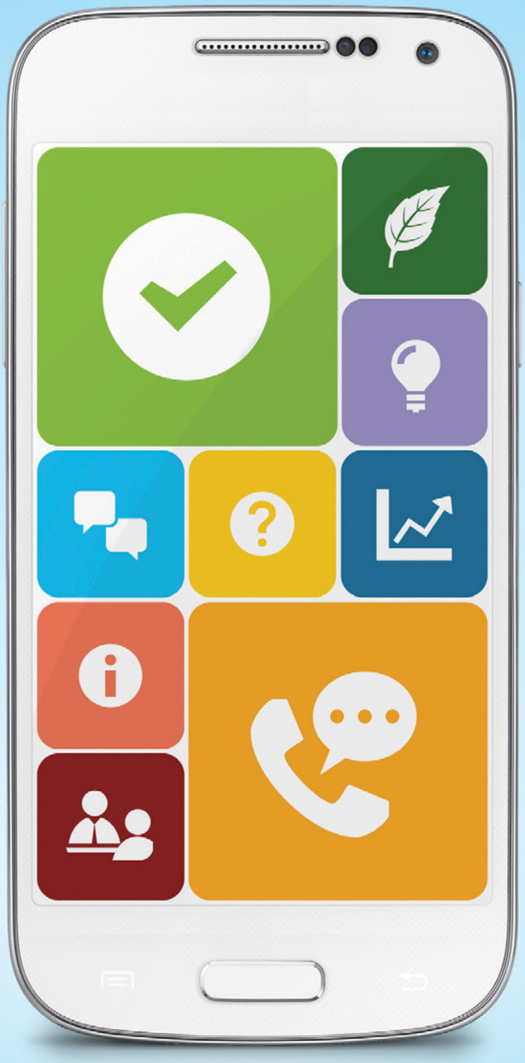
UniCredit Bank



Listen, understand, respond.

2013 Annual Report

15 years

UniCredit

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

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

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

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

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

2013 Annual Report

Understand

Customer needs and quick responses.

"I received a call from a new Customer who told me his company's employees were having trouble withdrawing money from ATM machines. I wanted to solve the problem as quickly as possible, so I went that evening to check in person. I found that the ATM was only allowing Customers to insert cards one way.
I helped a Customer who was having trouble withdrawing cash.
But I knew that our ATMs were supposed to allow Customers to insert cards in either direction, so I immediately called the ATM company to resolve the issue. **By quickly responding to a client's problem, everyone was helped**."

Sergey Chekhonadskikh - ZAO UniCredit Bank Ekaterinburg - RUSSIA

Contents

Overview 2013 / 2012

UniCredit bank Serbia, joint stock company

	2013 000 RSD	2012 000 RSD	2013 000 EUR	2012 000 EUR
Business results				
Operating income	13,506,976	12,639,678	117,819	111,149
Profit/(Loss) before tax	3,699,205	4,921,660	32,267	43,279
Net profit(Loss) for the period	3,831,533	4,399,747	33,422	38,690
Key figures				
Return on equity before tax	7.68%	11.17%	7.68%	11.17%
Return on equity after tax	7.95%	9.98%	7.95%	9.98%
Cost-Income ratio	35.61%	35.38%	35.61%	35.38%
Net fee and commission income to operating income	15.31%	15.09%	15.31%	15.09%
Balance sheet figures				
Balance sheet total	251.953.242	243.553.784	2.197.737	2.141.729
Loans to customes	145.097.342	152.089.577	1.265.655	1.337.424
Shareholders` equity	50.524.779	45.807.502	440.717	402.816
Indices (in accordance with NBS regulations)				
Core capital	33,584,851	36,470,296	292,954	320,707
Total capital	36,521,594	28,146,392	318,571	247,510
Risk Weighted assets	158,283,887	152,062,875	1,380,679	1,337,189
Capital adequacy ratio	23.07%	18.51%	23.07%	18.51%
Stuff number (heads)	1046	1008	1046	1,008
Network - number of locations	74	75	74	75

Choose

The best ways to bank.

Customers want everything a modern bank can offer, without actually having to go to a branch. To meet this need, we have become the first bank in Germany to integrate the benefits of in-branch and online banking. The online branch offers our Customers a personal relationship manager, long opening hours and the consulting expertise of a classical branch office.
Customers may choose from different modes of access: by phone or via online video link. Documents may be presented and processed live on screen while using the highest safety standards in place.
The online branch provides personal, competent consultancy irrespective of place and time.

HVB Online Branch - HypoVereinsbank - GERMANY

Executive Board

Despite persistent challenging circumstances and turbulences influencing the decrease in number of banks on the local market in 2013, UniCredit Bank managed to further reinforce its position of strong, stable and reliable player, one of the most important pillars of Serbian banking system. The bank confirmed its position number 3 on the market in terms of total assets, at the same time additionally strengthening customer business and broadening the range of customer services. In line with its strategy, UniCredit continued to engage itself in the process of increasing reputation on the local market, as well as the level of customer satisfaction.

As in the previous years, in 2013 UniCredit Bank Serbia managed to keep high level of efficiency. Bank's operating profit reached RSD 8.7 billion, marking a strong increase of 6.5% in comparison to 2012. In line with Group's strategy, focused on developing strong roots in local markets, UniCredit continued to demonstrate strong commitment to Serbia, as is evidenced by the increase of balance sheet by 3% yoy to nearly RSD 252 billion. At the end of 2013, net profit of bank in Serbia reached RSD 3.8 billion, followed by an 8% increase in net interest income and net fee and commission income.

Customer focus, re-shaping of service model and tailor-made products aligned with the needs of different client segments, additionally contributed to 7.4% increase in customer base of UniCredit Bank Serbia, exceeding 210,000. Consequently, client's deposits grew by 2% in comparison to the previous year, exceeding the amount of RSD 113 billion. Even though the local market was characterized by lack of credit worthy demand, the bank in Serbia managed to gain suitable clients and continued to show its commitment and determination to support expected future development of the country and customer's financial needs. The volume of approved loans in 2013 reached almost RSD 159 billion, with upturn in retail lending which increased by 9% yoy.

We managed to deal successfully with adverse circumstances in 2013, while maintaining high level of capitalization. Thanks to the strong focus on acquiring new clients, with sound credit quality, we strongly increased our customer base, both in retail and corporate segment. Despite the difficult environment and lack of demand, we increased our operating profitability and kept high level of efficiency. As an evidence, we managed to overperform the market when looking into numerous important parameters, as cost/income ratio, capital adeqancy ratio, return on equity and level of non performing loans, are concerned. We are well positioned for expected recovery of local economy and able to exploit all future market opportunities.

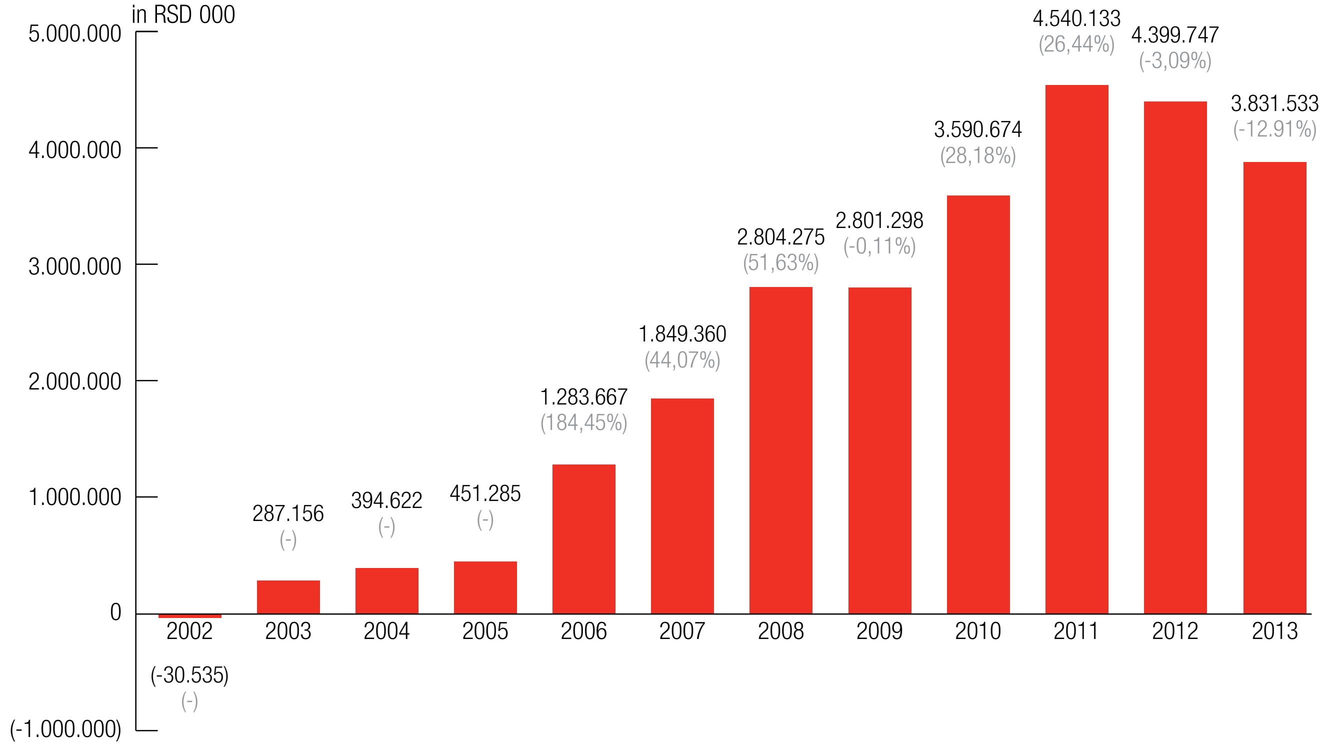
But, what is more important is that, despite an overall negative trend on the market, we increased the number of employees, to 1,046 and continued to invest in people development and their professional growth. We strive to make our bank as the best place for work.

We also engaged sufficient efforts in keeping the image of responsible citizen, through investments made in projects of wider importance for local communities. With strong support from our Foundation we invested around EUR 172,000 in making Serbia a better place for all.

We are trying to achieve a positive impact on our stakeholders. We are making a difference by recognizing everyday challenges and opportunities, and by contributing to the economic, social and cultural well-being of the communities we serve. Above all, we believe that being a commercial bank means engaging in meaningful dialogue with those with whom we come into contact. This enables us to provide simple, quick and effective responses that perfectly meet customer needs. Banking is built upon trust. Today, more than ever, financial stability and every day support of Bank are the most important for customers. Combining these values UniCredit Bank is creating a long term partnership with customers.

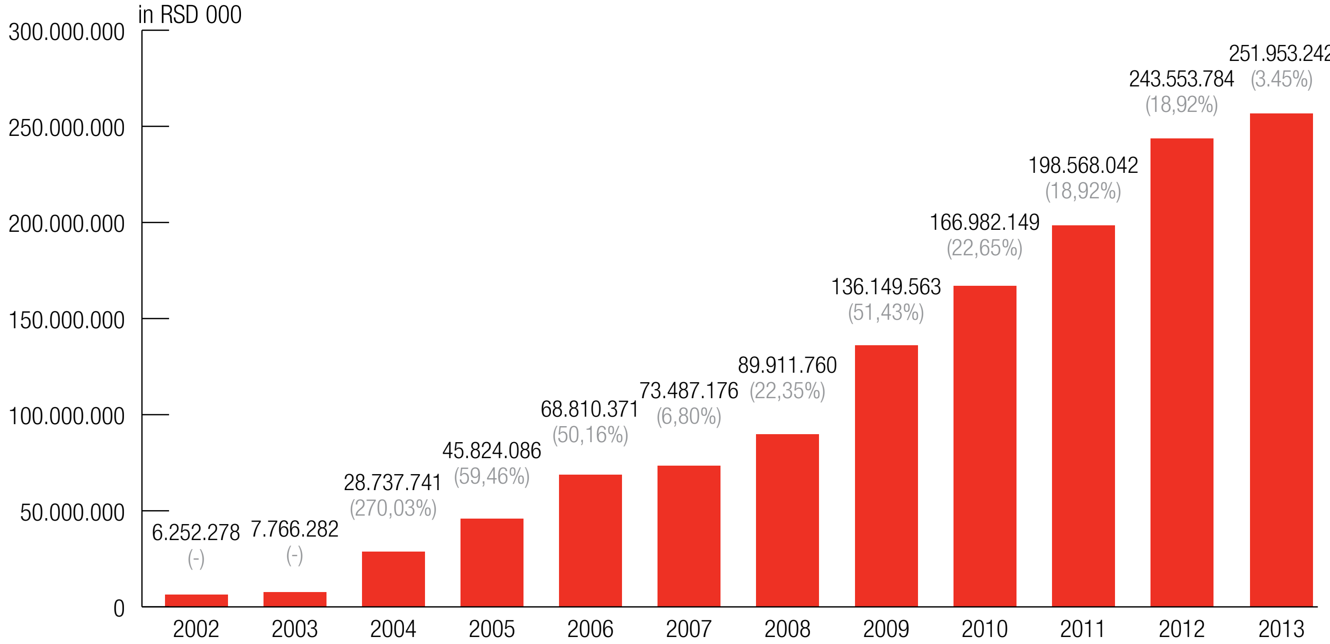
Analysis of results

Net profit after tax
in RSD 000



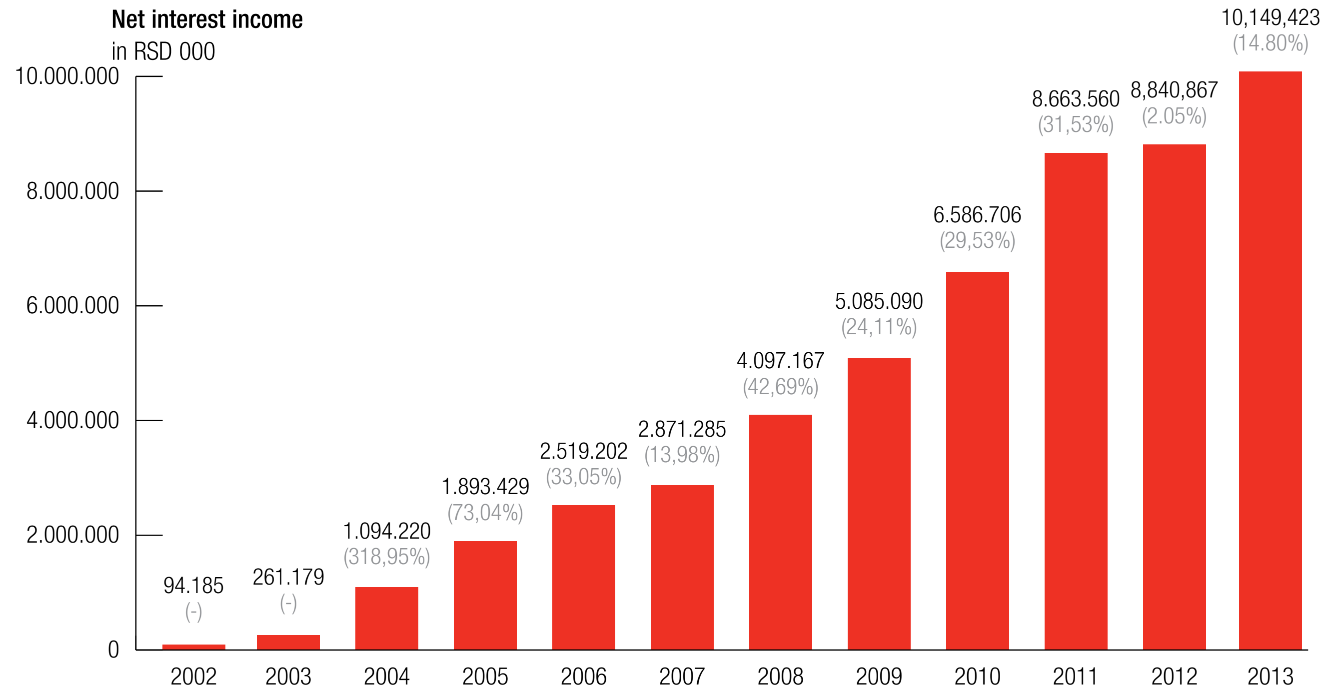
In 2013 net profit after tax decreased year-on-year by 13%.

