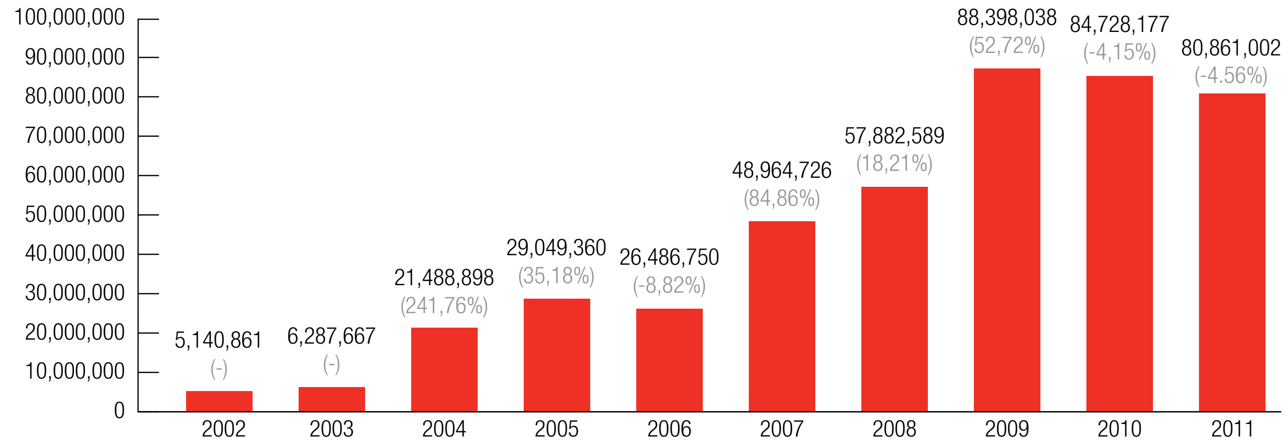
Deposits from customers have the major share in total liabilities with 40%.

Total loans
in RSD 000



Total loans to clients increased for 14% in 2011 compared to 2010 and were MRSD 131.157.

Total deposits
in RSD 000



Total deposits reached mio RSD 80.861 in 2011.

Financing the excitement of UEFA EURO 2012™.

Bank Pekao participated in acquisition of financing of three UEFA EURO 2012™ stadiums: Stadion Narodowy in Warsaw, the Poznań Stadium and Stadium in Gdańsk. From an architectural standpoint, the Stadium in Gdańsk is considered the most impressive construction of UEFA EURO 2012™. This year for UEFA EURO 2012™ Bank Pekao has also financed other infrastructures, such as highways, regional airports and public transportation. As the official slogan states "simple emotions are sometimes not enough", Bank Pekao has really become part of EURO UEFA 2012™ as a National Sponsor.
This is another way to be close to local communities and a concrete sign of trust in the future of the country.

Stadium in Gdańsk

Reports of the Divisions and Departments

CIB&PB Division 2011

Year 2011 was characterized by the policy of selective lending growth, especially in sectors that proved more resilient to the negative macroeconomic developments and where additional comfort factors could have been obtained. In 2011 loan portfolio grew by 15% reaching the amount of EUR 1355 million, which is a remarkable result having in mind tough market conditions and ongoing effects of the world economic crisis. Major growth was recorded in financing of the public sector in Serbia reaching over EUR 450 million at the end of 2011. Furthermore the bank was a participant on practically every public tender for financing during 2010. Strategically the Bank will continue to devote its attention towards FDI, leveraging on UniCredit Group's strong international network and know-how.

As in 2010, also in 2011 the bank was very active in the "state subsidy program" launched by the Government in 2009 and continued in 2010 in order to support local economy buffering the effects of crisis, and continued to expand good relations with governmental bodies and local community thanks to the excellent results achieved within this state initiative. However this type of lending was abandoned in the second half of 2011 due to state abolishment of the program. The bank ranked 3rd in terms of subsidized lending and gained a market share of 10%

As for Liabilities inside CIB&PB division, the volumes of deposits increased by almost 25% in comparison with 2010 end, reaching the amount of EUR 439 million, mainly thanks commercial activities targeted at deposit collection, as well as several large transactions which allowed a significant inflow of funds.

The customer base continued to record a positive increase, reaching the number of 3314 clients. Significant efforts were made in acquiring new clients through a series of commercial actions targeted towards international companies that are group clients, large domestic corporates, etc.

New products were introduced in 2011, strengthening corporate banking offer – Mobile payments and External direct debit. Product penetration and market share increase was continued in 2011 for POS product as well as for Internal direct debit. The organisational structure was strengthened by introducing product lines (GTB, Markets) as direct support to corporate sales, with further improvements to be done in 2012.

In 2011 Serbian foreign exchange market characterized high volatility during the year, as RSD appreciated 8 % in the first half and then retracted to the starting level by the end of the second half of the year. The size of the National Bank of Serbia interventions were insignificant comparing to year 2010. Markets Department managed to maintain a leading position in the local FX market, with stable market share of nearly 13%. In case of foreign financial institutions investing in Serbian financial market, the Bank expanded its absolute dominance with 44% market share confirming leading position of UniCredit Bank in Serbia in this business segment. Money market and fixed income experienced also high fluctuations in RSD interest rates moving from 12,50% downwards reaching 9,75% in December. Ministry of Finance introduced new T-bills in 2011 with 36 months and 53 weeks maturity dates. Markets Department was very active taking strategic positions in order to maximize revenues of the Bank in highly volatile Money Market. Strong focus was on fixed income brokerage by providing intermediary services on Min Fin primary auctions for foreign institutional investors. UniCredit Bank recorded market share of 30% in t-bills primary market trading which is double figure increase in comparison to 2010. The city of Novi Sad has issued a first ever municipal bond in Serbia and UniCredit Serbia was the underwriter of the issue worth EUR 35 million.

According to the official NBS data UniCredit Serbia has reached the 3rd place in Corporate Customers Sales, with market share of almost 11% in FX business. The Bank has actively promoted market risks hedging. The special emphasis was put on hedging against exchange rate risk due to large RSD devaluation through interactive workshops, targeting both large and medium size companies. In terms of interest rate hedging the bank has managed to keep its leading position with widest variety of

Retail Division

Economic crisis in Europe also reflected on the Serbian market and economy through the increase in unemployment rate and decrease in demands for loans. Consequently, low unemployment rate and still vulnerable market influenced on the creation of even more cautious and conservative 'Risk policy' which resulted in slowing down the expansion in 2011. Revenue generation has also been strongly influenced by the interest suspension and the new Law on the protection of financial services consumers.

Revenues increased about 8.76% in comparison to the previous year. Total loans went up by 7.5% to RSD 35 billion. Being our strategic product, Mortgage loans increased for 6.6% whereby UniCredit bank reached 2nd place in the market of new mortgage loans as per "loan to Number of Branches" ratio. This slight increase in lending results was reflected in slight increase in market share.

Deposit balances remained steady over the year ending at the level of RSD 29 billion.

Retail division continued to gain traction by expanding variety of products by implementing strategic sales product M banking, Insurance sale on shelf, Maestro Pre Paid card, launching new Maestro ID account card, introducing of 3rd generation of ATM's. On a lending side new product 'Cash loan on 10 year period with CPI' was launched.

On the development front, the Bank opened 5 new branches and a new concept of branch corner was launched in III quarter of the year called 'Lady Branch' which is offering the products and services which are tailor made with the specific needs of women population.

Following the good practice, during the year Retail division launched a number of operational initiatives and campaigns supporting lending activities, deposit generation as well as promotion of new products and concepts. During the second quarter of the year special approach to campaign management was introduced using CRM (Customer Relationship Management). Customers and their needs are put in the center when creating a range of products, services. In return, our customers have rewarded us with high levels of satisfaction and loyalty as proven by results of "Mystery shopping" and customer satisfaction.

The Bank continued to participate in the State subsidy program with aim to help in recovery of the Serbian economy.

Total client base increased for 4.76% reaching more than 185.000 vs. 175.000 in 2010.

Although the environment in 2011 has been very challenging, Retail division was able to keep steady growth in lending, ensure stability in deposit volumes and slightly improve market share.

GBS Division

During 2011 GBS division has been focused on improving the processes, restructuring and control of costs, branch network expansion, increasing the efficiency of employees, improving IT system as well as on internal and external customer satisfaction.

Results at the year end have shown that well-planned cost control contributed that operating costs are 10% below amount approved in the budget although all important projects have been implemented within planned time frame. Cost/income ratio was 32% which indicates significant increase in revenue growth together with controlled growth of costs.

Increased number of transactions of more than 50% during the year, while keeping the number of employees at the same level, has been achieved by optimizing and automating processes together with improving IT systems.

Excellent results of the Bank in 2011 as well as the excellent results of internal and external customer's satisfaction survey are showing that efficient, well organized and reliable GBS division is one of the most important preconditions and one of the key factor for the successful Bank operations and for achieving exceptional results.

HR Department

Aiming to provide strategic support to Bank growth, in 2011 HR prioritized the official HR mission of our Group: "Create an Environment where our People generate sustainable Value for our Customers, Feel great about our European Company and are connected with the communities we live in. These commitments will allow us to attract develop and retain the best talents."

"Creating an Environment" - Environment is Physical with locations which foster openness, flexibility and cooperation – EASY TO DEAL WITH. Environment is Emotional something which you would be proud to show to your friends and families. Not ostentatious but friendly. Environment is Cultural with our Diversity leveraged as an asset and our Internationality as a benefit to local communities.

With the aim to improve also the Environment, the Bank took a set of initiatives such as:

- intensified communication of the Bank /Group results and strategic objectives until 2015 through Management Listening Road Show, quarterly management meetings;
- involving the people in changing the Bank from within with the First Class Banking project, done in order to support its customers' satisfaction, leadership, management and supervision improvement, defining clear goals and objectives and increasing employees' engagement and commitment

"Generate sustainable value for our customers" - We segmented our internal client base and communicated to them what they should expect from HR. An HR function needs to be visible. In general, 'Committed to generate value for our customers' is improving our business model. We start from the customer.

Following these strategic imperatives, during 2011 various trainings were conducted, particularly focusing on customer relationship management, leadership skills and people management.

Performance appraisal system has been implemented, and has made a significant step toward fostering high performance culture. "Feel great about our European Company" - We are concentrating on Europe, bringing value to Europe. We leveraged on many Hr international projects learning from geographical and cultural diversity in HR practices throughout the Group. The main project was named Our CEE has no boundaries.

"Connected with the communities we live in" - We must develop communities, be closer to communities, which leads us to choices which are more complex. For HR this means being an "Employer of choice" with high recruiting standards in jobs. Also, to provide structured programs for Internships and partnering with the best Universities

The Bank has continued cooperation with Faculty of Law and Faculty of Economics, with the goal of becoming an employer of choice for the best students in Serbia, also providing the support for IMQF program.

The Bank has shown interest in promoting participation in social and economic development organization supporting diversity in Serbia: Women Government (social network of business women in the Country).

Identity and Communication / Customer Satisfaction

Chalenging business environment in 2010 was overfloving on the activities related to the advertising. Having in mind the fact that those activities were reduced in comparison to the expected level that caracterised the banking sector, a new form of competition has been created. Namely, in such an environment, advertising itself does not bring benefit, but that right service, product, customer orientation and commitment to them more importantly put in the foreground and set aside as a special advantage.

When it comes to our brand, 2011. year was very significant. In September we introduced a redesigned brand. Our slogan, “Life is full of ups and downs. We are there for both.” comes directly from our Real Life Banking brand positioning and our Mission which underline our commitment to offer concrete solutions to the needs of our clients.The main element to understand these needs is the creation of a trust-based relationship with all of them.
This relationship keeps strengthening day by day through our offer of high-quality products and the dedicated service model which are distinctive for us. Communication can contribute by creating an important emotional relationship too.

In favor of this, even before repositioning the visual identity, speaks spring’s campaign for Mortgage Loan which lasted for two months In light of difficult market conditions, increased participation and demand for subsidized loans, UniCredit Bank has offered the Mortgage loan which during the promotional period by the end of 2012 had a very competitive rate and that enabled the clients who have opted for this loan significant savings in monthly installments. Through an integrated approach in the communication channels campaign was launched on national and local television stations, daily and periodical press at the national and local level, the Internet and to the most visited websites and pages relevant to economic issues, POS material in branches and ATMs. The competitiveness of the offer and effectiveness of the campaign have been incorporated into excellent business results of the Bank.

Like in previous years, UniCredit Bank in 2011, thrue different activities on a national and local level aimed at intensifying communication with the media nad consequently to increase its present in them. Remarkable dependence of PR and advertising is still characterized for the media market in Serbia, which has greatly hampered the work to companies with limited budgets, in terms of information placement. Therefore, more than in previous years, it was necessary to put a lots of efforts in maintaining the existing relationships with the media and the construction of new and innovative approaches to the information placement. Despite the difficult financial situation in most of the media in Serbia and altered media landscape, which has resulted in a further change in the principles of their business, UniCredit Bank in 2011 year managed to reach 1226 media reports and in that way to record the growth of 22% in comparison to the previous year. The biggest media event last year, when it comes to UniCredit Bank, was the UEFA Champions League Trophy Tour presented by UniCredit. For this event which after 20 years again brought the UEFA Champions League Trophy in Belgrade a very intensive PR campaign was conducted, in the most circulating press and the highest rated television shows, which resulted in 162 media apperainces in total equivalent of about EUR 182 000.

The media in 2011were focused on topics concerning the stability of the banking system and analysis of its financial performance, forecasting the value of domestic currency, as well as on the government measures aimed at overcoming consequences of the crisis.

In the economic environment that was largely characterized by the crisis, focus on clients aimed at finding the solutions for the challenges they face with and supporting them in overcoming the problems in order to facilitate the repayment of the monthly instalments and in that way further improve their level of satisfaction - were the main activities of the entire Bank, but as well as of identity and Communication / Customer Satisfaction in 2011. Results of Customer Satisfaction Survey show that the Bank managed to maintain the high level of satisfaction of its clients, both, in Retail and Corporate segment. To this fact contributed the reorganized and efficient system of complaint management which provides timely solutions to all possible problems that customers might have and which are related to their business relationship with the Bank. Aware of the fact that our internal organization highly influences the level of quality of services which we were providing to our customers in 2011 we continued with the implementation of Internal Customer Satisfaction Survey by which we strive to improve processes within the Bank, and to bring the cooperation between different organizational on a higher level.

