MARFIN BANK A.D. BEOGRAD

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012
AND INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Marfin Bank a.d. Beograd

We have audited the accompanying financial statements of Marfin Bank a.d. Beograd (the "Bank") which comprise the balance sheet as of 31 December 2012 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies, other explanatory notes and the statistical annex.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Law on accounting and auditing of the Republic of Serbia, the regulations of the National bank of Serbia and Note 2 to these financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 accompanying financial statements present fairly, in all material respects, the financial position of Marfin Bank a.d. Beograd as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the requirements of the Law on accounting and auditing of the Republic of Serbia, the regulations of the National bank of Serbia and Note 2 to these financial statements.

Emphasis of matter - going concern

Without qualifying our opinion, we draw attention to the disclosures made in note 2.1 to the financial statements, which refer to the current economic conditions and instability of the banking system in Cyprus, in particular the position of the Parent which has led to material uncertainties that could adversely affect the going concern assumption of the Bank.

Saša Todorović

Saša Todorović
Licensed Auditor

PricewaterhouseCoopers d.o.o. Belgrade

PricewaterhouseCoopers d.o.o. Beograd

Belgrade, 30 April 2013

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BALANCE SHEET

As at __31.12.2012__

(in thousands RSD)

Code of accounts	ITEM	EDP	Note no.	Amount	
				Current year	Previous year
1	2	3	4	5	6
	ASSETS				
00,05,07	Cash and cash equivalents	001	18	3,400,185	1,994,127
01,06	Callable deposits and credits	002	19	2,472,027	2,611,525
02,08	Interest, fees and commission receivables, change in fair value of derivatives and other receivables	003	20	350,015	322,965
10,11,20,21	Loans, advances and deposits	004	21	17,722,103	19,633,129
12 (less 128), 22	Securities (excluding own shares)	005	22	0	0
13,23	Equity investments	006	22	886	1,801
16,26	Other lending	007	23	543,415	219,688
33	Intangible assets	008	24	79,302	85,043
34,35	Property, plant and equipment	009	25	898,542	518,815
36	Fixed assets available for sale	010		0	0
37	Deferred tax assets	011	27	175,618	171,755
03,09,19, 29,30,38	Other assets	012	26	636,520	635,453
842	Loss above equity	013		0	0
	TOTAL ASSETS (001 to 013)	014		**26,278,613**	**26,194,301**

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BALANCE SHEET (continued)

As at __31.12.2012__

(in thousands RSD)

Code of accounts	ITEM	EDP	Note no.	Amount	
				Current Year	Previous year
1	2	3	4	5	6
	LIABILITIES				
400,500	Transaction deposits	101	28	2,171,034	2,306,724
401,402,403,404,405, 501,502,503,504,505	Other deposits	102	29	9,976,516	7,638,653
406,407,408,409, 506,507,508,509	Borrowings	103	30	7,394,986	10,620,547
41,51	Debt securities issued	104		0	0
42,52	Interest, fees and commissions payable and change in fair value of derivatives	105	29	5,307	8,160
450 - 454	Provisions	106	31	55,004	81,702
456,457	Tax liabilities	107	32	3,703	4,670
434,455	Liabilities from profit	108	33	12,740	4,882
46	Liabilities from fixed assets available for sale	109		0	0
47	Deferred tax liabilities	110		0	0
43 (less 434) 44,48,49,53,58,59	Other liabilities	111	34	1,593,436	472,804
	TOTAL LIABILITIES (101 to 111)	112		**21,212,726**	**21,138,142**
	SHAREHOLDERS' EQUITY				
80- 128	Share capital and other capital	113	35a	8,426,043	8,426,043
81	Reserves	114	35c	151,673	151,673
82 (less 823)	Revaluation reserves	115	35b	273,088	277,843
823	Unrealized gains on AFS securities	116		202	175
83	Current year profit	117	35d	9,955	107,615
84 (less 842)	Accumulated losses	118		3,794,670	3,906,840
	TOTAL SHAREHOLDERS' EQUITY (113+114+115+117-116-118)	**119**		**5,065,887**	**5,056,159**
	TOTAL LIABILITIES (112+119)	**120**		**26,278,613**	**26,194,301**
	OFF-BALANCE SHEET ASSETS (122+123+124+125+126)	**121**		**12,768,070**	**11,883,446**
90 that is 95	Funds managed on behalf of third parties	122	36	36,820	32,257
91 (less 911 and 916) that is 96 (less 961 that is 966)	Guaranties, sureties, assets pledged as collateral and irrevocable commitments	123	36	2,143,400	2,448,411
911,916,932,that is 961,966,982	Guaranties, sureties and collaterals received	124		0	0
92 that is 97	Derivatives	125	36	7,070,024	4,680,307
93 (less 932),that is 98 (less 982)	Other off-balance sheet items	126	36	3,517,826	4,722,471

In Belgrade

Responsible person for the preparation of accounts

Legal representative

Date 30.04.2013

This version of our report/ the accompanying documents is a translation from the original, which was prepared in Serbian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions,

INCOME STATEMENT

For the period 01.01.2012 - 31.12.2012

(in thousands RSD)

Code of accounts	ITEM	EDP	Note no.	Amount	
				Current Year	Previous year
1	2	3	4	5	6
	OPERATING INCOME AND EXPENSES				
70	Interest income	201	5	1,741,228	1,888,101
60	Interest expenses	202	5	818,628	779,488
	NET INTEREST GAIN (201–202)	203	5	**922,600**	**1,108,613**
	NET INTEREST LOSS (202-201)	204		0	0
71	Fee and commission income	205	6	272,541	263,668
61	Fee and commission expense	206	6	44,949	41,756
	Net fee and commission gain (205-206)	207	6	**227,592**	**221,912**
	Net fee and commission loss (206-205)	208		0	0
720-620	Net gain from sale of securities at fair value through profit and loss	209		0	0
620-720	Net loss from sale of securities at fair value through profit and loss	210		0	0
721-621	Net gains from sale of securities available for sale	211		0	0
621-721	Net loss from sale of securities available for sale	212		0	0
722-622	Net gain from sale of securities held to maturity	213		0	0
622-722	Net loss from sale of securities held to maturity	214		0	0
723-623	Net gain from sale of equity investments	215		0	0
623-723	Net loss from sale of equity investments	216		0	46
724-624	Net gain from sale of other investments	217	7	86,624	31,985
624-724	Net loss from sale of other investments	218		0	0
78-68	Net foreign exchange gains	219	8	0	59,183
68-78	Net foreign exchange losses	220	8	1,327,738	0
766	Income from dividends and equity investments	221	9	663	0
74,76 less 766 i 769	Other operating income	222	9	14,458	5,980
75 - 65	Net income from indirectly written-off investments and provisions	223	10	239,703	0
65 - 75	Net expenses from indirectly written-off investments and provisions	224	10	0	1,044,884
63	Salaries, fringe benefits and other personal expenses	225	11	690,707	814,391
642	Depreciation charge	226	12	108,486	139,717
64 (less 642), 66 (less 669)	Operating and other expenses	227	13	732,556	673,859

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INCOME STATEMENT (continued)

For the period 01.01.2012 - 31.12.2012

(in thousands RSD)

77	Income from change in assets and liabilities value	228	14	2,247,593	1,563,954
67	Expenses from change in assets and liabilities value	229	15	873,015	1,565,639
	OPERATING PROFIT (203-204+207-208+209-210+211-212+213-214+215-216+217-218+219-220+221+222+223-224-225-226-227+228-229)	230		**6,731**	**0**
	OPERATING LOSS (204-203+208-207+210-209+212-211+214-213+216-215+218-217+220-219-221-222+224-223+225+226+227-228+229)	231		**0**	**1,246,909**
769 minus 669	**NET PROFIT FROM DISCONTINUED OPERATIONS**	232		0	0
669 minus 769	**NET LOSS FROM DISCONTINUED OPERATIONS**	233		0	0
	PROFIT BEFORE TAX (230-231+232-233)	234		**6,731**	**0**
	LOSS BEFORE TAX (231-230+233-232)	235		**0**	**1,246,909**
850	Income tax	236	16	639	0
861	Gain from deferred tax assets and reduced deferred tax liabilities	237	16	3,863	9,596
860	Loss from deferred tax assets and reduced deferred tax liabilities	238		0	0
	PROFIT (234-235-236+237-238)	239		**9,955**	**0**
	LOSS (235-234+236+238-237)	240		**0**	**1,237,313**
	Earning per share (in dinars, no para)	241			
	Base earning per share (in dinars, no para)	242			
	Decreased (diluted) earning per share (in dinars, no para)	243			

In Belgrade

Date 30.04.2013

Responsible person for the preparation of accounts

Legal representative

CASH FLOW STATEMENT

For the period 01.01.2012 - 31.12.2012

(in thousands RSD)

ITEM		EDP	Amount	
			Current year	Previous year
1		2	3	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**Cash inflows from operating activities (302 to 305)**	301	**3,755,317**	**2,555,587**
1.	Interest received	302	2,127,249	2,059,548
2.	Fees and commissions received	303	272,229	243,118
3.	Inflow from other operating income	304	1,355,176	252,921
4.	Inflow from dividends and share in profit	305	663	0
II.	**Cash outflows from operating activities (307 to 311)**	306	**2,371,604**	**2,448,167**
5.	Interests paid	307	841,063	736,828
6.	Fees and commissions paid	308	44,956	41,614
7.	Payments for gross salaries, benefits and other personal expenses	309	744,124	850,407
8.	Payments for taxes, contributions and other duties	310	174,597	247,372
9.	Outflow from other operating expenses	311	566,864	571,946
III.	**Net cash inflow from operating activities before changes in operating assets and liabilities (301 minus 306)**	312	**1,383,713**	**107,420**
IV.	**Net cash inflow from operating activities before changes in operating assets and liabilities (306 minus 301)**	313	**0**	**0**
V.	**Decrease in loans and advances, and increase in deposits**	314	**5,117,486**	**5,441,037**
10.	Decrease in loans and advances to banks and customers	315	2,915,313	0
11.	Decrease in securities at fair value through profit and loss, placements held for trading and short-term securities held to maturity	316	0	2,154,525
12.	Increase in deposits from banks and customers	317	2,202,173	3,286,512
VI.	**Increase in loans and advances, and decrease in deposits**	318	**0**	**1,563,630**
13.	Increase in loans and advances to banks and customers	319	0	1,198,746
14.	Increase in financial assets at fair value through profit and loss, placements held for trading and short-term securities held to maturity	320	0	364,884
15.	Decrease in deposits from banks and customers	321	0	0
VII.	**Net cash inflow from operating activities before income tax (312 minus 313 plus 314 minus 318)**	322	**6,501,199**	**3,984,827**
VIII.	**Net cash outflow from operating activities before income tax (313 plus 318 minus 312 minus 314)**	323	**0**	**0**
16.	Income tax paid	324	23	270
17.	Dividends paid	325	0	7,931
IX.	**Net cash inflow from operating activities (322 minus 323 minus 324 minus 325)**	326	**6,501,176**	**3,976,626**
X.	**Net cash outflow from operating activities (323 minus 322 plus 324 plus 325)**	327	**0**	**0**

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CASH FLOW STATEMENT (continued)

For the period 01.01.2012 - 31.12.2012

(in thousands RSD)

B.	**CASH FLOW FROM INVESTING ACTIVITIES**			
I.	**Cash inflow from investing activities (329 to 333)**	328	**19,786**	**2,551,192**
1.	Proceeds from long-term investments in securities	329	0	2,550,000
2.	Proceeds from sale of equity investments	330	1,060	467
3.	Proceeds from sale of intangible assets and fixed assets	331	18,726	725
4.	Proceeds from sale of investment property	332	0	0
5.	Other proceeds from investing activities	333	0	0
II.	**Cash outflow from investing activities (335 to 339)**	334	**561,607**	**2,174,390**
6.	Investments in long-term securities	335	0	2,050,000
7.	Purchase of equity investments	336	145	60
8.	Purchase of intangible and fixed assets	337	62,457	124,330
9.	Purchase of investment property	338	0	0
10.	Other outflows from investing activities	339	499,005	0
III.	**Net cash inflow from investing activities (328 minus 334)**	340	**0**	**376,802**
IV.	**Net cash outflow from investing activities (334 minus 328)**	341	**541,821**	**0**
C.	**CASH FLOW FROM FINANCING ACTIVITIES**			
I.	**Cash inflow from financing activities (343 to 348)**	342	**0**	**113,333,930**
1.	Proceeds from increase in capital	343	0	0
2.	Proceeds from subordinated liabilities	344	0	0
3.	Net proceeds from borrowings	345	0	109,317,890
4.	Net proceeds from securities	346	0	0
5.	Proceeds from sale of treasury shares	347	0	0
6.	Other proceeds from financing activities	348	0	4,016,040
II.	**Cash outflow from financing activities (350 to 354)**	349	**3,225,560**	**116,422,733**
7.	Purchase of treasury shares	350	0	0
8.	Net cash outflow attributable to subordinated liabilities	351	0	0
9.	Net cash outflow attributable to borrowings	352	3,225,560	112,417,515
10.	Net cash outflow attributable to securities	353	0	0
11.	Other outflows from financing activities	354	0	4,005,218

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CASH FLOW STATEMENT (continued)

For the period 01.01.2012 - 31.12.2012

(in thousands RSD)

III.	**Net cash inflow from financing activities**	355	**0**	**0**
IV.	**Net cash outflow from financing activities**	356	3,225,560	3,088,803
D.	**TOTAL NET CASH INFLOW (301+314+328+342)**	357	**8,892,589**	**123,881,746**
E.	**TOTAL NET CASH OUTFLOW (306+318+324+325+334+349)**	358	**6,158,794**	**122,617,121**
F.	**NET CASH INCREASE (357-358)**	359	**2,733,795**	**1,264,625**
G.	**NET CASH DECREASE (358-357)**	360	**0**	**0**
H.	**CASH AT THE BEGINNING OF THE YEAR (Note:__) (361, qty. 3=001 qty. 6)**	361	**1,994,127**	**670,319**
I.	**FOREIGN EXCHANGE GAINS**	362	**2,067,597**	**4,104,648**
J.	**FOREIGN EXCHANGE LOSSES**	363	**3,395,334**	**4,045,465**
K.	**CASH AT THE END OF THE YEAR (Note:__) (359-360+361+362-363) (364, qty. 3=001 qty.5 and 364 qty. 4=001 qty. 6) (364 qty. 4= 361 qty. 3)**	364	**3,400,185**	**1,994,127**

In Belgrade

Responsible person for the preparation of accounts

Legal representative

Date 30.04.2013

STATEMENT OF CHANGES IN EQUITY

For the period 01.01.2012 - 31.12.2012

(in thousands RSD)

DESCRIPTION	EDP	Share capital (800)	EDP	Other capital (801)	EDP	Unpaid subscribed capital (803)	EDP	Share premium (802)
1		2		3		4		5
1. Balance as at 01.01 previous year	401	5,548,557	414		427		440	2,877,486
2. Adjustments of material errors and changes in accounting policies occurred in previous year - Increase	402		415		428		441	
3. Adjustments of material errors and changes in accounting policies occurred in previous year - Decrease	403		416		429		442	
4. Adjusted opening balance as at 01.01 of previous year (1+2+3)	404	5,548,557	417		430		443	2,877,486
5. Total increase in previous year	405		418		431		444	
6. Total decrease in previous year	406		419		432		445	
7. Balance as at 31.12 of previous year (4+5-6)	407	**5,548,557**	420		433		446	**2,877,486**
8. Adjustments of material errors and changes in accounting policies occurred in current year - Increase	408		421		434		447	
9. Adjustments of material errors and changes in accounting policies occurred in current year - Decrease	409		422		435		448	
10. Adjusted opening balance as at 01.01 of current year (7+8-9)	410	**5,548,557**	423		436		449	**2,877,486**
11. Total increase in current year	411	-	424		437		450	-
12. Total decrease in current year	412	-	425		438		451	-
13. Balance as at 31.12 of current year (10+11-12)	413	**5,548,557**	426		439		452	**2,877,486**

STATEMENT OF CHANGES IN EQUITY (continued)

For the period 01.01.2012 - 31.12.2012

(in thousands RSD)

DESCRIPTION	EDP	Reserves from profit and other reserves (81)	EDP	Revaluation reserves (82 less 823)	EDP	Profit (83)	EDP	Loss not exceeding capital (840, 841)
1		6		7		8		9
1. Balance as at 01.01 previous year	453	151,673	466	277,977	479	107,615	492	2,669,527
2. Adjustments of material errors and changes in accounting policies occurred in previous year - Increase	454		467		480		493	
3. Adjustments of material errors and changes in accounting policies occurred in previous year - Decrease	455		468		481		494	
4. Adjusted opening balance as at 01.01 of previous year (1+2+3)	456	151,673	469	277,977	482	107,615	495	2,669,527
5. Total increase in previous year	457		470		483		496	- 1,237,313
6. Total decrease in previous year	458		471	134	484		497	
7. Balance as at 31.12 of previous year (4+5-6)	459	**151,673**	472	**277,843**	485	**107,615**	498	**3,906,840**
8. Adjustments of material errors and changes in accounting policies occurred in current year - Increase	460		473		486		499	
9. Adjustments of material errors and changes in accounting policies occurred in current year - Decrease	461		474		487		500	
10. Adjusted opening balance as at 01.01 of current year (7+8-9)	462	**151,673**	475	**277,843**	488	**107,615**	501	**3,906,840**
11. Total increase in current year	463		476	145	489	9,955	502	
12. Total decrease in current year	464		477	4,900	490	107,615	503	112,170-
13. Balance as at 31.12 of current year (10+11-12)	465	**151,673**	478	**273,088**	491	**9,955**	504	**3,794,670**

STATEMENT OF CHANGES IN EQUITY (continued)

For the period 01.01.2012 - 31.12.2012

(in thousands RSD)

DESCRIPTION	EDP	Treasury shares (128)	EDP	Unrealized losses based on securities available for sale (823)	EDP	Total (column 2+3+4+5+6+7+8+9-10-11)	EDP	Loss exceeding capital (842)
1		10		11		12		13
1. Balance as at 01.01 previous year	505		518	492	531	6,293,289	544	
2. Adjustments of material errors and changes in accounting policies occurred in previous year - Increase	506		519		532		545	
3. Adjustments of material errors and changes in accounting policies occurred in previous year - Decrease	507		520		533		546	
4. Adjusted opening balance as at 01.01 of previous year (1+2+3)	508		521	492	534	6,293,289	547	
5. Total increase in previous year	509		522	29	535	1,237,342	548	
6. Total decrease in previous year	510		523	346	536	212	549	
7. Balance as at 31.12 of previous year (4+5-6)	511		524	**175**	537	**5,056,159**	550	
8. Adjustments of material errors and changes in accounting policies occurred in current year - Increase	512		525		538		551	
9. Adjustments of material errors and changes in accounting policies occurred in current year - Decrease	513		526		539		552	
10. Adjusted opening balance as at 01.01 of current year (7+8-9)	514		527	**175**	540	**5,056,159**	553	
11. Total increase in current year	515		528	27	541	10,128	554	
12. Total decrease in current year	516		529		542	224,685	555	
13. Balance as at 31.12 of current year (10+11-12)	517		530	**202**	543	**5,065,887**	556	

In Belgrade

Responsible person for the preparation of accounts

Legal representative

Date 30.04.2013

BEOGRAD

STATISTICAL ANNEX

for the year 2012

Code of accounts	DESCRIPTION	EDP	Current year	Previous year
1	2	3	4	5
630	Salaries	601	374,009	416,161
631	Wages	602	112,894	123,132
632	Taxes on wages and salaries	603	76,695	84,644
633	Contributions on wages and salaries	604	107,956	118,690
634	Special service and temporary service agreements	605	5,959	3,300
635	Other personal expenses	606	13,194	68,464
642	Depreciation	607	108,486	139,717
part of 643	Insurance premiums	608	31,853	19,037
part of 643	Expenses from employee benefits	609	842	2,287
part of 641	Rental costs	610	-	-
644	Taxes	611	46,078	58,542
645	Contributions	612	128,543	135,624
part of 746	Rental income	613	2,449	196
68	Foreign exchange losses	614	3,395,334	4,045,465
78	Foreign exchange gains	615	2,067,596	4,104,648
30	Inventories	616	247,234	189,184
	Average number of employees based on balances at the end of each month	617	372	451
	Number of ordinary shares	618	11,097,112	11,097,112
	Number of preference shares	619	246,105	246,105
	Nominal value of ordinary shares	620	5,548,557	5,548,557
	Nominal value of preference shares	621	123,052	123,052

In Belgrade

Responsible person for the preparation of accounts

Legal representative

Date 30.04.2013

MARFIN BANK A.D. BEOGRAD

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

Belgrade, April 2012

1. General information

Marfin Bank a.d. Beograd was established on 28 December 1990. Under the Law on Banks and other financial organisations, the Bank was registered to perform domestic and foreign payment operations as well as domestic credit and deposit activities.

