UNICREDIT BANK SRBIJA A.D., BEOGRAD

Financial Statements
Year Ended December 31, 2013
and Independent Auditors' Report

Translation of the Auditors' Report issued in the Serbian language

CONTENTS

Translation of the Independent Auditors' Report Issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

To the Shareholders of UniCredit Bank Srbija A.D., Beograd

We have audited the accompanying financial statements (pages 2 to 62) of UniCredit Bank Srbija A.D., Beograd (the "Bank"), which comprise the balance sheet as of December 31, 2013 and the related income statement, statement of changes in equity and cash flow statement for the year than ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the accounting regulations of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks, as well as for internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements of UniCredit Bank Srbija A.D., Beograd as of and for the year ended December 31, 2013 have been prepared, in all material respects, in accordance with the accounting regulations of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks.

Belgrade, February 21, 2014

Miroslav Tončić
Certified Auditor

INCOME STATEMENT
Year Ended December 31, 2013
(Thousands of RSD)

	Note	2013	2012
OPERATING INCOME AND EXPENSES			
Interest income	3.1, 4	16,550,309	15,918,909
Interest expenses	3.1, 5	(6,400,886)	(6,521,292)
Net interest income		10,149,423	9,397,617
Fee and commission income	3.2, 6	2,663,968	2,387,960
Fee and commission expense	3.2, 7	(595,448)	(480,531)
Net fee and commission income		2,068,520	1,907,429
Net gains on the sales of securities at fair value through profit and loss	3.4, 8	66,552	37,746
Net gains on the sales of securities available for sale	3.4, 9	19,948	4,774
Net foreign exchange gains/(losses)	3.3, 10	673,503	(6,828,482)
Dividend and other income from equity investments	11	98	75
Other operating income	12	24,241	36,657
Impairment losses and provisions, net	3.6, 13	(5,002,447)	(3,246,728)
Staff costs	14	(1,977,083)	(1,960,144)
Depreciation and amortization charge	3.7, 3.8, 15	(491,166)	(391,777)
Operating and other expenses	16	(2,327,373)	(2,088,923)
Gains on the valuation of assets and liabilities	3.3, 3.14, 17	24,061,678	49,388,223
Losses on the valuation of assets and liabilities	3.3, 3.14, 18	(23,566,689)	(41,334,807)
PROFIT FROM OPERATIONS BEFORE TAXES		3,699,205	4,921,660
Income taxes	3.13, 19	-	(531,096)
Gains on created deferred tax assets and decrease in deferred tax liabilities	3.13, 19	132,792	10,397
Losses on decrease in deferred tax assets and creation of deferred tax liabilities	3.13, 19	(464)	(5,851)
NET PROFIT		3,831,533	4,395,110
EARNINGS PER SHARE			
Basic earnings per share (in RSD, rounded)	20	1,623	1,862
Diluted earnings per share (in RSD, rounded)	20	1,623	1,862

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

Belgrade, February 20, 2014

President of the Executive Board	Executive Board Member	Chief Financial Officer	Preparer of the Financial Statements
Claudio Cesario	Alen Dobrić	Ljiljana Berić	Mirjana Kovačević

BALANCE SHEET
As of December 31, 2013
(Thousands of RSD)

	Note	December 31, 2013	December 31, 2012
ASSETS			
Cash and cash equivalents	3.10, 21	22,517,312	10,879,871
Revocable deposits and loans	22	29,388,670	27,642,420
Receivables arising from interest, fee and commission, trade, fair value adjustments of derivatives and other receivables	3.6, 3.11, 23	1,321,056	1,150,318
Loans and advances to customers	3.5, 3.6, 24	141,206,420	163,344,754
Securities (excluding treasury shares)	3.4, 3.6, 25	48,475,569	33,644,741
Equity investments	3.4, 3.6, 26	-	-
Other investments	3.6, 27	4,592,513	2,385,905
Intangible assets	3.8, 28	912,227	999,854
Property, equipment and investment property	3.7, 28	1,136,006	1,153,509
Non-current assets held for sale and assets of discontinued operations	3.9, 29	-	378
Deferred tax assets	3.13, 19, 30	169,836	37,507
Other assets	3.6, 31	2,233,633	2,314,527
Total assets		251,953,242	243,553,784
LIABILITIES			
Transaction deposits	32	54,459,321	43,456,777
Other deposits	33	56,335,054	64,769,989
Borrowings	34	84,424,301	82,801,625
Interest, fee and commission payables and change in the value of derivatives	3.11, 35	529,893	876,730
Provisions	3.12, 36	149,412	151,610
Tax liabilities	37	18,131	8,724
Tax and profit distribution liabilities	38	235	45,453
Deferred tax liabilities	39	593	322
Other liabilities	40	5,511,523	5,635,052
Total liabilities		201,428,463	197,746,282
EQUITY			
Share and other capital	41	24,169,776	24,169,776
Reserves from profit	41	21,457,759	17,062,649
Revaluation reserves	3.4, 41	1,101,373	205,604
Unrealized losses on securities available-for-sale	3.4, 41	(35,662)	(25,637)
Retained earnings	41	3,831,533	4,395,110
Total equity		50,524,779	45,807,502
Total liabilities and equity		251,953,242	243,553,784
Off-balance sheet items			
Managed funds	42	747,724	620,715
Commitments	42	65,925,889	47,949,544
Derivatives	3.11, 42	12,160	227,979
Other off-balance sheet items	42	345,523,976	299,418,683
Total off-balance sheet items		412,209,749	348,216,921

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

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2013
(Thousands of RSD)

	December 31, 2013	December 31, 2012
SHARE CAPITAL		
Balance at the beginning of year	23,607,620	23,607,620
Balance at year-end	23,607,620	23,607,620
SHARE PREMIUM		
Balance at the beginning of year	562,156	562,156
Balance at year-end	562,156	562,156
OTHER RESERVES FROM PROFIT		
Balance at the beginning of year	3,977,514	1,003,072
Distribution of the previous year's retained earnings	4,395,110	2,974,442
Balance at year-end	8,372,624	3,977,514
RESERVE FROM PROFIT FOR POTENTIAL LOSSES		
Balance at the beginning of year	13,085,135	12,649,807
Allocation to reserves	-	435,328
Balance at year-end	13,085,135	13,085,135
REVALUATION RESERVE		
Balance at the beginning of year	205,604	94
Effect of the change in the market value of available-for sale securities	895,769	205,510
Balance at year-end	1,101,373	205,604
UNREALIZED LOSSES ON SECURITIES AVAILABLE FOR SALE		
Balance at the beginning of year	(25,637)	(46,460)
Effect of the change in the market value of available-for sale securities	(10,025)	20,823
Balance at year-end	(35,662)	(25,637)
RETAINED EARNINGS		
Balance at the beginning of year	4,395,110	4,544,770
Distribution of the previous year's profit - dividend payment	-	(1,135,000)
Transfer of the previous year's profit to	(4,395,110)	(3,409,770)
Profit for the year	3,831,533	4,395,110
Balance at year-end	3,831,533	4,395,110
TOTAL EQUITY	50,524,779	45,807,502

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

CASH FLOW STATEMENT
Year Ended December 31, 2013
(Thousands of RSD)

	December 31, 2013	December 31, 2012
Cash generated by operating activities	**20,123,036**	**26,053,423**
Interest receipts	12,670,126	12,305,806
Fee and commission receipts	2,617,247	2,451,988
Receipts of other operating income	4,835,565	11,295,554
Receipts from dividends and profit distribution	98	75
Cash used in operating activities	**(14,745,520)**	**(21,250,000)**
Interest payments	(6,185,330)	(6,338,046)
Fee and commission payments	(585,620)	(475,127)
Payments to, and on behalf of employees	(1,977,231)	(1,959,653)
Taxes, contributions and other public duties paid	(375,989)	(393,957)
Payments for other operating expenses	(5,621,350)	(12,083,217)
Net cash inflows from operating activities prior to changes in investments and deposits	**5,377,516**	**4,803,423**
Decrease in investments and increase in deposits	**18,398,877**	**25,907,005**
Decrease in loans and advances to banks and customers	13,811,687	-
Decrease in securities carried at fair value through profit and loss, trading investments and short-term securities held to maturity	2,780,810	-
Increase in deposits due to banks and customers	1,806,380	25,907,005
Increase in investments and decrease in deposits	**-**	**(20,991,670)**
Increase in loans and advances to banks and customers	-	(15,970,738)
Decrease in securities carried at fair value through profit and loss, trading investments and short-term securities held to maturity	-	(5,020,932)
Net cash generated by operating activities before income taxes	**23,776,393**	**9,718,758**
Income taxes paid	(791,717)	(606,372)
Dividends paid	-	(1,135,000)
Net cash generated by operating activities	**22,984,676**	**7,977,386**
Cash used in investing activities	**(388,336)**	**(5,448,279)**
Cash invested in long-term securities	-	(4,884,904)
Cash used for the purchase of intangible and fixed assets	(388,336)	(563,375)
Net cash used in investing activities	**(388,336)**	**(5,448,279)**
Cash generated by financing activities	**1,704,471**	**2,839,280**
Net cash provided by borrowings	1,704,471	2,839,280
Cash used in financing activities	**(12,652,260)**	-
Net cash used in respect of securities	(12,652,260)	-
Net cash (used in)/generated by financing activities	**(10,947,789)**	**2,839,280**
Total net cash increase	**40,226,384**	**54,799,708**
Total net cash decrease	**(28,577,833)**	**(49,431,321)**
Net cash increase	11,648,551	5,368,387
Cash and cash equivalents, beginning of year	**10,879,871**	**5,134,366**
Foreign exchange (losses)/gains	(11,110)	377,118
Cash and cash equivalents, end of year	**22,517,312**	**10,879,871**

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

1. BANK'S ESTABLISHMENT AND ACTIVITY

Pursuant to the Law on Banks and Other Financial Organizations, on July 2, 2001, the National Bank of Yugoslavia enacted a decision on and issued an operating license for the establishment of HVB Banka Jugoslavija A.D., Beograd (the "Banka"). The Bank was registered with the Commercial Court of Belgrade on august 28, 2001. The Bank's founders were Bank Austria AG, Vienna (with a 99% equity interest in the bank's share capital) and AVZ Vermogensver-Waltungs GmbH, Vienna (holding a 1% equity interest). In November 2002 the Bank's shareholders changed their respective names into Bank Austria Creditanstalt AG and A&B Banken Holding GmbH, Vienna.

The Bank is a subsidiary bank of Bank Austria Creditanstalt AG (BA-CA) with its registered office in Vienna, which changed its name into UniCredit Bank Austria AG in 2008 and which is a member of the UniCredit Group.

Under Decision of the Commercial Court no. XII-Fi. 8423 / 04 dated August 23, 2004 a change of the Bank's name into HVB Banka Srbija i Crna Gora a.d. Beograd was registered.

In December 2004 through a purchase of 98.57% of the total number of ordinary voting shares and 65.9% of convertible preference shares, UniCredit Bank Austria AG became the majority owner of Eksimbanka A.D., Beograd ("Eksimbanka") with an equity interest of 98.34% therein as of December 31, 2004.

In May 2005 the remaining shares of Eksimbanka A.D., Beograd were sold, whereby UniCredit Bank Austria AG became a shareholder with a 99.57% equity interest, whilst the non-controlling interest of A&B Banken Holding GmbH, Vienna decreased to 0.43%.

Pursuant to the Serbian Business Registers Agency's Decision no. BD 90660/2005 of October 1, 2005, a status change of merger and acquisition of entities HVB Banka Srbija i Crna Gora A.D. Beograd, as the Acquirer and Eksport-Import banka Eksimbank A.D. Beograd, as the Acquiree was registered.

Pursuant to the Serbian Business Registers Agency's Decision no. BD 20088/2007 of March 30, 2007, the change of the Bank's name into UniCredit Bank Srbija A.D. Beograd was registered.

In December 2009, UniCredit Bank Austria AG became the sole owner and shareholder of the Bank through the purchase of the non-controlling interest of 0.08% from A&B Banken Holding GmbH, Vienna.

The Bank is registered in the Republic of Serbia to provide banking services associated with payment transfers, credit and deposit activities in the country and abroad in accordance with the Law on Banks and Other Financial Organizations.

As of December 31, 2013, the Bank was comprised of the Head Office in Belgrade, at the address of no. 27-29 Rajićeva Street and 74 branch offices located in cities and throughout the Republic of Serbia (December 31, 2012: 75 branch offices).

As of December 31, 2013, the Bank 1,046 employees (December 31, 2012: 1,008 employees). The Bank's tax identification number is 100000170.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION

2.1. Basis of Preparation and Presentation of Financial Statements

The accompanying financial statements have been prepared in accordance with the following local regulations: Law on Accounting (Official Gazette of RS no. 62/13), provisions of the Law on Accounting and Auditing (Official Gazette of RS no. 46/06, 111/09, 99/11) which are in effect, Law on the National Bank of Serbia (Official Gazette of RS no. 72/03, 55/04, 85/05, 44/10, 76/12 and 106/12), Law on Banks (Official Gazette of RS no. 107/05 and 91/10), Law on Foreign Exchange Operations (Official Gazette of RS no. 62/06, 31/11 and 119/12), Law on Capital Market (Official Gazette of RS no. 31/11), Law on Corporate Income Tax (Official Gazette of RS no. 25/2001, 80/2002, 43/2003, 84/2004, 18/10, 101/11,119/12, 47/13 and 108/13), bylaws and regulations enacted based on the aforecited laws as well as the Decision on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items (Official Gazette of RS no. 94/11, 57/12, 123/12, 43/13 and 113/13), Decision on Capital Adequacy of Banks (Official Gazette of RS no. 46/11 and 6/13), Decision on Risk Management by Banks (Official Gazette of RS no. 45/11, 94/11, 119/12, 123/12, 43/13, 92/13 and 23/13-other decision), Rules on the Chart of Accounts and the Contents of Accounts in the Chart of Accounts for Banks (Official Gazette of RS no. 98/07, 57/08 and 3/09) and Guidelines on the Prescribed Form and Content of the Financial Statements of Banks (Official Gazette of RS no. 74/08, 3/09, 12/09 and 05/10).

