KPMG d.o.o. Beograd
Kraljice Natalije 11
11000 Belgrade
Serbia

Telephone: +381 11 20 50 500
Fax: +381 11 20 50 550
E-mail: info@kpmg.rs
Internet: www.kpmg.rs

Agencija za privredne registre
BD 7113
Matični broj 17148656
Račun 265-1100310000190-61
Raiffeisen banka a.d. Beograd
PIB 100058593

TRANSLATION

Independent Auditors' Report

TO THE SHAREHOLDERS

UNICREDIT BANK SRBIJA A.D. BEOGRAD

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present truly and objectively, in all material respects, 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 the applicable Law on Accounting and Auditing of the Republic of Serbia, applicable Banks Law and other relevant by-laws issued by National Bank of Serbia.

Belgrade, 27 February 2012 KPMG d.o.o. Beograd

(L.S.)

Nina Bulatović
Certified Auditor

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

Belgrade, 27 February 2012 KPMG d.o.o. Beograd

DRUŠTVO ZA KONSALTING I REVIZIJU D.O.O. KPMG 1 BEOGRAD

(L.S.)

Nina Bulatović
Certified Auditor

UNICREDIT BANK SRBIJA A.D. BEOGRAD

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

In thousands of RSD	Notes	31 December 2011	31 December 2010
Operating income and expenses			
Interest income	3.1, 4	13,650,383	11,620,255
Interest expenses	3.1, 5	(4,960,976)	(5,025,583)
Net interest income		**8,689,407**	**6,594,672**
Fees and commissions income	3.2, 6	2,039,328	1,555,361
Fees and commissions expenses	3.2, 7	(380,187)	(317,154)
Net fee and commission income		**1,659,141**	**1,238,207**
Net gains/(losses) on the sale of securities at fair value through profit and loss	3.4, 8	11,521	1,443
Net gains/(losses) on the sale of available for sale securities	3.4, 9	1,124	15,599
Net foreign exchange gains/(losses)	3.3, 10	719,360	(8,469,559)
Dividends and other income from equity investments	11	12	20
Other operating income	12	28,209	26,983
Losses on impairment and provisions	3.6, 13	(2,507,881)	(1,091,801)
Net wages and salaries, taxes, contributions and other personnel expenses	14	(1,688,940)	(1,517,984)
Depreciation costs	3.7, 3.8, 15	(351,053)	(344,726)
Other operating expenses	16	(1,812,378)	(1,737,915)
Income from assets and liabilities valuation adjustments	3.3, 3.14, 17	45,524,368	29,481,831
Expenses from assets and liabilities valuation adjustments	3.3, 3.14, 18	(45,226,272)	(20,263,861)
Operating profit		**5,046,618**	**3,932,909**
Profit before tax		**5,046,618**	**3,932,909**
Income taxes	3.13, 19	(505,878)	(408,619)
Gain on increase of deferred tax assets and decrease of deferred tax liability	3.13, 19	6,729	12,043
Loss on decrease of deferred tax assets and increase of deferred tax liability	3.13, 19	(2,699)	0
Profit after tax		**4,544,770**	**3,536,333**
Earnings per share in RSD			
Basic earnings per share	20	2,312	2,236
Diluted earnings per share	20	2,312	2,236

UNICREDIT BANK SRBIJA A.D. BEOGRAD

BALANCE SHEET AS AT 31 DECEMBER 2011

In thousands of RSD	Note	31 December 2011	31 December 2010
Cash and cash equivalents	3.10, 21	5,134,366	6,379,863
Revocable deposits and loans	22	33,573,997	19,032,984
Interest and fees receivables	3.6, 3.11, 23	622,313	487,764
Loans and deposits	3.5, 3.6, 24	132,929,028	112,254,522
Securities (excluding treasury shares)	3.4, 3.6,25	19,930,009	23,073,362
Equity investments	3.4, 3.6, 26	0	0
Other placements	3.6, 27	2,524,933	2,406,545
Intangible assets	3.8, 28	750,368	687,626
Fixed assets and investment property	3.7, 28	1,237,103	1,195,527
Non-current assets held for sale and discontinued operations	3.9, 29	982	1,599
Deferred tax assets	3.13, 30	32,961	28,930
Other assets	3.6, 31	1,831,982	1,433,469
Total assets		**198,568,042**	**166,982,191**
Transaction deposits	32	34,966,888	23,379,195
Other deposits	33	44,557,143	59,205,458
Borrowings	34	71,236,131	46,679,822
Interest and fees liabilities	3.11, 35	116,438	25,878
Provisions	3.12, 36	134,737	142,461
Income taxes payable	37	26,443	9,487
Liabilities from income distribution	38	120,728	109,075
Other liabilities	39	5,088,475	5,357,742
Total liabilities		**156,246,983**	**134,909,118**
Share and other capital	40	24,169,776	18,419,776
Reserves	40	13,652,879	10,116,546
Revaluation reserves	3.4, 40	94	418
Unrealized losses with respect to securities available for sale	3.4, 40	(46,460)	0
Retained earnings	40	4,544,770	3,536,333
Total equity		**42,321,059**	**32,073,073**
Total liabilities and equity		**198,568,042**	**166,982,191**
Off-balance sheet items		**287,603,026**	**157,207,319**
Operations on behalf of third party	41	383,548	256,890
Guarantees and other contingent liabilities	41	65,536,664	45,647,004
Derivatives	3.11, 41	230,858	414,202
Other off-balance sheet items	41	221,451,956	110,889,223

UNICREDIT BANK SRBIJA A.D. BEOGRAD

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

In thousands of RSD	31 December 2011	31 December 2010
SHARE CAPITAL		
Balance, beginning of year	17,857,620	12,857,620
New share issuance	5,750,000	5,000,000
Balance, end of year	23,607,620	17,857,620
SHARE PREMIUM		
Balance, beginning of year	562,156	562,156
Transfer from Share capital	0	0
Balance, end of year	562,156	562,156
BANK'S RESERVES FROM INCOME		
Balance, beginning of year	1,003,072	1,003,072
Distribution of previous year's retained earnings	0	0
Balance, end of year	1,003,072	1,003,072
RESERVES FOR POTENTIAL LOSSES		
Balance, beginning of year	9,113,474	6,259,545
Distribution of previous year's retained earnings	3,536,333	2,853,929
Balance, end of year	12,649,807	9,113,474
RESERVES WITH RESPECT TO SECURITIES AVAILABLE FOR SALE		
Balance, beginning of year	418	4,506
Effects of changes in the fair value of securities available-for-sale	(46,784)	(4,088)
Balance, end of year	(46,366)	418
RETAINED EARNINGS		
Balance, beginning of year	3,536,333	2,853,929
Transfer of portion of previous year's retained earnings to the Bank's reserves from income	(3,536,333)	(2,853,929)
Profit for the year	4,544,770	3,536,333
Balance, end of year	4,544,770	3,536,333
TOTAL EQUITY	42,321,059	32,073,073

UNICREDIT BANK SRBIJA A.D. BEOGRAD

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

In thousands of RSD	31 December 2011	31 December 2010
Cash receipts from operating activities	**31,787,739**	**19,714,038**
Interest receipts	10,856,158	8,979,947
Fee and commission receipts	1,956,785	1,583,493
Receipts from other operating income	18,974,784	9,150,578
Receipts from dividends and equity investments	12	20
Cash payments from operating activities	**(26,981,745)**	**(16,211,812)**
Interest payments	(4,905,608)	(4,809,442)
Fee and commission payments	(376,929)	(312,709)
Payments to and on behalf of employees	(1,688,584)	(1,518,133)
Taxes, contributions and other duties paid	(317,874)	(321,899)
Payments for other operating expenses	(19,692,750)	(9,249,629)
Net operating cash flows before changes in placements and deposits	**4,805,994**	**3,502,226**
Decreases in placements and increases in deposits	**10,125,803**	**0**
Decrease in loans and placements to banks and customers	0	0
Decrease in securities and other placements available-for-sale and held to maturity	10,125,803	0
Increase in deposits from banks and customers	0	0
Increases in placements and decreases in deposits	**(40,480,204)**	**(29,819,151)**
Increase in loans and placements to banks and customers other financial institutions	(37,477,461)	(18,330,061)
Increase in securities and other placements available-for-sale and held to maturity	0	(62,438)
Decrease in deposits from banks and customers	(3,002,743)	(11,426,652)
Net cash (used in)/generated from operating activities before taxes	**(25,548,407)**	**(26,316,925)**
Paid taxes	(494,225)	(326,423)
Paid dividends	0	0
Net cash (used in)/generated from operating activities	**(26,042,632)**	**(26,643,348)**
Cash inflows from investing activities	**0**	**1,089,321**
Inflows from long-term investments in securities	0	1,089,321
Inflows from sale of intangible and fixed assets	0	0
Cash outflows from investing activities	**(5,107,383)**	**(345,585)**
Outflows from long-term investments in securities	(4,646,546)	0
Purchases of equity investments	0	0
Purchases of property and equipment and intangible assets	(460,837)	(345,585)

In thousands of RSD	31 December 2011	31 December 2010
Net cash (used in)/generated from investing activities	**(5,107,383)**	**743,736**
Cash inflows from financing activities	**30,152,965**	**26,448,668**
Proceeds from the issuance of shares	5,750,000	5,000,000
Proceeds from long-term borrowings, subordinated liabilities	0	0
Proceeds from short-term borrowings	24,402,965	21,448,668
Proceeds from securities	0	0
Cash outflows from financing activities	**0**	**0**
Payments for subordinated liabilities	0	0
Outflows based on repayment of loans	0	0
Net cash from financing activities	**30,152,965**	**26,448,668**
Total cash inflows	**72,066,507**	**47,252,027**
Total cash outflows	**(73,063,557)**	**(46,702,971)**
Net increase/(decrease) in cash and cash equivalents	(997,050)	549,056
Cash and cash equivalents at beginning of the year	**6,379,863**	**5,690,283**
Foreign exchange gains	0	140,524
Foreign exchange losses	248,447	0
Cash and cash equivalents at end of the year	**5,134,366**	**6,379,863**

TRANSLATION

UniCredit Bank

UNICREDIT BANK SRBIJA A.D. BEOGRAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Belgrade, 24 February 2012

CONTENTS

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

In thousands of RSD	Notes	31 December 2011	31 December 2010
Operating income and expenses			
Interest income	3.1, 4	13,650,383	11,620,255
Interest expenses	3.1, 5	(4,960,976)	(5,025,583)
Net interest income		8,689,407	6,594,672
Fees and commissions income	3.2, 6	2,039,328	1,555,361
Fees and commissions expenses	3.2, 7	(380,187)	(317,154)
Net fee and commission income		1,659,141	1,238,207
Net gains/(losses) on the sale of securities at fair value through profit and loss	3.4, 8	11,521	1,443
Net gains/(losses) on the sale of available for sale securities	3.4, 9	1,124	15,599
Net foreign exchange gains/(losses)	3.3, 10	719,360	(8,469,559)
Dividends and other income from equity investments	11	12	20
Other operating income	12	28,209	26,983
Losses on impairment and provisions	3.6, 13	(2,507,881)	(1,091,801)
Net wages and salaries, taxes, contributions and other personnel expenses	14	(1,688,940)	(1,517,984)
Depreciation costs	3.7, 3.8, 15	(351,053)	(344,726)
Other operating expenses	16	(1,812,378)	(1,737,915)
Income from assets and liabilities valuation adjustments	3.3, 3.14, 17	45,524,368	29,481,831
Expenses from assets and liabilities valuation adjustments	3.3, 3.14, 18	(45,226,272)	(20,263,861)
Operating profit		**5,046,618**	**3,932,909**
Profit before tax		**5,046,618**	**3,932,909**
Income taxes	3.13, 19	(505,878)	(408,619)
Gain on increase of deferred tax assets and decrease of deferred tax liability	3.13, 19	6,729	12,043
Loss on decrease of deferred tax assets and increase of deferred tax liability	3.13, 19	(2,699)	0
Profit after tax		**4,544,770**	**3,536,333**
Earnings per share (in RSD)			
Basic earnings per share	20	2,312	2,236
Diluted earnings per share	20	2,312	2,236

BALANCE SHEET AS AT 31 DECEMBER 2011

In thousands of RSD	Note	31 December 2011	31 December 2010
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Interest and fees receivables	3.6, 3.11, 23	622,313	487,764
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Securities (excluding treasury shares)	3.4, 3.6,25	19,930,009	23,073,362
Equity investments	3.4, 3.6, 26	0	0
Other placements	3.6, 27	2,524,933	2,406,545
Intangible assets	3.8, 28	750,368	687,626
Fixed assets and investment property	3.7, 28	1,237,103	1,195,527
Non-current assets held for sale and discontinued operations	3.9, 29	982	1,599
Deferred tax assets	3.13, 30	32,961	28,930
Other assets	3.6, 31	1,831,982	1,433,469
Total assets		**198,568,042**	**166,982,191**
Transaction deposits	32	34,966,888	23,379,195
Other deposits	33	44,557,143	59,205,458
Borrowings	34	71,236,131	46,679,822
Interest and fees liabilities	3.11, 35	116,438	25,878
Provisions	3.12, 36	134,737	142,461
Income taxes payable	37	26,443	9,487
Liabilities from income distribution	38	120,728	109,075
Other liabilities	39	5,088,475	5,357,742
Total liabilities		**156,246,983**	**134,909,118**
Share and other capital	40	24,169,776	18,419,776
Reserves	40	13,652,879	10,116,546
Revaluation reserves	3.4, 40	94	418
Unrealised losses on available for sale securities	3.4, 40	(46,460)	0
Retained earnings	40	4,544,770	3,536,333
Total equity		**42,321,059**	**32,073,073**
Total liabilities and equity		**198,568,042**	**166,982,191**
Off-balance sheet items		**287,603,026**	**157,207,319**
Operations on behalf of third party	41	383,548	256,890
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Other off-balance sheet items	41	221,451,956	110,889,223

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

In thousands of RSD	31 December 2011	31 December 2010
SHARE CAPITAL		
Balance, beginning of year	17,857,620	12,857,620
New share issuance	5,750,000	5,000,000
Balance, end of year	23,607,620	17,857,620
SHARE PREMIUM		
Balance, beginning of year	562,156	562,156
Transfer from Share capital	0	0
Balance, end of year	562,156	562,156
BANK'S RESERVES FROM INCOME		
Balance, beginning of year	1,003,072	1,003,072
Distribution of previous year's retained earnings	0	0
Balance, end of year	1,003,072	1,003,072
RESERVES FOR POTENTIAL LOSSES		
Balance, beginning of year	9,113,474	6,259,545
Distribution of previous year's retained earnings	3,536,333	2,853,929
Balance, end of year	12,649,807	9,113,474
RESERVES OF THE BANK / UNREALIZED LOSSES ON SECURITIES AVAILABLE FOR SALE		
Balance, beginning of year	418	4,506
Effects of changes in the fair value of securities available-for-sale	(46,784)	(4,088)
Balance, end of year	(46,366)	418
RETAINED EARNINGS		
Balance, beginning of year	3,536,333	2,853,929
Transfer of portion of previous year's retained earnings to reserves for potential losses	(3,536,333)	(2,853,929)
Profit for the year	4,544,770	3,536,333
Balance, end of year	4,544,770	3,536,333
TOTAL EQUITY	42,321,059	32,073,073