The address of the Bank's registered office and headquarters is in Belgrade, at 22 Dalmatinska Street. As at 31 December 2012, the Bank's network of branches, business units and cash desks was comprised of 24 organisational units (31.12.2011: 23).

As at 31 December 2012, the Bank had 364 employees (31 December 2011: 389 employees). In 2011, the average number of employees was 372 (2011: 451).

The Bank's identification number is 07534183, whilst the Bank's tax payer identification number is 100003148.

Based on the Business Registers Agency Decision No. BD 113388/2011 from 9th September 2011, Mr. Andreas Moyseos was appointed President of the Executive Board instead of Mrs. Rodoula Hadjikyriacou.

Based on NBS Decision on Appointment Approval dated 29th March 2011, Louiza Michaelidou was appointed as member of the Executive Board.

The members of the Executive Board are: Andreas Moyseos, Borislav Strugarević and Louiza Michaelidou. As of 24 April 2012, Mr. Alexios Gkegkios is no longer member of the Executive Board.

These financial statements have been approved for issue and signed on behalf of the Board of Directors on 30 April 2013.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all years presented, unless otherwise stated.

2.1. Going concern

The Bank's financial statements have been prepared on a going concern basis, which assumes that the Bank will continue in operational existence for the foreseeable future.

a) Decision of the Eurogroup on Cyprus and position of Laiki Group (Parent)

The Cyprus economy has been adversely affected over the last few years by the international credit crisis and the instability in the financial markets. During 2012 there was a considerable tightening of financing availability from Cypriot financial institutions, mainly resulting from the Greek sovereign debt crisis, including the impairment of Greek government bonds. In addition, following its credit downgrades, the ability of Cyprus to borrow from international markets has been significantly affected. The Cyprus government entered into negotiations with the European Commission, the European Central Bank and the International Monetary Fund, in order to obtain financial support.

On 25 March 2013 an agreement was reached on the key elements necessary for a future macroeconomic adjustment programme which includes the provision of financial assistance to Cyprus of up to €10 billion. The programme aims to address the exceptional economic challenges that Cyprus is facing and to restore the viability of the financial sector, with the view of restoring sustainable economic growth and sound public finances over the coming years. The corporate tax rate will increase from 10% to 12.5%.

2. Summary of significant accounting policies (continued)

2.1. Going concern (continued)

a) Decision of the Eurogroup on Cyprus and position of Laiki Group (Parent) (continued)

In accordance with the Decree issued by the Central Bank of Cyprus published on the Official Gazette of the Republic of Cyprus no. 4645, dated 29 March 2013, Laiki Bank will transfer to Bank of Cyprus all assets, title deeds and rights except, among others, of shares in subsidiaries of Laiki Bank incorporated in a jurisdiction other than the Republic of Cyprus.

As a result of the above, Central Bank of Cyprus introduced administrative measures in terms of cash and other transactions which were deemed appropriate to allow for a swift reopening of the banks. Capital controls were enforced on 28 March 2013 affecting transactions executed through banking institutions operating in Cyprus. The extent and duration of the capital controls is decided by the Minister of Finance and the Governor of the Central Bank of Cyprus. The administrative measures, even though temporary, continue to this date and are being the subject of daily monitoring and revision by the Central Bank of Cyprus.

Further, the Cypriot authorities have reaffirmed their commitment to step up efforts in the areas of fiscal consolidation, structural reforms and privatisation. After the finalisation of a Memorandum of Understanding, formal approval of the Board of Directors of the European Stability Mechanism and ratification by Eurozone member states through national parliamentary (or equivalent) approvals are required.

On 12 April 2013 the Eurogroup stated that the necessary elements were in place to launch the relevant national procedures required for the formal approval of the European Stability Mechanism financial assistance facility agreement.

b) Position of the Bank in Serbia

In the current environment the focus of the Bank in Serbia has been on liquidity and capital adequacy. As disclosed in Note 39, a significant source of funding is from the Laiki Group, which decreased to EUR 90 million (RSD 10,229 million) as at 31 December 2012 comparing to 31 December 2011 (EUR 117 million, or RSD 12,288 million). The funding is predominantly long term, with 87%, or EUR 78 million (RSD 8,874 million) due beyond 31 December 2013 and 75%, or EUR 67 million (RSD 7,648 million) due beyond 30 April 2014, i.e. 12 months after the approval of these financial statements.

Given the developments at the Parent, Laiki Group, the National Bank of Serbia announced temporary measures towards the Bank in Serbia on 28 March 2013. The temporary measures include: a) the need for prior approval of National Bank of Serbia for all material repayments towards the Group, b) the undertaking of all necessary steps for eventual repayment of amounts owed towards the Group, c) the improvement of the liquidity plan of the Bank and conduct of liquidity stress tests on at least a monthly basis, and d) the maintenance of retail deposit coverage ratio of minimum 50%.

In the case of guarantee deposits received from the Group, which is part of the EUR 90 million funding described above, for loans granted by the Bank to its customers, totaling EUR 14 million (RSD 1,627 million) as at 31 December 2012 (31 December 2011: RSD 1,774 million), in accordance with Serbian banking regulations, these amounts are only repayable on maturity and collection of the loan to the customer.

2. Summary of significant accounting policies (continued)

2.1. Going concern (continued)

b) Position of the Bank in Serbia (continued)

The Bank has been successful in its efforts to expand and diversify its deposit base. In 2012 customer deposits increased by 8%, from RSD 9,757 million to RSD 10,514 million, despite the negative sentiment associated with the Greek crisis. As at 31 March 2013, customer deposits remained stable at RSD 10,458 million, representing an insignificant change from the year end.

The Bank's capital adequacy ratio (as prescribed by the National Bank of Serbia) as at 31 December 2012 amounts to 18.01% (31 December 2011: 14.99%). Additionally, according to Article 34 of Decision on Risk Management prescribed by NBS, the bank's liquidity ratio as of 31 December 2012 was 2.79, compared to the minimum required 1. As at 31 March 2013, the liquidity ratio was 2.39 and the Bank managed in the said period to increase its capital adequacy to 20.20%.

Article 33 of the Law on Banks (RS Official Gazette No 107/05 and 91/10) prescribes that a bank's exposure to a person related to the Bank must not exceed 5% of the bank's capital and 25% to a group of persons related to the Bank. The Bank's exposure to the Group is limited to 1.79% of the Bank's capital as at 31 December 2012.

Given the issues resulting from events affecting the Parent, there exists, at the present time, a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern. However, notwithstanding the conditions and uncertainties mentioned above, the Bank Management believes that it carries the necessary liquidity and capital to continue to operate on a going concern basis despite on-going resolution of the Parent and therefore believes that the going concern basis of preparation is appropriate.

2.2. Basis of preparation

These financial statements have been prepared in accordance with the Law on Accounting and Auditing which requires full scope of IFRS to be applied as translated, and the regulations issued by the National Bank of Serbia. The Bank's financial statements for the year 2011 have been prepared in the format prescribed by the Rules on Forms and Contents of Positions in the Financial Statements for Banks (RS Official Gazette No. 74/2008,3/2009, 12/2009, 5/2010), and the Rulebook on Chart of Accounts and Contents of Chart of account for banks (RS Official Gazette No 98/2007, 57/2008 and 3/2009), which do not comply with all the requirements of IFRS. Consequently, these financial statements are not intended to present financial position, comprehensive result and cash flows of the Bank in accordance with the accounting principles adopted outside the jurisdiction of the Republic of Serbia.

The decision of Ministry of Finance of Republic of Serbia no. 401-00-380/2010 dated 25 October 2010 (RS Official gazette no. 77/2010 and 95/2010) prescribes the official translation of basic International Accounting Standards (IAS) and International Standards of Financial Reporting (IFRS) issued by International Accounting Standards Board (IASB) as well as interpretations of standards issued by International Financial Reporting Interpretations Committee (IFRIC) up to 1 January 2009, which are in use on the date of preparation of financial statements.

Up to the date of accompanying financial statements preparation not all amendments and supplements of existing standards, revised standards and new interpretations issued by IASB and IFRIC have been translated, and which are in force in the current reporting period, i.e. which are applicable for the first time for the financial year starting 1 January 2012. Mentioned amendments and supplements and new interpretations which are not officially translated in Republic of Serbia are disclosed in Note 2.2. a, and Note 2.2.b.

2. Summary of significant accounting policies (continued)

2.2. Basis of preparation (continued)

The accounting policies applied differ from those prescribed by IFRS in the following respects:

1. The Bank did not provide certain disclosures as required by IAS1 – *Presentation of Financial Statements* since the form of the balance sheet and the related statements of income, cash flows and statement of changes shareholders equity have been prescribed by the National Bank of Serbia.
2. Off-balance sheet assets and liabilities are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.
3. Receivables from interest which is suspended in the case of impairment of the underlying receivable are recorded in off-balance sheet records, which does not comply with the provisions of IAS 39 that does not allow for the suspension of interest.
4. Cash equivalents include the dinar mandatory reserve the Bank is obliged to maintain during an accounting period, which is not consistent with IFRS.
5. The NBS requires the revaluation of assets and liabilities to be separately presented at gross gain and gross loss amounts rather than at the net gain or loss required by IFRS.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

a) Amended and new standards and interpretations effective after 1 January 2011, but have been not translated

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Bank did not apply these amendments.

Other revised standards and interpretations effective for the current period. Amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for first time adopters would not have any impact on these financial statements. The amendment to IAS 12 "Income taxes", introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This amendment would not have any impact on these financial statements.

b) Standards and Interpretations issued but not yet effective and translated

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9, issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2011 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

2. Summary of significant accounting policies (continued)

2.2. Basis of preparation (continued)

b) Standards and Interpretations issued but not yet effective and translated (continued)

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted.

IFRS 10 - Consolidated Financial Statements (published in May 2012 effective for annual periods beginning on or after 1 January 2013, replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

IFRS 11 - Joint Arrangements (issued in May 2012 and effective for annual periods beginning on or after 1 January 2013, replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

IFRS 12 - Disclosure of Interest in Other Entities (issued in May 2012 and effective for annual periods beginning on or after 1 January 2013, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires: disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in Company activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

IFRS 13 - Fair Value Measurement (published in May 2012 and effective for annual periods beginning on or after 1 January 2015, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

2. Summary of significant accounting policies (continued)

2.2. Basis of preparation (continued)

b) Standards and Interpretations issued but not yet effective and translated (continued)

IAS 27 - Separate Financial Statements and **IAS 28 - Investments in Associates and Joint Ventures** (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), which were changed by IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements"

Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), which aim to improve the disclosure of items presented in other comprehensive income.

Amended IAS 19 "Employee Benefits" (issued in June 2011, effective for periods beginning on or after 1 January 2013), which makes changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.

"Disclosures - Offsetting Financial Assets and Financial Liabilities" - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013), which requires disclosures that will enable users to better evaluate the effect of netting arrangements, including rights of set-off.

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014), which clarifies the meaning of 'currently has a legally enforceable right of set-off'.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013) which consists of improvements to five standards.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013), which clarify the transition guidance in IFRS 10 "Consolidated Financial Statements" and provide additional transition relief from reporting comparative information under IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities".

Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013), which give first-time adopters of IFRSs relief from full retrospective application of accounting for certain government loans on transition.

IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", which considers when and how to account for the benefits arising from the stripping activity in mining industry.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014), which introduced a definition of an investment entity which will be required to carry its investee subsidiaries at fair value through profit or loss.

2. Summary of significant accounting policies (continued)

2.3. Comparative figures

Reclassifications

The Bank performed the following reclassifications in order to provide comparability of figures under current legal regulations:

Revolving payment cards have been reclassified from the financial statement line item called "Other lending" on the financial statement line item "Loans, advances and deposits" in the net amount of RSD 121,633 thousand.

2.4. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The financial statements are presented in RSD (Republic Serbia Dinar), which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into RSD using the interbank middle exchange rate prevailing at the date of transaction as published by the National Bank of Serbia. Foreign currency gains and losses arising from the settlement of such transactions and foreign exchange gains and losses resulting from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised when incurred and presented in the income statement within gain/loss on translation differences.

Changes in the fair value of monetary securities denominated in foreign currencies classified as available for sale are measured for translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are recognised as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on equities classified as financial assets available for sale are included in the appropriate reserve within revaluation reserve in equity.

2.5. Financial instruments

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The Bank performs classification of all the financial instruments upon teir initial recognition.

a) Financial assets at fair value through profit or loss

This category is comprised of financial assets held for trading; other financial assets which have been classified in this category upon initial recognition; and derivatives other than those used for hedging.

A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short-term, or for which there is a recent pattern of short-term profit taking. A derivative is also classified as held for trading where it is not designated to be used for hedging purposes.

2. Summary of significant accounting policies (continued)

2.5. Financial instruments (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognised at fair value. All loans and advances are recognised when cash is advanced to the borrower. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method.

(c) Held to maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale.

Securities held to maturity are stated at cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition.

(d) Available for sale financial assets

Available for sale financial assets are those for which there is an intention to be held for an indefinite period, which may be sold in response to the needs for liquidity or changes in interest rates, exchange rates or equity prices.

Regular purchases and sales of the investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Available for sale financial assets and financial assets carried at fair value through profit or loss are after initial recognition carried at fair value.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs.

2.6. Derivatives

The Bank, apart from using the currency and interest hedging activities for the purposes of protecting itself from the currency and interest rate risk, also uses the financial derivatives. As at 31/12/2011 the Bank has open position as per interest rate SWAP and currency SWAP.

The change in the market value of the mentioned currency and interest rate SWAP's are recorder through the income statement.

2. Summary of significant accounting policies (continued)

2.7. Interest income and expenses

Interest income and expenses derived from interest bearing assets and liabilities, other than those classified as available for sale, are recognised in the income statement within interest income and expense using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result on an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loan fees and commission are accrued and depreciated as interest income on pro rata basis during the term of the loan. The accrual of fees on a pro rata basis does not significantly differ from the effective interest approach.

2.8. Fee and commission income and expenses

Fee and commission income and expenses are recognised when the service is provided and the invoice is issued. Fee and commission is mainly comprised of fees for payment operation services, issued guarantees and other banking services

2.9. Dividend income

Dividend income is recognised when the right to receive payment is established.

2.10. Sale and re-purchase agreements

Sale-repurchase agreements ('Repos'), are securities sold subject to repurchase agreements (reverse repo) and as such are recorded as loans and advances to other banks. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

2.11. Impairment of financial assets

At every balance sheet date the Bank identifies receivables for which provision will be made (calculated) on a single basis (individual evaluation – individual credit exposure). Receivables from debtors whose total debt, as at the calculation date, exceeds RSD 2,5 million are considered for individual evaluation of impairment.

The provision for other receivables within the portfolio (portfolio of small receivables or collective credit exposure) is made (calculated) on the portfolio basis (collective evaluation).

2. Summary of significant accounting policies (continued)

2.11. Impairment of financial assets (continued)

Small receivables are grouped on the basis of similar risk characteristics, taking into account the following:

- Client type (natural person, entrepreneur, legal entity);
- Number of days entering default (not in default; between 1 and 30 days entering default; from 31 - 60 days entering default; 61 - 90 days entering default; over 90 days of default);
- The type of loan issued;
- Portfolio aging structure;
- Credit rating of the legal entities' clients

Provision for receivables not falling into the group of small receivables is made (calculated) on a collective basis, where:

- The Bank has made an estimate that their credit risk has not increased (no objective evidence of impairment);
- The provision has not been determined by individual basis calculation.

Individually significant credit exposures - The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The criteria that the Bank uses to determine whether there is objective evidence of an impairment loss include:

- Deterioration in the borrower's financial position;
- Breach of contractual terms such as default or delinquency in interest or principal payments;
- Granting to the borrower a concession that the lender would not otherwise consider;
- The borrower entering bankruptcy or process of financial reorganization;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of loan collateral;
- Existence of any other indicators that might lead to the conclusion that the Bank will not be able to collect all of tis receivables;

If the Bank determines that there is no objective evidence of impairment of an individually significant asset the Bank shall incorporate such asset into the group of financial assets with similar credit risk characteristics and shall perform an impairment test on a group basis. Assets that are individually tested for impairment and for which impairment loss is recognised, or continues to be recognised, are not included in impairment testing on a group basis.