Most of the projects of the Identity and communication / customer satisfaction were related to the activities of the Retail Division, but also to the promotion of UEFA Champions League sponsorship. We say:” Life is like football full of ups and downs. We are there for both.” We stand behind it. Sponsorship of the UEFA Champions League has a strong impact on image, brand promotion and brand positioning of UniCredit, which has an exclusive right to a trophy of the most prestigious European football competition. The goals of introduction of the trophy, among others, are increasing the brand awareness, considering that the brand is a strong driver of sustainable business success, promoting the European image of the UniCredit Group as one of the largest financial groups in Europe and boosting the sales. The trophy was in Belgrade from 14 to 16 October. Thanks to the integrated campaign, which included internal (internal bank portal, direct mailing) and external communication (advertising campaigns, media relations, social media and internet, in-branch promotion campaigns and BTL), which, with varying intensity, lasted almost 7 months, 11 300 people saw the trophy. For the first time bank used the social media as a channel of communication. Facebook campaign through the profile “UniCredit Champions“promoted the event in Belgrade and at the same time very actively communicated with the fans. In a very short period page has gained 2200 funs, which lead Serbia within just two months on the fourth position within the UniCredit Group, immediately after the key markets - Italy, Germany and Austria. We also for the first time engaged our employees in the sales network to be the promoters of the event since we were expecting visitors from all over Serbia. The employees, in addition to the delivering the promotional material and distributing the leaflets which were announcing the event, were conducting the campaign from “mouth to mouth”, while many of their profiles on Facebook were inviting their friends to join us at Kalemegdan. Therefore we gave an important role to Internal communication and all the employees get acquainted with all organizational details in order to be able to provide correct and accurate information to clients and friends. Therefore, the employees were familiar with practically every phase of the organization.

In addition to the number of visitors, the best indicator of success is the number of media appearances, which reached 162. From these, 38 articles in print media, 44 articles on different television stations and 80 articles on various internet portals. Live appearances of two football legends, Luis Figo and Rude Gullit, at the two most watched TV shows in Serbia, The Morning Program of RTS and “Evening with Ivan Ivanovic,” the TV PRVA, proved that UniCredit Bank managed to organize the event that had a much wider and social significance that exceeded the boundaries of football.

We continued to create the image of UniCredit Bank as a socially responsible company that has long term plans on the Serbian market. Also in 2011 we focused on the communities in which the Bank is present and through the support of local initiatives, events of public interest, health and educational institutions, we gave our contribution to their further development and improvement. Furthermore, when we talk about Corporate and Investment Banking, we have organized numerous workshops for corporate clients in order to introduce them the products that can help them to protect their business from interest and exchange rate risks, but also the workshops on which Trade Finance products were presented to the clients.

Sustainable Development

and environmental and social risks

UniCredit Bank recognizes importance of creating value not only for current but also for future generations. In this respect, we believe that our Bank has an important role in encouraging sustainable development through the reducing negative direct and indirect impacts of Bank's business operations on environmental and social topics.

Beside direct impact on the environment through daily consumption of energy and other recourses, we also have even potentially more significant indirect impact through lending activities.

UniCredit Bank places considerable emphasis on preventing indirect environmental impacts. Credit policies of the Bank are intended to identify, assess and mitigate environmental and social risks associated with financing activities of our Bank. Development of Methodology for identifying and management of Environmental and Social risks confirms Banks commitments to prevent negative effects of its business activities on environment socials system. That is the major achievements in 2011 related to Environmental and social system since establishing of enhanced formal procedures will considerably improved performance of the Bank in the area of managing environmental and social risks.

At the same time, UniCredit Bank encourages development and finances numerous projects which have positive environmental and social impacts, together with promoting and supporting community development and its populations through the application of social responsibilities and intense humanitarian activity.

Monitoring of environmental and social risks are constantly improved in order to ensure that policies and procedures are in line with changes in regulatory requirements and best practice in managing of environmental issues.

UniCredit Bank Serbia believes that public reporting regarding environmental and social issues considerably contributes to better managing and understanding of these issues through increased awareness.

Making “Made in Italy” an international success.

Many Italian SMEs have expressed interest in participating in a series of workshops on internationalization. The *Export Business School* is a programme UniCredit developed to reinforce the competitiveness of companies in the international arena by means of in-depth coursework and creation of networking opportunities. In conjunction with this initiative, the bank also created the *East Gate Export* programme to promote the activities of Italian companies in Eastern Europe. And moving further eastward, a UniCredit project to promote Italian SMEs in China has drawn praise from entrepreneurs and managers from among a wide cross-section of Italian companies.

“Destinazione Cina 2011” project - October 26, 2011, Magnani Palace, Bologna

Financial Statements

in accordance with International Financial Reporting Standards (IFRSs)

Independent Auditors' Report

KPMG

TO THE SHAREHOLDERS OF
UNICREDIT BANK SERBIA JSC BELGRADE

Independent Auditor's Report

We have audited the accompanying financial statements of UniCredit Bank Serbia JSC Belgrade ("the Bank"), which comprise the statement of financial position as at 31 December 2011, the statements of comprehensive income, changes in equity and cash flows for the year than ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG d.o.o. Beograd

Belgrade, 20 April 2012

Statement of Financial Position

(In thousands of RSD)

	Note	2011.	2010.
Assets			
Cash and cash equivalents	14	3.912.139	5.212.725
Non-pledged trading assets	15	3.893.542	25.602
Loans and advances to banks	16	40.332.426	21.022.080
Loans and advances to customers	17	131.157.030	114.830.093
Investment securities	18	16.068.959	23.073.362
Property and equipment	19	1.235.542	1.195.527
Intangible assets	20	750.368	687.626
Deferred tax assets	21	32.961	28.888
Other assets	22	**1.185.075**	**906.246**
TOTAL ASSETS		**198.568.042**	**166.982.149**

Liabilities			
Trading liabilities	15	37.347	11.814
Derivative liabilities held for risk management	23	63.418	-
Deposits from banks	24	71.766.766	60.018.245
Deposits from customers	25	79.576.141	69.777.981
Subordinated liabilities	26	3.142.149	3.109.666
Current tax liabilities		120.728	109.075
Provisions	27	134.737	142.461
Other liabilities	28	1.405.697	1.739.876
TOTAL LIABILITIES		**156.246.983**	**134.909.118**

Equity			
Share capital and share premium		24.169.776	18.419.776
Retained earnings		18.193.012	**13.652.879**
Reserves		(41.729)	**376**
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	29	42.321.059	**32.073.031**
TOTAL LIABILITIES AND EQUITY		**198.568.042**	**166.982.149**

Belgrade, 20 April 2012
For and on behalf of the management
of UniCredit Bank Serbia JSC Belgrade

Mr. Klaus Priverschek
President of Management Board

Ms. Ljiljana Berić
Chief Financial Officer

Mr. Branislav Radovanović
Deputy President of Management Board

Ms. Mirjana Kovačević
Head of Accounting Department

Statement of Comprehensive Income

(In thousands of RSD)

	(Note)	2011.	2010.
Interest income	7	14.128.233	11.724.241
Interest expense	7	(5.464.673)	(5.137.535)
Net interest income		**8.663.560**	**6.586.706**
Fee and commission income	8	2.039.328	1.555.321
Fee and commission expense	8	(380.187)	(317.154)
Net fee and commission income		**1.659.141**	**1.238.167**
Net trading income	9	1.047.266	686.810
Net income from other financial instruments at fair value through profit and loss		11.521	1.443
Other revenue		29.297	47.434
Revenue		**11.410.785**	**8.560.560**
Net impairment loss on financial assets	10	(2.518.563)	(1.225.345)
Personnel expenses	11	(1.692.155)	(1.520.389)
Operating lease expenses		(345.404)	(353.727)
Depreciation and amortisation		(351.053)	(354.167)
Other expenses	12	(1.456.992)	(1.119.682)
PROFIT BEFORE TAX		**5.046.618**	**3.987.250**
Tax expense	13	(506.485)	(396.576)
PROFIT FOR THE YEAR		**4.540.133**	**3.590.674**
Other comprehensive income, net of income tax			
Net change of financial assets measured at fair value through other comprehensive income:			
Net change in fair value on available-for-sale financial assets		(42.105)	(3.679)
Other comprehensive income for the year, net of tax		**(42.105)**	**(3.679)**
Total comprehensive income for the year		**4.498.028**	**3.586.995**
Profit attributable to:			
Equity holders of the Bank		4.540.133	3.590.674
Profit for the year		**4.540.133**	**3.590.674**
Total comprehensive income attributable to:			
Equity holders of the Bank		4.498.028	3.586.995
Total comprehensive income for the year		**4.498.028**	**3.586.995**

Statement of Changes In Equity

(In thousands of RSD)

	Note	Share capital	Share premium	Fair value reserves	Retained earnings	Total
Balance as at 1 January 2010	29	12.857.620	562.156	4.055	9.895.589	23.319.420
Total comprehensive income for the year						
Profit		-	-	-	3.590.674	3.590.674
Other comprehensive income, net of tax	**29**	**-**	**-**	**(3.679)**	**-**	**(3.679)**
Total comprehensive income for the year		-	-	(3.679)	3.590.674	3.586.995
Transactions with equity holders, recognised directly in equity						
Contributions by and distributions to equity holders						
Increase of share capital	29	5.000.000	-	-	-	5.000.000
Result on liquidation of subsidiary - Note 3(a)		-	-	-	166.616	166.616
Total contributions by and distributions to equity holders		**5.000.000**	**-**	**-**	**166.616**	**5.166.616**
BALANCE AS AT 31 DECEMBER 2010	29	17.857.620	**562.156**	376	13.652.879	32.073.031

(In thousands of RSD)

	Note	Share capital	Share premium	Fair value reserves	Retained earnings	Total
Balance as at 1 January 2011	29	17.857.620	562.156	376	13.652.879	32.073.031
Total comprehensive income for the year						
Profit		-	-	-	4.540.133	4.540.133
Other comprehensive income, net of tax	29	-	-	(42.105)	-	(42.105)
Total comprehensive income for the year		-	-	(42.105)		4.498.028
Transactions with equity holders, recognised directly in equity						
Contributions by and distributions to equity holders						
Increase of share capital		5,750,000				5,750,000
Total contributions by and distributions to equity holders	**29**	**5.750.000**	**-**	**-**	**-**	**5.750.000**
BALANCE AS AT 31 DECEMBER 2011	**29**	**23.607.620**	**562.156**	**(41.729)**	**18.193.012**	**42.321.059**

Statement of Cash Flows for The Year Ended 31 December 2011

Statement Of Cash Flows For The Year Ended 31 DECEMBER 2011

(In thousands of RSD)

	Note	2011.	2009.
Cash flows from operating activities			
Profit for the year		4.540.133	3.590.674
Adjustments for:			
Depreciation and amortisation	19, 20	351.053	354.167
Impairment losses	10	2.518.563	1.225.345
Net interest income	7	(8.663.560)	(6.586.706)
Net gain on investment securities at fair value through profit and loss		(11.521)	(1.443)
Net (gain)/loss on trading securities	9	18.351	(15.599)
Income from unused provisions		-	(3.156)
Tax expenses	13	506.485	396.576
		(740.496)	(1.040.142)
Change in trading assets	15	(3,867,940)	(11,951)
Change in loans and advances to banks	16	(19,480,217)	3,583,415
Change in loans and advances to customers	17	(18,453,044)	(34,971,358)
Change in other assets	22	(278,829)	698,507
Change in trading liabilities	15	25,533	8,622
Change in deposit from banks	24	10,989,543	8,573,329
Change in deposit from customers	25	10,724,196	12,848,200
Change in other liabilities	28	**(312,017)**	**493,919**
		(21,393,271)	(9,817,459)
Interest received		10,856,158	8,979,947
Interest paid		(4,905,608)	(4,809,442)
Income tax paid		**(494,225)**	**(326,423)**
Net cash used in operating activities		**(15,936,946)**	(5,973,377)
Cash flows from investing activities			
(Acquisition)/proceeds of investment securities		(778,606)	1,089,321
Proceeds from sale of investment securities		10,125,803	3,328
Acquisition of property and equipment	19	(200,792)	(119,020)
Loss from sale of property and equipment		-	(456)
Acquisition of intangible assets	20	(260,045)	(226,565)
Net cash used in investing activities		**8,886,360**	**746,608**
Cash flows from financing activities			
Proceeds from shares issues	29	5,750,000	5,000,000
Net cash from financing activities		**5,750,000**	**5,000,000**
Net increase/(decrease) in cash and cash equivalents		(1,300,586)	(226,769)
Cash and cash equivalents at 1 January	14	5,212,725	5,439,494
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**3.912.139**	**5.212.725**

Notes to the Financial statements

Notes to the Financial Statements *(continued)*

(1) Activity

UniCredit Bank Serbia JSC (hereinafter: "the Bank") was initially established as HVB Bank Yugoslavia ("HVB") in 2001, upon obtaining an operating banking license issued by the National Bank of Yugoslavia on 2 July 2001. Following the merger of HVB and Eksport-Import banka Eksimbanka on 1 October 2005, the Bank changed its name to UniCredit Bank Serbia JSC Belgrade on 30 March 2007.

The Bank is a member of UniCredit Bank Austria AG, situated in Vienna, which is a member of the UniCredit Group. UniCredit Bank Austria AG is the owner of 100% of the Bank's equity.

The Bank is registered in the Republic of Serbia to carry out business activities in payment, credit, and deposit services in the country and abroad.

As of 31 December 2011 the Bank was comprised of a Head Office situated in Belgrade and of seventy-five branch offices located in major cities throughout the Republic of Serbia (31 December 2010: seventy branch offices).

At 31 December 2011 the Bank had 977 employees (31 December 2010: 925).

(2) Basis of preparation

(a) Statements of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items in the statement of financial position:

- available for sale financial assets are measured at fair value,
- derivate financial instruments are measured at fair value,
- assets and liabilities held for trading are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in thousands of Serbian Dinars ("RSD"), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in Serbian Dinar has been rounded to the nearest thousand.

(d) Use of estimates and judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 5.

Notes to the Financial Statements *(continued)*

(3) Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Bank.

(a) Consolidation

The financial statements of the Bank as at 31 December 2011 represent its individual financial statements. Due to the liquidation of the subsidiary as at 31 December 2010, the comparative statement of comprehensive income as at 31 December 2010 includes a result of the subsidiary for 2010 when the Bank's full control still existed. The total effect of related common control transactions was reported within the statement of changes in equity for 2010.

(b) Foreign currency

Transactions in foreign currencies are translated into Dinars at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies which are stated at cost, are translated at the rate ruling at the reporting date. Foreign exchange differences arising on translation are recognized in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

Exchange rates for major currencies used in the translation of the statement of financial position items denominated in foreign currencies, as determined by the National Bank of Serbia, were as follows:

In RSD

	2011.	2010.
USD	80,8662	79,2802
EUR	104,6409	105,4982
CHF	85,9121	84,4458
JPY	1,041825	0,972782

(c) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.
The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- fair value changes in qualifying derivatives, including hedge ineffectiveness and related hedged items in fair value hedges of interest rate risk.

