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T R A N S L A T I O N

Independent Auditors' Report

TO THE SHAREHOLDERS OF

BANCA INTESA A.D. BEOGRAD

We have audited the accompanying financial statements of Banca Intesa a.d. Beograd ("the Bank"), which comprise the balance sheet as at 31 December 2013, the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and true and fair view of these financial statements in accordance with the Law on Accounting of the Republic of Serbia, the Law on Banks and other relevant by-laws issued by the National Bank of Serbia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

TRANSLATION

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting of the Republic of Serbia, the Law on Banks and other relevant by-laws issued by the National Bank of Serbia.

Belgrade, 10 March 2014 KPMG d.o.o. Beograd

(L.S.)

Dušan Tomić
Certified Auditor

This is a translation of the original Independent Auditors' Report issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

Belgrade, 25 March 2014 KPMG d.o.o. Beograd

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

(L.S.)

Dušan Tomić
Certified Auditor

INCOME STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2013

(RSD thousand)	Note	2013	2012
Operating income and expenses			
Interest income	3	29,588,778	31,340,971
Interest expenses	3	(9,598,939)	(11,790,051)
Net interest income		19,989,839	19,550,920
Fee and commission income	4	8,175,478	7,890,743
Fee and commission expenses	4	(2,648,138)	(2,292,104)
Net fee and commission income		5,527,340	5,598,639
Net profit on sale of securities at fair value through profit and loss	5	590	1,008
Net profit on sale of available for sale securities	5	4,332	49,855
Net profit on sale of equity investments	5	-	434
Foreign exchange gains	6	356,204	-
Foreign exchange losses	6	-	(13.263.673)
Dividends and share income	5	1,527	2.925
Other operating income	5	676,132	554.540
Net expenses for indirectly written-off placements and provisions	7	(6,965,328)	(5,368,124)
Salaries, wages and other personal expenses	8	(4,490,472)	(4,722,806)
Depreciation and amortization	9	(907,183)	(977,691)
Other operating expenses	10	(6,582,911)	(6,323,778)
Gains from changes in value of assets and liabilities	11	12,172,042	31,390,752
Losses from changes in value of assets and liabilities	12	(10,564,372)	(16,188,419)
Operating profit		**9,217,740**	**10,304,582**
Profit before tax		**9,217,740**	**10,304,582**
Income tax	13	(623,097)	(830,548)
Profit from deferred tax assets and reduction of deferred tax liabilities	13	21,105	27,827
Loss from reduction of deferred tax assets and creation of deferred tax liabilities	13	(8,223)	(8,903)
Profit after tax		**8,607,525**	**9,492,958**
Earnings per share (in RSD)	14	40,381	44,535

Belgrade, 24 February 2014

Rada Radović Head of Finance and Accounting Department	Marco Capellini Deputy President of the Executive Board	Draginja Đurić President of the Executive Board

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BALANCE SHEET AS OF 31 DECEMBER 2013

(RSD thousand)	Note	2013	2012
ASSETS			
Cash and cash equivalents	15	21,421,677	35,013,575
Revocable deposits and loans	16	69,453,952	56,757,728
Interest and fee receivables, receivables from sales, changes in fair value of derivatives and other receivables	17	3,689,503	3,278,233
Loans and advances	18	265,535,776	259,550,499
Securities (excluding own shares)	19	41,324,022	35,081,730
Equity investments	20	962,568	962,568
Other placements	21	10,055,420	9,196,891
Intangible assets	22	926,476	1,040,637
Property, equipment and investment property	23a	7,345,133	7,376,493
Fixed assets held for sale and assets from discontinued operations	23b	344,321	228,010
Deferred tax assets		79,122	66,240
Other assets	24	6,103,387	4,776,985
TOTAL ASSETS		**427,241,357**	**413,329,589**
LIABILITIES			
Transaction deposits	25	110,309,862	99,338,201
Other deposits	26	163,425,150	162,199,812
Borrowings	27	46,736,931	53,565,421
Liabilities arising from securities	28	218,885	141,980
Interest and fee and changes in fair value of derivatives	28	14,450	74,412
Provisions	29	1,531,606	1,922,334
Tax liabilities	30	115,810	98,614
Other liabilities	30	6,001,475	5,936,984
TOTAL LIABILITIES		**328,354,169**	**323,277,758**
EQUITY			
Equity	31	41,759,627	41,759,627
Reserves from profit	31	47,484,121	37,991,163
Revaluation reserves	31	1,037,756	836,270
Unrealized losses on securities available for sale	31	(1,841)	(28,187)
Profit		8,607,525	9,492,958
TOTAL EQUITY		**98,887,188**	**90,051,831**
TOTAL LIABILITIES AND EQUITY		**427,241,357**	**413,329,589**
OFF-BALANCE SHEET ITEMS			
Funds managed on behalf of third parties	32a	3,945,777	3,796,342
Guaranties and other irrevocable commitments	32b	67,887,304	87,395,886
Sureties	32b	120,035	119,067
Other off-balance sheet items - derivatives	32c	55,561,734	74,362,945
Other off-balance sheet items	32d	145,627,326	81,468,803
TOTAL OFF-BALANCE SHEET ITEMS		**273,142,176**	**247,143,043**

Belgrade, 24 February 2014

Rada Radović Head of Finance and Accounting Department	Marco Capellini Deputy President of the Executive Board	Draginja Đurić President of the Executive Board

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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

(RSD thousand)	**Share Capital**	**Other capital**	**Share premium**	**Reserves from profit**	**Revaluation reserves**	**Profit**	**Unrealized losses on securities available for sale**	**Total Equity**
Balance as of 1 January 2012	21,315,900	11,158	20,432,569	28,400,323	665,615	9,590,840	(2,080)	80,414,325
Increase during 2012	-	-	-	9,590,840	170,665	9,492,958	(26,107)	19,228,346
Decrease during 2012	-	-	-	-	-	(9,590,840)	-	(9,590,840)
Balance as of 31 December 2012	21,315,900	11,158	20,432,569	37,991,163	836,270	9,492,958	(28,187)	90,051,831
Balance as of 1 January 2013	21,315,900	11,158	20,432,569	37,991,163	836,270	9,492,958	(28,187)	90,051,831
Increase during 2013	-	-	-	9,492,958	201,486	8,607,525	-	18,301,969
Decrease during 2013	-	-	-	-	-	(9,492,958)	26,346	(9,466,612)
Balance as of 31 December 2013	21,315,900	11,158	20,432,569	47,484,121	1,037,756	8,607,525	(1,841)	98,887,188

Belgrade, 24 February 2014

Rada Radović
Head of Finance and Accounting Department

Marco Capellini
Deputy President of the Executive Board

Draginja Đurić
President of the Executive Board

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2013

(RSD thousand)	**2013**	**2012**
Cash receipts from operating activities	**37,285,842**	**40,466,279**
Interest receipts	26,615,500	29,511,243
Fee and commission receipts	8,284,501	7,961,596
Receipts from other operating income	2,384,314	2,990,515
Receipts from dividends and equity investments	1,527	2,925
Cash payments from operating activities	**(19,618,645)**	**(22,618,839)**
Interest payments	(5,030,281)	(7,161,681)
Fee and commission payments	(2,628,554)	(2,345,528)
Payments to and on behalf of employees	(5,288,263)	(5,596,739)
Taxes, contributions and other duties paid	(741,797)	(755,919)
Payments for other operating expenses	(5,929,750)	(6,758,972)
Net operating cash flows before changes in placements and deposits	**17,667,197**	**17,847,440**
Decreases in placements and increases in deposits	**11,013,134**	**32,255,391**
Decrease in loans and placements to banks and customers	-	32,027,136
Decrease in securities at fair value through profit and loss, trading placements and short-term securities held to maturity	1,800,869	228,255
Increase in deposits from banks and customers	9,212,265	-
Increases in placements and decreases in deposits	**(24,978,525)**	**(2,209,471)**
Increase in loans and placements to banks and customers	(24,978,525)	-
Decrease in deposits from banks and customers	-	(2,209,471)
Net cash (used in)/generated from operating activities before taxes	**3,701,806**	**47,893,360**
Paid taxes	(1,217,992)	(1,350,027)
Net cash (used in)/generated from operating activities	**2,483,814**	**46,543,333**
Cash inflows from investing activities	**30,612,369**	**14,225,115**
Inflow from long-term investments in securities	30,604,098	14,163,218
Inflow from sale of equity investments	1,566	8,693
Inflow from sale of intangible and fixed assets	6,705	53,204
Cash outflows from investing activities	**(39,458,187)**	**(34,268,516)**
Outflows from long-term investments in securities	(38,516,017)	(31,786,530)
Purchases of equity investments	(27,296)	(37)
Purchases of property and equipments and intangible assets	(914,874)	(2,481,949)
Net cash (used in)/generated from investing activities	**(8,845,818)**	**(20,043,401)**

Cash inflows from financing activities	**47,855**	**377,484**
Proceeds from the issuance of shares	-	-
Proceeds from subordinated liabilities	-	-
Proceeds from received loans	-	374,753
Proceeds from securities	47,855	2,731
Cash outflows from financing activities	**(7,206,902)**	**(9,024,398)**
Payments for subordinated liabilities	-	(9,024,398)
Outflow from received loans	(7,206,902)	-
Net cash outflow from financing activities	**(7,159,047)**	**(8,646,914)**
Total cash inflows	**78,959,200**	**87,324,269**
Total cash outflows	**(92,480,251)**	**(69,471,251)**
Net increase/(decrease) in cash and cash equivalents	(13,521,051)	17,853,018
Cash and cash equivalents at beginning of the year	**35,013,575**	**16,222,561**
Foreign exchange gains	235,758	1,243,771
Foreign exchange losses	(306,605)	(305,775)
Cash and cash equivalents at end of the year	**21,421,677**	**35,013,575**

Belgrade, 24 February 2014

Rada Radović	Marco Capellini	Draginja Đurić
Head of Finance and Accounting Department	Deputy President of the Executive Board	President of the Executive Board

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Content:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. CORPORATE INFORMATION

Banca Intesa Beograd a.d. Beograd (hereinafter referred to as the "Bank") was established as a joint stock company, pursuant to the Memorandum on Association and Operations of Delta banka DD, Beograd dated 16 September 1991. On 19 September 1991, the National Bank of Yugoslavia issued a certificate and permission for the foundation of Delta banka DD, Beograd.

On 16 October 1991, the Bank was duly registered with the Commercial Court in Belgrade and subsequently commenced its operations. On 7 June 1995, a new Memorandum on Association was concluded, with a new Article of Association adopted at the General Assembly meeting held on 10 July 1995, whereby reconciliation of the Bank's acts with the provisions of the Law on Banks and other financial organizations was made.

In 2005, based on Decision of General Assembly of Shareholders, a change of shareholders of the Bank occurred. Existing shareholders sold their shares, two shareholders in total, and the majority part was sold to Intesa Holding International SA. After this ownership change, the Bank has two shareholders, out of which Intesa Holding International S.A., Luxemburg owns more than 90% of the Bank's share capital.

Pursuant to the General Manager's Decision no. 18600 dated 7 November 2005, the Approval of National Bank of Serbia and the Decision of the Companies Register no. BD 98737/2005 dated 29 November 2005, the Bank changed its previous name into Banca Intesa a.d. Beograd.

In accordance with the Decision of the Companies Register no. BD. 159633/2006 dated 5 October 2006, the Bank harmonized its internal regulations and organization with the new Law on Banks and performed the change of legal form from opened into a closed joint-stock company.

The Bank is authorized and registered with the National Bank of Serbia for performing payment transactions, loan and deposit activities in the country and clearing and settlement transaction services abroad. In accordance with the provisions of the Law on Banks, the Bank operates on the principles of liquidity, safety and profitability.

During the year ended 31 December 2007, the legal status change was carried out through a merger by absorption, whereby the acquirer was Banca Intesa a.d. Beograd, and the acquired bank was Panonska banka a.d. Novi Sad. On 26 July 2007, the Decisions on signing of the letter of intent to perform the legal status change of merger by absorption and launching related activities were passed at the meetings of the Board of Directors of both Banca Intesa a.d. Beograd and Panonska banka a.d. Novi Sad. The Draft of the Merger Agreement was prepared and adopted by the Boards of Directors of both banks at the meetings held on 29 October 2007.

Upon registration of the procedure of merger by absorption with the Serbian Business Registers Agency, the Bank as the acquirer and the legal successor has continued to operate under its existing business name, while the acquired bank – Panonska banka a.d. Novi Sad ceased its operations without liquidation process, and its shares were withdrawn and cancelled.

In accordance with article 384 of the Law on Companies of the Republic of Serbia, 30 September 2007 was specified as the date of the merger that is the date when all operations of Panonska banka a.d. Novi Sad were considered as taken over by the Bank. The legal status change of merger by absorption was carried out in such a way that the acquired bank – Panonska banka a.d. Novi Sad transferred all assets and liabilities as of 30 September 2007 to the Bank as the acquirer in exchange for share issue to the shareholders of the acquired bank by the Bank acquirer.

