MARFIN BANK A.D. BEOGRAD

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
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 2013 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, Law on Accounting of the Republic of Serbia, 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 2013, 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, Law on Accounting of the Republic of Serbia, 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 Note 2.1 in the financial statements which describes the Bank's need to renegotiate the funding it currently has from its largest depositor the Bank of Cyprus, which includes Euro 48 million scheduled to mature in 2014. Without satisfactory resolution of this renegotiation process or finding replacement funds, the Bank will not have the liquidity available to meet its operational and regulatory requirements throughout 2014. This condition, along with the other matters as set forth in Note 2.1, indicate the existence of a material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern.

Saša Todorović

Saša Todorović
Licensed Auditor Belgrade, 5 May 2014

PricewaterhouseCoopers d.o.o. Beograd

PricewaterhouseCoopers d.o.o., Beograd

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BALANCE SHEET

As at 31.12.2013.

(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	4,867,553	3,400,185
01,06	Callable deposits and credits	002	19	2,155,091	2,472,027
02,08	Interest, fees and commission receivables, change in fair value of derivatives and other receivables	003	20	369,658	350,015
10,11,20,21	Loans, advances and deposits	004	21	13,548,546	17,722,103
12 (less 128), 22	Securities (excluding own shares)	005		0	0
13,23	Equity investments	006	22	798	886
16,26	Other lending	007	23	984,096	543,415
33	Intangible assets	008	24	50,295	79,302
34,35	Property, plant and equipment	009	25	900,638	898,542
36	Fixed assets available for sale	010		0	0
37	Deferred tax assets	011	27	0	175,618
03,09,19, 29,30,38	Other assets	012	26	1,384,820	636,520
842	Loss above equity	013		0	0
	TOTAL ASSETS (001 to 013)	014		**24,261,495**	**26,278,613**

BALANCE SHEET (continued)

As at 31.12.2013.

(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	1,577,163	2.171.034
401,402,403,404,405, 501,502,503,504,505	Other deposits	102	29	10,728,272	9.976.516
406,407,408,409, 506,507,508,509	Borrowings	103	30	6,936,908	7,394,986
41,51	Debt securities issued	104		0	0
42,52	Interest, fees and commissions payable and change in fair value of derivatives	105	29	3,040	5,307
450 - 454	Provisions	106	31	51,748	55,004
456,457	Tax liabilities	107	32	5,884	3,703
434,455	Liabilities from profit	108	33	5,123	12,740
46	Liabilities from fixed assets available for sale	109		0	0
47	Deferred tax liabilities	110	27	15,260	0
43 (less 434) 44,48,49,53,58,59	Other liabilities	111	34	567,993	1,593,436
	TOTAL LIABILITIES (101 to 111)	112		**19,891,391**	**21,212,726**
	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	273,029	273,088
823	Unrealized gains on AFS securities	116	35	229	202
83	Current year profit	117	35d	0	9,955
84 (less 842)	Accumulated losses	118	35d	4,480,412	3,794,670
	TOTAL SHAREHOLDERS' EQUITY (113+114+115+117-116-118)	**119**		**4,370,104**	**5,065,887**
	TOTAL LIABILITIES (112+119)	**120**		**24,261,495**	**26,278,613**
	OFF-BALANCE SHEET ASSETS (122+123+124+125+126)	**121**		**6,882,917**	**12,768,070**
90 that is 95	Funds managed on behalf of third parties	122	36a	37,119	36,820
91 (less 911 and 916) that is 96 (less 961 that is 966)	Guaranties, sureties, assets pledged as collateral and irrevocable commitments	123	36a	991,190	2,143,400
911,916,932,that is 961,966,982	Guaranties, sureties and collaterals received	124		0	0
92 that is 97	Derivatives	125	36a	2,077,434	7,070,024
93 (less 932),that is 98 (less 982)	Other off-balance sheet items	126	36a	3,777,174	3,517,826

In Belgrade

Responsible person for the preparation of accounts

Legal representative

"MARFIN BANK" AKCIONARSKO DRUŠTVO BEOGRAD 8

Date 30.04.2014.

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INCOME STATEMENT

For the period 01.01.2013 - 31.12.2013

(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	1,501,103	1,741,228
60	Interest expenses	202	5	819,152	818,628
	NET INTEREST GAIN (201–202)	203	5	**681,951**	**922,600**
	NET INTEREST LOSS (202-201)	204		0	0
71	Fee and commission income	205	6	269,193	272,541
61	Fee and commission expense	206	6	71,701	44,949
	Net fee and commission gain (205-206)	207	6	**197,492**	**227,592**
	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	0
724-624	Net gain from sale of other investments	217	7	0	86,624
624-724	Net loss from sale of other investments	218		0	0
78-68	Net foreign exchange gains	219		0	0
68-78	Net foreign exchange losses	220	8	48,884	1,327,738
766	Income from dividends and equity investments	221	9	0	663
74,76 less 766 i 769	Other operating income	222	9	19,145	14,458
75 - 65	Net income from indirectly written-off investments and provisions	223	10	0	239,703
65 - 75	Net expenses from indirectly written-off investments and provisions	224	10	63,575	0
63	Salaries, fringe benefits and other personal expenses	225	11	627,223	690,707
642	Depreciation charge	226	12	97,183	108,486
64 (less 642), 66 (less 669)	Operating and other expenses	227	13	627,092	732,556

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INCOME STATEMENT (continued)

For the period 01.01.2013 - 31.12.2013

(in thousands RSD)

77	Income from change in assets and liabilities value	228	14	661,415	2,247,593
[illegible]	Expenses from change in assets and liabilities value	229	15	600,825	873,015
[illegible]	**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		**0**	**6,731**
[illegible]	**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		**504,779**	**0**
0	**NET PROFIT FROM DISCONTINUED OPERATIONS**	232		0	0
0	**NET LOSS FROM DISCONTINUED OPERATIONS**	233		0	0
0	**PROFIT BEFORE TAX (230-231+232-233)**	234		**0**	**6,731**
6,731	**LOSS BEFORE TAX (231-230+233-232)**	235		**504,779**	**0**
0	Income tax	236	16	34	639
639	Gain from deferred tax assets and reduced deferred tax liabilities	237		0	3,863
3,863	Loss from deferred tax assets and reduced deferred tax liabilities	238	27,35d	190,879	0
0	**PROFIT (234-235-236+237-238)**	239		**0**	**9,955**
9,955	**LOSS (235-234+236+238-237)**	240	**35d**	**695,692**	**0**
0	Earning per share (in dinars, no para)	241	17	(45)	0,61
	Base earning per share (in dinars, no para)	242			
	Decreased (diluted) earning per share (in dinars, no para)	243			

In Belgrade

Date 30.04.2014.

Responsible person for the preparation of accounts

Legal representative

"MARFIN BANK" AKCIONARSKO DRUŠTVO BEOGRAD 8

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CASH FLOW STATEMENT

For the period 01.01.2013 - 31.12.2013

(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	**2,207,408**	**3,755,317**
1.	Interest received	302	1,944,618	2,127,249
2.	Fees and commissions received	303	262,790	272,229
3.	Inflow from other operating income	304	0	1,355,176
4.	Inflow from dividends and share in profit	305	0	663
II.	**Cash outflows from operating activities (307 to 311)**	306	**3,080,306**	**2,371,604**
5.	Interests paid	307	711,417	841,063
6.	Fees and commissions paid	308	71,132	44,956
7.	Payments for gross salaries, benefits and other personal expenses	309	677,697	744,124
8.	Payments for taxes, contributions and other duties	310	158,726	174,597
9.	Outflow from other operating expenses	311	1,461,334	566,864
III.	**Net cash inflow from operating activities before changes in operating assets and liabilities (301 minus 306)**	312	**0**	**1,383,713**
IV.	**Net cash inflow from operating activities before changes in operating assets and liabilities (306 minus 301)**	313	**872,898**	**0**
V.	**Decrease in loans and advances, and increase in deposits**	314	**3,845,834**	**5,117,486**
10.	Decrease in loans and advances to banks and customers	315	3,687,950	2,915,313
11.	Decrease in securities at fair value through profit and loss, placements held for trading and short-term securities held to maturity	316	0	0
12.	Increase in deposits from banks and customers	317	157,884	2,202,173
VI.	**Increase in loans and advances, and decrease in deposits**	318	**0**	**0**
13.	Increase in loans and advances to banks and customers	319	0	0
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	0
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	**2,972,936**	**6,501,199**
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	1,366	23
17.	Dividends paid	325	14,676	0
IX.	**Net cash inflow from operating activities (322 minus 323 minus 324 minus 325)**	326	**2,956,894**	**6,501,176**
X.	**Net cash outflow from operating activities (323 minus 322 plus 324 plus 325)**	327	**0**	**0**

CASH FLOW STATEMENT (continued)

For the period 01.01.2013 - 31.12.2013

(in thousands RSD)

B.	**CASH FLOW FROM INVESTING ACTIVITIES**			
I.	**Cash inflow from investing activities (329 to 333)**	328	**37,919**	**19,786**
1.	Proceeds from long-term investments in securities	329	0	0
2.	Proceeds from sale of equity investments	330	0	1,060
3.	Proceeds from sale of intangible assets and fixed assets	331	31,102	18,726
4.	Proceeds from sale of investment property	332	6,817	0
5.	Other proceeds from investing activities	333	0	0
II.	**Cash outflow from investing activities (335 to 339)**	334	**1,020,483**	**561,607**
6.	Investments in long-term securities	335	0	0
7.	Purchase of equity investments	336	0	145
8.	Purchase of intangible and fixed assets	337	98,434	62,457
9.	Purchase of investment property	338	0	0
10.	Other outflows from investing activities	339	922,049	499,005
III.	**Net cash inflow from investing activities (328 minus 334)**	340	**0**	**0**
IV.	**Net cash outflow from investing activities (334 minus 328)**	341	**982,564**	**541,821**
C.	**CASH FLOW FROM FINANCING ACTIVITIES**			
I.	**Cash inflow from financing activities (343 to 348)**	342	**0**	**0**
1.	Proceeds from increase in capital	343	0	0
2.	Proceeds from subordinated liabilities	344	0	0
3.	Net proceeds from borrowings	345	0	0
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	0
II.	**Cash outflow from financing activities (350 to 354)**	349	**458,078**	**3,225,560**
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	458,078	3,225,560
10.	Net cash outflow attributable to securities	353	0	0
11.	Other outflows from financing activities	354	0	0

CASH FLOW STATEMENT (continued)

For the period 01.01.2013 - 31.12.2013

(in thousands RSD)

III.	**Net cash inflow from financing activities**	355	0	0
IV.	**Net cash outflow from financing activities**	356	458,078	3,225,560
D.	**TOTAL NET CASH INFLOW (301+314+328+342)**	357	6,091,161	8,892,589
E.	**TOTAL NET CASH OUTFLOW (306+318+324+325+334+349)**	358	4,574,909	6,158,794
F.	**NET CASH INCREASE (357-358)**	359	1,516,252	2,733,795
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	3,400,185	1,994,127
I.	**FOREIGN EXCHANGE GAINS**	362	1,298,131	2,067,597
J.	**FOREIGN EXCHANGE LOSSES**	363	1,347,015	3,395,334
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	4,867,553	3,400,185

In Belgrade

Date 30.04.2014.

Responsible person for the preparation of accounts

"MARFIN BANK" AKCIONARSKO DRUŠTVO BEOGRAD 8

Legal representative

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STATEMENT OF CHANGES IN EQUITY

For the period 01.01.2013 - 31.12.2013

(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 01.01.2013 - 31.12.2013

(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	277,843	479	107,615	492	3,906,840
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	277,843	482	107,615	495	3,906,840
5. Total increase in previous year	457		470	145	483	9,955	496	
6. Total decrease in previous year	458		471	4,900	484	107,615	497	112,170
7. Balance as at 31.12 of previous year (4+5-6)	459	**151,673**	472	**273,088**	485	**9,955**	498	**3,794,670**
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	**273,088**	488	**9,955**	501	**3,794,670**
11. Total increase in current year	463		476	0	489	0	502	695,697
12. Total decrease in current year	464		477	59	490	9,955	503	9,955
13. Balance as at 31.12 of current year (10+11-12)	465	**151,673**	478	**273,029**	491	**0**	504	**4,480,412**

STATEMENT OF CHANGES IN EQUITY (continued)

For the period 01.01.2013 - 31.12.2013

(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	175	531	5,056,159	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	175	534	5,056,159	547	
5. Total increase in previous year	509		522	27	535	10,127	548	
6. Total decrease in previous year	510		523		536	224,685	549	
7. Balance as at 31.12 of previous year (4+5-6)	511		524	**202**	537	**5,065,887**	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	**202**	540	**5,065,887**	553	
11. Total increase in current year	515		528	27	541	695,724	554	
12. Total decrease in current year	516		529		542	59	555	
13. Balance as at 31.12 of current year (10+11-12)	517		530	**229**	543	**4,370,104**	556	

In Belgrade

Date 30.04.2014.

Responsible person for the preparation of accounts

Legal representative

"MARFIN BANK" AKCIONARSKO DRUŠTVO BEOGRAD 8

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STATISTICAL ANNEX

for the year 2013

Code of accounts	DESCRIPTION	EDP	Current year	Previous year
1	2	3	4	5
630	Salaries	601	368,208	374,009
631	Wages	602	72,787	112,894
632	Taxes on wages and salaries	603	60,881	76,695
633	Contributions on wages and salaries	604	109,235	107,956
634	Special service and temporary service agreements	605	9,414	5,959
635	Other personal expenses	606	6,698	13,194
642	Depreciation	607	97,183	108,486
part of 643	Insurance premiums	608	47,143	31,853
part of 643	Expenses from employee benefits	609	11,217	842
part of 641	Rental costs	610	113,035	124,826
644	Taxes	611	27,196	46,078
645	Contributions	612	131,526	128,543
part of 746	Rental income	613	8,733	2,449
68	Foreign exchange losses	614	1,347,015	3,395,334
78	Foreign exchange gains	615	1,298,131	2,067,596
30	Inventories	616	1,111,686	247,234
	Average number of employees based on balances at the end of each month	617	353	372
	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

Date 30.04.2014.

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1. *General information*

Marfin Bank A.D. Beograd was established on 28 December 1990. Under the Law on Banks, 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 comprised 23 organisational units (31.12.2012: 24 organisational units).

As at 31 December 2013, the Bank had 339 employees (31 December 2012: 364 employees). In 2013, the average number of employees was 353 (2012: 372).

The Bank's ID No. is 07534183 and its Tax ID is 100003148.

Based on the Business Registers Agency Decision No. BD 113388/2011 dated 9 September 2011, Andreas Moyseos was appointed President of the Executive Board in place of Rodoula Hadjikyriacou.