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

2.1. Basis of Preparation and Presentation of Financial Statements (Continued)

Pursuant to the Law on Accounting, legal entities and entrepreneurs incorporated in Serbia are required to prepare and present financial statements in conformity with the prevailing legislation and professional rules which include: the Framework for the Preparation and Presentation of Financial Statements (the “Framework”), International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as the related interpretations representing an integral part of these standards.

The amendments to IAS, as well as the newly-issued IFRS and the related interpretations issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”), in the period between December 31, 2002 and January 1, 2009, were officially adopted pursuant to Decision enacted by the Ministry of Finance of the Republic of Serbia no. 401-00-1380/2010-16 and published in the Official Gazette of the Republic of Serbia no. 77/2010. IFRS, their amendments or interpretations issued after the aforesaid date have not been translated and therefore not implemented in preparation of the accompanying financial statements.

Standards and interpretations in issue but not yet officially translated and adopted and standards and interpretations in issue but not yet in effect are disclosed in Notes 2.2 and 2.3.

The accompanying financial statements are presented in the format prescribed under the “Guidelines on the Prescribed Form and Content of the Financial Statements of Banks and Other Financial Institutions” (Official Gazette of the Republic of Serbia nos. 74/2008, 3/2009 and 5/2010). Such statements represent the complete set of financial statements, which differ in form and content in certain respects from those defined under the provisions of the revised IAS 1, “Presentation of Financial Statements,” whose application is mandatory for annual periods beginning on or after January 1, 2009.

In accordance with the aforedescribed, and given the potentially material effects which the departures of accounting regulations of the Republic of Serbia from IFRS and IAS may have on the fairness presentations made in the financial statements, the accompanying financial statements cannot be treated as a set of financial statements prepared in accordance with IFRS and IAS.

In accordance with the Law on Accounting, the Bank reconciled the balances of receivables and liabilities with its creditors and borrowers/customers. Balance reconciliations were made as of October 31, 2013. Total amount of unreconciled receivables was 59,812 RSD thousand, unreconciled liabilities 74,304 RSD thousand, while unreconciled amount of off-balance was 41,682 RSD thousand.

In the preparation of the accompanying financial statements, the Bank adhered to the accounting policies described in Note 3, based on the accounting, banking and tax regulations of the Republic of Serbia.

The Bank records Banka accounting transactions in dinars ("RSD"). The Bank’s financial statements are stated in thousands of dinars. The dinar is the official reporting currency in the Republic of Serbia.

2.2. Standards and Interpretations in Issue but not yet Translated and Adopted

As of the financial statements issuance date, the following standards, amendments were issued by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee but were not officially adopted and translated in the Republic of Serbia:

- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Amendments improving fair value and liquidity risk disclosures (revised in March 2009, effective for annual periods beginning on or after January 1, 2009);

- Amendments to IFRS 1 “First-Time Adoption of IFRS” – Additional Exemptions for First-Time Adopters. The amendments relate to assets in oil and gas industry and determining whether an arrangement contains a lease (revised in July 2009, effective for annual periods beginning on or after January 1, 2010);

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

2.2. Standards and Interpretations in Issue but not yet Translated and Adopted (Continued)

- Amendments to various standards and interpretations resulting from the Annual Quality Improvement Project of IFRS published on April 16, 2009 (IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 39, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (amendments are to be applied for annual periods beginning on or after 1 January 2010, while the amendment to IFRIC is to become effective as of July 1, 2009);

- Amendments to IAS 38 "Intangible Assets" (revised in July 2009, effective for annual periods beginning on or after July 1, 2009);

- Amendments to IFRS 2 "Share-Based Payment": Amendments resulting from the Annual Quality Improvement Project of IFRS (revised in April 2009, effective for annual periods beginning on or after July 1, 2009) and amendments relating to group cash-settled share-based payment transactions (revised in June 2009, effective for annual periods beginning on or after January 1, 2010);

- Amendments IFRIC 9 "Reassessment of Embedded Derivatives" effective for annual periods beginning on or after July 1, 2009 and IAS 39 "Financial Instruments: Recognition and Measurement" – Embedded Derivatives (effective for annual periods beginning on or after June 30, 2009);

- IFRIC 18 "Transfers of Assets from Customers" (effective for annual periods beginning on or after July 1, 2009);

- "Conceptual Framework for Financial Reporting 2010" being an amendments to "Framework for the Preparation and Presentation of Financial Statements" (effective for transfer of assets from customers received on or after September 2010);

- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after July 1, 2010);

- Amendments to IAS 24 "Related Party Disclosures" – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after January 1, 2011);

- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for Rights Issues (effective for annual periods beginning on or after February 1, 2010);

- Amendments to various standards and interpretations "Improvements to IFRSs" resulting from the Annual quality improvement project of IFRS published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after January 1, 2011);

- Amendments to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction" – Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011);

- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after July 1, 2010).

- Amendments to IFRS 1 "First-Time Adoption of IFRS" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011);

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Transfers of Financial Assets (effective for annual periods beginning on or after January 1, 2011);

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

2.2. Standards and Interpretations in Issue but not yet Translated and Adopted (Continued)

- Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012);
- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after January 1, 2013);
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after January 1, 2013);
- IFRS 12 "Disclosures of Involvement with Other Entities" (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosures of Involvement with Other Entities: Transition Guidance" (effective for annual periods beginning on or after January 1, 2013);
- IAS 27 (revised in 2011) "Separate Financial Statements" (effective for annual periods beginning on or after January 1, 2013);
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after January 1, 2013);
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Government Loans with a Below-Market Rate of Interest (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012);
- Amendments to IAS 19 "Employee Benefits" – Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after January 1, 2013);
- Amendments to various standards "Improvements to IFRSs (2009-2011 Cycle)" issued in May 2012, resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2013);
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after January 1, 2013).

2.3. Standards and Interpretations in Issue not yet in Effect

At the date of issuance of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 "Financial Instruments" and subsequent amendments (effective date was not yet determined);
- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – Mandatory Effective Date and Transition Disclosures (effective for annual periods beginning on or after January 1, 2015);

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

2.3. Standards and Interpretations in Issue not yet in Effect (Continued)

- Amendments to IAS 19 “Employee Benefits” - Defined Benefit Plans: Employee Contributions Statements' (effective for annual periods beginning on or after July 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);

- IFRS 9 “Financial Instruments” (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) issued, implementing additional disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9 Statements' (will become effective when IFRS 9 is applied);

- 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);

- IFRIC 21 “Levies” (effective for annual periods beginning on or after January 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);

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after January 1, 2016).

2.4. Basis of Measurement

The financial statements have been prepared at cost principle (historical cost), except for measurement of financial instruments carried at fair value, such as: financial instruments at fair value through profit and loss, financial instruments available for sale and derivative financial instruments.

2.5. Going Concern

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

2.6. Use of Estimates

Presentation of the financial statements requires the Bank’s management to make the best possible estimates and reasonable assumptions that affect the reported amounts of assets and liabilities, as well as disclosures of contingent assets and liabilities as at the financial statements preparation date, and income and expenses arising during the accounting period. These estimations and assumptions are based on historical experience and other information available to us as at the financial statements preparation date that are believed to be reasonable under the circumstances. The estimates and assumptions are the basis of making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may vary from these estimates.

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

2.6. Use of Estimates (Continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. In case that such a review reveals changes in the estimated values of the assets and liabilities, the determined effects thereof are recognized in the financial statements in the period in which a change in the relevant estimate occurred for changes in estimates that affect only the current period, or, in the period in which a change in the relevant estimate occurred as well as the ensuing periods for changes that affect both the current and the ensuing accounting periods.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements of the Bank. are described in the following passages.

(I) Impairment Allowance

The Bank reviews its loan portfolios in order to estimate the impairment allowance thereof and provisions on a monthly basis. In determining whether impairment losses on loans and advances to customers are to be recognized within the income statement, the Bank assesses whether there is information/evidence indicating the measurable decrease in the expected future cash flows on the portfolio level before such losses can be identified on an individual basis. Information indicative of impairment losses on loans and advances include: irregularity or delays in settlement of liabilities of the counterparty, local economic and market conditions causing delays in liability settlement, etc. Management's assessments of the impairment losses on the portfolio level by estimating the expected future cash flows are based on actual historical impairment losses incurred in respect of the financial assets with similar risks and similar causes of impairment. The methodology and assumptions constituting the starting point in definition of the amounts and periods of cash inflows from loans and advances to customers are subject to regular reviews in order to minimize the difference between the estimated and actual losses.

(II) Fair Value

Determining fair values of financial assets and liabilities for which no market prices exist requires using various valuation models and techniques. For financial instruments with less trading volume and whose market prices are therefore less transparent, determination of fair value is more subjective, i.e. it requires a higher degree of estimate usage depending on the instrument liquidity, risk concentration, market volatility, assumptions related to the price and other factors affecting the particular financial instrument.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest Income and Expenses

Interest income and expenses from loans and advances to customers are calculated using the effective interest method. The effective interest method is the method for calculating amortized cost of a financial asset or financial liability and allocating the related interest income and expenses to the appropriate period. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts of a financial instrument to its carrying amount.

3.2. Fee and Commission Income and Expenses

Fee and commission income and expenses mostly comprise fees and commission arising from issuance of guaranties, domestic and foreign payment transactions and foreign currency transactions. Fee and commission income and expenses for banking services are determined in the period when earned/incurred, except fee income and expenses in respect of guarantees, which are deferred and recognized proportionately over their maturity period.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at official exchange rates as determined in the Interbank Foreign Market and effective at the date of each transaction.

Assets and liabilities denominated in foreign currencies are translated into dinars by applying the official exchange rates that are prevailing in the Interbank Foreign Exchange Market at the balance sheet date.

Net foreign exchange positive or negative effects arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the income statement as foreign exchange gains or losses.

Commitments and contingent liabilities denominated in foreign currencies are translated into dinars by applying the official exchange rates that are determined in the interbank foreign exchange market and prevailing at the balance sheet date.

Exchange Rates and Inflation Rate

The official middle exchange rates determined in the Interbank Forex Market and applied in the translation of the balance sheet components into dinars for the following major currencies were as follows:

Exchange Rates and Inflation Rate

	December 31, 2013	December 31, 2012
USD	83.1282	86.1763
EUR	114.6421	113.7183
CHF	93.5472	94.1922
JPY	0.791399	1.000689
	2013	**2012**
Consumer price index/retail price index in the Republic of Serbia	102.2	112.2

3.4. Investments in Securities

The Bank classifies its securities into the following categories: securities at fair value through profit and loss, securities held to maturity and securities available for sale. Securities at fair value through profit and loss comprise securities held by the Bank for generating profit form sales thereof in the near term. Securities that the Bank has the positive intention and ability to hold to maturity are classified as held-to-maturity securities. Securities intended to be held over an indefinite time period which may be sold for liquidity purposes, due to the movements in interest rates, exchange rates or prices of capital are classified as available-for sale securities. Management classifies securities upon acquisition.

Securities at fair value through profit and loss are initially recognized at cost, which represents their fair market value upon acquisition. As at the balance sheet date, securities at fair value through profit and loss are stated at fair value determined based on the information obtained from the relevant active market. Gains or losses on such securities are credited or charged, as appropriate to the income statement as income or expenses of the period.

Available-for-sale assets are initially measured cost (which includes transaction costs) and subsequently stated at market fair value. Unrealized gains and losses on the change in the fair market value of available-for-sale securities are recorded under revaluation reserves / unrealized losses on available-for-sale securities within equity. Upon sales or permanent impairment of such assets, the relevant amounts of accumulated effects of the changes in fair value thereof are transferred to the income statements as gains or losses on investment in securities.

Equity investments comprise the Bank's equity interest in other legal entities. Equity investments for which an active market does not exist are measured at cost less impairment allowance.

Held-to-maturity securities are stated at amortized cost using the effective interest method. Income realized in the period of holding such securities within the Bank's portfolio is presented as interest income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Investments in Securities (Continued)

All purchases and sales of securities are recorded upon each transaction

The Bank derecognizes assets when the rights to cash inflows from securities expire or are transferred to a third party. A liability is derecognized when it is settled or transferred to a third party.

Impairment

As at the balance sheet date, the Bank performs an impairment test to check whether the carrying value of assets can be recovered and assesses any impairment based on the market and other available internal and external information. For estimated impairment amount, the Bank forms provision charged to expenses in the period when the impairment occurs. If in subsequent periods the Bank's management determines that there have been changes in circumstances and impairment no longer exist, previously formed provision is reversed to income. Provision reversal cannot result in a carrying value of an asset higher that the value that would have been recorded had there been no impairment.

3.5. Loans Originated by the Bank

Loans originated by the Bank are stated at the amount of principal outstanding less impairment allowance based on the estimate of specifically identified risks for a particular loan and risks historically inherent in the loan portfolio. In assessing the aforesaid risks, he Bank applies an internally adopted methodology disclosed in Note 3.6.

Loans that are disbursed in dinars and indexed to RSD-EUR, RSD-CHF or RSD-another foreign currency exchange rate (currency clause) are revalued in accordance with the terms of each specific loan agreement. The effects of such revaluation are included under gains and losses on the valuation of assets and liabilities.

3.6. Impairment Allowance and Provisions

Impairment allowance of receivables is determined as the difference between the carrying value of receivables for principal, interest, fee and other advances stated within the Bank's records and the recoverable amount of receivables, calculated as the present value of the expected cash flows discounted using the effective interest rate in accordance with the requirements of IAS 39 "Financial Instruments: Recognition and Measurement." The difference between the carrying value and the recoverable amount of receivables from financial assets is charged to the income statement when incurred.

Special reserve for estimated losses is determined in accordance with the relevant National Bank of Serbia regulations. Loans, advances and other exposures are classified into categories A, B, V, G and D according to the evaluation of the counterparty financial standing and creditworthiness, number of days the payments of liabilities due to the Bank are in arrears and quality of the collateral obtained on the exposures. The estimated amount of special reserve for potential losses is calculated by applying the following percentages per investment category: A - 0%, B - 2%, V - 15%, G - 30% and D – 100%.