1. CORPORATE INFORMATION (continued)

In accordance with the valuation performed, the shares were exchanged in such a way that shareholders of the acquired bank received 1 ordinary share of the acquirer Bank in exchange for 38 ordinary shares of the acquired bank. In order to exchange the total number of shares of Panonska banka a.d. Novi Sad, the Bank issued additional 26,166 ordinary shares, with nominal value of RSD 100,000.00 and consequently, after the merger, the Bank's share capital amounted to RSD 15,752,700,000.00, divided into 157,527 ordinary shares with nominal value of RSD 100,000.00 per share.

Shareholders of the acquired bank in the merger have become the shareholders of Banca Intesa a.d. Beograd, with the appropriate number of ordinary shares, and they have the same status, rights and obligations as the shareholders of the Bank, with the right to participate in profit distribution of the acquirer Bank starting from 1 January 2008.

Since there were no significant differences in the accounting policies applied in the preparation of the financial statements of both banks, neither adjustments to net assets, nor adjustments to net results for 2007 of the Bank were made as a consequence of the accounting for the merger by absorption.

The Agreement on the merger by absorption was adopted at the Bank's Assembly meeting held on 17 December 2007.

During 2012, the Bank's Assembly adopted amendments to the Memorandum on Association and the Article of Association, with the approval of the National Bank of Serbia, which is registered with the Decision of the Serbian Business Registers Agency no. BD 85268/2012 dated 27 June 2012. In this way the Bank duly complied with the Law on Companies of the Republic of Serbia ("Off. Gazette of RS", no. 36/2011 and 99/2011).

As of 31 December 2013, the Bank operated through its Head Office located in Belgrade, Milentija Popovića 7b. The Bank network consists of associated organizational units as follows: 5 regional centers and 192 branches.

The Bank had 3,039 employees as of 31 December 2013 (31 December 2012: 3,134 employees).

The Bank's registration number is 07759231. The Bank's tax identification number is 100001159.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation and presentation of financial statements

The financial statements for 2013 have been prepared in accordance with the accounting regulations prevailing in the Republic of Serbia, which are based on the Law on Accounting (Official Gazette of the Republic of Serbia, no. 62/2013), the Law on Banks (Official Gazette of the Republic of Serbia, no. 107/2005, 91/2010) and the respective regulations issued by the National Bank of Serbia based on the aforementioned legislation.

IAS, IFRS and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee up to 1 January 2009 have been officially translated by the Decision of Ministry of Finance of Republic of Serbia number 401-00- 1380/2010-16 and are published in the Official Gazette of the Republic of Serbia no. 77 dated October 25, 2010.

Any new or amended IFRS and IFRIC interpretations issued subsequent to 1 January 2009 have not been applied in the preparation of the accompanying financial statements.

The accompanying financial statements have been prepared in the form prescribed by the Rulebook on Format and Contents of Financial Statements for Banks (Official Gazette of the Republic of Serbia No: 74/2008, 3/2009, /correction 12/2009/ and 5/2010). These Rulebooks determine the legal definition of a complete set of financial statements, and minimal content of Notes to the financial statements, which contain departures from IAS 1 Presentation of Financial Statements regarding the presentation of certain financial statement items.

As a result of the above mentioned, the Bank's management has not included an explicit and unreserved statement of compliance of the accompanying financial statements with the requirements of all standards and interpretations issued by International Accounting Standards Board, which comprise International Financial Reporting Standards.
The accompanying financial statements have been prepared under the historical cost convention, except for the measurement at fair value of securities held for trading as well as securities available for sale.

The accompanying financial statements include receivables, liabilities, operating results, changes in equity and the Bank's cash flow, excluding its subsidiary – Intesa Leasing d.o.o., Beograd. The Bank also prepares consolidated financial statements separately, in accordance with the respective accounting regulations of the Republic of Serbia.

The Bank's financial statements are stated in thousands of Dinars, unless otherwise stated. The Dinar (RSD) is the functional and official reporting currency of the Bank. All transactions in currencies that are not functional currency are considered to be transactions in foreign currency.

The accompanying financial statements have been prepared under the going concern principle, which implies that the Bank will continue its operations in the foreseeable future.

In the preparation of these financial statements, the Bank has adhered to the principal accounting policies further described in Note 2.

2.1. Basis of preparation and presentation of financial statements (continued)

The accounting policies and accounting estimates applied in the preparation of these financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. Comparative Figures

The comparative figures represent financial statements of the Bank as of and for the year ended 31 December 2012, which were audited.

2.3. Significant Accounting Estimates and Judgments

Use of Estimates

The preparation and presentation of the financial statements requires the Bank's management to make estimates and reasonable assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as income and expenses for the reporting period.

These estimations and related assumptions are based on information available as of the date of the preparation of the financial statements. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, and changes in estimates are recognized in the income statement in the periods in which they become known.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of Financial Assets

The Bank assesses, at the end of each reporting period, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are incurred, if and 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 (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The Bank reviews its loan portfolio at least on a quarterly basis, in order to assess impairment.

Impairment of Financial Assets (continued)

In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any reliable evidence indicating that there is a measurable decrease in estimated future cash flows from a loan portfolio before the decrease can be identified with an individual loan in that portfolio. The evidence may include observable data, indicating that there has been an adverse change in the payment status of borrowers toward the Bank, or national or local economic conditions that correlate with defaults on assets of the Bank.

The Bank's management performs estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly, in order to reduce any differences between estimated and actual losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Basis of preparation and presentation of financial statements (continued)

Useful Lives of Intangible Assets, Property and Equipment

The determination of the useful lives of intangible assets, property and equipment is based on historical experience with similar assets as well as on any anticipated technological development and changes influenced by wide range of economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions.

Due to the significant share of tangible and intangible assets in total assets of the Bank, the impact of each change in these assumptions could materially affect the Bank's financial position, as well as the results of its operations.

Impairment of Non-Financial Assets

At the end of each reporting period, the Bank's management reviews the carrying amounts of the Bank's intangible assets and property and equipment presented in the financial statements. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount.

An impairment review requires from management to make subjective judgment concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Provisions for legal proceedings

The Bank is subject to a number of legal proceedings arising from daily operations that relate to commercial, contractual and labor disputes, which are resolved and considered in the course of regular business activity. The Bank regularly estimates the probability of negative outcomes to these matters, as well as the amounts of probable or reasonable estimated losses.

Provisions for legal proceedings (continued)

Reasonable estimates include judgments made by management, after considering information including notifications, settlements, estimates performed by the legal department, available facts, identification of other potentially responsible parties and their ability to contribute as well as prior experience.

Provision for legal proceedings is recognized when it is probable that an obligation exists for which a reliable estimation can be made of the obligation after careful analysis of the individual matter (Note 29). The required provision may change in the future, due to occurrence of new events or obtaining additional information. Matters that are either contingent liabilities or that do not meet recognition criteria for provisioning is disclosed, unless the possibility of outflow of resources embodying economic benefits is remote.

Deferred tax assets

Deferred tax assets are recognized for all unused tax credits to the extent that it is probable that expected future taxable profit will be available against which the unused tax losses can be utilized. The Bank's management necessarily performs significant estimate in order to determine the amount of deferred tax assets that can be recognized, based on the period of occurrence, the amount of future taxable profit and strategy of tax planning policy (Note 13(c)).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Basis of preparation and presentation of financial statements (continued)

Retirement and Other Post-Employment Benefits

The costs of defined employee benefits payable upon termination of employment, i.e. retirement in accordance with the fulfilled legal requirements are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and fluctuation of employees. As these plans are long-term, significant uncertainties influence the outcome of the estimation. Additional information is disclosed in Note 29 to financial statements.

2.4. Interest Income and Expenses

Interest income and expenses, including penalty interest and other income and other expenses from interest-bearing assets, as well interest bearing liabilities are recognized on an accrual basis, based on obligatory terms defined by a contract between the Bank and its customers.

For all interest-bearing financial instruments, except those classified as available for sale, and financial instruments at fair value through profit and loss, interest income and expenses are recognized within "Interest income" and "Interest expense" in the income statement using the effective interest method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The loan origination fee, which is a part of the effective interest rate, is recorded within "Interest income". Loan origination fees, which are charged, collected or paid on a one-time basis in advance, are deferred and amortized to interest earned on loans and advances over the life of the loan, using the straight-line method, which approximates the effective yield.

From the moment of a court claim being filed the Bank calculates suspended interest on total receivables (including principal, interest and costs) instead of regular interest. Based on special decisions of the Bank's authorities, the Bank can stop the calculation of interest on overdue receivables and start with calculating suspended interest in the off-balance before the court claim is filed.

Suspended interest is calculated and recorded as an off-balance sheet item until the conclusion of the court proceedings.

2.5. Fee and Commission Income and Expenses

Fees and commissions originating from banking services are generally recognized on an accrual basis when the service has been provided.

Fees and commissions mostly comprise of fees for payment operations services, issued guarantees and other banking services.

2.6. Foreign Currency Translation

Items reported in the financial statements are measured using the currency of the Bank's primary economic environment (functional currency). As disclosed in Note 2.1., the accompanying financial statements are stated in thousand of Dinars (RSD), which represents the functional and official reporting currency of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Foreign Currency Translation (continued)

Transactions denominated in foreign currency are translated into dinars at the official exchange rate determined on the Interbank Foreign Currency Market, prevailing at the transaction date.

Assets and liabilities denominated in foreign currency at the balance sheet date are translated into dinars at the official median exchange rate determined on the Interbank Foreign Currency Market, prevailing at the balance sheet date (Note 37).

Gains or losses on foreign exchange arising upon the translation of balance sheet items or arising upon transactions in foreign currency are credited or debited as appropriate, to the income statement, as Gains or losses on foreign exchange transactions and translations (Note 6).

Gains or losses arising upon the translation of financial assets and liabilities with contracted foreign currency clause are credited or debited as appropriate, to the income statement, as gains/losses from changes in value of assets and liabilities (Notes 11 and 12).

Commitments and contingencies denominated in foreign currency are translated into dinars at the official median exchange rate prevailing at the balance sheet date

2.7. Financial Instruments

All financial instruments are initially recognized at fair value including any directly attributable incremental costs of acquisition or issue that are directly attributable to the acquisition or issuing of financial asset or liability, except for financial assets and financial liabilities at fair value through profit and loss.

Financial assets and financial liabilities are recorded in the balance sheet of the Bank on the date upon which the Bank becomes counterparty to the contractual provisions of a specific financial instrument. All regular purchases and sales of financial assets are recognized on the settlement date, which is the date the asset is delivered to the counterparty.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either the Bank has transferred substantially all the risks and rewards of the asset, or
- the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Bank’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

Derecognition of financial assets and financial liabilities (continued)

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

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

2.7.1. Financial Assets at Fair Value through Profit or Loss

This category includes two sub-categories: financial assets held for trading and those designated at fair value through profit or loss.

Financial assets are classified as held for trading if acquired or incurred principally for the purpose of selling or repurchasing in the near term and generating profit from short-term price fluctuations. These assets are stated at fair value in the balance sheet.

Financial instruments held for trading comprise financial derivatives and Government savings bonds.

All realized or unrealized gains and losses from changes in fair value of trading securities are recognized in the income statement.

During 2007, the Bank introduced several types of financial instruments which met the definition of financial derivatives according to IAS 39 "Financial Instruments: Recognition and Measurement" and for which basic underlying variable is the foreign exchange rate. Derivatives used by the Bank are FX swap and FX forward contracts. For accounting purposes and in accordance with the requirements of IAS 39, derivatives are classified as financial instruments held for trading and are recorded in the balance sheet at fair value, while all fair value changes are recorded in the income statement under unrealized foreign exchange gains and losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.1. Financial Assets at Fair Value through Profit or Loss (continued)

Derivatives are initially recognized when the Bank becomes a party to an agreement with the other contractual party (the agreement date). The notional amount of the derivative contract is recorded in the off-balance sheet, and initial positive or negative fair value of the derivative is recorded in the balance sheet as an asset or a liability. The initial recognition of fair value applies to cases when the market price for the same or a similar derivative on an organized market is available, and when the price differs from the price at which the Bank contracted the derivative. Hence, the derivatives contracted by the Bank with the customers operating in Serbia do not have initially recognized fair value, since there is no active market for similar derivatives in the country. When an active market for such derivatives develops, i.e. when the relevant market information becomes available, the Bank will recognize in the balance sheet (as assets or liabilities) and the income statement (initially positive or negative fair value) the difference between the market value of transactions and initial fair value of derivatives determined using valuation techniques. In accordance with the existing accounting policy of the Bank, adjustments to fair value of financial instruments held for trading are recognized at the end of each month, and the effect of changes in fair value are recognized in the income statement as unrealized foreign exchange gains or losses. Derivatives are recognized as assets or liabilities depending on whether their fair value is positive or negative. Derivatives are derecognized at the moment of expiry of contracted rights and obligations arising from derivatives (exchange of cash flows), i.e. at termination date. At that moment, the ultimate effect of foreign exchange differences is recorded against realized foreign exchange differences, and all previously recognized changes in fair value (through unrealized foreign exchange differences) are reversed.