Total assets
in RSD 000



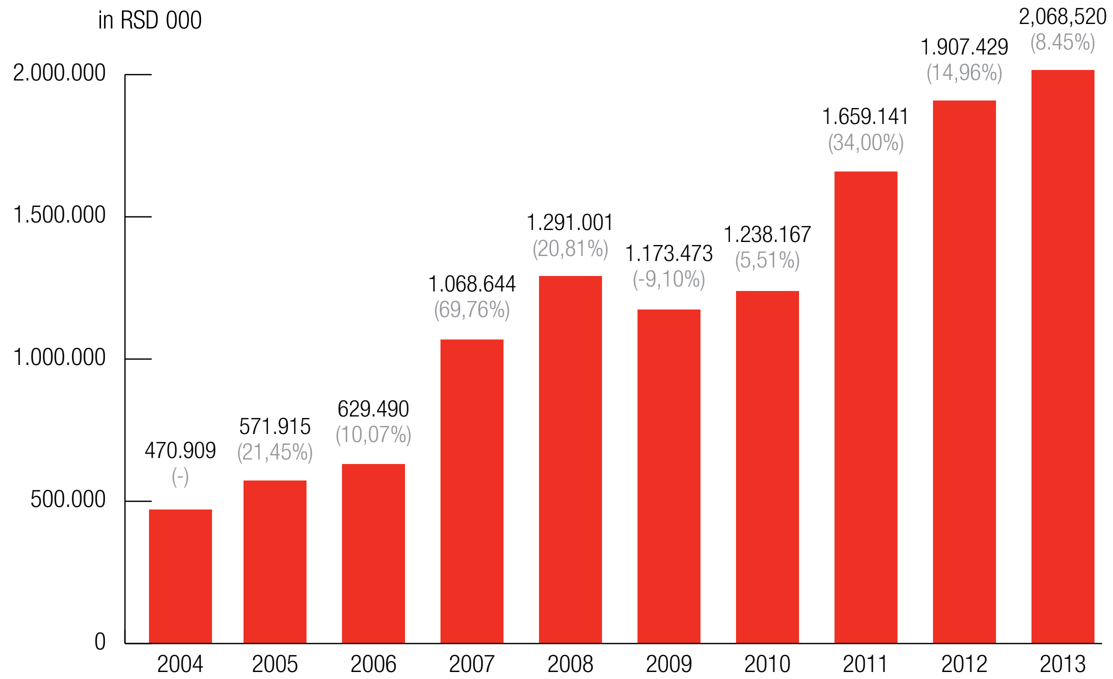
Total assets increased for 3.45% in 2013 and reached mio RSD 251.953.

Net interest income
in RSD 000



Net interest income increased for 15% in 2013 and reached mio RSD 10.149

Net fee income
in RSD 000

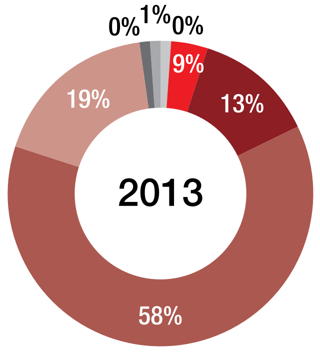


Net fee income increased by 8.5% comparing to 2012.

Analysis of results (CONTINUED)

Structure of assets 2013.
in RSD 000

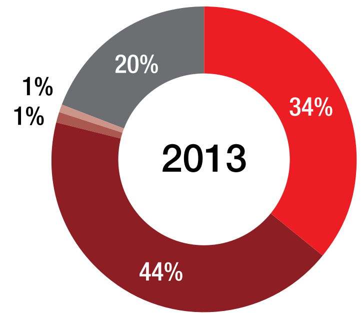
Cash, cash equivalents and non-pledged trading assets	9%	22,149,067
Loans and advances to banks	13%	33,445,827
Loans and advances to clients	58%	145,097,342
Investment securities	19%	47,588,806
Property, equipment and intangible assets	1%	746,499
Other assets	0%	2,046,738
	100%	251,953,242



Loans and advances to clients have the major share with 58% in total assets.

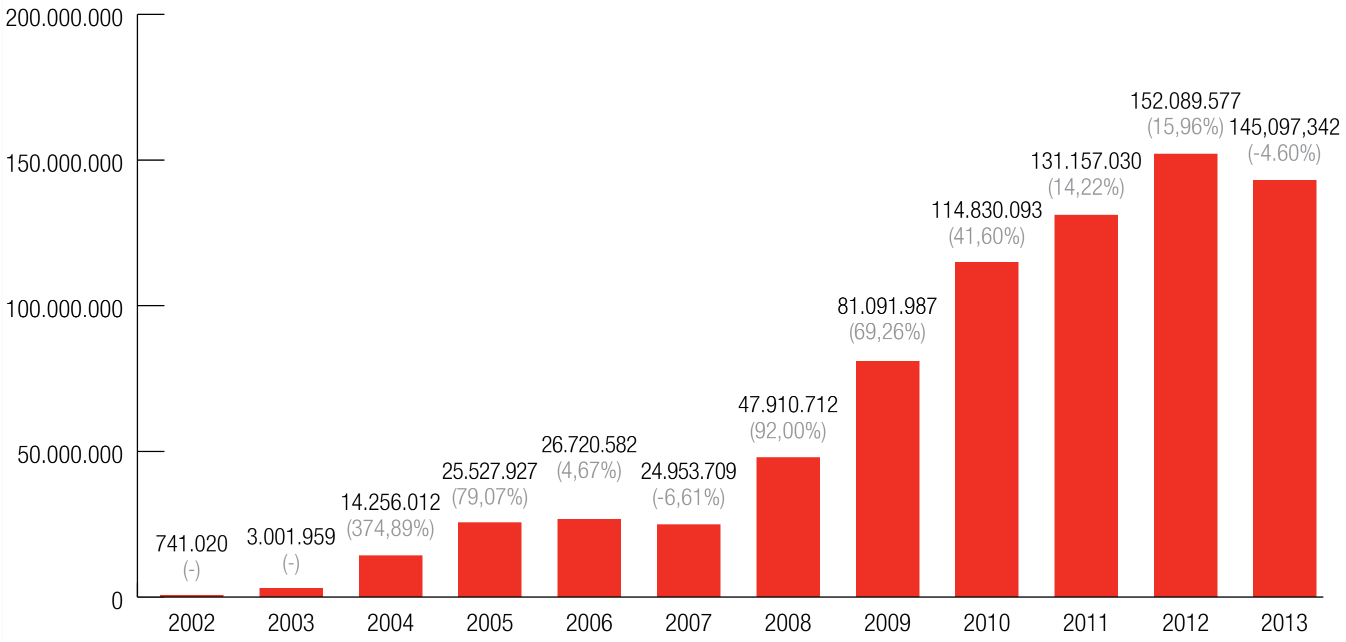
Structure of liabilities 2013.
in RSD 000

Due to other banks	34%	85,635,011
Due to customers	44%	110,244,957
Subordinated liabilities	1%	3,428,417
Other liabilities	1%	2,120,078
Shareholdders' equity	20%	50,524,779
	100%	251,953,242



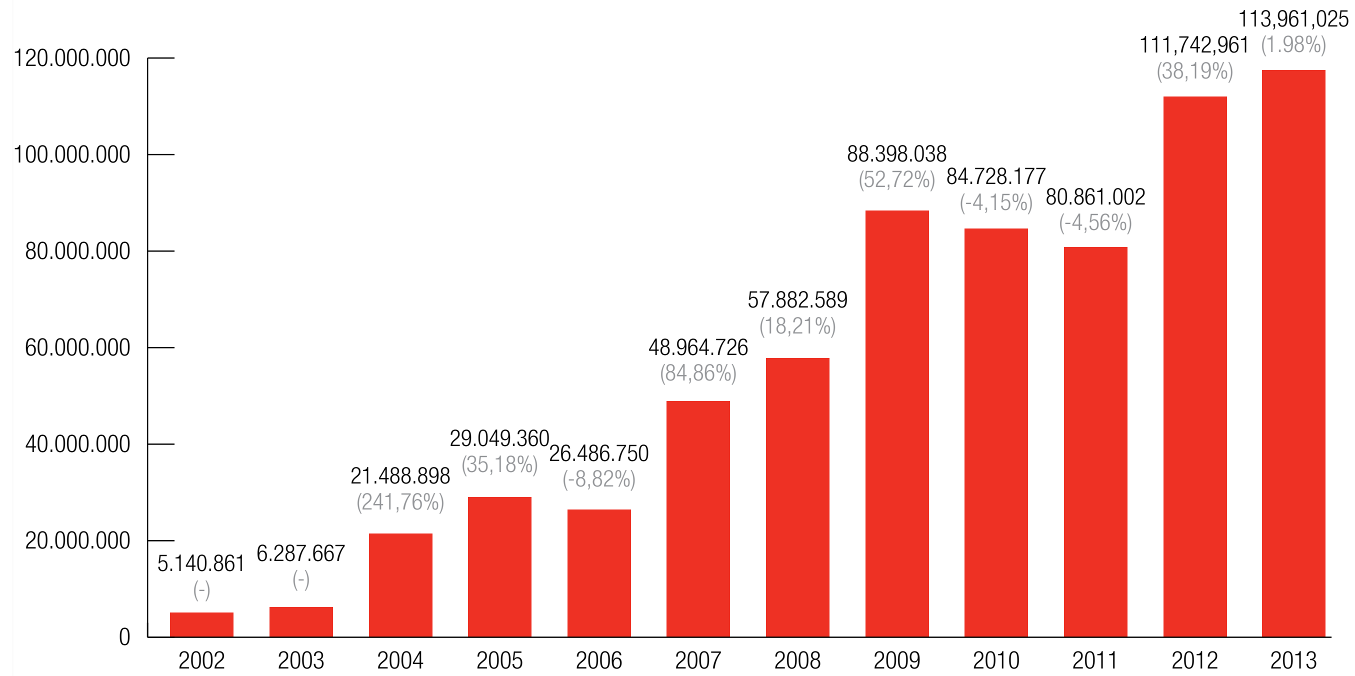
Deposits from customers have the major share in total liabilities with 44%.

Total loans
in RSD 000



Total loans to clients decreased for 4,6% in 2013 compared to 2012 and were MRSD 145.097.

Total deposit
in RSD 000



Total deposits reached mio RSD 113.961 in 2013.

Facilitate

Finding solutions to make everything easier.

"Due to an internal bug, one of my Customers received funds to pay staff salaries two days late.
I did everything I could to find a solution. I asked my colleagues for help, and together we came up with a response: we compensated for the two lost days in their wages the next month. The Customer called to thank me for solving the issue quickly.
We showed that our **bank is easy to deal with**."

Peter Tschöp - Financial Institutions Group - CIB Global Division
UniCredit Bank Austria

Reports of the Divisions and Departments

Corporate and Investment Banking Division

Previous year was challenging for Corporate and Investment Banking Division, having in mind overall drop in credit demand on the banking market and the increase in non-performing loan (NPL) rate. The Bank pursued a strategy of portfolio consolidation, with particular focus on de-concentration of credit risk. As a result, the credit portfolio remained stable and currently stands at 1,5 billion EUR, with a base of 3200 clients, whilst at the same time the NPL rate is below market average.

We continued to strengthen deposit position of the Bank, implementing numerous commercial activities aimed at collection of deposits and increase of volume of transaction banking. As a result, the bank increased the volumes of deposits by 4% reaching the amount of EUR 530 million, while the number of transactions recorded double digit growth in comparison with previous year. Strategy of the bank in regards to the structure of revenues was aimed at boosting the income from fees with a special focus on introduction of innovative products, such as External Direct Debit, PaReTo, E-commerce and Trade Finance.

In 2013 UniCredit Bank Serbia was the main partner to both foreign investors and domestic market participants for business on the domestic interbank market. In this way, the bank has maintained a leading position on the local market, with a share of 16%, as well as in the segment of trading with non-residents (foreign financial institutions), with a market share of 42%. According to the achieved market share in foreign exchange transactions of legal entities, UniCredit Bank Serbia is at leading position with 16%.

During the 2013 the bank was actively involved in promoting the philosophy of the hedging protection, with particular focus on hedging against exchange rate risk, by maintaining an interactive workshop for both large enterprises and for medium-sized companies. The Bank was striving to be ahead of the competition with its innovative approach, and to be a leader in the designing and marketing of products that the market is starting to accepts slowly. Current strategic market positioning obliges the Bank to maintain the leading position and be the market frontrunner.

The National Bank of Serbia managed restrictive monetary policy framework during first quarter of last year, which was abandoned afterwards, as the inflation was contained. In 2013 NBS started with the prompting key rate cuts and the cumulative key rate cut during 2013 was 175bps to 9.5%. Ministry of Finance has introduced the 7 year RSD coupon bond and introduced the 5yr EUR bond. UniCredit Bank continues to achieve excellent figures in market share with a market share in amount of 32% in trading with financial instruments on the primary market, by occupying the strategic position in above mentioned operations, with a special focus on brokerage service of financial instruments on primary market of state securities.
The Bank was very active in the state Subsidy Program launched by the Government in order to support local economy buffering the effects of crisis and reported good reputation among the governmental bodies and local community, thanks to the good results achieved. Financing of the public sector in Serbia reached more than half a billion EUR in 2013, out of which loan exposure amounted close to 30%, while the rest is exposure in securities. The Bank continued with its active role in every public tender for financing.

In the forthcoming year the Corporate and Investment Banking Division will continue with strategy of portfolio consolidation and creation of economic value for the Bank, by increasing the return on risk weighted assets. The Bank's business activities will be still addressed on stimulating the development of local economy, with major focus on selling of innovative products and advisory services for clients provided by Bank's product specialists. During 2014 bank will continue to implement new products for Trade Finance, Cash pooling, M&A buy/sell side advisory (Including privatizations) and Fairness opinion.

Our mission is to educate the market and together with our clients create new value strongly leveraging on our belonging to a major international financial group.

Retail Division

Even in environment highly affected by the crises during the 2013, Retail Division managed to maintain an upward trend by recording 3.6% growth in revenue (compared with previous year). Loan and deposit volumes have followed the same scenario, by increasing for 8.1% on lending and 6.6% on deposit side. Consequently, this increase also reflected in increasing the market share in terms of lending and deposit. Besides that, trend of growth of market share on Mortgage loans continued for additional 50 bps in comparison with 2012 (from 4,8% to 5,3%).

During 2013, within Retail Division, offer for private individuals and SME was additionally expanded. New Selektor Package Account was presented. Main characteristic of this Package is that monthly maintenance fee depends from services which client chooses. Main goal of this changed concept was to provide Clients with capability to choose package of services which they really use and to avoid charging of services which does not use.

In 2013, following products and services were also implemented:

- Citizen cheque
- Cash loan for individuals without obligation of transferring salary to UniCredit Bank
- It is launched new credit line for energy efficiency and offer for private individuals is expanded with consumer loans for purchase of REHAU PVC products in dinars and indexed in EUR, with repayment period from 6 up to 36 months
- SMS info for SME (automatic messages and messages on request)
- Offer of card products is expanded with new MaestroPayPassTM card which enable contactless payments
- Purchase of software for automatic call distribution and integration with CRM enable improvement of Contact Center services
- In order to improve level of service it is introduced completely new service – Answering Machine which enable Clients to find out all kind of useful information: balance on current account, loan, credit and pre-paid card, block/unblock of cards, check of current exchange rates or talk with Contact Centre operator
- SMS service is upgraded with additional functionality - check of balance on current account, but also the balance on your credit and pre-paid card.
- Redesign of m banking application.

During 2013 within Retail Division several projects and initiatives have been started:

- New service model for private individuals which is based on change of bank's approach towards clients. Main goal is improvement of service quality and expanding of number of products and services offered to clients by one advisor who is responsible for full scope of product and services
- "SME Hubs" – Main goal of the project is to increase SME Relation Manager effectiveness, to improve organizational structure in SME segment and to standardize quality of service

Bank has continued supporting measures of the Serbian government to preserve financial stability through active participation in the program of subsidized loans (housing and small business loans)

Following the good practice, Retail division run two waives of mystery shopping and an investigation of customer satisfaction for the reason of further improvement of clients satisfaction.