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

In thousands of RSD	31 December 2011	31 December 2010
Cash receipts from operating activities	**31,787,739**	**19,714,038**
Interest receipts	10,856,158	8,979,947
Fee and commission receipts	1,956,785	1,583,493
Receipts from other operating income	18,974,784	9,150,578
Receipts from dividends and equity investments	12	20
Cash payments from operating activities	**(26,981,745)**	**(16,211,812)**
Interest payments	(4,905,608)	(4,809,442)
Fee and commission payments	(376,929)	(312,709)
Payments to and on behalf of employees	(1,688,584)	(1,518,133)
Taxes, contributions and other duties paid	(317,874)	(321,899)
Payments for other operating expenses	(19,692,750)	(9,249,629)
Net operating cash flows before changes in placements and deposits	**4,805,994**	**3,502,226**
Decreases in placements and increases in deposits	**10,125,803**	**0**
Decrease in loans and placements to banks and customers	0	0
Increase in deposits from banks and customers	10,125,803	0
Decrease in securities and other placements available-for-sale and held to maturity	0	0
Increases in placements and decreases in deposits	**(40,480,204)**	**(29,819,151)**
Increase in loans and placements to banks and customers other financial institutions	(37,477,461)	(18,330,061)
Increase in securities and other placements available-for-sale and held to maturity	0	(62,438)
Decrease in deposits from banks and customers	(3,002,743)	(11,426,652)
Net cash (used in)/generated from operating activities before taxes	**(25,548,407)**	**(26,316,925)**
Paid taxes	(494,225)	(326,423)
Paid dividends	0	0
Net cash (used in)/generated from operating activities	**(26,042,632)**	**(26,643,348)**
Cash inflows from investing activities	**0**	**1,089,321**
Inflows from long-term investments in securities	0	1,089,321
Inflows from sale of intangible and fixed assets	0	0
Cash outflows from investing activities	**(5,107,383)**	**(345,585)**
Outflows from long-term investments in securities	(4,646,546)	0
Purchases of equity investments	0	0
Purchases of property and equipment and intangible assets	(460,837)	(345,585)
Net cash (used in)/generated from investing activities	**(5,107,383)**	**743,736**

In thousands of RSD	31 December 2011	31 December 2010
Cash inflows from financing activities	**30,152,965**	**26,448,668**
Proceeds from the issuance of shares	5,750,000	5,000,000
Proceeds from long-term borrowings, subordinated liabilities	0	0
Proceeds from short-term borrowings	24,402,965	21,448,668
Proceeds from securities	0	0
Cash outflows from financing activities	0	0
Payments for subordinated liabilities	0	0
Outflows based on repayment of loans	0	0
Net cash from financing activities	**30,152,965**	**26,448,668**
Total cash inflows	**72,066,507**	**47,252,027**
Total cash outflows	**(73,063,557)**	**(46,702,971)**
Net increase/(decrease) in cash and cash equivalents	(997,050)	549,056
Cash and cash equivalents at beginning of the year	**6,379,863**	**5,690,283**
Foreign exchange gains	0	140,524
Foreign exchange losses	248,447	0
Cash and cash equivalents at end of the year	**5,134,366**	**6,379,863**

1 THE BANK'S ESTABLISHMENT AND OPERATING POLICY

In accordance with the Law on Banks and Other Financial Institutions, on July 2, 2001, the National Bank of Yugoslavia enacted a decision by which it approved the establishment of HVB Bank Yugoslavia A.D., Belgrade (the "Bank"). The Bank was duly registered on August 28, 2001 with the Commercial Court of Belgrade. The Bank's principal shareholders are: Bank Austria AG, Vienna, (with a 99% ownership interest in the Bank's total shares) and AVZ Vermogensver-Waltungs GmbH, Vienna (with a 1% ownership interest). In 2002, both principal shareholders changed their names to Bank Austria Creditanstalt AG and A&B Banken Holding GmbH Vienna, respectively.

The Bank is a member of Bank Austria Creditanstalt AG (BA-CA), situated in Vienna, which is a member of the UniCredit Group. The Bank Austria Creditanstalt AG changed its name in 2008 to UniCredit Bank Austria AG.

On 23 August 2004, the Commercial Court enacted a decision no. XII-Fi. 8423/04 by which it approved the change of name of the Bank to HVB Banka Srbija i Crna Gora A.D. Beograd.

In December 2004, subsequent to the acquisition of 98.57% of the total ordinary shares, and 65.9% of the preference shares, Bank Austria Creditanstalt AG, Vienna became the majority owner of the entity, Eksimbanka A.D. Beograd ("Eksimbanka") holding a 98.34% share capital ownership interest as of 31 December 2004.

In May 2005, the remaining shares of Eksimbanka were sold, whereby the Bank Austria Creditanstalt AG, Vienna's ownership interest increased to 99.57% of the acquired entity's outstanding shares, whereas the minority interest of A&B Banken Holding GmbH, Vienna was reduced to 0.43% of share capital subsequent to this transaction.

Pursuant to the Decision of the Republic of Serbian Business Registers Agency numbered BD 90660/2005 of 1 October 2005, business combination was registered subsequent to the merger of HVB Banka Srbija i Crna Gora A.D., Beograd, as Acquirer, with the entity, Eksport-Import banka Eksimbanka, the Acquiree, whose activities ceased upon the consummation of the merger transaction.

On 30 March 2007 the Serbian Business Registers Agency enacted a decision no. BD 20088/2007 by which it approved the change of name of the Bank to UniCredit Bank Srbija A.D. Beograd.

In December 2009 with the purchase of a minority interest of 0.08% from A&B Banken Holding GmbH, Vienna, UniCredit Bank Austria AG became the sole shareholder of the Bank.

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 in accordance with the Republic of Serbia Law on Banks.

As of 31 December 2011 the Bank was comprised of a Head Office situated in Belgrade at the street address of: 27-29 Rajićeva Street 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). The Bank's tax identification number is 100000170.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of preparation and presentation of financial statements

Financial statements are prepared in accordance with the following Republic of Serbia regulations: the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia no. 46/06, 111/09 and 99/11), Law on the National Bank of Serbia (Official Gazette of the Republic of Serbia no. 72/03, 55/04, 85/05 and 44/10), Law on Banks (Official Gazette of the Republic of Serbia no. 107/05 and 91/10), Law on Foreign Currency Operations (Official Gazette of the Republic of Serbia no. 62/06 and 31/11), Law on the Capital Market (Official Gazette of the Republic of Serbia no. 31/11), Corporate Income Tax Law (Official Gazette of the Republic of Serbia, no. 25/2001, 80/2002, 43/2003, 84/2004, 18/10 and 101/11), by-laws adopted pursuant to the above-listed laws, and Decision on Criteria for Classification of Balance Sheet and Off-balance Sheet Assets (Official Gazette of the Republic of Serbia, no. 94/11), Decision on Adequacy of Bank Equity (Official Gazette of the Republic of Serbia no. 46/11), Decision on Risk Management of a Bank (Official Gazette of the Republic of Serbia no. no. 45/11 and 94/11), Book of Regulations on the Chart of Accounts and Contents of Accounts in the Chart of Accounts for Banks and Other Financial Organizations (Official Gazette of the Republic of Serbia no. 98/07, 57/08 and 3/09) and the Book of Regulations on the Forms and Contents of Items in Financial Statements Forms for Bank and Other Financial Institutions (Official Gazette of the Republic of Serbia no. 74/08, 3/09, 12/09 and 05/10).

In accordance with the Law on Accounting and Auditing, companies and entrepreneurs in the Republic of Serbia prepare financial statements in compliance with the law, professional and internal regulations, where professional regulations relate to the applicable Framework for Preparing and Disclosing Financial Statements (“Framework”), International Accounting Standards (“IAS”), International Financial Reporting Standards (“IFRS”) and interpretations which are integral to the standards and IAS and IFRS texts in effect, excluding the basis for conclusions, illustrative examples, guidelines, commentaries, opposing opinions, developed examples and other additional materials.

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

The attached financial statements are prepared in the form prescribed by the Regulation on the Form and Content of Items in Financial Statement Forms of Banks (Official Gazette of RS no. 74/08, 3/09, 12/09 and 5/10), which prescribes the use of a set of financial statements whose form and content are not fully compliant with revised IAS 1 – Presentation of Financial Statements, whose application is required for periods starting on 1 January 2009.

In accordance with the Law on Accounting and Auditing the Bank performed reconciliation of its receivables and liabilities. The percentage of reconciliation of receivables amounts to 70.24%, unreconciled receivables amount to 17.56%, while the percentage of outstanding receivables amount to 12.20%. As far as liabilities are concerned, the percentage of reconciliation of liabilities amounts to 35.10%, unreconciled liabilities amount to 3.82%, while the percentage of outstanding liabilities amount to 61.08%.

In the preparation of the accompanying financial statements, the Bank has adhered to the accounting policies described in Note 3, which are in conformity with the accounting, banking and tax regulations prevailing in the Republic of Serbia.

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

2.2. Basis of measurement

The accompanying financial statements are prepared on an historical cost basis, except for financial asset which are disclosed at their fair value. It is the policy of the Bank to disclose the fair value information of financial assets held for trading, financial assets available for sale for which published market information is readily and reliably available. Embedded derivatives are measured in accordance with the measurement of the basic instrument.

The financial assets for which fair value cannot be reliably determined are measured on an historical cost basis, including adjustments and provisions made to reduce assets to their estimated recoverable amounts. The Bank's financial assets are reviewed at balance sheet date to determine whether there is objective evidence of impairment to determine the recoverable amount of assets. If there is any indication of such an occurrence, the recoverable amount of assets is estimated.

2.3. Use of estimates

The presentation of the financial statements requires the Bank's management to make best estimates and reasonable assumptions that effect the: assets and liabilities amounts, the disclosure of contingent liabilities and receivables as of the date of preparation of the financial statements, as well as the income and expenses arising during the accounting period. These estimations and assumptions are based on historical experience, as well as on information available to us, as of the date of preparation of the financial statements, that are believed to be reasonable under the circumstances. The estimates and associated assumptions are the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. 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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical estimates in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in following parts of Notes.

(i) Impairment

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Fair value

The determination of fair value for financial assets and liabilities for which there is no readily available market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The principle accounting policies adopted for the preparation of the financial statements are set in Note 3.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest income and expenses

Interest income and interest expense on financial instruments are accounted for on an accrual basis using effective interest rate method. Fees income and expenses are accrued throughout the repayment period of the loan. The Bank treats this as effective interest rate method taking into account that these income and expenses are recorded within Fees and commissions income and expenses. Effective interest rate method is used to calculate amortized costs of the financial assets or financial liabilities so that related income and expenses are accrued and allocated adequately to the appropriate accounting period. Effective interest rate represents the rate used for discounting future cash flows during loans repayment to their book value.

3.2. Fees and commissions expenses

Fees and commission income/expenses relate to fees arising upon issuance of guarantees, domestic and international payments operations and other transactions in foreign currency. Fees and commission income and expenses are recorded when earned, except fees resulting from guarantees which are accrued on a proportional basis through the period the guarantee is granted.

3.3. Foreign Exchange Translation

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

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

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

Contingent liabilities and commitments in foreign currency are translated into dinars at the official middle exchange rate as at balance sheet date.

Exchange rates and inflation rates

Official middle exchange rates for major currencies used in the translation of the balance sheet items denominated in foreign currencies were as follows:

	31 December 2011	31 December 2010
USD	80.8662	79.2802
EUR	104.6409	105.4982
CHF	85.9121	84.4458
JPY	1.041825	0.972782

	2011	2010
Consumer price index	107.0	111.5

3.4. Financial assets

The Bank classifies financial assets into following categories: financial assets at fair value through profit and loss, financial assets held to maturity and available for sale financial assets. Securities at fair value through profit and loss relate to securities held by the Bank for short term trading gains. Held-to-maturity securities are securities that the Bank has the positive intent and ability to hold to maturity. Securities held for indefinite time over which they could be sold to sustain liquidity or owing to the changes in interest rates, foreign currency rates or market values, are classified as securities available for sale. Management classifies securities in the moment of purchases.

Held for trading securities are initially stated at cost which is their market value at the moment of purchase. At balance sheet date held for trading securities are stated at fair price determined at the active market. Increase and decrease in fair value is recorded through the income statement.

The securities available for sale are initially stated at cost including transaction costs. At subsequent measurement, securities available for sale are stated at fair market value. Unrealized changes in market value are stated within equity, by crediting or debiting revaluation reserves / unrealised losses on available-for-sale securities, up to the moment of sale, when the value of revaluation reserves is transferred to income.

Equity investments relate to participation in the equity of other legal entities. Equity investments for which there is no active market are measured at costs reduced for allowances for impairment.

Securities held to maturity are stated at amortized costs, using effective interest rate method.

Income and expenses arising in the period of keeping securities in the Bank portfolio are recorded within interest income. All purchases and sales of securities are recorded in the moment of each transaction.

Securities are recorded in the records until the right on cash inflow from securities matures or until rights from securities are transferred to other party. Also, cancellation of liability is performed when liability is settled or transferred to other party.

Impairment

As at the balance sheet date the Bank performs an impairment test to check if the book value of an asset could be recovered and estimates impairment based on available market and other internal and external information. For estimated impairment amount the Bank makes provisions charged to expenses in the period when impairment occurs. Later, if management estimates that there is change in circumstances and that impairment conditions no longer exist, former provisions are cancelled and recorded as income. Cancellation of provisions could not lead to higher book value than the value that would be recorded if impairment were not performed.

3.5. Loans and advances originated by the Bank

Loans originated by the Bank are stated at the amount of principal outstanding, less allowances for impairment, which are based on an evaluation of specifically-identified exposures and are also intended to cover losses that are inherent in the Bank's loan portfolio. The Bank's management applies the relevant internally defined methodology in its evaluation of the aforementioned risks (Note 3.6).

Loans that are disbursed in dinars and indexed to the dinar-EUR, CHF or other foreign exchange rate are revaluated in accordance with the specific covenants defined under individual loan agreements. The effects of such revaluation are included under gains or losses on the valuation of financial assets and liabilities.

3.6. Allowances for impairment and provisions for contingent liabilities

Allowances for loan impairment are determined as the difference between the carrying amount and the present value of the future cash flows as discounted at the effective or original contractual interest rate, where appropriate based on the requirements of IAS 39 "Financial Instruments: Recognition and Measurement". Estimated amount of allowance for impairments and provision for contingent liabilities are charged to the Income Statement.

