KPMG d.o.o. Beograd
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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 2012, 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.

Matični broj:17148656
PIB: 100058593
Račun: 265-1100310000190-61
KPMG d.o.o. Beograd je jednočlano društvo.

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 2012, 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, 26 February 2013 KPMG d.o.o. Beograd

(L.S.)

Nina Bulatović
Certified Auditor

This is a translation of the original document 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, 26 February 2013 KPMG d.o.o. Beograd

(L.S.)

Nina Bulatović
Certified Auditor

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

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

In thousands of RSD	Notes	31 December 2012	31 December 2011
Operating income and expenses			
Interest income	3.1, 4	15,918,909	13,650,383
Interest expenses	3.1, 5	(6,521,292)	(4,960,976)
Net interest income		9,397,617	8,689,407
Fees and commissions income	3.2, 6	2,387,960	2,039,328
Fees and commissions expenses	3.2, 7	(480,531)	(380,187)
Net fee and commission income		1,907,429	1,659,141
Net gains/(losses) on the sale of securities at fair value through profit and loss	3.4, 8	37,746	11,521
Net gains/(losses) on the sale of available for sale securities	3.4, 9	4,774	1,124
Net foreign exchange gains/(losses)	3.3, 10	(6,828,482)	719,360
Dividends and other income from equity investments	11	75	12
Other operating income	12	36,657	28,209
Losses on impairment and provisions	3.6, 13	(3,246,728)	(2,507,881)
Net wages and salaries, taxes, contributions and other personnel expenses	14	(1,960,144)	(1,688,940)
Depreciation costs	3.7, 3.8, 15	(391,777)	(351,053)
Other operating expenses	16	(2,088,923)	(1,812,378)
Income from assets and liabilities valuation adjustments	3.3, 3.14, 17	49,388,223	45,524,368
Expenses from assets and liabilities valuation adjustments	3.3, 3.14, 18	(41,334,807)	(45,226,272)
Operating profit		**4,921,660**	**5,046,618**
Profit before tax		**4,921,660**	**5,046,618**
Income taxes	3.13, 19	(531,096)	(505,878)
Gain on increase of deferred tax assets and decrease of deferred tax liability	3.13, 19	10,397	6,729
Loss on decrease of deferred tax assets and increase of deferred tax liability	3.13, 19	(5,851)	(2,699)
Profit after tax		**4,395,110**	**4,544,770**
Earnings per share (in RSD)			
Basic earnings per share	20	1,862	2,312
Diluted earnings per share	20	1,862	2,312

BALANCE SHEET AS AT 31 DECEMBER 2012

In thousands of RSD	Note	31 December 2012	31 December 2011
Cash and cash equivalents	3.10, 21	10,879,871	5,134,366
Revocable deposits and loans	22	27,642,420	33,573,997
Interest and fees receivables	3.6, 3.11, 23	1,150,318	622,313
Loans and deposits	3.5, 3.6, 24	163,344,754	132,929,028
Securities (excluding treasury shares)	3.4, 3.6,25	33,644,741	19,930,009
Equity investments	3.4, 3.6, 26	0	0
Other placements	3.6, 27	2,385,905	2,524,933
Intangible assets	3.8, 28	999,854	750,368
Fixed assets and investment property	3.7, 28	1,153,509	1,237,103
Non-current assets held for sale and discontinued operations	3.9, 29	378	982
Deferred tax assets	3.13, 30	37,507	32,961
Other assets	3.6, 31	2,314,527	1,831,982
Total assets		**243,553,784**	**198,568,042**
Transaction deposits	32	43,456,777	34,966,888
Other deposits	33	64,769,989	44,557,143
Borrowings	34	82,801,625	71,236,131
Interest and fees liabilities	3.11, 35	876,730	116,438
Provisions	3.12, 36	151,610	134,737
Income taxes payable	37	8,724	26,443
Liabilities from income distribution	38	45,453	120,728
Deferred tax liabilities	39	322	0
Other liabilities	40	5,635,052	5,088,475
Total liabilities		**197,746,282**	**156,246,983**
Share and other capital	41	24,169,776	24,169,776
Reserves	41	17,062,649	13,652,879
Revaluation reserves	3.4, 41	205,604	94
Unrealised losses on available for sale securities	3.4, 41	(25,637)	(46,460)
Retained earnings	41	4,395,110	4,544,770
Total equity		**45,807,502**	**42,321,059**
Total liabilities and equity		**243,553,784**	**198,568,042**
Off-balance sheet items		**348,216,921**	**287,603,026**
Operations on behalf of third party	42	620,715	383,548
Guarantees and other contingent liabilities	42	47,949,544	65,536,664
Derivatives	3.11, 42	227,979	230,858
Other off-balance sheet items	42	299,418,683	221,451,956

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

In thousands of RSD	31 December 2012	31 December 2011
SHARE CAPITAL		
Balance, beginning of year	23,607,620	17,857,620
New share issuance	0	5,750,000
Balance, end of year	23,607,620	23,607,620
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	2,974,442	0
Balance, end of year	3,977,514	1,003,072
RESERVES FOR POTENTIAL LOSSES		
Balance, beginning of year	12,649,807	9,113,474
Distribution of previous year's retained earnings	435,328	3,536,333
Balance, end of year	13,085,135	12,649,807
RESERVES OF THE BANK / UNREALIZED LOSSES ON SECURITIES AVAILABLE FOR SALE		
Balance, beginning of year	(46,366)	418
Effects of changes in the fair value of securities available-for-sale	226,333	(46,784)
Balance, end of year	179,967	(46,366)
RETAINED EARNINGS		
Balance, beginning of year	4,544,770	3,536,333
Transfer of portion of previous year's retained earnings to dividend payments	(1,135,000)	(3,536,333)
Transfer of portion of previous year's retained earnings to reserves for potential losses	(3,409,770)	0
Profit for the year	4,395,110	4,544,770
Balance, end of year	4,395,110	4,544,770
TOTAL EQUITY	45,807,502	42,321,059

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

In thousands of RSD	31 December 2012	31 December 2011
Cash receipts from operating activities	**26,053,423**	**31,787,739**
Interest receipts	12,305,806	10,856,158
Fee and commission receipts	2,451,988	1,956,785
Receipts from other operating income	11,295,554	18,974,784
Receipts from dividends and equity investments	75	12
Cash payments from operating activities	**(21,250,000)**	**(26,981,745)**
Interest payments	(6,338,046)	(4,905,608)
Fee and commission payments	(475,127)	(376,929)
Payments to and on behalf of employees	(1,959,653)	(1,688,584)
Taxes, contributions and other duties paid	(393,957)	(317,874)
Payments for other operating expenses	(12,083,217)	(19,692,750)
Net operating cash flows before changes in placements and deposits	**4,803,423**	**4,805,994**
Decreases in placements and increases in deposits	**25,907,005**	**10,125,803**
Decrease in loans and placements to banks and customers	0	0
Decrease in securities at fair value through profit and loss, trading placements and short-term securities held to maturity	0	10,125,803
Increase in deposits from banks and customers	25,907,005	0
Increases in placements and decreases in deposits	**(20,991,670)**	**(40,480,204)**
Increase in loans and placements to banks and customers other financial institutions	(15,970,738)	(37,477,461)
Increase in securities and other placements available-for-sale and held to maturity	(5,020,932)	0
Decrease in deposits from banks and customers	0	(3,002,743)
Net cash (used in)/generated from operating activities before taxes	**9,718,758**	**(25,548,407)**
Paid taxes	(606,372)	(494,225)
Paid dividends	(1,135,000)	0
Net cash (used in)/generated from operating activities	**7,977,386**	**(26,042,632)**
Cash inflows from investing activities	**0**	**0**
Inflows from long-term investments in securities	0	0
Inflows from sale of intangible and fixed assets	0	0
Cash outflows from investing activities	**(5,448,279)**	**(5,107,383)**
Outflows from long-term investments in securities	(4,884,904)	(4,646,546)
Purchases of equity investments	0	0
Purchases of property and equipment and intangible assets	(563,375)	(460,837)

Net cash (used in)/generated from investing activities	**(5,448,279)**	**(5,107,383)**
Cash inflows from financing activities	**2,839,280**	**30,152,965**
Proceeds from the issuance of shares	0	5,750,000
Proceeds from long-term borrowings, subordinated liabilities	0	0
Proceeds from short-term borrowings	2,839,280	24,402,965
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	**2,839,280**	**30,152,965**
Total cash inflows	**54,799,708**	**72,066,507**
Total cash outflows	**(49,431,321)**	**(73,063,557)**
Net increase/(decrease) in cash and cash equivalents	5,368,387	(997,050)
Cash and cash equivalents at beginning of the year	**5,134,366**	**6,379,863**
Foreign exchange gains	377,118	0
Foreign exchange losses	0	248,447
Cash and cash equivalents at end of the year	**10,879,871**	**5,134,366**

TRANSLATION

UniCredit Bank

UNICREDIT BANK SRBIJA A.D. BEOGRAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Belgrade, 21 February 2013