Interest income and expenses on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

(d) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed. Fee and commission income include transfer payments in foreign currency, domestic payments transactions, loan administration, guarantee, letter of credit business and other banking services. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(e) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

(f) Net income from other financial instruments at fair value through profit or loss

Net income from other financial instruments at fair value through profit or loss relates to financial assets and liabilities designated at fair value through profit or loss, and includes all realised and unrealised fair value changes.

(g) Lease payments

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 recognised 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.

(h) Tax expense

Tax expense comprises current tax and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised 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.

(ii) Deferred income tax

Deferred income tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is 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 recognised for unused tax losses, tax credits and deductable temporary differences to the extent that it is probable that the future taxable profits will be available against which they can be utilised. 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 realised.

(iii) Other taxes and contributions

According to the relevant legislation in the Republic of Serbia, the Bank pays various taxes and contributions, such as VAT and contributions on salaries and wages. These are included under "Other operating expenses".

(i) Financial assets and liabilities

(i) Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, borrowings and subordinated liabilities on the date at which they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

/ii/ Classification

The Bank classified its financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. See accounting policies 3(k), 3(l), 3(m) and 3(n).

The Bank classifies its financial liabilities as measured at amortised cost or held for trading. See accounting policies 3(k) and 3(s).

(iii) Derecognition

The Bank derecognises 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 recognised 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 recognised in other comprehensive income is recognised in profit or loss.

The Bank enters in transactions whereby it transfers assets recognised 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 derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

Notes to the Financial Statements *(continued)*

(3) Significant accounting policies *(continued)*

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 recognise 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.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or 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 recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on net basis only when permitted under IFRSs, 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

The fair values stated for financial instruments are the amounts for which the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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.

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, unless 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. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognised in profit or loss immediately but is recognised 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.

Assets and long positions are measured at a bid price and liabilities and short positions are measured at an asking price. 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.

/vii/ Identification and measurement of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets carried at amortized cost 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 assets, and that the loss event has an impact on the future cash flows of the assets 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 amortised 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. Losses are recognised 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 recognised by transferring the cumulative loss that has been recognised 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 amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

The Bank writes off certain loans and advances and investment securities when they are determined to be uncollectible (see note 4(b)).

(j) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(k) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are measured at fair value with changes in fair value recognised as part of net trading income in profit or loss.

(l) Derivatives held for risk management purposes 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 statement of financial position.

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

Notes to the Financial Statements *(continued)*

(3) Significant accounting policies *(continued)*

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 of 80-125 percent.

(i) Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of comprehensive income as the hedged item).

(m) Loans and advances

Loans and advances 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 advances comprise loans and advances to banks and customers.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Loans and advances are presented net of specific and collective allowances for impairment. Specific and collective allowance 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 statement of comprehensive income in impairment charge for credit losses.

(n) Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

/i/ 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 amortised 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 a 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.

/ii/ Fair value through profit or 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.

/iii/ Available- for- sale financial asset

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 recognised in profit or loss using the effective interest method. Dividend income is recognised 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 recognised in profit or loss.

Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

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.

(o) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and 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.

The 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 recognised net within other income in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

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.

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

Description	Estimated useful life (in years)	%p.a
Buildings	50	2
IT equipment	5	20
Motor vehicles	7	15,5
Furniture and other equipment	6 - 14	7 – 16,5

(p) Intangible assets

Intangible assets comprise of software, licences and other intangible assets.

Intangible assets acquired by the Bank are stated at cost less accumulated amortisation and accumulated impairment losses.

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

Amortisation is recognised 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 since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of intangible assets is five years and amortisation rate used is 20%.

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

(q) Leased assets - 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.

Other leases are operating leases and are not recognised in the Bank's statement of financial position.

Notes to the Financial Statements *(continued)*

(3) Significant accounting policies *(continued)*

(r) 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. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset 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.

Impairment losses are recognised in profit or loss.

Impairment losses recognised 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 amortisation, if no impairment loss had been recognised.

(s) Deposits and subordinated liabilities

Deposits, bank loans and subordinated liabilities are the Bank's main sources 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.

Subsequent to initial recognition deposits and subordinated liabilities are measured at their amortised cost using the effective interest method.

(t) Provisions

A provision is recognised 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.

(u) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised 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.

(v) Employment benefits

In accordance with regulatory requirements, 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 an amount computed by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government funds. These taxes and contributions payable on behalf of the employee and employer are charged to personnel expenses in the period in which they arise.

Pursuant to the Labour law, the Bank has an obligation to disburse an employment retirement benefit to a retiree. The retirement benefit obligation recognized in the statement of financial position as at 31 December 2011 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 fluctuation and disability rates, expected rate of salary increases of 5.04% for whole period, annual discount rate of 9.75%, but also on margins on annuities to a vanishing point as prepared by the actuary.

The Bank has no other defined benefits plans and no share-based remuneration plans.

(x) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2010, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except for IFRS 9 Financial instruments, which becomes mandatory for the Bank's 2013 financial statements and could change the classification and measurement of financial assets. The Bank does not plan to adopt this standard early and the extent of the impact has not been determined.

(4) Financial risk management

(a) Introduction and overview

The Group has exposure to the following risks:

- Credit Risk
- Liquidity Risk
- Market Risks (comprising interest rate and foreign currency risk)
- Country Risk and
- Operational Risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

In its internal documents the Bank defines the criteria for identifying, measuring, assessing and managing risks to which the Bank is exposed in its business operations. Internal documents have been prepared also which define the calculation method for particular operating indicators of the Bank associated with risk management and limits in respect of risks. With a view to developing risk management and internal control, the Bank adopted an internal regulation that specifies the authorizations of particular organizational units in respect of risk management and internal audit. The Bank has department responsible for the identifying, monitoring and managing of all risk types, with a view to reducing such risks to a minimum.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board established Risk Management Department to evaluate risk management by the line management, and advises the Executive Board on remedial or further action to reduce negative risk exposure levels.

The heads of organizational units of the Bank are individually responsible for carrying out supervision over the implementation of procedures and execution of actions. Competence is authority to carry out or undertake business actions (cases) independently within certain limits, which the Executive Board delegates to certain persons.

Credit competence is authority for responsible decision making in credit matters: for which the Executive Board is responsible, with the approval of the Board of Directors, and which the Executive Board delegates according to its own decision-making rules to the Credit Committee and employees who work in the area of credit (who participate in the process of approving credit). Credit decisions must always be taken by at least two authorised employees of the Group ("4-eyes principle"). In case of approval on branch level Branch Credit Committee must approve the loan based on procedures for standardized products approved by the Executive Board.

Responsibility for implementation and effectiveness of risk management rests with the Credit Risk Operations (CRO) Division. Responsibility for identifying risk and the day-to-day management of risk lies with line management. In addition to the CRO Division, certain risk indicators are reviewed by the Assets & Liabilities Committee ("ALCO") and the Credit Committee.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The CRO Division also amends or introduces new risk management procedures. The Executive Board decides upon the necessary course of action and passes on its recommendations to the Board of Directors for approval. Where existing policy has been amended or new policy introduced then this is approved by the Board of Directors prior to its introduction.

Mitigating actions or control processes either in place or due to be completed for all incident reports will also be discussed and approved by the CRO Division. The CRO Division has the authority to request from line management any additional information or action relating to any area of risk.

The Executive Board and Internal audit must be informed on any deficiencies or anomalies within a reasonable period, taking into consideration the significance and consequences of the discovered deficiencies, discrepancies or anomalies.

Compliance Risk

The Bank established a separate organizational unit which is responsible for its compliance with statutory requirements ("Compliance Department"). The Bank's internal regulations specify that the Compliance Department is responsible for identifying and assessing the Bank's principal risks of compliance, for reporting to the Executive Board and Audit Committee, and for proposing plans for managing principal risks, in accordance with its authorizations.

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 Managing 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.

Notes to the Financial Statements *(continued)*

(4) Financial risk management *(continued)*

The Internal Audit Department regularly monitors implementation of recommendations (action plans) made in internal audit reports and reports to the Executive Board, to the Audit Committee and the Managing Board, all potential delays in the implementation of measures.

(b) Credit risk

The Bank takes on exposure to credit risk, which represents the risk that counterparties will be unable to pay in full the amounts due in a timely manner. The Bank 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 geographical 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.

In terms of Credit Risk Management the Bank has and applies the following acts: Bank Credit Policy, Risk Management Methodology, Foreign Currency Risk Management Methodology, Rules for Ranking Corporate Clients, Competence Rules, Rules for Maintaining Credit Committees, Valuation of Security Instruments, which are intended to provide protection against particular types of risks and to define procedures and responsibilities of individuals for undertaking adequate measures in the risk management process.

Corporate and retail risks are managed in accordance with the book of rules on competences. Decisions in the area of credit approval, irrespective of what level of decision making is involved, are based on the “4-eyes principle” principle which ensures that there is always a side which proposes and a side which approves a particular placement.

The Bank measures, identifies and assesses risk based on a borrower’s credit rating, regularity of settlement of obligations toward the Group and on the quality of the security instrument, and in accordance with the NBS regulations and the Bank’s Guidelines for Calculation of Impairment Based on IAS-IFRS.

For adequate loan management in all phases of the loan process the organisational structure is clearly separated into loan approval and management of nonperforming loans, with the introduction of the function of loan monitoring which is charged with timely identification of deteriorating creditworthiness of clients and undertaking of adequate measures to ensure collection of such placements.

The risks of the Bank’s exposure comprise the risks of the Bank’s exposure toward a single individual or a group or related parties, as well as toward a related party of the Bank, an industry sector, a country risk.

The Bank’s total exposure toward any of the mentioned categories must not exceed the limits defined by the Decision on Risk Management.

The Bank has adopted the Risk Management Strategy that defines comprehensive guidelines for portfolio development and risk management. This document specifically defines the framework for financing particular client categories, industrial sectors and largest groups of related parties in the future, thus providing adequate management of loan risks and risk exposures.

With a view to defining comprehensive guidelines for portfolio development and risk management the Bank adopted the Strategy for Credit Risk Management. In particular this document defines the general guidelines for the basic parameters for risk management, principles for analysing creditworthiness for each client segment, as well as positioning toward development of particular products, with detailed consideration of the portfolio management strategy for individual industrial sectors and the largest groups of related parties. In this way the Bank ensures that implementation of adopted business policy will unfold within limits that will result in acceptable levels of risk at individual placement level and adequate diversification and general quality of the credit portfolio.

Credit risk reporting

Procedure for controlling and managing credit risk is secured by the Risk Management Information System (further RMIS) to ensure prompt identification, accurate assessment, proper approval and consistent monitoring and reporting on credit risk in accordance with domestic regulations and rules implemented by the UniCredit Group.

With reports on a loan portfolio level and on an individual client/obligor group level, RMIS provides sufficient, accurate and timely information on the quality and performance of the loan portfolio to enable the Supervisory Board, Management Board and Risk management Division to make prudent and informed decisions on concentration of risk and risk inherent to lending activities of the Bank.

RMIS comprises from following reports:

1. Credit Risk Parameters
2. Portfolio Credit Risk Monitoring report
3. Early Alert List report
4. Overdue List report
5. Review date report
6. Ad-hoc reports

1. Basic Credit Risk Parameters are calculated and monitored monthly. The most significant ones are as follows:

- Risk Costs that represent the ratio between the costs of impairment allowances calculated in accordance with IAS/IFRS and average loans,
- Impaired loans ratio which represents the share of non-performing loans in total loans,
- Coverage ratio which represents the ratio between impairment allowances calculated in accordance with IAS/IFRS for non-performing loans and the total amount of non-performing loans.

2. A comprehensive Portfolio Credit Risk Monitoring report is prepared every month. This report is prepared in order to ensure composition and performance analysis of the present loan portfolio, related credit risk and comparison to previous periods to provide information on credit risk trend and extensions.

Credit Risk Monitoring report contains the following data:

- loan portfolio structure and development,
- loan portfolio structure per product types,
- loan portfolio volumes per internal rating categories and per NBS classification,
- analysis of the amount and movement of impairment allowances, calculated in accordance with NBS rules, on a quarterly basis,
- amount and movement of impairment allowances, calculated in accordance with International Financial Reporting Standards (further IFRS),
- loan portfolio collateral position and collateral quality,
- loan portfolio term structure aggregated by maturity,
- loan portfolio currency structure,
- concentration of exposures toward clients and related parties (further obligor group), on quarterly basis,
- concentration of exposures per different industry sectors,
- Comments on the most important credit risk changes and trends,
- Other information related to the level of credit risk.

The Bank manages concentrations of credit risks by setting and monitoring limits on portfolio concentrations. Growth of volume per each sector of industry is advised to limit at maximum 20% share of the Bank loan portfolio. Definition of industries is based on the each client sector of activities grouped per similar characteristics (e.g. product type) into sectors of industries.

Exposure to a single party or group of related parties is calculated in accordance with the Decision on Risk Management and cannot be higher than 25% of the Bank’s equity, calculated in accordance with the Decision on Capital Adequacy of the Bank. Total exposure to a single party or group of related parties which exceeds 10% of the Bank’s equity must be approved by the Managing Board. A group of related parties refers to entities that are related in accordance with the Law on Banks.

Concentration of the loan portfolio per currency of exposure and increased credit risk derived from the volatility of exchange rates is regularly monitored on a monthly basis but in case of significant market changes more frequently.

3. The Early Alert List comprehends endangered exposures on a client level, which apply to at least one warning signal and to which no individual IFRS Loan Loss Allowance is built.

Warning signals are grounded on the basis of internal rating classification, regularity of instalment repayments and due reviews, as well as other early alert signals.

The process of monitoring individual clients with deteriorating creditworthiness includes the following activities:

- The watch list process is integrated into the Directorate for Loan Portfolio Monitoring as an independent organisational unit that is directly accountable to a member of the Executive Board of the Bank, Chief Risk Officer, who is in charge of the Risk Management Sector and is independent of the directorate for Restructuring and Loan Approval
- Loan portfolio monitoring consists of 4 groups and 5 local alert/loss event signals
- The entire portfolio with indications of deterioration in creditworthiness is classified into two categories according to the level of identified risk/creditworthiness deterioration
- Depending on the classification category, action plan approval within 2 weeks of alert signal identification is mandatory
- The Directorate for Loan Approvals is responsible for watch list clients, while the Directorate for Monitoring is responsible for approving the client classification as well as for providing opinion on the mandatory action plan, so-called second opinion
- The Corporate Client Directorate and the Loan Approval Directorate are responsible for action plan implementation, while the Loan Portfolio Directorate is responsible for monitoring implementation and fulfilment of action plan measures
- The Loan Portfolio Directorate makes the decision on the need for closer monitoring of particular clients and makes the decision on transferring a client to the Restructuring Directorate

With a view to improving reporting on clients with deteriorating creditworthiness, the Loan Portfolio Monitoring Directorate developed the Client Liquidity Report which presents all overdue clients, all clients with frozen bank accounts, deteriorating internal ratings, classifications, deteriorating liquidity, etc. The report also contains an analysis of defaults per Bank products and industrial segments, as well as information on implemented action plans and realised results as part of the activities of Monitoring Clients with Deteriorating Creditworthiness. The report is prepared quarterly and is addressed to members of the Executive Board and the Credit Management Board.