Project Transaction migration that began in 2012, has been continued in 2013. Project is oriented on cash transaction, FX transaction and payment of different types of bills (phone, electricity...) and it was realized through package of electronic banking services under the name "Bank on a button". Main goal of project is to decrease the number of transactions on cash desks in branches and their migration to electronic transaction channels (ATM, On-line banking and M banking).

Regarding selling of non-risk bearing products during 2013 main focus was on selling of M banking, SMS Card alarm, Gift card while on lending side the most frequent products were mortgage and cash loans.

Beside constant innovations when products are concerned, focus was on further education and training of our employees. All these in a combination with transparent condition for our clients are the main drivers for success.

Global Banking Services Division

During 2013, Banking Operations Division was focused on support of business development, improvement of organizational structure of the bank, increase of efficiency, cost management and improvement of internal control system on the Bank's level.

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

Implementation of new methodologies for Project and Process management during 2013 resulted in successful closing of initiatives related to:

- Business development
- Improvement of internal control system
- Reduction of risk

Besides that, important improvements have been done in Information and communication technologies security area as a result of several complex ICT projects which enabled higher security standards and reduced risk in these systems.

Well-structured cost management provided sustainable business development with controlled cost growth, keeping cost to income ratio of UniCredit Bank on a stabile level thus confirming the position of UniCredit Bank Serbia as the best on the market.

Rise of average quantity of daily operational activities based on increased of number of transactions, centralization of back office activities within Banking Operations and new activities based on regulatory or reasons, were handled by more intensive automation, better process organization, improved management monitoring techniques and more extensive internal trainings for employees. Analysis of the business in terms of perception of workload and resources, and which was performed in several largest organizational units within the bank, was a solid basis for defining the future plans for the balanced development of business with the available resources.

Human Resources Department

UniCredit, as a strong European player, wants to leverage on its human capital generated by a diverse workforce. In the new changing scenario, HR is called to play a strong strategic role in order to anticipate and support Business evolution with new workforce dynamics and investments in our people. In order to reach this goal, HR is focusing on the following priorities:

- People engagement;
- Creating conditions and processes that can foster cooperation and cultural change;
- Talent management, diversity and leadership development;
- Being a data driven function through the alignment of people, processes and technology to respond to business needs and improve profitability.

With the aim to improve people engagement, the Bank continued with a set of initiatives such as:
- Intensified communication of the Bank/Group results and HR Strategy through quarterly management meetings and regular Divisional meetings
- Top Management visits to all Bank structures and regions via Listening Roadshow, followed by concrete action plans as response to the improvement areas addressed by employees
- Putting employees in the driving seat in creating new culture, processes and products within the Bank through the various cross-divisional business projects under the umbrella of the First Class Banking program.

At UniCredit, we are dedicated to creating a great place to work. We regularly collect people's views, suggestions and expectations through internal surveys that can help HR to detect and put in place ad hoc engagement initiatives throughout the Bank. People Survey results 2013 for UniCredit Serbia show a high level of satisfaction of employees (Engagement Index of 85%, response rate 86%).

For HR this means being an "Employer of choice" internally, but also externally, keeping recruiting standards on high level. Also, this means to provide structured programs for internships and partnership with the best Faculties (Faculty of Law and Faculty of Economics) also providing the support for IMQF program.

Special focus is given to Compensation and Incentive System process. In 2013, we implemented changes based on Group compensation framework. The main goal was to strengthen the link between compensation, performance and develop retention plans, especially for management level and key people. Enforcing the approach to compensation which is based on results, by further developing the link between compensation and performance and awarding all employees in accordance with their performance, leads to establishment of a more transparent, more measurable and more achievable objectives as drivers for compensation packages. Therefore, performance award pool was allocated in a way to boost talent development and to show appreciation for the commitment and outstanding performance.

Performance Management is one of the core processes assuring this approach and setting a base for all further actions related to our employees. It is aimed at evaluating and keeping track of the achievements of individuals and teams against a predefined set of performance and behavioral expectations. For top and middle management level as well as for key talented people, UniCredit follows a special process designed to identify and develop talented professionals who are likely to succeed in an international, cross-cultural working environment and who are seen as future leaders in their career with UniCredit.

Investment in human capital is a top priority. Develop knowledge and skills of our people so that they understand their role in achieving the goals of the Bank, work effectively in accordance with a common vision and values, and have the capacity to quickly adapt to changes. In 2013 on average every employee went through at least one training, mainly focusing on managerial trainings and soft skills development. Training needs analyses have been conducted and transformed into a Training Catalogue in line with employee's development needs and business strategy as outcome of the Performance Management process. The technical trainings which were in focus in 2013 were: Senior Leadership, Corporate trainings, IFRS trainings and CRM trainings. The Bank also conducted soft skills trainings: Presentation skills, Time and Goal management, Communication skills, Giving and receiving feedback, Assertiveness and Stress management. Boosting risk culture: in 2013 learning and development offer special importance was given to Risk topics, through Group e-learning platforms as well as locally designed focus groups.

Our Bank as part of one of the biggest International Banking Groups takes advantage of all cross-country initiatives by involving employees, adopting processes and creating synergies with the existing practice. Besides regular local (internal and external) learning initiatives, and despite the overall cost awareness, UniCredit Bank supports also international development of employees leveraging on world-wide presence. Among other Banks in UniCredit CEE, Serbia has the highest number of employees mentored by Top Managers from the Group.

"Different perspectives are necessary to innovate and improve our service quality to our customers and to generate sustainable results", says our CEO. UniCredit Group launched an international "Gender Balance Program": a team of colleagues from different countries, companies and competence lines, that has been working to identify tools and initiatives with the aim to promote a gender balance approach. Serbia, as part of UniCredit, has

Human Resources (CONTINUED)

reached some important results: implementation of the Gender Equality policy issued to influence our corporate culture through concrete actions, and is in the process of creating a Gender Equality dashboard that is monitoring specific indicators that will help identify gaps.

Identity and Communication / Customer satisfaction Department

For UniCredit Bank brand, 2013 was highly important. Besides the task to incorporate our redesigned visual platform in a simple way into all materials which we use to communicate with clients and associates, we will remember it by advertising campaigns which in a large extent contributed to the Bank's solid business result.

"Life is full ups and downs. We are there for both" which arises from our Mission to deliver the concrete answers on real life problems of our clients, is further supported by new products and services. This approach to banking has allowed us to move for three places ahead in 2013 when brand awareness is concerned, from 12th to 9th position.

First larger campaign in a row in 2013 was a campaign for Selector Account Package, completely new product on the market in category of account packages. Offer of this baseline banking product on our market is diversified, but does not give the opportunity to clients to choose services which they really need. Therefore, UniCredit Bank has created a „tailor made" product which implies that client can choose a set of services which he/she wants and in that way to pay only for services which use. Conceptual design of advertising campaign is based on possibility of combining and as such is closely connected with most important aside thing in the world, football. With the aim to additionally emphasize our partnership with UEFA Champions League, we have shown how with strategy of combining we can ensure winning combination. The key message is ''Make your own winning combination".

The next campaign ha in focus Cash Loans through which we presented four key benefits: insurance of job loos, invalidity and illness, longer repayment period, higher loan amount and smaller monthly installment, as well as competitive interest rates. Having in mind all above mentioned, we have created a concept, under the name Recipe for Cash which on real life example, namely on small accidents in the kitchen in a metaphoric way show what can happen due to lack of money, in a very appealing way was sending a clear message: if thing go wrong, if you get into a sauce, if you are over boiled, there is a Recipe for Cash. It is the best when all ingredients are in place.

In accordance with its communication strategy, UniCredit Bank, through different activities on a national and local level, also in 2013 was trying to increase its presence in media and in that way additionally contribute to the visibility of the bank on the local market. As it was a case in years before this, media market was characterized by remarkable dependence of PR and advertising, which has greatly hampered the work to companies with limited budgets, in terms of information placement in the media. We have continued to work on upgrading of existing relationship with the media, on building news as well as on creating innovative approaches of placing the information. Despite the difficult financial situation in most of the media in Serbia and altered media landscape, which has resulted in a further change in the principles of their business, UniCredit Bank is 2012 has managed to record a huge improvement when total number of publications is concerned, by keeping one of the leading positions on the Serbian market. Namely, at the end of 2013, bank took a position number tree when, marking in that way great progress in comparison to the previous year.

UniCredit Banka in 2013 proved good business practice based on key values such as respect, trust and fairness. By combining this way of doing business with providing high quality services which are in accordance with client's real needs, resulted in preservation of high level customer satisfaction, when both, Retail and Corporate clients are concerned. Survey conducted among clients of Retail Division has shown that clients of UniCredit Bank are significantly more satisfied in comparison with the satisfaction of clients of other banks which are present on our market. Therefore we can say that the bank managed to keep excellent service quality, high level of client's loyalty, as well as to built relationship which is based on mutual trust.

As in all previous years, we have invested lots of effort and work in upgrading the image of UniCredit Bank as socially responsible company. We have continued to support local communities in which bank is present in the way that we were involved in organization of different initiatives and manifestation, trying to contribute to their further development. We are extremely proud on project "Idea for better tomorrow " which we organized in cooperation with Unicredit Foundation and Foundation of Ana and Vlade Divac. The idea of this project was to find ideas for typical Serbian product and services which in the best way can contribute to the improvement of our country in the region and abroad, as well as to the improvement of export potential. Social companies, small cooperatives, companies employing marginalized and vulnerable groups and individuals, as well as families and individuals, applied with 230 ideas. In basis of the innovative aspect of these ideas and sustainability of the project, 9 best candidates were chosen which were awarded with grants in the overall amount of EUR 56,000. Our engagement and commitment were recognized publically, and therefore we were awarded for the bank with most successful program of corporate social responsibility - „Planeta biznis" by prestigious economic magazine Biznis.

Collaborate

More efficiency, better results.

A long-standing Client of UniCredit, had been owned since 2008 by a US private equity fund. The Company consistently recorded good results and after four years, the equity fund began to consider the best options for maximizing its investment. The transaction was quite complex, involving many teams in UniCredit who worked in unison, like an orchestra, to achieve the same objective, that of satisfying all the clients involved.
Our intervention enabled all of the potential buyers to be well supported and the deal was concluded in a very short time, allowing the Company to **continue its growth** path under a new shareholder, also a key Client of UniCredit. The US equity fund managed to achieve **a very successful investment**. One deal, more satisfied Clients.
Working together for the same objective produces excellent results.

CIB Financial Sponsor Solutions - ITALY

Financial Statements

in accordance with International Financial Reporting Standards (IFRSs)

Independent Auditors' Report

Deloitte.

Independent Auditors' Report

TO THE SHAREHOLDERS OF UNICREDIT BANK SERBIA JSC BELGRADE

We have audited the accompanying financial statements (pages 2 to 83) of UniCredit Bank Serbia JSC Belgrade ("the Bank"), which comprise the statement of financial position as of 31 December 2013, and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the 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 Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UniCredit Bank Serbia JSC Belgrade as of 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

April 30, 2014
Deloitte d.o.o.,
Belgrade

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 a faithful as possible to the original. However, if any question arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

Statement of financial position as at 31 December 2013

(In thousands of RSD)

	Note	2013	2012
Assets			
Cash and cash equivalents	14	20,899,446	9,063,823
Non-pledged trading assets	15	1,249,621	3,940,818
Loans and advances to banks	16	33,445,827	44,593,753
Loans and advances to customers	17	145,097,342	152,089,577
Investment securities	18	47,588,806	30,467,071
Current tax assets		746,499	-
Property and equipment	19	1,134,511	1,151,981
Intangible assets	20	912,227	999,854
Deferred tax assets	21	169,836	37,507
Other assets	22	709,127	1,209,400
Total assets		**251,953,242**	**243,553,784**
Liabilities			
Trading liabilities	15	338,051	597,286
Derivative liabilities held for risk management	23	159,313	259,718
Deposits and loans from banks	24	85,635,011	85,981,200
Deposits and loans from customers	25	110,244,957	105,709,576
Subordinated liabilities	26	3,428,417	3,438,300
Differed tax liabilities	21	593	322
Provisions	27	149,412	151,610
Other liabilities	28	1,472,709	1,608,270
Total liabilities		**201,428,463**	**197,746,282**
Equity			
Share capital and share premium		24,169,776	24,169,776
Retained earnings		25,289,292	21,457,759
Reserves		1,065,711	179,967
Total equity attributable to equity holders of the Bank	29	**50,524,779**	**45,807,502**
Total liabilities and equity		**251,953,242**	**243,553,784**

Belgrade, April 30, 2014
For and on behalf of the management of UniCredit Bank Serbia JSC Belgrade:

Mr. Claudio Cesario
President of Management Board

Mr. Alen Dobrić
Management Board Member

Ms. Ljiljana Berić
Chief Financial Officer

Ms. Mirjana Kovačević
Head of Accounting Department

The notes on the following pages form an integral part of these financial statements.
Independent Auditor's Report.

Statement of comprehensive income for the year ended 31 December 2013

(In thousands of RSD)

	Note	2013	2012
Interest income	7	16,550,309	15,362,159
Interest expense	7	(6,400,886)	(6,521,292)
Net interest income		**10,149,423**	**8,840,867**
Fee and commission income	8	2,663,968	2,387,960
Fee and commission expense	8	(595,448)	(480,531)
Net fee and commission income		**2,068,520**	**1,907,429**
Net trading income	9	1,229,223	1,849,912
Other revenue		59,810	41,470
Revenue		**1,289,033**	**1,891,382**
Net fair value changes of the hedged items		(111,208)	163,493
Net fair value changes on derivatives held for risk management		117,029	(191,241)
Net impairment loss on financial assets	10	(5,004,070)	(3,218,538)
Personnel expenses	11	(1,992,234)	(1,966,545)
Operating lease expenses		(439,604)	(373,977)
Depreciation and amortisation	19,20	(491,166)	(391,777)
Other expenses	12	(1,886,518)	(1,739,433)
Profit before income tax		**3,699,205**	**4,921,660**
Income tax expense	13	132,328	(521,913)
Profit for the period		**3,831,533**	**4,399,747**
Other comprehensive income, net of income tax			
Net change of financial assets measured at fair value through other comprehensive income:			
Net change in fair value on available-for-sale financial assets	29.2	885,744	221,696
Other comprehensive income for the period, net of income tax		**885,744**	**221,696**
Total comprehensive income for the period		**4,717,277**	**4,621,443**
Profit attributable to:			
Equity holders of the Bank		3,831,533	4,399,747
Profit for the period		**3,831,533**	**4,399,747**
Total comprehensive income attributable to:			
Equity holders of the Bank		4,717,277	4,621,443
Total comprehensive income for the period		**4,717,277**	**4,621,443**

The notes on the following pages form an integral part of these financial statements.
Independent Auditor's Report.

Statement of changes in equity for the year ended 31 December 2013

(In thousands of RSD)

	Note	Share capital	Share premium	Fair value reserves	Retained earnings	Total
Balance as at 1 January 2013	29	23,607,620	562,156	179,967	21,457,759	45,807,502
Total comprehensive income for the year						
Profit		-	-	-	3,831,533	3,831,533
Dividend payments	29	-	-	-	-	-
Other comprehensive income, net of income tax	29.2	-	-	885,744	-	885,744
Total comprehensive income for the year		-	-	**885,744**	**3,831,533**	**4,717,277**
Transactions with equity holders, recognised directly in equity						
Contributions by and distributions to equity holders						
Increase of share capital	29	-	-	-	-	-
Total contributions by and distributions to equity holders		-	-	-	-	-
Balance as at 31 December 2013	29	**23,607,620**	**562,156**	**1,065,711**	**25,289,292**	**50,524,779**
Balance as at 1 January 2012	29	**23,607,620**	**562,156**	**(41,729)**	**18,193,012**	**42,321,059**
Total comprehensive income for the year						
Profit		-	-	-	4,399,747	4,399,747
Dividend payments	29	-	-	-	(1,135,000)	(1,135,000)
Other comprehensive income, net of income tax	29.2	-	-	221,696	-	221,696
Total comprehensive income for the year		-	-	**221,696**	**3,264,747**	**3,486,443**
Transactions with equity holders, recognised directly in equity						
Contributions by and distributions to equity holders						
Increase of share capital	29	-	-	-	-	-
Total contributions by and distributions to equity holders		-	-	-	-	-
Balance as at 31 December 2012	29	**23,607,620**	**562,156**	**179,967**	**21,457,759**	**45,807,502**

The notes on the following pages form an integral part of these financial statements.
Independent Auditor's Report.