CONTENTS

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

In thousands of RSD	Notes	31 December 2012	31 December 2011
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Net foreign exchange gains/(losses)	3.3, 10	(6,828,482)	719,360
Dividends and other income from equity investments	11	75	12
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Losses on impairment and provisions	3.6, 13	(3,246,728)	(2,507,881)
Net wages and salaries, taxes, contributions and other personnel expenses	14	(1,960,144)	(1,688,940)
Depreciation costs	3.7, 3.8, 15	(391,777)	(351,053)
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Securities (excluding treasury shares)	3.4, 3.6,25	33,644,741	19,930,009
Equity investments	3.4, 3.6, 26	0	0
Other placements	3.6, 27	2,385,905	2,524,933
Intangible assets	3.8, 28	999,854	750,368
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Other deposits	33	64,769,989	44,557,143
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Provisions	3.12, 36	151,610	134,737
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Off-balance sheet items		**348,216,921**	**287,603,026**
Operations on behalf of third party	42	620,715	383,548
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New share issuance	0	5,750,000
Balance, end of year	23,607,620	23,607,620
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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
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Balance, end of year	3,977,514	1,003,072
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Balance, beginning of year	12,649,807	9,113,474
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Transfer of portion of previous year's retained earnings to reserves for potential losses	(3,409,770)	0
Profit for the year	4,395,110	4,544,770
Balance, end of year	4,395,110	4,544,770
TOTAL EQUITY	45,807,502	42,321,059

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Paid taxes	(606,372)	(494,225)
Paid dividends	(1,135,000)	0
Net cash (used in)/generated from operating activities	**7,977,386**	**(26,042,632)**
Cash inflows from investing activities	**0**	**0**
Inflows from long-term investments in securities	0	0
Inflows from sale of intangible and fixed assets	0	0
Cash outflows from investing activities	**(5,448,279)**	**(5,107,383)**
Outflows from long-term investments in securities	(4,884,904)	(4,646,546)
Purchases of equity investments	0	0
Purchases of property and equipment and intangible assets	(563,375)	(460,837)
Net cash (used in)/generated from investing activities	**(5,448,279)**	**(5,107,383)**

In thousands of RSD	31 December 2012	31 December 2011
Cash inflows from financing activities	**2,839,280**	**30,152,965**
Proceeds from the issuance of shares	0	5,750,000
Proceeds from long-term borrowings, subordinated liabilities	0	0
Proceeds from short-term borrowings	2,839,280	24,402,965
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	**2,839,280**	**30,152,965**
Total cash inflows	**54,799,708**	**72,066,507**
Total cash outflows	**(49,431,321)**	**(73,063,557)**
Net increase/(decrease) in cash and cash equivalents	5,368,387	(997,050)
Cash and cash equivalents at beginning of the year	**5,134,366**	**6,379,863**
Foreign exchange gains	377,118	0
Foreign exchange losses	0	248,447
Cash and cash equivalents at end of the year	**10,879,871**	**5,134,366**

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 2012 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 2011: 75 branch offices).

At 31 December 2012 the Bank had 1008 employees (31 December 2011: 977). 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, 44/10, 76/12 and 106/12), 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, 31/11 and 119/12), 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, 101/11 and 119/12), 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, 57/12 and 123/12), 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, 94/11, 119/12 and 123/12), 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 34.06%, unreconciled receivables amount to 22.86%, while the percentage of outstanding receivables amount to 43.09%. As far as liabilities are concerned, the percentage of reconciliation of liabilities amounts to 58.64%, unreconciled liabilities amount to 4.20%, while the percentage of outstanding liabilities amount to 37.16%.

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 recognized 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 judgments 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 expenses on loans and placements are calculated using the effective interest rate method. 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 2012	31 December 2011
USD	86.1763	80.8662
EUR	113.7183	104.6409
CHF	94.1922	85.9121
JPY	1.000689	1.041825

	2012	2011
Consumer price index	112.2	107

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 authorized bodies.

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% - 30%

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 2012 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 4% for whole period, annual discount rate of 11.25%, 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	
	31 December 2012	**31 December 2011**
Banking and insurance sector	966,046	837,345
Corporate clients	7,594,771	6,337,916
Public sector	3,965,106	3,164,092
Entrepreneurs	95,791	106,585
Retail	3,090,341	2,864,030
Households	136,619	248,544
Foreign entities		
- other foreign banks	66	541
- banks within the UniCredit Group	20,849	15,413
- foreign corporate clients	45,232	59,322
- foreign retail clients	840	4,481
Other entities	3,248	12,114
	15,918,909	13,650,383

5. Interest expense

In thousands of RSD

	31 December 2012	31 December 2011
Banking and insurance sector		
- members of the UniCredit Group	26,887	23,893
- other legal entities	203,165	267,803
Corporate clients		
- members of the UniCredit Group	11,062	22,585
- other legal entities	1,629,233	1,277,960
Public sector	244,721	91,355
Entrepreneurs	3,189	2,169
Retail	1,261,632	1,032,770
Households	3	6
Foreign entities		
- banks within the UniCredit Group	2,096,644	1,485,759
- other foreign banks	772,447	486,532
- foreign banks within the UniCredit Group	17,418	15,370
- other foreign corporate clients	70,052	102,213
- foreign retail clients	181,397	149,694
Other entities	3,442	2,867
	6,521,292	4,960,976

6. Fees and commissions income

In thousands of RSD

	31 December 2012	31 December 2011
Fee and commission income from domestic and foreign payment transfers	198,794	124,486
Fee and commission income from other banking services	892,401	781,760
Fees for the rental of safety-deposit boxes	1,842	1,259
Fees for “custody” services	303,483	249,822
Fees on issued guarantees, letters of credit and other sureties	417,495	369,296
Fees from credit card operations	339,674	248,450
Fees from treasury operations	48,273	56,403
Other fee and commission income	185,998	207,852
	2,387,960	2,039,328

7. Fees and commissions expenses

In thousands of RSD

	31 December 2012	31 December 2011
Fees arising from domestic payment transfers	32,160	28,453
Fees arising from international payment transfers	6,363	5,771
Commission expenses arising on guarantees, letters of credit and sureties	54,071	29,724
Fees arising from credit card operations	334,374	246,469
Other fees and commissions expenses	53,563	69,770
	480,531	380,187

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

	In thousands of RSD	
	31 December 2012	**31 December 2011**
Gains on sale of securities	44,403	13,313
Losses on sale of securities	(6,657)	(1,792)
	37,746	11,521

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

	In thousands of RSD	
	31 December 2012	**31 December 2011**
Gains on sale of securities	6,590	5,725
Losses on sale of securities	(1,816)	(4,601)
	4,774	1,124

10. Net foreign exchange gains/(losses)

	In thousands of RSD	
	31 December 2012	**31 December 2011**
Foreign exchange gains	0	719,360
Foreign exchange losses	(6,828,482)	0
	(6,828,482)	719,360

11. Dividends and other income from equity investments

	In thousands of RSD	
	31 December 2012	**31 December 2011**
Dividend income	75	12
	75	12

12. Other operating income

	In thousands of RSD	
	31 December 2012	**31 December 2011**
Other operating income	36,657	28,209
	36,657	28,209

13. Losses on impairment and provisions

13.1 Losses on impairment and provisions are presented as follows:

	In thousands of RSD **31 December 2012**	**31 December 2011**
Impairment provisions of:		
- on-balance sheet items – Note 13.2	3,231,189	2,519,249
- off-balance sheet items – Note 36	0	0
	3,231,189	2,519,249
Income from cancelled impairment provisions:		
- off-balance sheet items – Note 36	12,966	7,590
Income from collected suspended interest	2,734	3,963
Provisions for litigations – Note 36	28,500	0
Provisions for retirement benefits – Note 36	2,739	185
Income from cancelled provisions for litigations – Note 36	0	0
	3,246,728	2,507,881

13.2 Movements in impairment provisions in the period from 1 January to 31 December 2012 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	5,611,007	491,117	61,644	12,061	524,614	40,215	6,740,658
Indirect impairment provisions – Note 13.1	2,883,151	104,745	(5,206)	0	201,949	46,550	3,231,189
Interest revenue correction	0	145,512	0	0	-	-	145,512
Foreign exchange differences	384,470	20,654	0	0	33,269	913	439,306
Direct write-offs	(135,310)	(4,799)	0	0	(1,391)	(2,003)	(143,503)
Portfolio sale	0	0	0	0	0	0	0
Balance as at 31 December	8,743,318	757,229	56,438	12,061	758,441	85,675	10,413,162

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

In thousands of RSD

	31 December 2012	31 December 2011
Net wages and salaries	1,194,802	1,055,568
Taxes and contributions on salaries and fringe benefits	468,542	412,982
Temporary and occasion work contracts	0	360
Other personnel expenses	296,800	220,030
	1,960,144	1,688,940

15. Depreciation/amortisation costs

In thousands of RSD

	31 December 2012	31 December 2011
Amortisation of intangible assets	227,342	198,981
Depreciation of fixed assets	164,435	152,072
	391,777	351,053

16. Other operating expenses

In thousands of RSD

	31 December 2012	31 December 2011
Costs of material and energy	82,028	79,579
Rental costs	373,976	345,404
Maintenance of software	325,714	265,282
Advertising costs	66,605	75,779
Cost of sponsorship	924	2,269
Representation costs	9,641	7,356
Consulting services	53,176	44,120
Telecommunications	84,641	63,983
Insurance premium	265,585	215,242
Transportation	7,362	7,040
Cost of taxes and contributions	376,237	334,812
Property insurance costs	89,130	79,044
Write-offs of incontestable receivables	351	6,952
Professional training costs	3,661	3,030
Other expenses	349,892	282,486
	2,088,923	1,812,378

17. Income from assets and liabilities valuation adjustments

In thousands of RSD

	31 December 2012	31 December 2011
Income from assets and liabilities valuation adjustments	49,388,223	45,524,368
	49,388,223	45,524,368

The amount of 182,584 thousand dinars relates to income from changes in fair value of local self-government bonds used as hedging instruments.