Based on the Business Registers Agency Decision No. BD 124883/2008 dated 12 August 2008, Borislav Strugarević was appointed as member of the Executive Board.

Based on the Business Registers Agency Decision No. BD 93279/2013 of 29 August 2013 and the National Bank of Serbian Decision G.no 5327 of 6 August 2013, Savvas Pashias was appointed as member of the Executive Board. .

The Members of the Executive Board are: Andreas Moyseos, Borislav Strugarević and Savvas Pashias. As of 22 May 2013, Louiza Michaelidou is no longer member of the Executive Board.

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 the years presented, unless otherwise stated.

2.1 *Going concern concept*

The Bank's financial statements have been prepared in accordance with the going concern concept, which assumes that the Bank will continue its operations for the foreseeable future.

a) *Position of Laiki Group (Parent) and recent developments*

The Cyprus economy has been adversely affected over the past 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, supported by the European Stability Mechanism (ESM) and the International Monetary Fund (IMF), aims to address the exceptional economic challenges that Cyprus is facing and to restore the viability of the financial sector, with the view of strengthening public finance sustainability and adopting structural reforms so as to support long-run growth, while protecting the welfare of the population.

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 transferred to the Bank of Cyprus all assets, title deeds and rights except, among others, of the shares in subsidiaries of Laiki Bank incorporated in a jurisdiction other than the Republic of Cyprus.

2 *Summary of significant accounting policies (continued)*

2.1 *Going concern concept*

a) *Position of Laiki Group (Parent) and recent developments (continued)*

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 relaxed since inception, continue to this date and are being the subject of daily monitoring and reviewing by the Central Bank of Cyprus.

By December 2013, the Troika constituted of members from the European Commission (EC), the European Central Bank (ECB) and the IMF, had completed 2 review missions to ensure that the adjustment programme was on track. Both were deemed successful as macroeconomic conditions in Cyprus were developing in line with programme projections and fiscal consolidation was considered as advancing in line with the agreed consolidation process. Structural reforms were found also to be progressing and the steps to the right direction have been made in respect of the recapitalisation and restructuring of the financial sector. It is a result of the latter that the administrative measures currently in force have been gradually relaxed.

On 11th February 2014, the Troika issued a press release on the completion of its 3rd review mission of Cyprus' economic programme in accordance with which, Cyprus's programme remains on track with the macro-fiscal outturn better than expected. Fiscal targets for 2013 have been met with considerable margin, due to both continued prudent budget execution and a less severe recession than anticipated. Tourism and professional services have proven resilient, while the financial sector is also showing signs of stabilization. The economy is adjusting flexibly as prices and wages are declining, helping to cushion the full impact of the recession on jobs. Still, unemployment remains very high and implementation of structural reforms of the social welfare system need to be accelerated. Concluding, the Troika stresses that while the programme remains on track, Cyprus still faces significant risks. Continued full and timely policy implementation remains essential for the success of the programme.

b) *The Bank's position in Serbia*

In the current environment the focus of the Bank in Serbia has been on liquidity and capital adequacy. A significant source of funding is currently provided by Bank of Cyprus (used to be by the Laiki Group prior to the Decree issued by the Central Bank of Cyprus), which has been decreased to EUR 74 million (RSD 8,412 million) as at 31 December 2013 compared to EUR 90 million as at 31 December 2012 (RSD 10,229 million). Out of the EUR 16 million repaid, EUR 12million referred to interbank funding and EUR 4 million referred to guarantee deposits for loans granted by the Bank to its customers.

This source of funding was part of the net assets of the Laiki Group which were transferred to Bank of Cyprus in accordance with the Decree issued by the Central Bank of Cyprus on 29 March 2013. As a result of the developments in Cyprus impacting upon the parent Laiki Group and subsequent transfer of its net assets to Bank of Cyprus, 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 significant repayments to Laiki Group or Bank of Cyprus, who has assumed the abovementioned wholesale funding of the Bank totalling EUR 74 million, b) the undertaking of all necessary steps for possible repayment of amounts owed by Laiki Group or Bank of Cyprus, c) the improvement of the liquidity plan of the Bank and conduct of liquidity stress tests at least on a monthly basis, and d) the maintenance of retail deposit coverage ratio of minimum 50% by liquid assets (i.e. cash and cash equivalents).
The major impact of these developments in Cyprus upon the Bank in Serbia has been the transfer of the funding repayment obligations from the parent, Laiki Group, to a third party, Bank of Cyprus. This shift has resulted in a change of approach to these credit lines, whereby the Bank can no longer rely on the parent for support. Instead the Bank needs to negotiate the rescheduling of these credit lines with a third party, the Bank of Cyprus, on more commercial terms and conditions.

2 *Summary of significant accounting policies (continued)*
2.1 *Going concern concept*

b) *The Bank's position in Serbia*

In 2014, in accordance with the original contractual terms of the funding arrangements as these were agreed with the Laiki Group, the Bank is due to repay EUR 48 million of this funding. As of the date of issuing these financial statements, EUR 16 million is currently matured and payable to the Bank of Cyprus. Out of this amount, EUR 14.7 million refer to 4 monthly instalments matured in relation to EUR 44 million contract which carries twelve monthly annuities of EUR 3,7 million and final maturity date 21 December 2014 (Note 30). The Bank has communicated to both the regulator in Serbia (NBS) and the Bank of Cyprus, that it does not have the available liquidity to repay the contractually due amounts in 2014 and would be in favour of the rescheduling of this due amount to be repaid in a more viable timeframe. Should the counterparty insist on being repaid and refuse to rescheduling the amounts due, the Bank would breach its liquidity ratios and most probably be subject to further administrative measures by the NBS, including the possibility of revocation of the Bank's operating licence. During 2014 there was only one repayment of principal made towards the Bank of Cyprus of CHF 350 thousand on 5 February 2014 and for which the approval of the NBS was provided prior to proceeding.

Despite the on-going attempts of the management towards providing viable proposals for rescheduling, to this date the Bank of Cyprus has not agreed to any rescheduling and has requested repayment of the amounts due. However, the Bank received a letter from the Bank of Cyprus dated 29 April 2014, assuring the Bank that "any repayment plan will not put Marfin Bank a.d. Beograd and its viability at risk". The Management believes that it is not in the interests of the Bank of Cyprus to refuse rescheduling, as this would undermine the ability of the Bank to repay both the amounts due to Bank of Cyprus within 2014 as well as the amounts due in the following years. In addition, the Management believes that the NBS measures to stabilise the Bank explicitly prevent the Bank from settling the amounts due to the Bank of Cyprus without the authorisation of the NBS. Given the negative impact on the Bank's liquidity position which would result should the Bank repay these amounts due to the Bank of Cyprus, the management is of the opinion that it is highly unlikely that the NBS would approve such a repayment.

As at 31 December 2013, the Bank had a total of EUR 61 million of liquid assets available and a retail deposit coverage ratio of 70% (minimum 50% as imposed by NBS temporary measures). Despite the fact that the Bank's liquidity could sustain the repayment of currently matured amounts to the Bank of Cyprus, still it would not be capable to sustain full repayment of amounts to be due by the end of 2014 without breaching liquidity ratios. Additionally, a full repayment of amounts due to Bank of Cyprus in such a short timeframe would keep the Bank in a loss-making loop that could compromise its capital base, as the Bank will be unable to replenish or increase its loan portfolio since all available liquidity would need to be channelled to repayments of funding to Bank of Cyprus. As at 31 March 2014 the retail deposit coverage ratio stood at 71%.

Concerning guarantee deposits for loans granted by the Bank to its customers which are part of the EUR 74 million funding described above and which were originally received from the Laiki Group and now due to the Bank of Cyprus, these total EUR 10 million (RSD 1,193 million) as at 31 December 2013 (31 December 2012 RSD 1,627 million). Under the Serbian banking regulations, these amounts can be collected only upon maturity or through collection of the associated loan receivables.

The Bank has been successful in its efforts to expand and diversify its deposit base. In 2013, customer deposits increased by 2.5%, from RSD 10,603 million to RSD 10,864 million, despite the negative sentiment associated with the Cyprus crisis.

The Bank's capital adequacy ratio (as prescribed by the National Bank of Serbia) as at 31 December 2013 amounts to 14,97% (31 December 2012 18,01%). As at 31 March 2014, the capital adequacy ratio was reported at 14,20%. Additionally, under Article 34 of the Decision on Risk Management prescribed by NBS, the bank's liquidity ratio as at 31 December 2013 was 3,96, compared to the minimum required 1. Based on the stress test performed on liquidity ratio in accordance with the implemented NBS temporary measures, as at 31 March 2014 the liquidity ratio was projected to fall to 3,09 – in actual terms, the liquidity ratio on the same date was reported at 3,32.

Article 33 of the Law on Bank (RS Official Gazette Nos 107/05 and 91/10) prescribes that a bank's exposure to a person related to the Bank may 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 was limited to 2,2% of the Bank's capital as at 31 December 2013 .

Given the issues resulting from the events affecting the parent Laiki Group and a concentration of funding received from the Bank of Cyprus which has yet to be satisfactorily resolved, there exists, at the present time, a material uncertainty that casts significant doubt on the Bank's ability to continue as a going concern. However, notwithstanding the conditions and uncertainties mentioned above, the Bank's Management believes that it will successfully renegotiate its funding arrangements which would allow it to maintain the necessary liquidity and capital to continue to operate on a going concern basis.

2 *Summary of significant accounting policies (continued)*

2.2 *Basis of preparation*

The Bank has prepared these financial statements in accordance with the Law on Accounting of the Republic of Serbia (the "Law"), which requires full scope of IFRS to be applied as translated into Serbian up to 1 January 2009, and the regulations issued by the National Bank of Serbia. The financial statements have been prepared in accordance with the Rules on Forms and Contents of Positions in the Financial Statements for Banks (RS Official Gazette Nos. 74/2008, 3/2009, 12/2009 and 5/2010), the Rules on the Chart of Accounts and the Contents of Accounts in the Chart of Accounts for Banks (RS Official Gazette Nos. 98/2007, 57/2008 i 3/2009), which do not comply with all the requirements of International Financial Reporting Standards IFRS. Accordingly, the financial statements are not intended to present the financial position and results of operations and cash flows of the Bank in accordance with accounting principles generally accepted in jurisdictions outside the Republic of Serbia.

The specific requirements of the Law result in departures from IFRS due to the fact that as only translated standards are adopted, these accounts do not reflect the impact of IFRS which have been issued since 1 January 2009. In addition the NBS regulation requires certain presentations and treatments of accounts and balances which results in the following additional departures from IFRS:

The applied accounting policies differ from the IFRS requirements of in the following respects:

1. The Bank did not make certain disclosures in accordance with the requirements of IAS 1 – Presentation of Financial Statements, as the format in which the balance sheet, the income statement, the cash flow statement and the statement of changes in equity have been prepared has been prescribed by the National Bank of Serbia.
2. “Off-balance sheet items” 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 based on suspended interest on impaired loans are presented as off-balance sheet items, which is not in line with IAS 39, as this standard does not allow for recognised interest suspension.
4. Cash equivalents comprise the RSD mandatory reserve the Bank is obliged to maintain during an accounting period, which is not in line with the IFRS.
5. The revaluation of assets and liabilities is presented separately in the Income statement as Income from revaluation of assets and liabilities and Expenses on the revaluation of assets and liabilities, rather than net gain or loss as required by the IFRS.
6. The decision of the Ministry of Finance of Republic of Serbia no. 401-00-380/2010 dated 25 October 2010 (“Official Gazette of RS” no. 77/2010 and 95/2010) states that official standards are those official translations of 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. Up to the date of the accompanying financial statements preparation, no amendments and supplements of existing standards, revised standards and new interpretations issued by IASB and IFRIC subsequent to 1 January 2009, have been translated. Mentioned standards and interpretation which are not officially translated in Republic of Serbia are as follows: IAS 27R – “Separate financial statements”, IFRS 9 – “Financial instruments”, IFRS 10 – “Consolidated financial statements”, IFRS 11 – “Joint arrangements”, IFRS 12 – “Disclosures of interest in other entities”, IFRS 13 – “Fair value measurement”, IFRIC 18 – “Transfer of assets from customers”, IFRIC 19 – “Extinguishing financial liabilities with equity instruments”, IFRIC 20 – “Stripping Costs in the Production Phase of a Surface Mine”, IFRIC 21 – “Levies” due to the fact that the standard has not been translated to Serbian.

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

2 Summary of significant accounting policies (continued)

2.2 Basis of preparation (continued)

a) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is 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. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Bank is yet to assess IFRS 9's full impact. The Bank will also consider the impact of the remaining phases of IFRS 9 when completed by the Board
- IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Bank is not currently subjected to significant levies so the impact on the Bank is not material

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

2 *Summary of significant accounting policies (continued)*

2.3 *Foreign currency translation*

(a) Functional and presentation currency

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

The financial statements are presented in Serbian dinars (RSD) which is the functional currency of the Bank.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the official middle exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement as incurred, as net income or net expenses arising from foreign exchange differences

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between 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 reported as part of the fair value gain or loss. Translation differences on non-monetary 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. Equities classified as available for sale are included in revaluation reserves within Equity

2.4 *Financial instruments*

The Bank has classified its financial assets in the following categories: Financial assets at fair value through profit and loss, loans and receivables, financial assets held-to-maturity; and financial assets available-for-sale. The Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit and loss

This category comprises financial assets held for trading and other financial assets classified in this category at initial recognition; including 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)

2.4 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.

All loans and borrowings are initially recognized at fair value when assets are transferred to the borrower. After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest rate method.

(c) Financial assets held to maturity

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

Held-to-maturity securities are carried at amortised cost using the effective interest method. Amortized cost is calculated by taking into consideration all purchase discounts or premium.

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 recognized at fair value plus transaction costs for all financial assets that are not carried at fair value through profit and loss.

Available for sale financial assets and financial assets at fair value through profit and loss are, following their initial recognition, stated 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 unlisted for 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.

2.5 Derivatives

In addition to currency contracts and interest rate contracts, the Bank uses financial derivatives to protect itself from foreign exchange risk and interest rate risk. As at 31December 2013, the Bank had open positions relating to interest rate SWAP and currency SWAP. The change in the market value of the mentioned currency and interest rate SWAPs is recorder through profit and loss.

2 *Summary of significant accounting policies (continued)*

2.6 *Interest income and expense*

Interest income and expense for all interest-bearing financial instruments, other than those classified as available for sale or at fair value through profit and loss, are recognized in the accounts Interest Income and Interest Expense by 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 off as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loan origination fees are accrued and amortised as interest income on a straight-line basis over the loan period. The accrual of fees on a straight-line basis does not significantly differ from the effective interest approach.

2.7 *Fee and commission income and expense*

Fee income and expenses is recognised at the time when the invoice is paid or at the time when the service is provided. Fee and commission mainly comprise fees for payment operations services, issued guarantees and other banking services.