Notes to the Financial Statements *(continued)*

(4) Financial risk management *(continued)*

4. As repayment delays are one of the first indicators of reduction in credit quality, they are regularly monitored and reported. The Overdue List report provides the following information:

a. List of clients in repayment delay
b. Overdue amount per client and per days delay range of repayments
c. Overdue amount per portfolio client segments
d. Detailed overdue amount per individual transaction

Making this type of report available to relevant units and individual employees on regular basis allows detecting weaknesses in an early stage which leaves more options for improving the credit status of a client.

5. Review Date Report. Each loan exposure must be evaluated from the Risk Management Division point of view at least once a year and a review submitted to the appropriate approval authority.

In order to provide a comprehensive overview and draw attention to assessment of credit quality of overdue customers, with the intention of performing the review once a year, the report is prepared weekly.

6. Ad-hoc reporting is required in the case of events with a considerable risk level affecting the Bank, especially if the risk situation is changed significantly and abruptly, that require immediate action; examples include considerably exceeded limits or rating deteriorations for individual exposures with a significant risk level, a major need for risk impairments, indications of deficiencies in the organization or the systems and procedures used. Depending on the decision-making structure and the extent of the risk situation, the decision maker affected will be informed and provided with a recommended course of action. If such events are of significance for the credit institution as a whole, the Supervisory Board and Management Board will be informed in the same way. In order to allow immediate action to mitigate the risk, it is essential to pass on such information immediately, i.e. whenever changes in the risk occur.

Additionally, the Bank identifies measures and estimates credit risk of individual clients/obligor groups based on their credit standing and financial capacity, regularity of obligations repayment and quality of collaterals. Based on that, all balance sheet receivables and off-balance sheet items are quarterly classified and provisioned in accordance with the NBS adopted rules.

All aforementioned reports, part of RMIS, are submitted to the Committee for Monitoring Business Activities of the Bank.

The data information system RMIS on credit risk and credit risk losses is subject to continued internal control.

Exposure to credit risk

The table below shows gross loans and advances to customers and banks, but also classification for group portfolio and classification on a case-by-case basis.

In thousands of RSD

	Loans and advances to banks		Loans and advances to customers		Investment securities		Non-pledged trading assets		Other assets		Off-balance sheet items	
	2011.	2010.	2011.	2010.	2011.	2010.	2011.	2010.	2011.	2010.	2011.	2010.
Individually impaired												
Legal entities, Rating 10	1.557	1.545	7.257.672	2.607.496	56.252	17.314	-	-	22.249	8.641	15.503	-
Legal entities, Rating 9	-	17	3.061.211	2.473.761	12.061	44.993	-	-	1.169	1.926	61.615	359.616
Legal entities, restructured loans*	840	-	648.487	2.611.636	-	8.439	-	-	3.587	1.527	2.004	7.786
Citizens, > 90 overdue	-	-	2.285.562	1.757.944	-	-	-	-	24.026	13.927	25.681	-
Gross placements	**2.397**	**1.562**	**13.252.932**	**9.450.837**	**68.313**	**70.746**	**-**	**-**	**51.031**	**26.021**	**104.803**	**367.402**
Impairment	1.724	1.555	6.245.439	3.596.572	68.313	63.886	-	-	40.071	23.202	14.443	39.758
Book value	**673**	**7**	**7.007.493**	**5.854.265**	**-**	**6.860**	**-**	**-**	**10.960**	**2.819**	**90.360**	**327.644**
Portfolio impairment												
Legal entities, Rating 1-6	6.758.628	616.275	85.334.790	72.089.488	1.749.122	2.059.996	32.492	25.602	1.168.709	900.954	60.880.431	29.226.704
Legal entities, Rating 7	-	-	10.405.080	10.040.901	278.970	-	-	-	292	662	3.494.682	1.093.720
Legal entities, Rating 8	-	-	227.351	635.074	-	-	-	-	65	63	58.999	47.992
Citizens, < 90 overdue	-	-	28.561.018	26.620.209	-	-	-	-	12	175	1.661.550	-
Gross placements	**6.758.628**	**616.275**	**124.528.239**	**109.385.672**	**2.028.092**	**2.059.996**	**32.492**	**25.602**	**1.169.078**	**901.854**	**66.095.662**	**30.368.416**
Impairment	872	23	378.702	409.844	5.392	11.713	-	-	144	25	64.269	22.793
Book value	**6.757.756**	**616.252**	**124.149.537**	**108.975.828**	**2.022.700**	**2.048.283**	**32.492**	**25.602**	**1.168.934**	**901.829**	**66.031.393**	**30.345.623**
Book value of rated assets	6.758.429	616.259	131.157.030	114.830.093	2.022.700	2.055.143	32.492	25.602	1.179.894	904.648	66.121.753	30.673.267
Book value of non-rated assets	33.573.997	20.405.821	-	-	14.046.259	21.018.219	3.861.050	-	5.181	1.598	221.402.561	-
Total book value	**40.332.426**	**21.022.080**	**131.157.030**	**114.830.093**	**16.068.959**	**23.073.362**	**3.893.542**	**25.602**	**1.185.075**	**906.246**	**287.524.314**	**30.673.267**

*Category Legal entities, restructured loans include debtors with rating 8- for which provision for impairment has been made on portfolio bases

Notes to the Financial Statements *(continued)*

(4) Financial risk management *(continued)*

Implementation of Basel II standards for the Group reporting purposes

During 2011 activities mostly centred on developing internal models for estimating risk parameters in accordance with principles of the basic and advanced Basel II IRB approaches. In the area of corporate placements, a project was implemented for improving the current rating model. The planned dates of IRB approach implementation are reconciled at Group level in the ensuing period until 2014. In 2011 the Bank commenced work on preparation and implementation of necessary systems and procedural conditions, with the objective of reaching full compliance with National Bank of Serbia's requirements related to Basel II implementation. In 2012 activities will be directed at continued monitoring and development of implemented internal models (rating model for corporate clients, small companies, entrepreneurs and private individuals, LGD and EaD models), as part of further compliance with local Basel II regulations.

Internal Rating System (internal 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, which mean that each rating subgroup has a Probability of Default (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.

Rating 0: This rating notch is reserved for customers with no counter partner risk.

Ratings from 1+ to 6: These rating notches contain 18 subgroups and 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 impairment which are subject to special workout or credit-reduction measures.

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

For the above noted rating classes, classes 7 and 8, reassessment of credit rating is performed quarterly. Clients with a rating of 7 or 8 represent transactions with low credit rating that are under continual supervision, and are put on the so-called "Watch List", as they are customers with reduced ability for loan repayment.

Rating 9 comprises customers who are individually impaired 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 impairment.

Impairment methodology

The procedure which is based on the Bank's Rule Book for IAS/IFRS provision calculation and adopted rules is conducted in two steps:

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

Specific impairment methodology, 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 recognise 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 recognise an impairment loss.

In determining the adequate amount of the impairment allowance a distinction is made between the need for calculating impairment on an individual basis and a impairment on a collective 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 unavoidable loan commitments.

The process of calculating an impairment allowance on an individual basis is intended to measure impairment at client level. Individual impairments are measured as the difference between the book value of a receivable and present value of expected future cash flows (excluding future impairments not recognised as already occurred) discounted using the original effective interest rate for the particular financial asset (e.g. effective interest rate specified in the contract). In other words, impairment is set in the amount of the individual receivable for which collection is doubtful. In the event that the effective interest rate is not available, in calculating the impairment 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 is determined. After that, the discounted cash flow from the net realisable 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 impairment allowance for exposures that are impaired and which are not classified as individually significant is performed on a collective 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). Days in default can be used as additional criteria for differentiating risk at client level.

Portfolio based impairment, rules and principles

In determining the impairment allowance 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 collective impairment is the period of identification of an occurred los (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, in accordance with the range recommended by the UniCredit Group, and ranges between four to twelve months.

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

Notes to the Financial Statements *(continued)*

(4) Financial risk management *(continued)*

The table below shows gross and net loans and advances to banks and customers for non-performing loans. Non-performing loans are loans which have at least one instalment overdue for more than 90 days. For these types of loans, impairment is calculated at 100% after considering the value of collaterals expected to be recovered.

In thousands of RSD

	Loans and advances to banks		Loans and advances to customers		Investment securities		Non-pledged trading assets		Other assets		Off-balance sheet items	
	Gross	Neto	Gross	Neto	Gross	Neto	Gross	Neto	Gross	Neto	Gross	Neto
As at 31 December 2011												
Legal entities, Rating 10	1.557	-	7.257.672	3.576.125	56,252	-	-	-	22.249	747	15.503	15.406
Legal entities, Rating 9	-	-	3.061.211	1.979.848	12,061	-	-	-	1.169	-	61.615	47.274
Legal entities, Restructured loans	840	673	648.487	576.805	-	-	-	-	3.587	2.870	2.004	1.999
Citizens, > 90 overdue	-	-	2.285.562	874.715	-	-	-	-	24.026	7.343	25.681	25.681
Total	**2.397**	**673**	**13.252.932**	**7.007.493**	**68,313**	**-**	**-**	**-**	**51.031**	**10.960**	**104.803**	**90.360**
As at 31 December 2010	1.545	7	2.607.496	1.526.197	17.314	-	-	-	8.641	293	-	-
Legal entities, Rating 10	17	-	2.473.761	1.537.445	44.993	-	-	-	1.926	1.224	359.616	320.241
Legal entities, Rating 9	-	-	2.611.636	2.359.512	8.439	6.860	-	-	1.527	1.225	7.786	7.403
Legal entities, Restructured loans												
Citizens, > 90 overdue	-	-	1.757.944	431.111	-	-	-	-	13.927	77	-	-
Total	**1.562**	**7**	**9.450.837**	**5.854.265**	**70.746**	**6.860**	**-**	**-**	**26.021**	**2.819**	**367.402**	**327.644**

Collateral

Instruments of security used by the Bank in its operations are mortgages on commercial and residential property, guarantees provided by companies and private individuals, pledges in immovable and movable property, bank guarantees and corporate guarantees, etc.

The Bank uses the Collateral Policy – Specific Local Standards as the basis for determining the fair value of collaterals.

Collaterals accepted and used by the Bank for minimising credit risk comprise:

- Cash deposits that are recognised at full value,
- Cash convertible guarantees of top rated banks and states, recognised at full value,
- Mortgages for residential or commercial property, recognised at most up to 70% and 60% of appraised value of property. Appraisal must be performed every three years by a certified appraiser for residential property, and once per year for commercial property,
- Pledged receivables, recognised up to 70%,
- Pledged movable assets, recognised up to 50%,
- Bonds issued by governments, central banks or institutions with adequate credit ratings.

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 mentioned Policy.

An estimation of the fair value of collateral held against financial assets taken as loan security by the Bank as at 31 December 2011 is shown below:

In thousands of RSD

	Loans and advances to banks		Loans and advances to customers		Investment securities		Non-pledged trading assets		Other assets		Off-balance sheet items	
	2011.	2010.	2011.	2010.	2011.	2010.	2011.	2010.	2011.	2010.	2011.	2010.
Legal entities, Rating 10	**-**	**-**	**2.563.465**	**1.307.644**	**-**	**-**	**-**	**-**	**2.502**	**-**	**5.340**	**-**
Real estate	-	-	2.509.857	1.307.644	-	-	-	-	2.447	-	5.223	-
Other	-	-	53.608	-	-	-	-	-	55	-	117	-
Legal entities, Rating 9	**-**	**-**	**1.288.478**	**879.949**	**-**	**-**	**-**	**-**	**493**	**31**	**25.943**	**208.340**
Real estate	-	-	1.276.074	867.184	-	-	-	-	488	31	25.692	208.340
Other	-	-	12.404	12.765	-	-	-	-	5	-	251	-
Legal entities, restructured loans	-	-	285.984	1.351.044	-	-	-	-	1.263	-	705	-
Real estate	-	-	284.624	1.334.724	-	-	-	-	1.253	-	700	-
Other	-	-	1.360	16.320	-	-	-	-	10	-	5	-
Citizens, > 90 days overdue	**-**	**-**	**434.351**	**150.288**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Real estate	-	-	404.732	101.699	-	-	-	-	-	-	-	-
Other	-	-	29.619	48.589	-	-	-	-	-	-	-	-
Collateral used to evaluate collective allowance for impairment	**-**	**-**	**56.465.647**	**48.838.261**	**-**	**-**	**-**	**-**	**1.395.775**	**9.264**	**21.156.924**	**9.634.583**
Real estate	-	-	32.144.120	31.356.050	-	-	-	-	825.587	9.065	12.575.594	6.530.036
Other	-	-	24.321.527	17.482.211	-	-	-	-	570.188	199	8.581.330	3.104.547
TOTAL	**-**	**-**	**61.037.925**	**52.527.186**	**-**	**-**	**-**	**-**	**1.400.033**	**9.295**	**21.182.867**	**9.842.923**

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 assets.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. 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 the month,
- at least 0.8 – when calculated for the working day,
- not below 0.9 for longer than three consecutive days.

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.

In the event that the liquidity crisis is limited to the local market, the local ALM manager holds general responsibility for crisis management together with the operating director in charge of the CEE market and subsidiary entities. 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 Centre and facilitate timely decision making.