18. Expenses from assets and liabilities valuation adjustments

In thousands of RSD

	31 December 2012	31 December 2011
Expenses from assets and liabilities valuation adjustments	41,334,807	45,226,272
	41,334,807	45,226,272

The amount of 191,241 thousand dinars relates to expenses of changes in fair value of an interest rate swap used as a hedging instrument for hedging local self-government bonds.

19. Income taxes

a. Components of Income taxes

In thousands of RSD

	31 December 2012	31 December 2011
Current income tax	(531,096)	(505,878)
Increase in deferred tax assets and decrease in deferred tax liabilities	10,397	6,729
Decrease in deferred tax assets and increase in deferred tax liabilities	(5,851)	(2,699)
	(526,550)	(501,848)

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

In thousands of RSD

	31 December 2012	31 December 2011
Profit before tax	4,921,660	5,046,618
Income tax at the statutory tax rate of 10%	492,166	504,662
Permanent differences:		
Non-deductible expenses	45,543	11,231
Income adjustments	8,058	11,649
Temporary differences:		
Differences in the depreciation charges	(2,132)	428
Expenses to be recognised in subsequent period	(727)	2,079
Tax deductions:		
Tax credits for investments in property and equipment	(11,812)	(24,171)
Current income taxes	531,096	505,878

c. Components of Deferred tax assets/liabilities

In thousands of RSD

	31 December 2012	31 December 2011
Deferred tax assets associated with differences in depreciation charges	23,887	22,140
Deferred tax assets associated with provisions for employee benefits	5,594	3,595
Deferred tax assets associated with unrecognised tax expenses, contributions and other duties	1,375	2,589
Deferred tax assets associated with revaluation of securities	0	4,637
Deferred tax assets associated with other items	6,651	0
	37,507	32,961

20. Earnings per share

Basic earnings per share for 2012 amount to RSD 1,862 (2011: RSD 2,312).

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 2012	31 December 2011
Cash on hand in RSD	716,713	429,097
Gyro account	7,748,642	3,025,288
Cash on hand in foreign currencies	595,056	450,096
Foreign currency accounts with:		
- other banks within UniCredit Group (Note 43)	826,521	1,057,834
- local banks (NBS - Beokliring)	27,597	30,968
- other foreign banks	961,930	133,425
Foreign currency cheques	3,412	7,658
	10,879,871	5,134,366

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) 32% 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) 24% 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 of 2.5% p.a.

22. Revocable deposits and loans

	In thousands of RSD	
	31 December 2012	**31 December 2011**
Obligatory reserves in foreign currency	15,623,190	17,056,393
Deposited surplus funds of the bank with NBS in dinars	0	4,800,000
REPO transactions with NBS in dinars	12,019,230	11,717,604
	27,642,420	33,573,997

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:

- 29% - on the portion of foreign currency base which comprises liabilities with a contractual maturity up to two years, or 730 days;
- 22% - 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 2012 the securities purchased under resell agreements with NBS totalling RSD 12,019,230 thousand are associated with the bonds purchased from the NBS, having 8 day maturities, issued at annual interest of 9.49% to 9.74%. These transactions are governed by the NBS Agreement on the Sale of Securities with an Obligation to Repurchase.

23. Interest and fees receivables

	In thousands of RSD	
	31 December 2012	**31 December 2011**
Matured interest:		
-in RSD	1,153,633	926,380
-in foreign currencies	69,065	71,119
Fees and commissions receivable:		
- in RSD	101,463	69,749
- in foreign currencies	1,922	634
Trade receivables	6,223	13,056
Other receivables for fair valuation of derivatives	575,241	32,492
Less: Allowances for impairment	(757,229)	(491,117)
	1,150,318	622,313

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

	In thousands of RSD	
	31 December 2012	**31 December 2011**
Balance as at 1 January	(491,117)	(325,516)
Allowances for impairment during the year	(250,257)	(216,780)
Exchange rate differences	(20,654)	(3,213)
Sale of portfolio	0	39,919
Direct write-offs	4,799	14,473
Balance as at 31 December	(757,229)	(491,117)

24. Loans and deposits

	In thousands of RSD	
	31 December 2012	**31 December 2011**
Overnight deposits		
- in RSD	270,000	100,000
- in foreign currencies	14,766,229	5,225,464
Total overnight deposits:	15,036,229	5,325,464
Guarantee foreign currency deposits for purchase of securities	4,549	4,186
Short-term loans:		
- in RSD	36,159,660	32,095,032
- in foreign currencies	1,261,894	1,123,834
Total short-term loans:	37,421,554	33,218,866
Long-term loans:		
- in RSD	106,340,041	91,316,819
- in foreign currencies	13,285,699	8,674,700
Total long-term loans:	119,625,740	99,991,519
Less: Allowances for impairment	(8,743,318)	(5,611,007)
Balance as at 31 December	163,344,754	132,929,028

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 5.93% per annum, in accordance with other expenses and the Bank's interest rate policy.

During 2012 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 increased for 4.59% to 5.79% for loans indexed in EUR, or for 4.09% to 4.50% for subsidised housing loans. Long-term retail loans were granted in dinars with repayment periods of up to 7 years, and up to 10 years for insured loans (insurance provides coverage for the following: unemployment, temporary incapacity for work and insolvency of legal successors). During 2012 the Bank also offered cash loans with fixed interest over the entire loan period, with repayment periods of 6-60 months, with and without insurance, at interest rates ranging from 20% to 25%.

In November 2012 the Bank expanded its offering of cash loans for pensioners with life insurance up to age 75 at the time of maturity of last instalment, with fixed interest of 20% or interest rate of three month EURIBOR plus 5.7%.

In 2012 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.

Also during 2012 interest rates on subsidies loans for indexed loans amounted to 3.5%, and for dinar loans the interest rate was equal to the NBS key policy rate. The state subsidy amounted to 5% for both types of loans.

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

	In thousands of RSD 31 December 2012	31 December 2011
Balance as at 1 January	(5,611,007)	(3,169,859)
Allowances for impairment in current year	(2,883,151)	(2,444,357)
Foreign currency gains/losses	(384,470)	(58,886)
Sale of securities	0	49,115
Write-offs	135,310	12,980
Balance as at 31 December	(8,743,318)	(5,611,007)

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

	In thousands of RSD 31 December 2012	31 December 2011
Energy sector	907,057	2,059,490
Agriculture	1,818,313	1,958,556
Construction	11,520,978	14,233,221
Industry and mining	38,725,349	24,035,794
Trade	18,097,237	13,340,369
Services	12,900,462	13,300,675
Transportation	22,249,964	18,689,522
Finance and insurance	16,759,926	7,126,235
Retail clients	30,476,720	28,104,499
Others	9,888,748	10,080,667
	163,344,754	132,929,028

25. Securities (excluding treasury shares)

	In thousands of RSD 31 December 2012	31 December 2011
Securities at fair value through profit and loss		
- treasury bonds of the Republic of Serbia	2,661,848	3,707,542
- foreign currency bonds of the Republic of Serbia held for trading	703,729	153,508
Securities held to maturity		
- receivables for discounted bills	301,529	527,582
Securities available for sale		
- local self-government bonds – hedging item	3,526,040	1,556,762
- bonds issued by the financial and insurance sectors	115,147	0
- foreign currency bonds of the Republic of Serbia	26,392,886	13,890,684
- treasury bonds of the Republic of Serbia	0	155,575
	33,701,179	19,991,653
Less: Allowances for impairment	(56,438)	(61,644)
	33,644,741	19,930,009

As at 31 December 2012 securities at fair value through profit and loss in the amount of 2,661,848 thousand dinars relate to investments in treasury bonds of the Republic of Serbia maturing up to 2014, while the amount of 703,729 thousand dinars relates to investments in treasury bonds of the Republic of Serbia maturing up to 2015.

As at 31 December 2012 receivables for discounted bills in the amount of RSD 301,529 thousand relate to investments that mature within one year at a discount rate ranging from 0.97% to 1.50% per month.

As at 31 December 2012 available-for-sale securities of RSD 3,526,040 thousand represent a portfolio of local self-government bonds – hedging item, with maturities occurring up to 2023, the amount of RSD 26,392,886 thousand relates to treasury bonds of the Republic of Serbia with maturities up to 2017, while the amount of 115,147 thousand dinars relate to investments in bods issued by the finance and insurance sectors with maturities up to 2014.