2.8 *Dividend income*

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

2.9 *Sale and repurchase 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 the sale and the repurchase price is treated as interest and accrued over the life of the agreement using the effective interest method.

2.10 *Impairment of financial assets*

Assets carried at amortised cost (par value)

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)*

2.10 *Impairment of financial assets (continued)*

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

- the type of client (natural person, entrepreneur, legal entity);
- the number of default days (not in default; payment overdue up to 30 days payment overdue between 31 - 60 days; payment overdue between 61 - 90 days);
- The type of loan issued (housing loans, consumer and cash loans, cards, overdrafts, business cards, payment operation charges)
- Portfolio ageing structure (old portfolio -investments approved before 1 June 2008 and new portfolio - investments approved subsequent to the above date)
- Credit rating of the legal entities' clients (1 - 7).

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.

<u>Individually significant credit exposures</u> - the Bank assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. 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.

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

- The borrower's financial position indicating significant operational problems
- Breach of contractual terms such as default or delinquency in interest or principal payments
- Restructured receivables due to financial difficulties of the borrower, resulting in a decrease in initial contractual obligations.
- Initiation of bankruptcy proceedings or other financial reorganisation of the borrower due to its the poor financial position
- The Bank is engaged in litigation proceedings against the borrower
- Evidence of a significant deterioration of the borrowers financial ability to repay the loan
- Borrower filing for bankruptcy, and
- Existence of other objective evidence that may lead to a conclusion that the Bank will not be able to collect all of its 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 assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment of impairment.

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

During the assessment of future cash flows, the Bank uses the current market price of the mortgage or collateral. In certain cases, expected future cash flows may be determined based on other expected receivables. Depending on the type of collateralised property (residential commercial, industrial property or land), its location, and the date of its last valuation, the calculation of impairment includes the market value with haircuts as presented in the table below:

2 *Summary of significant accounting policies (continued)*

2.10 *Impairment of financial assets (continued)*

Residential property

Territory	**Haircuts -%**
Beograd	10%
Novi Sad	10%
Other cities with population greater than 50,000 inhabitants	10%
Other cities with population less than 50,000 inhabitants	15%
Villages and towns	20%

Commercial property

Territory	**Haircuts -%**
Beograd	10% - 15%
Novi Sad	10% - 15%
Other cities with population greater than 50,000 inhabitants	20%
Other cities with population less than 50,000 inhabitants	25%

Industrial property

Type	**Haircuts -%**
Factories	30%
Warehouses	30%

Land

Type	**Haircuts -%**
Land	25%

For the mortgages the valuation of which was performed in 2007 and earlier, a 40% haircut is applied, irrespectively of the property type or location.

Expected cash flows must be discounted to their present values. As **the discount factor** , the Bank uses the initial effective 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. Where the debtor is in financial difficulties and where the Bank has approved renegotiated repayment terms, the discount factor used is the initially agreed effective interest rate.

Expected time to collateral realisation is the time period within which the collateral is expected to be realised in order to collect the Bank's receivables through the value achieved by collateral realisation. The expected time to collateral realisation is determined by Credit departments which take into consideration factors such as:
a) Mortgage type (depending on the law applied i.e. the Mortgage Law or the the Law on Enforcement Procedure)
b) Validity of mortgage documents (quality, i.e. completeness of documentation owned by the Bank)
c) Type, purpose, function and size of property secured by mortgage and its location;
d) Supply and demand around collateralised property;
e) Mortgage collection stage, i.e. whether mortgage collection was initiated through a judicial or non-judicial foreclosure process or collection is expected to by exercising rights in accordance with bankruptcy proceedings;
f) Client cooperation.

2 Summary of significant accounting policies (continued)

2.10 Impairment of financial assets (continued)

Where deposits are used as collateral, the Credit Departments determines the expected collection time depending on the level of client cooperation with the Bank and the Bank's decision on the time when to collect past due debts from a guarantee deposit.

Exceptionally, where cash flows are expected within one year, the provision may be determined as the difference between the asset's carrying amount and the expected future cash flows.

The asset's carrying amount is reduced through the allowance account and the loss is recognised in the income statement.

For the purpose of ***collective evaluation of impairment****,* financial assets are grouped on the basis of similar credit risk characteristics. These 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.

Impairment loss is calculated as the produce of:

- credit risk exposure for each group of assets and
- the probability of default (PD) for each group.

For receivables past due up to 90 days as at the calculation date, the Bank determines the PD rate based on historical data on payments past due over 90 days. For receivables past due over 90 day as at the calculation date, a PD rate of 100% is applied.

For the purpose of determining the value of collateral, the recoverable portion is calculated by holding financial collateral (deposits, guarantees etc.) as a hundred percent recoverable whereas for collateralised property provision is calculated by using market values with hair cuts, in accordance with the Table presented under 2.10. in other words in the same manner as when provision is determined on an individual basis.

<u>Provisions for off-balance sheet losses</u>

Once a month, the Bank reviews the risk exposure of all off balance sheet items on an individual level, in order to determine the level of assumed risk and/or any risk increase.

Credit Departments are responsible to determine whether any of the Bank's off-balance sheet exposures should be considered risky, in other words whether any of the off-balance sheet exposures are expected to be settled by the Bank in the forthcoming period.

For off-balance sheet exposures that are considered risky, the loss provision is determined as the difference between the carrying value and the present value of expected cash flows. As *a discount factor* the Bank uses the rate of *penalty interest*

When determining probable off-balance sheet losses, the Bank takes into account cash flows deriving from collaterals that secure receivables. The method of calculating the present value of future cash flows is described under item 2.10.
For off-balance sheet exposures that are not considered risky, the loss provision is not calculated.
The methodology and assumptions used for estimating cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.
When a loan is uncollectible, it is written off against the allowance account for impaired loans. Such loans are written off once all the necessary procedures have been completed and and the amount of 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 adjusted by movements in the allowance account for impaired loans. The adjustment itself is recognised in the Income statement under income from reversal of provision.

2 *Summary of significant accounting policies (continued)*

2.10 *Impairment of financial assets (continued)*

<u>Provision for potential losses on financial assets in accordance with the National Bank of Serbia requirements</u>

The special provision for estimated losses under the NBS requirements is calculated in accordance with the provisions of the Decision on the Classifications of Balance Sheet Assets and Off-balance sheet Items (RS Official Gazette No. 94/11). The provisions of this decision prescribe the conditions under which the Bank is obligated to set up a special reserve fund from profit for estimated 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 C ;
- 30% of receivables classified in category D ;
- 100 % of receivables classified in category E ;

The Bank is required to classify all receivables, which are under the above Decision considered as balance sheet assets, and off balance sheet items into categories A, B, C, D, E based on the debtors financial position and creditworthiness, his timeliness in settling obligations towards the Bank and the quality of instruments used as collateral.

The Bank is required to determine the level of required reserves for estimated losses which stands as the sum of the differences between the reserve for estimated losses calculated in accordance with the NBS Decision and the provision for balance sheet assets and off-balance sheet losses on debtor's level.

If the provision is higher than the reserve for estimated losses calculated on debtor's level, the Bank is not obliged to create the required reserve for estimated losses.

The required reserve from profit for estimated losses on balance sheet assets and off-balance sheet items is deductible from the Bank's equity.

2.11 *Intangible assets*

Licences

Acquired licences are shown at historical cost. Licences 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.

2.12 *Property, plant and equipment*

Fixed assets are subject to regular revaluation. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to revaluation reserves in equity. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity; all other decreases are charged to the income statement.

The revaluation reserve is transferred directly to retained earnings when the surplus is realized either on the retirement or disposal of the asset or when the asset is not used by the Bank. In the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

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 repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

2 *Summary of significant accounting policies (continued)*

2.12 *Property, plant and equipment (continued)*

Land is not depreciated. Depreciation of 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 equipment	12,5%-20%
• Leasehold improvements	20%

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within Other (expenses)/income, in the income statement.

The assets' residual value is the estimated amount that the Bank could obtain through disposal of asset, less any cost of sale, if the asset is old and in a condition expected at the end of its useful life. The assets' residual value is equal to zero if the Bank expects to use the asset until the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

2.13 *Impairment of non-financial assets*

Non-financial assets are not subject to depreciation and are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount 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 value in use.

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

2.14 *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.

Investment properties are stated at cost less provision for impairment, where required. If any indication exists that investment properties may be impaired, the Company 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 Company 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 Summary of significant accounting policies (continued)

2.15 Leases

a) The Bank is the lessee

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.

a) The Bank is the 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.

2.16 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with Central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short term government securities.

2.17 Provisions

Provisions for restructuring costs and legal claims are recognized 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 is a number of similar obligations, the likelihood that an outflow will be required in a settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any 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 pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

2 Summary of significant accounting policies (continued)

2.18 Employee benefits

a) Employee benefits

Short-term employee benefits include wages and salaries and taxes and contributions for social insurance. They are recognized as an expense in the period when they are incurred.

The Bank and its employees are obliged to pay taxes and social security contributions in accordance with applicable regulations. The Bank is not obliged to pay reimbursements to employees after retirement, which is the responsibility of the National Fund. Taxes and contributions on defined benefit obligations are expensed as incurred.

b) Retirement 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 31/12/2013
- 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 RS
- 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 the 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 the 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 a portion of the Bank's profit or operating result, as per its annual financial statements, 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)*

2.19 *Current and deferred income tax*

a) Current income tax

The current income tax charge is calculated and paid in accordance with the tax regulations applicable in the Republic of Serbia, based on the profit presented in the regulatory tax balance sheet. The Bank itself calculates its income tax, annual tax liability and tax prepayment for an upcoming year.

The 15 % Income tax (2012: 10%) is paid based on the Bank's profit disclosed in the tax balance sheet, less certain investments during the year, as presented in the annual tax balance sheet - PDP Sheet Template. In order to arrive at taxable profits, various adjustments to accounting profit are made. The Tax Balance Sheet is filed with tax authorities within 180 days after the end of the tax period for which the tax liability has been established.

b) Deferred tax

Deferred taxes are calculated on all taxable temporary differences between tax base of assets and liabilities and their carrying amounts in the Bank's financial statements. Deferred tax liabilities are recognized for all taxable temporary differences arising between the tax base 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 calculated for all deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax credits and unused tax losses can be utilised.

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

2.20 *Borrowings*

Borrowings are recognised initially at the fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income statement over the period of the borrowings using the straight-line method.

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

2.21 *Share capital*

Ordinary shares are classified as equity. Mandatory 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 from shares are recognized as liabilities in the period in which a decision on dividend distribution was made. Dividends for the year following the balance sheet date are disclosed in the note on the events after the balance sheet date.

2 *Summary of significant accounting policies (continued)*

2.22 *Financial guarantees*

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with contractual terms and conditions. The Bank issues such financial guarantees to banks, financial institutions and other organisations on behalf of customers as collateral for loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised at fair value at the date when they have 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

2.23 *Segment reporting*

An operating segment is a component of assets and operations engaged in providing individual products or services, which are subject to risks and returns that are different from those of other operating segments.

The Bank monitors the activities of its banking segments comprising: Retail Banking, Corporate Banking and Investment Banking segments.

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 activities expose it to a variety of financial risks and these activities require identifying, estimating, monitoring mitigating and managing those risks, as well as establishing an adequate risk management reporting system. The Bank manages its risks through a special risk management unit. The Bank prescribes procedures for identifying, measuring, estimating and managing risks in compliance with professional regulations, standards and professional business practice.

By its risk management policies, the Bank establishes a unique system for managing risks to which its 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 investing into other entities and fixed assets;
- Risks relating to the customer's country of origin;
- Operating risk, including legal risk

3.2 *Liquidity risk*

Liquidity risk is the risk that the Bank may encounter difficulty in meeting the due financial liabilities, which may adversely affect the Bank's financial performance and equity.

The Bank manages liquidity risk in accordance with the Policy on liquidity risk management defining the liquidity risk management system, the competencies and responsibilities of the participants of the system, the controls that are taken for the efficient functioning of the system, the methods used to monitor the risks, as well as the liquidity management plan in times of crisis.

Liquidity risk management implies managing all assets and liabilities of the the Bank, which may impact the Bank's ability to meet the liabilities as they become due.

In its operations, the Bank adheres to the key principles of liquidity risk management:

a) liquidity management by major currencies (currencies participating in the Bank's total portfolio with over 5%, including along with the local currency (RSD) the following currencies EUR, USD, CHF)

b) stability and diversification of funding by determining the concentration limits of different sources and regular monitoring of data relating to major depositors:

c) creating a stock of liquid assets and a liquidity reserve

d) addressing temporary and long-term liquidity crisis

e) developing a Contingency Funding Plan

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 Liquidity Gap Report is prepared in accordance with the adopted methodology for liquidity gap reporting.