The Bank is obligated to determine the amount of the required special reserve for estimated losses as the sum of positive differences between the reserve for estimated losses calculated in accordance with the Decision on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items and the amount of allowance for impairment of balance sheet assets and provisions for losses on off-balance sheet items calculated in accordance with the Bank's internal methodology. If the amount of allowance for impairment of balance sheet assets and provisions for losses on off-balance sheet items exceeds the amount of reserve for estimated losses at individual debtor level, the Bank then does not calculate the required reserve for estimated losses on balance sheet assets and off-balance sheet items.

The required a reserve for estimated losses per balance sheet assets and off-balance sheet items represents an equity deductible item in accordance with the NBS Decision on Capital Adequacy.

A write-off of uncollected receivables is performed either pursuant to a court order, or based on the settlement agreed between the parties involved, or otherwise based on decisions of the Bank's competent bodies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Property, Plant and Equipment (Fixed Assets)

Property, plant and equipment are initially recognized at cost. After initial recognition, each item of property, plant and equipment is stated at cost less accumulated depreciation and impairment loss, if any.

As at balance sheet date the Bank's management analyzes the carrying values of its tangible and if there is any indication of impairment of an asset, the recoverable amount of such an asset is estimated in order to determine the amount of the impairment loss. If the estimated recoverable amount of an asset is below its carrying value, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognized as an expense of the current period under other operating expenses. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable value. However, this is performed so that the increased carrying amount does not exceed the carrying value that would have been determined had no impairment loss been recognized for the asset in prior years.

Depreciation commences from the month following the month of the property, plant and equipment's availability for placement in use.

Depreciation is charged to the cost of items decreased by the residual value. If the residual value is immaterial, it is not taken into account upon depreciation calculation, i.e. the depreciation base is not reduced.

Property, plant and equipment are depreciated on a straight-line basis, applying the following annual depreciation rates in order to write off the value of these assets up to their residual value over their estimated useful life:

Buildings	2%
Computer equipment	20%
Vehicles	15.50%
Furniture and other equipment	7% - 30%

Leasehold improvements are depreciated in accordance with the lease terms.

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

Operating and Financial Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the lessee. Upon expiry of the lease term the ownership right over the leased asset may yet need not be transferred.

Leases are classified as operating leases when the terms of the lease do not transfer substantially all risks and rewards of ownership to the lessee. All lease payments under an operating lease are recognized as an expense within the income statement on a straight-line basis over the lease term.

3.8. Intangible Assets

Intangible assets are initially recognized at cost. After initial recognition, intangible assets are stated at cost less accumulated amortization and impairment losses, if any.

Intangible assets are non-monetary items (without physical evidence) such as goodwill, patents, licenses, concessions, trademarks, seals, accounting software, franchises, investments in development of new products, processes and equipment, copyrights etc. For these assets there is high probability that they will generate economic benefits for a period longer than one year and that these benefits will exceed the costs.

Amortization commences from the month following the month of the intangible assets' availability for placement into use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Intangible Assets (Continued)

Amortization is charged to the cost of items decreased by the residual value. If the residual value is immaterial, it is not taken into account upon amortization calculation, i.e. the amortization base is not reduced.

Amortization is calculated on a straight line basis over five years, except intangible assets for which usage periods are contractually defined. For these assets amortization is performed over their usage period determined by relevant agreements. Goodwill is not amortized but is tested for impairment at each year-end.

Intangible assets with indefinite useful life are not amortized.

3.9. Non-Current Assets Held for Sale

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

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

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

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

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

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

3.10. Cash and Cash Equivalents

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

3.11. Derivative Financial Instruments

Financial derivatives consist of forward and swap transactions as well as interest rate swaps. Financial derivatives are initially recognized at cost and subsequently measured at fair value. Fair value is determined based on active market quoted prices and using various valuation techniques including discounting cash flows. Financial derivatives are stated within assets if they have positive fair value, i.e. within liabilities if they have negative fair value. Changes in fair values of derivatives are disclosed in the income statement in the period they relate to.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Employee Benefits

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

Pursuant to the Labor Law, the Bank is obligated to pay retirement benefits to retirees. Long-term provisions for retirement benefits due to the vesting employees upon fulfillment of the retirement criteria stated as of December 31, 2013 represent the present value of the expected future payments to employees determined by actuarial valuation using assumptions such as mortality tables, annual salary growth of 4%, discount rate of 11% and employee turnover and disability rate based not only on the basic mortality tables but on the margins on annuities to a vanishing point as prepared by the actuary as well.

3.13. Taxes and Contributions

Current Income Taxes

Current income tax represents an amount that is calculated by applying the prescribed income tax rate of 15% to the taxable base stated in the income tax return, which includes the profit shown in the statutory statement of income, as adjusted for differences that are specifically defined under statutory tax rules of the Republic of Serbia, less any prescribed tax credits.

Deferred Income Taxes

Deferred income taxes are provided for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. Deferred tax liabilities are recognized for all taxable temporary differences as at the balance sheet date between the tax bases of assets and liabilities and their carrying values used for financial reporting purposes, which will result in taxable amounts in the future periods. Deferred tax assets are recognized for all deductible temporary differences and tax credits and losses available for carryforward, to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and the tax loss/credits of the carryforwards can be utilized.

Indirect Taxes and Contributions

Indirect taxes and contributions include property taxes, payroll taxes and contributions charged to the employer and other taxes and contributions payable pursuant to the republic and municipal tax and general regulations. These taxes and contributions are presented within other operating expenses.

3.14. Fair Value

The accompanying financial statements are presented at historical cost principle, including adjustments and provisions made in order to reduce the values of assets to realistic amounts.

It is the policy of the Bank to disclose the fair value information on those financial assets and financial liabilities for which published market information is readily and reliably available, and whose fair value is materially different from their recorded amounts. In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available. As a result, fair value cannot readily or reliably be determined in the absence of an active market. In the opinion of management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Hedge Accounting

In accordance with IAS 39 “Financial instruments: Recognition and Measurement,” hedge accounting recognizes the effects of offsetting gains and losses from changes in the fair value of hedging instruments and hedged items.

There are three types of hedging relationships:

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

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

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

4. INTEREST INCOME

	Year Ended December 31, 2013	2012
Financial and insurance sector	1,880,380	966,046
Corporate customers	6,424,107	7,594,771
Public sector	4,647,779	3,965,106
Entrepreneurs	75,333	95,791
Retail customers	3,376,190	3,090,341
Households	71,102	136,619
Non-residents		
- other foreign banks	814	66
- banks within the UniCredit Group	19,470	20,849
- foreign legal entities	53,089	45,232
- foreign retail customers	614	840
Other customers	1,431	3,248
	16,550,309	15,918,909

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

5. INTEREST EXPENSES

	Year Ended December 31, 2013	2012
Financial and insurance sector		
- legal entities within the UniCredit Group	78,522	26,887
- other legal entities	177,202	203,165
Corporate customers		
- legal entities within the UniCredit Group	10,405	11,062
- other legal entities	1,884,779	1,629,233
Public sector	208,417	244,721
Entrepreneurs	4,692	3,189
Retail customers	1,094,479	1,261,632
Households	5	3
Non-residents		
- banks within the UniCredit Group	1,993,479	2,096,644
- other foreign banks	694,066	772,447
- other foreign legal entities within the UniCredit Group	9,389	17,418
- other foreign legal entities	93,860	70,052
- foreign retail customers	147,066	181,397
Other customers	4,525	3,442
	6,400,886	6,521,292

6. FEE AND COMMISSION INCOME

	Year Ended December 31, 2013	2012
Fee and commission income from domestic and foreign payment transfers	291,965	198,794
Fees and commissions for other banking services	903,472	892,401
Fees for rental of safety deposit boxes	1,575	1,842
Fees for “custody” services	355,416	303,483
Fees for guarantees, letters of credit and sureties issued	497,370	417,495
Payment card transactions	431,730	339,674
Fees for brokerage services	46,291	48,273
Other fees and commissions	136,149	185,998
	2,663,968	2,387,960

7. FEE AND COMMISSION EXPENSES

	Year Ended December 31, 2013	2012
Domestic payment transfer fees and commissions	43,287	32,160
Foreign payment transfer fees and commissions	19,577	6,363
Fees for guarantees, letters of credit and sureties received	4,015	54,071
Payment card transactions	396,698	334,374
Other fees and commissions	131,871	53,563
	595,448	480,531

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

8. NET GAIN ON THE SALE OF SECURITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

	Year Ended December 31, 2013	2012
Gains on the sale of securities	67,544	44,403
Losses on the sale of securities	(992)	(6,657)
	66,552	37,746

9. NET GAIN ON THE SALE OF SECURITIES AVAILABLE FOR SALE

	Year Ended December 31, 2013	2012
Gains on the sale of securities	19,948	6,590
Losses on the sale of securities	-	(1,816)
	19,948	4,774

10. FOREIGN EXCHANGE GAINS/(LOSSES), NET

	Year Ended December 31, 2013	2012
Foreign exchange gains, net	673,503	-
Foreign exchange losses, net	-	(6,828,482)
	673,503	(6,828,482)

11. DIVIDEND AND OTHER INCOME FROM EQUITY INVSTMENTS

	Year Ended December 31, 2013	2012
Dividend income	98	75
	98	75

12. OTHER OPERATING INCOME

	Year Ended December 31, 2013	2012
Other operating income	24,241	36,657
	24,241	36,657

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

13. IMPAIRMENT LOSSES AND PROVISIONS, NET

13.1 Impairment losses and provisions, net are presented in the table below:

	Year Ended December 31, 2013	2012
Impairment losses on:		
- balance sheet assets (Note 13.2)	5,002,090	3,231,189
Reversal of impairment loses on:		
- off-balance sheet items (Note 36)	(8,475)	(12,966)
Income from suspended interest collected	-	(2,734)
Provisions for litigations (Note 36)	15,914	28,500
Reversal of provisions for litigations (Note 36)	(15,914)	-
Provisions for retirement benefits (Note 36)	8,832	2,739
	5,002,447	3,246,728

13.2 Movements on allowance for impairment over the period from January1, 2013 through December 31, 2013 are provided in the table below:

	Loans and Deposits (Note 24)	Interest receivables, fee and commission receivables, changes in the fair value of derivatives and other receivables (Note 23)	Securities (Note 25)	Equity Investments (Note 26)	Other Investments (Note 27)	Other Assets (Note 31)	Total
Balance, beginning of year	8,743,318	757,229	56,438	12,061	758,441	85,675	10,413,162
Impairment losses (Note 13.1)	3,460,509	60,528	(512)	-	1,450,347	31,218	5,002,090
Impairment allowance of interest receivables from NP loans	-	130,820	-	-	-	-	130,820
Foreign exchange gains	65,221	1,862	-	-	5,397	17	72,497
Write-off	(124,550)	(410)	-	-	(1,047)	(6,498)	(132,505)
Balance, end of year	12,144,498	950,029	55,926	12,061	2,213,138	110,412	15,486,064

14. STAFF COSTS

	Year Ended December 31, 2013	2012
Employee salaries, gross	1,215,816	1,194,802
Payroll taxes and contributions	478,272	468,542
Temporary and seasonal employees	353	-
Other staff costs	282,642	296,800
	1,977,083	1,960,144

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

15. DEPRECIATION/AMORTIZATION CHARGE

	Year Ended December 31, 2013	2012
Amortization of intangible assets (Note 28)	325,823	227,342
Depreciation of property and equipment (Note 28)	165,343	164,435
	491,166	391,777

16. OPERATING AND OTHER EXPENSES

	Year Ended December 31, 2013	2012
Cost of materials and energy	86,698	82,028
Rental costs	439,604	373,976
IS maintenance	363,699	325,714
Maintenance of property and equipment	57,122	93,642
Office cleaning and maintenance	15,765	15,997
Marketing and advertising	182,778	66,605
Expenditures for humanitarian, healthcare, cultural, educational and other purposes	5,042	924
Entertainment	11,578	9,641
Intellectual services	72,258	53,176
Telecommunications	87,582	84,641
Insurance premiums	289,325	265,585
Indirect taxes and contributions	385,390	376,237
Insurance and safety of property	81,241	89,130
Write-off of irrecoverable receivables	10,847	351
Professional education	6,319	3,661
Cost of servicing	36,287	43,874
Transportation services	8,754	7,362
Employee transport allowances	30,369	25,809
Business travel costs – accommodation and meals	18,978	13,564
Other expenses	137,737	157,006
	2,327,373	2,088,923

17. GAINS ON THE VALUATION OF ASSETS AND LIABILITIES

	Year Ended December 31, 2013	2012
Gains on the change in the value of:		
- currency clause-indexed loans	23,552,363	48,707,407
- securities	110,587	190,756
- currency clause-indexed liabilities	82,927	314,147
- derivatives	315,801	175,913
	24,061,678	49,388,223

The amount of RSD 110,561 thousand within gains on the valuation of securities relates to the income realized on the change in the value of local self-government bonds as a hedged item, while the amount of RSD 233,309 thousand within gains on the valuation of derivatives refers to the income realized on the change in the value of the interest rate swap as the hedging instrument.

All amounts expressed in thousands of RSD, unless otherwise stated.

18. LOSSES ON THE VALUATION OF ASSETS AND LIABILITIES

	Year Ended December 31, 2013	2012
Losses on the change in the value of:		
- currency clause-indexed loans	23,088,680	40,651,219
- securities	240,573	-
- currency clause-indexed liabilities	85,446	398,691
- derivatives	151,990	284,897
	23,566,689	41,334,807

The amount of RSD 221,769 thousand within losses on valuation of securities relates to the expenses incurred on the change in the value of local self-government bonds as a hedged item, while the amount of RSD 116,280 thousand within losses on the valuation of derivatives refers to the expenses incurred on the change in the value of the interest rate swap as the hedging instrument.