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 29 million as a hedging item, while a hedging instrument is reported as an interest rate swap, also in the amount of EUR 29 million. As at 31 December 2012 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 2012	**31 December 2011**
Balance as at 1 January	(61,644)	(63,538)
Decrease/(increase) of allowance for impairment in current year	5,206	902
Effects of FX gains/losses	0	(71)
Write-offs	0	1,063
Balance as at 31 December	(56,438)	(61,644)

26. Equity investments

	In thousands of RSD	
	31 December 2012	**31 December 2011**
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 2012	
	Amount	% share
FAP Priboj a.d.	4,737	2%
Fund for Further Education of Young Farmers	147	7.72%
Tržište novca a.d.	108	0.14%
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 2012	**31 December 2011**
Balance as at 1 January	(12,061)	(12,061)
Allowance for impairment in current year	0	0
Write-offs	0	0
Balance as at 31 December	(12,061)	(12,061)

27. Other placements

	In thousands of RSD	
	31 December 2012	**31 December 2011**
Other placements in RSD:		
Forfeiting	0	5,137
Factoring	147,473	242,032
Placements related to acceptances, sureties and payments made for guarantees and letters of credit	464,242	327,846
Receivables from credit cards	1,039,409	1,048,605
Other placements	65,543	0
Other placements in foreign currency:		
Factoring	0	121,627
Placements related to acceptances, sureties and payments made for guarantees and letters of credit	1,392,060	1,270,876
Covered letters of credit and other sureties	33,960	31,867
Other placements	1,659	1,557
Less: Allowances for impairment	(758,441)	(524,614)
	2,385,905	2,524,933

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

	In thousands of RSD	
	31 December 2012	**31 December 2011**
Balance as at 1 January	(524,614)	(478,126)
Decrease/(increase) in allowances for impairment in current year	(201,949)	(58,577)
FX gain/loss effects	(33,269)	(12)
Sale of portfolio	0	10,293
Direct write-offs	1,391	1,808
Balance as at 31 December	(758,441)	(524,614)

28. Fixed assets, investment properties and intangible assets

In thousands of RSD	**Buildings**	**Equipment and other assets**	**Leasehold improvements**	**Investments in progress**	**Intangible assets**	**Investment property**	**Total**
Cost or valuation							
Opening balance	668,752	1,010,956	371,800	3,600	1,754,018	1,642	3,810,768
Purchases during the year	0	0	0	84,791	476,828	0	561,619
Transfer from investments in progress	0	72,592	12,172	(84,764)	0	0	0
Disposals and write-offs	0	(19,671)	(5,700)	0	0	0	(25,371)
Other (transfer to/from)	0	0	0	0	0	0	0
Closing balance	668,752	1,063,877	378,272	3,627	2,230,846	1,642	4,347,016
Depreciation							
Opening balance	23,509	609,374	186,683	0	1,003,650	81	1,823,297
Depreciation	13,375	106,717	44,310	0	227,342	33	391,777
Disposals and write-offs	0	(18,691)	(2,730)	0	0	0	(21,421)
Other (transfer to/from)	0	0	0	0	0	0	0
Closing balance	36,884	697,400	228,263	0	1,230,992	114	2,193,653
Net book value as at:							
31 December 2012	631,868	366,477	150,009	3,627	999,854	1,528	2,153,363
31 December 2011	645,243	401,582	185,117	3,600	750,368	1,561	1,987,471

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

	In thousands of RSD 31 December 2012	31 December 2011
Non-current assets held for sale	378	982
	378	982

In 2012, 111 items of non-current assets (72 printers and 39 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. The value of assets classified as non-current assets held for sale as at 31 December 2012 amounts to 378 thousand dinars.

30. Deferred tax assets

	In thousands of RSD 31 December 2012	31 December 2011
Deferred tax assets associated with differences in depreciation charges	23,887	22,140
Deferred tax assets associated with provisions for employee benefits	5,594	3,595
Deferred tax assets associated with unrecognised tax expenses, contributions and other duties	1,375	2,589
Deferred tax assets for revaluation of securities	0	4,637
Deferred tax assets associated with other items	6,651	0
	37,507	32,961

31. Other assets

	In thousands of RSD 31 December 2012	31 December 2011
Other assets in RSD:		
Advances paid, deposits and retainers	19,668	4,639
Other receivables from business dealings	277,235	196,129
Assets received in exchange for collection of receivables	4,927	4,927
Receivables from employees	3,152	3,203
Accrued interest receivables	1,124,388	682,339
Accrued other income receivable	12,597	54,935
Accrued expenses regarding liabilities calculated at amortized cost using effective interest rate method	184,548	163,047
Other accrued expenses	65,192	38,445
Total:	1,691,707	1,147,664
Other assets in foreign currency:		
Advances paid, deposits and retainers	52	0
Receivables from employees	4,032	3,231
Other receivables from business dealings	11,594	44,282
Accrued interest receivables	192,295	46,754
Accrued other income receivable	31,692	105,450
Accrued other expenses	468,830	524,816
Total:	708,495	724,533
Allowance for impairment	(85,675)	(40,215)
	2,314,527	1,831,982

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

	In thousands of RSD	
	31 December 2012	31 December 2011
Balance as at 1 January	(40,215)	(57,720)
Allowance for impairment in current year	(46,550)	15,050
FX gains/losses	(913)	1,040
Write-offs	2,003	1,415
Balance as at 31 December	(85,675)	(40,215)

32. Transaction deposits

	In thousands of RSD	
	31 December 2012	31 December 2011
Transaction deposits		
- in RSD	22,433,777	13,931,713
- in foreign currency	21,023,000	21,035,175
	43,456,777	34,966,888

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

	In thousands of RSD	
	31 December 2012	31 December 2011
Banking and insurance sector	1,927,455	873,428
Public companies	1,141,398	216,068
Corporate clients	28,618,887	26,005,365
Public sector	5,308	9,605
Other customers	471,821	297,824
Foreign entities	6,705,901	3,835,654
Retail clients	4,289,015	3,481,193
Entrepreneurs	285,853	239,563
Households	11,139	8,188
	43,456,777	34,966,888

33. Other deposits

	In thousands of RSD 31 December 2012	31 December 2011
Demand deposits:		
- in RSD	3,903,225	2,326,041
- in foreign currency	2,188,848	1,787,630
Total demand deposits	6,092,073	4,113,671
Short-term deposits:		
- in RSD	8,452,106	8,842,775
- in foreign currency	39,836,599	29,658,402
Total short term deposits	48,288,705	38,501,177
Long-term deposits:		
- in RSD	4,071	1,397
- in foreign currency	10,385,140	1,940,898
Total long-term deposits	10,389,211	1,942,295
	64,769,989	44,557,143

Demand deposits in dinars from companies are deposited at average interest rate of 1.47% per annum in euro, while interest rate on term deposits is up to 10.75% per annum.

Demand deposits in foreign currencies from companies are deposited at annual interest rate ranging from 0.5% to 4.14% per annum depending on deposited currency.

Short-term deposits in foreign currencies from companies are deposited at annual interest rate ranging from 3.03% to 4.78% per annum depending from deposited currency.

Demand deposits in dinars from banks are deposited at 4% 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 12.7% per annum. Short-term foreign currency deposits from banks are deposited with maturities of up to one year at interest rates ranging from 0.0444% to 2.0555% 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 5.1% 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 3.5% do 5.6% 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 2012	**31 December 2011**
Banking and insurance sector	5,090,621	3,745,393
Public companies	1,122,697	268,200
Companies	21,421,171	14,272,392
Public sector	45,526	211,101
Other customers	345,083	473,837
Foreign entities	9,635,627	3,268,575
Retail clients	27,025,500	22,265,005
Entrepreneurs	83,764	52,640
	64,769,989	44,557,143

34. Borrowings

	In thousands of RSD	
	31 December 2012	**31 December 2011**
Loans with one day maturity (overnight)		
- in RSD	2,794,594	682,791
- in foreign currency	340,811	0
Total loans with one day maturity (overnight)	3,135,405	682,791
Long-term loans		
- in RSD	0	0
- in foreign currency	79,448,330	70,468,420
Total long-term loans	79,448,330	70,468,420
Other liabilities		
- in RSD	0	0
- in foreign currency	217,890	84,920
Total other liabilities	217,890	84,920
	82,801,625	71,236,131

Breakdown of foreign long-term loans in the amount of 79,448,330 thousand dinars is as follows:

	In thousands of dinars	
	31 December 2012	**31 December 2011**
European Bank for Reconstruction and Development (EBRD)	12,254,280	11,870,966
Kreditanstalt fur Wiederaufbau Frankfurt am Main („KfW“)	4,662,450	4,290,277
European Investment Bank, Luxembourg	8,368,710	5,808,697
International Finance Corporation, Washington	7,345,298	4,614,441
Deutsche Invertitions und Entwicklungs GmbH, Germany	1,137,183	1,395,212
UniCredit Bank Austria AG	44,863,966	41,815,729
BA CA Leasing (Deutchland) GmbH, Bad Homburg	684,234	647,347
NBS revolving credit fund	48,368	9,104
Government of the Republic of Italy	83,841	16,647
	79,448,330	70,468,420

Long-term loans were granted for periods from 5 to 17 years, at interest rates ranging from 1% to 4.21%.

35. Interest and fees liabilities

	In thousands of RSD 31 December 2012	31 December 2011
Interest payable:		
- in RSD	1,206	1,586
- in foreign currency	277	0
Commissions payable		
- in RSD	4,938	3,707
- in foreign currency	13,305	10,380
Liabilities for fluctuation in value of derivatives	857,004	100,765
	876,730	116,438

36. Provisions

	In thousands of RSD 31 December 2012	31 December 2011
Provisions for retirement benefits	37,294	35,955
Provisions for off-balance sheet items	65,746	78,712
Provisions for litigations	48,570	20,070
	151,610	134,737

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

	In thousands of RSD 31 December 2012	31 December 2011
Provisions for retirement benefits		
Balance, beginning of year	35,955	36,089
Charge during the year - Note 13.1	2,739	185
Cancellation of provisions credited to income - Note 13.1	0	0
Payments during the year	(1,400)	(319)
Balance, end of year	37,294	35,955
Provisions for off-balance sheet items		
Balance, beginning of year	78,712	86,302
Charge during the year - Note 13.1	0	0
Cancellation of provisions credited to income - Note 13.1	(12,966)	(7,590)
Balance, end of year	65,746	78,712
Provisions for litigations		
Balance, beginning of year	20,070	20,070
Cancellation of provision in favour of income - Note 13.1	28,500	0
Payments during the year	0	0
Balance, end of year	48,570	20,070
Total	**151,610**	**134,737**

37. Income taxes payable

	In thousands of RSD	
	31 December 2012	31 December 2011
Liabilities for VAT	4,066	22,326
Liabilities for capital income tax	2,584	1,300
Liabilities for withholding income tax on interest income from non-resident companies	1,565	2,811
Other liabilities for taxes and contributions	509	6
	8,724	26,443

38. Liabilities from income distribution

	In thousands of RSD	
	31 December 2012	31 December 2011
Liabilities from income distribution	235	235
Corporate income tax	531,096	505,878
Advance payment of income tax from previous period	(485,878)	(385,385)
	45,453	120,728

Calculation of the current corporate income tax in the amount of RSD 531,096 thousand is presented in Note 19.