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

3 Financial risk management (continued)

3.2 Liquidity risk (continued)

As at 31 December 2013 .	Up to 1 months	1-3 months	3-12 months	Over 1 years	Total
ASSETS					
Cash and cash equivalents	4,867,553	0	0	0	**4,867,553**
Callable deposits and loans	2,155,091	0	0	0	**2,155,091**
Interests, fees and commissions receivable, trade receivables, changes in the fair value of derivatives and other receivables	369,655	0	0	3	**369,658**
Loans, advances and deposits to clients	2,032,446	1,004,358	2,617,641	7,894,101	**13,548,546**
Equity investments	798	0	0	0	**798**
Other investments	984,085	0	0	11	**984,096**
Intangible assets	0	0	0	50,295	**50,295**
Property, plant and equipment and investment property	0	0	0	900,638	**900,638**
Deferred tax assets	-	-	-	-	-
Other assets	1,383,352	1,233	235	0	**1,384,820**
Loss exceeding equity	-	-	-	-	-
Total assets	**11,792,980**	**1,005,591**	**2,617,876**	**8,845,048**	**24,261,495**
LIABILITIES					
Transaction deposits	1,577,163	0	0	0	**1,577,163**
Other deposits	1,418,387	841,561	7,175,642	1,292,682	**10,728,272**
Borrowings	217,296	51,451	5,444,311	1,223,850	**6,936,908**
Interests, fees and commissions payable and changes in the value of derivatives	3,040	0	0	0	**3,040**
Provisions	0	0	51,748	0	**51,748**
Tax liabilities	5,884	0	0	0	**5,884**
Liabilities from profit	0	0	15,260	0	**15,260**
Other liabilities	391,589	6,192	19,509	150,702	**567,992**
Total liabilities	**3,613,359**	**899,204**	**12,711,593**	**2,667,234**	**19,891,391**
Equity	-	-	-	8,426,043	**8,426,043**
Reserves created from profit	-	-	-	151,673	**151,673**
Revaluation reserves	-	-	-	273,029	**273,029**
Unrealised losses on securities available for sale	-	-	-	229	**229**
Profit	-	-	-	-	-
Loss up to equity	-	-	-	(4,480,412)	**(4,480,412)**
Total equity	-	-	-	4,370,104	**4,370,104**
Total liabilities	**3,613,359**	**899,204**	**12,696,333**	**7,037,338**	**24,261,495**
OFF-BALANCE SHEET ITEMS					
Fiduciary services	0	0	0	37,119	**37,119**
Future commitments	295,060	55,312	233,691	407,127	**991,190**
Derivatives	2,077,434	0	0	0	**2,077,434**
Other off-balance sheet items	3,478,807	7,490	226,855	64,022	**3,777,174**
Total off-balance sheet items	**5,851,301**	**62,802**	**460,546**	**508,268**	**6,882,917**
GAP (off-balance sheet assets-liabilities)	**8,151,122**	**99,540**	**(10,169,402)**	**1,738,158**	**(180,583)**
Total off-balance sheet items: 20% Irrevocable commitments; 15% Guarantees and other collaterals and 20% Approved multi-purpose lines	28,499	6,847	75,685	69,552	**180,583**

3 *Financial risk management (continued)*

3.2 *Liquidity risk (continued)*

As at 31 December 2012 .	**Up to 1 months**	**1-3 months**	**3-12 months**	**Over 1 years**	**Total**
ASSETS					
Cash and cash equivalents	3,400,185	-	-	-	**3,400,185**
Callable deposits and loans	2,472,027	-	-	-	**2,472,027**
Interests, fees and commissions receivable, trade receivables, changes in the fair value of derivatives and other receivables	350,012	-	-	3	**350,015**
Loans, advances and deposits to clients	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**
Property, plant and equipment 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 exceeding equity	-	-	-	-	**0**
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**
Interests, fees and commissions payable and changes in the value 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**
Equity	-	-	-	8,426,043	**8,426,043**
Reserves created from profit	-	-	-	151,673	**151,673**
Revaluation reserves	-	-	-	273,088	**273,088**
Unrealised losses on securities available for sale	-	-	-	202	**202**
Profit	-	-	-	9,955	**9,955**
Loss up to 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					
Fiduciary services	-	-	-	36,820	**36,820**
Future commitments	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 items	**5,210,883**	**2,113,287**	**4,766,801**	**677,099**	**12,768,070**
GAP (Assets-Liabilities -22,33% Future commitments -5% Derivatives)	**5,304,481**	**(616,833)**	**(2,784,280)**	**(2,563,343)**	**(659,975)**

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 possibility of debtors not settling their contractual obligations towards the Bank when they fall due. The Bank's credit risk exposure arises mainly from its credit operations.

To maintain credit risk within acceptable parameters, the Bank:

- Reviews 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 continuous supervision and the exposure level is adjusted as required. Risk limits are determined based on different types of collateral.

Additionally, 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 risk exposure. The total risk exposure by client relative to limitations is considered before the transaction occurs.

The total maximum credit exposure, less collateral:

	31/12/2013	**31/12/2012**
Loans and advances to banks - Net	92,965	151,947
Allowance for impairment of loans and advances to banks	3,055	3,055
Total gross loans and advances to banks	**96,020**	**155,002**
Loans and advances to clients		
Retail loans and advances	4,783,361	4,465,973
Corporate loans and advances		
- Large enterprises	5,992,658	9,771,560
SMEs	4,086,086	5,479,502
Total net loans and advances to clients	**14,862,105**	**19,717,035**
Allowance for impairment of loans and advances to clients	4,033,231	3,538,256
Total gross loans and advances to clients	**18,895,336**	**23,255,291**
Total risk bearing assets - gross	**18,991,356**	**23,410,293**

The total risk bearing assets of RSD 18,991,356 thousand (31.12.2012: RSD 23,410,293 thousand) comprise balance sheet assets which are subject to classification under the NBS rules and regulations.

Loans and advances to clients comprise: repo loans, loans and advances to customers, interest and fee and commission receivables, securities held to maturity and a portion of other risk bearing assets.

Retail loans comprise loans to entrepreneurs

Off-balance sheet commitments

Guarantees and letters of credit are the Bank's irrevocable commitments to effect payment if customers are unable to fulfil 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 assets – off-balance sheet items subject to classification	**31/12/2013**	**31/12/2012**
Guarantees payable:	347,567	1,069,385
Performance bonds	197,111	486,380
Avals and acceptances	334	-
Letters of credit not covered	229	94,395
Unused commitments	637,937	1,001,727
Other off-balance sheet items that may involve payments	229,284	143,097
Total	**1,412,462**	**2,794,984**

Retail loans by type of facility

	31/12/2013			**31/12/2012**		
	Loans to clients	**Allowance for impairment**	**Net**	**Loans to clients**	**Allowance for impairment**	**Net**
Cards	158,884	50,948	107,936	181,073	56,532	124,542
Consumer loans	2,747,254	624,253	2,123,001	2,569,330	612,885	1,956,445
Housing loans	2,578,666	91,290	2,487,376	2,404,999	99,119	2,305,880
Current account overdrafts	92,605	27,550	65,055	105,423	26,315	79,107
	5,577,409	**794,041**	**4,783,368**	**5,260,825**	**794,851**	**4,465,974**
Entrepreneurs	768,919	110,359	658,560	739,499	98,724	640,774
Total retail loans and advances :	**6,346,328**	**904,400**	**5,441,928**	**6,000,324**	**893,575**	**5,106,748**

The policy of determining allowance for impairment in accordance with the Bank's internal methodology is described in Note 2.10, as well as the 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 comprise total risk bearing assets exclusive of loans and advances to banks.

	31/12/2013		**31/12/2012**	
	Gross loans to clients	**Allowance for impairment**	**Gross loans to clients**	**Allowance for impairment**
Rank:				
A	9,182,890	65,063	13,263,176	56,785
B	1,758,968	46,135	2,803,615	62,890
V	688,389	30,634	581,982	32,603
G	1,908,073	131,102	1,616,257	92,513
D	5,357,016	3,760,297	4,990,262	3,293,465
	18,895,336	**4,033,231**	**23,255,292**	**3,538,256**

3 *Financial risk management (continued)*

3.3 *Credit risk (continued)*

Bank ranking:

	31/12/2013		31/12/2012	
	Gross loans to banks	**Allowance for impairment**	**Gross loans to banks**	**Allowance for impairment**
Rank:				
A	16,106	-	31,430	-
B	76,859	-	120,517	-
V	-	-	-	-
G	-	-	-	-
D	3,055	3,055	3,055	3,055
	96,020	**3,055**	**155,002**	**3,055**

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

	31/12/2013		31/12/2012	
	Group's share in total portfolio	**Provision**	**Group's share in total portfolio**	**Provision**
Rank:				
A	48.4%	0.7%	56.8%	0.4%
B	9.7%	2.5%	12.5%	2.2%
V	3.6%	4.5%	2.5%	5.6%
G	10.0%	6.9%	6.9%	5.7%
D	28.2%	70.2%	21.3%	66.0%
	100%		**100%**	

Loans and advances:

	31/12/2013		31/12/2012	
	Loans to clients	**Loans to banks**	**Loans to clients**	**Loans to banks**
Loans nether past due nor impaired **(1)**	5,726,612	92,965	8,387,465	151,947
Loans past due but not impaired **(2)**	2,113,186	0	3,775,356	0
Loans past due or not past due, collectively impaired **(3)**	4,811,638	0	5,200,280	0
Individually impaired loans **(4)**	6,243,901	3,055	5,892,190	3,055
Gross loans and advances	**18,895,337**	**96,020**	**23,255,291**	**155,002**
Allowance for impairment	(4,033,231)	(3,055)	(3,538,256)	(3,055)
Net investments	**14,862,106**	**92,965**	**19,717,035**	**151,947**

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:

	31/12/2013				31/12/2012			
	Retail	**Corporate**	**Total loans to clients**	**Total loans to banks**	**Retail**	**Corporate**	**Total loans to clients**	**Total loans to banks**
Rank:								
A	1,726,895	3,299,517	5,026,412	16,106	1,198,676	6,773,492	7,972,168	31,430
B	129,508	498,836	628,344	76,859	30,509	292,625	323,134	120,517
V	19,656	11,633	31,289	-	5,688	63,749	69,437	-
G	11,604	21,527	33,131	-	20,751	-	20,751	-
D	5,114	2,321	7,435	-	1,977	-	1,977	-
Total	**1,892,777**	**3,833,834**	**5,726,611**	**92,965**	**1,257,601**	**7,129,866**	**8,387,467**	**151,947**

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

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

	31/12/2013			31/12/2012		
	Retail	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Less than 30 days past due	123,372	1,113,890	1,237,262	208,789	2,881,958	3,090,747
30-60 days past due	35,087	763,694	798,782	26,380	432,836	459,216
60-90 days past due	49,612	0	49,612	58,182	141,915	200,097
Over 90 days past due	19,526	8,004	27,530	13,893	11,403	25,296
Total	**227,597**	**1,885,589**	**2,113,186**	**307,244**	**3,468,112**	**3,775,356**

Collateral structure for loans past due but not impaired:

	31/12/2013			31/12/2012		
	Retail	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Deposits	2,559	204,551	207,110	(7,424,701)	8,317,690	892,989
Mortgage	554,060	4,039,492	4,593,552	8,059,022	1,108,699	9,167,721
Fair value of collaterals	**556,619**	**4,244,043**	**4,800,662**	**634,321**	**9,426,389**	**10,060,710**

Impaired loans subject to individual assessment:

	31/12/2013			31/12/2012		
	Retail	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Loans subject to individual assessment:	203,349	6,040,552	6,243,901	187,310	5,704,880	5,892,190
Fair value of collaterals	158,376	13,391,453	13,549,829	151,692	15,548,655	15,700,347

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 2013 :

	31/12/2013			31/12/2012		
	Retail	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Deposits	0	0	0	103	0	103
Mortgage	158,376	13,391,453	13,549,829	151,589	15,548,655	15,700,244
Fair value of collaterals	**158,376**	**13,391,453**	**13,549,829**	**151,692**	**15,548,655**	**15,700,347**
Allowance for impairment	95,098	2,983,423	3,078,521	105,004	2,527,035	2,632,039
Unsecured loans	93,348	2,627,111	2,720,459	96,889	2,086,375	2,183,264
Secured loans	110,001	3,413,441	3,523,442	90,421	3,618,505	3,708,926
Total loans	**203,349**	**6,040,552**	**6,243,901**	**187,310**	**5,704,880**	**5,892,190**

The disclosed fair value of collateral was determined by a local certified appraises and represents the value realizable by the legal owners of the assets. Provision for impairment reflects the likelihood that management will not be able to carry out their rights and recover the collateral in case of unpaid loans. Despite of the difficulties that the Bank may have 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:

	31/12/2013			31/12/2012		
	Retail	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Loans subject to collective assessment:	4,022,606	789,032	4,811,638	4,254,965	945,315	5,200,280
Fair value of collaterals	354,770	23,547	378,317	702,349	81,082	783,431

Loans subject to collective assessment and impairment had the following structure of collaterals in 2013:

	31/12/2013			31/12/2012		
	Retail	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Deposits	24,468	9,417	33,885	60,575	45,075	105,650
Mortgage	330,302	14,130	344,432	641,774	36,007	677,781
Fair value of collaterals	**354,770**	**23,547**	**378,317**	**702,349**	**81,082**	**783,431**
Allowance for impairment	809,301	145,409	954,710	788,572	117,644	906,216
Unsecured loans	3,685,948	769,782	4,455,730	3,552,616	864,233	4,416,849
Secured loans	336,657	19,250	355,907	702,349	81,082	783,431
Total loans	**4,022,605**	**789,032**	**4,811,637**	**4,254,965**	**945,315**	**5,200,280**

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 the amounts of which have been renegotiated due to deterioration of debtor's financial position and that would otherwise be past due or impaired as of December 31 December 2013 amounted to RSD 100.823 thousand (31.12.2012: RSD 427,476 thousand).

Collection of past due and impaired receivables through disposal of collateral

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 2013 amounted to RSD 924,367 thousand (2012: RSD 7.877 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 risk management is to optimize net interest income and keep the market interest rates constant in accordance with the business strategy of the Bank. 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 interest risk:

- Risk of time discrepancy between maturity and repricing **(Repricing risk),** 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 in 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.

An analysis of interest rates involves continuous monitoring and adjusting operations to interest rate changes on the market.

INTEREST RATE GAP as at 31/12/2013		Up to 1 months	1-3 months	3-12 months	Over 1 year	Total ('000 RSD)
	Item	Cash Flow	Cash Flow	Cash Flow	Cash Flow	Total Cash Flow
Assets	Interbank Placement	0	0	73,929	0	73,929
	Cards (business and retail)	50,826	12,291	46,762	62,105	171,984
	Reserves at NBS	1,062,184	0	0	0	1,062,184
	Corporate loans	5,306,816	828,760	960,797	89,542	7,185,915
	Doubtful corporate loans	5,046,943	0	0	0	5,046,943
	Current accounts	151,611	6,311	35,168	43,253	236,343
	Housing loans	1,243,104	385,220	548,209	302,329	2,478,861
	Retail loans	543,932	31,285	109,269	2,444,914	3,129,400
	Doubtful consumer loans	976,369	0	0	0	976,369
	Derivatives	687,853	0	0	0	687,853
Total assets		**15,069,639**	**1,263,867**	**1,774,135**	**2,942,142**	**21,049,782**
Liabilities	Interbank borrowings	(8,417,883)	(21,773)	(52,860)	(15,626)	(8,508,142)
	Corporate deposits - Demand	(95,596)	0	0	0	(95,596)
	Corporate deposits - Term	(47,852)	(481,679)	(49,384)	(30,859)	(609,774)
	Retail deposits - Demand	(1,805,432)	0	0	0	(1,805,432)
	Retail deposits - Term	(457,408)	(854,873)	(6,595,941)	(365,202)	(8,273,423)
	SME deposits - Demand	(143,574)	0	0	0	(143,574)
	SME deposits - Term	(37,657)	(9,964)	(15,049)	(568)	(63,237)
	Derivatives	(701,675)	0	0	0	(701,675)
Total liabilities		**(11,707,076)**	**(1,368,289)**	**(6,713,235)**	**(412,254)**	**(20,200,854)**
GAP (Assets- Liabilities)		**3,362,563**	**(104,422)**	**(4,939,100)**	**2,529,888**	**848,928**

3. *Financial risk management (continued)*

3.4 *Market risk (continued)*

Interest rate risk (continued)

INTEREST RATE GAP as at 31/12/2012		Up to 1 months	1-3 months	3-12 months	Over 1 year	Total ('000 RSD)
	Item	Cash Flow	Cash Flow	Cash Flow	Cash Flow	Total Cash Flow
Assets	Interbank Placement	1,548,996	21,654	32,917	0	1,603,567
	Cards (business and retail)	49,961	4,559	61,662	79,037	195,220
	Reserves at NBS	1,006,893	0	0	0	1,006,893
	Corporate loans	9,132,190	970,397	618,883	329,125	11,050,595
	Doubtful corporate loans	4,737,863	0	0	0	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 loans	579,179	13,787	62,269	2,259,747	2,914,981
	Doubtful consumer loans	916,971	0	0	0	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**
Liabilities	Interbank borrowings	(6,476,473)	(2,660,928)	(505,945)	(181,694)	(9,825,040)
	Deposits from banks in bankruptcy/liquidation	0	(4,548)	0	0	(4,548)
	Corporate deposits - Demand	(185,798)	0	0	0	(185,798)
	Corporate deposits - Term	(17,823)	(27,446)	(58,973)	(67,094)	(171,335)
	Retail deposits - Demand	(2,012,950)	0	0	0	(2,012,950)
	Retail deposits - Term	(263,438)	(1,027,009)	(6,167,522)	(269,498)	(7,727,467)
	SME deposits - Demand	(167,845)	0	0	0	(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**

Interest rate GAP limits are defined byDecision of the Board of Directors and are monitored and analysed 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 the 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 4,19% (2012: 3,65%), i.e. the value of capital would be increased by RSD 91.585 thousand (2012: RSD 96,911 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 2013, the Bank was in compliance with the NBS requirements relating to foreign currency risk. The table below summarizes exposure to foreign currency risk as at 31 December 2013. Included in the table are assets and liabilities at their carrying values denominated in relevant currencies.