The Bank calculates reserves for estimated losses in accordance with the requirements of the relevant NBS Regulation. Loans, other placements, guarantees, and other on-and off-balance-sheet exposures are classified into the categories A, B, V, G and D, in accordance with the evaluation of counterparty financial standing and creditworthiness, the number of days that settlement of liabilities toward the Bank are in arrears, and the quality of the collateral obtained on the exposures. The amount of estimate of the allowances for impairment and the provision for contingent liabilities is calculated by applying the percentages 0%, 2%, 15%, 30% and 100% on the amounts of the particular exposures classified into categories A, B, V, G and D, respectively.

The Bank determines the amount of necessary reserve for estimated losses which represents the sum of positive differences between reserves for estimated losses, calculated in accordance with the Decision on Classification of Balance Sheet and Off-Balance Sheet Assets of Banks and the set amount of provision for balance sheet assets and provisions for losses on off-balance sheet items at the individual debtor level, calculated in accordance with internally adopted methodology. If the amount of provision of balance sheet assets and provisions for losses on off-balance sheet items is greater than the amount of reserve for estimated losses at individual debtor level, then the bank does not calculate the necessary reserve for estimated losses on balance sheet and off-balance sheet items.

The necessary reserve for estimated losses on balance sheet and off-balance sheet items decreases the amount of capital in accordance with the Decision on Capital Adequacy.

A write-off of uncollected receivables is performed either pursuant to a court order, or based on a settlement agreed between the parties involved, or otherwise, on the basis of a resolution of the Bank's Executive Board or Board of Directors.

3.7. Property and equipment

Fixed assets are initially recognized at purchase price or cost. For subsequent measurement of fixed assets, after initial recognition fixed assets are stated at cost, decreased for depreciation and impairment losses.

As at balance sheet date the Bank's management analyzes tangible assets. If there is evidence of the assets impairment, recoverable amount is estimated for determination of impairment amount. If recoverable amount is lower than the book value of an asset, book value is decreased to the recoverable amount.

Impairment loss is recorded as current expense within other expenses. If there is evidence in further periods that impairment losses no longer exists or it is decreased, asset is increased up to its recoverable amount. Increased value could not be higher than the value incurred if the asset were not previously impaired.

Property and equipment are depreciated from the following month when they are available for use.

Depreciation is calculated on the acquisition cost amount of property and equipment decreased for residual amount. If residual amount is immaterial it is not considered in determination of the basis for depreciation.

Depreciation is calculated on a straight line basis using prescribed annual rates, so that assets are fully depreciated over their useful life. Applied depreciation rates are:

Buildings	2%
Computers	20%
Vehicles	15.50%
Furniture and equipment	7% - 16.5%

Investment in leased business premises are amortized by using proportional method, in accordance with terms defined under agreement.

Property, plant and equipment with indefinite useful life are not amortized.

Operating and financial leases

Leases where ownership of the property will not be transferred at the end of lease period to the user of the lease assets are classified as operating leases. All 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.

Leases where the right of holding and using the lease assets during the lease period is transferred to the user of the lease assets, and where an ownership of the property will be transferred to the user of the lease assets under the contract terms are classified as financial leases.

3.8. Intangible assets

Intangible assets are initially recognized at purchase price or cost. For subsequent measurement of intangible assets, after initial recognition the assets are measured at cost decreased for amortization and impairment losses.

Intangible assets are non-monetary items (without physical evidence) such as goodwill, licences, concessions, trademarks, seals, accounting software, franchises, investments in products developments, processes and equipments, copyrights etc.. For these assets there is high probability that they will generate economic benefits for a period longer than one year and that these benefits will be higher than costs.

Intangible assets are amortized from the following month when they are available for use.

Amortization is calculated on the acquisition cost amount of intangible assets decreased for residual amount. If residual amount is immaterial it is not considered in determination of the basis for depreciation.

Amortization is calculated on a straight line basis over five years, except intangible assets for which using period are determined in agreements. For these assets amortization is performed over usage period determined in the individual agreements. Goodwill could not be amortized, but it is tested for the impairment at the end of each balance sheet date.

Intangible assets with indefinite useful life are not amortized.

3.9. Non-current assets held for sale

An asset is classified as a non-current asset held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

A non-current asset is classified as held for sale in case when the following conditions are fulfilled:

a) the asset must be available for immediate sale in its present condition,
b) the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated,
c) the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value,
d) the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

A non-current asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. If the carrying amount is lower than the estimated fair value reduced for selling costs, the amount at which the asset is measured remains unchanged, but if it is higher, the current carrying amount is reduced to fair value less selling costs, with recognition of any impairment losses. Once an asset is recognised as a held-for sale asset it is no longer depreciated.

When the Bank changes the purpose of a non-current asset held for sale or the non-current asset is not sold in the planned time, the asset ceases to be classified as a held-for sale non-current asset. The entity shall measure a non-current asset that ceases to be classified as held for sale at the lower of its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset not been classified as held for sale, or its recoverable amount at the date of the subsequent decision not to sell.

Adjustments in the carrying amount of an asset that ceases to be recognised as a non-current asset held for sale are charged to current year income or expenses.

3.10. Cash and cash equivalents

For purposes of the Cash Flow Statement, Cash and cash equivalents include cash, cheques, balances on current accounts held with other banks and giro account balances.

3.11. Derivatives

Financial derivatives consist of forward and swap transactions as well as interest rate swaps transactions. Initially they are measured at costs. For subsequent measurement they are measured at their fair value. Fair value is determined based on active market values, and also using different techniques for estimation, such as discounted cash flows. Financial derivatives are disclosed within assets if they have positive market value, i.e. within liabilities if they have negative market value. Changes in market values are disclosed in the income statement in the period when they occurred.

3.12. Employee 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 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 balance sheet as of 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.

3.13. Taxes and contributions

Current income tax

Current income tax represents the amount calculated in accordance with the Income Tax Law effective in the Republic of Serbia. The annual corporate income tax is payable at the rate of 10% on the tax base reported in the annual income tax return, as reduced by any applicable tax credits. The taxable base includes the profit stated in the statutory statement of income, as adjusted for permanent differences that are specifically defined under local tax rules.

Deferred income taxes

Deferred income tax is determined using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities components, and their carrying values in the financial statements. Deferred tax liabilities are recognized for all taxable temporary differences between tax and financial basis of balance sheet items. Deferred tax assets are recognized for deductible temporary differences, and the tax effects of income tax losses and credits available for carry forward, to the extent that it is probable that future taxable profit will be available against which deferred tax assets may be utilized.

Taxes and contributions not dependant on results

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

3.14. Fair value

The accompanying financial statements are prepared on an historical cost basis, including adjustments and provisions made to reduce assets to their estimated recoverable amounts.

It is the policy of the Bank to disclose the fair value information of those financial assets and financial liabilities for which published market information is readily and reliably available, and whose fair value is materially different from their recorded amounts. Sufficient market experience, stability and liquidity do not exist for the purchase and sale of loans and other financial assets or liabilities, given that published market information is not readily available. Hence, fair value cannot reliably be determined. The management of the Bank considers that, in view of the nature of the business and the Bank's business policy, there are no material differences between presented values in the financial reports and the fair value of the financial assets and liabilities.

3.15. Hedge accounting

In accordance with International Accounting Standard 39 – Financial Instruments: Recognition and Measurement, hedge accounting recognises the effects of offsetting of gains and losses from changes in fair value of hedging instruments and hedge items.

Hedging relationships are of three types:
(a) fair value hedge: a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.
(b) cash flow hedge: a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss.
(c) hedge of a net investment in a foreign operation as defined in IAS 21.

A heading relationship qualifies for hedge accounting if and only if all of the following conditions are met:

(a) At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.
(b) The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.
(c) For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.
(d) The effectiveness of the hedge can be reliably measured, ie the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.
(e) The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

4. Interest income

	In thousands of RSD 2011	2010
Banking and insurance sector	837,345	810,490
Corporate clients	6,337,916	5,086,774
Public sector	3,164,092	2,743,286
Entrepreneurs	106,585	84,882
Retail	2,864,030	2,503,277
Households	248,544	302,094
Foreign entities		
- other foreign banks	541	636
- banks within the UniCredit Group	15,413	17,427
- foreign corporate clients	59,322	54,329
- foreign retail clients	4,481	3,315
Other entities	12,114	13,745
	13,650,383	11,620,255

Interest income in 2011 was calculated based on the accrual principle using the contractual interest rate applied to the net amount of placement. The effect of the above stated on 2010 amounts to 116,345 thousand dinars, which would have resulted in lower interest income and lower net expenses related to indirect write-off of placements.

5. Interest expense

	In thousands of RSD 2011	2010
Banking and insurance sector		
- members of the UniCredit Group	23,893	2,111
- other legal entities	267,803	287,924
Corporate clients		
- members of the UniCredit Group	22,585	15,726
- other legal entities	1,277,960	1,559,100
Public sector	91,355	72,675
Entrepreneurs	2,169	2,877
Retail	1,032,770	1,428,886
Households	6	8
Foreign entities		
- banks within the UniCredit Group	1,485,759	1,236,165
- other foreign banks	486,532	274,116
- foreign banks within the UniCredit Group	15,370	5,774
- other foreign corporate clients	102,213	53,544
- foreign retail clients	149,694	84,242
Other entities	2,867	2,435
	4,960,976	5,025,583

6. Fees and commissions income

	In thousands of RSD 2011	2010
Fee and commission income from domestic and foreign payment transfers	124,486	102,069
Fee and commission income from other banking services	781,760	654,237
Fees for the rental of safety-deposit boxes	1,259	1,216
Fees for “custody” services	249,822	79,845
Fees on issued guarantees and other contingent liabilities	369,296	424,385
Fees from credit card operations	248,450	159,468
Fees from treasury operations	56,403	7,776
Other fee and commission income	207,852	126,365
	2,039,328	1,555,361

7. Fees and commissions expenses

	In thousands of RSD 2011	2010
Fees arising from domestic payment transfers	28,453	24,011
Fees arising from international payment transfers	5,771	66,992
Commission expenses arising on guarantees	29,724	825
Fees arising from credit card operations	246,469	156,588
Other fees and commissions expenses	69,770	68,738
	380,187	317,154

8. Net gains/(losses) on the sale of securities at fair value through profit and loss

	In thousands of RSD 2011	2010
Gains on sale of securities	11,521	1,443
	11,521	1,443

9. Net gains/(losses) on the sale of available for sale securities

	In thousands of RSD 2011	2010
Gains on sale of securities	5,725	16,043
Losses on sale of securities	(4,601)	(444)
	1,124	15,599

10. Net foreign exchange gains/(losses)

	In thousands of RSD 2011	2010
Foreign exchange gains	719,360	0
Foreign exchange losses	0	(8,469,559)
	719,360	(8,469,559)

11. Dividends and other income from equity investments

	In thousands of RSD 2011	2010
Dividend income	12	20
	12	20

12. Other operating income

	In thousands of RSD 2011	2010
Other operating income	28,209	26,983
	28,209	26,983

13. Losses on impairment and provisions

13.1 Losses on impairment and provisions are presented as follows:

	In thousands of RSD 2011	2010
Impairment provisions of:		
- on-balance sheet items – Note 13.2	2,519,249	1,334,080
- off-balance sheet items – Note 36	0	0
	2,519,249	1,334,080
Income from cancelled impairment provisions:		
- off-balance sheet items – Note 36	7,590	240,847
Income from collected suspended interest	3,963	0
Provisions for litigations – Note 36	0	1,724
Provisions for retirement benefits – Note 36	185	0
Income from cancelled provisions for litigations – Note 36	0	3,156
	2,507,881	1,091,801

13.2 Movements in impairment provisions in the period from 1 January to 31 December 2011 are presented in the table below:

In thousands of RSD	Loans and deposits to customers (Note 24)	Interest and fee receivables (Note 23)	Securities (Note 25)	Equity investments (Note 26)	Other placements (Note 27)	Other assets (Note 31)	Total
Balance as at 1 January 2010	3,169,859	325,516	63,538	12,061	478,126	57,720	4,106,820
Indirect impairment provisions – Note 13.1	2,444,357	32,267	(902)	0	58,577	(15,050)	2,519,249
Interest revenue correction	0	184,513	0	0	0	0	184,513
Foreign exchange differences	58,886	3,213	71	0	12	(1,040)	61,142
Direct write-offs	(12,980)	(14,473)	(1,063)	0	(1,808)	(1,415)	(31,739)
Portfolio sale	(49,115)	(39,919)	0	0	(10,293)	0	(99,327)
Balance as at 31 December	5,611,007	491,117	61,644	12,061	524,614	40,215	6,740,658

14. Net wages and salaries, taxes, contributions and other personnel expenses

In thousands of RSD

	2011	2010
Net wages and salaries	1,055,568	963,768
Taxes and contributions on salaries and fringe benefits	412,982	374,438
Temporary and occasion work contracts	360	0
Other personnel expenses	220,030	179,778
	1,688,940	1,517,984

15. Depreciation costs

In thousands of RSD

	2011	2010
Depreciation of intangible assets	198,981	189,638
Depreciation of fixed assets	152,072	155,088
	351,053	344,726

16. Other operating expenses

	2011	2010
	In thousands of RSD	
Costs of material and energy	79,579	69,147
Rental costs	345,404	389,256
Maintenance of software	265,282	246,519
Advertising costs	75,779	44,413
Cost of sponsorship	2,269	1,255
Representation costs	7,356	7,333
Consulting services	44,120	11,968
Telecommunications	63,983	60,928
Insurance premium	215,242	175,042
Transportation	7,040	5,703
Cost of taxes and contributions	334,812	295,260
Property insurance costs	79,044	81,993
Write-offs of incontestable receivables	6,952	132,302
Professional training costs	3,030	2,296
Other expenses	282,486	214,500
	1,812,378	1,737,915

17. Income from assets and liabilities valuation adjustments

	2011	2010
	In thousands of RSD	
Income from assets and liabilities valuation adjustments	45,524,368	29,481,831
	45,524,368	29,481,831

The amount of 65,701 thousand dinars relates to income from changes in fair value of hedged items, as follows: the amount of 33,609 thousand dinars relates to income from changes in the fair value of local self-government bonds as hedging items, while the amount of 32,092 thousand dinars relates to income from fair value changes of firm irrevocable commitments as hedging items.

18. Expenses from assets and liabilities valuation adjustments

	2011	2010
	In thousands of RSD	
Expenses from assets and liabilities valuation adjustments	45,226,272	20,263,861
	45,226,272	20,263,861

The amount of 63,418 thousand dinars relates to costs of changes in fair value of hedging instruments as follows: the amount of 32,802 thousand dinars relates to costs of changes in the fair value of interest rate swaps as hedging instruments linked to hedges of local self-government bods, while the amount of 30,616 thousand dinars relates to costs of fair value changes of interest rate swaps as hedging instruments linked to hedging of firm irrevocable commitments.