Since there is neither an active market for derivatives in Serbia, nor a possibility for determining fair value of derivatives by reference to a quoted market price, the Bank uses the methodology of discounting future cash flows arising from derivatives in order to determine fair value. This methodology of calculation is generally accepted by market participants in countries that have developed markets with active trading in derivatives and the calculated fair value represents a reliable estimate of the fair value which would be achieved on an active market.

The methodology incorporates market factors (median exchange rate, interest rates and similar) and is consistent with generally accepted methodologies for valuation of derivatives. At least once per month, the Bank performs back-testing and calibration of the implemented methodology for calculation of fair value by using market variables and alternative calculation methods.

2.7.2. 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 receivables to banks and customers are recognized in the balance sheet when cash is advanced to debtors. Loans and receivables are initially recognized at fair value. After initial recognition, loans are measured at amortized cost using the interest rate method, less allowance for loan impairment and any amounts written off.

Interest income and receivables in respect of these instruments are recorded and presented under interest income and interest, fees and commissions receivable, respectively. Fees which are part of effective yield on these instruments are recognized as deferred income and credited to the income statement as interest income over the life of a financial instrument using the straight-line method, which approximates the effective yield.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

The Bank negotiates a foreign currency clause with the beneficiaries of the loans. Loans and receivables in dinars, with contracted foreign currency clause, i.e. dinar-eur, dinar-usd and dinar-chf foreign exchange rate, are revalued in accordance with the contract signed for each loan. The difference between the carrying amount of loan and the amount calculated from foreign currency clause applied is disclosed within loans and receivables. Gains and losses resulting from the application of foreign currency clause are recorded in the income statement, as gains/losses from changes in value of assets and liabilities.

Impairment of financial assets and provisions for risks

The Bank, in accordance with internal policy, assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and placements with banks and customers, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Bank identifies that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it is included in a group of financial assets with similar credit risk characteristics that are collectively assessed for impairment. 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 there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account, while impairment losses on loans and advances and other financial assets carried at amortized cost are charged to the income statement (Note 7). Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement (Note 7).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.2. Loans and receivables (continued)

Impairment of financial assets and provisions for risks (continued)

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling that collateral.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank’s internal credit grading system that takes into account credit risk characteristics. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist at the balance sheet date. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Direct write-offs for past due loans and receivables, partial or in full, may be performed during the year if inability of their collection is certain, i.e. impairment is recognized and documented. Write off is made based on the court decisions, or based on decisions made by the Bank’s authorities.

Uncollectable receivables write-off

On 24 November 2010, the Bank has adopted the Procedure on Write-off of Uncollectable Receivables. The procedure relates to the write-off of receivables that meet the following requirements: delay in payment of receivable is more than 360 days; the Bank has failed to collect receivables despite the implementation of all activities of collection specified by its policies and procedures; judicial or extrajudicial procedures of settlement of receivables have been initiated; receivables are fully impaired.

Exceptionally, receivables that do not fulfil the above mentioned requirements may be written-off if such decision is made by the appropriate authority, Asset Quality Committee, in accordance with the authorizations delegated by the Board of Directors.

2.7.3. Renegotiated Loans

If the Bank estimates that the clients delay in payment is temporary and that, under adjusted agreed conditions, the client could fulfil obligations toward Bank regularly, the Bank seeks to restructure loans rather than to activate collaterals. This may involve extending repayment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original effective interest rate, before renegotiation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.4. Securities Held-to-Maturity

Securities held-to-maturity is 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.

Securities held-to-maturity is subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. The amount of impairment loss for investments held to maturity is calculated as the difference between the investments' carrying amount and the present value of expected future cash flows discounted at the investment's original effective interest rate.

2.7.5. Securities available for sale

Securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as "available for sale".

They comprise shares and investments in shares of other banks and companies, as well as treasury bills of the Republic of Serbia with maturity over 3 months.

Upon initial recognition, these instruments are measured at fair value. Investments in shares that are not quoted, and whose value cannot be determined with certainty, are measured at cost. The fair values of quoted investments in active markets are based on current bid prices.

Unrealized gains and losses are recognized directly in revaluation reserves, in equity, until the security is not sold, collected or otherwise realized, or until the security is not impaired. In the case of disposal or impairment of security, accumulated gains or losses, previously recognized in equity, are recognized in gains or losses from sales of securities in the income statement. For all estimated risks that investments in shares and other securities available for sale will not be collected, the Bank recognizes allowances for impairment.

Interest income on treasury bills of the Republic of Serbia is calculated and recognized monthly.

Dividend income in respect of investments in shares of other legal entities, and income from investments in equity instruments of other legal entities is recognized as income at the moment of collection.

In case of securities available for sale, the Bank assesses on an individual basis whether there is objective evidence of impairment, based on the same criteria applied to financial assets carried at amortized cost. Also, impairment already recognized represents cumulative loss valued as difference between amortized cost and current fair value, less any impairment loss previously recognized in the income statement. The Bank records impairment changes on available-for-sale equity investments when there has been a significant of prolonged decline in fair value below cost. When there is evidence of impairment, the cumulative loss, measured as the difference between cost and fair value, decreased for any impairment of investment previously recognized in the income statement, is transferred from equity and recognized in the income statement, while the increase in fair value, after recognition of impairment, is recognized in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.6 Deposits from banks and customers

All deposits from banks and customers, as well as other interest-bearing financial liabilities are initially recognized at fair value decreased by transaction costs, except for financial liabilities through profit and loss. After initial recognition, interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method.

2.7.7. Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost.

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

2.7.8. Operating liabilities

Trade payables and other short-term operating liabilities are stated at nominal value.

2.8. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.9. Special reserves for estimated losses on bank balance sheet assets and off-balance sheet items

Special reserves for estimated losses on balance sheet assets and off-balance sheet items are calculated in accordance with the National Bank of Serbia’s “Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items” (“Official Gazette of the Republic of Serbia“, no. 94/2011, 57/2012, 123/2012 and 43/2013).

All receivables from a single borrower (balance sheet and off-balance sheet exposure) are classified in categories from A to D, in accordance with the assessment of their recoverability. Collectability of receivables from a single borrower is assessed based on the borrower's payment record and his financial position, number of days past due, overdue principal and interest as well as based on the quality of collaterals pledged.

In accordance with the classification of receivables and pursuant to the aforementioned Decision, the amount of the special reserves against potential losses is calculated by applying the following percentages: A (0%), B (2%), V (15%), G (30%) and D (100%).

Through its internal act, the Bank has defined the criteria and methodology for determining classification of receivables and calculation of special reserves in accordance with the criteria defined in the “Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items”. Basic criteria for classification of receivable include the borrower’s timeliness in settlement of obligations, financial position and business performance, adequacy of cash flows as well as adequate collateral.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Calculated special reserves for estimated losses are reduced by allowances for impairment of balance sheet assets and provisions against losses on off-balance sheet items, which are calculated in accordance with the Bank's accounting policy disclosed in Note 2.7.2. and charged to the income statement (Note 7).

The amount of special reserves for estimated losses, after reducing by allowances for impairment of balance sheet assets and provisions against losses on off-balance sheet items, is deducted from capital when calculating the Bank's regulatory capital.

2.10. Cash and cash equivalents

Cash and cash equivalents comprise of cash at current account and cash on hand (in Dinars and in foreign currency), gold and other precious metals, checks and current accounts in foreign currency held with other domestic banks and foreign banks, as well as treasury bills of the Republic of Serbia with maturity up to 3 months.

2.11. Reverse repurchase agreements

Securities acquired under agreements to resell at a specified future date are recognized in the balance sheet.

The corresponding cash paid, including due interest, is recognized in the balance sheet. The difference between the purchase price and the price at resale date is treated as interest income and is accrued over the life of the agreement.

2.12. *Investments in subsidiaries*

Subsidiaries are legal entities in which the Bank has ownership of more than 50 percent, or otherwise holds more than half of voting rights, or the right to manage the financial (business) policy of the subsidiary.

As of 31 December 2013, the Bank owns 100% of capital of Intesa Leasing d.o.o., Beograd. Equity investment in the aforementioned subsidiary is stated at cost, less allowance for impairment (Note 20).

In accordance with IAS 27 "Consolidated and Separate Financial Statements", the Bank prepares consolidated financial statements. In preparing consolidated financial statements, the Bank combines its financial statements and the financial statements of its subsidiary line by line by adding together the same items of assets, liabilities, equity, income and expenses. All intra-group balances and transactions, including income, expenses and unrealized gains, are eliminated in full.

2.12.1 Investments in associates

In accordance with IAS 28 "Investments in Associates", investments in associates are neither investments in an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Investments in associates are stated using the equity method and valued as financial assets available for sale.

Investments in associates are classified as financial assets available for sale and are recognized at cost less allowance for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13. Intangible Assets

Intangible assets consist of software, licenses and intangible assets under construction. Intangible assets are carried at cost less any accumulated amortization.

Licenses are initially recognized at cost. They have limited useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method in order to fully write off the cost of these assets over their estimated useful lives (from 5 to 10 years).

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (from 2 to 5 years).

Costs associated with software maintenance are recognized as an expense as incurred.

Costs that are directly associated with identifiable and unique software controlled by the Bank, and which will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the salaries of the team that developed the software, as well as appropriate portion of related overheads.

Amortization of intangible assets is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives, as follows:

- Licenses and similar rights	10%-20%
- Software	20%-50%

Intangible assets include unamortized software in progress, since it is still not in use.

2.14.1. Property and equipment and investment property

As of 31 December 2013, property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized 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 recognized in the income statement of the financial period in which they are incurred.

The Bank owns property as investments for generating rental income and/or appreciation in the market value of the property. Investment property is stated at cost less accumulated depreciation.

Depreciation is calculated using the straight-line method applied to cost of fixed assets, using the following prescribed annual rates in order to write them off over their useful lives:

Buildings	2.5%
Computer equipment	20%
Furniture and other equipment	7% - 25%
Investment property	2.5%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In determining the basis for depreciation, the depreciable values of assets equal their cost or revalued amount, since the Bank assesses the residual values of assets as nil.

Calculation of depreciation of property and equipment commences at the beginning of the month following the month when an asset is put into use. Assets under construction are not depreciated. Depreciation charge is recognized as expense for the period when incurred.

The useful lives of assets are reviewed periodically, and adjusted if necessary at each balance sheet date. Change in the expected useful life of an asset is considered as a change in an accounting estimate.

Gains or losses from the disposal of property and equipment are credited or debited in the income statement, included in Other operating income or Other operating expenses, respectively.

The calculation of depreciation for tax purposes is determined in accordance with the Law on Corporate Income Tax of the Republic of Serbia and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes. Different depreciation methods used for financial reporting purposes and tax purposes give rise to deferred taxes (Note 13(c)).

2.14.2 Fixed assets held for sale

In accordance with IFRS 5, the Bank classifies an asset as a non-current asset held for sale if its carrying amount will be recovered primarily through a sales transaction, rather than through further use. An asset classified as held for sale must be available for immediate sale in its present condition and its sale must be probable.

In order to make sale probable management of the Bank must be committed to a plan to sell the asset and an active programme to locate a buyer and completion of the plan must have been initiated, and the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

A non-current asset classified as held for sale is measured at the lower amount of the following:

- carrying amount
- fair value less costs to sell.

Once an asset is recognized as a held-for sale asset it is no longer depreciated. (Note 23)

2.15. Impairment of non-financial assets

In accordance with adopted accounting policy, at each balance sheet date, the Bank’s management reviews the carrying amounts of the Bank’s intangible assets, property and equipment. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of an asset’s fair value less costs to sell and value in use. Impairment losses, representing the difference between the carrying amount and the recoverable amount of tangible and intangible assets, are recognized in the income statement as required by IAS 36 “Impairment of Assets”.

Non-financial assets (other than goodwill) that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16. Finance Leases

Bank as a Lessee

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the present value and included in property and equipment with the corresponding liability to the lessor included in other liabilities.

Lease payments are apportioned between finance charges and reduction of the lease liability, so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement as interest expense.

The Lease Agreement specifies that the Bank can, but does not have to, obtain ownership of the leased asset after the expiration of the Lease Agreement.

2.17. Operating Leases

A lease is classified as an operating lease if it does not transfer to the Bank substantially all the risks and rewards incidental to ownership.

Total payments made under operating leases are included in Other operating expenses, when incurred, in the income statement using a straight-line basis over the period of the lease.

2.18. Provisions and Contingencies

Provisions are recognized when the Bank has a present obligation, legal or constructive, as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. In order to be maintained, the best possible estimates are considered, determined and, if necessary, adjusted at each balance sheet date. When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are derecognized in income. Provisions are taken into account in accordance with their type and they can be used only for the expenses they were recognized initially for. Provisions are not recognized for future operating losses.

Contingent liabilities are not recognized in the financial statements. Contingent liabilities are disclosed in the notes to the financial statements (Note 35), unless the possibility of outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements. Contingent assets are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

2.19. Equity

Equity consists of share capital (ordinary shares), other capital, share premium, reserves from profit and retained earnings.