If the Bank determines that there is an objective evidence of impairment of an individually significant financial asset, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For the purpose of estimating future cash flows, the Bank uses current market values of the collaterals and/or deposits. Depending on the type of collaterlised property, location, and the date of the last valuation report, the calculation of impairment includes the market value with haircuts as presented in the table below:

Residential property

Territory	**Haircuts**
Beograd	10%
Novi Sad	10%
Other cities over 50.000 inhabitants	10%
Cities with less than 50.000 inhabitants	15%
Villages and towns	20%

2. Summary of significant accounting policies (continued)

2.11. Impairment of financial assets (continued)

Commercial Property

Territory	Haircuts
Beograd	10% - 15%
Novi Sad	10% - 15%
Other cities over 50.000 inhabitants	20%
Cities with less than 50.000 inhabitants	25%

Industrial property

Type	Haircuts
Factories	30%
Warehouses	30%

Land

Type	Haircuts
Land	25%

For the mortgages with valuation date from 2007 and before, 40% haircut is applied, irrespectively of the property type/location.

As the discount factor, the Bank uses the initial interest rate when the agreed interest rate is fixed or, it uses the current interest rate, in cases where the client has contracted on a variable interest rate. In cases where the debtor is in financial difficulties and where the Bank has approved the adjusted repayment terms, the discount factor used is the initially agreed upon interest rate.

Exceptionally, in cases where the expected cash flows are shorter than one year, the correction values can be determined as the difference between book value and expected future cash flows.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The amount of impairment loss is calculated as a result of:
- Balance of the credit exposure of each group of asset and
- Each group having a different probability of default (PD).

The Bank defines a PD for receivables that were 90 days in default at the accounting date based on the client's historical data from the previous two years. For receivables that were in default over 90 days at the accounting date a PD rate of 100% is applied.

The PD percentage is applied to unsecured receivables. In determining the level of collateral the Bank takes into account the following collateral:
- 100% deposit
- 75% mortgage value.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

2. Summary of significant accounting policies (continued)

2.11. Impairment of financial assets (continued)

When a loan is uncollectible, it is written off against the related allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Special provision for potential losses on financial assets in accordance with the National Bank of Serbia requirements

Under the NBS Decision on the Classification of balance sheet and off-balance sheet assets (RS official Gazette Nos. 94/11) the Bank makes special provisions against potential losses on balance sheet assets and off-balance sheet items. The provisions of this Decision stipulate the terms and conditions under which the Bank is required to create a special provision against losses which is calculated as a sum of:

- 0 % of receivables classified in category A ;
- 2% of receivables classified in category B ;
- 15% of receivables classified in category V ;
- 30 % of receivables classified in category G ;
- 100% of receivables classified in category D ;

The Bank is obliged to classify all receivables deemed under the above Decision as balance sheet assets and off-balance sheet items into categories A, B, C, D and E according to the debtor's estimated financial position and creditworthiness, debtor's timeliness in meeting their obligations and the quality of collateral.

The Bank is obliged to use the NBS classification as their internal classification and applies by Executive Board Decision the lowest prescribed rate for calculating the reserves per individual categories.

Where the impairment for losses of credit balances calculated is higher than the provision made for the estimated losses, the Bank is not obliged to recalculate the provision for the estimated losses.

The necessary provision for the estimated losses for the balance sheet assets and off balance sheet items represents the item to be deducted from the Bank's capital.

2.12. Intangible assets

Licenses

Acquired licenses are stated at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives.

2.13. Property, plant and equipment

Property, plant and equipment are revalued regularly. The frequency of revaluations depends upon the changes in fair values of the items being revalued. Increases in the carrying value of PPE on revaluation are charged to the revaluation reserve account. Decreases that offset previous increases of the same assets are charged against revaluation reserve and all other decreases are charged to the Income statement.

Revaluation reserves are transferred directly to retained earnings when gain has arisen on asset withdrawal or asset disposal or, alternatively, when the asset is used by the Bank; in the latter case, the gain is the difference between amortisation calculated at revalued amount or cost.

2. Summary of significant accounting policies (continued)

2.13. Property, plant and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other maintenance costs are charged to the Income statement when incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

▪ Buildings	1,3%
▪ Computer equipment	20%
▪ Vehicles	20%
▪ Furniture and fittings	12,5% - 20%
▪ Investments in third party buildings	20%

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement within other income/expense.

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life The residual value of an asset shall be assumed to be zero, if the Bank expects to use the asset until the end of its physical life. The residual value and the useful life of an asset are reviewed and adjusted, as required, at each balance sheet date.

When a revalued asset is disposed of, any revaluation surplus may be transferred directly to retained earnings.

2.14. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.15. Investment property

Investment property is a property held to earn rentals or for capital appreciation or both.

Investment property is held for long-term rental yields and is not occupied by the Bank.

Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met.

2. Summary of significant accounting policies (continued)

2.15. Investment property (continued)

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists, that investment properties may be impaired, the Bank estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through profit or loss. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

2.16. Leases

Accounting by lessee

The leases entered into by the Bank are primarily operating leases in which the Bank is the lessee. The total payments made under operating leases are charged to expenses in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment to be made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

Leases: Accounting by lessor

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

Lease income is recognised over the term of the lease on a straight-line basis.

2.17. Cash and cash equivalents

For the purpose of preparing the Cash Flow Statement, cash and cash equivalents comprise balances with maturities of up to three months from the date of acquisition, including cash and non-restricted balances with the National Bank, treasury bills and other securities, loans and advances to banks, receivables due from other banks, and short-term government bills.

2.18. Provisions

Provisions for restructuring costs and legal claims are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and specific liability risks.

2. Summary of significant accounting policies (continued)

2.19. Employee benefits

(a) Employee benefits

Short-term employee benefits cover salaries, wages, taxes and social security contributions. Short-term employee benefits are recognised when incurred.

Under current legal regulations, the Bank and its employees are obliged to pay taxes and social security contributions towards a National Fund. The Bank has no payment obligation towards it employees relating to compensation payable by the Fund. Contributions to a defined benefit plan are recorded as an expense for the period to which they relate.

(b) Termination benefits

Under the current regulations, the Bank is obliged to pay retirement benefits or termination benefits to employees in the event of loss of working ability amounting to three average salaries in the business sector in the Republic of Serbia, according to the latest information published by a competent statistical body. These payments are recognized in the balance sheet as liabilities (discounted) in accordance with the certified actuary's valuation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income statement over the employees' expected average remaining working lives.

The actuarial assumptions used when calculating retirement benefits were as follows:

- Employee data:
- Total years of service as at 31 December 2012,
- Year of birth and gender,
- Number of years of remaining working lives (old-age pension, normal retirement age),
- RS mortality tables (2001-2003),
- 11.25% discount rate
- Average gross salary in the Republic of Serbia
- Estimated salary growth rates of 4% p.a. during the whole period of time for which the funds are earmarked.

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(c) Profit-sharing and bonus plans

The Bank has the right to pay-out a portion of its profit or operating result as per its annual financial statements. The employees are entitled to profit-share on a straight line basis; in other words, all employees are entitled to receive the same amount of profit share.

2. Summary of significant accounting policies (continued)

2.20. Income tax and deferred tax

a) Income tax

The income tax charge is calculated and paid under the provisions of the Income tax law in the Republic of Serbia based on the profit disclosed in the Bank's financial statements. The Bank calculates itself the income tax or income liability and the tax prepayment amount for the year to come.

The 10 % Income tax is paid based on the Bank's profit disclosed in the Tax Balance Sheet. For the purpose of calculating taxable profit, profit as stated in the Income statement is adjusted for certain permanent differences and reduced for certain investments during the year, as presented in the annual tax balance sheet which is submitted to tax authorities within 10 days of the deadline date for the submission of financial statements.

b) Deferred tax

Deferred income tax is calculated on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts as stated per Financial Statements. Deferred tax liabilities are recognized for all temporary differences arising between the tax basis of assets and liabilities as at the balance sheet date and the amounts presented for reporting purposes, which will result in future period taxable amounts.

Deferred tax assets are recognized for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Current and deferred taxes are recognized as income and expenses and are included in net profit/loss for the period.

2.21. Borrowings

Borrowings are initially recognised at fair value, less attributable transaction costs. Borrowings are subsequently stated at nominal value (amortised cost). Any difference between proceeds (net of transaction costs) and payments are recognized in the income statement in the period of the borrowings using the proportional method.

Borrowings are classified as current liabilities unless the Bank has an unconditional right to defer the settlement of its liabilities for at least 12 months after the balance sheet date.

2.22. Share capital

Ordinary shares are classified as capital. Mandatorily redeemable preference shares are classified as Other liabilities.

(a) Cost of the issue of shares

Incremental costs directly attributable to the issue of new shares or the acquisition of an entity are shown in equity as a deduction, net of tax, from the proceeds

(b) Dividends on shares

Dividends on shares are shown as payables of the period in which a decision on their payment has been passed. Dividends for the year subsequent to the balance sheet date are disclosed in the note on the events after the balance sheet date.

2. Summary of significant accounting policies (continued)

2.23. Financial guarantees

Financial guarantees are contracts that oblige the guarantor to substitute for the debtor in the payment of the debt or in the compensation for the loss in the event the main debtor defaults. The Bank issues such guarantees to banks, financial institutions and other organisations as collateral for loans, overdraft protection and other banking services.

A financial guarantee is initially recognised at fair value at the date when it has been issued. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the amount initially recognised less cumulative amortization, and the best estimate of the expenditure required to settle any financial obligation as of the balance sheet date. These estimates are determined based on experience with similar transactions and history of past losses, as well as the management's best estimate. Any increase in the liability relating to guarantees is recorded in the Income statement.

2.24. Segment reporting

A business segment is a distinguishable component of an entity that is engaged in providing an individual product or service that is subject to risks and returns that are different from those of other business segments.

The Bank monitors its operating activities based on the following segments: Retail Banking, Corporate Banking, and Investment Banking.

The Bank's three business segments operate in and across the Republic of Serbia, therefore, segmentation based on geography is not relevant to the Bank.

3. Financial risk management

3.1. Introduction

The Bank's operations are exposed to various financial risks which require identifying, estimating, monitoring and mitigating risks, risk management control as well as establishing an adequate risk management reporting system. Risk management is performed through a special risk management organisational unit. The Bank sets out the policies for identifying, measuring and estimating risks as well as for managing risk in accordance with the regulations, standards and professional rules.

Risk management policies are designed in such a manner to define a unique system of managing risks to which the Bank's operations are exposed.

According to the nature of its business activities, the Bank is exposed to various types of risk, such as:

- Liquidity risk;
- Credit risk;
- Market risk;
- Financial assets and liabilities fair value risk;
- Risks of exposure to one entity of group of related parties;
- Risks of investments in other entities and fixed assets;
- Risks relating to the customer's country of origin;
- Operational risk, including legal risk

3.2 Liquidity risk

Liquidity risk arises from the inability of the Bank to fulfill its due obligations which may have a negative effect on the financial results and equity.

The Bank manages liquidity risk in accordance with the Policy on liquidity risk - management system that defines liquidity risk management, authority and responsibilities of the participants of the system, controls that are taken for the efficient functioning of the system, the methodology used to monitor this risk and liquidity management plan in risky situations.

Liquidity risk management involves management of all assets and liabilities of banks that may affect the Bank's inability to meet its payments and obligations.

In its operations, the Bank adheres to the basic principles for liquidity risk management which includes:

a) the management of liquidity by major currencies (currencies that in the Bank's total portfolio comprise more than 5%, which are either EUR, USD, or, CHF, next to of course, existing domestic currency RSD)

b) ensuring the stability and diversification of funding sources by determining the concentration limits of different sources and regular monitoring of data related to the largest depositors

c) formation of liquid assets and the levels of liquidity reserves

d) addressing of temporary and long-term liquidity crisis

e) developing business plans for the unpredictable events and occasions

f) conducting stress tests.

The Bank defines the individual and cumulative limits of a liquidity gap that looks both at the aggregate level (consolidated view), and the major currencies.

The table below shows assets and liabilities that are grouped into categories based on the remaining contractual maturities at the balance sheet.

3. Financial risk management (continued)

3.2 Liquidity risk (continued)

	Up to 1 month	1-3 months	3-12 months	Over 1 year	Total
As at 31st December 2012					
ASSETS					
Cash and cash equivalents	3,400,185	-	-	-	**3,400,185**
Callable deposits and loans	2,472,027	-	-	-	**2,472,027**
Interest, fee and commission receivables, trade receivables, fair value adjustments of derivatives and other receivables	350,012	-	-	3	**350,015**
Loans and deposits	2,642,305	894,580	4,003,521	10,181,697	**17,722,103**
Equity investments	886	-	-	-	**886**
Other investments	543,415	-	-	-	**543,415**
Intangible assets	10,027	-	-	69,275	**79,302**
PPE and investment property	-	-	-	898,542	**898,542**
Deferred tax assets	-	-	175,618	-	**175,618**
Other assets	633,733	2,652	121	14	**636,520**
Loss above the level of equity	-	-	-	-	-
Total assets	**10,052,590**	**897,232**	**4,179,260**	**11,149,531**	**26,278,613**
LIABILITIES					-
Transaction deposits	2,171,034	-	-	-	**2,171,034**
Other deposits	899,928	1,330,128	6,278,917	1,467,543	**9,976,516**
Borrowings	101,026	47,096	287,286	6,959,578	**7,394,986**
Interest, fee and commission payables and fair value adjustments of derivatives	695	-	4,612	-	**5,307**
Provisions	4,197	-	50,807	-	**55,004**
Tax liabilities	3,703	-	-	-	**3,703**
Liabilities from profit	-	-	12,740	-	**12,740**
Other liabilities	1,403,528	7,556	25,718	156,634	**1,593,436**
Total liabilities	**4,584,111**	**1,384,780**	**6,660,080**	**8,583,755**	**21,212,726**
Capital	-	-	-	8,426,043	**8,426,043**
Retained earnings	-	-	-	151,673	**151,673**
Revaluation reserves	-	-	-	273,088	**273,088**
Unrealised losses as per held for sales securities	-	-	-	202	**202**
Gains	-	-	-	9,955	**9,955**
Losses up to the level of the equity	-	-	-	3,794,670	**3,794,670**
Total Equity	-	-	-	**5,065,887**	**5,065,887**
TOTAL LIABILITIES	**4,584,111**	**1,384,780**	**6,660,080**	**13,649,642**	**26,278,613**
Off balance sheet items					
Activities on behalf of third parties	-	-	-	36,820	**36,820**
Undertaken future liabilities	499,283	171,391	897,888	574,838	**2,143,400**
Derivatives	1,817,951	1,840,524	3,411,549	0	**7,070,024**
Other off balance sheet items	2,893,649	101,372	457,364	65,441	**3,517,826**
Total off balance sheet	**5,210,883**	**2,113,287**	**4,766,801**	**677,099**	**12,768,070**
GAP (Assets-Liabilities-22.33% Undertaken future liabilities-5% Derivatives)	**5,304,481**	**(616,833)**	**(2,784,280)**	**(2,563,343)**	**(659,975)**

3. Financial risk management (continued)

3.2 Liquidity risk (continued)

	Up to 1 month	1-3 months	3-12 months	Over 1 year	Total
As at 31st December 2011					
ASSETS					
Cash and cash equivalents	1,994,127	-	-	-	**1,994,127**
Callable deposits and loans	2,611,525	-	-	-	**2,611,525**
Interest, fee and commission receivables, trade receivables, fair value adjustments of derivatives and other receivables	322,965	-	-	-	**322,965**
Loans and deposits	2,462,796	996,438	3,618,015	12,434,247	**19,511,496**
Equity investments	1,801	-	-	-	**1,801**
Other investments	235,057	10,809	36,220	59,235	**341,321**
Intangible assets	-	-	-	85,043	**85,043**
PPE and investment property	2,616	-	-	516,199	**518,815**
Deferred tax assets	-	-	171,755	-	**171,755**
Other assets	631,359	3,822	243	29	**635,453**
Loss above the level of equity	-	-	-	-	-
Total assets	**8,262,246**	**1,011,069**	**3,826,233**	**13,094,753**	**26,194,301**
LIABILITIES					-
Transaction deposits	2,306,724	-	-	-	**2,306,724**
Other deposits	2,388,113	786,233	4,239,345	224,962	**7,638,653**
Borrowings	51,779	90,208	469,595	10,008,965	**10,620,547**
Interest, fee and commission payables and fair value adjustments of derivatives	8,160	-	-	-	**8,160**
Provisions	24,041	-	57,661	-	**81,702**
Tax liabilities	4,670	-	-	-	**4,670**
Liabilities from profit	-	-	4,882	0	**4,882**
Other liabilities	261,773	17,529	19,114	174,388	**472,804**
Total liabilities	**5,045,260**	**893,970**	**4,790,597**	**10,408,315**	**21,138,142**
Capital	-	-	-	8,426,043	**8,426,043**
Retained earnings	-	-	-	151,673	**151,673**
Revaluation reserves	-	-	-	277,843	**277,843**
Unrealised losses as per held for sales securities	-	-	-	175	**175**
Gains	-	-	-	107,615	**107,615**
Losses up to the level of the equity	-	-	-	3,906,840	**3,906,840**
Total Equity	-	-	-	**5,056,159**	**5,056,159**
TOTAL LIABILITIES	**5,045,260**	**893,970**	**4,790,597**	**15,464,474**	**26,194,301**
Off balance sheet items					
Activities on behalf of third parties	-	-	-	32,257	**32,257**
Undertaken future liabilities	467,907	188,954	482,838	1,308,712	**2,448,411**
Derivatives	4,680,307	-	-	-	**4,680,307**
Other off balance sheet items	2,401,683	719,392	265,201	1,336,195	**4,722,471**
Total off balance sheet	**7,549,897**	**908,346**	**748,039**	**2,677,164**	**11,883,446**
GAP (Assets-Liabilities-22.33% Undertaken future liabilities-5% Derivatives)	**2,878,487**	**74,906**	**(1,072,182)**	**(2,661,956)**	**(780,746)**

Liquidity is monitored on the basis of liquidity ratios defined as per local legislation but also on a "trigger" level ratios that are more strictly defined when compared to the regulatory ratios.