19. INCOME TAXES

a. Components of income taxes

	Year Ended December 31, 2013	2012
Current income tax expense	-	(531,096)
Increase in deferred tax assets and decrease in deferred tax liabilities	132,792	10,397
Decrease in deferred tax assets and increase in deferred tax liabilities	(464)	(5,851)
	132,328	(526,550)

b) Numerical reconciliation between tax expense stated in the income statement and the product of the accounting results multiplied by the applicable tax rate

	Year Ended December 31, 2013	2012
Profit before taxes	3,699,205	4,921,660
Income tax at the statutory tax rate of 15%	554,881	492,166
Permanent differences:		
Tax effects of the expenses not recognized within the tax balance	28,716	45,543
Tax effects of income adjustments	(598,510)	8,058
Temporary differences:		
Difference between the net book values of property, equipment and intangible assets and the amounts thereof for tax purposes	13,090	(2,132)
Tax effects of the expenses recognized within the tax balance	1,823	(727)
Tax credits:		
Tax credits for capital expenditures	-	(11,812)
Current income tax payable	-	531,096

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

19. INCOME TAXES (Continued)

c. Components of Deferred Tax Assets

	Year Ended December 31, 2013	2012
Deferred tax assets in respect of tax credits for capital expenditures	20,416	-
Deferred tax assets in respect of difference between the net book values of property, equipment and intangible assets and the amounts thereof for tax purposes	36,977	23,887
Deferred tax assets in respect of provisions for employee retirement benefits	6,536	5,594
Deferred tax assets in respect of unrecognized taxes, contributions and other duties payable	2,720	1,375
Deferred tax assets on other grounds	6,187	6,651
Deferred tax assets based on the tax loss	97,000	-
	169,836	37,507

20. EARNINGS PER SHARE

Basic earnings per share for the year 2013 amounts to RSD 1,623 (2012: RSD 1,862).

Diluted earnings per share are equal to the basic EPS given the fact that the Bank has no contingent shares, i.e. shares included within other financial instruments or contracts that may render their owners entitle to the ordinary shares.

21. CASH AND CASH EQUIVALENTS

	December 31, 2013	December 31, 2012
Cash on hand in RSD	799,788	716,713
Gyro account	19,572,418	7,748,642
Cash on hand in foreign currencies	524,746	595,056
Foreign currency accounts held with:		
- other banks – members of the UniCredit Group (Note 43)	1,487,887	826,521
- domestic banks (Beokliring)	37,028	27,597
- other foreign banks	92,951	961,930
Foreign currency cheques	2,494	3,412
	22,517,312	10,879,871

The Bank's required reserve represents the minimum dinar deposits set aside in accordance with the Decision on Required Reserves of Banks with the National Bank of Serbia ("NBS"). Pursuant to the aforesaid Decision, the dinar base for the calculation of required reserve is the amount of average daily balances of dinar deposits, loans, securities and other dinar liabilities ding a calendar month at the following rates:

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

All amounts expressed in thousands of RSD, unless otherwise stated.

21. CASH AND CASH EQUIVALENTS (Continued)

Banks do not calculate statutory obligatory reserves for the amount of:

1) liabilities toward the National Bank of Serbia;
2) liabilities toward banks that deposit their obligatory reserves with the National Bank of Serbia;
3) subordinated liabilities;
4) liabilities in dinars and foreign currency that banks receive from international financial organization, governments and financial institutions whose founders area foreign countries, via the government as the principal debtor or beneficiary of such funds, or directly, under the condition when investing those assets for agreed principles to be respected in setting interest rate margins;
5) liabilities in dinars and foreign currency associated with deposits, loans and other funds received from abroad in the period from October 1, 2008 to March 31, 2010 – up to the initially set date of maturity of such liabilities, and at the latest by December 31, 2014;
6) funds from term dinar deposits collected in the period from October 31 to November 8, 2010 – up to the expiry of term deposit period, assuming it is not indexed with a foreign currency clause.

The calculated obligatory dinar reserve comprises the sum of the following:

1) The calculated obligatory dinar reserve;
2) 32% of the dinar value of the obligatory euro reserve which is calculated on the portion of foreign currency base which comprises liabilities with a contractual maturity up to two years, or730 days;
3) 24% of the dinar value of the obligatory euro reserve which is calculated on the portion of foreign currency base which comprises liabilities with a contractual maturity in excess of two years or over 730 days.

The NBS pays interest on obligatory reserves in dinars at an interest rate of 2.5% p.a.

22. REVOCABLE DEPOSITS AND LOANS

	December 31, 2013	December 31, 2012
Obligatory foreign currency reserve	18,386,348	15,623,190
REPO transactions with NBS in dinars	11,002,322	12,019,230
	29,388,670	27,642,420

Required reserves in foreign currencies represent the minimum deposits set aside in accordance with the NBS Decision on Required Reserves of Banks with the NBS, which prescribes that banks calculate the obligatory foreign currency reserve at the following rates**:**

- 29% on the portion of the foreign currency reserve comprised of liabilities maturing within 2 years, i.e. up to 730 days, and exceptionally at the rate of 50% on the portion of the foreign currency reserve comprised of RSD liabilities indexed to a currency clause maturing within 2 years, i.e. up to 730 days;
- 22% on the portion of the foreign currency reserve comprised of liabilities with maturities of over 2 years, i.e. over 730 days, and exceptionally at the rate of 50% on the portion of the foreign currency reserve comprised of RSD liabilities indexed to a currency clause with maturities of over 2 years, i.e. over 730 days.

The foreign currency base for the calculation of required reserve is the amount of average daily balance of foreign currency liabilities during the preceding calendar month and the amount of average daily balance of dinar liabilities from the preceding calendar month indexed to a currency clause.

All amounts expressed in thousands of RSD, unless otherwise stated.

22. REVOCABLE DEPOSITS AND LOANS (Continued)

Banks do not calculate statutory obligatory reserves for the amount of:

1) liabilities toward the National Bank of Serbia;
2) liabilities toward banks that deposit their obligatory reserves with the National Bank of Serbia;
3) subordinated liabilities;
4) liabilities in dinars and foreign currency that banks receive from international financial organization, governments and financial institutions whose founders area foreign countries, via the government as the principal debtor or beneficiary of such funds, or directly, under the condition when investing those assets for agreed principles to be respected in setting interest rate margins;
5) liabilities in dinars and foreign currency associated with deposits, loans and other funds received from abroad in the period from October 1, 2008 to March 31, 2010 – up to the initially set date of maturity of such liabilities, and at the latest by December 31, 2014;

The calculated obligatory foreign currency reserve comprises the sum of the following:

- 68% of the determined foreign currency reserve in EUR as determined for the foreign currency base with contractual maturity of up to 2 years, i.e. 730 days; and
- 76% of the determined foreign currency reserve in EUR as determined for the foreign currency base with contractual maturity of over 2 years, i.e. 730 days.

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.

As at December 31, 2013 securities acquired through repo transactions with NBS totaling RSD 11,002,322 thousand refer to the treasury bills purchased from NBS with 8-day maturities, at the annual interest rate of 7.6%. These transactions are governed by the NBS Agreement on the Sale of Securities with an Obligation to Repurchase.

23. RECEIVABLES ARISING FROM INTEREST, FEE AND COMMISSION, TRADE, FAIR VALUE ADJUSTMENTS OF DERIVATIVES AND OTHER RECEIVABLES

	December 31, 2013	December 31, 2012
Matured interest accrued:		
- in RSD	1,591,928	1,153,633
- in foreign currencies	111,293	69,065
Fee and commission receivables:		
- in RSD	182,691	101,463
- in foreign currencies	10,472	1,922
Trade receivables	11,843	6,223
Receivables for fair value adjustments of derivatives	362,858	575,241
Less: Allowance for impairment	(950,029)	(757,229)
	1,321,056	1,150,318

Movements on impairment allowances of receivables arising from interest, fee and commission, trade, fair value adjustments of derivatives and other receivables are presented in the table below:

	2013	2012
Balance at January 1	(757,229)	(491,117)
Charge for the year	(191,348)	(250,257)
Effects of the foreign exchange gains/losses, net	(1,862)	(20,654)
Write-off	410	4,799
Balance at December 31	(950,029)	(757,229)

All amounts expressed in thousands of RSD, unless otherwise stated.

24. LOANS AND DEPOSITS

	December 31, 2013	December 31, 2012
Overnight deposits		
- in RSD	-	270,000
- in foreign currencies	2,342,337	14,766,229
Total overnight deposits	2,342,337	15,036,229
Guarantee foreign currency deposits for purchase of securities	4,586	4,549
Short-term loans:		
- in RSD	29,198,004	36,159,660
- in foreign currencies	793,400	1,261,894
Total short-term loans	29,991,404	37,421,554
Long-term loans:		
- in RSD	109,596,845	106,340,041
- in foreign currencies	11,415,746	13,285,699
Total long-term loans	121,012,591	119,625,740
Less: Allowance for impairment	(12,144,498)	(8,743,318)
	141,206,420	163,344,754

Loans were approved to corporate customers mostly for financing daily liquidity (current account overdrafts), financing working capital, imports and financing investments. Short-term loans were extended with maturities from 30 days up to a year, while the long-term borrowings were approved with maturities from 2 to 10 years at annual interest rates equal to 1-month, 3month or 6-month EURIBOR increased by 4.64%, in accordance with other cost s and bank's interest policy.

In 2013 long-term loans were approved to retail customers for purchase of homes with maturities from 5 to 30 years. The annual interest rates applied ranged from the 3-month EURIBOR increased by 4.59% to 5.79% for loans indexed to EUR by a contractual currency clause, and from 4.09% to 4.50% for subsidized housing loans. Retail customers were also approved long-term cash loans in RSD with 7-year maturities and 10-year maturities for insured loans (insurance covers the following situations: loss of job, temporary incapacity for work, and legal successor illiquidity). In 2013 the Bank offered cash loans at fixed interest rates over the entire repayment period for periods of 6 to 60 months, with or without insurance at the interest rates ranging from 16.5% to 22%. In addition, the Bank continued the sale of cash loans intended for pensioners with life insurance at fixed interest rate of 17.9% annually or equal to the 3-month BELIBOR plus 5.7%.

In 2013 interest rates for investment financing for SME and entrepreneurs ranged from 3-month EURIBOR-plus 7% to 9.7% for loans indexed to EUR. For those same customers interest rates for short-term loans ranged from 3-month EURIBOR increased by 7% to 9.7% for loans indexed to EUR, and BELIBOR increased by 5.5 to 7% for RSD loans.

In 2013 interest rates for subsidized loans indexed to EUR equaled 3.5%, and interest rates for RSD loans were equal to the NBS key policy rate. The state subsidy amounted to 5% for both types of loans.

Movements on allowances for impairment of loans and deposits to customers are presented in the table below:

	2013	2012
Balance at January 1	(8,743,318)	(5,611,007)
Charge for the year	(3,460,509)	(2,883,151)
Effects of the foreign exchange gains/losses , net	(65,221)	(384,470)
Write-off	124,550	135,310
Balance at December 31	(12,144,498)	(8,743,318)

All amounts expressed in thousands of RSD, unless otherwise stated.

24. LOANS AND DEPOSITS (Continued)

Concentration of the total loans and deposits was as follows:

	December 31, 2013	December 31, 2012
Energy sector	7,110,894	907,057
Agriculture	2,198,599	1,818,313
Construction industry	1,129,475	11,520,978
Mining and industry	6,154,330	38,725,349
Trade	36,742,419	18,097,237
Service industry	16,127,855	12,900,462
Traffic and communications	11,673,867	22,249,964
Finance and insurance sector	17,740,855	16,759,926
Retail sector	34,415,767	30,476,720
Other	7,912,359	9,888,748
	141,206,420	163,344,754

25. SECURITIES (EXCLUDING TREASURY SHARES)

	December 31, 2013	December 31, 2012
Securities at fair value through profit and loss:		
- RS Ministry of finance treasury bills held for trading	487,063	2,661,848
- foreign currency RS treasury bonds held for trading	399,700	703,729
Securities held to maturity:		
- receivables for discounted bills of exchange	153,738	301,529
Securities available for sale:		
- local self-government bonds – hedged items	3,477,332	3,526,040
- bonds issued by the finance and insurance sector	119,450	115,147
- RS Ministry of finance treasury bills	43,180,105	26,392,886
- foreign currency RS treasury bills	714,107	-
	48,531,495	33,701,179
Less: Allowance for impairment	(55,926)	(56,438)
	48,475,569	33,644,741

As of December 31, 2013 securities at fair value through profit and loss in the amount of RSD 487,063 thousand related to investments in treasury bills of the Republic of Serbia maturing up to 2015, while the amount of RSD 399,700 thousand referred to o investments in treasury bonds of the Republic of Serbia maturing up to 2015.

As of December 31, 2013 receivables for discounted bills of exchange in the amount of RSD 153,738 thousand related to investments that mature within one year at a discount rate of one-month BELIBOR increased by 1.25% to 6% annually.

As of December 31, 2013 available for sale securities of RSD 3,477,332 thousand represent investments in bonds of local self-government – hedging items – with maturities up to 2023, the amount of RSD 43,180,105 thousand relates to the treasury bills of the Republic of Serbia Ministry of Finance with maturities up to 2020, the amount of RSD 119,450 thousand refers to the bonds of the finance and insurance sector 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 risks related to local self-government bonds the Bank implemented micro fair value hedging, i.e. it reported investment in local self-government bonds in the amount of EUR 29 million as a hedged item while the interest rate swap in the same amount (EUR 29 million) as reported as a hedging instrument. As of December 31, 2013 a hedging effectiveness test was performed which showed that the hedge is very effective.

All amounts expressed in thousands of RSD, unless otherwise stated.