Statement of cash flows for the year ended 31 December 2013

(In thousands of RSD)

	Note	2013	2012
Cash flows from operating activities			
Profit for the period		3,831,533	4,399,747
Adjustments for:			
Depreciation and amortisation	19, 20	491,133	391,777
Impairment losses	10	5,004,070	3,218,538
Net interest income	7	(10,149,423)	(9,372,603)
Net gain on investment securities at fair value through profit and loss		(66,552)	(37,746)
Net (gain)/loss on trading securities	9	(28,004)	(109,521)
Tax expenses	13	(132,328)	521,913
		(1,049,571)	**(987,895)**
Changes in:			
Trading assets	15	2,691,197	(47,276)
Loans and advances to banks	16	11,147,926	(4,261,327)
Loans and advances to customers	17	1,943,560	(24,565,705)
Other assets	22	500,273	(24,325)
Trading liabilities	15	(259,235)	559,939
Deposit from banks	24	(346,189)	15,352,994
Deposit from customers	25	4,535,381	24,996,252
Other liabilities		(173,616)	439,949
		18,989,726	**11,462,606**
Interest received		12,670,126	12,305,806
Interest paid		(6,185,330)	(6,338,046)
Income tax paid		(791,717)	(606,372)
Net cash used in operating activities		**24,682,805**	**16,823,994**
Cash flows from investing activities			
Acquisition/Proceeds from sale of investment securities, net		(12,440,594)	(9,973,935)
Acquisition of property and equipment	19	(168,381)	(84,791)
Acquisition of intangible assets	20	(238,207)	(478,584)
Net cash used in investing activities		**(12,847,182)**	**(10,537,310)**
Cash flows from financing activities			
Dividends paid	29	-	(1,135,000)
Net cash from financing activities		**-**	**(1,135,000)**
Net increase/(decrease) in cash and cash equivalents		11,835,623	5,151,684
Cash and cash equivalents at 1 January	14	9,063,823	3,912,139
Cash and cash equivalents at 31 December		**20,899,446**	**9,063,823**

The notes on the following pages form an integral part of these financial statements.
Independent Auditor's Report.

Notes to the Financial statements

Notes to the Financial statements

1) Activity

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

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

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

As of 31 December 2013 the Bank was comprised of a Head Office situated in Belgrade and of seventy four branch offices located in major cities throughout the Republic of Serbia (31 December 2012: seventy five branch offices).

At 31 December 2013 the Bank had 1,046 employees (31 December 2012: 1,008).

2) Basis of preparation

(a) Statements of compliance

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

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 5.

(e) New standards, interpretations and amendments to published standards

As of the financial statements issuance date, the following standards, interpretations and amendments were issued, but were not effective for the financial year ending 31 December 2013:

- IFRS 9 “Financial Instruments” and subsequent amendments (effective date has not been determined yet). This standard replaces IAS 39 “Financial Instruments: Recognition and Measurement,” and deals with classification and measurement of financial assets. The standard eliminates existing categories present in IAS 39: assets held to maturity, assets available for sale and loans and receivables.

Financial assets would be classified in one of these two categories at initial recognition:

- Financial assets measured at amortized cost,
- Financial assets measured at fair value.

A financial asset is measured at amortized cost if the following two criteria are met: it is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the asset’s contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other assets would be measured at fair value.

Gains and losses based on the valuation of financial assets at fair value through profit and loss will be recognized in the income statement, with the exception of investments in capital instruments not held for trading, where IFRS 9 allows, during initial recognition, later unchangeable choice that all fair value changes be recognized within other comprehensive income. Amount recognized within other comprehensive income cannot be recognized in the income statement.

Notes to the Financial statements (CONTINUED)

2) Basis of preparation (continued)

The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Bank has commenced the process of evaluating the potential effect of this standard but is awaiting finalization of the limited amendments before the evaluation can be completed. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements.

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 19 - Defined Benefit Plans: Employee Contributions Statements' (effective for annual periods beginning on or after July 1, 2014);
- Amendments to IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IFRS 10, IFRS 12 and IAS 27 - Exemption from Consolidation of Subsidiaries under IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 36 "Impairment of Assets" - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 39 "Financial Instruments:" Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after January 1, 2014);
- Amendments resulting from Annual Improvements 2010-2012 Cycle issued in December 2013 (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014);
- Amendments resulting from Annual Improvements 2011-2013 Cycle issued in December 2013 (IFRS 1, IFRS 3, IFRS 13 and IAS 40) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014);
- IFRIC 21 "Levies" (effective for annual periods beginning on or after January 1, 2014).

Management of the Bank is considering the impact of these standards on the future financial statements.

The following standards, interpretations and amendments to published standards became effective for accounting periods starting on or after January 1, 2013:

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013);
- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after January 1, 2013);
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after January 1, 2013);
- IFRS 12 "Disclosures of Involvement with Other Entities" (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012).
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after January 1, 2013). The Bank prospectively applied the new definition of fair value as disclosed in Note 3(j)(vi). The aforesaid change has no material effect on the valuation of assets and liabilities in the Bank's financial statements. However, the Bank included in the financial statements additional disclosures as required by IFRS 13;
- Amendments to IAS 19 "Employee Benefits" – Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after January 1, 2013). The amendment to IAS 19 has not been applied to these financial statements. Management has considered the amendment and decided that it will not have a materially significant impact on the financial statements.
- IAS 27 "Separate Financial Statements" (effective for annual periods beginning on or after January 1, 2013);
- IAS 28 "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after January 1, 2013);
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after January 1, 2013). This interpretation has not been applied to the Bank's financial statements given the nature of the Bank's activity.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements," "Joint Arrangements" and "Disclosures of Involvement with Other Entities" - Transition Guidance (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Government Loans with a Below-Market Rate of Interest (effective for annual periods beginning on or after January 1, 2013);
- Annual improvements 2009-2011 cycle issued in May 2012 (effective for annual periods beginning on or after January 1, 2013), related to IAS 1, IAS 16, and IAS 32.

(f) Comparative Information

For the purpose of reconciliation with the presentation of the current period information, certain reclassifications were made to the data presented in the financial statements for the year 2012. Reclassifications do not have a material impact on any of the presented periods.

3) Significant accounting policies

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

(a) Consolidation

The Bank does not have control over any other entity and does not prepare consolidated financial statements.

(b) Going concern

The financial statements are prepared in accordance with the going concern concept, which assumes that the Bank will continue its operation, in the foreseeable future.

(c) Foreign currency

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

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

In RSD	2013	2012
USD	83.1282	86.1763
EUR	114.6421	113.7183
CHF	93.5472	94.1922
JPY	0.791399	1.000689

(d) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate.

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

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

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on available-for-sale investment securities calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying derivatives designated in fair value hedges of interest rate risk.

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

(e) Fees and commission

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

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

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

(f) Net trading income

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

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

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

Notes to the Financial statements (CONTINUED)

3) Significant accounting policies (continued)

(h) Lease payments

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

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

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(i) Tax expense

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

(i) Current income tax

Current tax is expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Current income tax represents the amount calculated in accordance with the Serbian Tax Law. The income tax rate for 2013 is 15% (2012: 10%). Taxable profit includes the profit shown in the statutory Statement of income and adjustments for permanent differences, as defined by the Serbian Tax Law.

Tax credit for investments in fixed assets, used for the prevailing business activity and all other activities inscribed by the founding documentation, amounts 20% of the paid investment. According to the amendments of the CIT Law, effective as of 1 January 2013, tax liability could be offset by 33% of tax credit (2012: 50%). Non-utilized part of the tax credit can be carried forward for ten years and offset with the future tax liabilities.

(ii) Deferred income tax

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

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

(iii) Other taxes and contributions

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

(j) Financial assets and liabilities

(i) Recognition and initial measurement

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

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

/ii/ Classification

The Bank classified its financial assets into the following categories:
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets;
- financial assets at fair value through profit or loss

See accounting policies 3(k), 3(l), 3(m) and 3(n).

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

(iii) Derecognition

Financial assets

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

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

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

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

Financial liabilities

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

/iv/ Offsetting

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

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

(v) Amortized cost measurement

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

(vi) Fair value measurement

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

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

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

Notes to the Financial statements (CONTINUED)

3) Significant accounting policies (continued)

Assets and long positions are measured at a bid price and liabilities and short positions are measured at an asking price. When the Bank has position with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

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

/vii/ Identification and measurement of impairment

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

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

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

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

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

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

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

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

(k) Cash and cash equivalents

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

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

(l) Trading assets and liabilities

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

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

(m) Derivatives held for risk management purposes and hedge accounting

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

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

(i) Fair value hedges

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

(n) Loans and advances

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

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

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

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

(o) Investment securities

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

/i/ Held-to-maturity financial assets

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and the ability to hold them to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value,
- sales or reclassifications after the Bank has collected substantially all of the asset's original principal, and
- sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

Notes to the Financial statements (CONTINUED)

3) Significant accounting policies (continued)

/ii/ Fair value through profit or loss

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

/iii/ Available- for- sale financial asset

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

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

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

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

(p) Property and equipment

(i) Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

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

(ii) Subsequent costs

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

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

(iii) Depreciation

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

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

Description	Estimated useful life (in years)	% p.a.
Buildings	50	2
IT equipment	5	20
Motor vehicles	6	15.5
Furniture and other equipment	3 - 14	7 – 30

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

(q) Intangible assets

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

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

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use. The estimated useful life of intangible assets is five years and amortisation rate used is 20%.

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

(r) Leased assets - lessee

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

Assets held under other leases are classified as operating leases and are not recognised in the Bank's statement of financial position.

(s) Impairment of non-financial assets

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

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

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

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

(t) Deposits, borrowings and subordinated liabilities

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

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

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

(u) Provisions

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

(v) Financial guarantees

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

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

3) Significant accounting policies (continued)

(x) Employment benefits

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

Pursuant to the Labour law, the Bank has an obligation to disburse an employment retirement benefit to a retiree. The retirement benefit obligation recognized in the statement of financial position as at 31 December 2013 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%, but also on margins on annuities to a vanishing point as prepared by the actuary.

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

4) Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks:

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

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

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

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

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

Risk relating to the country of origin of the person to which the Bank is exposed to (country risk) is the risks of negative effects on the financial result and capital of the Bank due to the Bank's inability to collect receivables from such entity from reasons arising from political, economic or social circumstances in such entity's country of origin.

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

Risk Management Framework

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

Internal organization of the Bank ensures functional and organizational separation of risk management and other regular business activities.

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

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

Notes to the Financial statements (CONTINUED)

4) Financial risk management (continued)

Compliance Risk

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

Internal Audit Department

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

(b) Credit risk

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

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

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

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

Credit risk reporting

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

RMIS has to fulfil 4 main functions:
1. Collecting and processing of data and indicators of credit risk
2. Analysis of movements and changes of total loan portfolio and it's structural characteristics
3. Continuous monitoring of credit risk
4. Providing basis for credit risk management decisioning process.

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

Credit Risk Parameters

Quantification of credit risk is done by measuring of expected loss. Main indicators that are used to monitor credit risk and to calculate expected loss and loan loss provisions are:
- Exposure of the Bank at default moment (EaD)
- Probability of default (PD)
- Loss given default (LGD)
- Loss confirmation period (LCP).

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

Rating models, credit risk parameters and collaterals are used for LLP calculation in line with International Financial Reporting Standards (hereinafter: IFRS), as defined by the special internal regulation of the Bank.

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

Limits

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

In accordance with NBS regulation, total exposure limit toward one client or group of related entities should not be over 25% of total capital of the Bank, after applying all prescribed deducted positions. Sum of all exposures that exceed 10% of capital of the Bank, cannot be higher than 400% of capital of the Bank. Total exposure limit toward one client or group of related entities that exceed 10% of capital of the Bank have to be approved by Supervisory Board.

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

Reports

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

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

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

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

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

AQ is prepared on monthly level, data are shown by sub segments with comparable data from all months in reporting year. Report contains:
- Outstandings, EAD, collaterals, LLP in each subsegment with collateral coverage and llp coverage
- Write Down, Write Back, specific, IBNR and LLP NWD
- Cost of risk evolution
- NBS NPL

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

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

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

Notes to the Financial statements (CONTINUED)

4) Financial risk management (continued)

Exposure to credit risk

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

In thousands of RSD

	Loans and advances to banks		Loans and advances to customers		Investment securities		Non - pledged trading assets		Other assets		Off - balance sheet items	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Individually impaired												
Legal entities, Rating 10	1,691	1,659	13,244,908	13,467,711	55,316	55,316	-	-	55,557	72,610	6,315	1,396
Legal entities, Rating 9	-	-	11,252,942	3,401,917	14,661	12,061	-	-	11,857	4,206	139,949	33,304
Legal entities, restructured loans*	-	-	218,827	107,844	-	-	-	-	3,931	3,878	8,983	301
Citizens, > 90 overdue	-	-	2,784,886	2,674,706	-	-	-	-	76,662	58,523	10,754	24,079
Gross placements	1,691	1,659	27,501,563	19,652,178	69,977	67,377	-	-	148,007	139,217	166,001	59,080
Impairment	1,691	1,659	14,790,571	9,778,627	67,377	67,222	-	-	108,754	81,928	14,491	16,311
Book value	-	-	12,710,992	9,873,551	2,600	155	-	-	39,253	57,289	151,510	42,769
Portfolio impairment												
Legal entities, Rating 1-6	4,057,156	16,951,363	90,766,033	96,937,053	3,663,404	4,006,027	362,859	575,241	398,879	885,705	83,696,816	55,309,505
Legal entities, Rating 7	-	-	7,163,835	11,264,991	25,000	69,280	-	-	17,392	45,039	1,557,596	3,607,076
Legal entities, Rating 8	-	-	343,335	3,810,667	4,200	-	-	-	1,059	15,158	4,464	3,240,791
Citizens, < 90 overdue	-	-	34,628,550	30,681,987	-	-	-	-	254,202	208,050	1,809,022	1,718,595
Gross placements	4,057,156	16,951,363	132,901,753	142,694,698	3,692,604	4,075,307	362,859	575,241	671,532	1,153,952	87,067,898	63,875,967
Impairment	-	30	515,403	478,672	610	1,277	-	-	1,658	3,747	42,780	49,435
Book value	4,057,156	16,951,333	132,386,350	142,216,026	3,691,994	4,074,030	362,859	575,241	669,874	1,150,205	87,025,118	63,826,532
	-		-		-		-		-		-	
Book value of rated assets	4,057,156	16,951,333	145,097,342	152,089,577	3,694,594	4,074,185	362,859	575,241	709,127	1,207,494	87,176,628	63,869,301
Book value of non-rated assets	29,388,671	27,642,420	-	-	43,894,212	26,392,886	886,762	3,365,577	-	1,906	324,975,850	284,281,874
Total book value	**33,445,827**	**44,593,753**	**145,097,342**	**152,089,577**	**47,588,806**	**30,467,071**	**1,249,621**	**3,940,818**	**709,127**	**1,209,400**	**412,152,478**	**348,151,175**

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

Implementation of Basel II standards for the Group reporting purposes

In the area of Basel II standards implementation the focus of activities was placed mainly on the refinement of Retail scoring models, as well as comprehensive validation of Mid Corporate rating model in line with UniCredit Group standards. Regarding LGD and EaD parameters, activities were focused on validation of LGD model and final implementation of the adopted values for the purposes of all relevant calculations. In addition, an initiative has been made to optimize regular quarterly PD models monitoring process. Further improvements to the internal capital adequacy assessment as per NBS regulatory requirements and the Group standards were realized during 2013 in the area of internal capital assessment and stress testing.

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.

Impairment 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 recognize an impairment loss. In other words, if there is any such evidence of impairment, the Bank should estimate the recoverable amount for such assets or group of assets and recognize an impairment loss.

In determining the adequate amount of provision a distinction is made between the need for calculating a special provision on an individual basis and a special provision on a group basis for clients grouped in categories with similar risk characteristics, including segments to which the client belongs and total amount of exposure at client level. Total exposure of clients consists of the balance of receivable and off-balance balance of receivables, including undrawn amounts of 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 recognized as already occurred) discounted using the effective interest rate for the particular financial asset (e.g. effective interest rate specified in the contract).