3. Financial risk management (continued)

3.3. Credit risk

The Bank is exposed to credit risk and the risk that debtors will fail to fulfill their commitments to the Bank in the agreed amount and at maturity date. The Bank's exposure to credit risk mainly results from the Bank's credit operations.

To maintain the credit risk at an acceptable level, the Bank:

- Investigates the debtor's creditworthiness for loans, guarantees and other products;
- Determines credit limits based on the risk assessment;
- Enters into business relations with solvent clients and acquires relevant collaterals.

Clients are under permanent supervision and the exposure level is adjusted as required. Risk limits are determined according to different types of collateral.

In addition, risk concentration by industry is continuously monitored, although limits are not set.

Risk exposure to one debtor, including banks, is subject to limitations and includes both balance sheet and off balance sheet exposure to risk. The total risk exposure by client relative to limitations is considered before the transaction occurs.

The total maximum credit exposure before collateral:

	31/12/2012	31/12/2011
Loans and advances to banks – net	151,947	65,501
Allowance for impairment of loans and advances to banks	3,055	3,055
Total gross loans and advances to banks	**155,002**	**68,556**
Loans and advances to clients		
Retail loans and other advances	4,465,974	4,082,969
Corporate loans and other advances		
- Large enterprises	9,771,560	11,911,651
- SMEs	5,479,502	4,177,030
Total net loans and advances to clients	**19,717,036**	**20,171,650**
Allowance for impairment of loans and advances to clients	3,538,256	3,385,115
Total gross loans and advances to clients	**23,255,292**	**23,556,765**
Financial assets held to maturity		-
Total gross risk bearing assets	**23,410,294**	**23,625,321**

The total risk bearing assets of RSD 23,410,294 thousand (31.12.2011: RSD 23,625,321 thousand) comprise balance sheet assets which are subject to classification under the NBS rules and regulations.

The item Loans and advances to clients comprise: repo loans, loans and advances to customers, interest and fee and commission receivables, investments in securities held to maturity and part of other risk bearing assets.
Retail loans comprise loans to entrepreneurs.

Off-balance sheet commitments

Guarantees and letters of credit represent the Bank's irrevocable commitments to effect payment if customers are unable to fulfill their obligations to third parties and bear the same risk as loans.

3. Financial risk management (continued)

3.3. Credit risk (continued)

Risk bearing off-balance sheet items – off-balance sheet items subject to classification	31-Dec-12	31-Dec-11
Payable guarantees	1,069,385	1,384,698
Performance bonds	486,380	531563
Avals and acceptances	-	7,569
Uncovered letters of credit	94,395	52,770
Unused commitments	1,001,727	950,910
Other off-balance sheet items which can lead to payment	143,097	36,969
Total	**2,794,984**	**2,964,479**

Retail loans and advances by type of loan products:

	31 December 2012			**31 December 2011**		
	Loans to clients	**Allowance for impairment**	**Net**	**Loans to clients**	**Allowance for impairment**	**Net**
Cards	181,073	56,532	124,542	181,748	57,056	124,693
Consumer loans	2,569,330	612,885	1,956,445	2,393,176	595,520	1,797,655
Housing loans	2,404,999	99,119	2,305,880	2,204,064	85,585	2,118,479
Current account overdrafts	105,423	26,315	79,107	67,860	25,718	42,141
	5,260,825	**794,851**	**4,465,974**	**4,846,848**	**763,880**	**4,082,969**
Entrepreneurs	739,499	98,724	640,774	561,707	77,934	483,773
Total retail loans and advances	**6,000,324**	**893,575**	**5,106,748**	**5,408,555**	**841,814**	**4,566,741**

The policy of determining allowance for impairment in accordance with the Bank's internal methodology is described in Note 2.11, as well as methodology prescribed by the NBS. The Bank's management applies the classification in accordance with the NBS rules on determining and monitoring the internal rating of loans and advances to customers and other financial assets, i.e. for monitoring the credit quality of receivables.

Loans and advances to clients and other risk bearing assets presented in the table below are comprise of total risk bearing assets exclusive of loans and advances to banks.

Client ranking	**31 December 2012**		**31 December 2011**	
	Gross loans to clients	**Allowance for impairment**	**Gross loans to clients**	**Allowance for impairment**
Rank:				
A	13,263,176	56,785	14,755,756	93,252
B	2,803,615	62,890	1,927,772	45,700
V	581,982	32,603	1,151,869	29,664
G	1,616,257	92,513	455,392	83,627
D	4,990,262	3,293,465	5,265,974	3,132,871
	23,255,292	**3,538,256**	23,556,764	3,385,115

3. Financial risk management (continued)

3.3. Credit risk (continued)

Loans and advances to banks:

	31 December 2012		31 December 2011	
Bank ranking	**Gross loans to banks**	**Allowance for impairment**	**Gross loans to banks**	**Allowance for impairment**
Rank:				
A	31,430	-	65,501	-
B	120,517	-	-	-
V	-	-	-	-
G	-	-	-	-
D	3,055	3,055	3,055	3,055
	155,002	**3,055**	**68,556**	**3,055**

Credit quality of portfolio (total balance sheet assets) – expressed as a percentage:

	31 December 2012		31 December 2011	
	Group's share in total portfolio	**Provision (%)**	**Group's share in total portfolio**	**Provision (%)**
Rank:				
A	56.8%	0.4%	62.7%	0.6%
B	12.5%	2.2%	8.2%	2.4%
V	2.5%	5.6%	4.9%	2.6%
G	6.9%	5.7%	1.9%	18.4%
D	21.3%	66.0%	22.3%	59.5%
	100%		**100%**	

Loans and advances:

	31 December 2012		31 December 2011	
	Loans to clients	**Loans to banks**	**Loans to clients**	**Loans to banks**
Loans nether past due nor impaired **(1)**	8,387,466	151,947	11,847,201	65,501
Loans past due but not impaired **(2)**	3,775,356	-	1,867,534	0
Loans past due or not past due and collectively impaired **(3)**	5,200,280	-	4,789,040	0
Individually impaired loans **(4)**	5,892,190	3,055	5,052,989	3,055
Gross loans	**23,255,292**	**155,002**	**23,556,764**	**68,556**
Allowance for impairment	(3,538,256)	(3,055)	(3,385,115)	(3,055)
Net loans	**19,717,036**	**151,947**	**20,171,650**	**65,501**

Category explanation:
1. Loans that are not past due
2. Loans that are past due but collectible i.e. not impaired
3. Collective impairment is determined by applying the relevant probability of default rate to unsecured portion of loan
4. Loans considered uncollectible, i.e. impaired loans (loans that are more than 90 days past due and individually impaired loans)

3. Financial risk management (continued)

3.3. Credit risk (continued)

Loans neither past due nor impaired:

	31 December 2012				31 December 2011			
	Retail	Corporate	Total loans to clients	Loans to banks	Retail	Corporate	Total loans to clients	Loans to banks
Rank								
A	1.198.676	6.773.492	7.972.168	31.430	1,214,196	9,493,235	10,707,430	65,501
B	30.509	292.625	323.134	120.517	9,928	648,025	657,953	-
V	5.688	63.749	69.437	-	15,017	373,846	388,863	-
G	20.751	-	20.751	-	57,595	-	57,595	-
D	1.977	-	1.977	-	35,360	-	35,360	-
Total	**1.257.601**	**7.129.866**	**8.387.466**	**151.947**	**1,332,096**	**10,515,105**	**11,847,201**	**65,501**

Total loans and advances comprise interest, fee and commission receivables and other risk bearing assets.

Loans past due but not impaired (100% secured loans):

	31 December 2012			31 December 2011		
	Retail	Corporate	Total	Retail	Corporate	Total
Less than 30 days past due	208,789	2,881,957	3,090,747	60,706	1,578,836	1,639,542
30-60 days days past due	26,381	432,836	459,216	22,796	39,849	62,645
60-90 days past due	58,182	141,915	200,097	15,508	10,206	25,715
More than 90 days past due	13,892	11,404	25,296	4,608	135,025	139,633
Total	**307,244**	**3,468,112**	**3,775,356**	**103,618**	**1,763,916**	**1,867,534**

Loans past due but not impaired had the following structure of collaterals:

	31 December 2012			31 December 2011		
	Retail	Corporate	Total	Retail	Corporate	Total
Deposits	61,220	831,769	892,989	1,564	4,407	5,971
Mortgage	573,101	8,594,620	9,167,721	208,774	4,788,994	4,997,768
Fair value of collateral	**634,321**	**9,426,389**	**10,060,710**	**210,338**	**4,793,401**	**5,003,739**

Impaired loans subject to individual assessment:

	31 December 2012			31 December 2011		
	Retail	Corporate	Total	Retail	Corporate	Total
Individually impaired loans	187,309	5,704,880	5,892,190	122,181	4,930,808	5,052,989
Fair value of collateral	151,692	15,548,655	15,700,347	69,497	12,045,359	12,114,855

The amounts shown in the table above represent individually impaired loans exceeding RSD 2.500 thousand for which an objective evidence of impairment was estimated. These amounts have been calculated based on the impairment test of future net cash flows.

3. Financial risk management (continued)

3.3. Credit risk (continued)

Loans subject to individual assessment and impairment had the following structure of collaterals in 2011:

	31 December 2012			31 December 2011		
	Retail	Corporate	Total	Retail	Corporate	Total
Deposits	103	-	103	3,157	-	3,157
Mortgage	151,589	15,548,655	15,700,244	66,339	12,045,359	12,111,698
Fair value of collateral	**151,692**	**15,548,655**	**15,700,347**	**69,497**	**12,045,359**	**12,114,855**
Allowance for impairment	105,004	2,527,035	2,632,039	88,236	2,429,434	2,517,670
Unsecured loans	96,888	2,086,374	2,183,263	86,837	1,759,177	1,846,014
Secured loans	90,421	3,618,506	3,708,927	35,344	3,171,631	3,206,975
Total loans	**187,309**	**5,704,880**	**5,892,190**	**122,181**	**4,930,808**	**5,052,989**

The disclosed fair value of collateral is determined by local certified evaluator and represents value realizable by the legal owners of the assets. The impairment provisions reflect the probability that management will not be able to enforce its rights and repossess collateral on defaulted loans. Despite of the length in the process of enforcing repossession of collateral, the Bank's management will vigorously pursue the outstanding debts with all possible means at their disposal.

Impaired loans subject to collective assessment:

	31 December 2012			31 December 2011		
	Retail	Corporate	Total	Retail	Corporate	Total
Individually impaired loans	4,254,965	945,315	5,200,280	3,850,660	938,380	4,789,040
Fair value of collateral	702,349	81,082	783,431	682,500	340,947	1,023,448

Impaired loans subject to collective assessment and impairment had the following structure of collaterals:

	31 December 2012			31 December 2011		
	Retail	Corporate	Total	Retail	Corporate	Total
Deposits	60,575	45,075	105,650	93,078	11,317	104,395
Mortgage	641,774	36,007	677,781	589,422	329,631	919,053
Fair value of collateral	**702,349**	**81,082**	**783,431**	**682,500**	**340,947**	**1,023,448**
Allowance for impairment	788,572	117,644	906,216	753,578	113,867	867,445
Unsecured loans	3,552,616	864,233	4,416,849	3,168,160	606,554	3,774,714
Secured loans	702,349	81,082	783,431	682,500	331,826	1,014,327
Total loans	**4,254,965**	**945,315**	**5,200,280**	**3,850,660**	**938,380**	**4,789,040**

The sector concentration in the Bank's loan portfolio is presented in Note 21.

3. Financial risk management (continued)

3.3. Credit risk (continued)

Renegotiated loans and advances to customers

Loans and advances that have been renegotiated due to deterioration of debtor's financial state, where such receivable would otherwise be past due or impaired as at 31 December 2012 amounted to RSD 427,476 thousand (2011: RSD 1,870,221 thousand) including related provision for receivables of RSD 4,009 thousand (2011: RSD 756 thousand).

Collection of receivables due and impaired receivables through disposal of collaterals

In accordance with the Bank's policies, repossessed collateral is disposed of in the normal course of business. In this way, the outstanding receivables from customers are reduced or settled. The Bank normally does not use the repossessed assets for business purposes.

The total amount of receivables collected through court proceedings, i.e. by means of forced sale of assets pledged as collateral during 2012 amounted to RSD 7,877 thousand (2011: RSD 105,631 thousand).

3.4. Market risk

Market risk is the risk that the fair value or expected future cash flows of financial instruments will fluctuate because of changes in market variables such as interest rates and foreign exchange rates. The Bank is not exposed to the risk of changes in equity instruments price and price of goods. Except for the concentration of foreign exchange risk, the Bank has no significant concentration of market risk for other items.

Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its financial position and cash flows. Interest margin may increase or decrease as a result of such changes, or generate losses in the event that unexpected movements arise. Interest rates are based on market interest rates and the Bank performs their matching on a regular basis.

The aim of interest rate risk management is to optimise net interest income and keep the market interest rate consistent with the Bank's business strategy. The Bank's management coordinates the maturity matching of assets and liabilities based on macroeconomic and microeconomic forecasts, anticipated conditions for attaining liquidity and anticipated interest rate market trends.

The Bank manages the interest rate risk in accordance with the Interest rate Risk Management policy which defines the system and methodologies of interest rate risk management, duties and responsibilities of the system members, as well as controls that should be performed with a view to best system efficiency.

The subject of the interest rate risk management is any item from the Banking Book that may cause negative effects on the result and capital of the Bank owing to the change of the interest rate.

The Bank may be exposed to different forms of the interest risk:

- Risk of the time discrepancy between maturity and repricing i.e. Price Change Risk. This risk arises from the difference between the maturity date (for fixed rates) and the price change date (for variable rates) for the assets, liabilities and off-balance sheet items of the Bank;
- Yield curve risk, i.e. risk owing to the change of the shape and slope of the yield curve. The yield curve risk occurs when unforeseen shifts of the yield curve have adverse effects on the income or basic economic value of the Bank;
- Basis risk, as a risk to which the Bank is exposed owing to different reference interest rates at interest-sensitive positions with similar characteristics regarding maturity/repricing;
- Optionality risk, as a risk to which the Bank is exposed owing to options embedded in interest-sensitive positions (credits with a possibility of early withdrawal, different types of bonds or bills containing the option either of purchase or sale, different types of deposit facilities without maturity date, that give the deponents the right to withdraw the assets at any time, often without paying any penal).

3. Financial risk management (continued)

3.4. Market risk (continued)

Interest rate risk (continued)

In order to manage interest rate risk exposure the Bank uses GAP Methodology.

An analysis of the IR risk exposure comprises an analysis of the account and changes of the balance sheet assets, liabilities and off-balance sheet items i.e. derivative positions. The Bank identifies the IR exposure by detecting discrepancies between positions in significant currencies (RSD, EUR, USD, CHF), and it total for all the currencies (consolidated approach) in which the Bank conducts its business operations.

An analysis of the positions of balance sheet assets and liabilities comprises the determination of interest-sensitive items classified by period of new interest rate fixing, i.e. determination of an expected schedule of future cash flows.

An analysis of off-balance sheet items (swaps, forwards) comprises the determination of potential changes in positions resulting from the interest rate changes on the market.

IRRI GAP as of 31/12/2012	**up to 1 month**	**1-3 months**	**3-12 months**	**over 1 year**	**Total ('000 RSD)**
Position	Cash Flow	Cash Flow	Cash Flow	Cash Flow	Total Cash Flow
Interbank Placement	1,548,996	21,654	32,917	-	1,603,567
Cards (business and retail)	49,961	4,559	61,662	79,037	195,220
CB Reserve	1,006,893	-	-	-	1,006,893
Corporate & SME Loans	9,132,190	970,397	618,883	329,125	11,050,595
Corporate & SME Loans – NPL	4,737,863	-	-	-	4,737,863
Current Accounts	165,926	19,733	21,319	55,342	262,319
Housing loans	1,165,858	329,190	506,371	329,231	2,330,650
Retail (Individuals) Loans	579,179	13,787	62,269	2,259,747	2,914,981
Retail Loans- NPL	916,971	-	-	-	916,971
Derivatives	456,326	911,642	1,720,052	528,203	3,616,223
Total assets	**19,760,163**	**2,270,962**	**3,023,473**	**3,580,685**	**28,635,283**
Interbank Borrowing	(6,476,473)	(2,660,928)	(505,945)	(181,694)	(9,825,040)
Deposits of banks in bankruptcy	-	(4,548)	-	-	(4,548)
Corporate Deposits- Demand	(185,798)	-	-	-	(185,798)
Corporate Deposits-Term	(17,823)	(27,446)	(58,973)	(67,094)	(171,335)
Retail Deposits- Demand	(2,012,950)	-	-	-	(2,012,950)
Retail Deposits-Term	(263,438)	(1,027,009)	(6,167,522)	(269,498)	(7,727,467)
SME Deposits-Demand	(167,845)	-	-	-	(167,845)
SME Deposits-Term	(22,850)	(37,707)	(504,600)	(16,028)	(581,185)
Derivatives	(456,326)	(2,638,991)	(10,280)	(518,359)	(3,623,956)
Total liabilities	**(9.603.503)**	**(6.396.629)**	**(7.247.320)**	**(1.052.673)**	**(24.300.124)**
GAP (Assets - Liabilities)	**10.156.660**	**(4.125.667)**	**(4.223.847)**	**2.528.012**	**4.335.159**

3. Financial risk management (continued)

3.4. Market risk (continued)

Interest rate risk (continued)

IRRI GAP as of 31/12/2011	up to 1 month	1-3 months	3-12 months	over 1 year	Total ('000 RSD)
Position	Cash Flow	Cash Flow	Cash Flow	Cash Flow	Total Cash Flow
Interbank Placement	2,331,276	48,295	-	-	2,379,571
Cards (business and retail)	53,656	12,922	41,700	81,125	189,402
CB Reserve	430,784	-	-	-	430,784
Corporate & SME Loans	11,582,070	943,486	526,622	139,459	13,191,637
Corporate & SME Loans - NPL	4,399,508	0	-	-	4,399,508
Current Accounts	201,272	45,686	78,750	32,609	358,318
Housing loans	1,017,456	308,960	415,208	483,018	2,224,642
Retail (Individuals) Loans	707,016	3,384	15,926	1,771,350	2,497,676
Retail Loans- NPL	887,789	0	-	-	887,789
Derivatives	524,801	1,046	7,150	499,311	1,032,309
Total assets	**22,135,627**	**1,363,780**	**1,085,357**	**3,006,874**	**27,591,637**
Interbank Borrowing	(6,938,537)	(6,754,030)	(644,794)	(412,548)	(14,749,909)
Deposits of banks in bankruptcy	-	(6,874)	-	-	(6,874)
Corporate Deposits- Demand	(891,870)	-	-	-	(891,870)
Corporate Deposits-Term	(460,116)	(241,531)	(19,207)	(55,772)	(776,626)
Retail Deposits- Demand	(1,409,260)	-	-	-	(1,409,260)
Retail Deposits-Term	(286,880)	(391,725)	(4,221,594)	(185,378)	(5,085,577)
SME Deposits-Demand	(138,914)	-	-	-	(138,914)
SME Deposits-Term	(3,728)	(15,138)	-	(10,735)	(29,600)
Derivatives	(528,261)	(1,046)	(7,150)	(478,035)	(1,014,492)
Total liabilities	**(10,657,566)**	**(7,410,344)**	**(4,892,745)**	**(1,142,468)**	**(24,103,122)**
GAP (Assets - Liabilities)	**11,478,061**	**(6,046,564)**	**(3,807,389)**	**1,864,406**	**3,488,514**

Interest rate GAP limits are defined by Decision of the Board of Directors and are monitored and analyzed on regular basis.