As at 31 December 2010	USD	EUR	Other currencies	Total	RSD	Total
ASSETS						
Cash and cash equivalents	33,562	3,324,105	82,269	**3,439,936**	1,427,617	**4,867,553**
Callable deposits and loans		2,155,091		**2,155,091**		**2,155,091**
Interests, fees and commissions receivable, trade receivables, changes in the fair value of derivatives and other receivables	812	159,000	1,256	**161,068**	208,590	**369,658**
Loans and deposits	73,633	8,524,286	634,871	**9,232,790**	4,315,756	**13,548,546**
Equity investments				**-**	798	**798**
Other investments		662,754		**662,754**	321,342	**984,096**
Intangible assets				**-**	50,295	**50,295**
Property, plant and equipment and investment property				**-**	900,638	**900,638**
Other assets	8	135,829	113	**135,950**	1,248,870	**1,384,820**
Total assets	**108,015**	**14,961,065**	**718,509**	**15,787,589**	**8,473,906**	**24,261,495**
LIABILITIES						
Transaction deposits	33,447	540,152	2,971	**576,570**	1,000,593	**1,577,163**
Other deposits	67,971	8,643,690	324,953	**9,036,614**	1,691,658	**10,728,272**
Borrowings	1,148	6,580,455	352,206	**6,933,809**	3,099	**6,936,908**
Interests, fees and commissions payable and fair value adjustments of derivatives					3,040	**3,040**
Provisions					51,748	**51,748**
Tax liabilities					5,884	**5,884**
Liabilities from profit					5,123	**5,123**
Deferred tax liabilities					15,260	**15,260**
Other liabilities	1,066	240,410	34,403	**275,879**	292,113	**567,992**
Total liabilities	**103,632**	**16,004,707**	**714,533**	**16,822,872**	**3,068,520**	**19,891,391**
Net foreign currency position	**4,382**	**(1,043,642)**	**3,977**	**(1,035,282)**	**5,405,386**	**4,370,104**
As at 31 December 2012						
Total assets	119,515	16,834,888	758,690	**17,713,093**	8,565,520	**26,278,613**
Total liabilities	119,519	17,827,222	739,178	**18,685,919**	2,526,807	**21,212,726**
Net foreign currency position	**(4)**	**(992,334)**	**19,512**	**(972,826)**	**6,038,713**	**5,065,887**

3. Financial risk management (continued)

3.4. Market risk (continued)

Foreign exchange 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 31.12		RSD depreciation effect of 10%	RSD depreciation effect of 10%
	2013	**2012**	**2013**	**2012**
EUR	(1,043,642)	(992,334)	(88,710)	(89,310)
USD	4,382	(4)	372	-
Other currencies	3,977	19,512	338	1,756

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 judgement 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 the maturity 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 exposure to a single party or a group of related parties

The Bank's exposure to a single party represents the total amount of receivables and off-balance sheet items relating to that party or a 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 entities 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 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 client requests in order to identify related parties and monitor the Bank's exposure limits towards them.

<u>*The Bank's exposure:*</u>

- 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 (RS Official Gazette No. 129/2007) and operates accordingly.

3.7. *The risks of investing into other 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 (RS Official Gazette No. 129/2007) and operates accordingly.

3. *Financial risk management (continued)*

3.8. *Risks relating 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.

The 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 reasons
- Transfer risk – represents the possibility 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 occurred 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 lines 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 objectives when managing capital are to safeguard the Bank's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Under 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.

	31/12/2013	31/12/2012
Basic capital	1,749,946	2,407,724
Additional capital	245,520	245,599
Total basic and additional capital	1,995,466	2,653,324
Deductible items	0	0
Capital	1,995,466	2,653,324
Total risk-bearing assets	11,179,215	12,805,517
Capital adequacy (min 12%)	**14.97**	**18.01**

4. *Critical accounting estimates and judgments*

The Bank makes estimates and assumptions that will affect the reported amounts of assets and liabilities within the next financial year.
Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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 judgements 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 (continued)

(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 judgement. In making this judgement, 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 judgement, particularly in 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*

	2013	2012
Interest receivable		
Loans	1,431,995	1,688,624
Deposits	53,925	38,026
Securities	4,277	0
Other loans and advances	801	9,125
Foreign currency loans and advances	7,205	3,517
Foreign currency deposits	19	169
Other foreign currency loans and advances	2,881	1,767
Total:	**1,501,103**	**1,741,228**
Interest expense		
Loans	2,022	23,965
Deposits	169,891	79,634
Other liabilities	77,859	33,601
Foreign currency loans and advances	155,900	257,094
Foreign currency deposits	409,472	415,598
Other foreign currency liabilities	4,008	8,736
Total:	**819,152**	**818,628**
Net interest income	**681,951**	**922,600**

6. *Fee and commission income and expense*

	2013	2012
Fee and commission income		
Fee and commission income	258,981	261,233
Fee and commission income in foreign currency	10,212	11,308
Total:	**269,193**	**272,541**
Fee and commission expense		
Fee and commission expense	31,112	27,314
Fee and commission expense in foreign currency	40,589	17,635
Total:	**71,701**	**44,949**
Net interest income	**197,492**	**227,592**

Fee and commission income in RSD amounting to RSD RSD 258,981 thousand (2012: RSD 261,233 thousand) mainly includes fees for: corporate banking services relating to payment operations amounting to RSD 64,861 thousand (2012: RSD 67,051 thousand); retail banking services amounting to RSD 53,074 thousand (2012: RSD 43,874 thousand); termination agreement under IRS with a IRS currency clause amounting to RSD 30,300 thousand (2012: RSD 0 thousand); foreign currencies purchases from other clients amounting to RSD 26,197 thousand (2012: RSD 32,722 thousand); banking services relating to avals, guarantees, letters of intent and other amounting to RSD 17,090 thousand (2012: RS 32,667 thousand).

Fee and commission expense in RSD amounting to RSD RSD 31,112 thousand (2012: RSD 27,314 thousand) includes: payment card operations fee and commission expense amounting to RSD 15,239 thousand (2012: RSD 14,218 thousand) and payment operation charges totalling RSD 13.093 thousand (2012: RSD 11.972 thousand).

Fee and commission expense in foreign currency amounting to RSD 40,589 thousand (2012: RSD 17,635 thousand) are relative to termination agreement under IRS with the parent bank amounting to RSD 25,781 thousand (2012: RSD 0 thousand); foreign currency operations expense amounting to RSD 7,509 thousand (2012: RSD 7.173 thousand) as well as foreign payment operations fees of RSD 6.431 thousand (2012: RSD 6,718 thousand).

7. *Net gain on disposal of other investments*

	2013	2012
Gains from sale of other loans and receivables	-	86,624
Net gains/losses on disposal of other investments	**-**	**86,624**

8. *Foreign exchange gains / (losses), Net*

	2013	2012
Foreign exchange gains on:		
Foreign currency deposits and loans	812,371	1,227,983
Treasury operations	98,975	181,417
Derivatives	36,358	83,991
Foreign currency mandatory reserve	105,507	314,541
Other	244,921	259,664
Total	**1,298,132**	**2,067,596**
Foreign exchange losses on:		
Foreign currency deposits and loans	899,102	2,860,428
Treasury operations	70,228	66,038
Derivatives	40,760	116,024
Foreign currency mandatory reserve	92,214	105,886
Other	244,712	246,958
Total	**1,347,016**	**3,395,334**
Foreign exchange gains / (losses), Net	**(48,884)**	**(1,327,738)**

9. *Other operating income*

	2013	2012
Dividend and interest income	-	663
Total	**-**	**663**
Operating income	12,161	2,449
Collected written-off receivables	46	53
Disposal of PPE and intangible assets.	1,062	2,714
Income form reduction of liabilities	1,258	3,880
Other income	4,618	5,362
Total	**19,145**	**14,458**

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

	2013	2012
Reversal of indirect write-off of balance sheet items	866,950	1,441,214
Reversal of provision for off-balance sheet items	13,468	167,955
Reversal of unused provisions for liabilities	3,203	
Reversal of unused other provisions	-	3,513
Collected suspended interest	436,779	402,457
Total	**1,320,400**	**2,015,139**

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

	2013	2012
Indirect write-off of balance sheet items	1,367,685	1,611,158
Provision for off-balance sheet items	9,271	148,111
Provision for liabilities	3,415	8,572
Other provisions	3,604	7,595
Total	**1,383,975**	**1,775,436**
Net income/(expense) arising on indirect write-off of investments and provisions:	**(63,575)**	**239,703**

Income from collected suspended interest of RSD 436,779 thousand (2012: RSD 402,457 thousand) is relative collected suspended interest on company loans amounting to RSD 333,451 thousand (2012: RSD 157,360 thousand), suspended penalties on other entities' loans under litigation amounting to RSD 40,763 thousand (2012: RSD 133,356 thousand) and income from collected suspended interest on other entities' long term loans under litigation amounting to RSD 19,812 thousand (2012: RSD 53.763 thousand).

Expense on other provisions is relative to provisions under IAS 19 based on a certified actuary's calculation amounting to RSD 3,604 thousand (2012: RSD 7,595 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 2013.

Movements in allowance for impairment of balance sheet assets:

	Loans to customers	Other loans and advances	Interest and fees receivable	Other receivables	Total
Opening balance 1 January	2,734,482	497,765	176,899	132,165	3,541,311
New allowances	1,064,514	188,216	65,524	49,431	1,367,685
Foreign exchange gains	154				154
Write off	(5,815)				(5,815)
Reversal of indirect write-off	(788,905)	(32,108)	(36,131)	(9,806)	(866,950)
	3,004,430	**653,873**	**206,292**	**171,790**	**4,036,385**

11. Wages and salaries and other personal expenses

	2013	2012
Salaries	368,207	374,008
Costs of fringe benefits	72,787	112,895
Taxes	60,881	76,695
Contributions	109,235	107,956
Temporary contract fees	9,414	5,959
Other personal expenses	6,699	13,194
Total	**627,223**	**690,707**

12. Depreciation

	2013	2012
Intangible assets	31,562	31,934
Property, plant and equipment	65,621	76,552
Total	**97,183**	**108,486**

13. Operating and other expenses

	2013	2012
Cost of material	36,943	36,194
Production services	195,661	210,734
Non-material expenses (exclusive of taxes and contributions)	223,115	227,917
Taxes	27,196	46,078
Contributions	131,526	128,543
Write-off of uncollectable receivables	1,469	38,026
Loss on disposal of PPE and intangible assets	149	14
Loss on disposal and write-off of PPE and intangible assets	116	1,327
Shortages or damages	10	9
Other expenses	10,907	43,714
Total	**627,092**	**732,556**

Of total production service costs amounting to RSD 195,661 thousand (2012: RSD 210,734 thousand), RSD 113,035 thousand (2012: RSD 124,826 thousand) is relative to office space rental costs of RSD 35,087 thousand (2012: RSD 34,424 thousand), sponsorship costs of RSD 22,864 thousand (2012: RSD 23.464 thousand), costs of electronic communication and automatic data processing.

Non-material costs of RSD 223,115 thousand (2012: RSD 227,917 thousand) comprise RSD 38,940 thousand (2012: RSD 28,992 thousand), which is relative to cost of deposit insurance; RSD 38,282 thousand(2012: RSD 33,419 thousand) which is relative to servicing fees - software maintenance; RSD 21,130 thousand (2012: RSD RSD 19,954 thousand) which is relative to program applications maintenance; RSD 19,007 thousand (2012: RSD 12,012 thousand) which is relative to servicing fees -IT equipment.

13. *Operating and other expenses (continued)*

Expenses from direct write-off of uncollectible receivables amounting to RSD 1,469 thousand (2012: RSD 38,026 thousand) are relative to the write-off of uncollectible receivables recorded in accordance with the Management Board and Executive Board decisions.