Notes to the Financial statements (CONTINUED)

4) Financial risk management (continued)

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 realizable value of impaired assets is determined for the given placement. Finally, the net present value of future cash flows is compared to the carrying amount of the particular asset and the amount of the provision for impairment of the given placement is calculated and reported in the income statement.

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

General provisioning rules and principles

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

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

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

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

In thousands of RSD

	Loans and advances to banks		Loans and advances to customers		Investment securities		Non-pledged trading assets		Other assets		Off-balance sheet items	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
As at 31 December 2013												
Legal entities, Rating 10	1,691	-	13,244,908	3,950,481	55,316	-	-	-	55,557	26,418	6,315	3,138
Legal entities, Rating 9	-	-	11,252,942	7,563,675	14,661	2,600	-	-	11,857	10,739	139,949	138,363
Legal entities, Restructured loans	-	-	218,827	120,524	-	-	-	-	3,931	980	8,983	1,655
Citizens, > 90 overdue	-	-	2,784,886	1,076,312	-	-	-	-	76,662	1,116	10,754	8,354
Total	**1,691**	**-**	**27,501,563**	**12,710,992**	**69,977**	**2,600**	**-**	**-**	**148,007**	**39,253**	**166,001**	**151,510**
As at 31 December 2012												
Legal entities, Rating 10	1,659	-	13,467,711	6,583,467	55,316	155	-	-	72,610	41,395	1,396	389
Legal entities, Rating 9	-	-	3,401,917	2,331,003	12,061	-	-	-	4,206	2,613	33,304	22,679
Legal entities, Restructured loans	-	-	107,844	59,547	-	-	-	-	3,878	1,503	301	222
Citizens, > 90 overdue	-	-	2,674,706	899,534	-	-	-	-	58,523	11,778	24,079	19,479
Total	**1,659**	**-**	**19,652,178**	**9,873,551**	**67,377**	**155**	-	-	**139,217**	**57,289**	**59,080**	**42,769**

Collateral

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

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

- Cash deposits can be recognized at full value,
- Cash convertible guarantees of top rated banks and states, can be recognized at full value,
- Mortgages on residential or commercial property, recognized up to 70% or 60% of appraised value of property,
- Pledged receivables, recognized up to 70%,
- Pledged movable assets, recognized 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.

4) Financial risk management (continued)

Collateral

An estimation of the fair value of collateral held against financial assets taken as loan security by the Bank as at 31 December 2013 is shown below:

In thousands of RSD

	Loans and advances to banks		Loans and advances to customers		Investment securities		Non-pledged trading assets		Other assets		Off-balance sheet items	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Legal entities, Rating 10	**-**	**-**	**1,986,362**	**1,739,790**	**-**	**-**	**-**	**-**	**36**	**3,845**	**2,287**	**-**
Real estate	-	-	1,974,167	1,721,230	-	-	-	-	36	3,845	2,287	-
Other	-	-	12,195	18,560	-	-	-	-	-	-	-	-
			-								-	
Legal entities, Rating 9	**-**	**-**	**6,545,696**	**1,297,621**	**-**	**-**	**-**	**-**	**5,678**	**541**	**26,578**	**14,392**
Real estate	-	-	2,806,631	1,245,026	-	-	-	-	994	403	26,234	14,392
Other	-	-	3,739,065	52,595	-	-	-	-	4,684	138	344	-
Legal entities, restructured loans	**-**	**-**	**44,120**	**44,726**	**-**	**-**	**-**	**-**	**-**	**1,095**	**-**	**-**
Real estate	-	-	43,114	42,456	-	-	-	-		1,078	-	-
Other	-	-	1,006	2,270	-	-	-	-		17	-	-
Citizens, > 90 days overdue	**-**	**-**	**389,293**	**504,190**	**-**	**-**	**-**	**-**	**-**	**4,720**	**-**	**-**
Real estate	-	-	387,821	484,581	-	-	-	-		3,171	-	-
Other	-	-	1,472	19,609	-	-	-	-		1,549	-	-
Collateral used to evaluate collective allowance for impairment	**-**	**-**	**54,034,046**	**58,640,897**	**-**	**-**	**-**	**-**	**168,503**	**224,064**	**15,904,682**	**15,222,797**
Real estate	-	-	35,401,893	33,614,906	-	-	-	-	71,045	120,758	2,421,457	4,719,571
Other	-	-	18,632,153	25,025,991	-	-	-	-	97,458	103,306	13,483,225	10,503,226
Total	**-**	**-**	**62,999,517**	**62,227,224**	**-**	**-**	**-**	**-**	**174,217**	**234,265**	**15,933,547**	**15,237,189**

(c) Liquidity risk

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

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

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

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

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

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

- at least 1.0 – when calculated as an average of all working days in the month,
- at least 0.8 – when calculated for the working day,
- not below 0.9 for longer than three consecutive days.

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

- at least 0.7 – when calculated as an average of all working days in the month,
- not below 0.6 for longer than three consecutive days,
- at least 0.5 – when calculated for the working day.

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

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

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

	2013	2012
Liquidity ratio (I grade)		
as at 31 December	2.36	1.99
average for the period – month of December	2.28	1.92
maximum for the period – month of December	2.46	2.04
minimum for the period – month of December	2.09	1.78

	2013
Rigid/cash liquidity ratio:	
as of December 31	2.16
average for the period – December	1.93
maximum for the period – December	2.17
minimum for the period – December	1.75

Notes to the Financial statements (CONTINUED)

4) Financial risk management (continued)

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity groupings for 2013:

(In thousands of RSD)

	Less than 1 month	1 to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	20,899,446	-	-	-	-	20,899,446
Non-pledged trading assets	1,249,621	-	-	-	-	1,249,621
Loans and advances to banks	33,405,104	-	5,503	35,220	-	33,445,827
Loans and advances to customers	10,729,094	3,509,352	25,605,895	56,846,904	48,406,097	145,097,342
Investment securities	748,783	6,306,097	5,835,755	28,922,210	5,775,961	47,588,806
Current tax assets	746,499	-	-	-	-	746,499
Property and equipment	-	-	-	-	1,134,511	1,134,511
Intangible assets	-	-	-	912,227	-	912,227
Deferred tax assets	-	-	169,836	-	-	169,836
Other assets	707,632	-	-	-	1,495	709,127
Total assets	**68,486,179**	**9,815,449**	**31,616,989**	**86,716,561**	**55,318,064**	**251,953,242**
Liabilities						
Trading liabilities	338,051	-	-	-	-	338,051
Derivative liabilities held for risk management	159,313	-	-	-	-	159,313
Deposits and loans from banks	12,628,776	347,933	17,621,004	45,522,846	9,514,452	85,635,011
Deposits and loans from customers	67,447,451	6,809,797	19,807,625	8,127,829	8,052,255	110,244,957
Subordinated liabilities	1,409	-	917,137	2,509,871	-	3,428,417
Provisions	-	57,271	48,569	43,572	-	149,412
Deferred tax liabilities	-	-	593	-	-	593
Other liabilities	1,472,709	-	-	-	-	1,472,709
Equity	-	-	-	-	50,524,779	50,524,779
Total liabilities	**82,047,709**	**7,215,001**	**38,394,928**	**56,204,118**	**68,091,486**	**251,953,242**
Net liquidity gap as of 31 December 2013	**(13,561,530)**	**2,600,448**	**(6,777,939)**	**30,512,443**	**(12,773,422)**	**-**

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity groupings for 2012:

(In thousands of RSD)

	Less than 1 month	1 to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	9,063,823	-	-	-	-	9,063,823
Non-pledged trading assets	3,940,818	-	-	-	-	3,940,818
Loans and advances to banks	44,543,411	-	-	50,342	-	44,593,753
Loans and advances to customers	15,039,434	1,868,301	20,506,980	71,873,134	42,801,728	152,089,577
Investment securities	1,980,419	2,897,600	11,295,581	10,767,430	3,526,041	30,467,071
Property and equipment	-	-	-	-	1,151,981	1,151,981
Intangible assets	-	-	-	999,854	-	999,854
Deferred tax assets	-	-	37,507	-	-	37,507
Other assets	1,207,872	-	-	-	1,528	1,209,400
Total assets	**75,775,777**	**4,765,901**	**31,840,068**	**83,690,760**	**47,481,278**	**243,553,784**
Liabilities						
Trading liabilities	597,286	-	-	-	-	597,286
Derivative liabilities held for risk management	259,718	-	-	-	-	259,718
Deposits and loans from banks	9,538,876	235,400	323,234	65,601,955	10,281,735	85,981,200
Deposits and loans from customers	63,271,485	8,576,316	21,806,515	6,278,024	5,777,236	105,709,576
Subordinated liabilities	1,377	-	-	909,746	2,527,177	3,438,300
Provisions	-	65,746	48,570	-	37,294	151,610
Deferred tax liabilities	-	-	322	-	-	322
Other liabilities	1,608,270	-	-	-	-	1,608,270
Equity	-	-	-	-	45,807,502	45,807,502
Total liabilities	**75,277,012**	**8,877,462**	**22,178,641**	**72,789,725**	**64,430,944**	**243,553,784**
Net liquidity gap as of 31 December 2012	**498,765**	**(4,111,561)**	**9,661,427**	**10,901,035**	**(16,949,666)**	**-**

Notes to the Financial statements (CONTINUED)

4) Financial risk management (continued)

(d) Market risks

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

(i) Interest rate risk

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

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

The methodology used to assess the Investment book interest rate risk is the Gap/Duration analysis. The difference between the interest bearing assets and liabilities within the separate time "baskets" shows how two balance sheet sides react differently to interest rate changes:
- in case of positive GAP the bank is exposed to the risk of loss if interest rates of the certain maturity of the observed currency fall,
- in case of negative GAP, bank is exposed to the risk of loss if interest rates of the certain maturity of the observed currency rise.

The number and the "baskets" schedule are defined on the ALCO and level of UniCredit Group.

Gap Limit is placed according to the currency (Limits per currency).

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

	31 December 2013		31 December 2012	
	Nominal Gap Duration	Effect of Interest Rate Parallel Shift 200 bp	Nominal Gap Duration	Effect of Interest Rate Parallel Shift 200 bp
RSD	-	(69,610)	-	(352,047)
EUR	-	(68,509)	-	-
USD	-	(6,182)	-	(30,919)
GBP	-	-	-	-
CHF	-	(286,072)	-	(348,663)
JPY	-	-	-	-
CAD	-	-	-	-
AUD	-	-	-	-
DKK	-	-	-	-
NOK	-	-	-	-
SEK	-	-	-	-
Total effect	**-**	**(430,373)**	**-**	**(731,629)**

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

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a daily basis include a 200 basis point ("bp") parallel fall or rise in all yield curves in Serbia. UniCredit Group's risk model (NORISK) calculates the Value at Risk for trading book ("VaR") for a one-day holding period and a confidence level of 99% based on a Monte Carlo ("MC")/ Historical Simulation approach. In the foreign exchange/interest rate sector a declustered historical simulation is used. Declustering means that historical scenarios are adapted to the current volatility level. Correlations between historical and MC simulations are taken into consideration through a linear regression. Exempt from this regression are all residual risks (including price-determining correlations) as well as price determining volatilities. The former are simulated as uncorrelated, for the latter, the VaR is calculated separately and added to the VaR from the remaining risk factors.

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

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

In thousand of RSD

	200bp parallel increase	200bp parallel decrease
2013		
As at 31 December	577,832	(577,832)
Average for the year	783,628	(783,628)
Maximum for the year	1,411,461	(1,411,461)
Minimum for the year	384,656	(384,656)
2012		
As at 31 December	224,621	(224,621)
Average for the year	206,048	(206,048)
Maximum for the year	266,415	(266,415)
Minimum for the year	131,672	(131,672)

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

In thousand of RSD

	As at 31 December	Average	Maximum	Minimum
2013				
Foreign currency risk	15,586	6,349	29,277	94
Interest rate risk	7,021	4,712	16,774	1,520
Credit spread risk	2,015	4,249	9,723	-
Other price risk	-	-	-	-
Covariance	(7,439)	-	-	-
Overall	17,183	9,506	30,854	3,506
2012				
Foreign currency risk	9,903	7,203	29,620	236
Interest rate risk	6,378	17,870	59,269	3,568
Credit spread risk	-	-	-	-
Other price risk	-	-	-	-
Covariance	(5,066)	-	-	-
Overall	11,215	19,805	59,254	4,428

4) Financial risk management (continued)

Exposure to interest rate movements as at 31 December 2013

(In thousands of RSD)

	Carrying amount	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing
Assets							
Cash and cash equivalents	20,899,446	10,049,059	-	-	-	-	10,850,387
Non-pledged trading assets	1,249,621	886,762	-	-	-	-	362,859
Loans and advances to banks	33,445,827	13,375,469	7,963	-	-	-	20,062,395
Loans and advances to customers	145,097,342	18,180,985	86,049,048	39,180,884	-	-	1,686,425
Investment securities	47,588,806	1,705,711	87,729	126,077	37,893,055	7,773,647	2,587
Total assets	**248,281,042**	**44,197,986**	**86,144,740**	**39,306,961**	**37,893,055**	**7,773,647**	**32,964,653**
Liabilities							
Trading liabilities	338,051	-	-	-	-	-	338,051
Derivative liabilities held for risk management	159,313	-	-	-	-	-	159,313
Deposits and loans from banks	85,635,011	9,473,069	2,415,700	73,250,319	-	-	495,923
Deposits and loans from customers	110,244,957	29,845,468	32,313,605	41,729,210	-	-	6,356,674
Subordinated liabilities	3,428,417	-	-	3,427,008	-	-	1,409
Total liabilities	**199,805,749**	**39,318,537**	**34,729,305**	**118,406,537**	**-**	**-**	**7,351,370**
Interest sensitivity gap as of 31 December 2013	**48,475,293**	**4,879,449**	**51,415,435**	**(79,099,576)**	**37,893,055**	**7,773,647**	**25,613,283**

Exposure to interest rate movements as at 31 December 2012

(In thousands of RSD)

	Carrying amount	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing
Assets							
Cash and cash equivalents	9,063,823	7,748,642	-	-	-	-	1,315,181
Non-pledged trading assets	3,940,818	3,365,577	-	-	-	-	575,241
Loans and advances to banks	44,593,753	27,036,258	-	-	16,376	-	17,541,119
Loans and advances to customers	152,089,577	12,053,493	3,616,649	14,427,268	51,844,938	68,662,349	1,484,880
Investment securities	30,467,071	350	125,406	2,401,090	22,519,528	5,230,667	190,030
Total assets	**240,155,042**	**50,204,320**	**3,742,055**	**16,828,358**	**74,380,842**	**73,893,016**	**21,106,451**
Liabilities							
Trading liabilities	597,286	-	-	-	-	-	597,286
Derivative liabilities held for risk management	259,718	-	-	-	-	-	259,718
Deposits and loans from banks	85,981,200	7,985,923	65,567,176	5,997,708	5,685,915	-	744,478
Deposits and loans from customers	105,709,576	36,600,988	28,160,679	30,119,108	2,748,309	-	8,080,492
Subordinated liabilities	3,438,300	-	-	3,436,923	-	-	1,377
Total liabilities	**195,986,080**	**44,586,911**	**93,727,855**	**39,553,739**	**8,434,224**	**-**	**9,683,351**
Interest sensitivity gap as of 31 December 2012	**44,168,962**	**5,617,409**	**(89,985,800)**	**(22,725,381)**	**65,946,618**	**73,893,016**	**11,423,100**

(ii) Currency risk

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

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

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

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

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

	2013	2012
Foreign exchange risk ratio:		
as at 31 December	11.76	1.73
maximum for the period – month of December	11.76	13.28
minimum for the period – month of December	0.07	1.28

Notes to the Financial statements (CONTINUED)

4) Financial risk management (continued)

Currency positions as at 31 December 2013

(In thousands of RSD)