Dividends on ordinary shares are recognized as a liability and deducted from equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the balance sheet date are disclosed as an event after the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20. Employee benefits

(a) Employee taxes and Contributions for Social Security

In accordance with the regulations prevailing in the Republic of Serbia, the Bank is obliged to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee by the employer, in an amount calculated by applying specific rates prescribed by law. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. The Bank has no legal obligation to pay further benefits due to its employees by the Pension Fund of the Republic of Serbia upon their retirement.

(b) Termination Benefits arising from Restructuring

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 recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(c) Other Employee Benefits - Retirement Benefits

In accordance with the Labour Law and article 33 of the General collective agreement, the Bank is obligated to pay retirement benefits in the amount equal to 3 average salaries in the moment of payment, while this amount cannot be lower than 3 salaries of employee, 3 average salaries in the Bank in the moment of payment or 3 average salaries realized in the Republic of Serbia, according to the latest data published by statistical office of the Republic, if that is favourable for the employee. The entitlement to these benefits usually depends on the employee remaining in service up to retirement age and/or the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Provision for retirement benefits and unused days of vacation are calculated by an independent actuary and are recognized in the balance sheet at present value of discounted estimated future outflows (Note 29 (c)).

2.21. Taxes and contributions

(a) Income Taxes

Current Income Tax

Current income tax represents an amount that is calculated and paid in accordance with the effective Law on Corporate Income Tax of the Republic of Serbia. During the year, the Bank pays income tax in monthly instalments, based on the prior year’s tax return. Final tax base used for calculating income tax at the prescribed rate of 15% is disclosed in the Tax return.

The most significant change in the Law on Corporate Income Tax applied during 2013 (next to the new tax rate of 15%) is the introduction of documentation related to transfer pricing, as well as all methods for their determination recognized by OECD.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21. Taxes and contributions (continued)

(a) Income Taxes (continued)

Current Income Tax (continued)

In order to determine the amount of taxable income, accounting profit is adjusted for certain permanent differences and reduced for certain investments undertaken during the year, as shown in the annual Tax Balance which is to be submitted within 180 days from the end of the period for which the tax liability is determined, except in the case of status changes, liquidation or bankruptcy of the taxpayer, when it is submitted within 15 days after the end of the period for summiting the financial statements.

In accordance with the Law on Corporate Income Tax of the Republic of Serbia, when investing in fixed assets, a tax credit is recognized in the amount equal to 20% of the investment, and this tax credit may not exceed 33% of computed tax liability for the year in which this investment was made. The unused portion of the tax credit may be transferred to the future income tax account, but not for more than 10 years.

Deferred income tax

Deferred tax is provided for using the balance sheet liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rate enacted at the balance sheet date is used to determine the deferred income tax amount.

Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit, nor taxable profit or loss; and in respect of deductible temporary differences associated with investments in subsidiaries and associates when deferred tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are calculated at tax rates that are expected to be effective in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21. Taxes and contributions (continued)

(a) Income Taxes (continued)

Deferred income tax (continued)

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

Deferred income taxes related to items that are recorded directly in equity are also recorded in equity.

(b) Taxes and contributions not related to operating result

Taxes and contributions not related to operating result include property tax, value added tax, contributions on salaries charged to employer, as well as other taxes and contributions that are paid in accordance with tax regulations of the Republic of Serbia and local tax regulations. These taxes and contributions are presented as part of operating and other business expenses (Note 10).

2.22. Funds Managed on Behalf of Third Parties

The funds that the Bank manages on behalf of, and for the account of third parties, are disclosed within off-balance sheet items (Note 32(a)). The Bank is not exposed to any risk in respect of repayment of these placements.

3. INTEREST INCOME AND INTEREST EXPENSES

a) Interest income and expenses by sector structure are presented as follows:

		RSD thousand
	2013	**2012**
Interest income		
– National Bank of Serbia and other banks	2,727,501	2,548,696
– Corporate customers	12,704,859	14,708,893
– Public sector	4,908,275	4,192,749
– Other customers	187,794	303,432
– Foreign entities	97,500	60,728
– Retail customers	8,962,849	9,526,473
Total	**29,588,778**	**31,340,971**
Interest expenses		
– National Bank of Serbia and other banks	310,545	738,516
– Corporate customers	3,021,833	3,064,962
– Public sector	648,616	631,464
– Other customers	287,524	653,258
– Foreign entities	1,103,177	1,950,173
– Retail customers	4,227,244	4,751,678
Total	**9,598,939**	**11,790,051**
Net interest income	**19,989,839**	**19,550,920**

b) Interest income and expenses by type of financial instruments are presented as follows:

		RSD thousand
	2013	**2012**
Interest income		
Loans	22,483,109	25,188,868
Reverse REPO transactions	1,272,823	1,155,339
Obligatory reserve	559,853	434,983
Deposits	259,411	168,577
Securities	3,953,490	3,125,180
Other placements	1,060,092	1,268,024
Total	**29,588,778**	**31,340,971**
Interest expenses		
Loans	1,070,242	1,902,398
Deposits	8,517,839	9,874,600
Securities	2,784	-
Other interest expenses	8,074	13,053
Total	**9,598,939**	**11,790,051**
Net interest income	**19,989,839**	**19,550,920**

4. FEE AND COMMISSION INCOME AND EXPENSES

		RSD thousand
	2013	**2012**
Fee and commission income		
Fee for banking services:		
– Domestic payment transaction services	2,346,293	2,267,507
– International payment transaction services	560,120	502,536
– Loan operations	168,419	77,171
– Cards operations	2,585,242	2,478,174
	5,660,074	**5,325,388**
Commissions in respect of issued guaranties and letter of credits	714,521	774,868
Other fee and commission	1,800,883	1,790,487
Total	**8,175,478**	**7,890,743**
Fee and commission expenses		
Fee for payment transaction services:		
– Domestic	209,905	201,415
– International	127,035	146,018
National Bank of Serbia's fee and commission	58,872	50,899
Credit Bureau's fees	138,135	30,667
Fee for cards operations	2,010,451	1,773,042
Other fees and commissions	103,740	90,063
Total	**2,648,138**	**2,292,104**
Net fee and commission income	**5,527,340**	**5,598,639**

Other fees and commission income in 2013 mostly relate to fees for the maintenance of current accounts in the amount of RSD 1,277,014 thousand as well as fees for payment slips, EDB and Telekom Serbia in the amount of RSD 289,300 thousand.

5. INCOME ON SALE OF SECURITIES, EQUITY INVESTMENTS AND OTHER PLACEMENTS

a) Income on sales of securities and equity investments

		RSD thousand
	2013	**2012**
Net profit on sale of securities at fair value through profit and loss	590	1,008
Net profit on sale of available for sale securities	4,332	49,855
Net profit on sale of equity investments	-	434
Dividends and share income	1,527	2,925
Total	**6,449**	**54,222**

b) Other operating income

		RSD thousand
	2013	**2012**
Collected written-off receivables	436,457	163,089
Rental income	40,178	20,889
Gains on sales of fixed assets and surpluses	22,694	28,749
Reimbursed expenses	12,653	6,573
Other income	164,150	335,240
Total	**676,132**	**554,540**

6. NET FOREIGN EXCHANGE GAINS/(LOSSES)

		RSD thousand
	2013	**2012**
Foreign exchange gains	93,856,519	196,686,276
Foreign exchange losses	(93,500,315)	(209,949,949)
Total	**356,204**	**(13,263,673)**

7. NET EXPENSES FOR INDIRECTLY WRITTEN-OFF PLACEMENTS AND PROVISIONS

a) Net expenses for indirectly written-off placements and provisions

		RSD thousand
	2013	**2012**
Expenses for indirectly written-off placements and provisions		
Impairment losses for balance-sheet assets:	11,414,088	10,566,354
Provisions for off-balance sheet items:	**511,332**	**591,570**
Provisions for:		
– long-term employee benefits	56,954	123,197
– litigations	71,873	70,518
– other liabilities - arising from VAT	-	-
	128,827	**193,715**
Total	**12,054,247**	**11,351,639**
Reversal of impairment losses		
- Reversal of impairment losses on balance sheet assets	4,013,963	4,789,873
- Suspended interest	169,299	293,616
	4,183,262	**5,083,489**
Release of provision for losses on off-balance sheet assets	**806,833**	**658,917**
Release of provisions for::		
– Long-term employee benefits	-	144,412
– Litigations	98,824	96,697
	98,824	**241,109**
Total	**5,088,919**	**5,983,515**
Net expenses for indirectly written-off placements and provisions	**6,965,328**	**5,368,124**

7. NET EXPENSES FOR INDIRECTLY WRITTEN-OFF PLACEMENTS AND PROVISIONS (continued)

(b) Movements in the allowance for impairment of financial assets and provisions

Movements in the allowance for impairment of loans and other financial assets and provisions during the 2013 are presented as follows:

RSD thousand

	Cash and cash equivalents (Note 15)	Interest and fee receivable (Note 17)	Loans, Advances and deposits (Note 18)	Securities Available for sale (Note 19)	Equity investments (Note 20)	Other placements (Note 21)	Other assets (Note 24)	Provisions ((Note 29)	Total
Balance as of 31 December 2012	**11,271**	**1,976,969**	**17,693,191**	**20,970**	**720**	**1,560,162**	**9,507**	**1,922,334**	**23,195,124**
Additions	58,358	675,793	9,296,555	5,412	-	1,335,032	42,939	640,160	12,054,249
Reversals through Income statement	(39,607)	(294,236)	(2,990,871)	-	-	(652,773)	(36,477)	(905,657)	(4,919,621))
FX losses on impairment for financial assets	826	11,834	527,061	-	-	33,194	1,122	29,128	603,165
FX gains on impairment of financial assets	(468)	(8,715)	(401,586)	-	-	(24,546)	(602)	(28,706)	(464,623)
Transfer to off-balance	-	(422,126)	(2,521,315)	-	-	(302,633)	(79)	-	(3,246,153)
Other	-	3,146	17,350	-	-	-	-	-	20,496
Additions	-	(17,091)	102,684	-	-	(85,593)	1,232	(125,653)	(124,421)
Balance as of 31 December 2013	**30,380**	**1,925,574**	**21,723,069**	**26,382**	**720**	**1,862,843**	**17,642**	**1,531,606**	**27,118,216**

8. SALARIES, WAGES AND OTHER PERSONAL EXPENSES

		RSD thousand
	2013	**2012**
Net salaries	3,223,372	3,312,415
Tax on employee benefits	439,831	511,654
Contributions on employee benefits	766,778	720,016
Other personal expenses	60,491	178,721
Total	**4,490,472**	**4,722,806**

9. DEPRECIATION AND AMORTIZATION

		RSD thousand
	2013	**2012**
Depreciation and amortization:		
– Amortization of intangible assets (Note 22)	307,420	363,702
– Depreciation of property, equipment and investment property (Note 23)	599,763	613,989
Total	**907,183**	**977,691**

10. OTHER OPERATING EXPENSES

		RSD thousand
	2013	**2012**
Material, energy and spare parts	448,457	464,281
Professional services	613,604	657,977
Advertising, marketing and entertainment expense	377,909	473,862
Mail and telecommunication expenses	358,485	403,600
Insurance premiums	1,071,788	969,105
Maintenance of property and equipment	448,356	401,503
Rental cost	930,657	934,768
Fees and commission	187,920	181,612
Taxes and contributions	913,703	927,622
Physical-technical security	224,076	210,771
General and administrative expenses	325,502	275,662
Direct write-off of receivables	324,771	140,999
Losses on write-offs, disposals and shortages of property, equipment and intangible assets	51,759	3,953
Other expenses	305,924	206,176
Total	**6,582,911**	**6,323,778**

11. GAINS FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

RSD thousand

	2013	2012
Gains from changes in value of loans and receivables	11,754,340	30,487,058
Gains from changes in value of securities	17,192	13,880
Gains from changes in value of derivatives	62,792	275,234
Gains from changes in value of other financial assets	-	-
Gains from changes in value of liabilities	337,718	614,580
Total	**12,172,042**	**31,390,752**

12. LOSSES FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

RSD thousand

	2013	2012
Losses from changes in value of loans and receivables	10,201,374	15,038,142
Losses from changes in value of securities	2,434	3,567
Losses from changes in value of derivatives	14,118	68,938
Losses from changes in value of liabilities	346,446	1,077,772
Total	**10,564,372**	**16,188,419**

13. INCOME TAX

(a) Components of Income Tax

The components of income tax expense are:

RSD thousand

	2013	2012
Current income tax	623,097	830,548
Gains from deferred tax assets and reduction of deferred tax liabilities	(21,105)	(27,827)
Loss from reduction of deferred tax assets and creation of deferred tax liabilities	8,223	8,903
Total	**610,215**	**811,624**

13. INCOME TAX (continued)

(b) Reconciliation of total amount of income tax stated in the income statement with the amount of profit before tax multiplied by prescribed tax rate is as follows:

		RSD thousand
	2013	**2012**
Profit before tax	**9,217,741**	**10,304,582**
Income tax at the rate of 15% (2012 - 10%)	**1,382,661**	**1,030,458**
Tax effects of expense reconciliation – permanent differences	42,371	69,855
Tax effects of revenue reconciliation – permanent differences	(804,297)	(51,653)
Tax effects of depreciation differences recognized for tax and statutory reporting – temporary differences	28,538	23,941
Tax effects of expenses that will be recognized in subsequent period – temporary differences	4,629	(12,356)
Tax credits on investments in non-current assets	(30,804)	(247,821)
Effects of interest on arm's length basis	-	17,801
Other	-	324
Income taxes stated in the income statement	**623,097**	**830,548**
Effective tax rate	***6.76%***	***8.06%***

For the purpose of determining legal obligations arising from income tax for the period 1 January - 31 December 2013 the Bank has adjusted expenditure and income reported in the income statement in accordance with the legal provisions. Consequently, the tax base increased for the amount of provisions totalling RSD 128,827 thousand, due to:

- Provisions for litigations in accordance with IAS 37 „Provisions, Contingent Liabilities and Contingent Assets" in the amount RSD 71,873 thousand
- Provisions for restructuring in accordance with IAS 37 „Provisions, Contingent Liabilities and Contingent Assets" in the amount RSD 55,028 thousand
- Provisions in accordance with IAS 39 „Employee benefits" in the amount of RSD 1,926 thousand.