39. Deferred tax liabilities

	In thousands of RSD	
	31 December 2012	31 December 2011
Deferred tax liabilities for revaluation of securities	322	0
	322	0

40. Other liabilities

	In thousands of RSD	
	31 December 2012	**31 December 2011**
Liabilities for received advances and deposits:		
- in RSD	3,724	2,603
- in foreign currency	1,669	83,312
Liabilities to suppliers:		
- in RSD		
- within the UniCredit Group (Note 43)	492	303
- other	76,628	67,700
- in foreign currency		
- within the UniCredit Group (Note 43)	131,574	119,507
- other	10,859	23,642
Other liabilities:		
- in RSD	235,402	85,337
- in foreign currency	243,874	288,916
Accrued interest payable:		
- in RSD	41,520	46,357
- in foreign currency	690,151	530,727
Other accrued income:		
- in RSD	93,632	117,515
- in foreign currency	8,280	9,281
Other accrued expenses:		
- in RSD	132,865	95,000
- in foreign currency	4,909	3,480
Accrued income regarding receivables calculated at amortized cost using effective interest rate method	522,550	472,646
Subordinated liabilities in foreign currencies	3,436,923	3,142,149
	5,635,052	5,088,475

As at 31 December 2012 subordinated liabilities in foreign currencies in the amount of RSD 3,436,923 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 852,887 thousand) and by UniCredit Bank Austria AG in the amount of EUR 500,000 and 26,830,000 CHF (equivalent to RSD 2,584,036 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).

41. Equity

	In thousands of RSD	
	31 December 2012	**31 December 2011**
Share capital	23,607,620	23,607,620
Issue premium	562,156	562,156
Share and other capital	**24,169,776**	**24,169,776**
Profit reserves for estimated losses arising on balance sheet assets	11,578,429	10,731,287
Profit reserves for estimated losses arising on off-balance sheet items	1,506,706	1,918,520
Other profit reserves	3,977,514	1,003,072
Reserves	**17,062,649**	**13,652,879**
Revaluation reserves	**205,604**	**94**
Unrealised losses on available-for-sale securities	**(25,637)**	**(46,460)**
Accumulated profit	**4,395,110**	**4,544,770**
Total equity	**45,807,502**	**42,321,059**

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 2012 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 2012.

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 13,085,135 thousand as at 31 December 2012. 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 3,977,514 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 205,604 thousand dinars and unrealised losses on available-for-sale securities in the amount of 25,637 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 4,395,110 thousand relate to profit after taxes for the period from 1 January to 31 December 2012.

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 2012 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 2012, 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 2012*	31 Dec 2011**
Capital adequacy ratio	min 12%	18.51%	21.45%
Long-term investments vs. equity	max 60%	4.10%	4.13%
Total exposure to related parties of the bank vs. equity	max 20%	10.60%	10.00%
Sum of large exposures of the bank	max 400%	130.98%	78.00%
Liquidity ratio – for December	min 1.00	1.92	2.36
Foreign currency risk ratio	max 20%	4.85%	6.95%

* Regulatory capital does not include profit for 2012.
** Regulatory capital includes profit for 2011.

42. Off-balance sheet items

	In thousands of RSD 31 December 2012	31 December 2011
Operations on behalf of third parties		
- on behalf of public sector	620,715	383,548
	620,715	383,548
Guarantees, securities, property pledges for liabilities and undertaken and incontestable liabilities		
Payment guarantees:		
- in RSD	8,109,189	8,024,435
- in foreign currency	9,427,355	8,758,463
Performance guarantees:		
- in RSD	14,633,617	11,356,361
- in foreign currency	2,358,767	2,232,678
Uncovered letters of credit		
- in RSD	557,633	0
- in foreign currency	4,368,461	3,361,195
Guarantees issued in foreign currency	0	7,324,863
Commitments and incontestable obligations for undrawn loans and placements	8,494,522	23,013,696
Other undertaken commitments – heading items	0	1,464,973
	47,949,544	65,536,664
Derivatives		
- receivables from foreign currency exchange derivatives	227,979	230,858
	227,979	230,858
Other off-balance sheet items	299,418,683	221,451,956
	348,216,921	287,603,026

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, 2011 and 2012.

Breakdown of undertaken and incontestable liabilities:

	In thousands of RSD	
	31 December 2012	**31 December 2011**
Current account overdrafts	2,474,749	3,021,083
Unused credit limits on credit cards	1,526,957	1,477,809
Unused framework loans	3,982,765	17,604,267
Letters of intention	510,051	910,537
	8,494,522	23,013,696

Breakdown of other off-balance sheet items:

	In thousands of RSD	
	31 December 2012	**31 December 2011**
Securities associated with custody operations	205,925,180	147,827,004
Securities purchased from NBS from REPO contracts	12,000,000	11,700,000
Secured letters of credit	202,477	211,405
Received letters of credit, guarantees and collection funds	28,468,384	18,775,827
Off-balance sheet financial instruments	24,289,111	31,024,384
Equipment under lease	14,775	33,400
Other	28,518,756	11,879,936
	299,418,683	221,451,956

Undertaken liabilities relating to office space rental:

	In thousands of RSD	
	31 December 2012	**31 December 2011**
Undertaken liabilities with maturities:		
- up to 1 year	356,167	347,491
- between 1 and 5 years	927,912	1,079,362
- over 5 years	90,295	192,269
	1,374,374	1,619,122

Undrawn foreign loan facilities

Undrawn foreign loan facilities as at 31 December 2012 amount to RSD 4,529,411 thousand.

Court Cases

As at 31 December 2012 the Bank is defendant in 25 court cases (including 9 labour disputes) whose total value amounts to RSD 40,435 thousand, excluding the labour disputes. In 4 cases the claimants are companies, and in 21 cases the claimants are private individuals.

The Bank made provisions in the amount of RSD 48,570 thousand for court cases that have been filed against it. This amount includes labour disputes involving the Bank. 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.

43. 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 2012	**31 December 2011**
Foreign currency accounts with:		
UniCredit Bank Austria AG, Vienna	741,737	962,629
UniCredit Bank AG, Munich	14,336	25,401
UniCredit Bulbank, Sofia	21	2,950
UniCredit S.P.A. Milano	50,560	54,673
UniCredit Bank Hungary Z.r.t., Hungary	18,500	4,772
UniCredit Banka Slovenija, Ljubljana	104	5,788
Zagrebačka banka d.d.	1,263	1,621
Sub-total:	826,521	1,057,834
Interest and fees receivables:		
UniCredit Bank Austria AG, Vienna	3,561	2,402
UniCredit Banka Slovenija, Ljubljana	3	3
UniCredit Bank ZAO Moscow	6	0
Zagrebačka banka d.d.	356	438
UniCredit Leasing Srbija d.o.o.	0	40
Sub-total:	3,926	2,883
Loans and deposits receivable:		
Executive Board of the Bank	28,475	16,154
UniCredit Rent d.o.o.	190,000	0
UniCredit Bank Austria AG, Vienna	14,605,348	5,160,973
Sub-total:	14,823,823	5,177,127
Receivables from paid actual expenses		
UniCredit S.P.A. Milano	567	547
UniCredit Bank Austria AG, Vienna	22,611	14,986
ATF Bank, Kazahstan	6,281	8,413
UniCredit Bank Hungary Z.r.t., Hungary	7	0
UniCredit Business Partner S.C.P.A., Milano	1,514	0
Unicredit Bank Slovakia a.s., Bratislava	14,398	17,668
Sub-total:	45,378	41,614