19. Income taxes

a. Components of Income taxes

	In thousands of RSD 2011	2010
Current income tax	(505,878)	(408,619)
Increase in deferred tax assets and decrease in deferred tax liabilities	6,729	12,043
Decrease in deferred tax assets and increase in deferred tax liabilities	(2,699)	0
	(501,848)	(396,576)

b. Numerical reconciliation between tax expense and the product of the accounting results multiplied by the applicable tax rate

	In thousands of RSD 2011	2010
Profit before tax	5,046,618	3,932,909
Income tax at the statutory tax rate of 10%	504,662	393,291
Permanent differences:		
Non-deductible expenses	11,231	1,136
Income adjustments	11,649	16,404
Temporary differences:		
Differences in the depreciation charges	428	9,093
Expenses to be recognised in subsequent period	2,079	496
Tax deductions:		
Tax credits for investments in property and equipment	(24,171)	(11,801)
Current income taxes	505,878	408,619

c. Components of Deferred tax assets/liabilities

	In thousands of RSD 2011	2010
Deferred tax assets associated with differences in depreciation charges	22,140	24,825
Deferred tax assets associated with provisions for employee benefits	3,595	3,609
Deferred tax assets associated with unrecognised tax expenses, contributions and other duties	2,589	496
Deferred tax assets associated with revaluation of securities	4,637	0
	32,961	28,930

20. Earnings per share

Basic earnings per share for 2011 amount to RSD 2,312 (2010: RSD 2,236).

Since the Bank has not issued potential ordinary shares such as preference shares or potential ordinary shares embedded in other financial instruments or contracts with the rights for conversion into ordinary shares, calculated diluted earnings per share is equal to basic earnings per share.

21. Cash and cash equivalents

In thousands of RSD

	31 December 2011	31 December 2010
Cash on hand in RSD	429,097	482,452
Gyro account	3,025,288	4,230,661
Cash on hand in foreign currencies	450,096	497,502
Foreign currency accounts with:		
- other banks within UniCredit Group (Note 41)	1,057,834	1,043,105
- local banks (NBS - Beokliring)	30,968	32,597
- other foreign banks	133,425	91,436
Foreign currency cheques	7,658	2,110
	5,134,366	6,379,863

The obligatory reserves represent a deposit required by the National Bank of Serbia (“NBS”), which is calculated and deposited with the NBS in accordance with the Decision on Obligatory Reserves of Banks with the NBS. Pursuant to this decision the obligatory reserve Banks shall calculate required dinar reserves on the dinar reserving base representing average daily book value of deposits in dinars, borrowings, securities and other liabilities in dinars within one month, at the following rates:

- 5% on the dinar base consisting of liabilities with a contractual maturity up to two years, or 730 days;
- 0% on the portion of the dinar base consisting of liabilities with a contractual maturity in excess of two years or over 730 days.

Banks do not calculate statutory obligatory reserves for the amount of:
1) liabilities toward the National Bank of Serbia;
2) liabilities toward banks that deposit their obligatory reserves with the National Bank of Serbia;
3) subordinated liabilities;
4) liabilities in dinars and foreign currency that banks receive from international financial organisation, governments and financial institutions whose founders area foreign countries, via the government as the principal debtor or beneficiary of such funds, or directly, under the condition when investing those assets for agreed principles to be respected in setting interest rate margins;
5) liabilities in dinars and foreign currency associated with deposits, loans and other funds received from abroad in the period from 1 October 2008 to 31 March 2010 – up to the initially set date of maturity of such liabilities, and at the latest by 31 December 2013.
6) funds from term dinar deposits collected in the period from 31 October to 8 November 2010 – up to the expiry of term deposit period, assuming it is not indexed with a foreign currency clause.

The calculated obligatory dinar reserve comprises the sum of:
1) The calculated obligatory dinar reserve;
2) 15% of the dinar value of the obligatory euro reserve which is calculated on the portion of foreign currency base which comprises liabilities with a contractual maturity up to two years, or 730 days;

3) 10% of the dinar value of the obligatory euro reserve which is calculated on the portion of foreign currency base which comprises liabilities with a contractual maturity in excess of two years or over 730 days.

The NBS pays interest on obligatory reserves in dinars at an interest rate that in 2011 amounted to 2.5% p.a.

22. Revocable deposits and loans

	In thousands of RSD	
	31 December 2011	**31 December 2010**
Obligatory reserves in foreign currency	17,056,393	18,029,790
Deposited surplus funds of the bank with NBS in dinars	4,800,000	0
REPO transactions with NBS in dinars	11,717,604	1,003,194
	33,573,997	19,032,984

The obligatory reserves in foreign currencies represent the minimum deposits set aside in accordance with the NBS Regulation on the “Obligatory Reserves of Banks to be Held with the NBS.” The obligatory reserve is to be calculated on the basis of the average amount of deposits, borrowings and other related liability balances in foreign currencies existing during a period of one calendar month. Pursuant to this decision banks, banks calculate the obligatory foreign currency reserve at a rate of:

- 30% - on the portion of foreign currency base which comprises liabilities with a contractual maturity up to two years, or 730 days;
- 25% - on the portion of foreign currency base which comprises liabilities with a contractual maturity in excess of two years or over 730 days.

The foreign currency base for computing the obligatory reserve consists of the average daily carrying amount of foreign currency liabilities in the previous calendar month and the average carrying amount of dinar liabilities indexed with a foreign currency clause in the previous calendar month.

Banks do not calculate statutory obligatory reserves for the amount of:
1) liabilities toward the National Bank of Serbia;
2) liabilities toward banks that deposit their obligatory reserves with the National Bank of Serbia;
3) subordinated liabilities;
4) liabilities in dinars and foreign currency that banks receive from international financial organisation, governments and financial institutions whose founders area foreign countries, via the government as the principal debtor or beneficiary of such funds, or directly, under the condition when investing those assets for agreed principles to be respected in setting interest rate margins;
5) liabilities in dinars and foreign currency associated with deposits, loans and other funds received from abroad in the period from 1 October 2008 to 31 March 2010 – up to the initially set date of maturity of such liabilities, and at the latest by 31 December 2013.

The Bank is required to maintain an average daily balance on its foreign currency accounts held with the NBS, in an amount not lower than the calculated amounts of the obligatory reserves. Deposits placed in foreign currencies with the National Bank of Serbia are non-interest bearing ones.

As at 31 December 2011 the securities purchased under resell agreements with 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.

As at 31 December 2011 the Bank deposits its surplus cash with the NBS in the amount of 4,800,000 thousand dinars.

23. Interest and fees receivables

	In thousands of RSD	
	31 December 2011	**31 December 2010**
Matured interest:		
-in RSD	926,380	656,546
-in foreign currencies	71,119	65,320
Fees and commissions receivable:		
- in RSD	69,749	65,622
- in foreign currencies	634	190
Trade receivables	13,056	0
Other receivables for fair valuation of derivatives	32,492	25,602
Less: Allowances for impairment	(491,117)	(325,516)
	622,313	487,764

Movement on allowances for impairment for interest and fees receivables is presented in the table below:

	In thousands of RSD	
	31 December 2011	**31 December 2010**
Balance as at 1 January	(325,516)	(178,047)
Allowances for impairment during the year	(216,780)	(194,224)
Exchange rate differences	(3,213)	(16,866)
Sale of portfolio	39,919	0
Direct write-offs	14,473	63,621
Balance as at 31 December	(491,117)	(325,516)

24. Loans and deposits

	In thousands of RSD	
	31 December 2011	**31 December 2010**
Overnight deposits		
- in RSD	100,000	320,000
- in foreign currencies	5,225,464	233,221
Total overnight deposits:	5,325,464	553,221
Guarantee foreign currency deposits for purchase of securities	4,186	4,220
Short-term loans:		
- in RSD	32,095,032	32,159,100
- in foreign currencies	1,123,834	737,245
Total short-term loans:	33,218,866	32,896,345
Long-term loans:		
- in RSD	91,316,819	74,232,061
- in foreign currencies	8,674,700	7,738,534
Total long-term loans:	99,991,519	81,970,595
Less: Allowances for impairment	(5,611,007)	(3,169,859)
Balance as at 31 December	132,929,028	112,254,522

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 issued at interest rates equal to the one-month, quarterly or semi-annual EURIBOR rate and LIBOR increased on the average 5.40% per annum, in accordance with other expenses and 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 (for subsidies loans up to 30 years). Interest rates ranged from 3M Euribor +1.66 during promotional period, up 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% to 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.

The year 2011 was marked by preparations for the going into effect of the Law on Protection of Financial Services Customers, whose full application will be reflected in the Bank's business in 2012, and above all in the sense of limitation of adjustments in interest rates and fees and commissions charged to clients, both for loans and for deposits, including a stricter system of notifying clients of all changes.

Changes in allowances for impairment of loans and advances to customers are presented in the following table:

	In thousands of RSD	
	31 December 2011	**31 December 2010**
Balance as at 1 January	(3,169,859)	(1,683,452)
Allowances for impairment in current year	(2,444,357)	(1,269,655)
Foreign currency gains/losses	(58,886)	(224,837)
Sale of securities	49,115	0
Write-offs	12,980	8,085
Balance as at 31 December	(5,611,007)	(3,169,859)

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

	In thousands of RSD	
	31 December 2011	**31 December 2010**
Energy sector	2,059,490	1,994,521
Agriculture	1,958,556	2,353,339
Construction	14,233,221	14,950,411
Industry and mining	24,035,794	16,480,805
Trade	13,340,369	18,458,829
Services	13,300,675	8,305,606
Transportation	18,689,522	13,418,537
Finance and insurance	7,126,235	1,075,846
Retail clients	28,104,499	25,682,369
Others	10,080,667	9,534,259
	132,929,028	112,254,522

25. Securities (excluding treasury shares)

	In thousands of RSD	
	31 December 2011	**31 December 2010**
Securities at fair value through profit and loss		
- placements in commercial bills	0	1,063
- treasury bonds of the Republic of Serbia	3,707,542	0
- foreign currency bonds of the Republic of Serbia held for trading	153,508	0
Securities held to maturity		
- receivables for discounted bills	527,582	2,117,618
Securities available for sale		
- local self-government bonds – hedging item	1,556,762	0
- foreign currency bonds of the Republic of Serbia	13,890,684	20,841,092
- treasury bonds of the Republic of Serbia	155,575	177,127
	19,991,653	23,136,900
Less: Allowances for impairment	(61,644)	(63,538)
	19,930,009	23,073,362

As at 31 December 2011 securities at fair value through profit and loss in the amount of 3,707,542 thousand dinars relate to investments in treasury bonds of the Republic of Serbia maturing up to 2013, while the amount of 153,508 thousand dinars relate to investments in treasury bonds of the Republic of Serbia maturing between 2012 and 2013.

As at 31 December 2011 receivables for discounted bills 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 securities of RSD 1,556,762 thousand represent a portfolio of local self-government bonds – hedging item, with maturities occurring between the years 2012 to 2023, the amount of RSD 13,890,684 thousand relates to treasury bonds of the Republic of Serbia with maturities up to 2014, while the amount of 155,575 thousand dinars relate to investments in treasury bonds of the Republic of Serbia maturing between 2012 and 2013.

For hedging risks related to local self-government bonds the Bank implemented micro hedging of fair value, i.e. it reported investments in local self-government bonds in the amount of EUR 15 million as a hedging item, while a hedging instrument is reported as an interest rate swap, also in the amount of EUR 15 million. As at 31 December 2011 a hedging effectiveness test was performed which showed that the hedge is very effective.

Changes in allowances for impairment of investments in securities are presented in the following table:

	In thousands of RSD	
	31 December 2011	**31 December 2010**
Balance as at 1 January	(63,538)	(75,992)
Decrease/(increase) of allowance for impairment in current year	902	12,454
Effects of FX gains/losses	(71)	0
Write-offs	1,063	0
Balance as at 31 December	(61,644)	(63,538)

26. Equity investments

	In thousands of RSD	
	2011	**2010**
Equity investments		
- subsidiaries (RSD)	0	0
- in companies with up to 10% interest (RSD)	12,061	12,061
	12,061	12,061
Less: Allowances for impairment	(12,061)	(12,061)
	0	0

Equity investments in companies with up to 10% interest in the amount of RSD 12,061 thousand relate to equity investments in the following companies:

	In thousands of RSD 31 December 2011 Amount	% share
FAP Priboj a.d.	4,737	2%
Fund for Further Education of Young Farmers	147	7.72%
Tržište novca a.d.	108	0.16%
RTL TV d.o.o.	7,069	9%
Total	12,061	

For the full amount of the equity investment in companies of up to 10% in RSD (amount of RSD 12,061) the Bank created an allowance for impairment whereby the nominal value of its interest has been reduced to naught.

Changes in the allowances for impairment account for equity investments are presented in the following table:

	In thousands of RSD **31 December 2011**	**31 December 2010**
Balance as at 1 January	(12,061)	(12,126)
Allowance for impairment in current year	0	(38)
Write-offs	0	103
Balance as at 31 December	(12,061)	(12,061)

27. Other placements

	In thousands of RSD **31 December 2011**	**31 December 2010**
Other placements in RSD:		
Forfeiting	5,137	25,710
Factoring	242,032	252,609
Placements related to acceptances, sureties and payments made for guarantees	327,846	288,365
Receivables from credit cards	1,048,605	1,166,673
Other placements in foreign currency:		
Factoring	121,627	59,782
Placements related to acceptances, sureties and payments made for guarantees	1,270,876	1,058,763
Covered letters of credit and other sureties	31,867	31,242
Other placements	1,557	1,527
Less: Allowances for impairment	(524,614)	(478,126)
	2,524,933	2,406,545

Changes in allowances for impairment of other placements are presented in the following table:

	In thousands of RSD 31 December 2011	31 December 2010
Balance as at 1 January	(478,126)	(898,474)
Decrease/(increase) in allowances for impairment in current year	(58,577)	144,055
FX gain/loss effects	(12)	(172,391)
Sale of portfolio	10,293	0
Direct write-offs	1,808	448,684
Balance as at 31 December	(524,614)	(478,126)

28. Fixed assets, investment properties and intangible assets

In thousands of RSD	Buildings	Equipment and other assets	Leasehold improve-ments	Invest-ments in progress	Intangible assets	Investment property	Total
Cost or valuation							
Opening balance	668,752	945,700	346,699	7	1,492,295	0	3,453,453
Purchases during the year	0	0	0	200,792	261,723	0	462,515
Transfer from investments in progress	0	164,107	33,092	(197,199)	0	0	0
Disposals and write-offs	0	(90,061)	(7,991)	0	0	0	(98,052)
Other (transfer to/from)	0	(8,790)	0	0	0	1,642	(7,148)
Closing balance	668,752	1,010,956	371,800	3,600	1,754,018	1,642	3,810,768
Depreciation							
Opening balance	10,134	605,316	150,181	0	804,669	0	1,570,300
Depreciation	13,375	98,035	40,629	0	198,981	33	351,053
Disposals and write-offs	0	(87,172)	(4,127)	0	0	0	(91,299)
Other (transfer to/from)	0	(6,805)	0	0	0	48	(6,757)
Closing balance	23,509	609,374	186,683	0	1,003,650	81	1,823,297
Net book value as at:							
31 December 2011	645,243	401,582	185,117	3,600	750,368	1,561	1,987,471
31 December 2010	658,618	340,384	196,518	7	687,626	0	1,883,153

29. Non-current assets held for sale and discontinued operations

	In thousands of RSD	
	31 December 2011	31 December 2010
Non-current assets held for sale	982	1,599
	982	1,599

In 2011, 159 items of non-current assets (92 printers, 4 data archiving systems and 63 fax machines) were classified as non-current assets held for sale. Non-current assets held for sale are initially measured at the lower of their carrying amount or fair value, reduced for estimated selling costs, as at classification date, so that a related impairment loss was reported in the amount of 1,004 thousand dinars. The value of assets classified as non-current assets held for sale as at 31 December 2011 amounts to 982 thousand dinars.