In accordance with the abovementioned the bank made an adjustment on the revenue side by excluding interest income generated by debt securities issued by the Republic, local government and the National Bank of Serbia from the tax base, for a total of RSD 5,230,398 thousand.

(c) Deferred Tax Assets

Deferred tax assets relate to taxable temporary differences between carrying amounts of tangible and intangible assets and their tax bases, as well as to differences resulting from fair value of derivatives and their carrying amounts.

Movements in deferred tax assets during the year were as follows:

		RSD thousand
	2013	**2012**
Balance as of 1 January	**66,240**	**47,317**
Effects of temporary differences credited to income statement	12,882	18,923
Balance as of 31 December	**79,122**	**66,240**

14. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit by the weighted average number of shares during the year. As of December 31, 2013 the Bank has no preferred shares.

	2013	2012
Net Profit	8,607,525,553	9,492,957,705
Weighted average number of shares	213,159	213,159
Earnings per share in RSD	**40,381**	**44,535**

15. CASH AND CASH EQUIVALENTS

		RSD thousand
	2013	2012
In Dinars		
Gyro account	10,231,320	25,213,115
Cash on hand	4,495,856	4,426,442
Bonds of Ministry of Finance of Republic of Serbia, with maturity up to 90 days	1,491,434	1,359,014
	16,218,610	**30,998,571**
In foreign currency		
Current accounts held with foreign banks	2,816,989	1,520,652
Foreign currency cash on hand	2,336,854	2,395,797
Other monetary assets	35,133	45,661
	5,188,976	**3,962,110**
Gold and precious metals	44,471	64,165
Gross balance as of 31 December	**21,452,057**	**35,024,846**
Less: Allowance for impairment (Note 7 (b))		
- In dinars	-	-
- In foreign currency	(30,380)	(11,271)
	(30,380)	**(11,271)**
Balance as of 31 December	**21,421,677**	**35,013,575**

The obligatory reserve in dinars is the minimal reserve in dinars allocated in accordance with the National Bank of Serbia's Decision on Banks' Obligatory Reserve Held with the National Bank of Serbia (Official Gazette of Republic of Serbia no. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012 and 62/2013).

The Bank is required to calculate and allocate the obligatory reserve in dinars by applying 5% on the average daily balance of liabilities in dinars with contractual maturity up to 730 days, while 0% is applied on the average daily balance of liabilities in dinars with contractual maturity over 730 days. These percentages are calculated on the average daily balance of liabilities in local currency during the preceding calendar month and a bank allocates the calculated amount to its gyro account with the National Bank of Serbia. The Bank calculates the obligatory reserve in dinars on deposits in dinars, loans and securities, and other obligations in dinars, excluding dinar deposits received under transactions performed on behalf and for the account of third parties that are not in excess of the amount of the investment made from such deposits as defined by the Decision. The obligatory reserve in dinars is also calculated as part of the foreign currency obligatory reserve applying 32% to the foreign currency obligatory reserve calculated on liabilities denominated in foreign currency, with contractual maturity of up to 730 days and average daily balance of liabilities in dinars denominated in foreign currency, while 24% is applied on the foreign currency obligatory reserve calculated on liabilities in foreign currency with contractual maturity over 730 days.

15. CASH AND CASH EQUIVALENTS (continued)

During the maintenance period, the Bank is obliged to maintain an average daily balance of the obligatory reserve in dinars at the level of the calculated obligatory reserve in dinars.

As of 31 December 2013, the obligatory reserve in dinars amounted to RSD 22,485,983 thousand and was in accordance with the aforementioned Decision of the National Bank of Serbia.

The average interest rate on the balance of the obligatory reserve in dinars set aside amounted to 2.50% per annum during 2013.

16. REVOCABLE DEPOSITS AND LOANS

		RSD thousand
	2013	**2012**
In Dinars		
Reverse repurchase agreements	30,000,000	10,000,000
	30,000,000	**10,000,000**
In foreign currency		
Obligatory reserve with the National Bank of Serbia	39,453,952	46,757,728
	39,453,952	**46,757,728**
Balance as of 31 December	**69,453,952**	**56,757,728**

Obligatory foreign currency reserve with the National Bank of Serbia

In accordance with the National Bank of Serbia's Decision on Banks' Obligatory Reserve Held with the National Bank of Serbia (Official Gazette of Republic of Serbia no. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012 and 62/2013), the Bank calculates and allocates the obligatory reserves by applying 29% on the average daily balance of foreign currency deposits, as well as 50% on the average daily balance of foreign currency clause-indexed dinar liabilities in the preceding calendar month, except for liabilities defined by the Decision, with contractual maturity up to 730 days. The Bank applies 22% on the aforementioned liabilities with contractual maturity over 730 days. The Bank allocates 68% of calculated foreign currency obligatory reserve for foreign currency liabilities with contractual maturity up to 730 days, as well as foreign currency clause-indexed dinar liabilities, and 76% of calculated foreign currency obligatory reserve for foreign currency liabilities with contractual maturity over 730 days. The bank allocates calculated amount to its foreign currency gyro account with the National Bank of Serbia.

The Bank is obliged to maintain an average daily balance of obligatory foreign currency reserve at the level of calculated foreign currency reserve, in the calculation period.

The National Bank of Serbia does not pay interest on obligatory reserve in foreign currency.

As of 31 December 2013, the Bank's obligatory reserve in foreign currency was in compliance with the aforementioned Decision of the National Bank of Serbia.

Reverse repurchase agreements

Reverse repurchase agreements are recognized as placements or borrowings. They represent purchase and sale of securities, where the contractual parties agree that securities are sold by a seller to a buyer at purchase cost as of the date of transaction, while at the same time the buyer is obligated to resell the same securities to the seller, who is obligated to pay the agreed repurchase price.

Reverse repurchase agreements in the amount of RSD 30,000,000 thousand as of 31 December 2013 relate to purchase of treasury bills from the National Bank of Serbia with maturity period of 8 days.

17. INTEREST AND FEE RECEIVABLES, RECEIVABLES FROM SALES, CHANGES IN FAIR VALUE OF DERIVATIVES AND OTHER RECEIVABLES

RSD thousand

	2013	2012
In Dinars		
Interest and fee receivables:		
– Other banks	62,968	190,622
– National Bank of Serbia	21,880	21,623
– Corporate customers	3,030,421	3,016,057
– Public sector	1,004,305	249,363
– Retail customers	741,696	752,515
– Foreign entities	1,780	1,952
– Other customers	559,641	658,390
Receivables from sales	7,733	2,568
Receivables from changes in fair value of derivatives	62,792	275,234
	5,493,216	**5,168,324**
In foreign currency		
Interest and fee receivables:		
– Other banks	-	4
– National Bank of Serbia	-	-
– Corporate customers	65,619	39,844
– Public sector	-	1
– Retail customers	14,834	13,923
– Foreign entities	21,457	10,297
– Other customers	19,951	22,809
	121,861	**86,878**
Gross receivables	**5,615,077**	**5,255,202**
Less: Allowance for impairment (Note 7(b))		
– in dinars	(1,891,315)	(1,943,063)
– in foreign currency	(34,259)	(33,906)
	(1,925,574)	**(1,976,969)**
Balance as of 31 December	**3,689,503**	**3,278,233**

18. LOANS AND ADVANCES

Loans and advances by type of customer

RSD thousand

	2013			2012		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In dinars						
Loans and placements to:						
– Other banks	5,175,628	4,519,866	9,695,494	1,763,912	7,053,187	8,817,099
- Corporate customers	45,288,308	103,837,460	149,125,768	35,435,134	118,700,330	154,135,464
– Retail costumers	9,612,283	74,505,222	84,117,505	7,658,657	77,132,821	84,791,478
– Public sector	73,820	10,461,170	10,534,990	63,896	12,084,792	12,148,688
– Foreign entities	33,955	308,910	342,865	33,540	335,841	369,381
– Other customers	5,167,867	883,257	6,051,124	5,537,060	1,401,921	6,938,981
Total in RSD	**65,351,861**	**194,515,885**	**259,867,746**	**50,492,199**	**216,708,892**	**267,201,091**
In foreign currency						
Loans and placements to:						
– Other banks	18,342,788	1,719	18,344,507	187	1,822	2,009
- Corporate customers	367,076	4,381,712	4,748,788	833,496	4,881,588	5,715,084
– Retail costumers	77,257	609,746	687,003	77,400	564,535	641,935
– Public sector	334	2,229,330	2,229,664	7	3,317,260	3,317,267
– Foreign entities	1,281,282	6,920	1,288,202	228,084	641	228,725
– Other customers	91,539	1,396	92,935	136,219	1,360	137,579
Total in foreign currency	**20,160,276**	**7,230,823**	**27,391,099**	**1,275,393**	**8,767,206**	**10,042,599**
Gross loans and advances	85,512,137	201,746,708	287,258,845	51,767,592	225,476,098	277,243,690
Less: Allowance for impairment (Note 7(b))	(13,973,115)	(7,749,954)	(21,723,069)	(11,398,226)	(6,294,965)	(17,693,191)
Balance as of 31 December	**71,539,022**	**193,996,754**	**265,535,776**	**40,369,366**	**219,181,133**	**259,550,499**

RSD loans with currency clause are presented within local currency loans and placements.

Short-term loans have been granted to corporate customers for financing business activities in trading, manufacturing, construction, agriculture and food processing industry as well as for other purposes, at the rates ranging from 9% to 26% per annum for loans in Dinars, and from 4% to 14% per annum for loans indexed by a foreign currency clause or indexed in foreign currency.

Long-term loans to corporate customers in dinars bear interest rate ranging from 9.5% to 21.05% per annum, and from 3.5% to 14% per annum for long-term loans in dinars indexed by a foreign currency as well as loans in foreign currency.

Short-term retail loans and loans to small Corporate customers bear interest rates ranging from 3% to 18.5% annually in case of loans indexed by a foreign currency, and from 9.5% to 26% for loans that are not indexed with a foreign currency clause.

Interest rate on retail overdrafts is 2.25%-2.8% monthly, and on overdrafts for small Corporate customers

1.7%-2.9% monthly.

Long-term retail loans and loans to small Corporate customers have been granted for purchase of consumer goods, renovating, adaptation and purchase of business and residential space for a period from 18 months up to 30 years, bearing interest at rates ranging from 1.99% to 19.32% annually in case of loans indexed with a foreign currency and from 9.5% to 26% annually for loans that are not indexed with a foreign currency.