As an integral part of the interest rate risk assessment the Bank conducts stress tests of the effects of changes in interest rates. In determining exposure to interest rate risk in the banking book and interest rate risk limit, the Bank assesses the effects of IR changes on the financial result of the Bank (income statement), but also effects on the economic value of Bank capital, by applying the test - the standard interest rate shock in accordance with the nature and level of risks that Bank is exposed to.

The standard interest rate shock presents positive and negative parallel shift of interest rate changes by 200 basis points (1BP = 0.01%).

In existing IR GAP structure (observed on consolidated level which includes major currencies i.e. currencies EUR, RSD, CHF and USD) interest rate change by 200bp would change the economic value of the Bank capital by 3.65% (2011: 3.02%) i.e. the value of capital would be increased by RSD 96,911 thousand (2011: RSD 70,767 thousand).

3. Financial risk management (continued)

3.4. Market risk (continued)

Foreign currency risk

The Bank regularly monitors its exposure to foreign currency risk by complying with limits prescribed by the NBS and limits internally prescribed by the Group. The Bank maintains its foreign currency position by granting loans with foreign currency clauses. In addition, the Bank actively manages foreign currency risk through prudent assessment of open foreign currency positions by applying foreign currency swaps and observing risk limitations prescribed by the NBS and contained in internal enactments adopted by the Bank's management.

As at 31 December 2012, the Bank is in compliance with the NBS requirements relating to foreign currency risk.

The table below summarises the Bank's exposure to foreign currency risk as at 31 December 2012. Included in the table are assets and liabilities presented by their carrying values and by currency.

As at 31 December 2011	**USD**	**EUR**	**Other currencies**	**Total**	**RSD**	**Total**
ASSETS						
Cash and cash equivalents	65,144	1,514,577	65,048	**1,644,769**	1,755,416	**3,400,185**
Callable deposits and loans		2,122,027		**2,122,027**	350,000	**2,472,027**
Interest, fee and commission receivables, trade receivables, fair value adjustments of derivatives and other receivables	115	172,755	2,003	**174,873**	175,142	**350,015**
Loans and deposits	53,860	12,626,146	689,222	**13,369,228**	4,352,875	**17,722,103**
Equity investments				-	886	**886**
Other investments		181,976		**181,976**	361,439	**543,415**
Intangible assets				-	79,302	**79,302**
PPE and investment property				-	898,542	**898,542**
Deferred tax assets				-	175,618	**175,618**
Other assets	396	217,407	2,417	**220,220**	416,300	**636,520**
Total assets	**119,515**	**16,834,888**	**758,690**	**17,713,093**	**8,565,520**	**26,278,613**
LIABIL ITIES						
Transaction deposits	28,453	1,357,042	6,061	**1,391,556**	779,478	**2,171,034**
Other deposits	89,832	8,552,747	41,336	**8,683,915**	1,292,601	**9,976,516**
Borrowings	444	6,610,571	689,016	**7,300,031**	94,955	**7,394,986**
Interest, fee and commission payables and fair value adjustments of derivatives		4,612		**4,612**	695	**5,307**
Provisions				-	55,004	**55,004**
Tax liabilities				-	3,703	**3,703**
Liabilities from profit				-	12,740	**12,740**
Other liabilities	790	1,302,250	2,765	**1,305,805**	287,631	**1,593,436**
Total liabilities	**119,519**	**17,827,222**	**739,178**	**18,685,919**	**2,526,807**	**21,212,726**
Currency mismatch	**(4)**	**(992,334)**	**19,512**	**(972,826)**	**6,038,713**	**5,065,887**
As at 31 December 2011						
- Total assets	73,996	18,130,959	745,788	**18,950,743**	7,243,558	**26,194,301**
- Total liabilities	71,836	18,119,003	718,839	**18,909,678**	2,228,464	**21,138,142**
Maturity mismatch	**2,160**	**11,956**	**26,949**	**41,065**	**5,015,094**	**5,056,159**

3. Financial risk management (continued)

3.4. Market risk (continued)

Foreign currency risk (continued)

The effects of a decrease in foreign exchange rates on the Bank's results are presented below:

	Open foreign currency position as at 31 December		Effect of 10% RSD depreciation	
	2012	**2011**	**2012**	**2011**
EUR	(992,334)	11,956	(89,310)	1,076
USD	(4)	2,160	-	194
Other currencies	19,512	26,949	1,756	2,425

3.5. Fair value of financial assets and liabilities

Fair value is the amount for which a financial instrument could be exchanged between willing parties in an indirect transaction, except in the case of forced sale and liquidation, and it is best reflected by current market prices. Estimated fair values of financial instruments are established by the Bank based on observable market data, relevant valuation methodology and judgment required to interpret data in order to determine the fair value.

The Bank's management believes that the difference between the fair value and the carrying value is not material, considering the fact that maturities of most financial assets and financial liabilities is less than six months, maximum one year (due to customers), with the exception of Loans to customers. Management believes that the difference between the fair value and the carrying value of Loans to customers is not material because the Bank grants loans at variable interest rates or fixed interest rates. However, the Bank reserves the right to change the interest rates due to changes in market conditions and performs adjustments to changes in market conditions in practice.

3.6. The risks of the Bank's exposure to a single party or a group of related parties

The Bank's exposure to a single party or a group of related parties is a total amount of receivables and off-balance sheet items relating to that party or group of related parties (loans, investments in debt securities, equity shares, guarantees issued, avals, etc.).

The exposure risk, i.e. exposure concentration, is the Bank's exposure towards:

- One party or a group of related parties (two or more natural persons or legal entites related by shares);
- Two or more natural persons or legal entities related in the manner that deterioration or improvement of the financial position of one party affects the financial position of the other;
- A natural person who is an authorised representative of a legal entity;
- Two or more natural persons or legal entities related by their membership in legal entities' management bodies, including their respective family members;
- Family members of a natural person who are members of management bodies of two legal entities at the same time;
- A party related to the Bank (members of the Banking Group the member of which is the Bank, members of the management bodies of the Bank and of the Banking Group and their respective family members, parties with share in the capital of the Bank or the Banking Group and their respective family members, legal entities in which all the above mentioned parties own a control package).

3. Financial risk management (continued)

3.6. The risks of the Bank's exposure to a single party or a group of related parties (continued)

The main goal of the exposure risk management is to eliminate the risk bearing exposure of the Bank's assets to one party, group of related parties or parties related to the Bank.

This goal can be achieved by strict compliance with and the application of the Bank's credit policy in relation to acceptance and approval of clients requests in order to identify related parties and monitor the Bank's exposure limits towards them.

The Bank's exposure:

- Large Bank's exposure is an exposure to a single party or a group of related parties amounting to no less than 10% of the Bank's capital
- Towards a single party or a group of related parties may not exceed 25% of the capital of the Bank
- Towards a single related party to the Bank may not exceed 5% of the Bank's capital
- the total Bank's exposure to parties related to the Bank may not exceed 20% of the Bank's capital

The total of all the Bank's exposures may not exceed 400% of the Bank's capital.

The Bank has adopted the limits defined by the NBS in accordance with the Decision on Risk Management (Official Gazette of the Republic of Serbia, No. 129/2007) and operates accordingly.

3.7. The Bank's risks of investments in other legal entities and fixed assets

The Bank's investment risk is the risk related to the Bank's investment in a single natural person / legal entity operating outside the financial sector and the risk of the Bank's investment in fixed assets.

Managing this risk implies measuring, monitoring and controlling:

1. The amount of the Bank's investment (the Bank acquires the right to shares or share in capital) in any natural person/legal entity operating outside the financial sector that may not exceed 10% of the Bank's capital
2. The amount of the Bank's investment in its own fixed assets
3. The total amount of the Bank's investment (the total of items 1 and 2) that may not exceed 60% of the Bank's capital
4. Management Board quarterly reporting of movements in indicators of items 1 to 3
5. Management Board suggestions relating to corrective measures in order to maintain the investment risk within the prescribed limits

The Bank's investment limits:

- The Bank's investments in a single entity operating outside the financial sector may not exceed 10% of the Bank's capital; the limit relates to the investment based on which the Bank acquires the right to shares or share in capital of the entity operating outside the financial sector.
- The total amount of the Bank's investments in entities operating outside the financial sector and in fixed assets may not exceed 60% of the Bank's capital.

The Bank has adopted the limits defined by the NBS in accordance with the Decision on Risk Management (Official Gazette of the Republic of Serbia, No. 129/2007) and operates accordingly.

3. Financial risk management (continued)

3.8. Risks related to the client's country of origin

The risk related to the country of origin of the natural person/legal entity to which the Bank is exposed (country risk) is the risk of adverse effects on the Bank's financial results that may occur due to the Bank's inability to collect its receivables from natural person/legal entity domiciled in a foreign country due to political, economic and social conditions in that country.

Reasons that lead to country risk exposure are as follows:

- Political reasons – significant political changes in a country due to which a debtor is unable to fulfil its obligations to the Bank on a regular basis (change of government, significant political change, political turmoil, wars, catastrophes, etc.)
- Economic reasons – extremely negative economic events in a country due to which foreign debt repayment is seriously questioned or completely hindered

Country risk is reflected through:

- Risk of non-payment – relates to cases in which debtor is unable to fulfil its obligations to the Bank on a regular basis due to political and economic resons
- Transfer risk – represents the possiblity that solvent debtor from a foreign country is unable to pay its debt to the Bank in the specified currency due to certain irregularities in that country
- Guarantee risk – the risk that have occured as a result of a guarantee issued to an entity in a foreign country for payment to be effected in a third country

The main goal of the country risk management is to protect the entire Bank's portfolio from possible risk bearing and uncollectible receivables from debtors from countries at risk.

3.9. Operational risk, including legal risk and risk of improper management of information and other technologies significant for the Bank's operations

Operational risk is defined as the risk of negative effects on the Bank's financial results and share capital arising from the employee omission, illegal acts, inadequate internal procedures and processes, inadequate management of the Bank's information and other systems and unforeseeable external events.

The Bank is obliged to identify the existing sources of operational risk as well as the potential sources of such risk that may occur as a result of introducing new products, systems or activities.

The operational risk management methodology, in view of its identification and recording of losses arising from its effects, comprises:

I Defining the Bank's line of service – each organisation unit of the Bank needs be clearly defined, including all activities and specific actions

II Defining the causes that lead to operational risk and can arise from or be:

1. Human factor
2. Processes
3. Systems
4. External factors

3. Financial risk management (continued)

3.9. Operational risk, including legal risk and risk of improper management of information and other technologies significant for the Bank's operations (continued)

III Identifying events that may cause operational risks and related losses:

1. Internal mistakes and employee abuse
2. External breach of regulations
3. Employing system and work protection omissions
4. Client relation problems
5. External factors
6. The Bank's organisation and system operation
7. Implementation of the Bank's business procedures and decisions

IV Loss category

1. Loss
2. Operating income
3. Avoided loss
4. Omitted gain

Information risks

The information technology system architecture has two functions:

- the Bank's transactions processing
- reporting to the Bank's management and management bodies

One of the most significant links in risk management is an adequate information system which should meet the following criteria:

- timeliness
- accuracy
- security and integrity
- consistency
- completeness
- relevancy

The accounting systems consist of reports on business operations, financial operations, risk management and compliance which enable the Bank's management and management bodies to coordinate the Bank's operations.

The communication systems connect the information inside the Bank and external users (regulatory bodies, auditors, shareholders and clients).

3. Financial risk management (continued)

3.10. Capital risk management

The Bank's main objective when managing capital is to safeguard its ability to continue as a going concern in the foreseeable future so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain a strong capital base in order to reduce the capital costs.

To maintain or adjust the equity structure, the Bank may perform adjustment of dividends to shareholders, return capital to shareholders, issue new shares or dispose of assets to reduce the debt.

In accordance with the NBS regulations, the Bank is required to:

- Maintain the prescribed minimum monetary share capital of EUR 10 million in RSD counter value at the NBS middle exchange rate

- Maintain the minimum capital adequacy ratio, against the risk bearing assets, of 12%

The Bank's Financial Control Department performs the control of capital based on the capital adequacy ratio. The ratios are presented in the table below:

	31 December 2012	31 December 2011
Basic capital (shareholders equity)	2,407,724	2,169,950
Additional capital	245,599	249,901
Total basic and additional capital	2,653,324	2,419,852
Capital deductibles	-	65,201
Capital	2,653,324	2,354,650
Total risk bearing assets	12,805,517	13,735,886
Capital adequacy (min. 12%)	**18.01**	**14.99**

4. Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with respect to future events which in current circumstance are considered reasonable.

(a) Impairment losses on loans and advances

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

4. Critical accounting estimates and judgements

(b) Impairment of available for sale equity investments

The Bank determines whether an available for sale equity instrument is impaired when there is a significant or prolonged decline of its fair value below cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates, among other factors, regular movement in share price. The impairment may occur when there is an evidence of deterioration of the financial position of the borrower, industry performance, changes in technology and operational and financing cash flows.

(c) Provisions

Provisions are, to a large extent, a matter of judgment, particularly on terms of legal claims or other contingencies. The Bank estimates the probability of adverse events occurring as a result of past events. If the estimated probability of the event is more than 50%, the Bank makes provision for the full amount of the liability. The Bank is rather conservative in its estimates, however due to the high degree of uncertainty, in some cases the estimate might not coincide with the possible outcome of the legal claims.

5. Interest income and expense

	2012	2011
Interest income		
Loans	1,688,624	1,704,466
Deposits	38,026	34,173
Securities	0	73,067
Other loans and advances	9,125	32,889
Foreign currency loans	3,517	33,724
Foreign currency deposits	169	651
Other foreign currency loans and advances	1,767	9,131
Total:	**1,741,228**	**1,888,101**
Interest expense		
Loans	23,965	37,455
Deposits	79,634	118,242
Other liabilities	33,601	5,840
Foreign currency loans	257,094	405,092
Foreign currency deposits	415,598	209,244
Foreign currency other liabilities	8,736	3,615
Total:	**818,628**	**779,488**
Net interest income	**922,600**	**1,108,613**

6. Fee and commission income and expense

	2012	2011
Fee and commission income		
Fee and commission income	261,233	253,990
Fee and commission income in foreign currency	11,308	9,678
Total:	**272,541**	**263,668**
Fee and commission expense		
Fee and commission expense	27,314	26,742
Fee and commission expense in foreign currency	17,635	15,014
Total:	**44,949**	**41,756**
Net fee and commission income:	**227,592**	**221,912**

Fee and commission income in RSD amounting to RSD 261,233 thousand (2011: 253,990 thousand) mainly includes fees for: corporate banking services relating to payment operations – RSD 67,051 thousand (2011: RSD 67.052 thousand); corporate banking services relating to avals, guarantees, letters of intent – RSD 32,667 thousand (2011: RSD 42,902 thousand); banking services relating to purchase of foreign currency from other customers – RSD 32,722 thousand (2011: RSD 37,503 thousand); retail banking services – RSD 43,874 thousand (2011: RSD 36,997 thousand).

Fee and commission expense in RSD amounting to RSD 27,314 thousand (2011: RSD 26,742 thousand) includes: payment card operations fee and commission expense – RSD 14,218 thousand (2011: RSD 13,215 thousand); payment operation fees – RSD 11,972 thousand (2011: RSD 11,701 thousand).

Fee and commission expense in foreign currency amounting to RSD 17,635 thousand (2011: RSD 15,014 thousand) includes: foreign currency operation fee and commission expense – RSD 7,173 thousand (2011: RSD 6,821 thousand); foreign payment operation fees – RSD 6,718 thousand (2011: RSD 5,462 thousand).

7. Net gains / (losses) on disposal of other investments

	2012	2011
Gains on disposal of other loans and advances	86,624	31,985
Net gain / (loss) on disposal of other loans and advances	**86,624**	**31,985**

8. Net foreign exchange gains / (losses)

	2012	2011
Foreign exchange gains on:		
Foreign currency deposits and loans	1,227,983	3,622,882
Foreign currency trading	-	241,047
Treasury operations	181,417	36,092
Derivatives	83,991	14,418
Foreign currency mandatory reserve	314,541	136,768
Other	259,664	53,441
Total	**2,067,596**	**4,104,648**
Foreign exchange losses on:		
Foreign currency deposits and loans	2,860,428	3,525,878
Foreign currency trading	-	232,024
Treasury operations	66,038	21,644
Derivatives	116,024	36,303
Foreign currency mandatory reserve	105,886	171,152
Other	246,958	58,464
Total	**3,395,334**	**4,045,465**
Net foreign currency gains/(losses)	**(1,327,738)**	**59,183**

9. Other operating income

	2012	2011
Dividend	663	-
Operating income	2,449	196
Collected written-off receivables	53	99
Disposal of PPE and intangible assets	2,714	438
Decrease in liabilities	3,880	421
Extras	0	14
Other income	5,362	4.812
Other	**14,458**	**5,980**

10. Income and expense arising on indirect write-off of investments and provisions

Income from reversal of indirect write-off of investments, provisions and collected suspended interest

	2012	2011
Reversal of indirect write-off of balance sheet items	1,441,214	1,451,780
Reversal of provision for off-balance sheet items (Note 32)	167,955	58,319
Reversal of unused provisions for liabilities (Note 32)	-	2,928
Reversal of unused other provisions	3,513	5,631
Collected suspended interest	402,457	279,698
Total	**2,015,139**	**1,798,356**

Expense arising on indirect write-off of investments, provisions and suspended interest

	2012	2011
Indirect write-off of balance sheet items	1,611,158	2,799,383
Provision for off-balance sheet items (Note 32)	148,111	20,629
Provision for liabilities (Note 34)	8,572	14,441
Other provisions	7,595	8,707
Interest suspension	-	80
Total	**1,775,436**	**2,843,240**
Net expense arising on indirect write-off of investments and provisions	**239,703**	**(1,044,884)**

Income from reversal of unused other provisions of RSD 3,513 thousand (2011: RSD 5,631 thousand) relates to the effect of reduced provision for unused holidays.