30. Deferred tax assets

	In thousands of RSD	
	31 December 2011	31 December 2010
Deferred tax assets associated with differences in depreciation charges	22,140	24,825
Deferred tax assets associated with provisions for employee benefits	3,595	3,609
Deferred tax assets associated with unrecognised tax expenses, contributions and other duties	2,589	496
Deferred tax assets for revaluation of securities	4,637	0
	32,961	28,930

31. Other assets

	In thousands of RSD	
	31 December 2011	31 December 2010
Other assets in RSD:		
Advances paid	4,639	152
Other receivables from business dealings	196,129	213,406
Assets received in exchange for collection of receivables	4,927	4,927
Receivables from employees	3,203	58
Accrued interest receivables	682,339	549,515
Accrued other income receivable	54,935	2,961
Accrued expenses regarding liabilities calculated at amortized cost using effective interest rate method	163,047	51,537
Other accrued expenses	38,445	38,126
Total:	1,147,664	860,682

Other assets in foreign currency:		
Receivables from employees	3,231	1,042
Other receivables from business dealings	44,282	12,980
Accrued interest receivables	46,754	21,397
Accrued other income receivable	105,450	33,803
Accrued other expenses	524,816	561,285
Total:	724,533	630,507
Allowance for impairment	(40,215)	(57,720)
	1,831,982	1,433,469

Changes in the allowance for impairment account for other assets and accruals are presented in the following table:

	In thousands of RSD	
	31 December 2011	31 December 2010
Balance as at 1 January	(57,720)	(30,810)
Allowance for impairment in current year	15,050	(26,672)
FX gains/losses	1,040	(2,859)
Write-offs	1,415	2,621
Balance as at 31 December	(40,215)	(57,720)

32. Transaction deposits

	In thousands of RSD	
	31 December 2011	31 December 2010
Transaction deposits		
- in RSD	13,931,713	8,943,843
- in foreign currency	21,035,175	14,435,352
	34,966,888	23,379,195

A breakdown by customer type is provided in the table below:

	In thousands of RSD	
	31 December 2011	31 December 2010
Banking and insurance sector	873,428	1,781,876
Public companies	216,068	263,571
Corporate clients	26,005,365	14,791,749
Public sector	9,605	6,427
Other customers	297,824	379,994
Foreign entities	3,835,654	2,985,798
Retail clients	3,481,193	2,976,950
Entrepreneurs	239,563	189,545
Households	8,188	3,285
	34,966,888	23,379,195

33. Other deposits

In thousands of RSD

	31 December 2011	31 December 2010
Demand deposits:		
- in RSD	2,326,041	1,130,705
- in foreign currency	1,787,630	1,885,555
Total demand deposits	4,113,671	3,016,260
Short-term deposits:		
- in RSD	8,842,775	8,165,533
- in foreign currency	29,658,402	46,253,861
Total short term deposits	38,501,177	54,419,394
Long-term deposits:		
- in RSD	1,397	4,778
- in foreign currency	1,940,898	1,765,026
Total long-term deposits	1,942,295	1,769,804
	44,557,143	59,205,458

Demand deposits in dinars from companies are deposited at average interest rate of 4.50% per annum while interest rate on term deposits is up to 12.50% per annum.

Demand deposits in foreign currencies from companies are deposited at annual interest rate ranging from 0.1% to 2.35% per annum depending on deposited currency.

Short-term deposits in foreign currencies from companies are deposited at annual interest rate ranging from 2.60% to 5.55% per annum depending from deposited currency.

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 rates ranging 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 rates ranging from 0.239% to 1.6% per annum.

Demand deposits in dinars from retail clients are deposited at annual interest rates up to 1%.

Demand deposits in foreign currency from retail clients are deposited at annual interest rate of 0.9% per annum, while interest on funds on current accounts amounts to 0.3% per annum.

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 during saving week („Nedelja štednje“) at even higher interest rates. For medium-term term deposits, from 18 to 36 months, interest rates were in the range of 5.9 – 6.6% per annum.

Dinar deposits indexed in EUR from small companies and entrepreneurs are deposited at annual interest rates up to 2.3%.

A breakdown by customer type is provided in the table below:

	In thousands of RSD 31 December 2011	31 December 2010
Banking and insurance sector	3,745,393	1,762,437
Public companies	268,200	1,413,681
Companies	14,272,392	17,622,538
Public sector	211,101	208,120
Other customers	473,837	443,834
Foreign entities	3,268,575	16,145,048
Retail clients	22,265,005	21,575,331
Entrepreneurs	52,640	34,469
	44,557,143	59,205,458

34. Borrowings

	In thousands of RSD 31 December 2011	31 December 2010
Loans with one day maturity (overnight)		
- in RSD	682,791	598,940
- in foreign currency	0	822,885
Total loans with one day maturity (overnight)	682,791	1,421,825
Short-term loans:		
- in RSD	0	0
- in foreign currency	0	158,780
Total short term loans	0	158,780
Long-term loans		
- in RSD	0	0
- in foreign currency	70,468,420	45,044,223
Total long-term loans	70,468,420	45,044,223
Other liabilities		
- in RSD	0	0
- in foreign currency	84,920	54,994
Total other liabilities	84,920	54,994
	71,236,131	46,679,822

Breakdown of foreign long-term loans in the amount of 70,468,420 thousand dinars is as follows:

	In thousands of dinars 31 December 2011	31 December 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
International Finance Corporation, Washington	4,614,441	2,453,595
Deutsche Invertitions und Entwicklungs GmbH, Germany	1,395,212	1,582,473
UniCredit Bank Austria AG	41,815,729	26,374,550
BA CA Leasing (Deutchland) GmbH, Bad Homburg	647,347	670,145
NBS revolving credit fund	9,104	0
Government of the Republic of Italy	16,647	22,439
	70,468,420	45,044,223

Long-term loans were granted for periods from 5 to 16 years, at interest rates ranging from 1% to 4.81%.

35. Interest and fees liabilities

	In thousands of RSD 31 December 2011	31 December 2010
Interest payable:		
- in RSD	1,586	1,593
Commissions payable		
- in RSD	3,707	3,417
- in foreign currency	10,380	9,054
Liabilities for fluctuation in value of derivatives	100,765	11,814
	116,438	25,878

36. Provisions

	In thousands of RSD 31 December 2011	31 December 2010
Provisions for retirement benefits	35,955	36,089
Provisions for off-balance sheet items	78,712	86,302
Provisions for litigations	20,070	20,070
	134,737	142,461

Changes in the provisions account are presented in the following table:

	In thousands of RSD	
	31 December 2011	31 December 2010
Provisions for retirement benefits		
Balance, beginning of year	36,089	40,332
Charge during the year - Note 13.1	185	0
Cancellation of provisions credited to income - Note 13.1	0	(3,156)
Payments during the year	(319)	(1,087)
Balance, end of year	35,955	36,089
Provisions for off-balance sheet items		
Balance, beginning of year	86,302	327,149
Charge during the year - Note 13.1	0	0
Cancellation of provisions credited to income - Note 13.1	(7,590)	(240,847)
Balance, end of year	78,712	86,302
Provisions for litigations		
Balance, beginning of year	20,070	18,346
Cancellation of provision in favour of income - Note 13.1	0	1,724
Payments during the year	0	0
Balance, end of year	20,070	20,070
Total	**134,737**	**142,461**

37. Income taxes payable

	In thousands of RSD	
	31 December 2011	31 December 2010
Liabilities for VAT	22,326	6,644
Liabilities for capital income tax	1,300	600
Liabilities for withholding income tax on interest income from non-resident companies	2,811	2,172
Other liabilities for taxes and contributions	6	71
	26,443	9,487

38. Liabilities from income distribution

	In thousands of RSD	
	31 December 2011	31 December 2010
Liabilities from income distribution	235	235
Corporate income tax	505,878	408,619
Advance payment of income tax from previous period	(385,385)	(299,779)
	120,728	109,075

Calculation of the current corporate income tax in the amount of RSD 505,878 thousand is presented in Note 19.

39. Other liabilities

	In thousands of RSD	
	31 December 2011	31 December 2010
Liabilities for received advances and deposits:		
- in RSD	2,603	1,376
- in foreign currency	83,312	1,305
Liabilities to suppliers:		
- in RSD		
- within the UniCredit Group (Note 41)	303	0
- other	67,700	43,834
- in foreign currency		
- within the UniCredit Group (Note 41)	119,507	130,465
- other	23,642	2,606
Other liabilities:		
- in RSD	85,337	39,231
- in foreign currency	288,916	269,425
Accrued interest payable:		
- in RSD	46,357	44,720
- in foreign currency	530,727	479,979
Other accrued income:		
- in RSD	117,515	327,263
- in foreign currency	9,281	13,579
Other accrued expenses:		
- in RSD	95,000	467,604
- in foreign currency	3,480	2,727
Accrued income regarding receivables calculated at amortized cost using effective interest rate method	472,646	423,962
Subordinated liabilities in foreign currencies	3,142,149	3,109,666
	5,088,475	5,357,742

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 Prague, Czech Republic in the amount of EUR 7,500,000 (equivalent of RSD 784,807 thousand) and by UniCredit Bank Austria AG in the amount of EUR 500,000 and 26,830,000 CHF (equivalent to RSD 2,357,342 thousand). These loans were extended with 7-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 and three-month CHF LIBOR rate as increased by 2.93% respectively. 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).

40. Equity

	In thousands of RSD 31 December 2011	31 December 2010
Share capital	23,607,620	17,857,620
Issue premium	562,156	562,156
Share and other capital	**24,169,776**	**18,419,776**
Profit reserves for estimated losses arising on balance sheet assets	10,731,287	7,548,588
Profit reserves for estimated losses arising on off-balance sheet items	1,918,520	1,564,886
Other profit reserves	1,003,072	1,003,072
Reserves	**13,652,879**	**10,116,546**
Revaluation reserves	**94**	**418**
Unrealised losses on available-for-sale securities	**(46,460)**	**0**
Accumulated profit	**4,544,770**	**3,536,333**
Total equity	**42,321,059**	**32,073,073**

Share capital and other capital

Pursuant to its Articles of Association and Statute, the Bank's foundation share capital is comprised of 103,921 ordinary shares of an individual par value of RSD 10,000.

The second issue of shares was carried out through the merger of Export-Import Bank Eksimbanka A.D. Beograd with HVB Banka Srbija i Crna Gora A.D. Beograd through the distribution of 77,361 ordinary shares with a nominal value of RSD 10 thousand. Shares of the second issue have a total nominal value of RSD 773,610 thousand which contributed to the increase in the Bank's equity.

Under the third issuance of shares of 23 December 2005, 60,480 ordinary shares with an individual par value of RSD 10 thousand were distributed representing RSD 604,800 thousand. The third share issue was fully subscribed and paid in by the UniCredit Bank Austria AG.

Under the forth issuance of shares of 10 August 2006, 410,000 ordinary shares with an individual par value of RSD 10 thousand were distributed. The forth share issue was fully subscribed and paid in by the UniCredit Bank Austria AG.

Under fifth issuance of shares of 5 June 2007 234,000 ordinary shares with an individual par value of RSD 10 thousand were distributed. The fifth share issue was fully subscribed and paid in by the UniCredit Bank Austria AG.

Under sixth issuance of shares of 17 December 2007, 80,000 ordinary shares with an individual par value of RSD 10 thousand were distributed. The sixth share issue was fully subscribed and paid in by the UniCredit Bank Austria AG.

Under seventh issuance of shares of 21 May 2008, 320,000 ordinary shares with an individual par value of RSD 10 thousand were distributed. The seventh share issue was fully subscribed and paid in by the UniCredit Bank Austria AG.

After seventh issuance of shares the UniCredit Bank Austria AG holding in ownership interest increased to 99.92%, and minority holding of A&B Banken Holding GmbH, Vienna decreased to 0.08%.

In December 2009 with the purchase of a minority interest of 0.08% from A&B Banken Holding GmbH, Vienna, UniCredit Bank Austria AG became the sole shareholder of the Bank.

Under eighth issuance of shares of 10 March 2010, 250,000 ordinary shares with an individual par value of RSD 10 thousand were distributed. The eighth share issue was fully subscribed and paid in by the UniCredit Bank Austria AG.

Under ninth issuance of shares of 19 August 2010, 250,000 ordinary shares with an individual par value of RSD 10 thousand were distributed. The ninth share issue was fully subscribed and paid in by the UniCredit Bank Austria AG.

Under tenth issuance of shares of 9 September 2011, 575,000 ordinary shares with an individual par value of RSD 10 thousand were distributed. The tenth share issue was fully subscribed and paid in by the UniCredit Bank Austria AG.

As at 31 December 2011 the Bank's share capital is comprised of RSD 23,607,620 thousand of ordinary share capital. The Bank's share capital is comprised of 2,360,762 ordinary shares as at 31 December 2011.

Other equity relates to share premium in the amount of RSD 562,156 thousand.

Reserves from income

Reserves for potential losses regarding on-balance and off-balance sheet items amount to RSD 12,649,807 thousand as at 31 December 2011. These reserves were calculated in accordance with the National Bank of Serbia Decision on Criteria for Classification of Balance Sheet and Off-balance Sheet Assets.

Other reserves from income amount to RSD 1,003,072 thousand and are formed in accordance with the decisions on profit distributions brought by the Bank's Assembly.

Revaluation reserves and unrealised losses on available-for-sale securities

Reserves for available-for-sale securities in the amount of 94 thousand dinars and unrealised losses on available-for-sale securities in the amount of 46,460 thousand dinars relate to available-for-sale securities in accordance with accounting policy set under note 3.4.

Retained earnings

Retained earnings in the amount of RSD 4,544,770 thousand relate to profit after taxes for the period from 1 January to 31 December 2011.

Capital Adequacy and Other Ratios Prescribed by the Law on Banks

The Bank is required to maintain a minimum capital adequacy ratio of 12 percent, as established by the NBS. As of 31 December 2011 the Bank's capital adequacy ratio was higher than the prescribed minimum.