	2011.	2010
Liquidity ratio (I grade)		
- as at 31 December	2,43	1,31
- average for the period – month of December	2,36	1,22
- maximum for the period – month of December	2,60	1,33
- minimum for the period – month of December	2,22	1,08

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity groupings for 2011:

In thousands of RSD

	LESS THAN 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	1-5 YEARS	OVER 5 YEARS	TOTAL
Assets						
Cash and cash equivalents	3.912.139	-	-	-	-	3.912.139
Non-pledged trading assets	3.893.542	-	-	-	-	3.893.542
Loans and advances to banks	40.232.358	39.485	3.601	56.982	-	40.332.426
Loans and advances to customers	11.962.531	3.146.237	25.835.130	48.107.125	42.106.007	131.157.030
Investment securities	1.216.491	2.253.219	6.317.156	4.725.331	1.556.762	16.068.959
Property and equipment	-	-	-	-	1.235.542	1.235.542
Intangible assets	-	-	-	750.368	-	750.368
Deferred tax assets	-	-	32.961	-	-	32.961
Other assets	1.183.514	-	-	-	1.561	1.185.075
Total assets	**62.400.575**	**5.438.941**	**32.188.848**	**53.639.806**	**44.899.872**	**198.568.042**
Liabilities						
Trading liabilities	37.347	-	-	-	-	37.347
Derivative liabilities held for risk management	63.418	-	-	-	-	63.418
Deposits from banks	3.548.359	796.693	652.896	54.254.176	12.514.642	71.766.766
Deposits from customers	49.261.893	6.619.597	18.585.795	2.789.880	2.318.976	79.576.141
Subordinated liabilities	-	-	-	837.127	2.305.022	3.142.149
Provisions	-	78.713	20.069	-	35.955	134.737
Other liabilities	1.526.425	-	-	-	-	1.526.425
Equity	-	-	-	-	42.321.059	42.321.059
Total liabilities	**54.437.442**	**7.495.003**	**19.258.760**	**57.881.183**	**59.495.654**	**198.568.042**
Net liquidity gap as of 31 December 2011	**7.963.133**	**(2.056.062)**	**12.930.088**	**(4.241.377)**	**(14.595.782)**	**-**

Notes to the Financial Statements *(continued)*

(4) Financial risk management *(continued)*

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity groupings for 2010:

In thousands of RSD

	Less than 1 mont	1 to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	5.212.725	-	-	-	-	5.212.725
Non-pledged trading assets	25.602	-	-	-	-	25.602
Loans and advances to banks	20.812.378	7.626	135.387	35.447	31.242	21.022.080
Loans and advances to customers	11.253.073	3.708.387	25.218.989	43.576.565	31.073.079	114.830.093
Investment securities	21.469.108	1.516.829	87.425	-	-	23.073.362
Property and equipment	-	-	-	-	1.195.527	1.195.527
Intangible assets	-	-	-	687.626	-	687.626
Deferred tax assets	-	-	28.888	-	-	28.888
Other assets	906.246	-	-	-	-	906.246
Total assets	**59.679.132**	**5.232.842**	**25.470.689**	**44.299.638**	**32.299.848**	**166.982.149**
Liabilities						
Trading liabilities	11.814	-	-	-	-	11.814
Derivative liabilities held for risk management	7.756.265	9.747.846	616.089	26.549.942	15.348.103	60.018.245
Deposits from banks	38.595.111	7.698.052	19.227.125	3.052.489	1.205.204	69.777.981
Deposits from customers	-	-	-	843.985	2.265.681	3.109.666
Subordinated liabilities	-	86.303	20.069	-	36.089	142.461
Provisions	1.848.951	-	-	-	-	1.848.951
Other liabilities	-	-	-	-	32.073.031	32.073.031
Equity	48.212.141	17.532.201	19.863.283	30.446.416	50.928.108	166.982.149
Net liquidity gap as of 31 December 2011	**11.466.991**	**(12.299.359)**	**5.607.406**	**13.853.222**	**(18.628.260)**	**-**

(d) Market risks

The Bank takes on exposure to market risks. Market risk 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" 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 Limit is placed 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.

	31 DECEMBER 2011		31 DECEMBER 2010	
	NOMINAL GAP DURATION	EFFECT OF INTEREST RATE PARALLEL SHIFT 200 BP	NOMINAL GAP DURATION	EFFECT OF INTEREST RATE PARALLEL SHIFT 200 B
RSD	-	(152.577)	-	(123.958)
EUR	-	(62.679)	-	(95.993)
USD	-	(17.431)	-	(2.536)
GBP	-	-	-	(2)
CHF	-	(828.311)	-	(1.934)
JPY	-	-	-	-
CAD	-	-	-	(7)
AUD	-	-	-	(1)
DKK	-	-	-	(0)
NOK	-	-	-	(0)
SEK	-	-	-	(1)
Total effect	**-**	**(1.060.997)**	**-**	**(224.432)**

Notes to the Financial Statements *(continued)*

(4) Financial risk management *(continued)*

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.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a daily basis include a 200 basis point ("bp") parallel fall or rise in all yield curves in Serbia. UniCredit Group's risk model (NORISK) calculates the Value at Risk for trading book ("VaR") for a one-day holding period and a confidence level of 99% based on a Monte Carlo ("MC")/ Historical Simulation approach. In the foreign exchange/interest rate sector a declustered historical simulation is used. Declustering means that historical scenarios are adapted to the current volatility level.

Correlations between historical and MC simulations are taken into consideration through a linear regression. Exempt from this regression are all residual risks (including price-determining correlations) as well as price determining volatilities. The former are simulated as uncorrelated, for the latter, the VaR is calculated separately and added to the VaR from the remaining risk factors.

One of the objective targets of ALM is managing of the interest rate risk of the Bank through acting on financial market (through Interbanktrading) 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.

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates, for the both banking and trading book, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

In thousand of RSD

	200BP Parallel increase	200BP Parallel decrease
2011.		
As at 31 December	241.344	(241.344)
Average for the year	99.459	(99.459)
Maximum for the year	285.159	(285.159)
Minimum for the year	42.974	(42.974)
2010.		
As at 31 December	445.139	(445.139)
Average for the year	284.423	(284.423)
Maximum for the year	445.139	(445.139)
Minimum for the year	180.676	(180.676)

A summary of the VaR position of the Bank's trading portfolio:

In thousand of RSD

	AS AT 31 DECEMBER	AVERAGE	MAXIMUM	MINIMUM
2011.				
Foreign currency risk	6.107	6.635	35.048	434
Interest rate risk	14.913	75.699	184.956	353
Credit spread risk	-	-	-	-
Other price risk	-	-	-	-
Covariance	(1.477)	-	-	-
OVERALL	**19.543**	**76.725**	**188.514**	**516**
2010.				
Foreign currency risk	9.383	6.990	20.534	288
Interest rate risk	23.864	45.148	129.605	12.846
Credit spread risk	-	-	-	-
Other price risk	-	-	-	-
Covariance	(11.945)	-	-	-
OVERALL	**21.302**	**45.557**	**132.387**	**12.942**

Notes to the Financial Statements *(continued)*

(4) Financial risk management *(continued)*

Exposure to interest rate movements as at 31 December 2011

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
Assets							
Cash and cash equivalents	3.912.139	3.025.289	-	-	-	-	886.850
Non-pledged trading assets	3.893.542	3.861.050	-	-	-	-	32.492
Loans and advances to banks	40.332.426	21.860.983	25.114	120.773	-	-	18.325.556
Loans and advances to customers	131.157.030	13.426.018	59.158.099	51.272.204	5.027.538	1.059.046	1.214.125
Investment securities	16.068.959	1.005	56.675	9.460.971	4.725.331	1.556.762	268.215
Total assets	**195.364.096**	**42.174.345**	**59.239.888**	**60.853.948**	**9.752.869**	**2.615.808**	**20.727.238**
Liabilities							
Trading liabilities	37.347	-	-	-	-	-	37.347
Derivative liabilities held for risk management	63.418	-	-	-	-	-	63.418
Deposits from banks	71.766.766	3.156.383	56.576.590	11.991.388	-	-	42.405
Deposits from customers	79.576.141	17.216.218	35.535.015	19.504.433	760.787	-	6.559.688
Subordinated liabilities	**3.142.149**	**-**	**-**	**3.142.149**	**-**	**-**	
Total liabilities	**154.585.821**	**20.372.601**	**92.111.605**	**34.637.970**	**760.787**	**-**	**6.702.858**
INTEREST SENSITIVITY GAP AS OF 31 DECEMBER 2011	**40.778.275**	**21.801.744**	**(32.871.717)**	**26.215.978**	**8.992.082**	**2.615.808**	**14.024.380**

Exposure to interest rate movements as at 31 December 2010

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
Assets							
Cash and cash equivalents	5.212.725	4.035.435	-	-	-	-	1.177.290
Non-pledged trading assets	25.602	-	-	-	-	-	25.602
Loans and advances to banks	21.022.080	1.656.315	136.436	11.649	-	-	19.217.680
Loans and advances to customers	114.830.093	10.628.498	53.881.484	47.887.274	1.455.191	-	977.646
Investment securities	23.073.362	165.526	208.858	22.518.000	-	-	180.978
Total assets	**164.163.862**	**16.485.774**	**54.226.778**	**70.416.923**	**1.455.191**	**-**	**21.579.196**
Liabilities							
Trading liabilities	11.814	-	-	-	-	-	11.814
Deposits from banks	60.018.245	2.002.463	11.144.094	45.937.575	423.694	-	510.419
Deposits from customers	69.777.981	11.738.895	23.337.177	25.872.964	3.956.453	-	4.872.492
Subordinated liabilities	3.109.666	-	-	3.109.666	-	-	-
Total liabilities	**132.917.706**	**13.741.358**	**34.481.271**	**74.920.205**	**4.380.147**	**-**	**5.394.725**
INTEREST SENSITIVITY GAP AS OF 31 DECEMBER 2010	**31.246.156**	**2.744.416**	**19.745.507**	**(4.503.282)**	**(2.924.956)**	**-**	**16.184.471**

(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 rate.

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.

Foreign exchange risk ratio relates to the ratio between total open foreign currency position and capital, calculated in accordance with the decision governing capital adequacy. The Bank should maintain this ratio so as to ensure its total open foreign currency position at the end of any business day does not exceed 20% of its capital.

	2011.	2010.
Foreign exchange risk ratio:		
- as at 31 December	4,83%	12,92%
- maximum for the period – month of December	8,17%	12,92%
- minimum for the period – month of December	0,69%	1,01%

Notes to the Financial Statements *(continued)*

(4) Financial risk management *(continued)*

Currency positions as at 31 December 2011

In thousands of RSD

	USD	EUR	CHF	OTHER	RSD	TOTAL
Assets						
Cash and cash equivalents	67.117	263.084	93.533	34.020	3.454.385	3.912.139
Non-pledged trading assets	-	388.883	-	-	3.504.659	3.893.542
Loans and advances to banks	4.197.007	19.279.561	44.098	184.179	16.627.581	40.332.426
Loans and advances to customers	5.835.931	88.713.620	9.078.246	5	27.529.228	131.157.030
Investment securities	-	5.156.632	-	-	10.912.327	16.068.959
Property and equipment	-	-	-	-	1.235.542	1.235.542
Intangible assets	-	-	-	-	750.368	750.368
Deferred tax assets	-	-	-	-	32.961	32.961
Other assets	2.571	694.373	5.672	40	482.419	1.185.075
TOTAL ASSETS	**10.102.626**	**114.496.153**	**9.221.549**	**218.244**	**64.529.470**	**198.568.042**
Liabilities						
Trading liabilities	-		-	-	37.347	37.347
Derivative liabilities held for risk management	-	63.418	-	-	-	63.418
Deposits from banks	4.833.325	61.156.766	1.887.771	234	3.888.670	71.766.766
Deposits from customers	3.570.981	52.644.227	2.263.506	201.069	20.896.358	79.576.141
Subordinated liabilities	-	837.127	2.305.022	-	-	3.142.149
Provisions	-	-	-	-	134.737	134.737
Other liabilities	16.719	546.176	99	1.832	961.599	1.526.425
Equity	-	-	-	-	42.321.059	42.321.059
TOTAL LIABILITIES	**8.421.025**	**115.247.714**	**6.456.398**	**203.135**	**68.239.770**	**198.568.042**
NET CURRENCY GAP AS OF 31 DECEMBER 2011	**1.681.601**	**(751.561)**	**2.765.151**	**15.109**	**(3.710.300)**	**-**

Currency positions as at 31 December 2010

In thousands of RSD

	USD	EUR	CHF	OTHER	RSD	TOTAL
Assets						
Cash and cash equivalents	63.753	328.021	56.221	51.617	4.713.113	5.212.725
Non-pledged trading assets	-	-	-	-	25.602	25.602
Loans and advances to banks	550.123	18.958.071	40.215	20.810	1.452.861	21.022.080
Loans and advances to customers	1.070.466	76.507.929	12.369.091	-	24.882.607	114.830.093
Investment securities	-	5.340.848	-	-	17.732.514	23.073.362
Property and equipment	-	-	-	-	1.195.527	1.195.527
Intangible assets	-	-	-	-	687.626	687.626
Deferred tax assets	-	-	-	-	28.888	28.888
Other assets	7.920	660.038	3.905	19	234.364	906.246
TOTAL ASSETS	**1.692.262**	**101.794.907**	**12.469.432**	**72.446**	**50.953.102**	**166.982.149**
Liabilities						
Trading liabilities	-	-	-	-	11.814	11.814
Deposits from banks	267.329	51.871.982	6.335.884	1.198	1.541.852	60.018.245
Deposits from customers	2.169.746	50.039.341	2.688.846	171.543	14.708.505	69.777.981
Subordinated liabilities	-	843.985	2.265.681	-	-	3.109.666
Provisions	-	-	-	-	142.461	142.461
Other liabilities	13.073	442.350	1.007	1.908	1.390.613	1.848.951
Equity					32.073.031	32.073.031
TOTAL LIABILITIES	**2.450.148**	**103.197.658**	**11.291.418**	**174.649**	**49.868.276**	**166.982.149**
NET CURRENCY GAP AS OF 31 DECEMBER 2010	**(757.886)**	**(1.402.751)**	**1.178.014**	**(102.203)**	**1.084.826**	**-**

Notes to the Financial Statements *(continued)*

(4) Financial risk management *(continued)*

(e) 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 sets country risks individually per borrower's country of origin, per risk concentration at regional level and, when needed, it sets country risks per specific geographic regions.

Periodic monitoring of country risk is established at UniCredit Group level, with reporting of identified risks which permits for monitoring of established limits for all individual countries, as well as monitoring of each country risk based on ratings issued by external agencies. Country risk is part of the Group's watch list for continuous risk monitoring. Country ratings are reviewed at least monthly, with reports being available to all members of the Group. Ratings for territories and micro-states are reviewed at least once annually. A country risk covers a period of five years and is intended to express the Loss Given Default value. This risk covers twelve months and assesses the possibility of loss given default of a country. Information is available to all members of the UniCredit Group, and in that sense the Group uses analyses available at Group level – General Credit Guide for determining limits and risks per country of origin of individual exposures (country risk) in analyzing a loan request, where it is important to determine the country risk of an entity filing for loan approval.

(f) 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 Operating Risk Monitoring Committee meets quarterly for more efficient internal control and process improvement for minimising risks arising from operating risk. The Directorate is also responsible for the calculation of capital requirements for operating risks that are calculated using the Standardised Approach, as well as reporting for local management and at Group level.

(g) Capital management

To monitor the adequacy of its regulatory capital starting from 2011 the Bank uses ratio established by the National Bank of Serbia ("NBS") in accordance with the Basel II regulations and Pillar I. 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 10,000,000 EUR, 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 operations risks for all banking activities.

The Bank's regulatory capital is analysed in two tiers: Basic capital consists of the aggregate of the following elements decreased for deductible items:

- Basic capital (Tier 1capital), which includes ordinary share capital, share premium and retained earnings, after deductions for intangible assets and retained losses, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes;

- Additional capital (Tier 2 capital), which includes cumulative preference shares, qualifying part of positive revaluation reserves, qualifying subordinated liabilities, hybrid capital instruments and surplus provisions, reserves and required reserves in respect of expected losses (if the Bank receives the NBS approval for use of IRB approach), and other regulatory adjustments prescribed for capital adequacy purposes.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and exposures not recognised in the statement of financial position.