14. *Income arising from the change in the values of assets and liabilities*

	2013	2012
Revaluation of loans and receivables	626,138	2,229,991
Revaluation of liabilities	141	481
Change in the value of PPE, investment property and intangible assets	126	-
Revaluation of derivatives	35,010	17,121
Total	**661,415**	**2,247,593**

15. *Expense arising from the change in the values of assets and liabilities*

	2013	2012
Revaluation of loans and receivables	561,941	860,457
Revaluation of liabilities	221	2,040
Revaluation of derivatives	38,663	10,518
Total	**600,825**	**873,015**

16. *Current income tax*

Total tax expense comprises:	2013.	2012.
Income Tax	(34)	(639)
Gain / loss on deferred taxes (Notes 27)	(190,879)	3,863
Total tax income /(expense)	**(190,913)**	**3,224**

Detailed information on deferred taxes is presented in Note 27. The Bank's current income tax before taxes differs from the theoretical amount that would arise using the weighted average tax rate and would be as follows:

	2013	2012
Profit/(loss) before tax	(504,779)	6,731
Tax calculated at 15% rate (2012: 10%)	75,717	(673)
Expenses not recognized for tax purposes	(3,943)	(7,427)
Tax relief on tax loss carried forward	-	8,100
Tax effect of unrecognised tax losses	(71,774)	-
Capital gains	(51)	(1,278)
Tax relief on capital investments	17	639
Income tax presented in the income statement	**(34)**	**(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 ordinary shares
1	**2**	**3**	**4**	**5=(3x4)**
As at 01/01/2012	11,097,112	11,097,112	366	4,061,542,992
New shares issued in 2012.	-	-	-	-
As at 31/12/2012	11,097,112	11,097,112	366	4,061,542,992
As at 01/01/2013	11,097,112	11,097,112	365	4,050,445,880
New shares issued in 2013.	-	-	-	-
As at 31/12/2013	11,097,112	11,097,112	365	4,050,445,880

	2013.	**2012.**
Weighted average No. of shares	11,343,217	11,097,112

No.	Description	2013.	2012.
1	Net gain/loss belonging to holders of ordinary shares in RSD	(504,779,710)	6,731,195
2	Weighted average No. of shares	11,343,217	11,097,112
3	**Earnings per share (in RSD)**	**(44.50)**	**0.61**

18. *Cash and cash equivalents*

	31.12.2013.	**31.12.2012.**
Cash and cash equivalents in RSD:		
Drawing account	1,239,794	1,597,451
Cash in hand	187,823	157,965
Cash and cash equivalents in FX:		
Foreign currency accounts	3,205,531	1,160,504
Cash in hand in foreign currency	234,405	484,208
Other cash in foreign currency	0	57
Total	**4,867,553**	**3,400,185**

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 (RS Official Gazette Nos. 72/2003, 55/2004, 44/2010 , 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012 and 62/2013).

The RSD mandatory reserve is set aside and placed on the Bank's drawing account and, therefore, it is accounted for separately. As at 31 December 2013 the calculated mandatory reserve in RSD amounted to RSD 1,074,045 thousand (31 December 2012: RSD 1,081,724 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

	31.12.2013.	31.12.2012.
Callable deposits and loans in RSD		
Surplus of liquid assets	Deposits with the NBS	350,000
Callable deposits and loans in FX		
Mandatory reserve held with the NBS in foreign currency	2,155,091	2,122,027
Total	**2,155,091**	**2,472,027**

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. *Interests, fees and commissions receivable, trade receivables, changes in the fair value of derivatives and other receivables*

	31.12.2013	31.12.2012
Receivables in RSD		
Interest receivables	519,730	480,775
Fee and commission receivables	40,151	37,867
Trade receivables	6,434	-
Receivables based on changes in fair value of derivatives	2,704	6,455
Allowance for impairment of interests, fees and commissions receivable, trade receivables, changes in the fair value of derivatives and other receivables	(205,597)	(176,308)
Receivables in F/X		
Interest receivables in F.X	6,931	1,817
Allowance for impairment of interests, fees and commissions receivable, trade receivables, changes in the fair value of derivatives and other receivables in F/X	(695)	(591)
Total	**369,658**	**350,015**

21. Loans and deposits

	31.12.2013	31.12.2012
Loans granted - RSD		
Loans – transaction accounts	415,377	418,350
Consumer loans	197,449	208,251
Loans – fixed assets	4,203,371	5,931,961
Export loans	44,644	0
Investment loans	1,030,581	1,310,433
Housing loans	2,567,694	2,396,381
Other loans	7,998,540	10,061,147
Allowance for impairment	(3,004,430)	(2,734,480)
Deposits granted - RSD		
Other special purpose deposits	8,044	3,526
Loans granted - F/X		
Loans for import of goods and services – FX	2,178	3,525
Other loans - FX	74,779	115,619
Allowance for impairment		(2)
Deposits granted - F/X		
Other special purpose deposits in F/X	10,319	7,392
Total	**13,548,546**	**17,722,103**

Other special purpose FX loans amounting to RSD 10.319 thousand (31.12.2012: RSD 7.392 thousand) include guarantee deposit with the NBS for the purpose of broker-dealer transactions of RSD 4,586 thousand (31.12.2012: RSD 4,549 thousand) and guarantee deposit for the purpose of Visa card operations of RSD 5,732 thousand (31.12.2012: RSD 2,843 thousand).

21. *Loans and deposits (continued)*

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

	Short term loans		Long-term loans		Total 2013	Total 2012
	In RSD	In foreign currency	In RSD	In foreign currency		
Loans to customers at 1 January	1,709,060	115,619	18,620,989	10,917	20,456,585	22,180,985
New loans and advances	8,388,579	10,061,908	11,438,839	8,037	29,897,363	119,803,263
Revolving payment cards - reclassified						181,431
Foreign exchange gains		60		649	709	2,988
Revaluation	59,807		566,292		626,099	2,220,845
Foreign exchange losses		(203)		(470)	(673)	(1,095)
Revaluation	(42,641)		(518,632)		(561,273)	(858,201)
Write off	(7,285)				(7,285)	(44,729)
Repayment	(8,267,958)	(10,102,605)	(15,481,349)	(6,637)	(33,858,549)	(123,028,902)
Loans to customers at 31 December	**1,839,562**	**74,779**	**14,626,139**	**12,496**	**16,552,976**	**20,456,585**
Less: Allowance for impairment	(811,368)		(2,193,062)		(3,004,430)	(2,734,482)
Net investments	**1,028,194**	**74,779**	**12,433,077**	**12,496**	**13,548,546**	**17,722,103**

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

	Finance and insurance	Public companies	Corporate	Entrepre neurs	Retail	Foreig n entities	Total 31.12.2013	Total 31.12.2012
Short term loans								
- in RSD	276,417		1,415,054	51,373	96,717		1,839,561	1,709,060
- in foreign currency			1,146			73,633	74,779	115,619
Long-term loans								
- in RSD		982,647	7,531,557	699,208	5,364,180	40,504	14,618,096	18,620,988
- in foreign currency			2,178				2,178	10,917
Deposits granted								
- in RSD	5,951		2,093				8,044	
- in foreign currency	10,318						10,318	
Total gross	**292,686**	**982,647**	**8,952,028**	**750,581**	**5,460,897**	**114,137**	**16,552,976**	**20,456,585**
Less: Accumulated depreciation			(2,171,083)	(98,322)	(734,964)	(61)	(3.004.430)	(2,734,482)
Total net	**292,686**	**982,647**	**6,780,945**	**652,259**	**4,725,933**	**114,076**	**13,548,546**	**17,722,103**

Ageing structure of loans and deposits was as follows:

	31.12.2013	**31.12.2012**
Matured	4,267,954	4,717,478
Up to 1 year	4,213,825	1,182,197
Over 1 year	8,071,197	14,556,910
Loans and deposits granted, gross	**16,552,976**	**20,456,585**

21. Loans and deposits (continued)

Matured loans and deposits

	31.12.2013	31.12.2012
Up to 2 months	438,378	375,285
2-6 months	72,193	79,504
6 months to 1 year	134,490	446,846
Over 1 year	3,622,893	3,815,843
Total	**4,267,954**	**4,717,478**

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:

	31.12.2013	31.12.2012
Hospitality (hotels and restaurants)	1,088,092	1,210,947
Administrative and support service activities	249,067	234,871
Agriculture, forestry and fishing	684,474	748,261
Arts, entertainment and recreation	213,151	299,974
Construction	2,398,872	4,687,055
Finance and insurance sector	629,285	958,160
Information and communication	35,874	51,478
Processing industry	4,117,404	4,772,107
Professional, scientific and technical activities	247,223	292,477
Real estate trade	172,229	209,995
Traffic and warehousing	262,059	259,748
Wholesale and retail; motor vehicle repair and maintenance	4,374,168	5,509,386
Other	5,931,921	6,815,817
Loans to customers – gross	**20,403,819**	**26,050,276**

22. Equity investments and other available for sale securities

	31.12.2013	31.12.2012
Banks and other financial institutions		
- in RSD	798	886
Total	**798**	**886**

The amount of RSD 798 thousand (31.12.2012: RSD 886 thousand) represents net investments in the capital of other legal entities.

The Bank's investments in the capital of other legal entities are presented in the table below:

	31.12.2013	% of share	31.12.2012	% of share
Tržište novca ad	146	0.4267	171	0.4267
Beogradska berza ad	652	0.2404	715	0.2404
Total	**798**		**886**	

23. Other investments

	31.12.2013	31.12.2012
Other investments - RSD		
Acceptances, avals and paid guarantees	1,570,857	986,299
Other investments	3,977	3,965
Allowance for impairment	(653,873)	(497,765)
Acceptances, avals and paid guarantees in foreign currency	62,906	32,808
Covered letters of credit and other sureties in foreign currency	229	18,108
Total	**984,096**	**543,415**

Investments relating to acceptance, avals and paid guarantees amounting to RSD 1,570,857 thousand (31.12.2012: RSD 986,299 thousand) relate to receivables from other companies for paid avals (securities) and guarantees granted.

24. Intangible assets

Cost	
As at 01/01/2012	**223,193**
Additions – new purchases	15,629
Transfer	536
Intangible assets in progress	10,027
As at 31/12/2012	**249,385**
Accumulated depreciation	
As at 01/01/2012	**138,150**
Depreciation	31,933
As at 31/12/2012	**170,083**
Net book value as at 01.01.2012.	**85,043**
Net book value as at 31.12.2012.	**79,302**
Cost	
As at 01/01/2013	**249,385**
Additions – new purchases	12,581
Transfer	(10,945)
Intangible assets in progress	919
As at 31/12/2013	**251,940**
Accumulated depreciation	
As at 01/01/2013	**170,083**
Depreciation	31,562
As at 31/12/2013	**201,645**
Net book value as at 01.01.2013.	**79,302**
Net book value as at 31.12.2013.	**50,295**

Amortisation charge amounting to RSD 31,562 thousand (2012: RSD 31,933 thousand) was stated in the income statement under Operating costs.

(All amounts are in RSD thousand, unless otherwise stated)

25. Property, plant and equipment and investment property

	Buildings	Equipment and other PPE	Construction in progress	Leasehold improvements	Total
Cost					
As at 01/01/2012	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)	-		**(22,438)**
Write-offs		(28,956)		(2,696)	**(31,652)**
As at 31/12/2012	**469,777**	**409,612**	**-**	**65,812**	**945,201**
Accumulated depreciation					
As at 01/01/2012	148,824	275,481	-	33,355	**457,660**
Depreciation	6,276	56,695	-	12,186	**75,157**
Disposals	(2,086)	(4,617)			**(6,703)**
Write-offs	-	(28,218)	-	(2,107)	**(30,325)**
As at 31/12/2012	**153,014**	**299,341**	**-**	**43,434**	**495,789**
Net book value as at 01.01.2012.	**338,102**	**151,293**	**2,615**	**26,805**	**518,815**
Net book value as at 31.12.2012.	**316,763**	**110,271**	**-**	**22,378**	**449,412**

	Buildings	Equipment and other PPE	Construction in progress	Leasehold improvements	Total
Cost					
As at 01/01/2013	469,777	409,612	-	65,812	**945,201**
Additions – new purchases	3,972	21,180	29,891		**55,043**
Transfer from CIP		29,891	(29,891)		**-**
Change of asset use	(4,140)				**(4,140)**
Disposals		(5,549)			**(5,549)**
Write-offs		(3,984)			**(3,984)**
As at 31/12/2013	**469,609**	**451,150**	**-**	**65,812**	**986,571**
Accumulated depreciation					
As at 01.01.2013.	153,014	299,341	-	43,434	495,789
Depreciation	6,103	49,424	-	10,095	65,622
Change of asset use	(565)				(565)
Disposals		(5,058)			(5,058)
Write-offs	-	(3,869)	-		(3,869)
As at 31.12.2013.	**158,552**	**339,838**	**-**	**53,529**	**551,919**
Net book value as at 01.01.2013.	**316,763**	**110,271**	**-**	**22,378**	**449,412**
Net book value as at 31.12.2013.	**311,057**	**111,312**	**-**	**12,283**	**434,652**

25. Property, plant and equipment and investment property (continued)

Depreciation charge amounting to RSD 65,622 thousand (2012: RSD 75,157 thousand) is stated in the income statement under operating costs.

Investments in PPE in 2013 mainly relate to purchase of computers and other data processing equipment – RSD 35,627 thousand (31.12.2012: RSD 9,407 thousand), equipment for the reception, storage and handling of money and securities – RSD 7,926 thousand (31.12.2012: RSD 0 thousand), measuring and control equipment – electrical and mechanical – RSD 4,242 thousand (31.12.2012: 0 thousand).

Land and buildings were last revalued on 18.09.2007. by independent valuers. Valuations were made on the basis of market prices. The valuation impaired the cost of buildings amounting to RSD 35,455 thousand, and revaluation reserves were reduced by RSD 33,611 thousand. In the course of 2011 and 2012 no revaluation of buildings was performed.

Lease rentals of RSD 113,035 thousand (31.12.2012: RSD 124,826 thousand) relating to the lease of property is included in the income statement.

As at 13 December 2013, the Bank changed the use of office space in the town of Paraćin, 1 Kralja Milutina St., which had been previously used for performing the Bank's operating activities, into an investment property. When transferring a property (the building) into an investment property, the Bank performed the valuation in accordance with IAS 16. The difference between the carrying amount of office space and the revalued amount was recognised in the income statement as the current period's income from changes in the value of PPE and investment property amounting to RSD 126 thousand. The office space was revalued on 14 December 2007 where its value was impaired by RSD 1,845 thousand.

25.2. Investment property

	31.12.2013	*31.12.2012*
Investment property	465,986	450,527
Total	**465,986**	**450,527**

Investment property amounting to RSD 465,986 thousand (2012: RSD 450,527 thousand), was valued, after initial measurement, at amortised cost. At the beginning of 2013, accounting policies were changed in order to comply with the group policy; as a result, the investment property was subsequently measured at fair value. Before the change of accounting policies, the 2012 depreciation charge amounting to RSD 1,396 thousand had been recognised as expense; in 2013, it had been recorded in the income statement as revenue. In 2013, depreciation charge of RSD 984 thousand, calculated before the change of accounting policies, was reversed.

Investment property was revalued on 25 December 2013 by independent valuers. Valuations were made on the basis of market prices. The investment property's revalued amount does not deviate significantly from the values recorded in the Bank's books of accounts, therefore, the Bank's management has decided that no value adjustments are required in the Bank's books.