19. SECURITIES

RSD thousand

	2013			**2012**		
	Securities at fair value through profit or loss	**Securities available for sale**	**Total**	**Securities at fair value through profit or loss**	**Securities available for sale**	**Total**
Securities and other placements:						
– Equity investments	51,144	48,845	99,989	33,040	23,232	56,272
– Debt securities issued by the Government of the Republic of Serbia	-	40,745,929	40,745,929	11,331	34,778,957	34,790,288
	51,144	**40,794,774**	**40,845,918**	**44,371**	**34,802,189**	**34,846,560**
Fair value adjustments	28,367	476,119	504,486	7,104	249,036	256,140
Gross securities	**79,511**	**41,270,893**	**41,350,404**	**51,475**	**35,051,225**	**35,102,700**
Less: Allowance for impairment (Note 7(b))	-	(26,382)	(26,382)	-	(20,970)	(20,970)
Balance as of 31 December	**79,511**	**41,244,511**	**41,324,022**	**51,475**	**35,030,255**	**35,081,730**

20. EQUITY INVESTMENTS

		RSD thousand
	2013	2012
Investments in subsidiaries:		
– Intesa Leasing d.o.o., Beograd – 100.00% of capital	962,496	962,496
Less: Allowance for impairment (Note 7(b))	-	-
	962,496	**962,496**
Equity investments in other legal entities:		
Alma Mons d.o.o., Novi Sad	30	30
Bancor Consulting Group d.o.o., Novi Sad	267	267
Pan trgovina d.o.o., Novi Sad	466	466
Nikola Tesla d.o.o., Subotica	-	-
Veeda d.o.o., Vranje	29	29
Poslovni Inkubator d.o.o., Beočin	-	-
Less: Allowance for impairment (Note 7(b))	(720)	(720)
	72	**72**
Balance as of 31 December	**962,568**	**962,568**

21. OTHER PLACEMENTS

		RSD thousand
	2013	2012
In Dinars		
Purchased placements - Factoring	1,658,768	3,171,461
Receivables for guarantees paid	965,568	1,547,336
Placements in respect of assigned receivables	6,172,158	5,756,801
Other placements	2,107,831	103,200
	10,904,325	**10,578,798**
In foreign currency		
Guarantees payments receivables	976,547	-
Other placements	37,391	178,255
	1,013,938	**178,255**
Gross placements	11,918,263	10,757,053
Less: Allowance for impairment (Note 7(b))		
– in dinars	(1,852,296)	(1,560,162)
– in foreign currency	(10,547)	
	(1,862,843)	**(1,560,162)**
Balance as of 31 December	**10,055,420**	**9,196,891**

22. INTANGIBLE ASSETS

RSD thousand

	Licenses	Software	Intangible assets in progress	Total
COST OR VALUATION				
Balance as of 1 January 2012	276,564	964,747	60,999	1,302,310
Additions during the year	210,891	552,616	808,940	1,572,447
Transfers from assets in progress	-	-	(763,507)	(763,507)
Disposals and write offs	-	-	-	-
Balance as of 31 December 2012	**487,455**	**1,517,363**	**106,432**	**2,111,250**
Additions during the year	-	242,948	217,007	459,955
Transfers from assets in progress	-		(266,695)	(266,695)
Disposals and write offs	-	-	-	-
Balance as of 31 December 2013	**487,455**	**1,760,311**	**56,744**	**2,304,510**
ACCUMULATED AMORTIZATION				
Balance as of 1 January 2012	161,364	545,547	-	706,911
Amortization (Note 9)	119,580	244,122	-	363,702
Disposals and write offs	-	-	-	-
Transfers from assets in progress				
Balance as of 31 December 2012	**280,944**	**789,669**	**-**	**1,070,613**
Amortization (Note 9)	46,596	260,825	-	307,421
Transfers from assets in progress	-	-	-	
Disposals and write offs	-	-	-	-
Balance as of 31 December 2013	**327,540**	**1,050,494**	**-**	**1,378,034**
Net book value as of:				
– 31 December 2013	**159,915**	**709,817**	**56,744**	**926,476**
– 31 December 2012	**206,511**	**727,694**	**106,432**	**1,040,637**

23. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY, FIXED ASSETS HELD FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS

a) Property, equipment and investment property

RSD thousand

	Land and buildings	Equipment and equipment under finance lease	Leasehold improvem ents	Constructio n in progress	Total property and equipment	Investment property
COST OR VALUATION						
Balance as of 1 January 2012	5,564,816	3,939,677	628,875	157,800	10,291,168	21,829
Additions during the year	-	-	-	1,417,543	1,417,543	-
Transfers from construction in progress	67,833	317,440	62,090	(502,418)	(55,055)	49,278
Transfers directly to P,E &IP	-	-	-	-	-	-
Corrections	(5,760)	5,760	-	-	-	-
Disposals and write offs	-	(35,371)	(30,733)	-	(66,104)	-
Balance as of 31 December 2012	**5,626,889**	**4,227,506**	**660,232**	**1,072,925**	**11,587,552**	**71,107**
Additions during the year	-	-	-	473,309	473,309	-
Transfers from construction in progress	53,617	235,644	62,562	(417,175)	(65,352)	180,579
Correction-decrease in value	(620)	-	-	-	(620)	-
Transfers (from)/to					-	
Disposals and write offs	-	(256,325)	(54,332)	-	(310,657)	-
Balance as of 31 December 2013	**5,679,886**	**4,206,825**	**668,462**	**1,129,059**	**11,684,232**	**251,686**
ACCUMULATED DEPRECIATION						
Balance as of 1 January 2012	757,400	2,586,446	381,314	-	3,725,160	4,088
Depreciation (Note 9)	107,448	419,016	86,568	-	613,032	957
Transfers	-	-	-	-	-	-
Disposals and write offs	-	(34,265)	(26,806)	-	(61,071)	-
Balance as of 31 December 2012	**864,848 -**	**2,971,197 -**	**441,076**	**-**	**4,277,121**	**5,045**
Depreciation (Note 9)	108,433	388,332	96,677	-	593,442	6,320
Surplus for the year		8,402			8,402	
Disposals and write offs	(385)	(249,061)	(50,099)	-	(299,545)	-
Balance as of 31 December 2012	**972,896**	**3,118,870**	**487,654**	**-**	**4,579,420**	**11,365**
Net book value as of::						
– 31 December 2013	**4,706,990**	**1,087,955**	**180,808**	**1,129,059**	**7,104,812**	**240,321**
– 31 December 2012	**4,762,041**	**1,256,309**	**219,156**	**1,072,925**	**7,310,431**	**66,062**

As of 31 December 2013, the Bank has title deeds for property it owns and has no buildings pledged as collateral.

As of 31 December 2013, the carrying value of equipment under finance lease amounts to RSD 44,762 thousand (31 December 2011: RSD 94,804 thousand).

Construction in progress mainly relates to the ongoing construction of the new office building of the Bank. As of 31 December 2013 investments made in the development of projects, obtaining approval, supervision, and compensation paid for land for construction of office building in Block 11a on land lot GP2 in New Belgrade amounting to RSD 1,118,563 thousand.

Using external and internal sources of information in accordance with IAS 36 "Impairment of Assets", in order to analyze the existence of impairment of assets, the Bank's management concluded that there were no indications of impairment of property and equipment in use at the balance sheet date.

b) Fixed assets held for sale and assets from discontinued operations

		RSD thousand
	2013	**2012**
Fixed assets held for sale	344,321	228,010
Fixed assets held for sale and assets from discontinued operations	**344,321**	**228,010**

24. OTHER ASSETS

		RSD thousand
	2013	**2012**
Receivables from employees	4,035	8,837
Receivables for taxes paid in advance, except income taxes	813	265
Advances paid	54,640	53,530
Other receivables from operations	2,251,399	2,091,010
Assets received on foreclosed loans	1,986	1,986
Other assets	1,502,222	803,087
Accrued interest income:		
– in dinars	1,732,955	1,007,109
– in foreign currency	58,931	58,294
Other accrued income::		
– in foreign currency	-	3,145
Deferred interest expenses:		
– in dinars	2,573	10,373
– in foreign currency	26,458	272,209
Other deferred expenses:		
– in dinars	323,969	286,995
– in foreign currency	159,875	179,547
Other accruals:		
– in dinars	1,170	10,105
– in foreign currency	3	-
Total other assets	**6,121,029**	**4,786,492**
Less: Allowance for impairment (Note 7(b))	(17,642)	(9,507)
Balance at 31 December	**6,103,387**	**4,776,985**

Other receivables from operations as of 31 December 2013 amounting to RSD 2,251,399 thousand mostly relate to receivables in dinars with respect to payment cards - Other receivables in dinars from other cards issuers - Master Card, VISA and DINA in the amount of RSD 1,481,329 thousand.

25. TRANSACTION DEPOSITS

RSD thousand

	2013			2012		
	RSD	Foreign currency	Total	RSD	Foreign currency	Total
Other banks	181,057	150,746	331,803	239,571	65,703	305,274
National bank of Serbia	-	-	-	-	-	-
Financial institutions	60,638	26,614	87,252	63,385	6,268	69,653
Voluntary pension funds	21	-	21	-	-	-
Insurance companies	579,919	220,422	800,341	554,455	212,926	767,381
Mutual funds	29,266	895	30,161	139,750	4,861	144,611
Holding companies	215,905	42,016	257,921	564,372	61,822	626,194
Corporate customers	30,977,062	16,972,672	47,949,734	22,914,841	23,773,384	46,688,225
Public sector	14,066	46,524	60,590	10,386	41,798	52,184
Retail customers	14,132,345	41,291,477	55,423,822	10,198,963	34,699,268	44,898,231
Foreign banks	10,880	95,940	106,820	366,663	39,990	406,653
Other foreign entities	181,181	1,596,491	1,777,672	147,770	1,831,391	1,979,161
Other customers	2,875,972	607,753	3,483,725	2,760,962	639,672	3,400,634
Balance as of 31 December	**49,258,312**	**61,051,550**	**110,309,862**	**37,961,118**	**61,377,083**	**99,338,201**

Transaction deposits of corporate customers are placed with interest ranging from 0.5% to 9.5% per annum, depending on the currency and the amount of the deposit.

Transaction deposits of retail customers in dinars are not interest bearing.

26. OTHER DEPOSITS

RSD thousand

	2013			2012		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In Dinars						
Saving deposits:						
– Retail	2,223,664	1,034	2,224,698	1,329,113	1,700	1,330,813
– Foreign entities	15,825	-	15,825	9,184	-	9,184
Special purpose deposits	2,951,685	1,194,281	4,145,966	1,871,417	1,611,713	3,483,130
Other deposits	17,015,437	1,084,035	18,099,472	23,940,064	15,636	23,955,700
Total in RSD	**22,206,611**	**2,279,350**	**24,485,961**	**27,149,778**	**1,629,049**	**28,778,827**
In foreign currency						
Saving deposits:						
– Retail	85,172,339	15,007,508	100,179,847	82,577,569	14,263,154	96,840,723
– Foreign entities	1,874,574	509,208	2,383,782	2,085,296	412,490	2,497,786
Special purpose deposits	4,964,450	3,687,503	8,651,953	5,739,456	3,248,167	8,987,623
Other deposits	26,413,148	1,310,459	27,723,607	24,396,140	698,713	25,094,853
Total in foreign currency	**118,424,511**	**20,514,678**	**138,939,189**	**114,798,461**	**18,622,524**	**133,420,985**
Balance as of 31 December	**140,631,122**	**22,794,028**	**163,425,150**	**141,948,239**	**20,251,573**	**162,199,812**

26. OTHER DEPOSITS (continued)

Term deposits in dinars and foreign currency bear interest rates ranging from 1.8% to 11.00% per annum, depending on the currency and the period for which funds have been deposited.

Special purpose deposits bear no interest.

Retail short-term deposits in dinars bear interest at rates ranging from 7% to 8.5% per annum, depending on the period for which funds have been deposited. The interest rates on retail short-term deposits in foreign currency range from 1.0% do 3.8% per annum, depending on the period the funds have been deposited for, as well as the currency.

Retail long-term deposits in foreign currency bear interest rates ranging from 4.0% to 6.0% per annum for EUR, and from 3.00% to 3.80% per annum for other currencies, depending on the period of the deposit.

The structure of other deposits by type of customers is as follows:

		RSD thousand
	2013	**2012**
Banks	5,604,227	7,085,523
Corporate customers	33,858,704	33,224,123
Retail customers	383,101	375,627
Foreign entities	1,331,224	729,638
Public sector	689,862	3,899,524
Other customers	3,955,961	3,736,118
Balance as of 31 December	**45,823,079**	**49,050,553**

The structure of special purpose deposits by type of customers is as follows:

		RSD thousand
	2013	**2012**
Banks	350,428	452,213
Corporate customers	5,865,750	5,824,616
Retail customers	6,127,454	5,686,048
Foreign entities	257,447	242,605
Public sector	124,796	213,260
Other customers	72,044	52,011
Balance as of 31 December	**12,797,919**	**12,470,753**

27. BORROWINGS

RSD thousand

	2013			**2012**		
	Short-term	**Long-term**	**Total**	**Short- term**	**Long-term**	**Total**
In RSD						
Borrowings:						
- Other banks	260,000	-	260,000	280,000	-	280,000
- Corporate customers	365,421	-	365,421	977,058	-	977,058
- Public sector	89,800	-	89,800	35,000	-	35,000
- Foreign entities	-	-	-	-	-	-
- Other customers	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-
Total in RSD	**715,221**	**-**	**715,221**	**1,292,058**	**-**	**1,292,058**
In foreign currency						
Borrowings:						
- Other banks	-	-	-	-	-	-
- Corporate customers	-	-	-	-	-	-
- Public sector	-	6,965,822	6,965,822	-	5,322,448	5,322,448
- Foreign entities	-	36,880,654	36,880,654	-	45,529,656	45,529,656
- Other customers	-	-	-			-
Other financial liabilities	2,175,234	-	2,175,234	1,421,259		1,421,259
Total in foreign Currency	**2,175,234**	**43,846,476**	**46,021,710**	**1,421,259**	**50,852,104**	**52,273,363**
Balance as of 31 December	**2,890,455**	**43,846,476**	**46,736,931**	**2,713,317**	**50,852,104**	**53,565,421**

Interest rates on long-term borrowings in dinars range from 0.5% to 5.5% per annum.

Interest rates on long-term borrowings in foreign currency range from EURIBOR 3M – 0.01% to EURIBOR 6M + 6.45%, depending on the date of the loan approval and the currency.