	USD	EUR	CHF	Other	RSD	Total
Assets						
Cash and cash equivalents	59,413	382,054	48,934	36,840	20,372,205	20,899,446
Non-pledged trading assets	-	737,243	23,245	-	489,133	1,249,621
Loans and advances to banks	2,080,463	19,632,141	305,718	413,460	11,014,045	33,445,827
Loans and advances to customers	5,174,197	106,093,525	7,173,301	-	26,656,319	145,097,342
Investment securities	-	14,398,248		-	33,190,558	47,588,806
Current tax assets	-	-	-	-	746,499	746,499
Property and equipment	-	-	-	-	1,134,511	1,134,511
Intangible assets	-	-	-	-	912,227	912,227
Deferred tax assets	-	-	-	-	169,836	169,836
Other assets	1,283	134,546	4,348	37	568,913	709,127
Total assets	**7,315,356**	**141,377,757**	**7,555,546**	**450,337**	**95,254,246**	**251,953,242**
Liabilities						
Trading liabilities	-	321,537	15,214	-	1,300	338,051
Derivative liabilities held for risk management	-	159,313	-	-	-	159,313
Deposits and loans from banks	5,124,803	67,264,055	3,327,596	1,792	9,916,765	85,635,011
Deposits and loans from customers	5,562,991	70,016,102	1,700,172	312,451	32,653,241	110,244,957
Subordinated liabilities	-	918,232	2,510,185	-	-	3,428,417
Provisions	-	-	-	-	149,412	149,412
Deferred tax liabilities	-	-	-	-	593	593
Other liabilities	17,461	785,379	36,967	66,042	566,860	1,472,709
Equity	-	-	-	-	50,524,779	50,524,779
Total liabilities	**10,705,255**	**139,464,618**	**7,590,134**	**380,285**	**93,812,950**	**251,953,242**
Net currency gap as of 31 December 2013	**(3,389,899)**	**1,913,139**	**(34,588)**	**70,052**	**1,441,296**	**-**

Currency positions as at 31 December 2012

(In thousands of RSD)

	USD	EUR	CHF	Other	RSD	Total
Assets						
Cash and cash equivalents	71,414	370,659	76,269	80,126	8,465,355	9,063,823
Non-pledged trading assets	-	3,343,193	-	-	597,625	3,940,818
Loans and advances to banks	8,838,226	23,147,589	22,613	286,997	12,298,328	44,593,753
Loans and advances to customers	6,273,242	105,082,096	8,480,861	5	32,253,373	152,089,577
Investment securities	-	11,169,019	-	-	19,298,052	30,467,071
Property and equipment	-	-	-	-	1,151,981	1,151,981
Intangible assets	-	-	-	-	999,854	999,854
Deferred tax assets	-	-	-	-	37,507	37,507
Other assets	4,840	500,340	6,908	274	697,038	1,209,400
Total assets	**15,187,722**	**143,612,896**	**8,586,651**	**367,402**	**75,799,113**	**243,553,784**
Liabilities						
Trading liabilities	-	572,645	-	-	24,641	597,286
Derivative liabilities held for risk management	-	259,718	-	-	-	259,718
Deposits and loans from banks	5,182,860	70,891,028	4,020,849	2,411	5,884,052	85,981,200
Deposits and loans from customers	5,312,887	66,311,591	2,112,577	349,411	31,623,110	105,709,576
Subordinated liabilities	-	910,806	2,527,494	-	-	3,438,300
Provisions	-	-	-	-	151,610	151,610
Deferred tax liabilities	-	-	-	-	322	322
Other liabilities	33,710	827,620	44,787	1,083	701,070	1,608,270
Equity	-	-	-	-	45,807,502	45,807,502
Total liabilities	**10,529,457**	**139,773,408**	**8,705,707**	**352,905**	**84,192,307**	**243,553,784**
Net currency gap as of 31 December 2012	**4,658,265**	**3,839,488**	**(119,056)**	**14,497**	**(8,393,194)**	**-**

Notes to the Financial statements (CONTINUED)

4) Financial risk management (continued)

(e) Country risk

Country risk is the risk of occurrence of negative effects on the Bank's financial result and equity, arising from the Bank's inability to collect receivables from borrowers from other countries, for reasons that are associated with political, economic or social conditions in the borrower's country of origin. Country risk comprises:
- political-economic risk which consists of the probability that losses will be incurred due to the impossibility of collecting the Bank's receivables due to limitations stipulated by state and other institutions of the borrower's country of origin, as well as general and systemic conditions in that country;
- transfer risk which comprises the probability that losses will be incurred due to the impossibility of collecting receivables denominated in a currency that is not the official currency of the borrower's country of origin, due to limitations on payments of liabilities to creditors from other countries in specific currencies, as prescribed by regulations issued by state and other institutions of the borrower's country of origin.

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

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

(f) Operational risks

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

Strategic risks, business risks and reputation risks differ from operational risks, while legal risks and compliance risk are included in the definition of operational risk.

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

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

(g) Capital management

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

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

The Bank is required to maintain basic capital in the dinar equivalent amount of 10,000,000 EUR, using the official exchange rate. The Bank is required to maintain at all times its capital at a level required for covering all risks to which it is exposed or could be exposed in its operations, and at least in the aggregate sum of the following capital requirements:
- Capital requirements for credit risk and for counterparty risk for all of the Bank's banking activities and capital requirements for settlement/supply risk for its trading activities;
- Capital requirements for price risk for trading activities;
- Capital requirements for foreign currency risk and commodity risk for all banking activities;
- Capital requirements for operations risks for all banking activities.

The Bank's regulatory capital as managed by its Central Bank Treasury is divided into two tiers:
- Tier 1 capital and
- Tier 2 capital.

Tier 1 capital consists of:
- Paid in share capital, except for cumulative preference 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;
- Retained earnings for previous as well as for the current year.

When calculating Tier 1 capital, the Bank is obliged to reduce sum of Tier 1 capital elements for the following categories:
- Previous years' losses;
- Current year loss;
- Intangible assets;
- Purchased common and preference shares, except for cumulative preference shares, in the amount of the book value (nominal value increased for share issue premium);
- Common and preference shares, except for cumulative preference shares, that the Bank received as collateral in the lower amount of receivables secured with pledged shares and nominal value of shares received as collateral increased for related share issue premium;
- 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.

Tier 2 capital consists of:
- Paid in share capital for cumulative preference shares – the nominal value of paid in cumulative preference shares and associated share issue premium;
- Part of positive revaluation reserves – the Bank includes the part of positive revaluation reserves (90%) occurred from effects of changes in the fair value of fixed assets, securities and other assets that, in accordance with IFRS/IAS, are reported under these reserves, and that are reduced for tax liabilities;
- Hybrid capital instruments;
- Subordinated liabilities (with the following characteristics: fully paid in; with date of maturity of at least 5 years from date of payment; repayment to or purchase from creditors is not possible before contractual date of maturity, except in the case of conversion of these liabilities into the Banks' shares which are not cumulative preference shares; in the event of bankruptcy or liquidation of the Bank, they can be settled only after settlement of all other liabilities which are not subordinated, and before the Bank's shareholders and owners of hybrid instruments issued by the bank; they are not the subject of collateral issued by the Bank or any of its related parties; the Bank's creditor is not at the same time its debtor in respect of subordinated receivables). The amount of subordinated liabilities of the Bank included in additional equity, in the last 5 years before the date of maturity of such liabilities, is reduced by 20% per annum, so that in the last year before the date of maturity of such subordinated liability they are not included in additional equity;
- Surplus provisions, reserves and required reserves in respect of expected losses – if the Bank receives NBS approval for use of IRB approach.

When calculating Tier 2 capital, the Bank is obliged to reduce sum of Tier 2 capital elements for the following categories:
- Purchased cumulative preference shares 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.

The capital of the Bank shall be the sum total of its Tier 1 and Tier 2 minus following deductions:
- Direct and indirect investment in banks and other financial sector entities that exceed 10% of the capital of such banks and/or other financial sector entities;
- Investment in hybrid instruments and subordinated obligation of other banks and entities in financial sector in which Bank has direct and indirect investment that exceed 10% of the capital of such banks and/or other financial sector entities;
- Total of direct and indirect investment in banks and other financial sector entities up to exceed 10% of the capital of such banks and /or other financial sector entities and investment in hybrid instruments and subordinated obligation that exceed 10% of tier 1 and tier 2 capital of such banks;
- Amount that exceed qualified investment in entities in other sectors;
- Amount of exposure to free delivery if other party has not fulfilled its obligation within four working days;

Notes to the Financial statements (CONTINUED)

4) Financial risk management (continued)

- All claims and potential liabilities of entities related to the Bank or employees of the Bank that were contracted on more favourable terms and conditions than those contracted with entities that are not related with the Bank.

The Bank may treat part of required reserve for estimated losses on balance sheet assets and off-balance sheet items as deductable item from capital of the Bank, instead as deductable item from Tier 1 capital, as follows:

- Till 31 December 2011 – 100% of total amount;
- Till 31 December 2012 – 75% of total amount;
- Till 31 December 2013 – 50% of total amount

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

The following table shows the capital as at 31 December 2013:

In thousands of RSD

	2013	2012
Tier 1 capital		
Share capital	23,607,620	23,607,620
Share premium	562,156	562,156
Retained earnings	21,457,759	17,062,649
Less:		
Intangible assets	(912,227)	(999,854)
Unrealised losses on available for sale securities	(35,662)	(25,637)
Required profit reserves for estimated losses	(11,094,795)	(3,736,638)
Total qualifying Tier 1 capital	**33,584,851**	**36,470,296**
Tier 2 capital		
Qualifying subordinated loans	2,007,897	2,709,126
Revaluation reserves	936,167	185,044
Total qualifying Tier 2 capital	**2,944,064**	**2,894,170**
Deductable items		
Receivables and liabilities to related parties with better conditions comparing to conditions for non-related parties	(7,321)	(8,161)
Reserve for potential losses	-	(11,209,913)
Total deductable items	(7,321)	(11,218,074)
Reduction in Tier 1 capital	-	(8,323,904)
Reduction in Tier 2 capital	(7,321)	(2,894,170)
Total Tier 1 capital	33,584,851	28,146,392
Total Tier 2 capital	2,936,743	-
Total regulatory capital	**36,521,594**	**28,146,392**
Credit risk	138,873,516	135,899,346
Market risk	5,485,993	4,604,916
Price risk	1,393,221	3,240,933
Foreign currency risk	4,092,772	1,363,983
Operational risk	13,924,378	11,558,608
Total risk weighted assets	**158,283,887**	**152,062,870**
Capital adequacy ratio	**23.07%**	**18.51%**

All prescribed statutory requirements as at 31 December 2013 are fulfilled, as presented in the table below:

		Achieved by the Bank	
	Prescribed ratios by NBS	2013	2012
Capital adequacy ratio	min 12%	23.07%	18.51%
Capital asset ratio	max 60%	3.11%	4.10%
Indicator of exposure to related parties	max 20%	14.95%	10.98%
Indicator of large and the largest individual exposures in relation to capital	max 400%	113.06%	156.27%
Liquidity ratio - for December	min 1.00	2.28	1.92
Rigid-cash liquidity ratio – for December	min 0.70	2.16	1.40
Foreign currency risk	max 20%	11.21%	4.85%

5) Use of estimates and judgements

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

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

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

Key sources of estimation uncertainty

Allowances for credit losses

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

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

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

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

Determining fair values

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

Critical accounting judgements in applying the Bank's accounting policies

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

Valuation of financial instruments

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

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

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

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

5) Use of estimates and judgements (continued)

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable price exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

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

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

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

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

(In thousands of RSD)

	Note	Level 1	Level 2	Level 3	Total
2013					
Trading assets	15	-	760,488	489,133	1,249,621
Investment securities	18	-	119,450	47,371,544	47,490,994
		-	879,938	47,860,677	48,740,615
Trading liabilities	15	-	336,751	1,300	338,051
Derivative liabilities held for risk management	23	-	159,313	-	159,313
		-	**496,064**	**1,300**	**497,364**
2012					
Trading assets	15	-	703,729	3,237,089	3,940,818
Investment securities	18	-	117,642	30,104,339	30,221,981
		-	821,371	33,341,428	34,162,799
Trading liabilities	15	-	572,645	24,641	597,286
Derivative liabilities held for risk management	23	-	259,718	-	259,718
		-	**832,363**	**24,641**	**857,004**

Fair value hierarchy of financial assets and liabilities not measured at fair vaule.

The estimated fair values of financial assets and liabilities that are not measured at fair value per fair value hierarchy levels in accordance with IFRS 13 are presented below:

(In thousands of RSD)

	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
2013						
Cash and cash equivalents	14	-	20,899,446	-	20,899,446	20,899,446
Loans and advances to banks	16	-	33,365,827	-	33,365,827	33,445,827
Loans and advances to customers	17		141,754,142	14,638,488	156,392,630	145,097,342
Investment securities	18		104,591	-	104,591	97,812
Other assets	22	-	709,127	-	709,127	709,127
			196,833,133	**14,638,488**	**211,471,621**	**200,249,554**
Deposits and loans from banks	24	-	84,691,974	-	84,691,974	85,635,011
Deposits and loans from customers	25	-	110,311,816	-	110,311,816	110,244,957
Subordinated liabilities	26	-	3,428,417	-	3,428,417	3,428,417
Other liabilities	28	-	1,472,709	-	1,472,709	1,472,709
		-	**199,904,916**	**-**	**199,904,916**	**200,781,094**
2012						
Cash and cash equivalents	14	-	9,063,823	-	9,063,823	9,063,823
Loans and advances to banks	16	-	44,593,753	-	44,593,753	44,593,753
Loans and advances to customers	17		118,801,025	12,268,195	131,069,220	152,089,577
Investment securities	18		245,090	-	245,090	245,090
Other assets	22	-	1,209,400	-	1,209,400	1,209,400
			173,969,530	**12,268,195**	**186,237,725**	**207,258,082**
Deposits and loans from banks	24	-	85,981,200	-	85,981,200	85,981,200
Deposits and loans from customers	25	-	105,112,046	-	105,112,046	105,709,576
Subordinated liabilities	26	-	3,438,300	-	3,438,300	3,438,300
Other liabilities	28	-	1,608,270	-	1,608,270	1,608,270
		-	**196,139,816**	**-**	**196,139,816**	**196,737,346**

Notes to the Financial statements (CONTINUED)

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

(ii) Assets for which fair value approximates carrying value

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

(iii) Fixed rate financial instruments

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

7) Net interest income

Net interest income includes:

In thousands of RSD

	2013	2012
Interest income		
Cash and cash equivalents	424,812	399,719
Derivative and financial assets held for risk management	209,520	179,500
Loans and advances to banks	1,448,333	579,290
Loans and advances to customers	10,734,553	11,112,104
Derivative held for trading	227,209	194,804
Securities held for trading	122,559	266,895
Investment securities	3,383,323	2,629,847
Total interest income	**16,550,309**	**15,362,159**
Interest expense		
Derivative liabilities held for risk management	77,013	41,742
Deposits and loans from banks	2,523,399	2,745,042
Deposits and loans from customers	3,448,228	3,404,732
Subordinated liabilities	125,037	134,972
Derivative held for trading	227,209	194,804
Total interest expense	6,400,886	6,521,292
Net interest income	**10,149,423**	**8,840,867**

Notes to the Financial statements (CONTINUED)

8) Net fee and commission income

Net fee and commission income includes:

In thousands of RSD

	2013	2012
Fee and commission income		
Payment transfer business	291,965	198,794
Fees on issued guarantees and other contingent liabilities	497,370	417,495
Brokerage fee	46,291	48,273
Custody fee	355,416	303,483
Fees arising from card operations	431,730	339,674
Other banking services	1,041,196	1,080,241
Total fee and commission income	**2,663,968**	**2,387,960**
Fee and commission expense		
Payment transfer business	(62,864)	(38,523)
Commission expenses arising on guarantees and letter of credits	(4,015)	(54,071)
Fees arising from card operations	(396,698)	(334,374)
Other banking services	(131,871)	(53,563)
Total fee and commission expense	**(595,448)**	**(480,531)**
Net fee and commission income	**2,068,520**	**1,907,429**

9) Net trading income

Net trading income includes:

In thousands of RSD

	2013	2012
Foreign exchange gains	1,134,667	1,702,645
Net result from derivative financial instruments held for trading	46,782	82,257
Net result from other financial instruments at fair value through profit and loss	66,552	37,746
Net result from changes in fair value of securities held for trading	(18,778)	27,264
Net trading income	**1,229,223**	**1,849,912**