26. Other assets

	31.12.2013	31.12.2012
Other receivables in RSD		
Advances for working capital	5,351	15,890
Advances for long term investments	11,595	10,371
Receivables from employees	4,342	4,861
Receivables based on prepaid taxes and contributions	4	-
Receivables based on overpaid income tax	959	-
Other receivables from operations	211,955	159,966
Temporary accounts	355	1,289
Transactions in progress	5,874	9,191
Allowance for impairment	(152,824)	(113,351)
Other receivables - foreign currency		
Advances for working capital - FX	2,626	9,013
Receivables from employees - FX	7,159	12,339
Other receivables from operations - FX	31,027	31,148
Transactions in progress - FX	2,539	4,823
Allowance for impairment - FX	(18,966)	(18,814)
Accrued receivables - RSD		
Accrued receivables for calculated interest	44,063	75,947
Accrued receivables for other income	50	
Other accrued expenses	10,115	10,691
Other accruals	15,208	47,006
Accrued receivables - foreign currency		
Accrued receivables for calculated interest - FX	2	
Accrued receivables for other income - FX	88,980	125,576
Other accruals - FX	2,720	3,338
Inventory		
Funds acquired through collected receivables	1,111,688	247,236
Total	**1,384,820**	**636,520**

Other operating receivables amounting to RSD 211,955 thousand (31.12.2012: RSD 159,966 thousand) mainly comprise receivables for calculated revaluation of short term corporate loans of RSD 70,986 thousand (31.12.2012: RSD 72,687 thousand) and receivables relating to litigations of RSD 124,687 thousand (31.12.2012. RSD 73,964 thousand).

Receivables arising from FX advances for current assets amounting to RSD 2,626 thousand (31.12.2012: RSD 9,013 thousand) mainly relate to advances made to Banka Intesa for Visa and Master card credit cards of RSD 2,626 thousand (31.12.2012: RSD 8,330 thousand).

The major portion of FX other operating receivables amounting to RSD 31,027 thousand (31.12.2012: RSD 31,148 thousand) relates to receivables arising from paid guarantees and letters of credit under litigation amounting to RSD 28,108 thousand (31.12.2012: RSD 27.882 thousand).

26. Other assets (continued)

Accrued interest receivable of RSD 44,063 thousand (31.12.2012: RSD 75,947 thousand) relates to accrued interest receivables from other clients in RSD arising on loans with a Euro currency clause amounting to RSD 12,812 thousand (31.12.2012: RSD 42,937 thousand); RSD 10,283 thousand (2012: RSD 10,052 thousand) relates to accrued interest receivables on long term loans (retail); RSD 4.644 thousand (31.12.2012: RSD 4,629 thousand) relates to accrued interest receivables in RSD with a Euro currency clause (retail).

Other accruals amounting to RSD 15,208 thousand (31.12.2012: RSD 11,200 thousand) relate to the premium NKOSK insurance.

Accrued receivables for other FX income amounting to RSD 88,980 thousand (31.12.2012: RSD 125,576 thousand) relate 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 15% tax rate (31.12.2012: 10%).
Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The Bank has implemented this method of presentation in the income statements and by doing this it has presented net deferred tax assets for both years under review.

	31.12.2013.	**31.12.2012.**
Deferred tax assets	818	187,640
Deferred tax liabilities	(16,078)	(12,022)
Deferred tax assets - net effect	**(15,260)**	**175,618**

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

	Tax credit - PPE	**Tax credit - losses**	**Tax credit - IAS 19**	**Tax depreciation**	**Total**
As at 1 January 2012	**59,208**	**127,614**	**818**	**(15,885)**	**171,755**
Charged (credited) to income statement	-	-	-	3,863	3863
As at 31 December 2012	**59,208.**	**127,614**	**818**	**(12,022)**	**175,618**
Charged (credited) to income statement	(59,208)	(127,614)	-	(4,056)	(190,878)
As at 31 December 2013	**-**	**-**	**818**	**(16,078)**	**(15,260)**

28. *Transaction deposits*

	Corporate	Entrepreneurs	Public companies	Banks and other fin. org.	Public sector	Retail	Foreign entities	Other clients	Total 2013	Total 2012
- in RSD	513,530	72,847	120,034	16,517	1,082	124,541	108,606	43,437	**1,000,593**	**779,478**
- in foreign currency	187,588	9,392				328,033	50,943	614	**576,570**	**1,391,556**
Total	**701,118**	**82,238**	**120,034**	**16,517**	**1,082**	**452,574**	**159,549**	**44,051**	**1,577,163**	**2,171,034**

RSD transaction deposits of RSD 1,000,593 thousand (31.12.2012: RSD 779,478 thousand) mainly relate to RSD drawing accounts of other companies amounting to RSD 506,245 thousand (31.12.2012: RSD 550,163 thousand), whilst FX transaction deposits of RSD 576,570 thousand (31.12.2012: RSD 1,391,556 thousand) relate to FX accounts of natural persons amounting to RSD 328,033 thousand (31.12.2012: RSD 990,425 thousand), FX accounts of other entities amounting to RSD 187,588 thousand (31.12.2012: RSD 219,921 thousand), and FX accounts of foreign entities amounting to RSD 50,943 thousand (31.12.2012: RSD 169,496 thousand).

29. *Other deposits and interests, fees and commissions payable*

	Corporate	Entrepreneurs	Banks and other fin. org.	Public sector	Retail	Foreign entities	Other clients	Total 2013	Total 2012
Savings deposits									
Short term deposits:									
- in RSD					481,002			**481,002**	**36,750**
- in foreign currency					6,587,949	159,795		**6,747,744**	**6,516,369**
Long term deposits:									
- in RSD					517			**517**	**150**
Loan deposits									
Short term deposits:									
- in RSD	136							**136**	**136**
- in foreign currency	8,025				15,961	389,783		**413,769**	**55,061**
Long term deposits:								**-**	
- in RSD	30,000							**30,000**	**581**
- in foreign currency	47,453		459		96,765	1,193,318		**1,337,995**	**1,756,016**
Special purpose deposits									
Short term deposits:									
- in RSD	5,068							**5,068**	**3,307**
- in foreign currency	8,637					64,328	46	**73,011**	**72,875**
Long term deposits:								**-**	
- in RSD	1,112							**1,112**	**1,460**
- in foreign currency	688	688						**1,376**	**51,105**
Other deposits									
Short term deposits:									
- in RSD	891,533	74,480		30,001			177,810	**1,173,824**	**1,250,216**
- in foreign currency	119,884	2,327				252,577	57,207	**431,995**	**191,678**
Long term deposits:									
- in foreign currency					30,723			**30,723**	**40,812**
Total	**1,112,536**	**77,495**	**459**	**30,001**	**7,212,917**	**2,059,801**	**235,063**	**10,728,272**	**9,976,516**

29. Other deposits and interests, fees and commissions payable (continued)

	Corporate	Entrepreneurs	Banks and other fin. org.	Public sector	Retail	Foreign entities	Other clients	Total 2013	Total 2012
Interests payable									
- in RSD	464						1,312	**1,776**	**0**
Fees and commissions payable									
- in RSD			915				349	**1,264**	**695**
Changes in the value of derivatives									
- in foreign currency								**-**	**4,612**
Total	**464**	**-**	**915**	**-**	**-**	**-**	**1,661**	**3,040**	**5,307**
Total	**1,113,000**	**77,495**	**1,374**	**30,001**	**7,212,917**	**2,059,801**	**236,724**	**10,731,312**	**9,981,823**

FX saving deposits mainly relate to the following short-term retail deposits in foreign currency: FX a vista savings deposits of natural persons amounting to RSD 143,741 thousand (31.12.2012: RSD 88,494 thousand), maturities of up to one month – RSD 11,443 thousand (31.12.2012: RSD 7,309 thousand), maturities of up to three months – RSD 94,001 thousand (31.12.2012: RSD 60,240 thousand), maturities of up to four months – RSD 18,564 thousand (31.12.2012: RSD 29,014 thousand), maturities of up to six months – RSD 300,378 thousand (31.12.2012: RSD 295,175 thousand) and FX short-term deposits of natural persons with maturities of up to one year – RSD 6,019,822 thousand (31.12.2012: RSD 5,766,701 thousand).

FX short-term deposits of foreign entities relate to a vista savings deposits amounting to RSD 13.914 thousand (31.12.2012: RSD 12,173 thousand), maturities of up to three months – RSD 2,482 thousand (31.12.2012: RSD 2,468 thousand), maturities of up to six months – RSD 249 thousand (31.12.2012: RSD 9,556 thousand), and maturities of up to one year – RSD 143,151 thousand (31.12.2012: RSD 245,239 thousand).

Within deposits, RSD 1,193,255 thousand (31.12.2012: RSD 1,621,141 thousand) relates to loan deposits of parent bank, Cyprus Popular Bank Public Co Ltd subsequently transferred to the Bank of Cyprus, amounting to CHF 10.409 thousand (31.12.2012. EUR 14,309 thousand) with the following structure:

Contract date	Currency	In F/X	In RSD	Maturity date	Interest rate %
26.10.2011	EUR	1,536,185.43	176,112	20.4.2021	2.2420
26.10.2011	EUR	1,707,659.03	195,770	11.3.2021	2.2420
29.12.2011	EUR	758,000.00	86,899	6.10.2014	2.2420
29.12.2011	EUR	550,000.00	63,053	25.4.2014	2.2420
29.12.2011	EUR	1,099,000.00	125,992	25.4.2014	2.2420
20.09.2012	EUR	1,583,561.00	181,543	21.5.2018	2.1820
20.09.2012	EUR	3,174,117.00	363,887	15.10.2021	2.1820
Total EUR	EUR	**10,408,522.46**			
Total RSD			**1,193,255**		

Within other deposits, RSD 252,577 thousand (31.12.2012: RSD 0 thousand) relates to deposits of the parent bank, Cyprus Popular Bank Public Co Ltd subsequently transferred to the Bank of Cyprus, amounting to CHF 2.700 thousand (31.12.2012: 0 thousand) with the following structure:

Contract date	Currency	In F/X	In RSD	Maturity date	Interest rate %
13.09.2013	CHF	700,000.00	65,483	03.01.2014	1.9900
04.06.2013	CHF	500,000.00	46,774	07.01.2014	1.9940
15.10.2013	CHF	1,000,000.00	93,547	07.01.2014	1.9940
04.12.2013	CHF	500,000.00	46,774	03.01.2014	1.9900
Total CHF	**CHF**	**2,700,000.00**			

Total RSD	**252,577**

30. Borrowings

	31.12.2013	31.12.2012
Borrowings in RSD		
Borrowings	-	90,000
Other financial liabilities	3,099	4,956
Borrowings in FX		
Borrowings in FX	6,926,819	7,293,960
Other financial liabilities in FX	6,990	6,070
Total	**6,936,908**	**7,394,986**

Foreign currency borrowings of RSD 6,926,819 thousand (31.12.2012: RSD 7,292,960 thousand) relate to borrowings from the parent bank, Cyprus Popular Bank Public Co Ltd subsequently transferred to the Bank of Cyprus, amounting to CHF 57,349 thousand (31.12.2012: EUR 58,082 thousand) and CHF 3,765 thousand (31.12.2012: RSD 7,315 thousand). The terms and conditions of the borrowings are presented in the table below:

Contract date	Currency	In F/X	In RSD	Maturity date	Interest rate %
14.08.2009	EUR	44,081,632.60	5,053,611	22.12.2014	2.2420
26.02.2010	EUR	3,000,000.00	343,926	26.06.2014	2.1820
28.12.2012	EUR	6,000,000.00	687,853	30.06.2015	2.2420
28.12.2012	EUR	4,267,401.00	489,224	30.09.2015	2.2420
07.12.2011	CHF	500,000.00	46,774	08.01.2014	1.9900
12.12.2011	CHF	500,000.00	46,774	13.01.2014	1.9900
05.12.2011	CHF	700,000.00	65,483	06.01.2014	1.9900
23.02.2012	CHF	300,000.00	28,064	24.03.2014	1.9900
08.02.2012	CHF	250,000.00	23,387	10.03.2014	1.9900
12.03.2012	CHF	500,000.00	46,774	14.04.2014	1.9900
01.12.2011	CHF	300,000.00	28,064	06.01.2014	1.9900
08.11.2012	CHF	500,000.00	46,774	09.11.2015	1.9900
21.01.2011	CHF	215,000.00	20,113	21.01.2014	1.9900
Total EUR	**EUR**	**57,349,033.60**			
Total CHF	**CHF**	**3,765,000.00**			
Total RSD			**6,926,819**		

Borrowing amounting to CHF 350 thousand was due on 18 December 2013; while the Bank was waiting for the NBS to approve the repayment of the loan, the funds were on the temporary account.

31. Provisions

	31.12.2013	31.12.2012
Provision for liabilities	10,919	14,122
Provision for other long-term employee benefits	67	67
Provisions for losses on off-balance sheet assets	-	4,197
Provision for retirement benefits and other provisions	8,323	7,594
Other provision	32,439	29,024
Total	**51,748**	**55,004**

Provision for liabilities of RSD 10,919 thousand (31.12.2012: RSD 14,122 thousand) include provision for contingent liabilities and legal claims. Movements in these provisions relate to release of provision for legal claims amounting to RSD 3,203 thousand.

Provision for losses on off-balance sheet assets amounted to RSD 0 thousand (31.12.2012: RSD 4,197 thousand). In 2013, these provisions were reversed.

Provision for retirement benefits of RSD 8,323 thousand (31.12.2012: RSD 7,594 thousand) was made in accordance with IAS 19.
Provision for annual holidays amounted to RSD 17,439 thousand (31.12.2012: RSD 14,024 thousand) and provision for unidentified shareholders amounted to RSD 15,000 thousand (31.12.2012: RSD 15,000 thousand).

Movement in provision accounts

	Provision for liabilities	Provision for off-balance sheet items
As at 01/01/2013	14,122	4,197
Charge for the year	4	9,271
Provisions used/released	(3,207)	(13,468)
As at 31/12/2013	**10,919**	**-**

32. Tax liabilities

	31.12.2013	31.12.2012
Liabilities for VAT	2,060	730
Liabilities for other taxes and contributions	3,824	2,973
Total	**5,884**	**3,703**

33. Liabilities from profit

	31.12.2013	31.12.2012
Liabilities from profit	5,009	12,253
Income tax liability	114	487
Total	**5,123**	**12,740**

Liabilities from profit amounting to RSD 5,009 thousand (31.12.2012: RSD 12,253 thousand) relate to liabilities for unpaid dividends from prior years.

34. Other liabilities

	31.12.2013	31.12.2012
Other liabilities in RSD		
Trade payables	25,064	13,571
Prepayment liabilities	188	
Other operating liabilities	151,267	141,423
Transactions in progress	27,304	33,392
Temporary accounts	5	817
Wages and salaries in RSD		
Cost of temporary service agreements	1,860	2,497
Other liabilities toward employees	886	855
Accruals in RSD		
Accrued interest	12,679	4,412
Accrued interest income	54,188	71,343
Accrued other income	4,482	9,241
Other accruals and deferred income	14,190	10,081
Other liabilities in FX		
Trade payables - FX	1,099	1,069
Other operating liabilities - FX	16,864	5,009
Transactions in progress - FX	325	870
Interim FX accounts	32,742	1,167,590
Accruals in FX		
Accrued interest income expense - FX	222,089	99,706
Other accruals - FX	2,760	31,560
Total	**567,992**	**1,593,436**

Trade payables of RSD 25,064 thousand (31.12.2012: RSD 13,571 thousand) relate to outstanding trade payables.