As of 31 December 2013, borrowings from foreign entities and public sector, which are presented within long-term borrowings, include loans granted to the Bank by members of Intesa Sanpaolo Group, international financial organizations and the Ministry of Finance of the Republic of Serbia as follows:

RSD thousand

Name of creditor	**2013**	**2012**
Ministry of Finance of Republic of Serbia – Italian line	1,231,246	1,525,365
Ministry of Finance of Republic of Serbia - APEX SME borrowings	5,734,576	3,797,083
Intesa Sanpaolo S.p.A., Italy	4,776,754	17,095,651
Vseobecna Uverova banka A.S., Slovakia	4,585,684	4,548,732
EIB	8,024,947	4,548,732
KFW	6,221,939	7,753,520
EFSE	4,345,623	5,117,324
GGF	802,495	796,028
CEB	2,292,842	1,137,183
EBRD	5,830,370	4,532,486
Balance as of 31 December	**43,846,476**	**50,852,104**

As at 31 December 2013, the Bank did not breach any of agreed financial covenants.

28. LIABILITIES ARISING FROM SECURITIES, INTEREST, FEE AND CHANGES IN FAIR VALUE OF DERIVATIVES

a) Liabilities arising from securities

		RSD thousand
	2013	**2012**
Short term deposits of other entities in dinars – forward covered	168,490	132,700
Liabilities for short term securities in foreign currency (draft checks)	50,395	9,280
Balance as of 31 December	**218,885**	**141,980**

b) Interest and fee payables and derivatives fair value

		RSD thousand
	2013	**2012**
In RSD		
Interest and fee payables:		
– Banks	114	351
– Corporate customers	155	743
– Retail customers	-	-
– Public sector	50	4,237
– Other	-	143
Liabilities arising from change in fair value of derivatives	14,118	68,938
	14,437	**74,412**
In foreign currency		
Interest and fee payables:		
– Retail customers	13	-
	13	**-**
Balance as of 31 December	**14,450**	**74,412**

29. PROVISIONS

		RSD thousand
	2013	**2012**
Provision for off-balance sheet exposures (a)	997,786	1,292,864
Provision for employee benefits:		
– restructuring (b)	55,028	124,131
– long-term retirement benefits and unused days of vacation (c)	150,253	148,327
Provision for litigations (Note 35 (a))	328,539	357,011
Provision for VAT liabilities	-	-
Balance as of 31 December	**1,531,606**	**1,922,334**

a) According to the Bank's internal policy, provisioning for commitments and other off-balance sheet items exposed to risk is performed in the same manner as for balance sheet assets, i.e. off-balance sheet items are classified into recoverability categories based on the estimation of the recoverable amount of receivables, when it is probable that an outflow of resources will be required to settle the obligation arising from the Bank's commitment, and when the objective evidence of such probability exists.

b) The project of considering and analyzing efficiency of business processes, which may lead to restructuring and decrease in number of employees (redundancies), which started at the end of 2009 is still not fully completed. Therefore, the Bank made provisions in the same manner as in previous years, based on estimated number of employees that fulfil conditions for retirement or number of employees that potentially could be redundant. For the purpose of estimation, available laws and regulations as well as internal acts have been used (Labour Law and Collective agreement).

c) Long-term provision for retirement benefits has been recognized at year ended on the basis of an independent actuary's calculation, in the amount of present value of estimated future cash outflows. Present value of defined benefit obligations is calculated at discounted rate of 8% p.a. as an adequate rate in accordance with IAS 19, reflecting the long-term rate of return on high quality securities, Republic of Serbia bonds and treasury bonds of the National Bank of Serbia.

The provision was determined in accordance with the Bank's Collective Agreement, as well as in accordance with the assumption on average salary increase rate of 9% per annum over the period for which the provision has been formed.

Provision for unused days of vacation is calculated on the basis of an independent actuary's report at the balance sheet date. In accordance with article 114 of the Labour Law in Republic of Serbia, during vacation an employee is entitled to compensation in the amount of average salary for the last three months. In calculating provision for unused vacation days, the following is significant:

- Average gross salary in the Bank paid in October, November and December 2013
- Number of unused days of vacation.

30. OTHER LIABILITIES AND TAX LIABILITIES

RSD thousand

	2013	2012
Net salaries and compensations	87,164	84,338
Taxes, contributions and other duties payable, excluding income tax liability	59,436	58,392
Vendor liabilities	911,244	882,722
Advances received	89,654	55,317
Other liabilities	1,542,939	1,331,571
	2,690,437	**2,412,340**
Accruals and deferred income		
Accrued interest expenses		
– in RSD	254,159	316,959
– in foreign currency	1,903,805	1,816,959
Accrued interest – other expenses:		
– in RSD	4,452	4,720
– in foreign currency	7,691	3,318
Deferred interest income:		
– in RSD	136,769	202,886
– in foreign currency	-	-
Other deferred income:		
– in RSD	894,763	982,558
– in foreign currency	8,834	12,757
Other deferred income in RSD		
Other deferrals		
– in RSD	46,993	70,577
– in foreign currency	-	-
	3,257,466	**3,410,734**
Subordinated liabilities (a)	-	-
Long-term finance lease liabilities (b)	53,572	113,910
Total	**6,001,475**	**5,936,984**
Other tax liabilities	115,810	98,614
Balance as of 31 December	**6,117,285**	**6,035,598**

(a) Finance liabilities for leased equipment as of 31 December 2013 and 2012 are as follows:

RSD thousand

	2013		2012	
Minimal lease payments	**Present value**	**Future value**	**Present value**	**Future value**
Within 1 year	46,455	48.786	58,956	66,687
Between 1 and 5 years	7,117	7,359	54,955	57,596
Balance as of 31 December	**53,572**	**56,145**	**113,910**	**124,283**

31. EQUITY

(a) Equity structure

The Bank's equity as of 31 December 2013 consists of share capital, other capital, share premium, reserves, revaluation reserves and current year profit.

Structure of the Bank's equity is presented in table below:

		RSD thousand
	2013	**2012**
Share capital – common shares	21,315,900	21,315,900
Other capital	11,158	11,158
Share premium	20,432,569	20,432,569
Reserves from profit	47,484,121	37,991,163
Revaluation reserves and unrealized losses on securities available for sale	1,035,915	808,083
Current year profit	8,607,525	9,492,958
Balance as of 31 December	**98,887,188**	**90,051,831**

/i/ Share capital

As of 31 December 2011 the total number of the Bank's registered shares amounts to 213,159 common shares with nominal value of RSD 100 thousand per share.

The major shareholder is Intesa Holding International S.A., Luxembourg, with share of 77.787% in total share capital as of 31 December 2013. Shareholders' structure as of 31 December 2013 is presented as follows:

Shareholder	**Number of shares**	**Nominal share value (RSD thousand)**	**Share in %**
Intesa Sanpaolo Holding International S.A., Luxemburg	165,810	16,581,000	77.787
International Finance Corporation (IFC) Washington, SAD	14,921	1,492,100	7.00
Intesa Sanpaolo S.p.A., Italy	32,428	3,242,800	15.213
Total	**213,159**	**21,315,900**	**100.00**

/ii/ Share premium

Share premium in the amount of RSD 20,432,569 thousand as of 31 December 2013 is the result of the Bank's status change, i.e. the merger of Panonska banka a.d. Novi Sad in the amount of RSD 2,989,941 thousand, as well as the result of the 4th, 5th and 6th issues of ordinary shares without public offer for the purpose of share capital increase.

31. EQUITY (continued)

/iii/ Reserves from profit

Reserves from profit relate to:

	2013	RSD thousand 2012
Special reserves for estimated losses	47,484,121	37,991,163
Balance as of 31 December	**47,484,121**	**37,991,163**

/iv/ Revaluation reserves

Revaluation reserves in the amount of RSD 1,035,915 thousand as of 31 December 2013 (31 December 2012: RSD 808,083 thousand) comprises positive effects of the performed independent appraisal of buildings at 1 January 2004, as well as fair value adjustments of available-for-sale securities.

	2013	RSD thousand 2012
Effects of buildings' appraisal	559,125	559,125
Revaluation reserve from available-for-sale securities	478,631	277,145
Unrealized losses from available-for-sale securities	(1,841)	(28,187)
Balance as of 31 December	**1,035,915**	**808,083**

(b) Performance Indicators – Compliance with Legal Requirements

The Bank is required to reconcile the scope and the structure of its operations and risk placements with performance indicators prescribed by the Law on Banks and relevant decisions of the National Bank of Serbia passed on the basis of the aforementioned Law.

As of 31 December 2013, the Bank was in compliance with all prescribed performance indicators.

	Performance indicators	**Prescribed**	**Realized**	
			31 December 2013	**31 December 2012**
1	Capital	Minimum EUR 10 million	429 million EUR	430 million EUR
2	Capital adequacy ratio	Minimum 12%	19.91%	19.79%
3	Permanent investments indicator	Maximum 60%	14.96%	15.09%
4	Related parties exposure	Maximum 20%	1.93%	1.85%
5	Indicator of large and the largest permissible loans	Maximum 400%	42.85%	26.05%
6	Liquidity ratio	Minimum 1	2.81	1.97
7	Foreign currency risk indicator	Maximum 20%	3.94%	0.73%
8	Exposure to a group of related parties	Maximum 25%	16.24%	12.10%
9	Exposure to an entity related to the Bank	Maximum 5%	1.51%	1.44%
10	Bank's investment in legal entity which is not in the financial sector	Maximum 10%	0.04%	0.0013%

32. OFF-BALANCE SHEET ITEMS

RSD thousand

	2013	2012
Funds managed on behalf of third parties (a)	3,945,777	3,796,342
Guarantees and other irrevocable commitments (b)	68,007,339	87,514,953
Other off-balance sheet items-derivatives (c)	55,561,734	74,362,945
Other off-balance sheet items (d)	145,627,326	81,468,803
Balance as of 31 December	**273,142,176**	**247,143,043**

(a) Funds managed on behalf of third parties

RSD thousand

	2013	2012
Funds managed on behalf of third parties:		
– Short-term	118,806	99,490
– Long-term	3,826,971	3,696,852
Balance as of 31 December	**3,945,777**	**3,796,342**

(b) Guarantees and other irrevocable commitments

RSD thousand

	2013	2012
Payment guarantees:		
– in dinars	11,754,072	13,217,135
– in foreign currency	11,378,167	10,012,363
Total	**23,132,239**	**23,229,498**
Performance guarantees:		
– in dinars	12,184,225	11,469,481
– in foreign currency	1,179,762	1,405,864
Total	**13,363,987**	**12,875,345**
Uncovered letters of credit in foreign currency	921,924	653,173
Sureties and Acceptances	10,524	5,729
Sureties	120,035	119,067
Irrevocable commitments for undisbursed loans	23,334,221	44,999,345
Other irrevocable commitments	7,124,409	5,632,796
	31,511,113	**51,410,110**
Balance as of 31 December	**68,007,339**	**87,514,953**

(c) Other off-balance sheet items – Derivatives

RSD thousand

	2013	2012
Foreign currency SWAP contracts	55,226,987	73,631,467
Foreign currency Forward contracts	334,747	731,478
Balance as of 31 December	**55,561,734**	**74,362,945**

(d) Other off-balance sheet items

		RSD thousand
	2013	**2012**
Loro guarantees	44,542,912	42,638,692
Treasury bills	30,000,000	10,000,000
Foreign currency savings' bonds	514,556	626,183
Suspended interest	8,386,450	6,381,110
Transfer from balance sheet	15,924,568	12,782,006
Other	46,258,840	9,040,812
Transfer from balance sheet	**145,627,326**	**81,468,803**

33. RELATED PARTY DISCLOSURES

A number of banking transactions with shareholders and other related parties take place in the ordinary course of business.