Income from collected suspended interest of RSD 402,257 thousand (2011: RSD 279,698 thousand), relates to collected suspended interest on company loans of RSD 157,360 thousand (2011: RSD 101,919 thousand), collected suspended interest on other companies – litigation of RSD 133,356 thousand (2011: RSD 7,034 thousand) and collected suspended interest on long term corporate loans of RSD 55,763 thousand (2011: RSD 1,481 thousand).

Expense on other provisions relate to provisions under the IAS 19 in accordance with the certified actuary's calculation amounting to RSD 7,595 thousand (2011: RSD 8,707 thousand).

Income and expense arising on the indirect write-off of balance sheet assets and off-balance sheet items include expense on provision created in accordance with the Bank's internal methodology as at 31 December 2012.

Movements in allowance for impairment of balance sheet assets

	Loans to customers (Note 21)	Other placements (Note 24)	Interest and fee receivables (Note 20)	Other assets (Note 27)	Total
Opening balance 1 January	2,487,679	606,488	180,463	113,631	3,388,261
New allowances	1,412,099	46,793	87,459	64,807	1,611,158
FX gains	1,269	-	-	-	1,269
Write-offs	(18,163)	-	-	-	(18,163)
Income from reversal of indirect write-offs	(1,148,402)	(155,516)	(91,023)	(46,273)	(1,441,214)
Closing balance 31 December 2011	**2,734,482**	**497,765**	**176,899**	**132,165**	**3,541,311**

11. Wages and salaries and other personal expenses

	2012	2011
Salaries	374,008	416,161
Wages	112,895	123,132
Taxes	76,695	84,644
Contributions	107,956	118,690
Temporary contract fees	5,959	3,300
Other staff costs	13,194	68,464
Total	**690,707**	**814,391**

12. Depreciation

	2012	2011
Intangible assets	31,934	62,841
Property, plant and equipment	76,552	76,876
Total	**108,486**	**139,717**

13. Operating and other expenses

	2012	2011
Costs of material	36,194	40,197
Production services	210,734	221,583
Non-material expenses (exclusive of taxes and contributions)	227,917	181,211
Taxes	46,078	58,542
Contributions	128,543	135,624
Written-off uncollectable receivables	38,026	6,243
Losses on disposal of PPE and intangible assets	14	-
Losses on disposal and write-off of PPE and intangible assets	1,327	3,622
Shortages and damages	9	44
Other expenses	43,714	26,793
Total	**732,556**	**673,859**

Of total production service costs amounting to RSD 210,734 thousand (2011: RSD 221,583 thousand), RSD 124,826 thousand (2011: RSD 126,002 thousand) relates to rent of office space, RSD 34,424 thousand (2011: RSD 31,267 thousand) relates to sponsorship costs, RSD 23,464 thousand (2011: RSD 24,089 thousand) relates to costs of electronic communication and automatic data processing.

Non-material costs of RSD 227,917 thousand (2011: RSD 181,211 thousand) relate to: IT services – RSD 33,419 thousand (2011: RSD 33,223 thousand); safeguard security – RSD 19,817 thousand (2011: RSD 18,501 thousand); maintenance of software applications - RSD 19,954 thousand (2011: RSD 17,141 thousand); deposit insurance premium – RSD 28,992 thousand (2011: RSD 15,439 thousand).

iznos od RSD 28.992 hiljade (2011: RSD 15.439 hiljada) koji se odnosi na troškove premije osiguranja depozita banaka; iznos od RSD 19.954 hiljade (2011: RSD: 17.141 hiljada) koji se odnosi na troškove održavanja programskih aplikacija; iznos od RSD 19.817 hiljada (2011: RSD 18.501 hiljada) koji se odnosi na troškove obezbeđenja imovine; iznos od RSD 12.012 hiljada (2011: 4.222 hiljade) koji se odnosi na servisne usuge IT opreme i iznos od RSD 11.803 hiljade (2011: RSD 1.571 hiljada) koji se odnosi na intelektualne usluge.

13. Operating and other expenses (continued)

Expenses from direct write-off of uncollectible receivables of RSD 38,026 thousand (2011: RSD 6,243 thousand) relate to the write-off of uncollectible receivables recorded in accordance with the Management Board and Executive Board decisions.

14. Income arising from change in value of assets and liabilities

	2012	2011
Revaluation of loans and receivables	2,229,991	1,540,282
Revaluation of liabilities	481	202
Revaluation of derivatives	17,121	23,470
Total	**2,247,593**	**1,563,954**

15. Expense arising from change in value of assets and liabilities

	2012	2011
Revaluation of loans and receivables	860,457	1,540,903
Revaluation of liabilities	2,040	399
Revaluation of derivatives	10,518	24,337
Total	**873,015**	**1,565,639**

16. Current income tax

The total income tax expense comprises the following taxes:

	2012	2011
Current income tax	(639)	-
Gain / loss on deferred taxes (Note 28)	3,863	9,596
Total income tax expense	**3,224**	**9,596**

Detailed information on deferred taxes is given in Note 28. The current income tax on the Bank's income before tax is different from the theoretical amount that would arise using the weighted average tax rate and would be as follows:

	2012	2011
Profit / (Loss) before tax	6,731	(1,246,909)
Tax calculated at 10% rate	(673)	124,691
Expenses not recognised for tax purposes	(7,427)	(21,866)
Tax relief on tax loss carried forward	8,100	-
Deferred tax arising from the loss	-	102,825
Capital gains	(1,278)	-
Capital losses	-	250
Tax relief on investment in PPE	639	-
Income tax presented in income statement	**(639)**	**-**

17. Earnings per share

Earnings per share represent profit per unit of capital. For this reason, earnings per share is calculated as a ratio of net profit attributable to the Bank's shareholders and the weighted average number of ordinary shares outstanding during a period.

Earnings per share are presented in the table below:

Description	Movements in shares (piece)	Total no. of shares	No. of days	Weighted average no. of shares
1	2	3	4	5=(3x4)
As at 1 January 2011	11,097,112	11,097,112	365	4,050,445,880
New shares issued 2011	-	-	-	-
As at 31 December 2011	11,097,112	11,097,112	365	4,050,445,880
As at 1 January 2012	11,097,112	11,097,112	366	4,061,542,992
New shares issued in 2012	-	-	-	-
As at 31 December 2012	11,097,112	11,097,112	366	4,061,542,992

	2012.	2011.
Weighted average no. of shares	11,097,112	11,343,217

No.	Description	2012.	2011.
1	Net gain belonging to holders of ordinary shares in RSD 000	6,731,195	1,237,313
2	Weighted average no. of shares	11,097,112	11,343,217
3	**Earnings per share in RSD (1:2)**	**0.61**	**(109.08)**

18. Cash and cash equivalents

	31.12.2012.	31.12.2011.
Cash and cash equivalents in RSD		
Drawing account	1,597,451	478,571
Cash in hand in RSD	157,965	131,794
Cash and cash equivalents in foreign currency		
F/X accounts	1,160,504	1,138,516
Cash in hand in foreign currency	484,208	245,229
Other cash in foreign currency	57	17
Total	**3,400,185**	**1,994,127**

The Bank calculates and sets aside the mandatory reserve held with the National Bank of Serbia in the amount and in the manner prescribed by the NBS Decision on Banks' Required Reserves Held with the National Bank of Serbia (Official Gazette of the Republic of Serbia, No. 72/2003, 55/2004, 44/2010 and 3/2011, 31/2012, 57/2012, i 78/2012).

The RSD mandatory reserve is set aside and placed on the Bank's drawing account and, therefore, it is not accounted for separately. As at 31 December 2012, the calculated mandatory reserve in RSD amounted to RSD 1,081,724 thousand (31 December 2011: RSD 469,033 thousand).

The mandatory reserve held with the NBS represents the minimum RSD reserve deposits set aside in accordance with the NBS Decision and can be used for liquidity purposes, if necessary. The Bank calculates the mandatory reserve for payables relating to RSD deposits, loans and securities, as well as other RSD payables, exclusive of RSD deposits received based on the Bank's fiduciary activities the value of which does not exceed the amount of loans granted out of these deposits.

18. Cash and cash equivalents (continued)

The RSD calculation base of mandatory reserve is the average daily balance of RSD liabilities presented in the Bank's books of account in the previous calender month, exclusive of RSD liabilities indexed in accordance with the currency clause.

The Bank calculates the mandatory reserves at a rate of 5% on RSD base of liabilities with agreed maturity up to 2 years and a rate of 0% on RSD base of liabilities with agreed maturity over 2 years. The National Bank of Serbia pays to banks the interest on average daily balance of the RSD mandatory reserve for the accounting period, which does not exceed the calculated RSD mandatory reserve for all days in the accounting period.

19. Callable deposits and loans

	31.12.2012.	31.12.2011.
Callable deposits and loans in RSD		
Deposit with the NBS	350,000	600,000
Callable deposits and loans in foreign currency		
Mandatory reserve held with the NBS in foreign currency	2,122,027	2,011,525
Total	**2,472,027**	**2,611,525**

The Bank calculates the F/X mandatory reserve for payables relating to F/X deposits, loans and securities and other F/X payables, as well as other deposits, loans and other F/X assets received from abroad based on the Bank's fiduciary activities.

The F/X calculation base of mandatory reserve is the average daily balance of F/X assets presented in the Bank's books of account in the previous calendar month and the average daily book amount of RSD liabilities indexed in accordance with the currency clause.

The Bank calculates the mandatory reserves at a rate of 25% on foreign currency base of liabilities with agreed maturity over 2 years, rate of 50% on foreign currency base of RSD liabilities with fx clause with agreed maturity over 2 years, a rate of 29% on foreign currency base of liabilities with agreed maturity up to 2 years and rate of 50% on foreign currency base of RSD liabilities with fx clause with agreed maturity up to 2 years.

From the accounting period 18 August – 17 September 2011, only loans granted by 30 June 2011 have been taken into account when calculating the loan increase however only by their initial maturity dates.

20. Interest, fee and commission receivables, trade receivables, fair value adjustments of derivatives and other receivables

	31.12.2012	31.12.2011
Interest, fee and commission receivables, trade receivables, fair value adjustment of derivatives and other receivables in RSD		
Interest receivables	480,775	463,663
Fee and commission receivables	37,867	37,502
Trade receivables	-	181
Allowance for impairment	6,455	(179,014)
	(176,308)	
Interest, fee and commission receivables, trade receivables, fair value adjustment of derivatives and other receivables in F/X		
Interest receivables in FX	1,817	2,029
Fee and commission receivables in FX	-	53
Allowance for impairment	(591)	(1,449)
Total	**350,015**	**322,965**

21. Loans and deposits

	31.12.2012.	31.12.2011.
Loans granted – RSD		
Loans – transaction accounts	418,350	431,367
Consumer loans	208,251	176,161
Loans – fixed assets	5,931,961	7,274,554
Export loans	-	104,641
Investment loans	1,310,433	1,410,457
Housing loans	2,396,381	2,196,710
Other loans	10,061,147	10,506,241
Allowance for impairment	(2,734,480)	(2,547,675)
Deposits granted – RSD		
Other special purpose deposits	3,526	4,365
Loans granted – FX		
Loans for import of goods and services – FX	3,525	4,500
Other loans	115,619	65,187
Allowance for impairment	(2)	(181)
Deposits granted – FX		
Other general-purpose FX deposits	7,392	6,802
Total	**17,722,103**	**19,633,129**

Other general-purpose FX loans amounting to RSD 7,392 thousand (2011: RSD 6,802 thousand) include guarantee deposit with the NBS for the purpose of broker-dealer transactions of RSD 4,549 thousand (2011: RSD 4.186 thousand) and guarantee deposit for the purpose of Visa card operations of RSD 2,843 thousand (2011: RSD 2,616 thousand).

21. Loans and deposits (continued)

Movements in loans and advances to customers during the year were as follows:

	Short term loans and deposits		Long term loans and deposits		Total 2012	Total 2011
	In RSD	In foreign currency	In RSD	In foreign currency		
Loans to customers as at 1 January	2,485,553	65,188	19,618,943	11,301	22,180,985	20,149,534
New loans and advances	8,661,475	100,263,878	10,876,777	1,133	119,803,263	171,767,219
Revolving payment cards	181,431	-	-	-	181,431	-
Foreign exchange gains	-	1,362	-	1,626	2,988	35,232
Revaluation	105,924		2,114,921		2,220,845	1,467,026
Foreign exchange losses	-	(442)	-	(653)	(1,095)	(66,494)
Revaluation	(39,243)	-	(818,958)	-	(858,201)	(1,484,964)
Write off	(43,254)	-	(1,475)	-	(44,729)	
Repayment	(9,642,828)	(100,214,366)	(13,169,218)	(2,490)	(123,028,902)	(169,686,568)
Loans to customers as at 31 December	**1,709,058**	**115,620**	**18,620,990**	**10,917**	**20,456,585**	**22,180,985**
Less:						
Allowance for impairments	(777,345)	-	(1,957,135)	(2)	(2,734,482)	(2,547,856)
Net loans and advances	**931,713**	**115,620**	**16,663,855**	**10,915**	**17,722,103**	**19,633,129**

Loans and advances by industry during the year were as follows:

	Finance and insurance	Public companies	Corporate	Entrepr eneurs	Retail	Foreign entities	Total 2012	Total 2011
Short term loans and advances								
- in RSD	289,958		1,274,001	56,811	88,290		1,709,060	2,485,554
- in foreign currency			4,900			110,719	115,619	65,187
Long term loans and advances								
- in RSD	1,450	2,645,691	10,214,325	667,075	5,045,844	46,603	18,620,988	19,614,577
- in foreign currency	7,392		3,525				10,917	4,500
Other financial investments								
- in RSD								4,365
- in foreign currency								6,802
Total gross	**298,799**	**2,645,691**	**11,496,751**	**723,887**	**5,134,134**	**157,322**	**20,456,585**	**22,180,985**
Less: provisions	-	-	(1,895,265)	(89,962)	(749,214)	(41)	(2,734,482)	(2,547,856)
Total – net	**298,799**	**2,645,691**	**9,601,486**	**633,925**	**4,384,920**	**157,281**	**17,722,103**	**19,633,129**

Ageing structure of loans and deposits were as follows:

	31.12.2012	31.12.2011
Matured	4,717,478	3,846,141
Up to one year	1,182,197	4,309,998
Over one year	14,556,910	13,843,037
Loans and deposits granted, gross	**20,456,585**	**21,999,176**

21. Loans and deposits (continued)

Matured loans and deposits:

	31.12.2012	31.12.2011
Up to two months	375,286	76,383
2-6 months	79,504	71,638
6 months-1 year	446,846	850,995
Over one year	3,815,843	2,847,125
Total	**4,717,479**	**3,846,141**

The concentration of credit risk exposure (including total loans and advances to customers and off balance sheet items) by industry is presented in the table below:

	31.12.2012	31.12.2011
Hospitality (hotels and restaurants)	1,210,947	1,266,535
Administrative and support service activities	234,871	233,905
Agriculture, forestry and fishing	747,261	765,638
Arts, entertainment and recreation	299,974	338,274
Construction	4,687,055	5,980,243
Finance and insurance sector	958,160	941,057
Information and communication	51,478	79,915
Processing industry	4,772,107	5,388,343
Professional, scientific and technical activities	292,477	293,678
Real estate trade	209,995	414,823
Traffic and warehousing	259,748	202,095
Wholesale and retail; motor vehicle repair and maintenance	5,509,386	5,561,564
Other	6,815,817	5,123,730
Loans to customers – gross	**26,050,276**	**26,589,800**

22. Equity investments and other available-for-sale securities

	31.12.2012.	31.12.2011.
Banks and other financial organisations		
- in RSD	886	1,801
Total	**886**	**1,801**

The amount of RSD 886 thousand (2011: RSD 1,801 thousand) represents net investments in the capital of other legal entities.

Investments in the capital of other legal entities are presented in the table below:

	2012	% of share	2011	% of share
Tržište novca ad	171	0,4854	199	0,4854
Beogradska berza ad	715	0,2404	795	0,2404
Poštanska štedionica – Banka	-	-	807	0,0152
Total	**886**		**1.801**	

23. Other placements

	31.12.2012.	31.12.2011.
Other placements – RSD		
Avals, acceptances and paid guarantees	986,299	753,387
Other loans and advances	3,965	4,765
Allowance for impairment	(497,765)	(546,312)
Avals, acceptances and paid guarantees in foreign currency	32,808	-
Covered letters of credit and other sureties in foreign currency	18,108	7,848
Total	**543,415**	**219,688**

Placements relating to avals, acceptances and paid guarantees of RSD 986,299 thousand (31 December 2011: RSD 753,387 thousand) relate to receivables from other companies for payments of avals (securities) and guarantees.

24. Intangible assets

Cost	
As at 1 January 2011	**173,779**
Additions (new purchases)	48,189
Transfers	1,225
As at 31 December 2011	**223,193**
Accumulated amortisation	
As at 1 January 2011	**75,309**
Amortisation charge	62,841
As at 31 December 2011	**138,150**
Net carrying amount as at 1 January 2011	**98,470**
Net carrying amount as at 31 December 2011	**85,043**
Cost	
As at 1 January 2012	**223,193**
Additions (new purchases)	15,629
Transfers	536
Intangibles in progress	10,027
As at 31 December 2012	**249,385**
Accumulated amortisation	
As at 1 January 2012	**138,150**
Amortisation charge	31,934
As at 31 December 2012	**170,083**
Net carrying amount as at 1 January 2012	**85,043**
Net carrying amount as at 31 December 2012	**79,302**

Amortisation charge amounting to RSD 31,934 thousand (2011: RSD 62,841 thousand) was stated in the income statement under Operating costs.