The Policy of the Bank is to maintain strong base of capital in order to maintain confidence of the market, investors and creditors and for future development.

Notes to the Financial Statements *(continued)*

(4) Financial risk management *(continued)*

The following table shows the capital as at 31 December 2011:

In thousands of RSD

	2011.	2010.
Tier 1 capital		
Share capital	23.607.620	17.857.620
Share premium	562.156	562.156
Retained earnings	17.062.649	13.652.879
Less:		
Intangible assets	(750.368)	(687.626)
Unrealised losses on available for sale securities	(46.460)	-
Total qualifying Tier 1 capital	**40.435.597**	**31.385.029**
Tier 2 capital		
Qualifying subordinated loans	2.639.873	2.940.869
Revaluation reserves	85	-
Total qualifying Tier 2 capital	**2.639.958**	**2.940.869**
Deductable items		
Receivables and liabilities to related parties with better conditions comparing to conditions for non-related parties	(8.317)	-
Reserve for potential losses	(13.085.135)	(7.818.265)
Total deductable items	(13.093.452)	(7.818.265)
Reduction in Tier 1 capital	(10.453.494)	(4.877.396)
Reduction in Tier 2 capital	(2.639.958)	(2.940.869)
Total Tier 1 capital	29.982.103	26.507.633
Total Tier 2 capital	-	-
Total regulatory capital	**29.982.103**	**26.507.633**
Credit risk	126.945.064	152.107.706
Market risk	3.213.045	2.936.757
Price risk	1.130.282	-
Foreign currency risk	2.082.763	2.936.757
Operational risk	9.587.933	-
Total risk weighted assets	**139.746.042**	**155.044.463**
CAPITAL ADEQUACY RATIO	**21,45%**	**17,10%**

All prescribed statutory requirements as at 31 December 2011 are fulfilled, as presented in the table below:

	PRESCRIBED RATIOS BY NBS	ACHIEVED BY THE BANK 2011.	ACHIEVED BY THE BANK 2010.
Capital adequacy ratio	min. 12%	21,45%	17,10%
Capital asset ratio	maks. 60%	4,13%	4,51%
Indicator of exposure to related parties	maks. 20%	10,00%	2,09%
Indicator of large and the largest individual exposures in relation to capital	maks. 400%	78%	71,80%
Liquidity ratio - for December	min. 1.00	2,36%	1,22%
Foreign currency risk	maks. 20%	6,95%	11,08%

(5) Use of estimates and judgements

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances.

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

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortized cost are evaluated for impairment on a basis described in accounting policy 3(i).

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 judgements about counterparty's financial situation and the net realisable 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 allowances.

Determining fair values

The 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(i)(vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgements in applying the Bank's accounting policies

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

Valuation of financial instruments

The Bank accounting policy on fair value measurement is disclosed in accounting policy 3(i) (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 in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia 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.

Notes to the Financial Statements *(continued)*

(5) Use of estimates and judgements *(continued)*

The Bank uses widely recognised 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 judgement 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 judgement 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.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

In thousands of RSD

	Note	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
2011.					
Trading assets	15	-	153.508	3.740.034	3.893.542
Investment securities	18	-	155.575	15.913.384	16.068.959
		-	**309.083**	**19.653.418**	**19.962.501**
Trading liabilities	15	-	-	37.347	37.347
Derivative liabilities held for risk management	23	-	63.418	-	63.418
		-	**372.501**	**19.690.765**	**20.063.266**
2010.					
Trading assets	15	-	-	25.602	25.602
Investment securities	18	-	177.127	20.841.092	21.018.219
		-	**177.127**	**20.866.694**	**21.043.821**
Trading liabilities	15	-	-	11.814	11.814
		-	**177.127**	**20.878.508**	**21.055.635**

(6) Financial assets and liabilities - Accounting classification and fair values

The table bellow sets out the Bank's classification of each class of financial assets and liabilities, and their fair values as at 31 December 2011:

In thousands of RSD

	Note	Trading	Designated at fair values	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
31 December 2011									
Cash and cash equivalents	14	-	-	-	3.912.139	-	-	3.912.139	3.912.139
Non-pledged trading assets	15	3.893.542	-	-	-	-	-	3.893.542	3.893.542
Loans and advances to banks	16	-	-	-	40.332.426	-	-	40.332.426	40.332.426
Loans and advances to customers:	17								
Measured at fair value		-	-	-	-	-	-	-	-
Measured at amortised cost		-	-	-	131.157.030	-	-	131.157.030	131.157.030
Investment securities:	18								
Measured at fair value		-	-	-	-	15.541.377	-	15.541.377	15.541.377
Measured at amortised cost		-	-	527.582	-	-	-	527.582	527.582
Other assets	22	-	-	-	1.185.075	-	-	1.185.075	1.185.075
TOTAL ASSETS		**3.893.542**	**-**	**527.582**	**176.586.670**	**15.541.377**	**-**	**196.549.171**	**196.549.171**
Trading liabilities	15	37.347	-	-	-	-	-	37.347	37.347
Derivative liabilities held for risk management	23	-	63.418	-	-	-	-	63.418	63.418
Deposits from banks	24	-	-	-	-	-	71.766.766	71.766.766	71.766.766
Deposits from customers	25	-	-	-	-	-	79.576.141	79.576.141	78.897.824
Subordinated liabilities	26	-	-	-	-	-	3.142.149	3.142.149	3.142.149
Other liabilities	28	-	-	-	-	-	1.526.425	1.526.425	1.526.425
TOTAL LIABILITIES		**37.347**	**63.418**	**-**	**-**	**-**	**156.011.481**	**156.122.246**	**155.433.929**

Notes to the Financial Statements *(continued)*

(6) Financial assets and liabilities - Accounting classification and fair values *(continued)*

The table bellow sets out the Bank's classification of each class of financial assets and liabilities, and their fair values as at 31 December 2010:

In thousands of RSD

	Note	Trading	Designated at fair values	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
31 December 2010									
Cash and cash equivalents	14	-	-	-	5.212.725	-	-	5.212.725	5.212.725
Non-pledged trading assets	15	25.602	-	-	-	-	-	25.602	25.602
Loans and advances to banks	16	-	-	-	21.022.080	-	-	21.022.080	21.022.080
Loans and advances to customers:	17								
Measured at fair value		-	-	-	-	-	-	-	-
Measured at amortised cost		-	-	-	114.830.093	-	-	114.830.093	114.830.093
Investment securities:	18								
Measured at fair value		-	1.063	-	-	20.954.681	-	21.018.219	21.018.219
Measured at amortised cost		-	-	2.117.618	-	-	-	2.055.143	2.055.143
Other assets	22	-	-	-	906.246	-	-	906.246	906.246
Total assets		**25.602**	**1.063**	**2.117.618**	**141.971.144**	**20.954.681**	**-**	**165.070.108**	**165.070.108**
Trading liabilities	15	11.814	-	-	-	-	-	11.814	11.814
Deposits from banks	24	-	-	-	-	-	60.018.245	60.018.245	60.018.245
Deposits from customers	25	-	-	-	-	-	69.777.981	69.777.981	69.431.421
Subordinated liabilities	26	-	-	-	-	-	3.109.666	3.109.666	3.109.666
Other liabilities	28	-	-	-	-	-	1.848.951	1.848.951	1.848.951
Total liabilities		**11.814**	**-**	**-**	**-**	**-**	**134.754.843**	**134.766.657**	**134.420.097**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

(ii) Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are 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) Fixed rate financial instruments

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 deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

(7) Net interest income

Net interest income includes:

In thousands of RSD

Interest income	2011.	2010.
Cash and cash equivalents	98.184	123.106
Derivative assets held for risk management	33.608	-
Loans and advances to banks	755.115	646.250
Loans and advances to customers	10.466.263	8.333.428
Swaps	686.441	293.262
Investment securities	2.088.622	2.328.195
Total interest income	**14.128.233**	**11.724.241**
Interest expense		
Derivative liabilities held for risk management	(63.418)	-
Deposits from banks	(2.067.935)	(1.537.811)
Deposits from customers	(2.681.619)	(2.786.238)
Subordinated liabilities	(99.456)	(105.616)
Swaps	(552.245)	(707.870)
Total interest expense	**(5.464.673)**	**(5.137.535)**
NET INTEREST INCOME	**8.663.560**	**6.586.706**

Notes to the Financial Statements *(continued)*

(8) Net fee and commission income

Net fee and commission income includes:

In thousands of RSD

	2011.	2010.
Fee and commission income		
Payment transfer business	124.486	102.029
Fees on issued guarantees and other contingent liabilities	369.296	424.385
Brokerage fee	56.403	7.776
Custody fee	249.822	79.845
Fees arising from card operations	248.450	159.468
Other banking services	990.871	781.818
Total fee and commission income	**2.039.328**	**1.555.321**
Fee and commission expense		
Payment transfer business	(34.224)	(91.003)
Commission expenses arising on guarantees	(29.724)	(825)
Fees arising from card operations	(246.469)	(156.588)
Other banking services	(69.770)	(68.738)
Total fee and commission expense	**(380.187)**	**(317.154)**
NET FEE AND COMMISSION INCOME	**1.659.141**	**1.238.167**

(9) Net trading income

Net trading income includes:

In thousands of RSD

	2011.	2010.
Foreign exchange gains	1.065.617	683.482
Net result from derivative financial instruments held for trading	(18.351)	3.328
NET TRADING INCOME	**1.047.266**	**686.810**

Notes to the Financial Statements *(continued)*

(10) Net impairment loss on financial assets

Net impairment loss on financial assets includes:

In thousands of RSD

	2011.	2010.
Loans and advances to customers		
Net addition of specific loan impairment	2.561.246	1,387,329
Net release of collective based impairment	(41.997)	(53,249)
Total	**2.519.249**	**1,334,080**
Contingent liabilities		
Release of specific loan impairment (Note 27)	(25.323)	(69.503)
Release/addition of collective loan impairment (Note 27)	17.733	(171.344)
Total	**(7.590)**	**(240.847)**
Direct write-off	6.952	**132.302**
Income from collection of written-off claims	(48)	**(190)**
TOTAL	**2.518.563**	**1.225.345**

(11) Personnel expenses

Personnel expenses include:

In thousands of RSD

	2011.	2010.
Wages and salaries	1.055.568	963.877
Social security costs and staff related taxes	412.982	374.438
Staff training expenses	3.030	2.296
Other personal expenses	220.575	179.778
TOTAL	**1.692.155**	**1.520.389**

Notes to the Financial Statements *(continued)*

(12) Other expenses

Other expenses include:

In thousands of RSD

	2011.	2010.
Other administrative expenses		
Building and office space expenses	67.192	67.830
IT expenses	265.282	246.519
Legal and advisory expenses	59.118	23.281
Advertising, public, relation and representation expenses	85.404	53.001
Communication expenses	63.982	60.928
Office supplies	23.133	24.121
Insurance premium	215.242	175.832
	779.353	**651.512**
Other expenses		
Other taxes and contributions	334.812	311.813
Loss from disposal of property, equipment and intangible assets	2.899	456
Other	339.928	155.901
	677.639	**468.170**
TOTAL	**1.456.992**	**1.119.682**

(13) Income tax expense

13.1 Major components of income tax expense as at 31 December are as follows:

In thousands of RSD

	2011.	2010.
Current tax expense	(505.879)	(408.619)
Deferred tax income/(expense) (Note 21.2)	(606)	12.043
TOTAL	**(506.485)**	**(396.576)**

13.2 Reconciliation of the effective tax rate is presented as follows:

In thousands of RSD

	2011.	2011.	2010.	2010.
Profit for the year before tax		**5.046.618**		**3.987.250**
Income tax using the domestic corporation tax rate	10,00%	504.662	10,00%	398.725
Non-deductable expenses	0,45%	22.880	0,31%	12.106
Other	0,06%	3.114	-0,06%	(2.212)
Tax credit for capital expenditures	-0,48%	(24.171)	-0,30%	(12.043)
TOTAL INCOME TAX EXPENSE	**10,04%**	**506.485**	**9,95%**	**396.576**

13.3 Income tax recognized in other comprehensive income is presented as follows:

In thousands of RSD

	2011.			2010.		
	BEFORE TAX	TAX EXPENSE	NET OF TAX	BEFORE TAX	TAX EXPENSE	NET OF TAX
Available-for-sale investment securities	(46.366)	(4.637)	(41.729)	418	(42)	376
BALANCE AS AT 31 DECEMBER	**(46.366)**	**(4.637)**	**(41.729)**	**418**	**(42)**	**376**

Notes to the Financial Statements *(continued)*

(14) Cash and cash equivalents

Cash and cash equivalents include:

In thousands of RSD

	2011.	2010.
Cash on hand	879.193	979.954
Giro account	3.025.288	4.230.661
Cheques	7.658	2.110
BALANCE AS AT 31 DECEMBER	**3.912.139**	**5.212.725**

(15) Trading assets and liabilities

15.1 Cash and cash equivalents include:

In thousands of RSD

	2011.		2010.	
	NON-PLEDGED TRADING ASSETS	TOTAL TRADING ASSETS	NON-PLEDGED TRADING ASSETS	TOTAL TRADING ASSETS
Government bonds	153.508	153.508		
Treasury bills	3.707.542	3.707.542	-	-
Total	**3.861.050**	**3.861.050**	-	-
Derivative assets				
Foreign exchange - swaps	32.492	32.492	25.602	25.602
Total	**32.492**	**32.492**	**25.602**	**25.602**
BALANCE AS AT 31 DECEMBER	**3.893.542**	**3.893.542**	**25.602**	**25.602**

15.2 Trading liabilities consist of:

In thousands of RSD

	2011.	2010.
Derivative liabilities		
Foreign exchange	37.347	11.814
BALANCE AS AT 31 DECEMBER	**37.347**	**11.814**

Notes to the Financial Statements *(continued)*

(16) Loans and advances to banks

16.1 Loans and advances to banks include:

In thousands of RSD

	2011.	2010.
Current/clearing business		
Domestic banks	30.968	32.597
Foreign banks	1.191.259	1.134.541
Money market business		
Short-term deposits with central bank	4.800.000	-
Short-term deposits with domestic banks	2.722	1.051
Short-term deposits with foreign banks	5.244.453	243.077
Loans and placements to banks		
Repo transactions with Central Bank	11.717.604	1.003.194
Domestic banks	128.766	436.475
Foreign banks	121.627	103.492
Obligatory reserve in foreign currency held with Central Bank	17.060.013	18.033.713
Guarantee deposits for sale/purchase of bonds	4.186	4.220
Other placements	33.424	31.298
Less allowances for impairment	**(2.596)**	**(1.578)**
BALANCE AS AT 31 DECEMBER	**40.332.426**	**21.022.080**

As at 31 December 2011 the securities purchased under resale agreements with the NBS totalling RSD 11,717,604 thousand are associated with the bonds purchased from the NBS, having 15 day maturities, issued at annual interest of 9.75%. These transactions are governed by the NBS Agreement on the Sale of Securities with an Obligation to Repurchase.