Notes to the Financial statements (CONTINUED)

10) Net impairment loss on financial assets

Net impairment loss on financial assets includes:

In thousands of RSD

	2013	2012
Loans and advances to customers		
Net addition of specific loan impairment	4,967,740	3,202,533
Net release of collective based impairment	34,350	28,656
Total	5,002,090	3,231,189
Contingent liabilities		
Release of specific loan impairment (Note 27)	(1,820)	1,868
Release/addition of collective loan impairment (Note 27)	(6,655)	(14,834)
Total	(8,475)	(12,966)
Direct write-off	10,846	351
Income from collection of written-off claims	(391)	(36)
Total	**5,004,070**	**3,218,538**

11) Personnel expenses

Personnel expenses include:

In thousands of RSD

	2013	2012
Wages and salaries	1,215,816	1,194,802
Social security costs and staff related taxes	478,272	468,542
Staff training expenses	6,319	3,662
Provision for retirement benefits	8,832	2,739
Other personal expenses	282,995	296,800
Total	**1,992,234**	**1,966,545**

Notes to the Financial statements (CONTINUED)

12) Other expenses

Other expenses include:

In thousands of RSD

	2013	2012
Other administrative expenses		
Building and office space expenses	77,936	74,074
IT expenses	363,699	325,714
Legal and advisory expenses	80,742	67,608
Advertising, public, relation and representation expenses	199,399	77,169
Communication expenses	87,582	84,641
Office supplies	20,139	20,945
Insurance premium	289,325	265,585
	1,118,822	915,736
Other expenses		
Other taxes and contributions	385,390	376,237
Loss from disposal of property, equipment and intangible assets	8,861	968
Provision for court cases	15,914	28,500
Other	357,531	417,992
	767,696	823,697
Total	**1,886,518**	**1,739,433**

13) Income tax expense

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

In thousands of RSD

	2013	2012
Current tax expense	-	(531,096)
Deferred tax income/(expense) (Note 21.2)	132,328	9,183
Total	**132,328**	**(521,913)**

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

In thousands of RSD

	2013	2013	2012	2012
Profit for the year before tax		3,699,205		4,921,660
Income tax using the domestic corporation tax rate	15.00%	554,881	10.00%	492,166
Non-deductable expenses and tax effect of income reconciliation	-15.40%	(569,794)	1.09%	53,601
Other	0.40%	14,913	-0.24%	(12,042)
Tax credit for capital expenditures	-	-	-0.24%	(11,812)
Total income tax expense	**-**	**-**	**10.60%**	**521,913**

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

In thousands of RSD

	2013			2012		
	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
Available-for-sale investment securities	1,066,304	(593)	1,065,711	180,289	(322)	179,967
Balance as at 31 December	**1,066,304**	**(593)**	**1,065,711**	**180,289**	**(322)**	**179,967**

Notes to the Financial statements (CONTINUED)

14) Cash and cash equivalents

Cash and cash equivalents include:

In thousands of RSD

	2013	2012
Cash on hand	1,324,534	1,311,769
Giro account	19,572,418	7,748,642
Cheques	2,494	3,412
Balance as at 31 December	**20,899,446**	**9,063,823**

Giro account includes obligatory reserves in dinars, which represent the minimum deposits set aside in accordance with the NBS Regulation on the "Obligatory Reserves of Banks to be Held with the NBS". Pursuant to the relevant decisions the obligatory reserve is to be calculated on the basis of the average amount of dinar deposits, borrowings and other related liabilities in effect during a period of one month to which a range from 0% to 5% is applied, depending on maturity and the source of funding, and subsequently maintained on the Bank's gyro account. In 2013, the annual interest rate earned on the Bank's obligatory reserve in dinars was 2.5% p.a.

15) Trading assets and liabilities

15.1 Trading assets consist of:

In thousands of RSD

	2013		2012	
	Non-pledged trading assets	Total trading assets	Non-pledged trading assets	Total trading assets
Government bonds	399,700	399,700	703,729	703,729
Treasury bills	487,063	487,063	2,661,848	2,661,848
Total	886,763	886,763	3,365,577	3,365,577
Derivative assets				
Interest rate - swaps	360,788	360,788	572,645	572,645
Foreign exchange - swaps	2,070	2,070	2,596	2,596
Total	362,858	362,858	575,241	575,241
Balance as at 31 December	**1,249,621**	**1,249,621**	**3,940,818**	**3,940,818**

In thousands of RSD

	2013	2012
Derivative liabilities		
Interest rate – swaps	336,751	572,645
Foreign exchange – swaps	1,300	24,641
Balance as at 31 December	**338,051**	**597,286**

15.2 Trading liabilities consist of:

Notes to the Financial statements (CONTINUED)

16) Loans and advances to banks

16.1 Loans and advances to banks include:

In thousands of RSD

	2013	2012
Current/clearing business		
Domestic banks	37,028	27,597
Foreign banks	1,580,838	1,788,451
Money market business		
Short-term deposits with domestic banks	1,722	878
Short-term deposits with foreign banks	2,382,205	15,071,330
Loans and placements to banks		
Repo transactions with Central Bank	11,002,322	12,019,230
Domestic banks	7,996	16,413
Obligatory reserve in foreign currency held with Central Bank	18,396,118	15,631,375
Guarantee deposits for sale/purchase of bonds	4,586	4,549
Other placements	34,703	35,619
Less allowances for impairment	(1,691)	(1,689)
Balance as at 31 December	**33,445,827**	**44,593,753**

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, or that have been index linked to the dinar-euro exchange rate existing during a period of one calendar month, to which a rate ranging from 22% to 29% is applied, depending on type and maturity of related liabilities, and exceptionally the rate of 50% on the portion of the foreign currency reserve comprised of RSD liabilities indexed to a currency clause.

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 2013 the securities purchased under resell agreements with NBS totaling RSD 11,002,322 thousand are associated with the bonds purchased from the NBS, having 8 day maturities, at the annual interest of 7.6% These transactions are governed by the NBS Agreement on the Sale of Securities with an Obligation to Repurchase.

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

In thousands of RSD

	Specific		Collective	
	2013	2012	2013	2012
Balance as at 1 January	(1,659)	(1,724)	(30)	(872)
Impairment loss for the year:				
Charge for the year	(82)	-	30	1,024
Effect of foreign currency movements	50	65	-	(182)
Total for the year	(32)	65	30	842
Balance as at 31 December	**(1,691)**	**(1,659)**	**-**	**(30)**

17) Loans and advances to customers

17.1 Loans and advances to customers consist of:

In thousands of RSD

	2013			2012		
	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
Public sector	5,528,326	(39,478)	5,488,848	6,530,506	(22,238)	6,508,268
Corporate customers	116,157,286	(13,211,190)	102,946,096	121,044,290	(8,222,232)	112,822,058
Retail customers	38,717,704	(2,055,306)	36,662,398	34,772,080	(2,012,829)	32,759,251
Balance as at 31 December	**160,403,316**	**(15,305,974)**	**145,097,342**	**162,346,876**	**(10,257,299)**	**152,089,577**

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

In thousands of RSD

	Specific		Collective	
	2013	2012	2013	2012
Balance as at 1 January	(9,778,627)	(6,245,439)	(478,672)	(378,702)
Impairment loss for the year:				
Charge for the year	(4,934,197)	(3,160,677)	(37,136)	(30,192)
Effect of foreign currency movements	(72,934)	(368,499)	405	(69,778)
Interest income correction	(130,820)	(145,512)	-	-
Used for write offs	126,007	141,500	-	-
Total for the year	(5,011,944)	(3,533,188)	(36,731)	(99,970)
Balance as at 31 December	**(14,790,571)**	**(9,778,627)**	**(515,403)**	**(478,672)**

17.3 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 increased on the average 4.64% per annum, in accordance with other expenses and the Bank's interest rate policy.

During 2013 long-term loans to retail customers were mainly granted for financing residential property purchases, with 5 to 30-year maturities. Interest rates ranged from three-months EURIBOR increased for 4.59% to 5.79% for loans indexed in EUR, or for 4.09% to 4.50% for subsidized 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 2013 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 16.5% to 22%.

In addition, the Bank continued its offering of cash loans for pensioners with life insurance up at fixed interest of 17.9% or interest rate of three month BELIBOR plus 5.7%.

In 2013 interest rates for financing investments for small companies and entrepreneurs ranged from three-months EURIBOR plus 7% to 9.7% for loans indexed in EUR. For the same client segment interest rates for short-term financing up to 12 months ranged from three-monhts EURIBOR plus 7% to 9.7% for loans indexed in EUR, and one-month BELIBOR plus 5.5% to 7% for dinar loans.

Also during 2013 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.

Notes to the Financial statements (CONTINUED)

17.4 All impaired loans and advances have been written down to their recoverable amount. The allowance is apportioned as a reduction of loans and advances to customers.

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

In thousands of RSD

	2013	2012
Corporate customers		
Mining industry and energy	7,110,894	907,057
Agriculture	2,198,599	1,818,313
Architecture	1,129,475	11,520,978
Industry	6,154,330	38,725,349
Trade	36,742,419	18,097,237
Services	16,127,855	12,900,462
Transportation and logistics	11,673,867	22,249,964
Other	35,019,847	14,824,930
	116,157,286	121,044,290
Public sector	5,528,326	6,530,506
Retail customers		
Private individuals	37,754,897	33,715,113
Entrepreneurs	962,807	1,056,967
	38,717,704	34,772,080
Total	**160,403,316**	**162,346,876**
Allowance for impairment	(15,305,974)	(10,257,299)
Balance as at 31 December	**145,097,342**	**152,089,577**

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

18) Investment securities

18.1 Investment securities consist of:

In thousands of RSD

	2013	2012
Financial assets at fair value through profit or loss		
Commercial bills	-	-
Held-to-maturity investment securities		
Bills of exchange	153,738	301,529
Available-for-sale investment securities		
Equity investments	12,061	12,061
Other available-for-sale investment securities		
Treasury bills	43,894,212	26,533,997
Foreign currency savings bonds issued by RS	-	-
Bonds issued by other banks	119,450	117,642
Municipality bonds	3,477,332	3,570,341
Less allowances for impairment	(67,987)	(68,499)
Balance as at 31 December	**47,588,806**	**30,467,071**

As at 31 December 2013 receivables for discounted bills in the amount of RSD 153,738 thousand relate to investments that mature within one year at a discount rate ranging from one-month BELIBOR plus 1.25% to 6.00% per month.

As at 31 December 2013 available-for-sale securities of RSD 3,477,332 thousand represent a portfolio of local municipality bonds – hedging item, with maturities occurring up to 2023, the amount of RSD 43,180,105 thousand relates to treasury bonds of the Republic of Serbia with maturities up to 2020, the amount of 119,450 thousand dinars relate to investments in bonds issued by the finance and insurance sectors with maturities up to 2014, whereas the amount of RSD 714,107 thousand pertains to the bonds of the Republic of Serbia with maturities up to 2016.

For hedging interest rate risks related to local municipality bonds, with long-term maturity and fixed interest rate, the Bank implemented micro fair value hedging relationship, i.e. it reported investments in local self-government bonds in the amount of EUR 29 million as a hedged item, while a hedged instrument is reported as an interest rate swap, also in the amount of EUR 29 million. As at 31 December 2013 a hedging effectiveness test was performed which showed that the hedge is very effective.

18.2 Allowances for impairment consist of:

In thousands of RSD

	Specific		Collective	
	2013	2012	2013	2012
Balance as at 1 January	(67,222)	(68,313)	(1,277)	(5,392)
Impairment loss for the year:				
Charge for the year	(155)	1,091	667	4,115
Releases	-	-	-	-
Write offs	-	-	-	-
Total for the year	(155)	1,091	667	4,115
Balance as at 31 December	**(67,377)**	**(67,222)**	**(610)**	**(1,277)**

Notes to the Financial statements (CONTINUED)

19) Property and equipment

19.1 Property and equipment includes:

In thousands of RSD

	2013	2012
Buildings	618,493	631,868
Fixtures and fittings	396,204	366,477
Leasehold investments	117,725	150,009
Assets under development	2,089	3,627
Balance as at 31 December	**1,134,511**	**1,151,981**

19.2 The movements in property and equipment for the year 2013 were as follows:

In thousands of RSD

	Land and buildings	Leasehold investment	Fixtures and fittings	Assets under development	Total
Cost					
Balance as at 1 January 2013	668,752	378,272	1,063,877	3,627	2,114,528
Acquisitions	-	-	-	168,381	168,381
Transfer from investment in progress	-	8,455	161,464	(169,919)	-
Disposals	-	(6,758)	(43,264)	-	(50,022)
Other	-	-	2,268	-	2,268
Balance as at 31 December 2013	**668,752**	**379,969**	**1,184,345**	**2,089**	**2,235,155**
Accumulated depreciation and impairment losses					
Balance as at 1 January 2013	36,884	228,263	697,400	-	962,547
Depreciation for the period	13,375	40,739	111,196	-	165,310
Disposals	-	(6,758)	(22,704)	-	(29,462)
Other	-	-	2,249	-	2,249
Balance as at 31 December 2013	**50,259**	**262,244**	**788,141**	-	**1,100,644**
Carrying amount as at 31 December 2013	**618,493**	**117,725**	**396,204**	**2,089**	**1,134,511**
Carrying amount as at 1 January 2013	**631,868**	**150,009**	**366,477**	**3,627**	**1,151,981**

The movements in property and equipment for the year 2012 were as follows:

In thousands of RSD

	Land and buildings	Leasehold investment	Fixtures and fittings	Assets under development	Total
Cost					
Balance as at 1 January 2012	668,752	371,800	1,010,956	3,600	2,055,108
Acquisitions	-	-	-	84,791	84,791
Transfer from investment in progress	-	12,172	72,592	(84,764)	-
Disposals	-	(5,700)	(19,671)	-	(25,371)
Other	-	-	-	-	-
Balance as at 31 December 2012	**668,752**	**378,272**	**1,063,877**	**3,627**	**2,114,528**
Accumulated depreciation and impairment losses					
Balance as at 1 January 2012	23,509	186,683	609,374	-	819,566
Depreciation for the period	13,375	44,310	106,717	-	164,402
Impairment losses	-	-	-	-	-
Disposals	-	(2,730)	(18,691)	-	(21,421)
Other	-	-	-	-	-
Balance as at 31 December 2012	**36,884**	**228,263**	**697,400**	-	**962,547**
Carrying amount as at 31 December 2012	**631,868**	**150,009**	**366,477**	**3,627**	**1,151,981**
Carrying amount as at 1 January 2012	**645,243**	**185,117**	**401,582**	**3,600**	**1,235,542**

20) Intangible assets

20.1 Intangible assets, net include:

In thousands of RSD

	2013	2012
Intangible assets	837,139	949,854
Intangible assets in progress	75,088	50,000
Balance as at 31 December	**912,227**	**999,854**

20.2 The movements in intangible assets for the year 2013 were as follows:

In thousands of RSD

	Intangible assets	Intangible assets in progress	Total
Cost			
Balance as at 1 January 2013	2,180,846	50,000	2,230,846
Acquisitions	213,119	25,088	238,207
Disposals	(658)	-	(658)
Balance as at 31 December 2013	**2,393,307**	**75,088**	**2,468,395**
Amortization and impairment losses			
Balance as at 1 January 2013	1,230,992	-	1,230,992
Amortization for the period	325,823	-	325,823
Impairment losses	(647)	-	(647)
Balance as at 31 December 2013	**1,556,168**	-	**1,556,168**
Carrying amount as at 31 December 2013	**837,139**	**75,088**	**912,227**
Carrying amount as at 1 January 2013	**949,854**	**50,000**	**999,854**

The movements in intangible assets for the year 2012 were as follows:

In thousands of RSD

	Intangible assets	Intangible assets in progress	Total
Cost			
Balance as at 1 January 2012	1,628,485	125,533	1,754,018
Acquisitions	552,361	(75,533)	476,828
Other	-	-	-
Balance as at 31 December 2012	**2,180,846**	**50,000**	**2,230,846**
Amortization and impairment losses			
Balance as at 1 January 2012	1,003,650	-	1,003,650
Amortization for the period	227,342	-	227,342
Balance as at 31 December 2012	**1,230,992**	-	**1,230,992**
Carrying amount as at 31 December 2012	**949,854**	**50,000**	**999,854**
Carrying amount as at 1 January 2012	**624,835**	**125,533**	**750,368**