26. Property, plant and equipment

	Buildings	Equipment and other PPE	Construction in progress	Leasehold improvements	Total
Cost					
As at 1 January 2011	486,102	374,778	32,948	60,121	953,949
Additions (new purchases)	824	28,182	5,429	5,943	40,378
Transfer from CIP		32,948	(35,762)	1,589	(1,225)
Disposals	-	(1,600)	-		(1,600)
Write-offs		(7,534)	-	(7,493)	(15,027)
As at 31 December 2011	**486,926**	**426,774**	**2,615**	**60,160**	**976,475**
Accumulated depreciation					
As at 1 January 2011	142,504	224,535	-	26,359	393,398
Depreciation charge	6,320	58,733	-	11,822	76,875
Disposals	-	(1,208)			(1,208)
Write-offs	-	(6,579)	-	(4,826)	(11,405)
As at 31 December 2011	**148,824**	**275,481**	-	**33,355**	**457,660**
Net carrying amount as at 1 January 2011	**343,598**	**150,243**	**32,948**	**33,762**	**560,551**
Net carrying amount as at 31 December 2011	**338,102**	**151,293**	**2,615**	**26,805**	**518,815**

	Buildings	Equipment and other PPE	Construction in progress	Leasehold improvements	Total
Cost					
As at 1 January 2012	486,926	426,774	2,615	60,160	976,475
Additions (new purchases)	624	13,290	4,383	4,519	22,816
Transfer from CIP		3,169	(6,998)	3,829	-
Disposals	(17,773)	(4,665)	-		(22,711)
Write-offs		(28,956)		(2,696)	(31,379)
As at 31 December 2012	**469,777**	**409,612**	-	**65,812**	**945,201**
Accumulated depreciation					
As at 1 January 2012	148,824	275,481	-	33,355	457,660
Depreciation charge	6,276	56,695	-	12,186	75,157
Disposals	(2,086)	(4,617)			(6,976)
Write-offs	-	(28,218)	-	(2,107)	(30,052)
As at 31 December 2012	**153,014**	**299,341**	-	**43,434**	**495,789**
Net carrying amount as at 1 January 2012	**338,102**	**151,293**	**2,615**	**26,805**	**518,815**
Net carrying amount as at 31 December 2012	**316,763**	**110,271**	-	**22,378**	**449,412**

26. Property, plant and equipment (continued)

Depreciation charge of RSD 75,157 thousand (2011: RSD 76,875 thousand) was stated in the income statement under Operating costs.

Increase in PPE in 2012 relates to: purchase of computers and other data processing equipment – RSD 9,407 thousand (2011: RSD 53,300 thousand); leashold improvements – RSD 8,348 thousand (2011: RSD 7,533 thousand).

Land and buildings were last appraised on 18 September 2007 by independent appraisers. The estimation was carried out based on the market prices. The estimation lowered the cost of buildings in the net amount of RSD 35,455 thousand. Revaluation reserves were reduced by RSD 33,611 thousand. In the course of 2011 and 2012, no revaluation of land and buildings was performed.

Lease expenses amounting to RSD 124,826 thousand (31 December 2011: RSD 126,002 thousand) relating to lease of property were recorded in the income statement.

Investicione nekretnine

Cost	
As at 01.01.2012.	-
Additions	450,527
As at 31.12.2012.	**450,527**
Accumulated depreciation	
As at 01.01.2012	-
Depreciation charge	1,397
As at 31.12.2012.	**1,397**
Net carrying amount as at 1 January 2012	-
Net carrying amount as at 31 December 2012	449,130

26. Other assets

	31.12.2012.	31.12.2011.
Other receivables – RSD		
Advances for working capital	15,890	4,884
Advances for long term investments	10,371	2,470
Receivables from employees	4,861	4,059
Receivables from prepaid tax and contributions	-	24
Receivables from overpaid income tax	-	141
Other receivables from operations	159,966	150,501
Temporary accounts	1,289	(71)
Transactions in process	9,191	4,409
Allowance for impairment	(113,351)	(100,026)
Other receivables – foreign currency		
Advances for working capital (FX)	9,013	3,191
Receivables from employees (FX)	12,339	11,491
Other receivables from operations (FX)	31,148	28,348
Transactions in process (FX)	4,823	1,813
Allowance for impairment (FX)	(18,814)	(13,605)
Accrued receivables – RSD		
Accrued receivables for calculated interest	75,947	76,411
Other accrued expenses	10,691	8,846
Other accruals	47,006	51,693
Accrued receivables – foreign currency		
Accrued receivables for calculated income (FX)	125,576	196,075
Other accrued expenses (FX)	3,338	15,615
Inventories		
Tools and inventory	-	2,251
Spare parts	-	823
Other inventories	-	232
Assets acquired by collection of receivables	247,235	189,184
Allowance for impairment	-	(3,306)
Total	**636,520**	**635,453**

Other operating receivables amounting to RSD 159,966 thousand (31 December 2011: RSD 150,501 thousand) mainly comprise receivables for calculated revaluation of short term corporate loans of RSD 72,687 thousand (31 December 2011: RSD 104,842 thousand) and receivables related to litigations of RSD 73,964 thousan (31 Decenber 2011: RSD 35,131 thousand).

Receivables arising from FX advances for current assets amounting to RSD 9,013 thousand (31.12.2011: RSD 3,191 thousand) mainly relate to advances made to Banka Intesa for Visa and Master card credit cards of RSD 8,330 thousand (31 December 2011: RSD 3,191 thousand).

The major portion of FX Other operating receivables amounting to RSD 31,148 thousand (31.12.2011: RSD 28,348 thousand) relate to receivables arising from paid guarantees and letters of credit under litigation, amounting to RSD 27,882 thousand (2011: RSD 26,592 thousand).

26. Other assets (continued)

Accrued interest receivable of RSD 75,94776,411 thousand (2011: RSD 76,411 thousand) relates to accrued interest receivables of other clients in RSD arising on loans with a euro currency clause amounting to RSD 42,937 thousand (31.12.2011: RSD 45,818 thousand); RSD 10,052 thousand (31.12.2011: RSD 8,691 thousand) relates to accrued interest receivables on long term loans (retail); RSD 4,629 thousand (31.12.2011: RSD 5,371 thousand) relates to accrued interest receivables in RSD with a euro currency clause (retail).

Accrued receivables of RSD 47,006 thousand (31.12.2011: RSD 51,693 thousand) relates to interest rate swap rates to other companies in EUR in amount of RSD 35,806 thousand (31.12.2011: RSD 39,816 thousand) and the premium NKOSK insurance in the amount of RSD 11,200 thousand (31.12.2011: RSD 10,088 thousand).

Accrued receivables for other FX income of RSD 125,576 thousand (2011: RSD 196,075 thousand) relates to fee and commission on loans.

27. Deferred tax assets and liabilities

Deferred taxes are calculated on temporary differences under the liability method using the effective 10% tax rate (31.12.2010:10%). Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred income tax is levied by the same tax authority.

	31.12.2012.	31.12.2011.
Deferred tax assets	187,640	187,640
Deferred tax liabilities	(12,022)	(15,885)
Deferred tax assets- Net effect	**175,618**	**171,755**

Movements on deferred tax assets and liabilities are presented in the table below:

Deferred tax assets	Tax credit-PPE	Tax credit for loss	Tax credit -IAS 19	Accelerated tax depreciation	Total
As at 1 January 2011	**59,208**	**127,614**	**818**	**(25,481)**	**162,159**
Charged/credited to Income statement	-	-	-	9,596	9,596
As at 31 December 2011	59,208,	127,614	818	(15,885)	171,755
Charged/credited to Income statement	-	-	-	3,863	3,863
As at 31 December 2012	**59,208**	**127,614**	**818**	**(12,022)**	**175,618**

28. Transaction deposits

	Corporate	Entrepreneurs	Public companies	Banks and other fin. org.	Public sector	Retail	Foreign entities	Other clients	31.12. 2012.	31.12. 2011
- In RSD	550,163	62,385	3,601	656	889	108,376	6,997	46,411	**779,478**	**1,404,221**
- In FX	219,921	9,499				990,425	169,496	2,215	**1,391,556**	**902,503**
Total	**770,084**	**71,884**	**3,601**	**656**	**889**	**1,098,801**	**176,493**	**48,626**	**2,171,034**	**2,306,724**

RSD transaction deposits of RSD 779,478 thousand (31.12.2011: RSD 1,404,221 thousand) mainly relate to RSD current accounts of other companies amounting to RSD 550,163 thousand (31.12.2011: RSD 1,156,352 thousand), whereas FX transaction deposits of RSD 1,391,556 thousand (31.12.2011: RSD 902,503 thousand) relate to FX accounts of natural persons amounting to RSD 990,425 thousand (31.12.2011: RSD 540,746 thousand), FX accounts of other companies of RSD 219,921 thousand (31.12.2011: RSD 206,305 thousand) and FX accounts of Foreign entities amounting to RSD 169,496 thousand (31.12.2011: RSD 79,306 thousand).

29. Other deposits and interest and fees payable

	Corporate	Entrepreneurs	Banks and other fin. org.	Public sector	Retail	Foreign entities	Other clients	31.12. 2012.	31.12. 20
Savings deposits									
Short- term deposits:									
- In RSD	-	-	-	-	36,750			**36,750**	**29,1**
- IN FX	-	-	-	-	6,246,934	269,435		**6,516,369**	**4,554,**
Long- term deposits:									
- In RSD					150			**150**	
Loan deposits									
Short- term deposits:									
- In RSD	136							**136**	**6**
- IN FX					19,596	35,465		**55,061**	**384,6**
Long-term deposits:									
- In RSD	581							**581**	**1,6**
- IN FX	63,731		455		64,689	1,627,141		**1,756,016**	**1,421,4**
Purpose deposits									
Short- term deposits:									
- In RSD	3,307							**3,307**	**11,7**
- IN FX	7,788					65,087		**72,875**	**57,6**
Long-term deposits:								**-**	
- In RSD	1,460							**1,460**	**5,0**
- IN FX	50,423	682						**51,105**	**40,6**
Other deposits									
Short- term deposits:									
- In RSD	1,044,016	3,000		200,000			3,200	**1,250,216**	**330,9**
- IN FX	144,829	449	4,523				41,877	**191,678**	**703,0**
Long-term deposits:									
- In FX					40,812			**40,812**	**97,4**
Total	**1,316,288**	**4,131**	**4,978**	**200,000**	**6,408,931**	**1,997,128**	**45,077**	**9,976,516**	**7,638,6**

29. Other deposits and interest and fees payable (continued)

	Corporate	Entrepreneurs	Banks and other fin. org.	Public sector	Retail	Foreign entities	Other clients	31.12. 2012.	31.12. 2011.
Interest payable									
- In RSD			695					695	2,877
Other								-	-
- In FX			4612					4,612	4,581
Total	-	-	5,307	-	-	-	-	5,307	8,160
Total	1,316,288	4,131	10,285	200,000	6,408,931	1,997,128	45,077	9,981,840	7,646,813

FX Saving deposits mainly relate to the following retail short-term deposits: FX a vista savings deposits of natural persons amounting to RSD 88,4949 thousand (31.12.2011: RSD 90,129 thousand), maturities of up to one month – RSD 7,309 thousand (31.12.2011: RSD 7,103 thousand), maturities of up to three months - RSD 60,240 thousand (31.12.2011: RSD 71,453 thousand), maturities of up to four months – RSD 29,014 thousand (31.12.2011: RSD 45,652 thousand), maturities of up to six months – RSD295,175 thousand (31.12.2011: RSD 339,386 thousand) and FX short-term deposits of natural persons with maturities of up to one year – RSD 5,766,701 thousand (31.12.2011: RSD 3,698,458 thousand).

FX Short-term deposits of foreign entities: a vista savings deposits amounting to RSD 12,173 thousand (31.12.2011: RSD 11,077 thousand), maturities of up to three months - RSD 2,468 thousand (31.12.2011: RSD 1,067 thousand), maturities of up to six months - RSD 9,556 thousand (31.12.2011: RSD 7,134 thousand), and maturities of up to one year - RSD 245,239 thousand (31.12.2011: RSD 189,007 thousand).

FX liabilities towards foreign entities amounting to RSD 1,621,141 thousand (31.12.2011: RSD 1,659,170 thousand) relate to deposits of the parent Bank, Marfin Popular Bank, amounting to EUR 14,309 thousand (31.12.2011: EUR 15,856 thousand) with the following structure:

Contract date	Currency	In FX	In RSD	Maturity date	Interest rate %
26.10.2011	EUR	1,536,185.43	174,692	20.4.2021	2,1960
26.10.2011	EUR	1,707,659.03	194,192	11.3.2021	2,1960
29.12.2011	EUR	3,900,000.00	443,501	29.1.2013	2,1860
29.12.2011	EUR	758,000.00	86,198	6.10.2014	2,1860
29.12.2011	EUR	550,000.00	62,545	25.4.2014	2,1860
29.12.2011		1,099,000.00	124,976	25.4.2014	2,1860
20.09.2012	EUR	1,583,561.00	180,080	21.5.2018	2,1100
20.09.2012	EUR	3,174,117.00	360,955	15.10.2021	2,1100
Total EUR	**EUR**	**14,308,522.46**			
Total RSD			**1,621,141**		

30. Borrowings

	31.12.2012.	31.12.2011.
Borrowings in RSD		
Borrowings in RSD	90,000	29,800
Other financial liabilities	4,956	9,155
Borrowings in FX		
Borrowings in FX	7,293,960	10,568,768
Other financial liabilities in FX	6,070	12,824
Total	**7,394,986**	**10,620,547**

Borrowings in RSD relate to borrowings from the Parent Bank, Marfin Egnatia Bank S.A., of RSD 90,000 thousand.

Contract date	Currency	Amount RSD	Maturity date	Interest rate %
21.12.2012.	RSD	90,000	4.1.2013.	8.55%
Total RSD		**90,000**		

Borrowings in FX amounting RSD 8,461,552 thousand relate to borrowings from the Parent Bank, Marfin Popular Bank, of EUR 68,349 thousand and CHF 7,315 thousand. The Terms and Conditions of the Borrowings are presented in the table below:

Contract date	Currency	Amount FX	Amount RSD	Maturity date	Interest rate %
14.08.2009	EUR	44,081,633	5,012,888	22.12.2014	2.1100
26.02.2010	EUR	14,000,000	1,592,056	26.06.2014	2.1890
07.12.2011	CHF	500,000	47,096	08.01.2014	2.0760
18.11.2011	CHF	350,000	32,967	18.12.2013	2.0300
01.12.2011	CHF	300,000	28,258	06.01.2014	2.0300
14.09.2009	CHF	700,000	65,935	13.09.2013	2.0140
08.02.2012	CHF	250,000	23,548	10.03.2014	2.1600
23.02.2012	CHF	300,000	28,258	24.03.2014	2.1600
08.11.2012	CHF	500,000	47,096	09.11.2015	2.1220
21.01.2011	CHF	215,000	20,251	21.01.2014	1.9920
12.12.2011	CHF	500,000	47,096	13.01.2014	2.0740
04.11.2011	CHF	500,000	47,096	04.12.2013	2.1270
04.01.2011	CHF	500,000	47,096	04.02.2013	2.0420
05.12.2011	CHF	700,000	65,935	06.01.2014	2.1120
14.03.2011	CHF	1,000,000	94,192	15.04.2013	2.1580
12.03.2012	CHF	500,000	47,096	14.04.2014	2.1580
21.05.2012	CHF	500,000	47,096	21.05.2013	2.1164
Total EUR	**EUR**	**58,081,633**			
Total CHF	**CHF**	**7,315,000**			
Total RSD			**7,293,960**		

31. Provisions

	31.12.2012.	31.12.2011.
Provision for liabilities	14,122	16,350
Provision for other long-term employee benefits	67	67
Provision for loss on off-balance sheet assets	4,197	24,041
Provision for retirement benefits and other	7,594	8,707
Other provisions	29,024	32,537
Total	**55,004**	**81,702**

Provision for liabilities of RSD 14,122 thousand (31.12.2011: RSD 16,350 thousand) relate to provision for potential liabilities and legal claims.

Provision for loss on off-balance sheet assets of RSD 4,197 thousand (31.12.2011: RSD 24,041 thousand) is a provision for guarantees and loan commitments calculated with the Bank's internal calculation methodology.

Provision for retirement benefits of RSD 7,594 thousand (31.12.2011: RSD 8,707 thousand) was made in accordance with the requirements of IAS 19. Provision for vacations amounted RSD 14,024 thousand (31.12.2011: RSD 17,537 thousand) and provision for unidentified shareholders amounted RSD 15,000 thousand (31.12.2011: RSD 15,000 thousand).

Movement in provisions

	Provision for legal claims	Provision for off-balance sheet items
Balance as at 01.01.2012.	16,350	24,041
Charge for the year	1,189	148,111
Release of provision	(3,417)	(167,955)
Balance as at 31.12.2012.	**14,122**	**4,197**

32. Tax liabilities

	31.12.2012.	31.12.2011.
Liabilities for VAT	730	1,082
Liabilities for other taxes and contributions	2,973	3,588
Total	**3,703**	**4,670**

33. Liabilities from profit

	31.12.2012.	31.12.2011.
Liabilities from profit	12,253	4,870
Income tax	487	12
Total	**12,740**	**4,882**

Liabilities from profit amounting to RSD 12,253 thousand (2011: RSD 4,870 thousand) relate to liabilities for unpaid preferential dividends from previous years.

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34. Other liabilities

	31.12.2012.	31.12.2011.
Other liabilities in RSD		
Trade payables	13,571	25,159
Other operating liabilities	141,423	144,780
Transactions in progress	33,392	20,805
Interim accounts	817	264
Wages and salaries in RSD		
Net salaries	-	1,244
Tax on salaries and wages	-	170
Cost of temporary service agreements	2,497	143
Other liabilities toward employees	855	803
Accruals in RSD		
Accrued interest	4,412	2,468
Accrued interest, fee and commission expense	71,343	82,525
Accrued other income	9,241	13,082
Other accruals	10,081	15,381
Other liabilities in FX		
Trade payables in FX	1,069	3,783
Other operating liabilities in FX	5,009	4,678
Transactions in FX in progress	870	319
Interim FX accounts	1,167,590	-
Accruals in FX		
Accrued FX interest income expense	99,706	121,207
Other accruals in FX	31,560	35,993
Total	**1,593,436**	**472,804**

Trade payables amounting to RSD 13,571 thousand (31.12.2011: RSD 25,59 thousand) mainly relate to outstanding trade payables.

Other operating liabilities amounting to RSD 141,423 thousand (31.12.2011: RSD 144,780 thousand) mainly relate to preferential shares issued - RSD 123,052 thousand (31.12.2011: RSD 123,052 thousand). In 2007, the Bank determined that preference shares did not meet the equity recognition criteria prescribed by IAS 32, but met the financial liability recognition criteria, given that Management does not have a discretionary right to relieve the Bank from the obligation of paying dividends on preference shares, if the Bank is profitable. In accordance with the said, preference shares were reclassified to other operating liabilities.