16.2 Movement in balance of impairment for loans and advances to banks is presented in the table below:

In thousands of RSD

	SPECIFIC		COLLECTIVE	
	2011.	2010.	2011.	2010.
Balance as at 1 January	(1.555)	(1.285)	(23)	(2.269)
Impairment loss for the year:				
Charge for the year	(154)	-	(835)	-
Effect of foreign currency movements	(29)	(373)	(14)	(405)
Releases	-	6	-	2,651
Write offs	14	97	-	-
Total for the year	(169)	(270)	(849)	2.246
BALANCE AS AT 31 DECEMBER	**(1.724)**	**(1.555)**	**(872)**	**(23)**

(17) Loans and advances to customers

17.1 Loans and advances to customers consist of:

In thousands of RSD

	2011.			2010.		
	GROSS AMOUNT	IMPAIRMENT ALLOWANCE	CARRYING AMOUNT	GROSS AMOUNT	IMPAIRMENT ALLOWANCE	CARRYING AMOUNT
Public sector	7.379.250	(27.491)	7.351.759	6.947.603	(25.593)	6.922.010
Corporate customers	98.749.502	(5.004.933)	93.744.569	82.655.817	(2.443.155)	80.212.662
Retail customers	31.652.419	(1.591.717)	30.060.702	29.233.089	(1.537.668)	27.695.421
BALANCE AS AT 31 DECEMBER	**137.781.171**	**(6.624.141)**	**131.157.030**	**118.836.509**	**(4.006.416)**	**114.830.093**

17.2 Movements in balance of impairment for loans and advances to customers, during the year, were as follows:

In thousands of RSD

	SPECIFIC		COLLECTIVE	
	2011.	2010.	2011.	2010.
Balance as at 1 January	(3.596.572)	(2.333.510)	(409.844)	(439.654)
Impairment loss for the year:				
Charge for the year	(2.537.476)	(1.366.690)	-	-
Effect of foreign currency movements	(55.487)	(416.665)	(5.488)	1.491
Interest income correction	(184.513)	-	-	-
Sales of portfolio	99.327	-	-	-
Releases	-	-	36.630	28.319
Used for write offs	29.282	520.293	-	-
Total for the year	(2.648.867)	(1.263.062)	31.142	29.810
BALANCE AS AT 31 DECEMBER	**(6.245.439)**	**(3.596.572)**	**(378.702)**	**(409.844)**

Loans are extended to enterprises for the purposes of daily liquidity (current account overdrafts), working capital and import financing, as well as to finance new investments. Loans up to one year have primarily been extended at thirty-day to one-year maturity periods, whereas long-term loans have been extended with 2 to 10-year maturities. These loans were tipically issued at interest rates equal to the one-month, quarterly or semi-annual EURIBOR rate or LIBOR (depending on appropriate currency) increased up to 5.50% per annum, in accordance with the Bank's interest rate policy.

During 2011 long-term loans to retail customers were mainly granted for financing residential property purchases, with 5 to 25-year maturities at interest rates ranging from 3M Euribor +1.66% to 5.79% for loans indexed in EUR. Long-term retail cash loans in dinars are also granted, as well as long-term cash loans indexed in EUR with a repayment period of 7 years, and up to 10 years for insured loans.

In 2011 interest rates for financing investments for small companies and entrepreneurs ranged between 8.5% and 18% for loans indexed in EUR. For the same client segment interest rates for short-term financing up to 12 months ranged between 8.5 to 18% for loans indexed in EUR, and 20% to 25% for dinar loans.

Notes to the Financial Statements *(continued)*

(17) Loans and advances to customers *(continued)*

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

In thousands of RSD

	2011.	2010.
Corporate customers		
- Mining industry and energy	2.059.490	1.994.521
- Agriculture	1.958.556	2.353.339
- Architecture	14.233.221	14.950.411
- Industry	24.035.794	16.480.805
- Trade	13.340.369	15.618.339
- Services	13.300.675	8.305.606
- Transportation and logistics	18.689.522	13.418.537
- Other	11.131.875	9.534.259
	98.749.502	**82.655.817**
Public sector	7.379.250	6.947.603
Retail customers		
- Private individuals	30.842.711	28.310.321
- Entrepreneurs	809.708	922.768
	31.652.419	**29.233.089**
TOTAL	**137.781.171**	**118.836.509**
Allowance for impairment	(6.624.141)	(4.006.416)
BALANCE AS AT 31 DECEMBER	**131.157.030**	**114.830.093**

The Bank 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 geographical 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.

(18) Investment securities

18.1 Investment securities consist of:

In thousands of RSD

	2011.	2010.
Financial assets at fair value through profit or loss		
- Commercial bills	-	1.063
Held-to-maturity investment securities		
- Bills of exchange	527.582	2.117.618
Available-for-sale investment securities		
- Equity investments	12.061	12.061
Other available-for-sale investment securities		
- Treasury bills	13.890.684	20.841.092
- Foreign currency savings bonds	155.575	177.127
- Municipality bonds	1.556.762	-
LESS ALLOWANCES FOR IMPAIRMENT	(73.705)	(75.599)
BALANCE AS AT 31 DECEMBER	**16.068.959**	**23.073.362**

As at 31 December 2011 bills of exchange in the amount of RSD 527,582 thousand relate to investments that mature within one year at discount rates ranging from 0.99% to 1.55% per month.

As at 31 December 2011 available-for-sale investment securities in the amount of RSD 155,575 thousand represent a portfolio of the long-term bonds issued by the Republic of Serbia with maturities occurring between the years 2012 to 2013, while the amount of RSD 13,890,684 thousand (2010: RSD 20,841,092 thousand) relates to treasury bonds of the Republic of Serbia with maturities up to 2014.

For hedging interest rate risk related to local municipality bonds, with long-term maturity and fixed interest rate, the Bank implemented fair value hedging relationship. As at 31 December 2011 the Bank reported investments in local municipality bonds in the amount of EUR 15 million (RSD 1,556,762 thousand) as a hedged item, while a hedging instrument is reported as an interest rate swap, also in the amount of EUR 15 million (RSD 1,556,762 thousand). As at 31 December 2011 a hedging effectiveness test was performed that showed that the hedge is very effective.

18.2 Allowances for impairment consist of:

In thousands of RSD

	SPECIFIC		COLLECTIVE	
	2011.	2010.	2011.	2010.
Balance as at 1 January	(63.886)	(62.367)	(11.713)	(25.746)
Impairment loss for the year:				
Charge for the year	(5.489)	(1.622)	-	14.033
Releases	-	-	6.321	-
Write offs	1.062	103	-	-
Total for the year	**(4.427)**	**(1.519)**	**(6.321)**	**(14.033)**
BALANCE AS AT 31 DECEMBER	**(68.313)**	**(63.886)**	**(5.392)**	**(11.713)**

Notes to the Financial Statements *(continued)*

(19) Property and equipment

19.1 Property and equipment includes:

In thousands of RSD

	2011.	2010.
Buildings	645.243	658.618
Fixtures and fittings	401.582	340.384
Leasehold investments	185.117	196.518
Assets under development	3.600	7
BALANCE AS AT 31 DECEMBER	**1.235.542**	**1.195.527**

19.2 The movements in property and equipment for the year 2011 were as follows:

In thousands of RSD

	LAND AND BUILDINGS	LEASEHOLD INVESTMENT	FIXTURES AND FITTINGS	ASSETS UNDER DEVELOPMENT	TOTAL
Cost					
Balance as at 1 January 2011	668.752	346.699	945.700	7	1.961.158
Acquisitions	-	-	-	200.792	200.792
Transfer from investment in progress	-	33.092	164.107	(197.199)	-
Disposals	-	(7.991)	(90.061)	-	(98.052)
Other	-	-	(8.790)	-	(8.790)
Balance as at 31 December 2011	**668.752**	**371.800**	**1.010.956**	**3.600**	**2.055.108**
Accumulated depreciation and impairment losses					
Balance as at 1 January 2011	10.134	150.181	605.316	-	765.631
Depreciation for the period	13.375	40.629	98.035	-	152.039
Disposals	-	(4.127)	(87.172)	-	(91.299)
Other	-	-	(6.805)	-	(6.805)
Balance as at 31 December 2011	**23.509**	**186.683**	**609.374**	**-**	**819.566**
CARRYING AMOUNT AS AT 31 DECEMBER 2011	**645.243**	**185.117**	**401.582**	**3.600**	**1.235.542**
CARRYING AMOUNT AS AT 1 JANUARY 2011	**658.618**	**196.518**	**340.384**	**7**	**1.195.527**

The movements in property and equipment for the year 2010 were as follows:

In thousands of RSD

	LAND AND BUILDINGS	LEASEHOLD INVESTMENT	FIXTURES AND FITTINGS	ASSETS UNDER DEVELOPMENT	TOTAL
Cost					
Balance as at 1 January 2010	571.823	364.375	925.093	-	1.861.291
Acquisitions	-	-	-	119.020	119.020
Transfer from investment in progress	86.658	988	31.367	(119.013)	-
Disposals	-	-	(10.760)	-	(10.760)
Other	10.271	(18.664)	-	-	(8.393)
Balance as at 31 December 2010	**668.752**	**346.699**	**945.700**	**7**	**1.961.158**
Accumulated depreciation and impairment losses					
Balance as at 1 January 2010	**104.175**	**115.851**	**534.291**	**-**	**754.317**
Depreciation for the period	2.517	42.660	109.911	-	155.088
Impairment losses	-	-	(10.304)	-	(10.304)
Disposals	-	-	-	-	0
Other	(96.558)	(8.330)	(28.582)	-	(133.470)
Balance as at 31 December 2010	**10.134**	**150.181**	**605.316**	**-**	**765.631**
CARRYING AMOUNT AS AT 31 DECEMBER 2010	**658.618**	**196.518**	**340.384**	**7**	**1.195.527**
CARRYING AMOUNT AS AT 1 JANUARY 2010	**467.648**	**248.524**	**390.802**	**-**	**1.106.974**

Notes to the Financial Statements *(continued)*

(20) Intangible assets

20.1 Intangible assets, net include:

In thousands of RSD

	2011.	2010.
Intangible assets	624.835	437.226
Intangible assets in progress	125.533	250.400
BALANCE AS AT 31 DECEMBER	**750.368**	**687.626**

20.2 The movements in intangible assets for the year were as follows:

In thousands of RSD

	INTANGIBLE ASSETS	INTANGIBLE ASSETS IN PROGRESS	TOTAL
Cost			
Balance as at 1 January 2011	1.241.895	250.400	1.492.295
Acquisitions	388.082	(124.867)	263.215
Other	(1.492)	-	(1.492)
Balance as at 31 December 2011	**1.628.485**	**125.533**	**1.754.018**
Amortization and impairment losses			
Balance as at 1 January 2011	804.669	-	804.669
Amortization for the period	198.981	-	198.981
Balance as at 31 December 2011	**1.003.650**	**-**	**1.003.650**
CARRYING AMOUNT AS AT 31 DECEMBER 2011	**624.835**	**125.533**	**750.368**
CARRYING AMOUNT AS AT 1 JANUARY 2011	**437.226**	**250.400**	**687.626**

In thousands of RSD

	INTANGIBLE ASSETS	INTANGIBLE ASSETS IN PROGRESS	TOTAL
Cost			
Balance as at 1 January 2010	1.004.210	221.929	1.226.139
Acquisitions	239.582	28.471	268.053
Other	(1.897)	-	(1.897)
Balance as at 31 December 2010	**1.241.895**	**250.400**	**1.492.295**
Amortization and impairment losses			
Balance as at 1 January 2010	615.628	-	615.628
Amortization for the period	189.638	-	189.638
Other	(597)	-	(597)
Balance as at 31 December 2010	**804.669**	**-**	**804.669**
CARRYING AMOUNT AS AT 31 DECEMBER 2010	**437.226**	**250.400**	**687.626**
CARRYING AMOUNT AS AT 1 JANUARY 2010	**388.582**	**221.929**	**610.511**

(21) Deferred tax assets and liabilities relate to:

21.1 Deferred tax assets and liabilities relate to:

In thousands of RSD

	2011.			2010.		
	ASSETS	LIABILITIES	NET	ASSETS	LIABILITIES	NET
Difference in net carrying amount of tangible assets for tax and financial reporting purpose	28.324	-	28.324	28.930	-	28.930
Valuation of available-for-sale securities	4.637	-	4.637	-	(42)	(42)
TOTAL	**32.961**	**-**	**32.961**	**28.930**	**(42)**	**28.888**

21.2 Movements in temporary differences during the year 2011 are presented as follows:

In thousands of RSD

	BALANCE AT 1 JAN	RECOGNISED IN PROFIT OR LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	BALANCE AT 31 DEC
Property and equipment	28.930	(606)	-	28.324
Available-for-sale securities	(42)	-	4.679	4.637
TOTAL	**28.888**	**(606)**	**4.679**	**32.961**

Notes to the Financial Statements *(continued)*

(22) Other assets:

Other assets relate to:

In thousands of RSD

	2011.	2010.
Assets held for sale	982	1.599
Accounts receivables	251.484	227.639
Accrued income	240.028	44.361
Assets received in exchange for collection of receivables	4.927	4.927
Prepayments	163.047	51.537
Investment property	1.561	-
Other deferred expenses	563.261	599.410
Less allowances for impairment	(40.215)	(23.227)
BALANCE AS AT 31 DECEMBER	**1.185.075**	**906.246**

Movements in balance of impairment of other assets and accrued income, during the year, were as follows:

In thousands of RSD

	SPECIFIC		COLLECTIVE	
	2011.	2010.	2011.	2010.
Balance as at 1 January	(23.202)	(5.799)	(25)	(8.266)
Impairment loss for the year:				
Charge for the year	(18.127)	(19.023)	(119)	-
Effect of foreign currency movements	(123)	(1.001)	-	-
Releases	-	-	-	8.241
Write offs	1.381	2.621	-	-
BALANCE AS AT 31 DECEMBER	**(40.071)**	**(23.202)**	**(144)**	**(25)**

(23) Derivative liabilities held for risk management

23.1 Derivative liabilities held for risk management include:

In thousands of RSD

	2011.	2010.
Instrument type:		
Interest rate swaps	63.418	-
BALANCE AS AT 31 DECEMBER	**63.418**	**-**

The Bank uses interest rate swaps to hedge its exposure to changes in the fair values of its fixed rate euro bonds. Interest rate swaps are matched to specific issuances of fixed rate bonds (Notes 18.1 and 7).