The Bank is also required to maintain certain ratios related to the volume of its activities and composition of risk assets in compliance with the Law on Banks and with the NBS Requirements. As of 31 December 2011, in accordance with the Decision on Risk Management, the Bank made appropriate changes in its liquidity ratio, foreign currency risk ratio, exposure toward related parties risk, total exposures toward related parties, sum of large exposures toward other companies and fixed assets.

OPERATING RATIOS PRESCRIBED BY NBS	PRESCRIBED VALUE	31 Dec 2011	31 Dec 2010
Capital adequacy ratio	min 12%	19.01%	17.10%
Long-term investments vs. equity	max 60%	4.66%	4.51%
Exposure toward related parties of the bank vs. equity	max 20%	11.19%	2.09%
Sum of large exposures of the bank	max 400%	99.92%	71.80%
Liquidity ratio – for December	min 1.00	2.36	1.22%
Foreign currency risk ratio	max 20%	7.84%	11.08%

* In computing the capital adequacy ratio for 2011, capital does not include profit for 2011.

41. Off-balance sheet items

	In thousands of RSD	
	31 December 2011	31 December 2010
Operations on behalf of third parties		
- on behalf of public sector	383,548	256,890
	383,548	256,890
Guarantees, securities, property pledges for liabilities and undertaken and incontestable liabilities		
Payment guarantees:		
- in RSD	8,024,435	6,108,010
- in foreign currency	8,758,463	13,387,158
Performance guarantees:		
- in RSD	11,356,361	5,887,261
- in foreign currency	2,232,678	1,392,890
Uncovered letters of credit	3,361,195	3,960,216
Guarantees and bills of exchange acceptances issued	0	281
Guarantees issued in foreign currency	7,324,863	0
Commitments and incontestable obligations for undrawn loans and placements	23,013,696	14,911,188
Other undertaken commitments – heading items	1,464,973	0
	65,536,664	45,647,004
Derivatives		
- receivables from foreign currency exchange derivatives	230,858	414,202
	230,858	414,202
Other off-balance sheet items	221,451,956	110,889,223
	287,603,026	157,207,319

Operations on behalf of third parties relate to long-term agricultural loans issued from funds held by the Ministry of Agriculture, Development Fund of the Republic of Serbia and the Guarantee Fund, approved with maturities up to 5 years, with grace period up to 3 year and annual interest rate of 3%, and to subsidised housing loans based on a Decree issued by the Serbian Government in 2010 and 2011.

Breakdown of undertaken and incontestable liabilities:

	In thousands of RSD	
	31 December 2011	**31 December 2010**
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
	23,013,696	14,911,188

Other undertaken incontestable liabilities in the amount of RSD 1,464,973 thousand relate to the Bank's liabilities as guarantor for an issue of local self-government bonds. For hedging interest rate risk the Bank implemented micro hedging of fair value, i.e. it reported an undertaken incontestable commitment in the amount of EUR 14 million as a hedging item, while a hedging instrument is reported as an interest rate swap, also in the amount of EUR 14 million. As at 31 December 2011 a hedging effectiveness test was performed which showed that the hedge is very effective.

Breakdown of other off-balance sheet items:

	In thousands of RSD	
	31 December 2011	**31 December 2010**
Securities associated with custody operations	147,827,004	46,628,267
Securities purchased from NBS from REPO contracts	11,700,000	1,000,000
Secured letters of credit	211,405	17,309
Received letters of credit, guarantees and collection funds	18,775,827	13,721,149
Off-balance sheet financial instruments	31,024,384	40,736,033
Equipment under lease	33,400	50,035
Other	11,879,936	8,736,430
	221,451,956	110,889,223

Undertaken liabilities relating to office space rental:

	In thousands of RSD	
	31 December 2011	**31 December 2010**
Undertaken liabilities with maturities:		
- up to 1 year	347,491	343,406
- between 1 and 5 years	1,079,362	1,174,767
- over 5 years	192,269	330,647
	1,619,122	1,848,820

Undrawn foreign loan facilities

Undrawn foreign loan facilities as at 31 December 2011 amount to RSD 4,174,136 thousand.

Court Cases

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.

42. Related party transactions within UniCredit Group

Entities are considered related parties if one entity holds control, joint control or exercises significant influence on financial and operating decisions made by the other party. Related parties are also parties that are under joint control of the same parent company.

Banking transactions are carried out with related parties within regular operating activities of the Bank. These transactions comprise loans, deposits and transactions made in foreign currency and are made under commercial market terms.

The table below summarizes the total balance sheet exposure to related parties which have the ability to exercise influence on the Bank's operations:

	In thousand RSD	
	31 December 2011	31 December 2010
Foreign currency accounts with:		
UniCredit Bank Austria AG, Vienna	962,629	974,727
UniCredit Bank AG, Munich	25,401	13,817
UniCredit Bulbank, Sofia	2,950	13,525
UniCredit S.P.A. Milano	54,673	24,436
UniCredit Bank Hungary Z.r.t., Hungary	4,772	9,154
UniCredit Banka Slovenija, Ljubljana	5,788	5,769
Zagrebačka banka d.d.	1,621	1,677
Sub-total:	1,057,834	1,043,105
Interest and fees receivables:		
UniCredit Bank Austria AG, Vienna	2,402	1,385
UniCredit Banka Slovenija, Ljubljana	3	3
Zagrebačka banka d.d.	438	554
UniCredit Leasing Srbija d.o.o.	40	276
Sub-total:	2,883	2,218

	In thousand RSD	
	31 December 2011	**31 December 2010**
Loans and deposits receivable:		
Executive Board of the Bank	16,154	16,479
UniCredit Leasing Srbija d.o.o.	0	100,985
UniCredit Bank Austria AG, Vienna	5,160,973	20,000
Sub-total:	5,177,127	137,464
Receivables from paid actual expenses in dinars		
UniCredit S.P.A. Milano	547	689
UniCredit Bank Austria AG, Vienna	14,986	37,831
UniCredit Bank AG, Munich	0	67
Unicredit Bulbank, Sofia	0	259
ATF Bank, Kazahstan	8,413	2,569
Unicredit Bank Slovakia a.s., Bratislava	17,668	21,094
Sub-total:	41,614	62,509
Other receivables:		
Unicredit CAIB Srbija d.o.o.	51	0
UniCredit Leasing Srbija d.o.o.	40	0
Sub-total:	91	0
Secured letters of guarantee and other sureties:		
UniCredit Bank Austria AG, Vienna	31,867	31,242
Sub-total:	31,867	31,242
Short-term placements purchased – factoring:		
UniCredit S.P.A. Milano	0	14,025
Sub-total:	0	14,025
Overnight deposits:		
UniCredit Bank Austria AG, Vienna	0	421,993
Sub-total:	0	421,993
Demand deposits:		
Executive Board of the Bank	2,242	1,795
UniCredit Bank Austria AG, Vienna	78,311	15,252
UniCredit Leasing Srbija d.o.o.	270,444	1,196,305
UniCredit Rent d.o.o.	33,386	219,661
UniCredit Partner d.o.o...	83,753	60,700
UniCredit Bank AD Banja Luka	88	1,470
Zagrebačka banka d.d.	43,046	10,360
UniCredit Bank AG, London	47	20
UniCredit Banka Slovenija d.d.	9,356	9,100
UniCredit CAIB AG, Vienna	57	54
UniCredit Bank AG, Munich	274	9,641
Unicredit CAIB Srbija d.o.o.	8,882	33,016

	In thousand RSD	
	31 December 2011	**31 December 2010**
BA CA Leasing Deutschland Gmbh, Germany	972	556
UniCredit Bank Czech Republic	3,094	0
Sub-total:	533,952	1,557,930
Short-term deposits:		
Executive Board of the Bank	4,709	23,430
UniCredit Rent d.o.o..	20,928	0
UniCredit Leasing Srbija d.o.o	125,569	0
UniCredit Bank Austria AG, Vienna	0	9,492,133
UniCredit Bank AG, Munich	0	3,164,946
Sub-total:	151,206	12,680,509
Loans liabilities:		
UniCredit Bank Czech Republic	784,807	791,237
BA CA Leasing Deutchland GmbH, Germany	647,347	670,145
UniCredit Bank Austria AG, Vienna	44,173,072	28,693,200
Sub-total	45,605,226	30,154,582
Other liabilities:		
UniCredit Bank Austria AG, Vienna	5,540	6,904
UniCredit Bank AG, Munich	729	30
UniCredit Bank BIH	6	6
Zagrebačka banka d.d.	10	11
UniCredit S.P.A. Milano	5,415	19
UniCredit Bank Hungary Z.r.t., Hungary	104	155
Sub-total:	11,804	7,125
Trade payables:		
UGIS, Vienna	17,582	28,811
UniCredit Business Partner s.r.o.,Czech Republic	1,578	1,950
BA Global Inforamtion Services, Vienna	0	9,015
UniManagement, Torino	105	0
UniCredit Bank Austria AG, Vienna	146	0
UniCredit Business Partner GMBH Wien	86	87
UniCredit Banka Slovenija d.d.	2,158	0
Unicredit S.P.A. Milano	97,853	90,602
UniCredit Rent d.o.o..	302	0
Sub-total:	119,810	130,465

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

	In thousand RSD	
	31 December 2011	31 December 2010
Interest revenue	15,413	17,427
Interest expense	(1,547,607)	(1,259,776)
Other income	122,948	24,690
Other expenses	(276,007)	(275,156)
Net expenses	(1,685,253)	(1,492,815)

Total gross salaries and other remuneration of the Executive Board in 2011 amounts to RSD 19,861 thousand.

43. RISK MANAGEMENT POLICIES

In credit activities risk exposure is inevitable and arises through hidden and unforeseen reasons. In that sense one of the most important objectives of the Bank's Business Policy is to identify measure, assess, minimise and monitor risks to which it is exposed, and to manage risks more comprehensively in accordance with the Law on Banks, Decision on Risk Management and other relevant regulations and its internal acts.

The operating business risks are:
- Credit Risk
  - Risk of concentration which especially includes the risk of exposure to a single entity or group of entities
  - Liquidity risk
  - Market risks (interest rate risk, foreign currency risk, etc.)
  - Operating risk
- Investment risk of the bank
- Country risk of clients toward whom the bank is exposes (country risk)
- Strategic risk

In its organisational structure the Bank has a special Risk Management Sector with a comprehensive and very significant function of maintaining and developing a stable and profitable portfolio of loans and other placements. This Sector encompasses credit, market and operating risk management through six directorates: Directorate for Strategic Risk Management and Control, Directorate for Corporate Loan Approval, Directorate for Retail Loan Approval, Directorate for Credit Portfolio Management, Directorate for Restructuring, Management of Problem Placements and Collection of Receivables, and Directorate for Market and Operating Risk. The Sector is headed by a member of the Executive Board in charge of risk management to whom all the directorates report directly.

Organisational structure is compliant with standards and best practices of UniCredit Group owing to clear and specialised credit process which ensure early identification of placements with signs of increased risk and comprehensive credit portfolio management, as well as restructuring and management of problem placements. Through strict separation of the functions of approval, monitoring and restructuring of placements, the effectiveness of the process is strengthened and possibilities are created for timely and intense action directed at creating conditions for resolving problem placements and their transfer back to the regular portfolio, or, if this is not possible, of improving the Bank's position in the procedure of collecting receivables.

Credit risk is the risk of potential negative effects on the Bank's financial result and equity due to failure to meet commitments by the Bank's clients.

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.

The Bank's exposure risks include the Bank's exposure to a single entity and a group of related entities, as well as to an entity that is related with the Bank, to a commercial sector, country, etc. The Bank's total exposure to any of the mentioned categories cannot exceed limits defined by the Risk Management Decision.

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.

Credit risk exposure is also minimised through collateral policy. The purpose of collecting all available collateral instruments, their recording, valuation and monitoring is to minimise this risk as much as possible. In this sense the Bank devotes particular attention to collateral management, maintaining an acceptable relation between assumed risk and realistic degree of collateral realisation, control and minimisation of all risks associated with quality, concentration, ensuring collection and realisation of collaterals, maturities, currency, etc.

Particular attention is paid to prevention of fraud and managing the approach in the event of occurrence of fraud. The Bank maintains a responsible approach against fraud in its organisation units, including systems of prevention and organised action that encompass all of the Bank's employees, including management.

In terms of credit risk management the Bank has available and applies the following internal regulations: Risk Management Manual, Collaterals Policy, Real-estate Valuation Policy, Policy for Monitoring the Corporate Portfolio and Managing the List of Problem Clients, Guidelines for Managing Restructured and Problem Retail Clients, Manual for Calculating Provisions According to IAS-IFRS and other internal regulations. The Bank's objective is to define procedures and responsibilities of individuals in the risk management process and to optimise undertaken risks.

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-pairs-of-eyes 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 borrowers credit rating, regularity of settlement of obligations toward the Bank and on the quality of the security instrument, in accordance with its credit policies and strategies, as well as other internal regulations, in particular the Methodology for Assigning Criteria and the Method for Classifying Balance Sheet and Off-balance Sheet Items of the Bank, as well as the Manual for Calculating Provisions According to IAS-IFRS.

With a view to defining comprehensive guidelines for portfolio development and risk management the Bank adopted in 2011 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. 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

The Risk Management Information System (further RMIS) has been set up in the Bank 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 Supervisory Board, Management Board and Risk management Division to make adequate decision on credit risk management based on reliable information.

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 provisions 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 provisions 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
- amount and movement of provision, calculated in accordance with International Financial Reporting Standards (further IFRS) rules
- 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 a 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 credit risk concentrations by setting limits. Internal policies recommend for portfolio growth to be limited per individual industrial segments to 20% in the Bank's total portfolio of placements.

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 relates 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 volatile 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 Provision 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 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 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.

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:

- List of clients in repayment delay
- Overdue amount per client and per days delay range of repayments
- Overdue amount per portfolio client segments
- 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 provisions, 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 On balance receivables and Off balance items are quarterly classified and provisioned in accordance with NBS adopted rules.

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

Implementation of Basel II standards

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.