25. SECURITIES (EXCLUDING TREASURY SHARES) (Continued)

Movements on allowances for impairment of securities are presented in the table below:

	2013	2012
Balance at January 1	(56,438)	(61,644)
Decrease in impairment allowance charge for the year	512	5,206
Balance at December 31	(55,926)	(56,438)

26. EQUITY INVESTMENTS

	December 31, 2013	December 31, 2012
Equity investments in		
- subsidiaries (RSD)	-	-
- in entities with up to 10% interest (RSD)	12,061	12,061
Less: Allowance for impairment	(12,061)	(12,061)
	-	-

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

	December 31, 2013	
	Amount	Equity interest %
FAP Priboj a.d.	4,737	2%
Fund for further Education of Young Farmers	147	7.72%
Tržište novca a.d.	108	0.14%
RTL TV d.o.o.	7,069	9%
	12,061	

For the entire amount of the equity investments in entities of up to 10% in RSD (amount of RSD 12,061 thousand) the Bank created an allowance for impairment whereby the nominal value of its interest has been reduced to zero.

Movements on allowances for impairment of equity investments are presented in the table below:

	2013	2012
Balance at January 1	(12,061)	(12,061)
Balance at December 31	(12,061)	(12,061)

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

27. OTHER INVESTMENTS

	December 31, 2013	December 31, 2012
Other investments in RSD:		
Purchased loans - factoring	390,957	147,473
Receivables related to acceptances, sureties and payments made per guarantees and letters of credit	680,679	464,242
Receivables from payment card operations	1,103,917	1,039,409
Other assets in RSD	-	65,543
Other investments in foreign currencies:		
Receivables related to acceptances, sureties and payments made per guarantees and letters of credit	4,595,738	1,392,060
Covered letters of credit and other sureties	32,759	33,960
Other assets in foreign currencies	1,601	1,659
Less: Allowance for impairment	(2,213,138)	(758,441)
	4,592,513	2,385,905

Movements on allowances for impairment of other investments are presented in the table below:

	2013	2012
Balance at January 1	(758,441)	(524,614)
Charge for the year	(1,450,347)	(201,949)
Effects of the foreign exchange gains/losses, net	(5,397)	(33,269)
Write-off	1,047	1,391
Balance at December 31	(2,213,138)	(758,441)

28. FIXED ASSETS (PROPERTY, PLANT AND EQUIPMENT), INVESTMENT PROPERTY AND INTANGIBLE ASSETS

	Buildings	Equipment and Other Assets	Leasehold Improve-ments	Investment in Progress	Intangible Assets	Investment Property	Total
Cost							
Balance at beginning of year	668,752	1,063,877	378,272	3,627	2,230,846	1,642	4,347,016
Additions	-	-	-	168,381	238,207	-	406,588
Transfer from investments in progress	-	161,464	8,455	(169,919)	-	-	-
Disposal and retirement	-	(43,264)	(6,758)	-	(658)	-	(50,680)
Other	-	2,268	-	-	-	-	2,268
Balance at year-end	668,752	1,184,345	379,969	2,089	2,468,395	1,642	4,705,192
Accumulated depreciation/amortization							
Balance at beginning of year	36,884	697,400	228,263	-	1,230,992	114	2,193,653
Charge for the year	13,375	111,196	40,739	-	325,823	33	491,166
Disposal and retirement	-	(22,704)	(6,758)	-	(647)	-	(30,109)
Other	-	2,249	-	-	-	-	2,249
Balance at year-end	50,259	788,141	262,244	-	1,556,168	147	2,656,959
Net Book Value as of :							
- December 31, 2013	618,493	396,204	117,725	2,089	912,227	1,495	2,048,233
- December 31, 2012	631,868	366,477	150,009	3,627	999,854	1,528	2,153,363

All amounts expressed in thousands of RSD, unless otherwise stated.

29. NON-CURRENT ASSETS HELD FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS

	December 31, 2013	December 31, 2012
Non-current assets held for sale	-	378
	-	378

Out of 111 items of non-current assets (72 printers and 39 fax machines) that were classified as non-current assets held for sale, 55 items were sold in 2013 - 27 printers and 28 fax machines. As at the date of the Consensual Termination of the Sales and Purchase Agreement, the remaining fixed assets were reclassified to fixed assets which will be used for performance of the registered business activity. These assets are measured at their carrying amounts before they were classified as assets held for sale, which amounts were adjusted for accumulated depreciation and impairment, which would have been recognized had these assets not been classified as non-current assets held for sale. Cost of assets that were reclassified from non-current assets held for sale to fixed assets used in performing the registered activity as of December 31, 2013 amounted to RSD 2,268 thousand and accumulated depreciation thereof RSD 2,249 thousand.

30. DEFERRED TAX ASSETS

	December 31, 2013	December 31, 2012
Deferred tax assets for capital expenditures	20,416	-
Deferred tax assets arising from the differences in depreciation/amortization charges in the financial statements and those for tax purposes	36,977	23,887
Deferred tax assets arising from provisions for employee benefits	6,536	5,594
Deferred tax assets arising from unrecognized expenses for taxes, contributions and other duties payable	2,720	1,375
Deferred tax assets arising on other items	6,187	6,651
Deferred tax assets arising from tax loss	97,000	-
	169,836	37,507

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

31. OTHER ASSETS

	December 31, 2013	December 31, 2012
Other assets held in RSD:		
Receivables for advances, deposits and retainers	11,519	19,668
Other receivables from operations	345,327	277,235
Assets acquired in lieu of debt collection	4,927	4,927
Prepaid income taxes	746,500	-
Receivables from employees	3,196	3,152
Deferred receivables for accrued interest	706,097	1,124,388
Deferred receivables for other accrued income	8,547	12,597
Deferred expenses related to liabilities stated at amortized cost using the effective interest method	225,723	184,548
Deferred other expenses	69,308	65,192
	2,121,144	1,691,707
Other assets in foreign currencies:		
Receivables for advances, deposits and retainers	121	52
Receivables from employees	4,659	4,032
Other receivables from operations	10,771	11,594
Deferred receivables for accrued interest	77,399	192,295
Deferred receivables for other accrued income	20,238	31,692
Deferred other expenses	109,713	468,830
	222,901	708,495
Less: Allowance for impairment	(110,412)	(85,675)
	2,233,633	2,314,527

Movements on the allowance for impairment of other assets are presented in the table below:

	2013	2012
Balance at January 1	(85,675)	(40,215)
Charge for the year	(31,218)	(46,550)
Effects of the foreign exchange gains/losses, net	(17)	(913)
Write-off	6,498	2,003
Balance at December 31	(110,412)	(85,675)

32. TRANSACTION DEPOSITS

	December 31, 2013	December 31, 2012
Transaction deposits:		
- in RSD	26,172,163	22,433,777
- in foreign currencies	28,287,158	21,023,000
	54,459,321	43,456,777

All amounts expressed in thousands of RSD, unless otherwise stated.

32. TRANSACTION DEPOSITS (Continued)

The following table provides details on the structure of transaction deposits:

	December 31, 2013	December 31, 2012
- sector of finances and insurance	4,623,491	1,927,455
- public companies	428,739	1,141,398
-corporate customers - enterprises	32,179,474	28,618,887
- public sector	8,764	5,308
- other customers	449,603	471,821
- non-residents, foreign entities	10,548,083	6,705,901
- retail sector	5,740,501	4,289,015
- entrepreneurs	459,915	285,853
- households	20,751	11,139
	54,459,321	43,456,777

33. OTHER DEPOSITS

	December 31, 2013	December 31, 2012
Demand deposits:		
- in RSD	791,062	3,903,225
- in foreign currencies	3,788,511	2,188,848
	4,579,573	6,092,073
Short-term deposits:		
- in RSD	12,839,502	8,452,106
- in foreign currencies	29,537,332	39,836,599
	42,376,834	48,288,705
Long-term deposits:		
- in RSD	18,148	4,071
- in foreign currencies	9,360,499	10,385,140
	9,378,647	10,389,211
	56,335,054	64,769,989

The Bank paid interest at annual rates up to 3.61 % on average to RSD demand deposits of corporate customers, while the term RSD deposits accrued interest at rates up to 10.60% annually.

The Bank paid interest at annual rates from 0.1% to 1.70% annually to foreign currency demand deposits of corporate customers, depending on the currency.

Foreign currency short-term ime deposits placed with the Bank by corporate customers earned interest at annual rates ranging from 2.10% to 3.47% annually, depending on the currency.

RSD demand deposits placed by banks earned interest at the rate up to 4.5% annually.

RSD short-term deposits were placed by banks for periods of up to a year at interest rates of 6.00% to 7.49% annually. Foreign currency short-term deposits were placed by banks for periods of up to a year at interest rates from 0.01% to 0.45% per annum.

Demand deposits in RSD were deposited by retail customers at annual interest rates up to 1%.

Foreign currency demand deposits placed by retail customers earned interest at the rate of 0.9% annually, while interest on funds on current accounts amounts to 0.3% per annum.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

33. OTHER DEPOSITS (Continued)

Short-term deposits from retail customers in foreign currencies were deposited at annual interest rates ranging from 1.45% to 4.6% annually, depending on the deposit term, including the conditions applicable during the „Savings Week." For medium-term deposits, from 18 to 25 months, interest rates ranged from 3.15% to3.5% annually.

RSD short-term retail deposits were placed at the interest rates ranging from 6.6% to 10.3% annually, depending on the deposit term, including the conditions applicable during the „Savings Week."

RSD deposits of SME and entrepreneurs accrued interest at the rates between 5.9% and 6.1% per annum.

The structure of other deposits was as follows:

	December 31, 2013	December 31, 2012
- sector of finances and insurance	3,577,084	5,090,621
- public companies	1,890,761	1,122,697
-corporate customers - enterprises	18,251,042	21,421,171
- public sector	250,088	45,526
- other customers	333,792	345,083
- non-residents, foreign entities	4,598,048	9,635,627
- retail sector	27,369,800	27,025,500
- entrepreneurs	64,439	83,764
	56,335,054	64,769,989

34. BORROWINGS

	December 31, 2013	December 31, 2012
Overnight deposits		
- in RSD	2,665,809	2,794,594
- in foreign currencies	56,562	340,811
	2,722,371	3,135,405
Long-term borrowings		
- in foreign currencies	81,462,267	79,448,330
Other financial liabilities		
- in foreign currencies	239,663	217,890
	84,424,301	82,801,625

The breakdown of long-term borrowings in foreign currencies is presented below:

	December 31, 2013	December 31, 2012
European Bank for Reconstruction and Development (EBRD)	9,654,290	12,254,280
Kreditanstalt fur Wiederaufbau Frankfurt am Main (KfW)	5,187,556	4,662,450
European Investment Bank, Luxembourg	9,515,261	8,368,710
International Finance Corporation, Washington	6,472,814	7,345,298
Deutsche Invertitions und Entwicklungs GmbH, Germany	764,281	1,137,183
UniCredit Bank Austria AG	44,500,880	44,863,966
EFSE Netherlands B.V.	4,585,686	-
BA CA Leasing (Deutchland) GmbH, Bad Homburg	669,674	684,234
NBS Revolving Credit Fund	40,275	48,368
Government of the Republic of Italy	71,550	83,841
	81,462,267	79,448,330

All amounts expressed in thousands of RSD, unless otherwise stated.

34. BORROWINGS (Continued)

Long-term loans were approved to the Bank for periods from 3 to 16 years, at nominal interest rates ranging from 0.35% to 4.274% annually.

Pursuant to long-term loan agreements entered into with KfW, DEG, EBRD, IFC 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. Until the date of these financial statements' preparation date, the Bank has not calculated the aforesaid ratios as at December 31, 2013 as reporting on the compliance with the covenants to the creditors was not yet due. Based on the most recent calculations of the ratios as of September 30, 2013, the Bank did not comply with all the covenants, which is expected to be the case in calculations made as of December 31, 2013. The Bank's management. does not expect that the aforesaid non-compliance with the prescribed ratios could have any effects on the accompanying financial statements.

35. INTEREST, FEE AND COMMISSION PAYABLES AND CHANGE IN THE VALUE OF DERIVATIVES

	December 31, 2013	December 31, 2012
Matured interest payable:		
- in RSD	5,398	1,206
- in foreign currencies	351	277
Fees and commissions payable :		
- in RSD	10,710	4,938
- in foreign currencies	16,070	13,305
Liabilities for change in the value of derivatives	497,364	857,004
	529,893	876,730

36. PROVISIONS

	December 31, 2013	December 31, 2012
Provisions for retirement benefits	43,571	37,294
Provisions for off-balance sheet items	57,271	65,746
Provisions for potential losses on litigations	48,570	48,570
	149,412	151,610

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

36. PROVISIONS (Continued)

Movements on the account of provisions are presented in the table below:

	2013	2012
Provisions for retirement benefits		
Balance at January 1	37,294	35,955
Charge for the year (Note 13.1)	8,832	2,739
Release of provisions during the year	(2,555)	(1,400)
Balance at December 31	43,571	37,294
Provisions for off-balance sheet items		
Balance at January 1	65,746	78,712
Reversal of provisions credited to income (Note 13.1)	(8,475)	(12,966)
Balance at December 31	57,271	65,746
Provisions for potential losses on litigations		
Balance at January 1	48,570	20,070
Charge for the year (Note 13.1)	15,914	28,500
Reversal of provisions credited to income (Note 13.1)	(15,914)	-
Balance at December 31	48,570	48,570
Total	149,412	151,610

37. TAX LIABILITIES

	December 31, 2013	December 31, 2012
Value added tax payable	13,977	4,066
Capital income tax payable	2,135	2,584
Liabilities for withholding income tax on interest income from non-resident companies	1,949	1,565
Other taxes and contributions payable	70	509
	18,131	8,724

38. TAX AND PROFIT DISTRIBUTION LIABILITIES

	December 31, 2013	December 31, 2012
Profit distribution liabilities	235	235
Corporate income tax payable	-	45,218
	235	45,453

The Bank did not present the income tax payable for the year 2013. Receivables for income taxes prepaid through advance payments in 2013 of RSD 746,500 thousand are presented within Note 31.

All amounts expressed in thousands of RSD, unless otherwise stated.