Notes to the Financial Statements *(continued)*

(24) Deposits from banks

24.1 Deposits from banks include:

In thousands of RSD

	2011.	2010.
Demand deposits	2.796.566	2.719.860
Short-term deposits	3.735.338	14.954.522
Long-term deposits	31.392	421.993
Long-term loans	65.189.985	41.898.044
Other	13.485	23.826
BALANCE AS AT 31 DECEMBER	**71.766.766**	**60.018.245**

Demand deposits in dinars from banks are deposited at 4.5% interest rate per annum.

Short-term term deposits in dinars from banks are deposited with maturities of up to one year at interest rate from 7.3 % to 14.75% per annum.

Short-term foreign currency deposits from banks are deposited with maturities of up to one year at interest rate from 0.24% to 1.6% per annum.

24.2 The structure of long-term loans is presented as follows:

In thousands of RSD

	2011.	2010.
European Bank for Reconstruction and Development (EBRD)	11.870.966	5.271.779
Kreditanstalt fur Wiederaufbau Frankfurt am Main („KfW“)	4.290.277	3.164.946
European Investment Bank, Luxembourg	5.808.697	5.504.296
Deutsche Invertitions und Entwicklungs GmbH, Germany	1.395.212	1.582.473
UniCredit Bank Austria AG, Vienna	41.815.729	26.374.550
National Bank of Serbia	9.104	-
BALANCE AS AT 31 DECEMBER	**65.189.985**	**41.898.044**

Presented long term loans are granted with maturities from 5 to 16 years at interest rates from 1% to 4.81% per annum.

(25) Deposits from customers

25.1 Deposits from customers include:

In thousands of RSD

	2011.	2010.
Public sector	275.235	323.503
Corporate customers	44.281.796	38.149.544
Retail customers	29.740.675	28.158.755
Long-term loans	5.278.435	3.146.179
BALANCE AS AT 31 DECEMBER	**79.576.141**	**69.777.981**

Demand deposits in dinars from companies are deposited at average interest rate of 4.5% per annum while interest rate on term deposits is up to 12.5% per annum. Demand deposits in foreign currencies from companies are deposited at annual interest rate from 0.1% to 2.35% per annum depending from deposited currency.

Short-term deposits in foreign currencies from companies are deposited at annual interest rate from 2.6% to 5.55% per annum depending from deposited currency.

Demand deposits in dinars from retail clients are deposited at annual interest rate up to 1%, while demand deposits in foreign currency are deposited at annual interest rate up to 0.9%.

Short-term term deposits from retail customers in foreign currencies are deposited at annual interest rates ranging from 2% to 6% depending on term of deposit and currency presumably.

25.2 The structure of long-term loans is presented as follows:

In thousands of RSD

	2011.	2010.
International Finance Corporation, Washington	4.614.441	2.453.595
Government of the Republic of Italy	16.647	22.439
BA CA Leasing GmbH, Bad Hamburg	647.347	670.145
BALANCE AS AT 31 DECEMBER	**5.278.435**	**3.146.179**

Maturity of the presented long term loans is 2016 with interest rates from 1 to 3.82 % per annum.

Notes to the Financial Statements *(continued)*

(26) Subordinated liabilities

Subordinated liabilities relate to:

In thousands of RSD

	2011.	2010.
UniCredit Bank Czech Republic	784.807	791.236
UniCredit Bank Austria AG, Vienna	2.357.342	2.318.430
BALANCE AS AT 31 DECEMBER	**3.142.149**	**3.109.666**

As at 31 December 2011 subordinated liabilities in foreign currencies in the amount of RSD 3,142,149 thousand relate to the subordinated long-term loans originated by UniCredit Bank Czech Republic in the amount of EUR 7,500,000 (equivalent of RSD 784,807 thousand) and by UniCredit Bank Austria AG, Vienna in the amount of EUR 500,000 (equivalent of RSD 52,320 thousand) and CHF 26,830,000 (equivalent of RSD 2,305,022 thousand). These loans were extended with 10-year and 12-year maturities, at an interest rate equal to the three-month EURIBOR rate as increased by 0.75 percent per annum, and at the six-month EURIBOR interest rate as increased by 0.65 percent per annum. These loans are unsecured and all claims arising, explicitly in the event of bankruptcy or liquidation, from this agreement are subordinated to all other debt instruments (obligations toward ordinary creditors).

The Bank has not had any defaults of interest or other breaches with respect to its subordinated liabilities during 2011 and 2010.

(27) Provisions

Provisions include:

In thousands of RSD

	2011.	2010.
Individual loan loss provision for contingent liabilities	14.443	39.766
Portfolio based loan loss provision for contingent liabilities	64.269	46.536
Retirement benefit obligations	35.955	36.089
Other	20.070	20.070
BALANCE AS AT 31 DECEMBER	**134.737**	**142.461**

Movements in provisions during the year were as follows:

In thousands of RSD

	INDIVIDUAL LOAN LOSS PROVISION FOR CONTINGENT LIABILITIES	PORTFOLIO BASED LOAN LOSS PROVISION FOR CONTINGENT LIABILITIES	RETIREMENT BENEFIT OBLIGATIONS	OTHER	TOTAL
Balance as at 1 January 2011	39.766	46.536	36.089	20.070	142.461
Provision made during the year	-	17.733	185	-	17.918
Provision used during the year	-	-	(319)	-	(319)
Provision reversed during the year	(25.323)	-	-	-	(25.323)
BALANCE AS AT 31 DECEMBER	**14.443**	**64.269**	**35.955**	**20.070**	**134.737**

Notes to the Financial Statements *(continued)*

(28) Other liabilities

Other liabilities include:

In thousands of RSD

	2011.	2010.
Accrued interest	10.012	7.012
Prepayments	472.646	423.962
Liabilities to suppliers	211.152	176.905
Liabilities for other taxes and contributions	26.443	9.487
Liabilities for received advances, deposits and bonds	85.915	2.681
Other accrued income	126.796	340.842
Other accrued expenses	98.480	470.331
Other	374.253	308.656
BALANCE AS AT 31 DECEMBER	**1.405.697**	**1.739.876**

(29) Equity

29.1 Equity comprises:

In thousands of RSD

	2011.	2010.
Share capital	23.607.620	17.857.620
Share premium	562.156	562.156
Retained earnings	18.193.012	13.652.879
Fair value reserves	(41.729)	376
BALANCE AS AT 31 DECEMBER	**42.321.059**	**32.073.031**

As of 31 December 2011 the authorised share capital amounts to RSD 23,607,620 thousand and consists of 2,360,762 ordinary shares, with nominal value of RSD 10,000.00 per share.
All shares are ordinary shares.

Holders of ordinary shares are entitled to receive dividends as declared by the Board of the Bank and are entitled to one vote per share at the General assembly meetings of the Bank.

Under tenth issuance of shares in September 2011, 575,000 ordinary shares with an individual par value of RSD 10 thousand were distributed (2010: 500,000 ordinary shares). The tenth share issue was fully subscribed and paid in by the UniCredit Bank Austria AG. UniCredit Bank Austria AG, Vienna holds 100% of the Bank's equity.

The fair value reserves include the cumulative net change in the fair value of available for sale investments.

After 31 December 2011 the Bank proposed dividends in respect of 2011 in the amount of RSD 1,135,000 thousand. The dividends have not been provided for and there are no tax consequences.
No dividends were declared and paid by the Bank for the year ended 31 December 2010.

29.2 Analysis of other comprehensive income, net of tax, is presented in the following table:

In thousands of RSD

	Rezerve fer vrednosti	Ukupno
2011		
Fair value reserve:		
Net change in fair value on available for sale financial assets	(42.105)	(42.105)
Total other comprehensive income, net of tax	**(42.105)**	**(42.105)**
2010.		
Fair value reserve:		
Net change in fair value on available for sale financial assets	**(3.679)**	**(3.679)**
Total other comprehensive income, net of tax	**(3.679)**	**(3.679)**

Notes to the Financial Statements *(continued)*

(30) Contingent liabilities and commitments

30.1 Legal proceedings

As at 31 December 2011 the Bank is defendant in 22 court cases (including 9 labour disputes) whose total value amounts to RSD 42,058 thousand, excluding labour disputes. In 5 cases the claimants are companies, and in 17 cases the claimants are private individuals.

The Bank made provisions in the amount of RSD 20,070 thousand for court cases that have been filed against it. No provisions have been made for other court cases, primarily because of the assessment that the outcome of those cases will be positive for the Bank and that the Bank will not have any outflows as a result, or that they are less significant potential liabilities that do not need to be provisioned.

The Bank has filed a number of claims against third parties, mainly for the collection of its receivables.

30.2 Commitments for operating leases of business premises:

In thousands of RSD

	2011.	2010.
Commitments due within one year	347.491	343.406
Commitments due in the period from one to five years	1.079.362	1.174.767
Commitments due in the period longer than five years	192.269	330.647
TOTAL	**1.619.122**	**1.848.820**

30.3 Contingent liabilities are presented in the table below:

In thousands of RSD

	2011.	2010.
Contingent liabilities		
Payment guarantees		
- in local currency	8.024.435	6.108.010
- in foreign currency	8.758.463	13.387.158
Performance guarantees		
- in local currency	11.356.361	5.887.261
- in foreign currency	2.232.678	1.392.890
Letters of credit in foreign currency	3.361.195	3.960.216
Other acceptance and endorsements	-	281
BALANCE AS AT 31 DECEMBER	**33.733.132**	**30.735.816**

30.4 Breakdown of commitments is presented in the table below:

In thousands of RSD

	2011.	2010.
Commitments		
Current account overdrafts	3.021.083	2.859.878
Unused credit limits on credit cards	1.477.809	1.450.540
Unused framework loans	17.604.267	9.226.017
Letters of intention	910.537	1.374.753
Balance as at 31 December	**23.013.696**	**14.911.188**

30.5 Undrawn foreign loan facilities as at 31 December 2011 amount to RSD 4,174,136 thousand (2010: RSD 1,054,982 thousand).

(31) Related parties

31.1 The Bank is controlled by the UniCredit Bank Austria AG, Vienna incorporated in Austria, which owns 100% of its ordinary shares. A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, equity investments and derivative instruments. Transactions with related parties are made at arm's length market prices.

Outstanding balances with related parties at the end of a year are as follows:

Bilans stanja

In thousands of RSD

	2011.	2010.
Loans and advances to banks		
UniCredit Bank Austria AG, Vienna	6.157.871	1.027.354
UniCredit Bank AG, Munich	25.401	13.817
UniCredit Bulbank, Sofia	2.950	13.525
UniCredit S.P.A. Milano	54.673	38.461
UniCredit Banka Slovenija, Ljubljana	5.791	5.772
Zagrebacka banka d.d. Zagreb	2.059	2.231
UniCredit Bank Hungary Z.r.t., Hungary	4.772	9.154
UniCredit Leasing Srbija d.o.o. Beograd	40	101.261
	6.253.557	1.211.575
Loans and advances to customers		
Management Board of Bank	16.154	16.479
	16.154	16.479
Other assets		
UniCredit S.P.A. Milano	547	689
UniCredit Bank Austria AG, Vienna	14.986	37.831
UniCredit Bank AG, Munich	-	67
UniCredit Bulbank, Sofia	-	259
ATF Bank, Kazahstan	8.413	2.569
UniCredit Bank Slovakia a.s., Bratislava	17.668	21.094
Unicredit CAIB Serbia	51	-
UniCredit Leasing d.o.o. Beograd	40	-
	41.705	62.509
Deposits and loans from banks		
UniCredit Bank Austria AG, Vienna	44.256.923	38.629.482
UniCredit Leasing Srbija d.o.o. Beograd	396.013	1.196.305
UniCredit Partner d.o.o. Beograd	83.753	60.700
UniCredit Bank AD Banja Luka	88	1.470
Zagrebacka banka d.d. Zagreb	43.056	10.371
UniCredit Bank AG, London	47	20
UniCredit Banka Slovenija, Ljubljana	9.356	9.100
UniCredit CAIB AG, Vienna	57	54
UniCredit Bank AG, Minhen	1.003	3.174.617
UniCredit Bank BiH	6	6
UniCredit Bank Hungary Z.r.t.. Mađarska	104	155
UniCredit S.P.A. Milano	5.415	19
UniCredit Bank Czech Republic	787.901	791.237
	45.583.722	43.873.536
Depoziti i krediti od klijenata		
Management Board of Bank	6.951	25.225
UniCredit Rent d.o.o. Beograd	54.314	219.661
UniCredit CAIB Srbija d.o.o.	8.882	33.016
BA CA Leasing Deutschland Gmbh, Nemačka	648.319	670.701
	718.466	948.603

Notes to the Financial Statements *(continued)*

(31) Related parties *(continued)*

Other liabilities

In thousands of RSD

	2011.	2010.
Ostale obaveze		
UGIS, Beč	17.582	28.811
UniCredit Business Partner GMBH Wien	86	87
UniCredit Business Partner s.r.o., Česka republika	1.578	1.950
UniCredit Bank Slovenia	2.158	-
BA Global Inforamtion Services, Beč	-	9.015
UniManagement, Torino	105	-
UniCredit Bank Austria AG, Beč	146	-
UniCredit Rent d.o.o. Beograd	302	-
Unicredit S.P.A. Milano	97.853	90.602
	119.810	130.465

The table below presents total revenues and expenses from related party transactions:

In thousands of RSD

	2011.	2010.
Income statement		
Interest income	15.413	17.427
Interest expenses	(1.547.607)	(1.259.776)
Fees and other incomes	122.948	24.690
Fees and other expenses	(276.007)	(275.156)
Net expenses as at 31 December	(1.685.253)	(1.492.815)

31.2 Total gross salaries and other remuneration of the Executive Board in 2011 amount to RSD 19,861 thousand (2010: RSD 16,448 thousand).

Creating initiatives that meet real needs.

Together for the Region is an initiative designed to build tighter bonds with regions and communities, particularly with locally based non-profit organizations. For example, in Nuremberg, UniCredit created a new debit card, “My Town - My Bank - My Card.” Part of card proceeds are donated to “Lebenshilfe Nürnberg”, a charitable organization that helps the disabled. The same model has been adopted by more than 50 UniCredit subsidiaries in Germany. Parallel to the donation, the Bank’s local staff has created a corporate volunteer programme, with employees participating in activities that range from providing volunteer companion services to offering professional training. The project received positive local press attention, demonstrating how simple, concrete actions can serve real needs. This is the practical demonstration of how the Group is giving concrete answers to facilitate full integration of persons with disabilities.

Boards

Supervisory Board[1]

Erich Hampel	Chairman
Heinz Tschiltsch	Vice Chairman
Martin Klauzer	Member
Helmut Haller	Member
Boris Begović	Member
Svetlana Kisić Zajčenko	Member

Management Board[1]

Klaus Priverschek	Chairman
Branislav Radovanović	Deputy Chairman
Bernhard Henhappel	Member

[1] on December 31st, 2011

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