Credit risk exposure as at 31 December 2011 is presented in the table below:

In 000 RSD	Loans and deposits		Other placements		Securities		Equity investments		Interest and fees receivables		Other assets		Cash and cash equivalents and revocable deposits and loans		Off-balance sheet placements	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Individual provision																
Corporate clients, Rating 10	5,788,486	1,942,737	1,071,215	485,799	56,252	17,315	0	0	386,355	180,482	35,422	8,663	0	0	15,503	956
Corporate clients, Rating 9	2,445,217	1,714,334	494,899	600,697	0	40,000	12,061	4,992	116,736	151,521	5,528	9,153	0	0	61,615	362,459
Corporate clients, restructured placements*	580,164	2,469,375	15,205	51,698	0	8,439	0	0	46,944	68,641	10,601	23,449	0	0	2,004	8,874
Retail clients > 90 overdue**	1,854,864	1,429,546	107,132	126,874	0	0	0	0	299,101	172,900	48,491	42,551	0	0	25,681	25,815
Gross placements	10,668,731	7,555,992	1,688,451	1,265,068	56,252	65,754	12,061	4,992	849,136	573,544	100,042	83,816	0	0	104,803	398,104
Provision	5,244,100	2,774,659	514,765	467,800	56,252	59,002	12,061	4,992	490,044	323,571	38,325	55,191	0	0	14,443	39,766
Book value	5,424,631	4,781,333	1,173,686	797,268	0	6,752	0	0	359,092	249,973	61,717	28,625	0	0	90,360	358,338
Portfolio provision																
Corporate clients, rating 1 - 6	74,233,179	57,034,379	480,609	629,361	1,749,122	2,052,927	0	7,069	107,227	186,920	1,508,369	1,112,448	1,229,885	47,522	53,555,568	42,565,745
Corporate clients, rating 7	10,346,569	9,942,840	6,197	4,526	278,970	0	0	0	52,314	18,765	292	75,432	0	0	3,494,682	1,144,141
Corporate clients, rating 8	221,425	625,796	4,284	3,567	0	0	0	0	1,642	1,322	65	4,452	0	0	58,999	62,616
Retail clients < 90 overdue***	27,467,415	25,428,926	870,006	982,149	0	0	0	0	30,304	32,729	193,305	176,580	0	0	1,661,550	1,493,706
Gross placements	112,268,588	93,031,941	1,361,096	1,619,603	2,028,092	2,052,927	0	7,069	191,487	239,736	1,702,031	1,368,912	1,229,885	47,522	58,770,799	45,266,208
Provision	314,376	354,240	9,849	10,326	5,392	4,536	0	7,069	828	1,945	1,666	2,421	0	0	49,472	46,536
Book value	111,954,212	92,677,701	1,351,247	1,609,277	2,022,700	2,048,391	0	0	190,659	237,791	1,700,365	1,366,491	1,229,885	47,522	58,721,327	45,219,672
Book value of risk assets	117,378,843	97,459,034	2,524,933	2,406,545	2,022,700	2,055,143	0	0	549,751	487,764	1,762,082	1,395,116	1,229,885	47,522	58,811,687	45,578,010
Gross value of non-risk assets	15,602,716	14,836,448	0	0	17,907,309	21,018,219	0	0	72,807	0	70,124	38,461	37,478,478	25,365,325	228,727,424	111,543,006
Provision	52,531	40,960	0	0	0		0	0	245	0	224	108	0		14,797	0
Total book value of non-risk assets	15,550,185	14,795,488	0	0	17,907,309	21,018,219	0	0	72,562	0	69,900	38,353	37,478,478	25,365,325	228,712,627	111,543,006
Total book value	132,929,028	112,254,522	2,524,933	2,406,545	19,930,009	23,073,362	0	0	622,313	487,764	1,831,982	1,433,469	38,708,363	25,412,847	287,524,314	157,121,016

*Category “Legal entities – restructured placements” include clients with internal rating of 8- with group provision
**Category “Private individuals > 90 days in default” include all private individuals in default status
***Category “Private individuals < 90 days in default” include all private individuals who are not in default status

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

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

Ratings 7+ to 7-: Covers three subgroups for transactions with low credit rating. Customers assigned these rating notches have substantially greater risk factors and must be constantly monitored.

Ratings 8+ and 8- cover those companies without individual provisioning which are subject to special workout or credit-reduction measures.

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

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

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

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

The table below presents an analysis of gross and net loans (gross loans adjusted for net allowance for impairment) that were individually adjusted as at 31 December 2011:

In 000 RSD	Loans and deposits		Other placements		Securities		Equity investments		Interest and fees receivables		Other assets		Off-balance sheet placements	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
31 December 2011														
Legal entities, rating 10	5,788,486	2,613,551	1,071,215	773,266	56,252	0	0	0	386,355	167,082	35,422	22,973	15,503	15,406
Legal entities, rating 9	2,445,217	1,548,253	494,899	358,409	0	0	12,061	0	116,736	71,848	5,528	1,338	61,615	47,274
Legal entities, restructured placements*	580,164	518,475	15,205	12,168	0	0	0	0	46,944	39,762	10,601	9,943	2,004	1,999
Private individuals > 90 days in default**	1,854,864	744,352	107,132	29,843	0	0	0	0	299,101	80,400	48,491	27,463	25,681	25,681
Total	**10,668,731**	**5,424,631**	**1,688,451**	**1,173,686**	**56,252**	**0**	**12,061**	**0**	**849,136**	**359,092**	**100,042**	**61,717**	**104,803**	**90,360**
31 December 2010														
Legal entities, rating 10	1,942,737	1,105,906	485,799	327,531	17,315	0	0	0	180,482	92,850	8,663	211	956	955
Legal entities, rating 9	1,714,334	1,039,880	600,697	407,929	40,000	0	4,992	0	151,521	88,293	9,153	2,566	362,459	323,077
Legal entities, restructured placements*	2,469,375	2,232,577	51,698	47,753	8,439	6,752	0	0	68,641	60,447	23,449	20,068	8,874	8,491
Private individuals > 90 days in default**	1,429,546	402,970	126,874	14,055	0	0	0	0	172,900	8,383	42,551	5,780	25,815	25,815
Total	**7,555,992**	**4,781,333**	**1,265,068**	**797,268**	**65,754**	**6,752**	**4,992**	**0**	**573,544**	**249,973**	**83,816**	**28,625**	**398,104**	**358,338**

*Category “Legal entities – restructured placements” include clients with internal rating of 8- with group provision
**Category “Private individuals > 90 days in default” include all private individuals in default status

IAS/IFRS Provision methodology

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

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

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

The process of calculating a special provision on an individual basis is intended to measure impairment at client level. Individual provisions are measured as the difference between the book value of a receivable and present value of expected future cash flows (excluding future impairments not recognised as already occurred) discounted using the effective interest rate for the particular financial asset (e.g. effective interest rate specified in the contract). In other words, the provision is set in the amount of the individual receivable for which collection is doubtful. In the event that the effective interest rate is not available, in calculating the provision an alternative interest rate is used which is compliant with rules specified in the Bank's internal regulations. In determining the present value of a receivable, first the discounted cash flow from repayment of principal, interest and any other cash flows associated with the placement 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 provisions for exposures that are impaired and which are not classified as individually significant is performed on a group basis by grouping clients with a default status into homogenous categories with similar risk characteristics. In defining homogenous categories, the Bank uses segmentation criteria in developing the model for computing the loss rate upon occurrence of loss given default (LGD model). Days in default can be used as additional criteria for differentiating risk at client level.

General provisioning rules and principles

In determining provisions for exposures for which there is 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 an impairment, but also for exposures for which an event that leads to impairment has occurred, but has not been identified yet by the Bank. Even though for such placements no indications of impairment exist, nor any credit risk losses as at balance sheet date, historical information suggest that over time, for a portion of these placements, contractual obligations toward the Bank will not be performed.

The method of general provisioning is based on the concept of expected loss according to Basel II standards. Expected loss represents the average loss for a credit portfolio in the period of one year and depends on credit risk parameters. A parameter which links the concept of expected losses with the method of general provisioning is the period of identification of an occurred los (Liquidity Contingency Plan – 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.

The Bank's collateral policy and table for fair value valuation of collaterals

The Bank uses the Manual on Collateral Valuation 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.
- 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.

Fair value of collaterals taken as loan security by the Bank as at 31 December 2011 is presented in the following table:

In 000 RSD	Loans and deposits		Other placements		Securities		Interest and fees receivables		Other assets		Off-balance sheet placements	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Corporate clients, Rating 10	**2,049,957**	**841,659**	**368,414**	**388,736**	**-**	**-**	**137,714**	**77,249**	**9,882**	**-**	**5,340**	**-**
Real estate	2,007,167	841,659	360,348	388,736	-	-	134,962	77,249	9,827	-	5,223	-
Other	42,790	-	8,066	-	-	-	2,752	-	55	-	117	-
Corporate clients, Rating 9	**1,025,935**	**388,283**	**212,782**	**248,841**	**-**	**-**	**48,561**	**32,922**	**1,693**	**1,594**	**25,943**	**208,340**
Real estate	1,016,054	375,731	210,721	248,841	-	-	48,100	32,754	1,687	1,549	25,692	208,340
Other	9,881	12,552	2,061	-	-	-	461	168	6	45	251	-
Corporate clients, restructured loans	**257,441**	**1,285,384**	**5,351**	**31,455**	**-**	**-**	**18,783**	**27,676**	**5,672**	**6,530**	**705**	**-**
Real estate	256,239	1,269,279	5,310	31,455	-	-	18,672	27,516	5,656	6,475	700	-
Other	1,202	16,105	41	-	-	-	111	160	16	55	5	-
Retail clients > 90 days overdue	**407,147**	**143,909**	**-**	**-**	**-**	**-**	**17,930**	**-**	**9,274**	**3,675**	**-**	**2,703**
Real estate	379,383	98,275	-	-	-	-	16,707	-	8,642	2,455	-	969
Other	27,764	45,634	-	-	-	-	1,223	-	632	1,220	-	1,734
Portfolio provision	**45,212,619**	**38,864,349**	**181,795**	**71,411**	**-**	**-**	**40,929**	**36,486**	**1,626,092**	**186,721**	**21,156,924**	**11,298,998**
Real estate	31,834,862	31,179,056	108,058	1,005	-	-	25,555	27,373	1,001,232	157,681	12,575,594	7,500,249
Other	13,377,757	7,685,293	73,737	70,406	-	-	15,374	9,113	624,860	29,040	8,581,330	3,798,749
Total	**48,953,099**	**41,523,584**	**768,342**	**740,443**	**-**	**-**	**263,917**	**174,333**	**1,652,613**	**198,520**	**21,188,912**	**11,510,041**

Liquidity Risk

Liquidity risk is the risk of potential negative effects on the Bank's financial result and equity due to the Bank's inability to settle its liabilities as they mature.

Objectives of liquidity policy are as follows:

- Securing required mechanisms for liquidity management, which is an unavoidable part of general Bank management.
- Establishing guidelines for quantifying liquidity positions and locating risks of structural liquidity, as well as creation of a well developed financing plan (structural liquidity).
- Securing the possibility for settlement of the Bank's liabilities at any given time (short-term liquidity).
- Achieving a healthy balance between profitability and liquidity.
- Measures for managing potential liquidity problems during the market crisis or liquidity. These issues are dealt with separately in the Liquidity Policy for Unforeseen Events.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. 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 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 ration, 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 Directorate prepares a report on daily liquidity for the National Bank of Serbia at daily and monthly levels.

Group management sets limits for exposure to particular currencies and the Market and Operating Risk Directorate continually monitors observance of foreign currency balances to keep them within specified limits. The CFO of the Bank is accountable for the Bank's liquidity, while liquidity management at operating level is the responsibility of the local head of the Assets and Liabilities Committee. 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.

The Groups conducts liquidity scenarios and sensitivity analyses, where sensitivity analysis is intended to estimate the effects on the financial position of the institution through movements of a specified risk factor, when the source of the liquidity shock cannot be determined, while test scenarios are intended to estimate the effects of simultaneous action of different factors, where stress events are clearly defined.

The liquidity stress test must be part of wider stress testing which encompasses all relevant risk categories. Cross effects on the liquidity position – especially unexpectedly large write-offs and

reputation factors – must be taken into consideration when defining liquidity stress test parameters.
In the event that the liquidity crisis is limited to the local market, the local CEO, CFO and CRO hold general responsibility for crisis management in line with effective liquidity management policy. They identify and assess necessary measures and manage the internal/external communications process. Also, they ensure timely flow of information within the subsidiary entity and to/from the Liquidity Centre and facilitate timely decision making.

	2011	2010
Liquidity ratio of I order		
- as at 30 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 maturities of the Bank's assets and liabilities components, based on the remaining period from the balance sheet date to the contractual maturity date, as of 31 December 2011 are as follows:

	Up to one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Above 5 years	Total
Cash and cash equivalents	5,134,366	0	0	0	0	5,134,366
Revocable deposits and loans	33,573,997	0	0	0	0	33,573,997
Interest and fees receivables	622,313	0	0	0	0	622,313
Loans and deposits	14,565,220	3,092,466	25,629,630	47,537,267	42,104,445	132,929,028
Securities (excluding treasury shares)	5,077,540	2,253,219	6,317,156	4,725,331	1,556,763	19,930,009
Equity investments	0	0	0	0	0	0
Other placements	1,595,736	93,256	209,101	626,840	0	2,524,933
Intangible assets	0	0	0	750,368	0	750,368
Fixed assets and investment property	0	0	0	0	1,237,103	1,237,103
Non-current assets held for sale and discontinued operations	982	0	0	0	0	982
Deferred tax assets	0	0	32,961	0	0	32,961
Other assets	1,831,982	0	0	0	0	1,831,982
Total assets	**62,402,136**	**5,438,941**	**32,188,848**	**53,639,806**	**44,898,311**	**198,568,042**
Transaction deposits	34,966,888	0	0	0	0	34,966,888
Other deposits	16,491,051	7,416,290	19,238,691	1,368,918	42,193	44,557,143
Borrowings	767,710	0	0	55,675,138	14,793,283	71,236,131
Interest and fees liabilities	116,438	0	0	0	0	116,438
Provisions	0	78,713	20,069	0	35,955	134,737
Income taxes payable	26,443	0	0	0	0	26,443
Liabilities from income distribution	120,728	0	0	0	0	120,728
Other liabilities	1,946,326	0	0	837,127	2,305,022	5,088,475
Equity	0	0	0	0	42,321,059	42,321,059
Total equity and liabilities	**54,435,584**	**7,495,003**	**19,258,760**	**57,881,183**	**59,497,512**	**198,568,042**
Net liquidity gap as at 31 December 2011	**7,966,552**	**(2,056,062)**	**12,930,088**	**(4,241,377)**	**(14,599,201)**	**0**
Net liquidity gap as at	**11,466,991**	**(12,299,359)**	**5,607,448**	**13,853,222**	**(18,628,302)**	**0**

31 December 2010

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 base point value (BPV) limits the position of maximum interest rate risk within the currency and time group, where changes in the BPV are based on interest rate changes with a base point of 0.01% (1 base point). BPV presentation is based on the position of options (interest rate options) with a delta value (i.e. change in present value of marginal fluctuations, rounded up to 1 base point).

The amount of the BPV limit should be selected such that the VaR limit leads to a limitation in trading activities, while the BPV is activated before the VaR limit in periods of lower volatility. In this respect, the specific situation related to currencies that are traded should be taken into account, along with maturities and appropriate risk carriers.