39. DEFERRED TAX LIABILITIES

	December 31, 2013	December 31, 2012
Deferred tax liabilities in respect of revaluation of securities	593	322
	593	322

40. OTHER LIABILITIES

	December 31, 2013	December 31, 2012
Liabilities for advances, deposits and retainers received		
- in RSD	4,289	3,724
- in foreign currencies	30,687	1,669
Liabilities to suppliers:		
- in RSD		
- within the UniCredit Group (Note 43)	500	492
- other	90,324	76,628
- in foreign currencies		
- within the UniCredit Group (Note 43)	145,067	131,574
- other	7,892	10,859
Other liabilities:		
- in RSD	127,016	235,402
- in foreign currencies	327,073	243,874
Accrued interest:		
- in RSD	69,355	41,520
- in foreign currencies	561,793	690,151
Deferred other income:		
- in RSD	121,607	93,632
- in foreign currencies	9,134	8,280
Deferred other expenses:		
- in RSD	137,169	132,865
- in foreign currencies	6,168	4,909
Deferred income from receivables stated at amortized cost using the effective interest method	446,441	522,550
Subordinated liabilities in foreign currencies	3,427,008	3,436,923
	5,511,523	5,635,052

As at December 31, 2013 subordinated liabilities in foreign currencies in the amount of RSD 3,427,008 thousand relate to the subordinated long-term loans obtained from UniCredit Bank Czech Republic in the amount of EUR 7,500,000 or RSD 859,816 thousand and from UniCredit Bank Austria AG in the mounts of EUR 500,000 and CHF 26,830,000 or RSD 57,321 thousand and RSD 2,509,871 thousand, respectively. These loans were extended with 7-year and 12-year maturities, at interest rates equal to the three-month EURIBOR rate increased by 0.75 % per annum, and at the six-month EURIBOR increased by 0.65 % per annum and three-month CHF LIBOR rate increased by 2.93%, respectively. The loans are not securitized with collaterals and all liabilities/claims arising from these loan agreements are regarded as subordinated, i.e. in the event of Bank's bankruptcy or liquidation, they are repaid only after liabilities to other creditors are settled.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

41. EQUITY

	December 31, 2013	December 31, 2012
Share capital	23,607,620	23,607,620
Issue premium	562,156	562,156
Share and other capital	24,169,776	24,169,776
Profit reserves for estimated losses arising on balance sheet assets	11,578,429	11,578,429
Profit reserves for estimated losses arising on off-balance sheet items	1,506,706	1,506,706
Other reserves from profit	8,372,624	3,977,514
Reserves from profit	21,457,759	17,062,649
Revaluation reserves	1,101,373	205,604
Unrealized losses on available-for-sale securities	(35,662)	(25,637)
Retained earnings	3,831,533	4,395,110
Total equity	50,524,779	45,807,502

Share and Other Capital

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

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

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

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

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

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

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

After seventh issuance of shares the UniCredit Bank Austria AG equity interest increased to 99.92%, and the non-controlling interest of A&B Banken Holding GmbH, Vienna decreased to 0.08%.

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

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

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

All amounts expressed in thousands of RSD, unless otherwise stated.

41. EQUITY (Continued)

Share and Other Capital

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

As at December 31, 2013 the Bank's share capital totaled RSD 23,607,620 thousand and comprised 2,360,762 ordinary shares as at December 31, 2013.

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

Reserves from Profit

Reserves for potential losses in respect of on-balance and off-balance sheet items totaled RSD 13,085,135 thousand as at December 31, 2013. These reserves were calculated in accordance with NBS Decision on Criteria for Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items.

Other reserves from profit of RSD 8,372,624 thousand were formed pursuant to the relevant decisions on profit distribution enacted by the Bank's Shareholder Assembly.

Revaluation Reserves and Unrealized Losses on Available-for-Sale Securities

Reserves based on available-for-sale securities in the amount of RSD1,101,373 thousand and unrealized losses on available-for-sale securities in the amount of RSD 35,662 thousand relate to valuation of available-for-sale securities in accordance with the accounting policy described in Note 3.4.

Retained Earnings

Retained earnings in the amount of RSD 3,831,533 thousand represent profit after taxes for the year ended December 31, 2013.

Capital Adequacy and Business Ratios Prescribed by the NBS Decision on Risk Management

Pursuant to the NBS Decision on Capital Adequacy, the Bank is obligated to maintain a minimum capital adequacy ratio of 12%. As of December 31, 2013, the Bank's capital adequacy ratio was above the prescribed minimum of 12%.

The Bank is obligated to maintain the scope of its business operations within the legally-prescribed ratios, i.e. to reconcile the scope and structure of its risk-weighted assets with the Law on Banks and the relevant decisions of the National Bank of Serbia. As of December 31, 2013, the bank was in full compliance with the NBS Decision on Risk Management in respect of liquidity ratios, foreign exchange risk ratio, exposure to a single entity or a group of related entities, total exposure to entities related to the Bank, sum of all large exposures and indicator of the Bank's investments in other entities and own capital expenditures.

Ratios prescribed by NBS regulations	Prescribed	December 31, 2013	December 31, 2012
Capital adequacy ratio	Minimum 12%	22.89%	18.51%
The sum of the Bank's investments relative to capital	Maximum 60%	3.11%	4.10%
Total exposure to entities related to the Bank relative to capital	Maximum 20%	15.58%	10.60%
The sum of all large exposures relative to capital	Maximum 400%	112.99%	156.27%
Monthly liquidity ratio - December	Minimum 1.00	2.39	1.92
Rigid-cash liquidity ratio - December	Minimum 0.70	2.16	1.40
Foreign exchange risk ratio	Maximum 20%	11.21%	4.85%

All amounts expressed in thousands of RSD, unless otherwise stated.

42. OFF-BALANCE SHEET ITEMS

	December 31, 2013	December 31, 2012
Managed funds		
- on behalf of the public sector	747,724	620,715
Commitments		
Payment guarantees:		
- in RSD	9,336,651	8,109,189
- in foreign currencies	5,496,059	9,427,355
Performance guarantees:		
- in RSD	24,223,369	14,633,617
- in foreign currencies	2,708,909	2,358,767
Unsecured letters of credit		
- in RSD	267,780	557,633
- in foreign currencies	4,075,814	4,368,461
Irrevocable commitments for undrawn loans and advances	19,129,454	8,494,522
Other irrevocable commitments	687,853	-
	65,925,889	47,949,544
Derivatives		
- receivables from foreign currency exchange derivatives	12,160	227,979
Other off-balance sheet items	345,523,976	299,418,683
	412,209,749	348,216,921

Managed funds relate irrevocable long-term agricultural loans issued from funds held by the Ministry of Agriculture, Development Fund of the Republic of Serbia and the Guarantee Fund, which were approved with maturities up to 5 years, with a grace period up to 3 years and annual interest rate of 3%, and to subsidized housing loans based on the Decree issued by the Serbian Government in 2010, 2011, 2012. and 2013.

Breakdown of commitment is presented below:

	December 31, 2013	December 31, 2012
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 intent	1,549,646	510,051
	19,129,454	8,494,522

Breakdown of other off-balance sheet items is presented below:

	December 31, 2013	December 31, 2012
Securities associated with custody operations	252,751,445	205,925,180
Securities purchased from NBS per REPO contracts	11,000,000	12,000,000
Secured letters of credit	44,295	202,477
Received letters of credit, guarantees and collection funds	29,393,288	28,468,384
Off-balance sheet financial instruments	15,616,331	24,289,111
Equipment acquired under lease	16,403	14,775
Other	36,702,214	28,518,756
	345,523,976	299,418,683

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

42. OFF-BALANCE SHEET ITEMS (Continued)

Commitments arising from the lease of business premises are as follows:

	December 31, 2013	December 31, 2012
Commitments with maturities:		
- within a year	363,366	356,167
- from 1 to 5 years	767,584	927,912
- over 5 years	97,160	90,295
	1,228,110	1,374,374

Undrawn Foreign Loan Facilities

Undrawn foreign loan facilities, recorded within other off-balance sheet items, amounted to RSD 6,728,345 thousand as of December 31, 2013 (December 31, 2012: RSD 4,529,411 thousand).

Litigation

As of December 31, 2013 there were 38 legal suits (including 9 labor lawsuits) involving the Bank as a defendant and totaling RSD 5,732,070 thousand, excluding labor lawsuit claims. In 4 cases the plaintiffs are legal entities, whereas in 25 cases the plaintiffs are private individuals.

In respect of the legal suits filed against the Bank, the Bank formed provision RSD 48,570 thousand (Note 36). This amount includes the labor lawsuits filed against the Bank. No provisions were made for the rest of the legal suits based on the management's estimate that the outcome thereof will most probably be favorable for the Bank, i.e. that the Bank will not incur outflows in respect of those suits or they involve less contingent liabilities that require no provisioning

All amounts expressed in thousands of RSD, unless otherwise stated.

43. RELATED PARTY TRANSACTION WITHIN UNICREDIT GROUP

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

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

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

	December 31, 2013	December 31, 2012
Foreign currency accounts held with:		
UniCredit Bank Austria AG, Vienna	905,158	741,737
UniCredit Bank AG, Munich	27,894	14,336
UniCredit Bulbank, Sofia	22	21
UniCredit S.P.A. Milano	411,241	50,560
UniCredit Bank Hungary Z.r.t., Hungary	28,147	18,500
UniCredit Banka Slovenia, Ljubljana	185	104
UniCredit Bank ZAO Moscow	113,897	-
Zagrebačka banka d.d.	1,343	1,263
	1,487,887	826,521
Interest and fee and commission receivables:		
UniCredit Bank Austria AG, Vienna	1,276	3,561
UniCredit Banka Slovenia, Ljubljana	3	3
UniCredit Bank ZAO Moscow	6	6
Zagrebačka banka d.d.	425	356
UniCredit Bank BIH	6	-
	1,716	3,926
Loan and deposit receivables:		
Approved to the members of the Executive Board of the Bank	27,419	28,475
UniCredit Rent d.o.o.	140,000	190,000
UniCredit Bank Austria AG, Vienna	2,233,839	14,605,348
	2,401,258	14,823,823
Receivables for actual expenses paid:		
UniCredit S.P.A. Milan	521	567
UniCredit Bank Austria AG, Vienna	54,134	22,611
ATF Bank, Kazakhstan	-	6,281
UniCredit Bank Hungary Z.r.t., Hungary	-	7
UniCredit S.P.A. Roma	5,727	-
Unicredit S.P.A. Zweigniederlassung, Vienna	51	-
UniCredit Business Partner S.C.P.A., Milan	-	1,514
Unicredit Bank Slovakia a.s., Bratislava	-	14,398
	60,433	45,378
Other receivables:		
UniCredit Leasing Srbija d.o.o.	44	43
Secured letters of credit and other sureties:		
UniCredit Bank Austria AG, Vienna	32,759	33,960
Overnight deposits:		
UniCredit Bank Austria AG, Vienna	-	56,515

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

43. RELATED PARTY TRANSACTION WITHIN UNICREDIT GROUP (Continued)

	December 31, 2013	December 31, 2012
Demand deposits:		
Executive Board of the Bank	5,198	2,972
UniCredit Bank Austria AG, Vienna	2,446,944	6,000,253
UniCredit Leasing Srbija d.o.o.	2,102,742	302,719
UniCredit Rent d.o.o.	520,222	752,428
UniCredit Partner d.o.o.	132,123	109,793
UniCredit Bank AD Banja Luka	802	1,087
Zagrebačka banka d.d.	48,397	7,814
UniCredit Bank AG, London	48	48
UniCredit Banka Slovenia d.d.	4,590	2,384
UniCredit CAIB AG, Vienna	61	60
UniCredit Bank AG, Munich	802	619
Unicredit CAIB Srbija d.o.o.	-	28,037
BA CA Leasing Deutschland GmbH, Germany	1,033	1,028
UniCredit Bank ZAO Moscow	10,347	10,664
UCTAM D.O.O.	190,211	96,541
Ambassador Park Dedinje d.o.o.	22,031	-
CA IMMO d.o.o.	4,681	-
CA IMMO SAVA CITY d.o.o. Beograd	44,180	-
UniCredit Bulbank, Sofia	2	-
UniCredit Bank Czech Republic A.S.	6,863	15,314
	5,541,277	7,331,761
Short-term deposits:		
Executive Board of the Bank	-	5,931
UniCredit Leasing Srbija d.o.o	-	796,028
	-	801,959
Long-term deposits:		
Executive Board of the Bank	5,961	4,321
Loan liabilities:		
UniCredit Bank Czech Republic	859,816	852,887
BA CA Leasing Deutchland GmbH, Germany	669,674	684,234
UniCredit Bank Austria AG, Vienna	47,068,072	47,448,001
	48,597,562	48,985,122
Other liabilities:		
UniCredit Bank Austria AG, Vienna	101,796	169,910
UniCredit Bank AG, Munich	7,909	4,567
UniCredit Bank BIH	7	7
Zagrebačka banka d.d.	114	11
UniCredit S.P.A. Milan	11,480	2,044
UniCredit Bank Hungary Z.r.t., Hungary	298	216
	121,604	176,755
Trade payables:		
UBIS G.m.b.H, Vienna	2,109	94
UniCredit Business Integrated Solutions SCPA Czech Republic	1,786	1,499
UniCredit Banka Slovenia d.d.	9,668	8,805
Unicredit CAIB Slovenia	1,041	-
Unicredit S.P.A. Milan	130,463	121,176
UniCredit Rent d.o.o.	500	492
	145,567	132,066

All amounts expressed in thousands of RSD, unless otherwise stated.

43. RELATED PARTY TRANSACTION WITHIN UNICREDIT GROUP (Continued)

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

	December 31, 2013	December 31, 2012
Interest income	19,470	20,849
Interest expenses	(2,091,795)	(2,152,011)
Other income	97,351	173,095
Other expenses	(369,684)	(341,092)
Expenses, net	(2,344,658)	(2,299,159)

The total gross salaries and other remunerations to the members of the Bank's executive Board amounted to RSD 32,581 thousand in 2013 (2012: RSD 27,065 thousand).