Other liabilities of RSD 151,267 thousand (31.12.2012: RSD 141,423 thousand), i.e. their major portion of RSD 123,052 thousand (31.12.2012: RSD 123,052 thousand) relates to preference shares. In 2007, determined that preference shares did not meet the equity recognition criteria prescribed by IAS 32, but met the financial liability recognition criteria, given that the 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 receivable of RSD 54,188 thousand (31.12.2012: RSD 71,343 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 of RSD 222,089 thousand (31.12.2012: RSD 99,706 thousand) mainly relate to interest on long term loans amounting to RSD 111,750 thousand (31.12.2012: RSD 9,725 thousand) and interest on foreign currency retail term deposits amounting to RSD 82,462 thousand (31.12.2012: RSD 76.002 thousand).

35. *Equity*

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

As at 31 December 2013, the Bank's equity comprised:

	31.12.2013	31.12.2012
Share capital – ordinary shares (Note 36a)	5,548,557	5,548,557
Share premium (Note 36a)	2,877,486	2,877,486
Revaluation reserve (Note 36a)	272,478	272,478
Revaluation reserve based on changes in the value of securities	551	610
Unrealised losses on available-for-sale securities	(229)	(202)
Reserves from profit (Note 36c)	151,673	151,673
Prior years' gain	-	9,955
Prior years' loss (Note 36d)	(3,784,720)	(3,794,670)
Current year's loss (Note 36d)	(695,692)	
Total	**4,370,104**	**5,065,887**

Movements in equity are presented in the table below:

	Share capital	Share premium	Rev. reserves from PPE	Rev. reserves from securities	Profit reserves	Current year's profit	Retained earnings	Accumulted loss	Total
As at 01.01.2012.	**5.548.557**	**2.877.486**	**277.033**	**635**	**151.673**		**107.615**	**(3.906.840)**	**5.056.159**
Rev. reserve for disposed building transferred to loss			(4.555)					4.555	**-**
Rev. reserves on AVS securities change in value				(227)					**(227)**
Transfer of prior years' profit to accumulated loss							(107.615)	107.615	**-**
Net profit for the year						9.955			**9.955**
As at 01.01.2013.	**5.548.557**	**2.877.486**	**272.478**	**408**	**151.673**	**9.955**	**0**	**(3.794.670)**	**5.065.887**
Rev. reserves on AVS securities change in value				(60)					**(60)**
Unrealised loss on other fin. org. equity investments				(26)					**(26)**
Transfer of prior years' profit to accumulated loss						(9.955)		9.955	**-**
Current year's loss								(695.692)	**(695.692)**
As at 31.12.2013.	**5.548.557**	**2.877.486**	**272.478**	**322**	**151.673**	**0**	**0**	**(4.480.412)**	**4.370.104**

35. Equity (continued)

	31.12.2013.		31.12.2012.	
	Share capital	**% of equity**	**Share capital**	**% of equity**
Cyprus Popular Bank	5,492,707	98.99	5,492,707	98.99
Total	**5,492,707**	**98.99**	**5,492,707**	**98.99**
Other	55,850	1.01	55,850	1.01
Total share capital	**5,548,557**	**100.00**	**5,548,557**	**100.00**

a) *Share capital and share premium*

Cyprus Popular Bank Public Co Ltd is the owner of 98.99% of the Bank's share capital. The total value of share capital and share premium as at 31 December 2013 amounted to RSD 8,426,043 thousand (31.12.2012: 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 within 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 legal regulations, the Bank's Statute and other internal rules and regulations.

The difference between provisions calculated under NBS regulations and those calculated in accordance with the Bank's internal calculation methodology are 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 6,456,527 thousand (31.12.2012: RSD 5,964,576 thousand). Provision for balance sheet assets and off-balance sheet items classified under the Bank's internal rules and regulations amounts to RSD 4,036,386 thousand (31.12.2012: RSD 3,545,507 thousand). Total special reserves from profit for estimated losses on balance sheet assets and off-balance sheet items amount to RSD 2,420,121 thousand (31.12.2012: RSD 2,419,069 thousand), where balance sheet assets amount to RSD 2,379,153 thousand (31.12.2012: RSD 2,240,907 thousand) and off-balance sheet items amount to RSD 40,964 thousand (31.12.2012: RSD 178,161 thousand).

d) *Current year's profit*

The current year's loss of RSD 695,692 thousand (31.12.2012: profit of RSD 9,955 thousand) represents the negative difference between income and expenses of the accounting period, plus the loss on decrease of deferred tax assets of RSD 190,879 thousand, increased by the tax on capital gain amounting to RSD 34 thousand. Prior years' loss is covered in accordance with the Law, the Statute and the Founding Agreement of the Bank stipulating that the 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 2013, contingent liabilities and commitments comprised:

	31.12.2013.	31.12.2012.
Fiduciary services		
Fiduciary investment activities	37,119	36,820
Total	**37,119**	**36,820**
Future commitments		
Collateral pledges	207,003	1,042,932
Irrevocable commitments for undrawn credit lines and investments	354,499	408,301
Other irrevocable commitments	91,450	84,938
Collateral pledges – FX	338,238	607,229
Total	**991,190**	**2,143,400**
Derivatives		
Receivables from derivatives	2,077,434	7,070,024
Total	**2,077,434**	**7,070,024**
Other off-balance sheet items		
Receivables for interest suspended	3,423,560	2,842,437
Other off-balance sheet assets	353,614	675,389
Total	**3,777,174**	**3,517,826**
Total	**6,882,917**	**12,768,070**

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

(b) Litigations (Legal claims)

As at 31 December 2013, the total value of the litigations in which the Bank was the claimant amounted to RSD 7,773,659 thousand (31.12.2012: RSD 6,785,654 thousand), whereas the value of the legal proceedings against the Bank amounted to RSD 197,419 thousand (31.12.2012: RSD 127,297 thousand). In 2013, the Bank reversed provisions for litigations amounting to RSD 3,203 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 2013 Financial Statements, the Bank's performance indicators were as follows:

Performance indicators	**Prescribed value**	**Achieved value 2013**	**Achieved value 2012**
Capital adequacy	Min. 12%	14.97%	18.01%
Bank's investment	Max. 60%	21.78%	16.94%
Sum of large exposures:	Max. 400%	35.04%	95.31%
- Large exposure to a single party or a group of related parties		31.41%	91.57%
- Exposure to related parties	Max. 20%	3.63%	3.73%
Average monthly liquidity ratio:			
– in the first month of the reporting period	Min. 1.00	3.02	2.26
– in the second month of the reporting period	Min. 1.00	3.86	2.97
– in the third month of the reporting period	Min. 1.00	3.47	2.91
F/X risk indicator	Max. 20%	14.20	0.41

As shown in the above review, as at 31 December 2013, the Bank had reconciled the mentioned indicators with the requirements of the National Bank of Serbia.

38. *Related party transactions*

	31.12.2013.	**31.12.2012.**	
	Other related parties	Parent bank - CPB	Other related parties
Assets			
Foreign currency accounts	-	276,133	-
Other monetary assets in FX	-	57	-
Interests receivable in FX	-	115	-
Interests receivable in RSD	4,683	-	1,606
Interests receivable with currency clause	-	-	1,775
Short term loans - RSD	276,437	-	289,958
Long term loans - RSD	6,255	-	15
Short term loans - FX	-	53,860	-
Loans - cards to individuals	-	-	272
Long term loans with currency clause	-	-	6,204
Long term loans to individuals - RSD	2,094	-	2,247
Long term loans to individuals with currency clause	20,998	-	12,812
Accrued interests receivable from individuals in RSD	-	-	17
Accrued interests receivable from individuals with currency clause	-	-	25
Accrued interests receivable in RSD	-	3,338	-
Accrued receivables for other income - FX	-	125,577	-
Accrued receivables according to IRS - FX			
Other receivables from operations	-	-	-
Total assets	**310,467**	**459,080**	**314,931**

38. Related party transactions (continued)

	31.12.2013.	31.12.2012.	
	Other related parties	Parent bank - CPB	Other related parties
Liabilities			
Transaction deposits - RSD	934	323	6,561
Transaction deposits of individuals - RSD	3,020		
Transaction deposits - FX	10,670	517	10,018
Transaction deposits of individuals - FX	1,752	-	5,072
Savings deposits of individuals - RSD	4,462		
Savings deposits of individuals - FX	22,175	-	23,275
Short term special purpose deposits - RSD	-	-	2
Short term special purpose deposits - FX	389,783	-	4
Long term special purpose deposits - FX	459	1,627,141	451
Long term special purpose deposits of individuals - FX	1,376		
Other short term deposits - FX			
Short term loans from the Bank - RSD	-	90,000	-
Short term loans from the Bank - FX	-	47,096	-
Long term financial bank loans - FX	-	7,246,864	-
Interests payable - FX		12,718	
Other liabilities		1,172,203	
Accruals according to IRS - FX	-	31,560	-
Deferred interests payable - RSD	-	278	-
	434,631	**10,228,700**	**45,383**

Income and expenses from related party transactions were as follows:

Expenses	31.12.2013.	31.12.2012.	
	Other related parties	Parent bank - CPB	Other related parties
Interest expense from deposits placed by foreign banks in FX	-	55,880	-
Interest expense from borrowings from foreign banks in FX	-	257,094	-
Interest expense from borrowings from foreign banks in RSD	-	12,209	-
Interest expense from deposits in RSD	-	-	276
Interest expense from deposits in FX	-	-	100
Interest expense from deposits - natural persons	1,286	-	1,414
Interest expense according to IRS in FX	-	8,736	-
Interest expense according to FX Swap in FX	-	3,200	-
Total	**1,286**	**337,119**	**1,790**

38. Related party transactions (continued)

Foreign exchange losses	**31.12.2013.**	**31.12.2012.**	
	Other related parties	Parent bank - CPB	Other related parties
Foreign exchange losses according to IRS	-	5,449	-
Foreign exchange losses according to FX Swap	-	1,909	-
Foreign exchange losses according to FX Spot	-	21,233	-
Foreign exchange losses on deposits of foreign banks in FX	-	255,571	-
Foreign exchange losses on borrowings from foreign banks in FX	-	1,528,143	-
Foreign exchange losses on loans to the parent bank in FX	-	5,135	-
Total	**-**	**1,817,440**	**-**

Interest income	**31.12.2013.**	**31.12.2012.**	
	Other related parties	Parent bank - CPB	Other related parties
Interest income from loans to foreign banks in RSD	-	401	-
Interest income from loans to foreign banks in FX	-	371	-
Interest income from loans with currency clause	37	-	1,372
Interest income from loans in RSD	43,282	-	26,871
Interest income from loans in RSD - natural persons	1,401	-	891
Fees and commissions income from loans in RSD	-	-	592
Fees and commissions income from payment cards in RSD	-	-	5
Fees and commissions income from loans in RSD - natural persons	-	-	339
Interest income according to IRS in FX	-	1,767	-
Other income	-	86,624	-
Total	**44,720**	**89,163**	**30,070**

Foreign exchange gains and changes in the value of derivatives	31.12.2013.	31.12.2012.	
	Other related parties	Parent bank - CPB	Other related parties
Foreign exchange gains according to IRS	-	3,515	-
Foreign exchange gains on FX Spot	-	22,068	-
Foreign exchange gains on deposits of foreign banks in FX	-	128,662	-
Foreign exchange gains on borrowings from foreign banks in FX	-	526,948	-
Foreign exchange gains on loans to the parent bank in FX	-	6,732	-
Revaluation of derivatives			
Total	**-**	**687,925**	**-**

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 party transactions with: Cyprus Popular Bank Public Co Ltd, Marfin Factors & Forfaiters, Link Consultans International, Tessar and Cable Partners, including natural persons as related parties.

As at 31 December 2013, the Bank granted loans to its directors and members of the Managing board and the Executive Board:

	31.12.2013.	**31.12.2012.**
Loans to directors and management		
At 1 January	39,331	42,603
Loans granted during the year	26,571	3,844
Repayments during the year and revaluation of loans and advances	(3,124)	(1,787)
Interest income	1,691	2,163
Collected interest	(1,691)	(2,070)
Closing balance	**62,778**	**44,753**

In 2013, and 2012 no provision was required for the loans granted to the Bank directors.

Management fees

In 2013, members of the Executive Board had gross salaries amounting to RSD 22,183 thousand (2012: RSD 44,505 thousand).

39. Reconciliation of receivables and payables

The Bank reconciled its financial investments, receivables and payables with its debtors and borrowers as required by Article 18, paragraph 1 of the Insurance Law.

The Bank's unreconciled receivables for 2013, under Article 18, paragraph 4 of the Insurance Law, are receivables from its client Stylos d.o.o. amounting to RSD 1,436 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 in the following operating segments:

- Corporate Banking – operations with government agencies and companies
- Retail Banking - operations with natural persons and entrepreneurs, and
- 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 the segmentation was the Bank’s internal structure by the above cash generating units.

40. Operating analysis by segments (continued)

Segment performance for the year ended 31 December 2013 was as follows:

	Corporate banking	Retail banking	Investment banking	Other activities	Total
Total revenue / expense	**782,093**	**407,896**	**-**	**(279,695)**	**910,294**
Revenue/expense from external clients	564,752	302,925	-	(185,726)	681,951
Revenue/expense from other segments	217,341	104,971	-	(93,969)	228,343
Allowance for impairment	**(12,174)**	(42,189)	-	(9,211)	(63,575)
Administrative expenses	(23,489)	(427,878)	-	(802,948)	(1,254,315)
Depreciation	(84)	(35,375)	-	(61,724)	(97,183)
Profit/loss before tax	**746,346**	**(97,546)**	**-**	**(1,153,578)**	**(504,779)**
Income Tax				(34)	(34)
Gain from deferred tax assets	-	-	-	(4,056)	(4,056)
Net income/loss for the year	**746,346**	**(97,546)**	**-**	**(1,157,668)**	**(508,869)**
Assets	**7,959,974**	**7,038,140**	**-**	**9,434,943**	**24,433,057**
Payables	**968,570**	**9,895,819**	**-**	**9,011,741**	**19,876,130**

Segment performance for the year ended 31 December 2012:

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

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:

	31.12.2013.	31.12.2012.
EUR	114.6421	113.7183
USD	83.1282	86.1763
CHF	93.5472	94.1922

42. *Events after the balance sheet date*

As of the balance sheet date through to and including 28 February 2014, no events have occurred which could have any significant impact on the 2013 financial statements.

Person responsible for the preparation of the financial statements

"MARFIN BANK" AKCIONARSKO DRUŠTVO BEOGRAD 8

Legal Representative of the Bank