For BPV limits, the general limitation of position is also defined as the combination of currencies and the principal focus of positioning. The interest rate position is considered significant if it exceeds 70,000 euro or comprises a specific risk based on the position of the currency slope and/or interest rate slope. BPV limits must be assigned for all organisational units which have significant exposures to interest rate risk, i.e. limits are also assigned by segments: 49,000 euro for the Banking Book managed by the Assets and Liabilities Committee Department and 21,000 euro for the Directorate for Markets Trading (Markets).

Overview of interest rate risk:

In 000 RSD	Up to 1 month	From 1 to 3 month	From 3 to 12 months	From 1 to 5 years	Above 5 years	Non-interest bearing	**Total**
Cash and cash equivalents	3,025,289	0	0	0	0	2,109,077	5,134,366
Revocable deposits and loans	16,500,000	0	0	0	0	17,073,997	33,573,997
Interest and fees receivables	0	0	0	0	0	622,313	622,313
Loans and deposits	16,628,123	59,183,213	51,032,056	5,022,404	1,059,046	4,186	132,929,028
Securities (excluding treasury shares)	3,862,056	56,675	9,460,971	4,725,331	1,556,762	268,214	19,930,009
Equity investments	0	0	0	0	0	0	0
Other placements	2,158,877	0	360,922	5,134	0	0	2,524,933
Intangible assets	0	0	0	0	0	750,368	750,368
Fixed assets and investment property	0	0	0	0	0	1,237,103	1,237,103
Non-current assets held for sale and discontinued operations	0	0	0	0	0	982	982
Deferred tax assets	0	0	0	0	0	32,961	32,961
Other assets	0	0	0	0	0	1,831,982	1,831,982
Total assets	**42,174,345**	**59,239,888**	**60,853,949**	**9,752,869**	**2,615,808**	**23,931,183**	**198,568,042**
Transaction deposits	5,942,977	27,008,969	0	0	0	2,014,942	34,966,888
Other deposits	13,746,833	7,384,566	18,762,118	744,140	0	3,919,486	44,557,143
Borrowings	682,791	57,718,070	12,733,703	16,647	0	84,920	71,236,131
Interest and fees liabilities	0	0	0	0	0	116,438	116,438
Provisions	0	0	0	0	0	134,737	134,737
Income taxes payable	0	0	0	0	0	26,443	26,443
Liabilities from income distribution	0	0	0	0	0	120,728	120,728
Other liabilities	0	0	3,142,149	0	0	1,946,326	5,088,475
Equity	0	0	0	0	0	42,321,059	42,321,059
Total equity and liabilities	**20,372,601**	**92,111,605**	**34,637,970**	**760,787**	**0**	**50,685,079**	**198,568,042**
Interest sensitive gap as at 31 December 2011	**21,801,744**	**(32,871,717)**	**26,215,979**	**8,992,082**	**2,615,808**	**(26,753,896)**	**0**
Interest sensitive gap as at 31 December 2010	**2,744,416**	**19,745,507**	**(4,503,282)**	**(2,924,956)**	**0**	**(15,061,685)**	**0**

Foreign 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 the Bank's total open foreign currency position and its equity, calculated in accordance with the decision that regulates the adequacy of the Bank's equity. The Bank is under obligation to maintain the relation between assets and liabilities in such a way that its total open foreign currency position at the end of a working day must not exceed 20% of its equity. The Market and Operating Risk Directorate 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 foreign currency loan and investment contracts linked to foreign currencies.

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.

	2011	**2010**
Foreign Currency 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

The following table provides a net currency gap of assets and liabilities of the Bank as at 31 December 2011:

	EUR	USD	Other currencies	Total in currencies	Total dinars	Total
Cash and cash equivalents	1,271,020	124,389	284,572	1,679,981	3,454,385	5,134,366
Revocable deposits and loans	17,056,393	0	0	17,056,393	16,517,604	33,573,997
Interest and fees receivables	386,671	126	36,659	423,456	198,857	622,313
Loans and deposits	88,152,198	9,912,961	8,824,079	106,889,238	26,039,790	132,929,028
Securities (excluding treasury shares)	5,545,515	0	0	5,545,515	14,384,494	19,930,009
Equity investments	0	0	0	0	0	0
Other placements	1,025,776	31,867	260,800	1,318,443	1,206,490	2,524,933
Intangible assets	0	0	0	0	750,368	750,368
Fixed assets and investment property	0	0	0	0	1,237,103	1,237,103
Non-current assets held for sale and discontinued operations	0	0	0	0	982	982
Deferred tax assets	0	0	0	0	32,961	32,961
Other assets	1,058,580	33,283	33,683	1,125,546	706,436	1,831,982
Total assets	**114,496,153**	**10,102,626**	**9,439,793**	**134,038,572**	**64,529,470**	**198,568,042**
Transaction deposits	19,632,015	1,087,946	315,214	21,035,175	13,931,713	34,966,888
Other deposits	31,176,960	2,576,748	684,560	34,438,268	10,118,875	44,557,143
Borrowings	62,521,846	4,690,675	3,340,819	70,553,340	682,791	71,236,131
Interest and fees liabilities	73,423	0	375	73,798	42,640	116,438
Provisions	0	0	0	0	134,737	134,737
Income taxes payable	0	0	0	0	26,443	26,443
Liabilities from income distribution	0	0	0	0	120,728	120,728
Other liabilities	1,843,470	65,656	2,318,565	4,227,691	860,784	5,088,475
Equity	0	0	0	0	42,321,059	42,321,059
Total equity and liabilities	**115,247,714**	**8,421,025**	**6,659,533**	**130,328,272**	**68,239,770**	**198,568,042**
Financial instruments under off-balance sheet items	**(727,427)**	**1,693,662**	**2,723,916**	**3,690,151**	**(3,857,329)**	**(167,178)**
Net currency gap as at 31 December 2011	**(24,134)**	**(12,061)**	**56,344**	**20,149**	**147,029**	**167,178**
Net currency gap as at 31 December 2010	**398,215**	**65,524**	**(11,795)**	**451,944**	**(866,145)**	**(414,201)**

As at 31 December 2011 dinar loans with contracted risk protection linked to the dinar exchange rate with respect to a foreign currency and related receivables for interest calculated for such loans are presented within the foreign currency sub-balance.

Operating Risks

Operating risk is the risk of loss resulting from error, breach, interruption, damage caused by internal processes, employees or systems or external events. Operating 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 operating risks, while legal risks and compliance risk are included in the definition of operating risk.

The Market and Operating Risk Directorate is responsible for recording, monitoring and managing the Bank's operating risk and directly answers to the Chief Risk Officer (CRO).This Directorate's basic task is to coordinate and cooperate with operating risk managers and to communicate with colleagues at the Operating Risk Directorate in Vienna and Milan, with the purpose of securing information for the efficient monitoring of operating risk at all levels. On a daily basis the Directorate monitors changes in specially defined accounts and on a weekly basis, based on reports received from operating risk manager, it reports to members of the Executive Board regarding all changes in operating risks. For the purpose of efficient monitoring of operating risks the Bank appoints operating 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. All events occurred are recorded in the group application ARGO.

The Market and Operating Risk Directorate is also responsible for organising and implementing the process of information gathering for worst case scenarios related to operation risk (scenario analysis), for recording in the ARGO application, as well as for recording and monitoring key risk indicators.

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.

Capital management

Capital adequacy ratio

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

The Bank is required to maintain basic equity in the dinar equivalent amount of 10,000,000 euro, using the official exchange rate. The Bank is required to maintain at all times its equity 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.

As at 31 December 2011 the capital adequacy ratio is reported in Note 40.

Equity

The Bank's equity consists of the aggregate of basic equity and additional equity, reduced for deductible items from equity.

Basic equity

Basic equity consists of the aggregate of the following elements decreased for deductible items:

- Paid in share capital, except for cumulative preference shares – the nominal value of common and preference shares and associated share issue premium for common and preferential shares;
- Profit reserves – all types of reserves of the Bank formed based on a decision by the Bank's shareholders' assembly from profits, after taxes;
- Profit
  - Profit from previous years not burdened by any future obligations for which the Bank's shareholders' assembly issued a decision that it will be allocated into basic equity;
  - Current year profit, if the following conditions are met:
    - The amount of profit has been confirmed by auditor certified for auditing financial statements;
    - The amount of profit has been reduced for income tax and all other profit related liabilities (liabilities for dividends and other sharing in profit distribution);
    - The Bank's shareholders' assembly has issued a decision on allocation of profit to basic equity and the amount of the Bank's current year profit which is allocated to basic equity is not greater than the amount specified by such decision.

Deductible items from basic equity:

- Previous years' losses;
- Current year loss;
- Intangible assets;
- Purchased common and preference shares, except for cumulative preference shares, in the amount of the book value (nominal value increased for share issue premium);
- Common and preference shares, except for cumulative preference shares, that the Bank received as collateral in the lower amount of receivables secured with pledged shares and nominal value of shares received as collateral increased for related share issue premium;
- Regulatory adjustments in value in compliance with International Financial Reporting Standards and International Accounting Standards (IFRS/IAS), which comprise:
  - Unrealised losses on available-for-sale securities;
  - Other revaluation reserves in the negative net amount which relate to deductible items of basic equity or elements which are included in additional equity;
  - Profit based on the Bank's liabilities measured at fair value which are reduced because of change in the Bank's credit rating;
  - Amount of required reserve for estimated losses on balance sheet assets and off-balance sheet items of the Bank.

Additional equity

Additional equity consists of the following elements reduced for deductible items for additional equity:

- Paid in share capital for cumulative preference shares – the nominal value of paid in cumulative preference shares and associated share issue premium;
- Part of positive revaluation reserves – the Bank includes the part of positive revaluation reserves (90%) occurred from effects of changes in the fair value of fixed assets, securities and other assets that, in accordance with IFRS/IAS, are reported under these reserves, and that are reduced for tax liabilities;
- Hybrid capital instruments (with the following characteristics: fully paid in; without contractual date of maturity, or a contractual date of maturity which is not shorter than 30 years from date of payment; payment to or purchase from owners which the Bank might carry out are not possible before the contractual date of maturity, except when such instruments are converted into shares of the Bank which are not cumulative preference shares; they can be used unconditionally in full and without postponement for settling losses in the ordinary course of business; in the event of bankruptcy or liquidation, liabilities for these instruments can be settled only after settlement of all other liabilities, including subordinated liabilities, except for those included in basic equity; they are not the subject of collateral issued by the Bank or any of its related parties; the Bank can pay interest and fees and commissions on instruments if its capital adequacy is below the prescribed level; that Bank can postpone payment of interest and fees and commissions on these instruments if it had not paid dividends for the previous year);
- Subordinated liabilities (with the following characteristics: fully paid in; with date of maturity of at leas 5 years from date of payment; repayment to or purchase from creditors is not possible before contractual date of maturity, except in the case of conversion of these liabilities into the Banks’ shares which are not cumulative preference shares; in the event of bankruptcy or liquidation of the Bank, they can be settled only after settlement of all other liabilities which are not subordinated, and before the Bank’s shareholders and owners of hybrid instruments issued by the bank; they are not the subject of collateral issued by the Bank or any of its related parties; the Bank’s creditor is not at the same time its debtor in respect of subordinated receivables). The amount of subordinated liabilities of the Bank included in additional equity, in the last 5 years before the date of maturity of such liabilities, is reduced by 20% per annum, so that in the last year before the date of maturity of such subordinated liability they are not included in additional equity;
- Surplus provisions, reserves and required reserves in respect of expected losses – if the Bank receives NBS approval for use of IRB approach.

Deductible items of additional equity:

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

Deductible items of equity:

- Direct or indirect investments in banks and other entities in the finance sector in the amount above 10% of the equity of such bank or other entity;
- Investments in hybrid instruments and subordinated liabilities of other banks and entities in the finance sector in which the Bank has direct or indirect investments in the amount above 10% of the equity of such entities;
- Total amount of direct and indirect investments in banks and other entities in the finance sector in the amount above 10% of their equity, and investments in their hybrid instruments and subordinated liabilities above 10% of the aggregate value of equity and additional equity of the bank for which equity is determined;
- The amount for which qualifying shares are exceeded in entities which are not in the finance sector;
- Shortage of provisions, reserves and required reserves in respect of expected losses – for banks which received NBS approval for use of IRB approach;
- Amount of exposure for free supplies, if the counterparty has not settled its liability within 4 working days;
- Receivables and contingent liabilities toward related parties of the bank or employees of the Bank, which the Bank contracted at terms more favourable than those for other entities which are not related with the Bank or are not employees of the Bank.

The Bank can consider a part of the amount of necessary reserve for estimated losses on balance sheet assets and off-balance sheet items as a deductible item of equity, as follows:

1. Up to 31/12/2011 – 100% of such amount;
2. Up to 31/12/2012 – 75% of such amount;
3. Up to 31/12/2013 – 50% of such amount.

The table below presents balances for equity and total risk assets as at 31 December 2011:

		In 000 dinars	
		31/12/2011	**31/12/2010***
1	**Basic equity**	**37,025,827**	**31,385,029**
1.1	Nominal value of shares	23,607,620	17,857,620
1.2	Share issue premium	562,156	562,156
1.3	Profit reserves	13,652,879	10,116,546
1.4	Current year profit		3,536,333
1.5	Intangible assets	750,368	687,626
1.6	Regulatory adjustments	46,460	0
1.6.1	Unrealised losses on available-for-sale securities	46,460	0
1.6.2	Required profit reserves for estimated losses		
2	**Additional equity**	**2,639,958**	**2,940,869**
2.1	Part of revaluation reserves	85	
2.2	Subordinated liabilities	2,639,873	2,940,869
3	**Deductible items of equity**	**13,093,452**	**7,818,265**
3.1	Reduction in basic equity	10,453,494	4,877,396
3.2	Reduction in additional equity	2,639,958	2,940,869
3.3	Receivables and contingent liabilities toward related parties of the Bank or employees of the Bank contracted at terms more favourable than market terms	8,317	
3.4	Required profit reserves for estimated losses	13,085,135	7,818,265
4	Total basic equity (1 - 3.1)	26,572,333	26,507,633
5	Total additional equity (2 - 3.2)	0	0
6	**Equity**	**26,572,333**	**26,507,633**

	RISK ASSETS	31.12.2011.	31.12.2010.*
1	Credit risk	126,945,954	152,107,706
2	Market risk	3,213,051	2,936,757
2.1	Price risk	1,130,288	
2.2	Foreign currency risk	2,082,763	2,936,757
3	Operating risk	9,588,008	
	Total risk assets	**139,747,013**	**155,044,463**
	CAPITAL ADEQUACY RATIO	**19.01%**	**17.10%**

* Figures in the column 31/12/2010 are adjusted to the structure of calculated equity and risk assets as defined by the Decision on Capital Adequacy effective as at 31 December 2011.

Belgrade, 24 February 2012

Chairman of Managing Board	Deputy Chairman of Managing Board	Head of Finance Department	Person responsible for preparing the financial statements
Klaus Priverschek	Branislav Radovanović	Ljiljana Berić	Mirjana Kovačević