44. RISK MANAGEMENT POLICIES

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

The operating business risks are:

- Credit Risk, including residual risk, risk of reduction in value of receivables, settlement risk, as well as counterparty risk
- Risk of concentration which especially includes the risk of exposure to a single entity or group of entities
- Liquidity risk
- Market risks (interest rate risk, foreign currency risk, etc.)
- Operating risk
- Investment risk of the bank
- Country risk of clients toward whom the bank is exposes (country risk)
- Strategic risk
- Compliance risk

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

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

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

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to the geographical and industry segments. .

44. RISK MANAGEMENT POLICIES (Continued)

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

Such risks are monitored on an ongoing basis and are subject to an annual or more frequent review. Exposure to credit risk is managed by the regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations, and by changing these lending limits where appropriate.

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

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

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

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

The Bank measures, identifies and assesses risk based on a borrower's credit rating, regularity of settlement of obligations toward the Bank and on the quality of the security instrument, in accordance with its credit policies and strategies, as well as other internal regulations, in particular the Methodology for Assigning Criteria and the Method for Classifying Balance Sheet and Off-Balance Sheet Items of the Bank, as well as the Manual for Calculating Provisions According to IAS/IFRS.

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

Credit Risk Reporting

The Bank manages credit risk, sets limits and controls this risk in all segments of its business activity, according to all relevant types of corporate and retail clients. Timely credit risk identification, measurement, control and management at Bank portfolio level is ensured by the Risk Management Information System (hereinafter: RMIS). Reporting at portfolio level and at individual client level, RMIS provides complete, accurate and timely information about the balance, quality and movements in the loan portfolio.

44. RISK MANAGEMENT POLICIES (Continued)

Credit Risk Reporting (Continued))

RMIS must fulfil the following four functions:

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

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

1. Credit Risk Parameters

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

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

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

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

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

2. Limits

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

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

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

3. Reports

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

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

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

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

44. RISK MANAGEMENT POLICIES (Continued)

Credit Risk Reporting (Continued))

3. Reports (Continued)

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

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

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

- breakdown of placements (type and currency)
- portfolio collateralization and breakdown of collaterals
- maturity structure of the portfolio
- amounts and movements in provisions in accordance with IFRS
- breakdown of portfolio placements by internal rating categories
- portfolio breakdown by client default/performance criteria

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

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

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

Implementation of Basel II

In the area of Basel II implementation, activities were primarily focused on implementing the locally developed rating model for the retail segment, entrepreneurs and small enterprises. Also, in scoring corporate clients, comprehensive model validation has been carried out in accordance with the internal segmentation. In terms of LGD and EaD parameters, activities were focused on validating the 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 functioning of the process of entering collateral foreclosures into the relevant sources, which is of great significance for the modelling 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 regulatory capital assessment and stress testing.

All amounts expressed in thousands of RSD, unless otherwise stated.

44. RISK MANAGEMENT POLICIES (Continued)

Credit risk exposures as of December 31, 2013 and 2012 are presented in the following table

	Loans and deposits		Other advances		Securities		Equity investments		Interest, fee and other receivables		Other assets		Cash and cash equivalents and revocable deposits and loans		Off-balance sheet items	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Individual level provision																
Corporate clients, rating 10	11,041,245	11,394,707	1,618,610	1,459,685	55,316	55,316	-	-	586,742	614,978	55,557	72,610	-	-	6,315	1,396
Corporate clients, rating 9	7,373,504	2,971,585	3,656,612	315,141	2,600	-	12,061	12,061	222,826	115,191	11,857	4,206	-	-	139,949	33,304
Corporate clients, rescheduled loans	175,501	88,583	17,929	4,172	-	-	-	-	25,397	15,089	3,931	3,878	-	-	8,983	301
Retail clients > 90 days in default**	2,242,404	2,170,059	110,790	114,647	-	-	-	-	431,692	390,000	76,662	58,522	-	-	10,754	24,079
Gross placements	20,832,654	16,624,934	5,403,941	1,893,645	57,916	55,316	12,061	12,061	1,266,657	1,135,258	148,007	139,216	-	-	166,001	59,080
Provision	11,639,731	8,274,298	2,208,992	750,320	55,316	55,161	12,061	12,061	943,537	755,668	108,754	81,928	-	-	14,491	16,311
Carrying value	9,192,923	8,350,636	3,194,949	1,143,325	2,600	155	-	-	323,120	379,590	39,253	57,288	-	-	151,510	42,769
Portfolio level provision																
Corporate clients, rating 1 - 6	88,688,473	106,783,692	468,492	303,728	3,663,405	3,818,120	-	-	936,827	661,321	1,172,097	1,985,763	1,620,361	1,819,459	83,696,816	55,309,505
Corporate clients, rating 7	7,135,737	11,125,585	10,675	87,686	25,000	69,280	-	-	17,423	51,720	17,392	45,039	-	-	1,557,596	3,607,076
Corporate clients, rating 8	341,787	3,778,532	355	1,911	4,200	-	-	-	1,193	30,224	1,059	15,159	-	-	4,464	3,240,791
Retail clients < 90 days in default***	33,677,552	29,795,587	922,188	857,376	-	-	-	-	28,810	29,024	254,202	208,051	-	-	1,809,022	1,718,595
Gross placements	129,843,549	151,483,396	1,401,710	1,250,701	3,692,605	3,887,400	-	-	984,253	772,289	1,444,750	2,254,012	1,620,361	1,819,459	87,067,898	63,875,967
Provision	492,411	455,569	4,146	8,121	610	1,277	-	-	6,399	1,561	1,636	3,724	-	-	42,780	49,435
Carrying value	129,351,138	151,027,827	1,397,564	1,242,580	3,691,995	3,886,123	-	-	977,854	770,728	1,443,114	2,250,288	1,620,361	1,819,459	87,025,118	63,826,532
Total carrying value of risk-weighted assets	138,544,061	159,378,463	4,592,513	2,385,905	3,694,595	3,886,278	-	0	1,300,974	1,150,318	1,482,367	2,307,576	1,620,361	1,819,459	87,176,628	63,869,301
Gross value of non-risk assets e	2,674,715	3,979,742	-	-	44,780,974	29,758,463	-	-	20,175	-	751,288	6,974	50,285,621	36,702,832	324,975,850	284,281,874
Provision for non-risk assets	12,356	13,451	-	-	-	-	-	-	93	-	22	23	-	-	-	-
Total carrying value of non-risk assets	2,662,359	3,966,291	-	-	44,780,974	29,758,463	-	-	20,082	-	751,266	6,951	50,285,621	36,702,832	324,975,850	284,281,874
Total carrying value	141,206,420	163,344,754	4,592,513	2,385,905	48,475,569	33,644,741	-	-	1,321,056	1,150,318	2,233,633	2,314,527	51,905,982	38,522,291	412,152,478	348,151,175

*Category "Corporate clients – rescheduled loans" includes customers with internal rating 8- with provision formed not on an individual but on a group basis.
**Category "Retail clients > 90 days in default" includes all retail customers in the default- non-performing status
***Category "Retail clients < 90 days in default" includes all retail customers that are not in the default- non-performing status

44. RISK MANAGEMENT POLICIES (Continued)

Internal Rating System (Rating Scale)

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

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

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

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

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

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

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

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

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

All amounts expressed in thousands of RSD, unless otherwise stated.

44. RISK MANAGEMENT POLICIES (Continued)

The table below provides breakdown of gross and net loans (gross loans less impairment allowance) provided for on an individual basis as of December 31, 2013 and 2012:

	Loans and deposits		Other placements		Securities		Equity investments		Interest, fee and other receivables		Other assets		Off-balance sheet placements	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
December 31, 2013														
Corporate clients, rating 10	11,041,245	3,129,753	1,618,610	639,523	55,316	-	-	-	586,742	181,205	55,557	26,418	6,315	3,138
Corporate clients, rating 9	7,373,504	4,975,737	3,656,612	2,532,475	2,600	2,600	12,061	-	222,826	55,463	11,857	10,739	139,949	138,363
Corporate clients, rescheduled loans*	175,501	109,106	17,929	2,172	-	-	-	-	25,397	9,246	3,931	980	8,983	1,655
Retail clients > 90 days in default **	2,242,404	978,327	110,790	20,779	-	-	-	-	431,692	77,206	76,662	1,116	10,754	8,354
	20,832,654	9,192,923	5,403,941	3,194,949	57,916	2,600	12,061	-	1,266,657	323,120	148,007	39,253	166,001	151,510
December 31, 2012														
Corporate clients, rating 10	11,394,707	5,427,856	1,459,685	922,645	55,316	155	-	-	614,978	232,966	72,610	41,395	1,396	389
Corporate clients, rating 9	2,971,585	2,067,110	315,141	197,429	-	-	12,061	-	115,191	66,464	4,206	2,612	33,304	22,679
Corporate clients, rescheduled loans*	88,583	54,374	4,172	879	-	-	-	-	15,089	4,294	3,878	1,503	301	222
Retail clients > 90 days in default **	2,170,059	801,296	114,647	22,372	-	-	-	-	390,000	75,866	58,522	11,778	24,079	19,479
	16,624,934	8,350,636	1,893,645	1,143,325	55,316	155	12,061	-	1,135,258	379,590	139,216	57,288	59,080	42,769

*Category "Corporate clients- rescheduled loans" includes customers with internal rating of 8- with provision formed not on an individual but on a group basis
**Category “Retail client > 90 days in default" includes all retail customers in default-non-preforming status.

44. RISK MANAGEMENT POLICIES (Continued)

IAS/IFRS Provisioning Methodology

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

1) assigning of individual / specific provision (at group or individual level) for clients where impairment of value already occurred, and
2) 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). 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 are determined. After that, the discounted cash flow from the net realizable value of impaired assets is determined for the given placement. Finally, the net present value of future cash flows is compared to the carrying amount of the particular asset and the amount of the provision for impairment of the given placement is calculated and reported in the income statement.

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

General Provisioning Rules and Principles

In determining provisions for exposures for which there is no objective evidence of impairment the Bank uses the general provisioning method (IBNR). According to this method, provisions are calculated not just for exposures for which an event has been identified which leads to 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.

44. RISK MANAGEMENT POLICIES (Continued)

General Provisioning Rules and Principles (Continued)

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 incurred loss (Liquidity Contingency Plan – LCP). LCP represents a time period expressed as the number of months between the moment of occurrence or potential occurrence of an event that results in placement impairment and the moment when an event has been identified by the Bank. Identification of the event itself is linked to the fulfilment of criteria for default status.

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

The value of the LCP parameter is six months, in accordance with the range recommended by the UniCredit Group, and ranges between four to twelve months.

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

The Bank's Collateral Policy and Table for Fair Value Valuation of Collaterals

The Bank uses the Manual on Collateral Valuation as the basis for determining the fair value of collaterals.

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

- Cash deposits that are recognized at full value,
- Cash convertible guarantees of top rated banks and states, recognized at full value,
- Mortgages for residential or commercial property, recognized at most up to 70% and 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.

All amounts expressed in thousands of RSD, unless otherwise stated.

44. RISK MANAGEMENT POLICIES (Continued)

Fair values of collaterals taken as security instruments (in the amount of exposure collateralized) for the Bank's loans as of December 31, 2013 and 2012 are presented in the table below:

	Loans and deposits		Other placements		Securities		Interest, fee and other receivables		Other assets		Off-balance sheet placements	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Corporate clients, rating 10	1,783,804	1,412,268	108,876	261,833	-	-	93,682	65,689	36	3,845	2,287	-
Property	1,771,609	1,400,171	108,876	255,421	-	-	93,682	65,638	36	3,845	2,287	-
Other	12,195	12,097	-	6,412	-	-	-	51	-	-	-	-
Corporate clients, rating 9	4,739,423	1,198,776	1,758,211	49,888	-	-	48,062	48,957	5,678	541	26,578	14,392
Property	1,061,527	1,174,611	1,702,703	21,458	-	-	42,401	48,957	994	403	26,234	14,392
Other	3,677,896	24,165	55,508	28,430	-	-	5,661	-	4,684	138	344	-
Corporate clients, rescheduled loans	43,443	44,058	-	-	-	-	677	668	-	1,095	-	-
Property	42,437	41,812	-	-	-	-	677	644	-	1,078	-	-
Other	1,006	2,246	-	-	-	-	-	24	-	17	-	-
Retail clients > 90 days in default	371,667	489,232	-	-	-	-	17,626	14,958	-	4,720	-	-
Property	370,437	470,972	-	-	-	-	17,384	13,609	-	3,171	-	-
Other	1,230	18,260	-	-	-	-	242	1,349	-	1,549	-	-
Portfolio level provision	54,014,551	58,600,266	-	850	-	-	19,495	39,781	168,503	224,064	15,904,682	15,222,797
Property	35,391,505	33,604,203	-	850	-	-	10,388	9,853	71,045	120,758	2,421,457	4,719,571
Other	18,623,046	24,996,063	-	-	-	-	9,107	29,928	97,458	103,306	13,483,225	10,503,226
Total	60,952,888	61,744,600	1,867,087	312,571	-	-	179,542	170,053	174,217	234,265	15,933,547	15,237,189

44. RISK MANAGEMENT POLICIES (Continued)

Liquidity Risk

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

Objectives of liquidity policy are as follows:

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

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

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

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

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

- at least 0.7 – when calculated as an average of all working days in 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 Directorate prepares a report on daily liquidity for the National Bank of Serbia at daily and monthly levels.

Group management sets limits for exposure to particular currencies and the Market and Operating Risk Directorate continually monitors observance of foreign currency balances to keep them within specified limits. The CFO of the Bank is accountable for the Bank's liquidity, while liquidity management at operating level is the responsibility of the local head of the Assets and Liabilities Committee. The Liquidity Centre of the UniCredit Group monitors the liquidity of its subsidiaries, maintains liquidity policy in the region and, when needed, orders corrective measures that are to be carried out by a subsidiary.

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

The liquidity stress test must be part of wider stress testing which encompasses all relevant risk categories. Cross effects on the liquidity position – especially unexpectedly large write-offs and reputation factors – must be taken into consideration when defining liquidity stress test parameters.