	In thousand RSD	
	31 December 2012	**31 December 2011**
Other receivables:		
Unicredit CAIB Srbija d.o.o.	0	51
UniCredit Leasing Srbija d.o.o.	43	40
Sub-total:	43	91
Secured letters of guarantee and other sureties:		
UniCredit Bank Austria AG, Vienna	33,960	31,867
Sub-total:	33,960	31,867
Overnight deposits:		
UniCredit Bank Austria AG, Vienna	56,515	0
Sub-total:	56,515	0
Demand deposits:		
Executive Board of the Bank	2,972	2,242
UniCredit Bank Austria AG, Vienna	6,000,253	78,311
UniCredit Leasing Srbija d.o.o.	302,719	270,444
UniCredit Rent d.o.o.	752,428	33,386
UniCredit Partner d.o.o...	109,793	83,753
UniCredit Bank AD Banja Luka	1,087	88
Zagrebačka banka d.d.	7,814	43,046
UniCredit Bank AG, London	48	47
UniCredit Banka Slovenija d.d.	2,384	9,356
UniCredit CAIB AG, Vienna	60	57
UniCredit Bank AG, Munich	619	274
Unicredit CAIB Srbija d.o.o.	28,037	8,882
BA CA Leasing Deutschland Gmbh, Germany	1,028	972
UniCredit Bank ZAO Moscow	10,664	0
UCTAM D.O.O.	96,541	0
UniCredit Bank Czech Republic	15,314	3,094
Sub-total:	7,331,761	533,952
Short-term deposits:		
Executive Board of the Bank	5,931	4,709
UniCredit Rent d.o.o..	0	20,928
UniCredit Leasing Srbija d.o.o	796,028	125,569
Sub-total:	801,959	151,206
Long-term deposits:		
Executive Board of the Bank	4,321	0
Sub-total:	4,321	0
Loans liabilities:		
UniCredit Bank Czech Republic	852,887	784,807
BA CA Leasing Deutchland GmbH, Germany	684,234	647,347
UniCredit Bank Austria AG, Vienna	47,448,001	44,173,072
Sub-total	48,985,122	45,605,226
Other liabilities:		
UniCredit Bank Austria AG, Vienna	169,910	5,540
UniCredit Bank AG, Munich	4,567	729
UniCredit Bank BIH	7	6
Zagrebačka banka d.d.	11	10
UniCredit S.P.A. Milano	2,044	5,415
UniCredit Bank Hungary Z.r.t., Hungary	216	104
Sub-total:	176,755	11,804

	In thousand RSD 31 December 2012	31 December 2011
Trade payables:		
UBIS G.m.b.H, Vienna	94	17,582
UniCredit Business Integrated Solutions SCPA Czech Republic	1,499	1,578
UniManagement, Torino	0	105
UniCredit Bank Austria AG, Vienna	0	146
UniCredit Business Partner GMBH Wien	0	86
UniCredit Banka Slovenija d.d.	8,805	2,158
Unicredit S.P.A. Milano	121,176	97,853
UniCredit Rent d.o.o..	492	302
Sub-total:	132,066	119,810

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

	In thousand RSD 31 December 2012	31 December 2011
Interest revenue	20,849	15,413
Interest expense	(2,152,011)	(1,547,607)
Other income	173,095	122,948
Other expenses	(341,092)	(276,007)
Net expenses	(2,299,159)	(1,685,253)

Total gross salaries and other remuneration of the Executive Board in 2012 amounts to RSD 27,065 thousand.

44. 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, including residual risk, risk of reduction in value of receivables, settlement risk, as well as counterparty 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
- Compliance 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 five directorates: Directorate for Strategic Risk Management and Control, Directorate for Corporate Loan Approval, Directorate for Retail Loan Approval, 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 clients – corporate 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 borrower's 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 the Strategy for Credit Risk Management (Retail Credit Risk Strategy and Corporate Credit Risk Strategy), which define 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 Bank manages credit risk, sets limits and controls this risk in all segments of its business activity, according to all relevant types of corporate and retail clients. Timely credit risk identification, measurement, control and management at Bank portfolio level is ensured by the Risk Management Information System (hereinafter: RMIS). Reporting at portfolio level and at individual client level, RMIS provides complete, accurate and timely information about the balance, quality and movements in the loan portfolio.

RMIS must fulfil the following four functions:

1. Collection and processing of credit risk information and indicators
2. Analysis of movements and changes in total placements and structural characteristics of the portfolio
3. Continual credit risk monitoring
4. Providing the basis for the decision-making process on credit risk levels

Credit risk monitoring, managing and reporting at the level of the loans portfolio includes monitoring of provisions for loan losses (provisions for impairment of balance sheet assets and provisions for potential losses on off-balance sheet items), as well as special and required reserves for estimated losses, calculated in accordance with the Decision on Classification and relevant internal regulations of the Bank.

1. Credit risk parameters

Quantification of credit risk is performed by measuring expected losses. The basic indicators used in monitoring credit risk and calculating expected losses are as follows:

- Exposure at Default (EaD)
- Probability of Default (PD)
- Loss Given Default (LGD)
- Loss Confirmation Period (LCP)

The Bank uses an internal model for estimating credit risk. Rating models define specific ratings for clients with similar levels of credit risk. Each rating level is associated with a corresponding PD parameter. The Bank estimates internally other credit risk parameters.

An internal model for credit risk estimation, credit risk parameters and collaterals are used in calculating provisions for loan losses in accordance with International Financial Reporting Standards (hereinafter: IFRS), whose calculation is defined by special internal regulations of the Bank.

With a view to fulfilling the above functions, RMIS uses the Group's information systems and internally generated databases with portfolio data at placement level. The system generates data on ratings and days overdue, as well as on important client credit risk rating parameters.

2. Limits

The Banka manages credit risk concentrations in its portfolio by setting limits. Limits are specified in internal policies and/or NBS regulations and compliance is regularly monitored and reported.

The Bank's credit policy recommends a limit of 20% on portfolio growth per individual industrial sectors within the Bank's total portfolio of placements.

In accordance with NBS regulations, the total amount of exposure to a single client or group of related parties cannot exceed 25% of the Bank's total regulatory equity, after stipulated deductions. The sum of all exposures that exceed 10% of the Bank's equity cannot be greater than 400% of the Bank's equity. Total exposure to a single client or group of related parties that exceeds 10% of the Bank's equity must be approved by the Board of Directors.

The Bank's exposure to a single entity related with the Bank cannot exceed 5% of the Bank's equity. The Bank's total exposure to related parties cannot be above 20% of the Bank's equity.

3. Reporting

The following reports are used in monitoring credit risk at portfolio level:

- Risk Report (RR)
- Credit Risk Monitoring Report (CRM)

The RR is prepared monthly and quarterly, where the quarterly report is more comprehensive and detailed. The standard monthly RR includes the following:

- portfolio breakdown and development by risk categories
- amounts and movements in provisions in accordance with IFRS
- portfolio collateralisation
- key credit risk indicators and their development
- comments for significant credit risk movements and trends
- overview of largest clients by default status

The quarterly RR contains information presented monthly, but broken down by segments, as well as detailed information related to:

- structure of collaterals
- structure of off-balance sheet items
- portfolio overview by placement type and currency
- placement portfolio overview by industrial sectors
- breakdown of maturities in portfolio based on placement repayment due date
- overview of large exposures by single entity or by groups of related parties

The CRM Report is prepared monthly. Data is provided at sub-segment level (large enterprises, medium-sized enterprises, real-estate financing, business clients entrepreneurs and private individuals), with comparative figures for the previous month and end of previous year. The report also includes the following information:

- breakdown of placements (type and currency)
- portfolio collateralisation and breakdown of collaterals
- maturity structure of the portfolio
- amounts and movements in provisions in accordance with IFRS
- breakdown of portfolio placements by internal rating categories

- portfolio breakdown by client default/performance criteria

Besides standardised reports, a series of activities are carried out that contribute to greater accuracy of parameters used in credit risk monitoring: ad hoc reporting and analysis and other activities that contribute to greater accuracy of credit risk parameters.

Ad hoc reporting and analysis is used in cases that pose risks for the Bank, especially when credit risk levels change dramatically and suddenly, and when timely reaction is required. Examples include: deterioration in internally assigned ratings, need for significant additional provisioning, signs of non-compliance in organisation, systems or procedures used, changes in some of the parameters of credit risk and calculation of provisions.

Other activities carried out by the Bank, including quality checks of data used in credit risk monitoring, managing and reporting, improvements in existing systems and procedures, annual budgeting process and subsequent changes and potential adjustments to budgeted parameters.

Implementation of Basel II

In the area of Basel II implementation, activities were primarily focused on implementing the locally developed rating model for companies and rating model for financing real-estate property used for generating income. Also, in scoring retail clients, comprehensive validation has been carried out in accordance with UniCredit Group standards. In terms of LGD and EaD parameters, activities were focused on validating the LGD model and on advancing the EaD model. Full implementation of the 2^{nd} pillar and the process of internal assessment of capital adequacy according to regulatory requirements and Group standards has been realised during 2012, including calculation of regulatory capital and stress testing for materially significant items. Preliminary activities have been initiated in the process of calculation of risk weighted assets for an advance approach based on an internal rating (AIRB), including assumptions of appropriate systems and processes.