Notes to the Financial statements (CONTINUED)

21) Deferred tax assets and liabilities

21.1 Deferred tax assets and liabilities relate to:

In thousands of RSD

	2013			2012		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purpose	36,977	-	36,977	23,887	-	23,887
Deferred tax assets associated with unrecognised expenses	15,443	-	15,443	13,620	-	13,620
Defferred tax assets related to unused tax credit relating to fixed assets	20,416	-	20,416	-	-	-
Defferred tax assets related to tax loss carried \ forward	97,000	-	97,000	-	-	-
Valuation of available-for-sale securities	-	(593)	(593)	-	(322)	(322)
Total	**169,836**	**(593)**	**169,243**	**37,507**	**(322)**	**37,185**

21.2 Movements in temporary differences during the year 2013 are presented as follows:

In thousands of RSD

	Balance at 1 Jan	Recognised in profit or loss	Recognised in other comprehensive income	Balance at 31 Dec
Difference in net carrying amount of tangible assets for tax and financial reporting purpose	23,887	13,090	-	36,977
Deferred tax assets associated with unrecognised expenses	13,620	1,823	-	15,443
Defferred tax assets related to unused tax credit relating to fixed assets	-	20,416	-	20,416
Defferred tax assets related to tax loss carried forward	-	97,000	-	97,000
Available-for-sale securities	(322)	-	(271)	(593)
Total	**37,185**	**132,329**	**(271)**	**169,243**

22) Other assets

Other assets relate to:

In thousands of RSD

	2013	2012
Assets held for sale	-	378
Accounts receivables	375,593	315,733
Accrued income	32,780	253,939
Assets recevied in exchange for collection of receivables	4,927	4,927
Accrued expenses regarding liabilities calculated at amortized cost using effective interest rate method	225,723	184,548
Investment property	1,495	1,528
Other	179,021	534,022
Less allowances for impairment	(110,412)	(85,675)
Balance as at 31 December	**709,127**	**1,209,400**

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

In thousands of RSD

	Specific		Collective	
	2013	2012	2013	2012
Balance as at 1 January	(81,928)	(40,071)	(3,747)	(144)
Impairment loss for the year:				
Charge for the year	(33,306)	(42,947)	2,089	(3,603)
Effect of foreign currency movements	(18)	(913)	-	-
Releases	-	-	-	-
Write offs	6,498	2,003	-	-
Balance as at 31 December	**(108,754)**	**(81,928)**	**(1,658)**	**(3,747)**

23) Derivative liabilities held for risk management

23.1 Derivative liabilities held for risk management include:

In thousands of RSD

	2013	2012
Instrument type:		
Interest rate swaps	159,313	259,718
Balance as at 31 December	**159,313**	**259,718**

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

24) Deposits and loans from banks

24.1 Deposits and loans from banks include:

In thousands of RSD

	2013	2012
Demand deposits	10,969,770	6,656,974
Short-term deposits	2,924,188	2,929,779
Long-term deposits	2,434,228	5,743,287
Long-term loans	69,148,904	70,461,602
Other	157,921	189,558
Balance as at 31 December	**85,635,011**	**85,981,200**

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

Short-term term deposits in dinars from banks are deposited with maturities of up to one year at interest rates ranging from 6.00% to 7.49% per annum.

Short-term foreign currency deposits from banks are deposited with maturities of up to one year at interest rates ranging from 0.01% to 0.45% per annum.

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

In thousands of RSD

	2013	2012
European Bank for Reconstruction and Development (EBRD)	9,692,026	12,301,292
Kreditanstalt fur Wiederaufbau Frankfurt am Main („KfW“)	5,192,990	4,669,316
European Investment Bank, Luxembourg	9,528,601	8,378,620
UniCredit Bank Austria AG, Vienna	44,694,932	45,063,913
National Bank of Serbia - EAR	40,355	48,461
Balance as at 31 December	**69,148,904**	**70,461,602**

Presented long term loans are granted with maturities from 3 to 16 years at interest rates from 0.51% to 3.71% per annum.

Pursuant to long-term loan agreements entered into with KfW and EBRD, the Bank is obligated to comply with certain covenants, i.e. to maintain certain financial ratios at defined levels until the final repayment of borrowings. Based on the calculations of the ratios as of December 31, 2013, the Bank did not comply with all the covenants. However, since the Bank obtained waiver letter from EBRD and expect to obtain waiver letter from KfW, Management of the Bank does not expect any implications as a result of aforementioned departures.

Notes to the Financial statements (CONTINUED)

25) Deposits and loans from customers

25.1 Deposits and loans from customers include:

In thousands of RSD

	2013	2012
Public sector	1,077,410	1,651,693
Corporate customers	59,126,975	58,516,626
Retail customers	37,428,454	36,244,602
Long-term loans	12,612,118	9,296,655
Balance as at 31 December	**110,244,957**	**105,709,576**

Demand deposits in dinars from companies are deposited at average interest rate of 3.61% per annum, while interest rate on term deposits is up to 10.60% per annum. Demand deposits in foreign currencies from companies are deposited at annual interest rate ranging from 0.1% to 1.70% per annum depending on deposited currency.

Short-term deposits in foreign currencies from companies are deposited at annual interest rate ranging from 2.10% to 3.47% per annum depending from deposited currency.

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 1.45% to 4.6% depending on term of deposit and currency presumably.

Dinar deposits from small companies and entrepreneurs are deposited at annual interest rates between 5.9% and 6.1% per annum.

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

In thousands of RSD

	2013	2012
International Finance Corporation, Washington	6,508,174	7,383,447
Deutsche Invertitions und Entwicklungs GmbH, Germany	769,398	1,144,984
EFSE Netherlands B.V.	4,593,099	-
Government of the Republic of Italy	71,664	83,990
BA CA Leasing GmbH, Bad Hamburg	669,783	684,234
Balance as at 31 December	**12,612,118**	**9,296,655**

Maturity of the presented long term loans ranges between 2015 to 2021, with interest rates from 1.272% to 4.274% per annum.

Pursuant to long-term loan agreements entered into with IFC, DEG and EFSE, the Bank is obligated to comply with certain covenants, i.e. to maintain certain financial ratios at defined levels until the final repayment of borrowings. Based on the calculations of the ratios as of December 31, 2013, the Bank did not comply with all the covenants from the agreements with IFC and DEG. However, since the Bank obtained waiver letter from IFC and expect to obtain waiver letter from KfW, Management of the Bank does not expect any implications as a result of aforementioned departures.

26) Subordinated liabilities

Subordinated liabilities relate to:

In thousands of RSD

	2013	2012
UniCredit Bank Czech Republic	860,845	853,877
UniCredit Bank Austria AG, Vienna	2,567,572	2,584,423
Balance as at 31 December	**3,428,417**	**3,438,300**

As at 31 December 2013 subordinated liabilities in foreign currencies in the amount of RSD 3,427,008 thousand relate to the subordinated long-term loans originated by UniCredit Bank Czech Republic in the amount of EUR 7,500,000 (equivalent of RSD 859,816 thousand) and by UniCredit Bank Austria AG, Vienna in the amount of EUR 500,000 (equivalent of RSD 57,321 thousand) and CHF 26,830,000 (equivalent of RSD 2,509,871 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).

The Bank has not had any defaults of interest or other breaches with respect to its subordinated liabilities during 2013 and 2012.

Notes to the Financial statements (CONTINUED)

27) Provisions

Provisions include:

In thousands of RSD

	2013	2012
Individual loan loss provision for contingent liabilities	14,491	16,311
Portfolio based loan loss provision for contingent liabilities	42,780	49,435
Retirement benefit obligations	43,571	37,294
Other	48,570	48,570
Balance as at 31 December	**149,412**	**151,610**

Movements in provisions during the year were as follows:

In thousands of RSD

	Individual loan loss provision for contingent liabilities	Portfolio based loan loss provision for contingent liabilities	Retirement benefit obligations	Other	Total
Balance as at 1 January 2013	16,311	49,435	37,294	48,570	151,610
Provision made during the year	-	-	8,832	15,914	24,746
Provision used during the year	-	-	(2,555)	-	(2,555)
Provision reversed during the year	(1,820)	(6,655)	-	(15,914)	(24,389)
Balance as at 31 December 2013	**14,491**	**42,780**	**43,571**	**48,570**	**149,412**

28) Other liabilities

Other liabilities include:

In thousands of RSD

	2013	2012
Accrued interest	976	87,635
Accrued income regarding receivables calculated at amortized cost using effective interest rate method	446,441	522,550
Liabilities to suppliers	243,783	219,553
Liabilities for corporate income tax	-	45,453
Liabilities for other taxes and contributions	18,131	8,724
Liabilities for received advances, deposits and bonds	34,976	5,393
Other accrued income	130,740	101,912
Other accrued expenses	143,338	137,774
Other	454,324	479,276
Balance as at 31 December	**1,472,709**	**1,608,270**

Notes to the Financial statements (CONTINUED)

29) Equity

29.1 Equity comprises:

In thousands of RSD

	2013	2012
Share capital	23,607,620	23,607,620
Share premium	562,156	562,156
Retained earnings	25,289,292	21,457,759
Fair value reserves	1,065,711	179,967
Balance as at 31 December	**50,524,779**	**45,807,502**

As of 31 December 2013 the authorised share capital amounts to RSD 23,607,620 thousand and consists of 2,360,762 ordinary shares, with nominal value of RSD 10,000.00 per share. All shares are ordinary shares.

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

UniCredit Bank Austria AG, Vienna holds 100% of the Bank's equity.

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

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

In thousands of RSD

	Fair value reserve	Total
2013		
Fair value reserve:		
Net change in fair value on available for sale financial assets	885,744	885,744
Total other comprehensive income, net of income tax	**885,744**	**885,744**
2012		
Fair value reserve:		
Net change in fair value on available for sale financial assets	221,696	221,696
Total other comprehensive income, net of income tax	**221,696**	**221,696**

30) Contingent liabilities and commitments

30.1 Legal proceedings

As at 31 December 2013 the Bank is defendant in 38 court cases (including 9 labour disputes) whose total value amounts to RSD 5,732,070 thousand, excluding the labour disputes. In 4 cases the claimants are companies, and in 25 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.

30.2 Commitments for operating leases of business premises:

In thousands of RSD

	2013	2012
Commitments due within one year	363,366	356,167
Commitments due in the period from one to five years	767,584	927,912
Commitments due in the period longer than five years	97,160	90,295
Total	**1,228,110**	**1,374,374**

30.3 Contingent liabilities are presented in the table below:

In thousands of RSD

	2013	2012
Contingent liabilities		
Payment guarantees		
in local currency	9,336,651	8,109,189
in foreign currency	5,496,059	9,427,355
Performance guarantees		
in local currency	24,223,369	14,633,617
in foreign currency	2,708,909	2,358,767
Letters of credit		
in local currency	267,780	557,633
in foreign currency	4,075,814	4,368,461
Balance as at 31 December	**46,108,582**	**39,455,022**

30.4 Breakdown of commitments is presented in the table below:

In thousands of RSD

	2013	2012
Commitments		
Current account overdrafts	1,094,106	2,474,749
Unused credit limits on credit cards	1,568,254	1,526,957
Unused framework loans	14,917,448	3,982,765
Letters of intention	1,549,646	510,051
Other irrevocable commitments	687,853	-
Balance as at 31 December	**19,817,307**	**8,494,522**

30.5 Undrawn foreign loan facilities as at 31 December 2013 amount to RSD 6.728.345 thousand (2012: RSD 4.529.411).

Notes to the Financial statements (CONTINUED)

31) Related parties

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

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

In thousands of RSD

	2013	2012
Balance sheet		
Loans and advances to banks		
UniCredit Bank Austria AG, Vienna	3,173,032	15,384,606
UniCredit Bank AG, Munich	27,894	14,336
UniCredit Bulbank, Sofia	22	21
UniCredit S.P.A. Milano	411,241	50,560
UniCredit Banka Slovenija, Ljubljana	188	107
Zagrebacka banka d.d., Zagreb	1,768	1,619
UniCredit Bank Hungary Z.r.t., Hungary	28,147	18,500
UniCredit Leasing Srbija d.o.o. Beograd	6	-
UniCredit Bank ZAO Moscow	113,903	6
	3,756,201	**15,469,755**
Loans and advances to customers		
Management Board of Bank	27,419	28,475
UniCredit Rent d.o.o.	140,000	190,000
	167,419	**218,475**
Other assets		
UniCredit S.P.A. Milano	521	567
UniCredit Bank Austria AG, Vienna	54,134	22,611
UniCredit S.P.A. Roma	5,727	-
Unicredit S.P.A. Zweigniederlassung, Vienna	51	-
ATF Bank, Kazahstan	-	6,281
UniCredit Bank Slovakia a.s., Bratislava	-	14,398
UniCredit Leasing d.o.o. Beograd	44	43
UniCredit Bank Hungary Z.r.t., Hungary	-	7
UniCredit Business Partner S.C.P.A., Milano	-	1,514
	60,477	**45,421**
Deposits and loans from banks		
UniCredit Bank Austria AG, Vienna	49,616,812	53,674,679
UniCredit Leasing Srbija d.o.o. Beograd	2,102,742	1,098,747
UniCredit Partner d.o.o. Beograd	132,123	109,793
UniCredit Bank AD Banja Luka	802	1,087
Zagrebacka banka d.d., Zagreb	48,511	7,825
UniCredit Bank AG, London	48	48
UniCredit Banka Slovenija, Ljubljana	4,590	2,384
UniCredit Bank AG, Munich	8,711	5,186
UniCredit Bank BiH	7	7
UniCredit Bank Hungary Z.r.t., Hungary	298	216
Unicredit Bulbank, Sofia	2	-
UniCredit S.P.A. Milano	11,480	2,044
UniCredit Bank Czech Republic	866,679	868,201
Unicredit Bank ZAO Moscow	10,347	10,664
	52,803,152	**55,780,881**

31) Related parties (continued)

In thousands of RSD

	2013	2012
Deposits and loans from customers		
Management Board of Bank	11,159	13,224
UniCredit Rent d.o.o. Beograd	520,222	752,428
UniCredit CAIB AG, Vienna	61	60
UniCredit CAIB Srbija d.o.o.	-	28,037
BA CA Leasing Deutschland Gmbh, Germany	670,707	685,262
Ambassador Parc Dedinje d.o.o.	22,031	-
CA IMMO d.o.o.	4,681	-
CA IMMO SAVA CITY d.o.o. Beograd	44,180	-
UCTAM D.O.O.	190,211	96,541
	1,463,252	**1,575,552**
Other liabilities		
UBIS G.m.b.H, Vienna	2,109	94
UniCredit Business Integrated Solutions S.C.P.A, Czech Republic	1,786	1,499
UniCredit Bank Slovenia	9,668	8,805
Unicredit CAIB Slovenia	1,041	-
UniCredit Rent d.o.o. Beograd	500	492
Unicredit S.P.A. Milano	**130,463**	**121,176**
Net Liabilities as at 31 December	**50,427,874**	**41,754,848**

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

In thousands of RSD

	2013	2012
Income statement		
Interest income	19,470	20,849
Interest expenses	(2,091,795)	(2,152,011)
Fees and other incomes	97,351	173,095
Fees and other expenses	(369,684)	(341,092)
Net expenses as at 31 December	**(2,344,658)**	**(2,299,159)**

31.2 Total gross salaries and other remuneration of the Executive Board in 2013 amount to RSD 32,581 thousand (2012: RSD 27,065 thousand).

Notes to the Financial statements (CONTINUED)

32) Subsequent events

Up to the day of issuance of these financial statements there were no subsequent events that would require correction of these financial statements (corrective events).

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Supervisory Board[1]

Erich Hampel	Chairman
Heinz Tschiltsch	Vice Chairman
Martin Klauzer	Member
Simone Marcucci	Member
Boris Begović	Member
Svetlana Kisić Zajčenko	Member

Management Board of the Bank[2]

Claudio Cesario	Chairman
Branislav Radovanović	Member
Alen Dobrić	Member

[1] on December 31st, 2013
[2] on December 31st, 2013

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