All amounts expressed in thousands of RSD, unless otherwise stated.

44. RISK MANAGEMENT POLICIES (Continued)

Liquidity Risk (Continued)

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**
1st order liquidity ratio:		
- as of December 31	2.36	1.99
- average for the period – December	2.28	1.92
- maximum for the period - December	2.46	2.04
- minimum for the period - 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

Maturities of financial assets and liabilities per outstanding maturity as of December 31, 2013 and 2012 were as follows

	Up to One Month	**From 1 to 3 Months**	**From 3 to 12 Months**	**From 1 to 5 Years**	**Over 5 Years**	**Total**
ASSETS						
Cash and cash equivalents	22,517,312	-	-	-	-	22,517,312
Revocable deposits and loans	29,388,670	-	-	-	-	29,388,670
Receivables arising from interest, fees and commissions, trade, fair value adjustments of derivatives and other receivables	1,321,056	-	-	-	-	1,321,056
Loans and deposits	7,850,320	3,259,675	25,184,492	56,505,836	48,406,097	141,206,420
Securities (without treasury shares)	1,635,545	6,306,097	5,835,755	28,922,210	5,775,962	48,475,569
Other placements	3,539,643	249,677	426,905	376,288	-	4,592,513
Intangible assets	-	-	-	912,227	-	912,227
Property, plant, equipment and investment property	-	-	-	-	1,136,006	1,136,006
Deferred tax assets	-	-	169,836	-	-	169,836
Other assets	2,233,633	-	-	-	-	2,233,633
Total assets	68,486,179	9,815,449	31,616,988	86,716,561	55,318,065	251,953,242
LIABILITIES AND EQUITY						
Transaction deposits	54,459,321	-	-	-	-	54,459,321
Other deposits	21,993,581	7,132,494	21,008,137	6,161,373	39,469	56,335,054
Borrowings	2,962,034	25,236	16,420,491	47,489,302	17,527,238	84,424,301
Interest, fee and commission payables and change in the value of derivatives	529,893	-	-	-	-	529,893
Provisions		57,271	48,569	43,572	-	149,412
Income taxes payable	18,131	-	-	-	-	18,131
Tax and profit distribution liabilities	235	-	-	-	-	235
Deferred tax liabilities	-	-	593	-	-	593
Other liabilities	2,085,514		917,138	2,509,871		5,511,523
Equity	-	-	-	-	50,524,779	50,524,779
Total liabilities and equity	82,047,709	7,215,001	38,394,928	56,204,118	68,091,486	251,953,242
Liquidity gap as of						
December 31, 2013	(13,561,530)	2,600,448	(6,777,940)	30,512,443	(12,773,421)	
December 31, 2012	498,765	(4,111,561)	9,661,427	10,901,035	(16,949,666)	

44. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

44. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk (Continued)

Overview of the Bank's exposure to interest rate risk:

	Within a Month	From 1 to 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
ASSETS							
Cash and cash equivalents	10,049,059	-	-	-	-	12,468,253	22,517,312
Revocable deposits and loans	11,000,000	-	-	-	-	18,388,670	29,388,670
Receivables arising from interest, fees and commissions, trade, fair value adjustments of derivatives and other receivables	-	-	-	-	-	1,321,056	1,321,056
Loans and deposits	17,175,785	85,716,977	38,309,073	-	-	4,585	141,206,420
Securities (without treasury shares)	2,592,474	87,729	126,077	37,893,055	7,773,647	2,587	48,475,569
Other placements	3,380,668	340,034	871,811	-	-	-	4,592,513
Intangible assets	-	-	-	-	-	912,227	912,227
Property, plant, equipment and investment property	-	-	-	-	-	1,136,006	1,136,006
Deferred tax assets	-	-	-	-	-	169,836	169,836
Other assets	-	-	-	-	-	2,233,633	2,233,633
Total assets	44,197,986	86,144,740	39,306,961	37,893,055	7,773,647	36,636,853	251,953,242
LIABILITIES AND EQUITY							
Transaction deposits	24,429,060	25,333,746	-	-	-	4,696,515	54,459,321
Other deposits	12,167,106	9,395,559	33,517,262	-	-	1,255,127	56,335,054
Borrowings	2,722,371	-	81,462,267	-	-	239,663	84,424,301
Interest, fee and commission payables and change in the value of derivatives	-	-	-	-	-	529,893	529,893
Provisions	-	-	-	-	-	149,412	149,412
Income taxes payable	-	-	-	-	-	18,131	18,131
Tax and profit distribution liabilities	-	-	-	-	-	235	235
Deferred tax liabilities	-	-	-	-	-	593	593
Other liabilities	-	-	3,427,008	-	-	2,084,515	5,511,523
Equity	-	-	-	-	-	50,524,779	50,524,779
Total liabilities and equity	39,318,537	34,729,305	118,406,537	-	-	59,498,863	251,953,242
Net exposure to interest rate risk							
December 31, 2013	4,879,449	51,415,435	(79,099,576)	37,893,055	7,773,647	(22,862,010)	
December 31, 2012	5,617,409	(89,985,800)	(22,725,381)	65,946,618	73,893,016	(32,745,862)	

Foreign Currency Risk

Foreign currency risk is the risk from adverse effects on the Bank's financial result and its equity caused by changes in the foreign currency to dinar exchange rate.

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

All amounts expressed in thousands of RSD, unless otherwise stated.

44. RISK MANAGEMENT POLICIES (Continued)

Foreign Currency Risk (Continued)

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

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

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

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

The table below presents the net currency gap of the Bank's assets and liabilities.

	EUR	**USD**	**Other currencies**	**Total FX**	**Total RSD**	**Total**
ASSETS						
Cash and cash equivalents	1,460,739	86,665	597,702	2,145,106	20,372,206	22,517,312
Revocable deposits and loans	18,386,348	-	-	18,386,348	11,002,322	29,388,670
Receivables arising from interest, fees and commissions, trade, fair value adjustments of derivatives and other receivables	1,045,207	11	43,918	1,089,136	231,920	1,321,056
Loans and deposits	101,975,107	7,165,114	7,245,628	116,385,849	24,820,571	141,206,420
Securities (without treasury shares)	14,797,948	-	-	14,797,948	33,677,621	48,475,569
Other placements	3,088,560	32,759	95,953	3,217,272	1,375,241	4,592,513
Intangible assets	-	-	-	-	912,227	912,227
Property, plant, equipment and investment property	-	-	-	-	1,136,006	1,136,006
Deferred tax assets	-	-	-	-	169,836	169,836
Other assets	623,849	30,807	22,681	677,337	1,556,296	2,233,633
Total assets	141,377,758	7,315,356	8,005,882	156,698,996	95,254,246	251,953,242
LIABILITIES AND EQUITY						
Transaction deposits	24,246,409	3,494,424	546,324	28,287,157	26,172,164	54,459,321
Other deposits	39,698,959	2,291,759	695,624	42,686,342	13,648,712	56,335,054
Borrowings	72,828,930	4,855,332	4,074,230	81,758,492	2,665,809	84,424,301
Interest, fee and commission payables and change in the value of derivatives	499,355	-	15,271	514,626	15,267	529,893
Provisions	-	-	-	-	149,412	149,412
Income taxes payable	-	-	-	-	18,131	18,131
Tax and profit distribution liabilities	-	-	-	-	235	235
Deferred tax liabilities	-	-	-	-	593	593
Other liabilities	2,190,964	63,740	2,638,968	4,893,672	617,851	5,511,523
Equity	-	-	-	-	50,524,779	50,524,779
Total liabilities and equity	139,464,617	10,705,255	7,970,417	158,140,289	93,812,953	251,953,242
Financial instruments, off-balance	5,545,017	(3,380,658)	430,999	2,595,358	(2,604,281)	(8,923)
Net currency gap as of:						
December 31, 2013	(3,631,876)	(9,241)	(395,534)	(4,036,651)	4,045,574	8,923
December 31, 2012	(1,703,405)	(13,880)	(106,430)	(1,823,715)	2,036,225	212,510

44. RISK MANAGEMENT POLICIES (Continued)

Foreign Currency Risk (Continued)

As of December 31, RSD loans contractually indexed to a currency clause and the related interest receivables for such loans are presented within the foreign currency sub-total.

Operating Risks

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

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

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

The Operating Risk Monitoring Committee meets quarterly for more efficient internal control and process improvement for minimizing risks arising from operating risk. The Executive Board is responsible for making decisions related to operating risk.

The Directorate is also responsible for the calculation of capital requirements for operating risks that are calculated using the Standardized Approach, as well as reporting for local management and at Group level.

Concentration Risk

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

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

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

44. RISK MANAGEMENT POLICIES (Continued)

Exposure Risk

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

Investment Risk

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

Country Risk

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

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

The Bank's exposure to this type of risk is significantly mitigated by the Bank's orientation toward clients residing and operating in the territory of Serbia.

Compliance Risk

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

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

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

Strategic Risks

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

44. RISK MANAGEMENT POLICIES (Continued)

Capital Management

Capital Adequacy Ratio

The capital adequacy ratio is equal to the ratio between equity and risk-weighted assets. The Bank is required to maintain its capital adequacy ratio at a level that cannot be lower than 12% (Decision on Capital Adequacy). If the capital adequacy ratio, due to profit distribution, exceeds by less than 2.5%, the ratio specified in the Decision on Capital Adequacy, profit distribution can only be carried out from the elements of the core capital. The Bank is required to maintain the core capital at the level of EUR 10,000,000 in the RSD equivalent using the official exchange rate at all times. The Bank is required to maintain the core capital level required at all times 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 capital adequacy ratio of the Bank as of December 31, 2013 is disclosed in Note 41.

Capital

The Bank's capital consists of the aggregate amounts of the core capital and supplementary capital decreased by items deductible from equity.

Core Capital

The core capital is the sum of the following elements decreased b deductible items:

- Paid in share capital, except for cumulative preference shares – the nominal value of common and preference shares and associated share issue premium for common and preferential shares;
- Reserves from profit – all types of reserves of the Bank formed from profits after taxes based on a decision by the Bank's Shareholder Assembly;
- Profit
  - o Profit from previous years not encumbered by any future obligations for which the Bank's Shareholder Assembly decided profit will be allocated; to the core capital;
  - o Current year profit, if the following conditions are met:
    - ▪ The amount of profit has been confirmed by auditor certified for auditing financial statements;
    - ▪ The amount of profit has been reduced for income tax and all other profit related liabilities (liabilities for dividends and other sharing in profit)
    - ▪ The Bank's Shareholder Assembly has enacted a decision on allocation of profit to the core capital and the amount of the Bank's current year profit which is allocated to the core capital does not exceed the amount specified by such a decision.

Core capital deductible items:

- Prior year losses;
- Current year loss;
- Intangible assets;
- Acquired 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:
  - o Unrealized losses on available-for-sale securities;
  - o Other revaluation reserves in the negative net amount which relate to deductible items of the core capital or elements which are included in the supplementary capital;
  - o Profit based on the Bank's liabilities measured at fair value which are reduced because of change in the Bank's credit rating;
  - o Amount of the required reserve for estimated losses on balance sheet assets and off-balance sheet items of the Bank..

44. RISK MANAGEMENT POLICIES (Continued)

Supplementary Capital

Supplementary capital consists of the sum of the following elements reduced for deductible items of supplementary capital:

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

Supplementary capital deductible items:

- 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 supplementary capital.

Equity deductible items:

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

All amounts expressed in thousands of RSD, unless otherwise stated.

44. RISK MANAGEMENT POLICIES (Continued)

Supplementary Capital (Continued)

The bank may treat a portion of the reserve required for estimated losses on balance sheet assets and off-balance sheet items as a deductible item, as follows:

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

The following table provides he balances of capital and total risk-weighted assets as of December 31, 2013 and 2012.

		December 31, 2013	December 31, 2012
1	**Core capital (1.1 + 1.2 + 1.3 + 1.4 - 1.5 – 1.6)**	**33,584,851**	**36,470,296**
1.1	Nominal value of shares	23,607,620	23,607,620
1.2	Share issue premium	562,156	562,156
1.3	Reserves from profit	21,457,759	17,062,649
1.4	Current year profit	-	-
1.5	Intangible assets	912,227	999,854
1.6	Regulatory adjustments (1.6.1 + 1.6.2)	11,130,457	3,762,275
1.6.1	Unrealized losses on securities available for sale	35,662	25,637
1.6.2	Required reserve from profit for estimated losses	11,094,795	3,736,638
2	**Supplementary capital (2.1 + 2.2)**	**2,944,064**	**2,894,170**
2.1	Portion of revaluation reserves	936,167	185,044
2.2	Subordinated liabilities	2,007,897	2,709,126
3	**Deductible items (3.1 + 3.2 + 3.3 + 3.4)**	**7,321**	**11,218,074**
3.1	Decease in the core capital	-	8,323,904
3.2	Decrease in the supplementary capital	7,321	2,894,170
3.3	Receivables and contingent liabilities to the Bank's related parties or employees the bank contracted at non-arm's length terms	7,321	8,161
3.4	Required reserve from profit for estimated losses	-	11,209,913
4	Total core capital (1 - 3.1)	33,584,851	28,146,392
5	Total supplementary capital (2 - 3.2)	2,936,743	0
6	**Capital I**	**36,521,594**	**28,146,392**
	RISK-WEIGHTED ASSETS		
1	Credit risk	140,150,250	135,899,346
2	Market risk	5,485,993	4,604,917
2.1	Equity price risk	1,393,221	3,240,933
2.2	Foreign currency risk	4,092,772	1,363,983
3	Operating risk	13,924,378	11,558,608
	Total risk-weighted assets	**159,560,621**	**152,062,871**
	CAPITAL ADEQUACY RATIO	**22.89%**	**18.51%**

45. EVENTS AFTER THE REPROTING PERIOD

There were no significant events subsequent to the reporting date that would require disclosures in the Notes to the accompanying financial statements of the Bank for the year 2013.