Credit risk exposure as at 31 December 2012 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	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Individual provision																
Corporate clients, Rating 10	11,394,707	5,788,486	1,459,685	1,071,215	55,316	56,252	0	0	614,978	386,355	72,610	35,422	0	0	1,396	15,503
Corporate clients, Rating 9	2,971,585	2,445,217	315,141	494,899	0	0	12,061	12,061	115,191	116,736	4,206	5,528	0	0	33,304	61,615
Corporate clients, restructured placements*	88,583	580,164	4,172	15,205	0	0	0	0	15,089	46,944	3,878	10,601	0	0	301	2,004
Retail clients > 90 overdue**	2,170,059	1,854,864	114,647	107,132	0	0	0	0	390,000	299,101	58,522	48,491	0	0	24,079	25,681
Gross placements	16,624,934	10,668,731	1,893,645	1,688,451	55,316	56,252	12,061	12,061	1,135,258	849,136	139,216	100,042	0	0	59,080	104,803
Provision	8,274,298	5,244,100	750,320	514,765	55,161	56,252	12,061	12,061	755,668	490,044	81,928	38,325	0	0	16,311	14,443
Book value	8,350,636	5,424,631	1,143,325	1,173,686	155	0	0	0	379,590	359,092	57,288	61,717	0	0	42,769	90,360
Portfolio provision																
Corporate clients, rating 1 - 6	106,783,692	74,233,179	303,728	480,609	3,818,120	1,749,122	0	0	661,321	107,227	1,985,763	1,508,369	1,819,459	1,229,885	55,309,505	53,555,568
Corporate clients, rating 7	11,125,585	10,346,569	87,686	6,197	69,280	278,970	0	0	51,720	52,314	45,039	292	0	0	3,607,076	3,494,682
Corporate clients, rating 8	3,778,532	221,425	1,911	4,284	0	0	0	0	30,224	1,642	15,159	65	0	0	3,240,791	58,999
Retail clients < 90 overdue***	29,795,587	27,467,415	857,376	870,006	0	0	0	0	29,024	30,304	208,051	193,305	0	0	1,718,595	1,661,550
Gross placements	151,483,396	112,268,588	1,250,701	1,361,096	3,887,400	2,028,092	0	0	772,289	191,487	2,254,012	1,702,031	1,819,459	1,229,885	63,875,967	58,770,799
Provision	455,569	314,376	8,121	9,849	1,277	5,392	0	0	1,561	828	3,724	1,666	0	0	49,435	49,472
Book value	151,027,827	111,954,212	1,242,580	1,351,247	3,886,123	2,022,700	0	0	770,728	190,659	2,250,288	1,700,365	1,819,459	1,229,885	63,826,532	58,721,327
Book value of risk assets	159,378,463	117,378,843	2,385,905	2,524,933	3,886,278	2,022,700	0	0	1,150,318	549,751	2,307,576	1,762,082	1,819,459	1,229,885	63,869,301	58,811,687
Gross value of non-risk assets	3,979,742	15,602,716	0	0	29,758,463	17,907,309	0	0	0	72,807	6,974	70,124	36,702,832	37,478,478	284,281,874	228,727,424
Provision	13,451	52,531	0	0	0	0	0	0	0	245	23	224	0	0	0	14,797
Total book value of non-risk assets	3,966,291	15,550,185	0	0	29,758,463	17,907,309	0	0	0	72,562	6,951	69,900	36,702,832	37,478,478	284,281,874	228,712,627
Total book value	163,344,754	132,929,028	2,385,905	2,524,933	33,644,741	19,930,009	0	0	1,150,318	622,313	2,314,527	1,831,982	38,522,291	38,708,363	348,151,175	287,524,314

*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 2012:

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 2012														
Legal entities, rating 10	11,394,707	5,427,856	1,459,685	922,645	55,316	155	0	0	614,978	232,966	72,610	41,395	1,396	389
Legal entities, rating 9	2,971,585	2,067,110	315,141	197,429	0	0	12,061	0	115,191	66,464	4,206	2,612	33,304	22,679
Legal entities, restructured placements*	88,583	54,374	4,172	879	0	0	0	0	15,089	4,294	3,878	1,503	301	222
Private individuals > 90 days in default**	2,170,059	801,296	114,647	22,372	0	0	0	0	390,000	75,866	58,522	11,778	24,079	19,479
Total	**16,624,934**	**8,350,636**	**1,893,645**	**1,143,325**	**55,316**	**155**	**12,061**	**0**	**1,135,258**	**379,590**	**139,216**	**57,288**	**59,080**	**42,769**
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**

*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).

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 2012 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	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Corporate clients, Rating 10	**1,412,268**	**2,049,957**	**261,833**	**368,414**	**0**	**0**	**65,689**	**137,714**	**3,845**	**9,882**	**0**	**5,340**
Real estate	1,400,171	2,007,167	255,421	360,348	0	0	65,638	134,962	3,845	9,827	0	5,223
Other	12,097	42,790	6,412	8,066	0	0	51	2,752	0	55	0	117
Corporate clients, Rating 9	**1,198,776**	**1,025,935**	**49,888**	**212,782**	**0**	**0**	**48,957**	**48,561**	**541**	**1,693**	**14,392**	**25,943**
Real estate	1,174,611	1,016,054	21,458	210,721	0	0	48,957	48,100	403	1,687	14,392	25,692
Other	24,165	9,881	28,430	2,061	0	0	0	461	138	6	0	251
Corporate clients, restructured loans	**44,058**	**257,441**	**0**	**5,351**	**0**	**0**	**668**	**18,783**	**1,095**	**5,672**	**0**	**705**
Real estate	41,812	256,239	0	5,310	0	0	644	18,672	1,078	5,656	0	700
Other	2,246	1,202	0	41	0	0	24	111	17	16	0	5
Retail clients > 90 days overdue	**489,232**	**407,147**	**0**	**0**	**0**	**0**	**14,958**	**17,930**	**4,720**	**9,274**	**0**	**0**
Real estate	470,972	379,383	0	0	0	0	13,609	16,707	3,171	8,642	0	0
Other	18,260	27,764	0	0	0	0	1,349	1,223	1,549	632	0	0
Portfolio provision	**58,600,266**	**45,212,619**	**850**	**181,795**	**0**	**0**	**39,781**	**40,929**	**224,064**	**1,626,092**	**15,222,797**	**21,156,924**
Real estate	33,604,203	31,834,862	850	108,058	0	0	9,853	25,555	120,758	1,001,232	4,719,571	12,575,594
Other	24,996,063	13,377,757	0	73,737	0	0	29,928	15,374	103,306	624,860	10,503,226	8,581,330
Total	**61,744,600**	**48,953,099**	**312,571**	**768,342**	**0**	**0**	**170,053**	**263,917**	**234,265**	**1,652,613**	**15,237,189**	**21,188,912**

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.

	2012	**2011**
Liquidity ratio of I order		
- as at 31 December	1.99	2.43
- average for the period – month of December	1.92	2.36
- maximum for the period – month of December	2.04	2.60
- minimum for the period – month of December	1.78	2.22

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 2012 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	10,879,871	0	0	0	0	10,879,871
Revocable deposits and loans	27,642,420	0	0	0	0	27,642,420
Interest and fees receivables	1,150,318	0	0	0	0	1,150,318
Loans and deposits	26,552,267	1,851,585	20,287,895	71,851,279	42,801,728	163,344,754
Securities (excluding treasury shares)	5,158,089	2,897,600	11,295,581	10,767,430	3,526,041	33,644,741
Equity investments	0	0	0	0	0	0
Other placements	2,077,907	16,716	219,085	72,197	0	2,385,905
Intangible assets	0	0	0	999,854	0	999,854
Fixed assets and investment property	0	0	0	0	1,153,509	1,153,509
Non-current assets held for sale and discontinued operations	378	0	0	0	0	378
Deferred tax assets	0	0	37,507	0	0	37,507
Other assets	2,314,527	0	0	0	0	2,314,527
Total assets	**75,775,777**	**4,765,901**	**31,840,068**	**83,690,760**	**47,481,278**	**243,553,784**
Transaction deposits	43,456,777	0	0	0	0	43,456,777
Other deposits	25,272,158	8,828,892	22,178,319	8,462,742	27,878	64,769,989
Borrowings	3,353,295			63,379,943	16,068,387	82,801,625
Interest and fees liabilities	876,730	0	0	0	0	876,730
Provisions	65,746	48,570		37,294	0	151,610
Income taxes payable	8,724	0	0	0	0	8,724
Liabilities from income distribution	45,453	0	0	0	0	45,453
Deferred tax liabilities	0	0	322	0	0	322
Other liabilities	2,198,129			909,746	2,527,177	5,635,052
Equity	0	0	0	0	45,807,502	45,807,502
Total equity and liabilities	**75,277,012**	**8,877,462**	**22,178,641**	**72,789,725**	**64,430,944**	**243,553,784**
Net liquidity gap as at 31 December 2012	**498,765**	**(4,111,561)**	**9,661,427**	**10,901,035**	**(16,949,666)**	**0**
Net liquidity gap as at 31 December 2011	**7,966,552**	**(2,056,062)**	**12,930,088**	**(4,241,377)**	**(14,599,201)**	**0**

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	7,748,642	0	0	0	0	3,131,229	10,879,871
Revocable deposits and loans	12,000,000	0	0	0	0	15,642,420	27,642,420
Interest and fees receivables	0	0	0	0	0	1,150,318	1,150,318
Loans and deposits	24,833,415	3,616,649	14,388,440	51,839,352	68,662,349	4,549	163,344,754
Securities (excluding treasury shares)	3,365,927	125,406	2,401,090	22,519,528	5,230,667	2,123	33,644,741
Equity investments	0	0	0	0	0	0	0
Other placements	2,256,336	0	38,828	21,962	0	68,779	2,385,905
Intangible assets	0	0	0	0	0	999,854	999,854
Fixed assets and investment property	0	0	0	0	0	1,153,509	1,153,509
Non-current assets held for sale and discontinued operations	0	0	0	0	0	378	378
Deferred tax assets	0	0	0	0	0	37,507	37,507
Other assets	0	0	0	0	0	2,314,527	2,314,527
Total assets	**50,204,320**	**3,742,055**	**16,828,358**	**74,380,842**	**73,893,016**	**24,505,193**	**243,553,784**
Transaction deposits	20,957,752	20,435,245	0	0	0	2,063,780	43,456,777
Other deposits	20,493,754	8,854,604	21,638,679	7,902,036	0	5,880,916	64,769,989
Borrowings	3,135,405	64,438,006	14,478,137	532,188	0	217,889	82,801,625
Interest and fees liabilities	0	0	0	0	0	876,730	876,730
Provisions	0	0	0	0	0	151,610	151,610
Income taxes payable	0	0	0	0	0	8,724	8,724
Liabilities from income distribution	0	0	0	0	0	45,453	45,453
Deferred tax liabilities	0	0	0	0	0	322	322
Other liabilities	0	0	3,436,923	0	0	2,198,129	5,635,052
Equity	0	0	0	0	0	45,807,502	45,807,502
Total equity and liabilities	**44,586,911**	**93,727,855**	**39,553,739**	**8,434,224**	**0**	**57,251,055**	**243,553,784**
Interest sensitive gap as at 31 December 2012	**5,617,409**	**(89,985,800)**	**(22,725,381)**	**65,946,618**	**73,893,016**	**(32,745,862)**	**0**
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**

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.