Accrued interest, fee and commission income amounting to RSD 71,343 thousand (31.12.2011: RSD 82,525 thousand) mainly relates to accrued loan origination fee income included in EIR and recorded under the NBS guidelines within accrued interest income.

Accrued FX interest income expense amounting to RSD 99,706 thousand (2011: RSD 121,207 thousand) relates to interest income on long-term loans of the Parent Bank of RSD 9,725 thousand (31.12.2011: RSD 24,891 thousand); interest income on retail foreign currency savings of RSD 76,002 thousand (31.12.2011: RSD 64,302 thousand).

35. Equity

Within Equity the Bank presents share capital, reserves, issuing premium, revaluation reserves, unrealised loss on available-for-sale securities, reserves from profit, prior year loss and current year loss.

As at 31 December 2012, the Bank's equity comprised:

	31.12.2012.	31.12.2011.
Share capital – ordinary shares (Note 36a)	5,548,557	5,548,557
Issuing premium (Note 36a)	2,877,486	2,877,486
Revaluation reserve (Note 36b)	272,478	277,033
Revaluation reserve on available-for-sale securities change in value	610	810
Unrealised loss on available-for-sale securities	(202)	(175)
Reserves from profit (Note 36c)	151,673	151,673
Current year profit	9,955	-
Prior year gain	-	107,615
Prior year loss (Note 36d)	(3,794,670)	(2,669,527)
Current year loss (Note 36d)	-	(1,237,313)
As at 31 December	**5,065,887**	**5,056,159**

Movements in equity are presented in the table below:

	Share capital	Share premium	Revaluation reserves from PPE	Revaluati on reserves from AFS	Profit reserves	Current year profit	Retained earnings	Loss not exceeding capital	Tot
At 1 January 2011	**5,548,557**	**2,877,486**	**277,033**	**452**	**151,673**		**107,615**	**(2,669,527)**	**6,293,2**
Revaluation reserve on available-for-sale securities change in value				183					**1**
Net profit for the year								(1,237,313)	**(1,237,31**
At 1 January 2012	**5,548,557**	**2,877,486**	**277,033**	**635**	**151,673**		**107,615**	**(3,906,840)**	**5,056,1**
Transfer of revaluation reserves for disposed PPE			(4,555)					4,555	
Revaluation reserve on available-for-sale securities change in value				(227)					**(22**
Transfer							(107,615)	107,615	
Current year loss						9,955			9,9
At 31 December 2011	**5,548,557**	**2,877,486**	**272,478**	**408**	**151,673**	**9,955**	**-**	**(3,794,670)**	**5,065,8**

Shareholders with over 1% of the Bank's share capital are presented in the table below:

	31.12.2012.		31.12.2011.	
	Share capital	% capital	Share capital	% capital
Marfin Popular Bank	5,492,707	98.99	5,492,197	98.98
Total	**5,492,707**	**98.99**	**5,492,197**	**98.98**
Other	55,850	1.01	56,360	1.02
Total share capital	**5,548,557**	**100.00**	**5,548,557**	**100.00**

35. Equity (continued)

a) Share capital and issuing premium

Marfin Popular Bank Public CO LTD is the owner of 98,99% of the Bank's share capital. The value of the entire share capital and issuing premium at 31. December 2012 is RSD 8,426,043 thousand (31.12.2011: RSD 8,426,043 thousand).

b) Revaluation reserves

Revaluation reserves disclose the impacts of the changes in the fair values of PPE, intangible assets, equity investments and other financial instruments carried at fair value through profit or loss on revaluation reserves.

c) Reserves from profit

Reserves from profit were created for estimated losses, general banking risks and other reserves from profit in accordance with the legal regulations, the statute and the bylaws of the Bank.

The difference between provisions calculated under NBS regulations and those calculated in accordance with the Bank's internal calculation methodology is stated as the missing reserve in accordance with item 3, paragraph 2, provision 4, of the Decision on the Capital Adequacy of Banks.

Total special reserves for estimated losses on balance sheet assets and off-balance sheet items amount to RSD 5,964,576 thousand (31.12.2011: RSD 5,951,234 thousand). The provision for balance sheet assets and off-balance sheet items classified under the Bank's internal rules and regulations amounts to RSD 3,545,507 thousand (31.12.2011: RSD 3,412,302 thousand). Total special reserve from profit for estimated losses on balance sheet assets and off-balance sheet items amounts to RSD 2,419,069 thousand (31.12.2011: RSD 2,538,932 thousand) of which RSD 2,240,907 thousand (31.12.2011: RSD 2,420,992 thousand) relates to balance sheet assets, whereas RSD 178,161 thousand (31.12.2011: RSD 117,940 thousand) relates to off-balance sheet items.

d) Current year profit / loss

The current year profit of RSD 9,955 thousand (31.12.2011: loss of RSD 1,237,313 thousand) represents the profit arising on the positive difference between income and expenses of the accounting period increased for the gain on decrease of deferred tax liabilities of RSD 3,863 thousand Prior year loss is covered in accordance with the Law, the Statute and the Founding Agreement of the Bank stipulating that loss in the Bank's operations shall be covered in the following order:

1. From current operations income;
2. From the Bank's reserves; and
3. From the Bank's share capital (shareholders' stakes) where funds as per items 1 and 2 are insufficient.

36. Off-balance sheet items

(a) *Guarantees, collateral pledges and irrevocable commitments*

As at 31 December 2011 contingent liabilities and commitments comprised:

	31.12.2012.	31.12.2011.
Fiduciary activities		
Fiduciary investment activities	36,820	32,257
Total	**36,820**	**32,257**
Future commitments		
Collateral pledges	1,042,932	1,242,785
Irrevocable commitments for undrawn credit lines and investments	408,301	392,449
Other irrevocable commitments	84,938	79,362
FX Collateral pledges	607,229	733,815
Total	**2,143,400**	**2,448,411**
Derivatives		
Receivables from derivatives	7,070,024	4,680,307
Total	**7,070,024**	**4,680,307**
Other off-balance sheet items		
Receivables for interest suspended	2,842,437	2,149,658
Other off-balance sheet assets	675,389	2,572,813
Total	**3,517,826**	**4,722,471**
Total	**12,768,070**	**11,883,446**

At the end of each accounting period, the Bank calculates provisions for guarantees issued and loan commitments. The amount recognised as provision is the best estimate of expenditures required to settle present obligation on the balance sheet date. Overview of off-balance sheet item provisioning is provided in Note 31.

(b) *Litigations (legal claims)*

As at 31 December 2012, the total value of the Bank's litigations in which the Bank was the claimant amounted to RSD 6,785,654 thousand (31.12.2011: RSD 5,089,436 thousand), whereas the value of the legal proceedings against the Bank amounted to RSD 127,297 thousand (31.12.2011: RSD 34,163 thousand). The Bank increased the provision for legal claims by RSD 1,189 thousand (Note 31).

37. Compliance with the indicators prescribed by the National Bank of Serbia

The Bank is obliged to operate in accordance with the provisions of the Law on Banks and other NBS regulations. As per 2012 Financial Statements, the Bank's performance indicators were as follows:

Performance indicators	Prescribed value	Achieved value 31.12.2012.	Achieved value 31.12.2011.
Capital adequacy	Min. 12%	18,01%	14,99%
Bank's investments	Max. 60%	16,94%	22,12%
Sum of large exposures:	Max. 400%	95,31%	149,20%
-exposure to a single party or a group of related parties		91,57%	146,31%
-exposure to related parties	Max. 20%	3,73%	2,89%
Average monthly liquidity ratio:			
- in the first month of the reporting period	Min. 1,00	2,26	2,45
- in the second month of the reporting period	Min. 1,00	2,97	3,28
- in the third month of the reporting period	Min. 1,00	2,91	1,70
Foreign exchange risk indicator	Max 20%	0,41	7,95

As shown in the above review, as at 31 December 2012, the Bank had reconciled the mentioned indicators with the requirements of the National Bank of Serbia.

38. Related party transactions

	31.12.2012.		31.12.2011.	
	Marfin Popular Bank	Other related parties	Marfin Popular Bank	Other related parties
Assets				
Foreign currency accounts	276,133	-	56,010	-
Other monetary assets in FX	57	-	17	-
Interest receivable in FX	115	-	3	-
Interest receivable in RSD	-	1,606	-	2,805
Interest receivable with currency clause	-	1,775	-	1,280
Short term loans in RSD	-	289,958	-	287,664
Long term loans - card in RSD	-	15	-	41
Short term loans in FX	53,860	-	48,520	-
Loans - cards to individuals	-	272	-	212
Long term loans with currency clause	-	6,204	-	7,024
Long term loans to individuals in RSD	-	2,247	-	437
Long term loans to individuals with currency clause	-	12,812	-	13,728
Interest receivable from individuals long term loans with currency clause	-	-	-	12
Accrued interest receivable from individuals in RSD	-	17	-	3
Accrued interest receivable from individuals with currency clause	-	25	-	38
Accrued interest receivable in RSD	3,338	-	-	61
Other operating receivables in FX	125,577	-	196,075	-
Accruals according to IRS in FX	-	-	-	15,615
Total assets	**459,080**	**314,931**	**300,625**	**328,920**

38. Related party transactions (continued)

	31.12.2012.		31.12.2011.	
	Marfin Popular Bank	Other related parties	Marfin Popular Bank	Other related parties
Liabilities				
RSD transaction deposits	323	6,561	29,369	4,522
FX transaction deposits	517	10,018	443	1,309
FX transaction deposits placed by individuals	-	5,072	-	1,365
Savings FX deposits placed by individuals	-	23,275	-	32,452
RSD short-term purpose deposits	-	2	-	7
FX short-term purpose deposits	-	4	345,838	-
FX long-term purpose deposits	1,627,141	451	1,313,332	419
Short-term RSD loans received from banks	90,000	-	-	29,800
Short-term FX loans received from banks	47,096	-	340,727	-
Long-term FX financial loans received from banks	7,246,864	-	10,228,041	-
Interest liabilities in FX	12,718			
Other liabilities	1,172,203			
Supplier payable in FX	-	-	-	853
Accruals according to IRS in FX	31,560	-	-	35,993
Deferred interest payable in FX on deposits placed by banks	278	-	-	-
Deferred interest payable in FX on short-term purpose loans	-	-	98	-
Deferred interest payable in FX on long-term purpose loans	-	-	3,399	-
Deferred interest payable in FX on short-term loans	-	-	1,350	-
Deferred interest payable in FX on long-term loans	-	-	24,981	-
Total liabilities	**10,228,700**	**45,383**	**12,287,578**	**106,720**

Income and expenses from related party transactions were as follows:

Expense	**31.12.2012.**		**31.12.2011.**	
	Marfin Popular Bank	**Other related parties**	**Marfin Popular Bank**	**Other related parties**
Interest expense from deposits placed by foreign banks in RSD	-	-	-	7.300
Interest expense from borrowings from foreign banks in FX	55.880	-	4,622	3
Interest expense from borrowings from foreign banks in FX	257.094	-	404,755	11
Interest expense from borrowings from foreign banks in RSD	12.209	-	-	32,000
Interest expense from deposits in RSD	-	276	-	280
Interest expense from deposits in FX	-	100	-	69
	-	1.414		-
Interest expense according to IRS in FX	8.736	-	-	3,560
Interest expense from FX Swap in FX	3.200	-	-	54
Other expenses	-	-	435	5,229
Total	**337.119**	**1.790**	**409,812**	**48,506**

38. Related party transactions (continued)

Foreign exchange losses	31.12.2012.		31.12.2011.	
	Marfin Popular Bank	Other related parties	Marfin Popular Bank	Other related parties
Foreign exchange loss on IRS	5,449	-	-	7,336
Foreign exchange loss on FX Swap	1,909	-	-	15,817
Foreign exchange loss on FX Spot	21,233	-	-	114,588
Foreign exchange loss on deposits of foreign banks in FX	255,571	-	41,679	-
Foreign exchange loss on loans from foreign banks in FX	1,528,143	-	1,262,299	-
Foreign exchange loss on loans to related banks in FX	5,135	-	20,246	-
Total	**1,817,440**	**-**	**1,324,224**	**137,741**

Interest income	31.12.2012.		31.12.2011.	
	Marfin Popular Bank	Other related parties	Marfin Popular Bank	Other related parties
Interest income from deposits placed at foreign banks in RSD	-	-	205	-
Interest income from deposits placed at foreign banks in FX	401	-	-	-
Interest income from loans to foreign banks in RSD	371	-	236	292
Interest income from loans to foreign banks in FX	-	1,372	3,049	787
Interest income from loans with currency clause	-	26,871	-	1,112
Interest income from loans in RSD	-	-	-	25,437
Interest income from cards in RSD	-	891	-	2
Interest income from loans to individuals in RSD	-	592	-	5
Fee income from loans in RSD	-	5	-	1,75
Fee income from cards in \RSD	-	339	-	6
Fee income from loans to individuals in RSD	1,767	-	-	24
Interest income from IRS in FX	-	-	-	3,151
Interest income from FX Swap in FX	86,624	-	31,985	
Total	**89,163**	**30,070**	**35,475**	**38,547**

Foreign exchange gains	31.12.2012.		31.12.2011.	
	Marfin Popular Bank	Other related parties	Marfin Popular Bank	Other related parties
Foreign exchange gain on IRS	3,515	-	-	6,714
Foreign exchange gain on FX Swap	-	-	-	374
Foreign exchange gain on FX Spot	22,068	-	-	108,398
Foreign exchange gain on deposits of foreign banks in FX	128,662	-	3,421	-
Foreign exchange gain on loans from foreign banks in FX	526,948	-	1,424,836	-
Foreign exchange gain on loans to related banks in FX	6,732	-	64,620	-
Total	**687,925**	**-**	**1,492,877**	**115,486**

38. Related party transactions (continued)

The tables above present balance sheet assets and liabilities, off-balance sheet items and income and expenses arising from other related parties transactions with: Marfin Popular Bank, Marfin Egnatia Bank, Marfin Factors & Forfaiters, Link Consultans International, Tessar, including physically connected parties..

As at 31 December 2012, the Bank approved loans to its directors and members of the Managing board and the Executive Board:

	31.12.2012.	31.12.2011.
Loans to Management		
At the year beginning	42,603	30,972
Loans granted during the year	3,844	9,262
Repayments during the year	(1,787)	(3,527)
Interest income	2,163	2,130
Collected interest	(2,070)	(1,636)
Closing balance	**44,660**	**37,201**

During 2012 and 2011, there was no need to create provisions for Management loans.

Management fees

In 2012, members of the Executive Board had gross salaries in the amount of RSD 44,505 thousand (2011: RSD 47,746 thousand).

39. Reconciliation of receivables and payables

The Bank performed a reconciliation of financial investments and receivables and payables with its debtors and creditors, in terms of article 20, paragraph 1, of the Law on Accounting and Auditing.

The Bank had the following unreconciled receivables and payables for 2012, in terms of article 20, paragraph 4, of the Law on Accounting and Auditing with SLAVEKS-TRADE STR PR in amount of RSD 1,205 thousand.

Other unreconciled receivables and payables are immaterial.

40. Operating analysis by segments

The Bank monitors the movements of its assets and liabilities and generates income and expenses from activities divided into three business segments:

- Corporate Banking – operations with government agencies and companies;
- Retail Banking - operations with natural persons and entrepreneurs;
- Financial market – Investment banking, Interbanking operations, operations with International financial institutions.

Other activities of the Bank relate to activities and services that do not qualify for segment reporting.

The basis for segmenting was the Bank's internal structure by cash generating units, complemented by organisational units that are classified within three key segments.

40. Operating analysis by segments (continued)

Segment performance for the year ended 31 December 2012:

	Corporate banking	Retail banking	Investment banking	Other activities	Total
Segment revenue / expense	**1,090,192**	**429,646**	**0**	**(221,061)**	**1,298,777**
Revenue / expense from external clients	874,504	331,941	0	(283,845)	922,600
Revenue / expense from other segments	215,688	97,705	0	62,784	376,177
Provision and impairment	255,579	(3,223)	0	(12,654)	239,703
Administrative expenses	(35,009)	(566,274)	0	(821,981)	(1,423,263)
Depreciation	(222)	(42,271)	0	(65,992)	(108,486)
Income/loss before tax	**1,310,541**	**(182,122)**	**0**	**(1,121,688)**	**6,731**
Gain from deferred tax assets	-	-	-	3,863	3,863
Net income/loss for the year	**1,310,541**	**(182,122)**	**0**	**(1,117,186)**	**9,955**
Assets	**14,008,312**	**4,715,577**	**0**	**7,544,724**	**26,278,613**
Liabilities	**1,188,254**	**9,414,398**	**0**	**10,610,075**	**21,212,726**

Segment performance for the year ended 31 December 2011:

	Corporate banking	Retail banking	Investment banking	Other activities	Total
Segment revenue / expense	**1,297,751**	**256,575**	**-133,132**	**4,75**	**1,425,944**
Revenue / expense from external clients	1,337,554	261,908	-276,268	196	1,323,390
Revenue / expense from other segments	-39,803	-5,333	143,136	4,554	102,554
Provision and impairment	-952,462	-92,428	6	-	(1,044,884)
Administrative expenses	-64,546	-507,617	-41,579	-874,496	(1,488,238)
Depreciation	-311	-42,959	-1,785	-94,676	-139,731
Income/loss before tax	**280,432**	**-386,429**	**-176,49**	**-964,422**	**(1,246,909)**
Gain from deferred tax assets	-	-	-	9,596	9,596
Net income/loss for the year	**280,432**	**-386,429**	**-176,49**	**-954,826**	**(1,237,313)**
Assets	**16,176,049**	**4,098,343**	**4,693,166**	**1,226,743**	**26,194,301**
Liabilities	**2,729,189**	**5,633,427**	**12,365,760**	**409,766**	**21,138,142**

41. Foreign exchange rates

The official exchange rates for key currencies used in the translation of balance sheet items are presented in the table below:

	31.12.2012.	31.12.2011.
EUR	113.7183	104.6409
USD	86.1763	80.8662
CHF	94.1922	85.9121

42. Events after the balance sheet date

After the balance sheet date up to 30 April 2013 inclusive, there were no significant events that could have materially affected the Bank's 2012 Financial Statements.

PERSON RESPONSIBLE FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

LEGAL REPRESENTATIVE OF THE BANK