	2012	**2011**
Foreign Currency Ratio:		
- as at 31 December	1.73	4.83
- maximum for the period – month of December	13.28	8.17
- minimum for the period – month of December	1.28	0.69

The following table provides a net currency gap of assets and liabilities of the Bank as at 31 December 2012:

	EUR	USD	Other currencies	Total in currencies	Total dinars	Total
Cash and cash equivalents	1,243,444	895,713	275,358	2,414,515	8,465,356	10,879,871
Revocable deposits and loans	15,623,190	0	0	15,623,190	12,019,230	27,642,420
Interest and fees receivables	954,310	9	29,131	983,450	166,868	1,150,318
Loans and deposits	109,939,410	14,221,588	8,370,157	132,531,155	30,813,599	163,344,754
Securities (excluding treasury shares)	13,867,440	0	0	13,867,440	19,777,301	33,644,741
Equity investments	0	0	0	0	0	0
Other placements	821,816	33,960	247,381	1,103,157	1,282,748	2,385,905
Intangible assets	0	0	0	0	999,854	999,854
Fixed assets and investment property	0	0	0	0	1,153,509	1,153,509
Non-current assets held for sale and discontinued operations	0	0	0	0	378	378
Deferred tax assets	0	0	0	0	37,507	37,507
Other assets	1,163,286	36,452	32,026	1,231,764	1,082,763	2,314,527
Total assets	**143,612,896**	**15,187,722**	**8,954,053**	**167,754,671**	**75,799,113**	**243,553,784**
Transaction deposits	18,326,112	2,109,133	587,755	21,023,000	22,433,777	43,456,777
Other deposits	48,535,824	3,282,929	720,109	52,538,862	12,231,127	64,769,989
Borrowings	69,831,153	5,028,969	5,146,909	80,007,031	2,794,594	82,801,625
Interest and fees liabilities	845,920	0	24	845,944	30,786	876,730
Provisions	0	0	0	0	151,610	151,610
Income taxes payable	0	0	0	0	8,724	8,724
Liabilities from income distribution	0	0	0	0	45,453	45,453
Deferred tax liabilities				0	322	322
Other liabilities	2,234,399	108,426	2,603,815	4,946,640	688,412	5,635,052
Equity	0	0	0	0	45,807,502	45,807,502
Total equity and liabilities	**139,773,408**	**10,529,457**	**9,058,612**	**159,361,477**	**84,192,307**	**243,553,784**
Financial instruments under off-balance sheet items	**5,542,893**	**4,672,145**	**1,871**	**10,216,909**	**(10,429,419)**	**(212,510)**
Net currency gap as at 31 December 2012	**(1,703,405)**	**(13,880)**	**(106,430)**	**(1,823,715)**	**2,036,225**	**212,510**
Net currency gap as at 31 December 2011	**(24,134)**	**(12,061)**	**56,344**	**20,149**	**147,029**	**167,178**

As at 31 December 2012 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 Executive Board is responsible for making decisions related to 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.

Risk concentration

Risk concentration is the risk that arises directly or indirectly from the Bank's exposure to the same or similar source of risk, or the same or similar type of risk. Risk concentration relates to:

- large exposures
- group exposures with identical or similar risk factors, such as industry sector, product type, etc.
- collaterals, including maturity and currency gaps between large exposures and collaterals associated with such exposures

Control and mitigation of the Bank's risk concentration is carried out through active management of the loan portfolio and through setting of appropriate exposure limits that facilitate portfolio diversification. The Board of Directors, the Credit Committee and relevant organisational units within the Group are involved in the process of approval of large exposures, representing an additional form of control of this type of risk concentration.

Exposure risk

The Bank's exposure risks include risks of exposure to a single entity or group of related parties and risk of exposure to an entity related with the Bank. In accordance with NBS regulations, the total amount of exposure to a single client or group of related parties cannot exceed 25% of the Bank's total regulatory equity, after stipulated deductions. The sum of all exposures that exceed 10% of the Bank's equity cannot be greater than 400% of the Bank's equity. Total exposure to a single client or group of related parties that exceeds 10% of the Bank's equity must be approved by the Board of Directors. The Bank's exposure to a single entity related with the Bank cannot exceed 5% of the Bank's equity. The Bank's total exposure to related parties cannot be above 20% of the Bank's equity. The method for calculating large exposures is specified by the Bank's Decision on Risk Management.

Investment risk

The Bank's investment risks relate to risks of investing in other entities and in fixed assets. Investments by the Bank into a single entity which is not in the financial sector cannot exceed 10% of the Bank's equity, where such investment relates to an equity investment by the Bank in such legal entity. Total investments of the Bank's assets in entities outside of the financial sector and in fixed assets cannot exceed 60% of the Bank's equity, where this limitation does not relate to the acquisition of shares for further reselling within a period of six months as of the date of their acquisition.

Country risk

Risks that relate to the country of origin of the entity to which the Bank is exposed (country risk) are risks of occurrence of negative effects on the Bank's financial performance and equity as the result of the Bank's inability of collecting its receivables from such entity for reasons that are due to political, economic or social conditions in the country of origin of such entity. Country risk includes:

- political-economic risks, which include the probability of occurrence of losses due to the Bank's inability to collect its receivables because of limitations stipulated by regulations issued by state and other bodies in the debtor's country of origin, as well as general systemic conditions in such country
- transfer risk, which includes the probability of occurrence of losses due the inability to collect receivables denominated in a currency which is not the official currency of the debtor's country of origin due to limitations set on payments to creditors from other countries in a particular currency, as stipulated by regulations issued by state and other bodies in the debtor's country of origin

The Bank's exposure to this type of risk is significantly mitigated by the Bank's orientation toward clients who live and operate on the territory of Serbia.

Compliance risk

The Bank's internal regulations specify that the Compliance Department is charged with identifying and measuring the principal compliance risks facing the Bank, with reporting to the Managing Board and the Audit Committee, and the Board of Directors, with recommending plans for managing the principal risk, in accordance with its authorisations and set Program and Annual Plan of Activities.

UniCredit Group program and relevant policies, which have been adopted at Bank level, specify regulatory areas and authorisations of the function of control of compliance, organisational and legal assumptions, work methodology and reporting method. The Annual Plan of Activities specifies the volume (by types) of activities and expected results for the coming year.

Besides the advisory role in implementing and applying regulations, the Bank's Compliance Department also carries out monitoring of activities for the purpose of implementing level II controls, and for improving the system of internal controls.

Strategic risks

The Bank's organisational structure is defined and suited such that resources are devoted to preparing and applying credit policies and strategies, developing and implementing credit methodologies, rulebooks and other internal regulations. The Bank continually monitors, measures, adjusts all of its relevant internal regulations and credit processes, and recommends improvements or actions in order to respond to changes in the environment and to adequately mitigate adverse effects on the Bank's financial performance and capital.

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 2012 the capital adequacy ratio is reported in Note 41.

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 2012:

		In 000 dinars 31/12/2012*	31/12/2011**
1	**Basic equity**	**36,470,296**	**40,435,597**
1.1	Nominal value of shares	23,607,620	23,607,620
1.2	Share issue premium	562,156	562,156
1.3	Profit reserves	17,062,649	13,652,879
1.4	Current year profit	-	3,409,770
1.5	Intangible assets	999,854	750,368
1.6	Regulatory adjustments	3,762,275	46,460
1.6.1	Unrealised losses on available-for-sale securities	25,637	46,460
1.6.2	Required profit reserves for estimated losses	3,736,638	-
2	**Additional equity**	**2,894,170**	**2,639,958**
2.1	Part of revaluation reserves	185,044	85
2.2	Subordinated liabilities	2,709,126	2,639,873
3	**Deductible items of equity**	**11,218,074**	**13,093,452**
3.1	Reduction in basic equity	8,323,904	10,453,494
3.2	Reduction in additional equity	2,894,170	2,639,958
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	8,161	8,317
3.4	Required profit reserves for estimated losses	11,209,913	13,085,135
4	Total basic equity (1 - 3.1)	28,146,392	29,982,103
5	Total additional equity (2 - 3.2)	-	-
6	**Equity**	**28,146,392**	**29,982,103**
	RISK ASSETS	**31.12.2012.**	**31.12.2011.**
1	Credit risk	135,899,346	126,945,064
2	Market risk	4,604,917	3,213,044
2.1	Price risk	3,240,933	1,130,276
2.2	Foreign currency risk	1,363,983	2,082,768
3	Operating risk	11,558,608	9,587,934
	Total risk assets	**152,062,871**	**139,746,042**
	CAPITAL ADEQUACY RATIO	**18.51%**	**21.45%**

* Profit for 2012 was not included in regulatory capital.
** Profit for 2011 was included in regulatory capital.

45. Subsequent events

There were not significant subsequent events that require disclosure in the Notes to the Bank's financial statements for 2012.

Belgrade, 21 February 2013

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