(a) The Bank enters into business relationship with its Parent company – major shareholder Intesa Holding International S.A., Luxembourg and other members of Intesa Sanpaolo Group. Outstanding balances of receivables and liabilities as of 31 December 2013 and 2012, as well as income and expenses for the years then ended, resulting from transactions with the shareholders and other Bank's related parties within Intesa Sanpaolo Group are presented as follows:

2013	Intesa Sanpaolo S.p.A., Italy, England, USA, Germany	Privredna bank d.d., Zagreb, Croatia	Intesa Leasing d.o.o., Belgrade	Vseobecna Uverova banka A.S., Slovakia	Banka Koper d.d., Slovenia	Pravex Bank Comm. bank	Intesa Sanpaolo Banka D.D. Bosnia and Hercegovina	Intesa Sanpaolo Card d.o.o., Ljubljana	Intesa Sanpaolo Card d.o.o., Zagreb	Cib leasing LTD, Hungary
Cash and cash equivalents	147,280	1,102	-	7,176	9,317	-	6,764	-	-	-
Total placements	249,385	-	3,970,110	-	-	-	-	-	-	-
Fees and interest receivables	4,259	15	2,404	-	2	-	1	-	-	-
Fair value derivatives	60,464	-	-	-	-	-	-	-	-	-
Other receivables	8,136	-	11,404	-	-	129	-	-	212	-
Total receivables	**469,524**	**1,117**	**3,983,918**	**7,176**	**9,319**	**129**	**6,765**	**-**	**212**	**-**
Loans liabilities	4,776,754	-	-	4,585,684	-	-	-	-	-	-
Deposits liabilities	9,807	858	3,543,699	-	-	-	344	-	4,475	-
Fees and interest	-	-	35	-	-	-	-	-	-	-

liabilities										
Fair value derivatives	13,936	182	-	-	-	-	-	-	-	-
Other payables	237,936	27,332	85,615	27,450	-	-	19	50,783	8,783	-
Total payables	**5,038,433**	**28,372**	**3,629,349**	**4,613,134**	**-**	**-**	**363**	**50,783**	**13,258**	**-**
Interest income	1,119	-	59,659	-	-	-	-	-	-	-
Fees and commission income	18,596	772	1,816	1,696	782	-	6	-	26	-
Other income	128,200	-	13,280	-	-	-	-	-	1,419	-
Total income	**147,915**	**772**	**74,755**	**1,696**	**782**	**-**	**6**	**-**	**1,445**	**-**
Interest expenses	148,025	3,311	67,123	119,835	-	-	-	-	-	-
Fees and commission expense	42,082	1,510	-	-	599	-	257	521,812	7,585	-
Other expenses	724,001	6,782	-	-	-	-	-	13,118	38,531	4,011
Total expenses	**914,108**	**11,603**	**67,123**	**119,835**	**599**	**-**	**257**	**534,930**	**46,116**	**4,011**

33. RELATED PARTY DISCLOSURES (continued)

The aforementioned receivables and payables at the balance sheet date, as well as income and expenses relate to business transactions transacted during the year with related parties of the Intesa Sanpaolo Group in the ordinary course of doing business.

Interest is calculated on the Bank’s receivables and payables at the usual rates. Receivables from related parties are not covered by collateral.

2012	Intesa Sanpaolo S.p.A., Italija, Engleska, SAD	Privredna bank d.d., Zagreb, Hrvatska	Intesa Leasing d.o.o., Beograd	Vseobecna Uverova banka A.S., Slovačka	Banka Koper d.d., Slovenija	Pravex Bank Comm.bank	Intesa Sanpaolo Banka D.D. Bosna i Hercegovina	Intesa Sanpaolo Card d.o.o., LJubljana	Intesa Sanpaolo Card d.o.o., Zagreb	CIB Bank, Mađarska
Cash and cash equivalents	469,016	8,526	-	7,882	5,424	-	2,333	-	-	
Total placements	-	-	773,848	-	-	-	-	-	29	
Fees and interest receivables	5,020	16	2,862	-	-	-	1	-	-	
Fair value derivatives	235,714	-		-	-	-	-	-	-	
Other receivables	13,263	-	19,648	-	2	153	-	-	456	
Total receivables	**723,013**	**8,542**	**796,358**	**7,882**	**5,426**	**153**	**2,334**	**-**	**485**	**-**
Loans liabilities	17,095,651		56,515	4,548,732	-	-	-	-	-	-
Deposits liabilities	8,186	357,863	1,569,072	-	-	-	1,480	-	2,295	-
Fees and interest liabilities		-	-	-	-	-	-	-	-	-
Fair value	59,710	-	-	-	-	-	-	-	-	-

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derivatives Other payables	157,592	7,199	153,534	24,357	-	-	-	45,869	2,185	-
Total payables	**17,321,139**	**365,062**	**1,779,121**	**4,573,089**	**-**	**-**	**1,480**	**45,869**	**4,480**	**-**
Interest income	2,709	-	48,628	-	-	-	-	-	-	-
Fees and commission income	23,761	1,317	643	24,221	10,760	-	91	-	34	-
Other income	349,428	168	12,469	-	-	-	-	-	327	-
Total income	**375,898**	**1,485**	**61,740**	**24,221**	**10,760**	**-**	**91**	**-**	**361**	**-**
Interest expenses	598,612	3,868	92,023	129,746	-	-	2,332	-	-	-
Fees and commission expense	57,587	1,232	-	-	347	-	-	464,512	6,275	-
Other expenses	725,666	8,412	-	-	762	-	1,178	14,266	33,938	-
Total expenses	**1,381,865**	**13,512**	**92,023**	**129,746**	**1,109**	**-**	**3,510**	**478,778**	**40,213**	**-**

33. RELATED PARTY DISCLOSURES (continued)

Gross salaries and other benefits of members of the Executive Board and other key personnel of the Bank, including members of the Board of Directors, during 2013 and 2012, are presented as follows:

		RSD thousand
	2013	**2012**
Remunerations to members of the Executive Board, Board of Directors and other key management of the Bank	181,869	169,802
Total	**181,869**	**169,802**

34. RISK MANAGEMENT

Risk is an inherent part of the Bank's activities and cannot be eliminated completely. It is important to manage risks in such a way that they can be reduced to limits acceptable for all interested parties: shareholders, creditors, depositors, regulators. Risk management is the process of permanent identification, assessment, measurement, monitoring and controlling of the Bank's exposure to risks. An important part of risk management is reporting and mitigating risk. An adequate system of risk management is a critical element in ensuring the Bank's stability and profitability of its operations.

The Bank is exposed to the following major risks: credit risk, liquidity risk, interest rate risk, foreign currency risk, operational risk, risk of exposure toward a single entity or a group of related entities (concentration risk), risk of investments and risk related to the county of origin of the entity to which the Bank is exposed.

The Board of Directors and the Executive Board are responsible for implementation of an adequate risk management system and for its consistent application.

The Bank's Board of Directors determines the procedures for identification, measurement and assessment of risks, and is responsible for implementing a unique risk management system and supervision over that system.

The Bank's Executive Board is responsible for identifying, assessing and measuring risks the Bank is exposed to in its operations, and applies the principles of risk management approved by the Bank's Board of Directors. The Executive Board approves internal acts which define risk management and proposes strategies and policies for risk management to Audit Committee and Board of Directors.

The Committee for monitoring business activities (Audit Committee) analyses and adopts proposals of policies and procedures with respect to risk management and internal controls, which are submitted to the Board of Directors for consideration and adoption. Furthermore, the Committee analyses and monitors the application and adequate implementation of adopted policies and procedures for risk management, and recommends new ways for their improvement, if necessary.

The Risk Management Department has been established in the Bank in order to implement a special and unique system for risk management, as well as to enable functional and organizational segregation of risk management activities from regular business activities.

The Bank has developed the comprehensive risk management system by introducing policies and procedures, as well as limits for risk levels acceptable for the Bank.

34. RISK MANAGEMENT (continued)

The Bank's organizational parts authorized for risk management constantly monitor changes in regulations, while analyzing their influence on the risks at entity level of the Bank. They take necessary measures to make the Bank's business activities and procedures fully compliant with new procedures within the scope of controlled risk. In addition, introduction of new services is followed by necessary market and economic analysis in order to optimize the relation between income and the provision for estimated risks.

34.1. Credit risk

Credit risk is the risk that credit beneficiaries will not be able to fulfil contractual obligations to the Bank, whether fully or partially. Through its internal acts, policies and procedures, the Bank has implemented an adequate system of credit risk management, thus reducing credit risk to an acceptable level. The Bank manages credit risk through setting credit risk limits, establishing acceptable credit limits for individual customers or for groups of customers.

Credit risk is managed by the Bank at a counterparty specific level, group of related parties, and at total credit portfolio level. For the purpose of implementing the policy of optimal credit risk exposure, the Bank evaluates creditworthiness of each client, both at the moment of loan application, as well as through subsequent regular and continuous performance analysis. Analysis of the client's creditworthiness, timely settlement of liabilities in the past, value of collateral at customer level and at transaction level, is performed in the Credit Management Department.

Permanent monitoring of a client's internal rating, the level of risk with respect to each client, the necessary amount of reserve for covering the risk, risk concentration (large exposures), portfolio credit risk, the level of capital necessary for covering all credit risks is performed by the Risk Management Department.

The Bank established a special organizational unit, the Default Management Department, in order to manage receivables with a problem of collectability in a timely manner.

The Credit Management Department, the Risk Management Department and the Default Management Department are independent units in the Bank.

Principles prescribed by the National Bank of Serbia, as well as the Bank's internal procedures are applied in these analyses in order to anticipate potential risks that can arise in terms of a client's inability to settle liabilities when they fall due and according to contracted terms.

In that sense, an assessment of the required reserve level for potential losses, both at the moment of approval of certain loan, as well as through a continuous, monthly portfolio analysis, are carried out. The analysis entails measuring the adequacy of provision/reserves according to client type, risk type, according to sub-portfolios and total portfolio of the Bank.

Decision making on exposure to credit risk is performed based on proposals provided by the Credit Management Department. The terms for approval of each corporate loan are determined individually, depending on the client type, purpose of loan, estimated creditworthiness and current market position. Types of collateral that accompany each loan are also determined according to a client's creditworthiness analysis, type of credit risk exposure, term of placement, as well as the amount of a particular loan. Conditions for loan approvals to retail clients and entrepreneurs are determined by defining standard conditions for different types of products. Risk price for standard types of products is calculated according to the analysis of credit costs of the Bank per each type of product.

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

Considering the importance of credit risk, dispersion of authorizations was carried out in respect of the decision making process related to loan approval activities. This dispersion is provided with prescribed limits up to which an authorized person or management body can make loan approval decisions. Organizational parts making decisions with respect to loan approvals, with different levels of authorizations, are as follows: branch managers, regional managers, Credit Management Department, Credit Board, Credit Committee, Executive Board and Board of Directors. For credit exposures exceeding the determined limit, approval of the parent bank is necessary.

The Bank manages credit risk by setting up limits with respect to period, amount and results of an individual customer's creditworthiness, through diversification of loans to a larger number of customers and contracting foreign exchange clauses and index-linking to a consumer price index in order to maintain the real value of loans.

Furthermore, the Bank manages credit risk through assessment and analysis of received collaterals, by providing allowances for impairment of financial assets, provisions for off-balance sheet items, as well as by determining the adequate price of a loan which covers the risk of a particular placement.

In addition to a clients' creditworthiness, risk limits are also set based on different types of collateral. Risk exposure toward a single debtor, including banks, is limited and includes balance sheet and off-balance sheet items exposures. Total risk exposure to a single customer (or a group of related parties) regarding exposure limits, is considered thoroughly and analyzed before executing a transaction.

Loan Concentration Risk

The concentration risk is the risk of incurring losses due to an excessive volume of placements with a certain group of debtors. Groups of debtors can be defined by different categories: geographical sectors, industries, countries, related parties or economic groups, etc. The Bank manages and controls concentration risk by limiting and monitoring exposure toward certain groups, predominantly by countries and economic groups.

Derivative Financial Instruments

Derivative financial instruments result in the Bank's exposure to credit risk when the fair value of such instruments is positive for the Bank. Credit exposure arising from derivatives is calculated using the current exposure method, i.e. the sum of the positive fair value of the contract and the nominal value of the derivative multiplied by a coefficient which depends on the type and maturity of the financial derivative, as prescribed by the National Bank of Serbia. The credit risk of derivatives is limited by determining maximum credit exposure arising from a derivative for each individual customer.

In accordance with the above mentioned, as of 31 December 2013 the Bank has the following exposures to counterparties:

	RSD thousand
Financial derivatives	**Total Exposure**
Currency (FX) Swap	333,991

Risks similar to credit risk

The Bank issues guarantees and letters of credit to its clients, based on which the Bank commits to make payments on behalf of third parties. In this way the Bank is exposed to risks similar to credit risks, which can be mitigated by the same control processes and policies used for credit risk.

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

Collaterals and other instruments of credit risk protection

The amount and type of the collateral required depends on an assessment of credit risk of each customer. Terms of collateral with respect to each placement are determined by the analysis of a customer's creditworthiness, type of exposure to the credit risk, placement's maturity, as well as the amount itself.

Contractual authorization, as well as bills of exchange are provided by customers as standard collaterals while, depending on the assessment, additional collaterals may be required, such as real estate mortgages, movable property pledges, partial or entire coverage of placements with deposits, guarantees issued by another bank or a legal entity, pledging of securities, or joint loan contracting with another legal entity which then becomes the joint debtor.

In cases of real estate mortgages or movable property pledges, the Bank always obtains valuations of the assets, as carried out by an approved appraiser, in order to minimize potential risk. Decisions on placements to retail clients and small business (entrepreneurs) are mostly based on appraisal of standardized, previously defined conditions, using a scoring model, with additional analysis by credit analysts.

Assessment of impairment of financial assets

The main factors considered for financial assets impairment assessment include: overdue payments of principal or interest, identified weakness in cash flows of customers, internal credit rating downgrades, or breach of original terms of contract. The Bank performs assessment of impairment at two levels, individual and collective.

Individual assessment of impairment

The Bank performs individual assessment of impairment for each individually significant loan or advance (exceeding EUR 150,000 for corporate and EUR 50,000 for retail clients) if it is in the status of default (overdue more than 90 days), i.e. if there is objective evidence that the loan has been impaired.

The level of impairment of loans is determined based on the projection of expected cash flows which shall be collected pursuant to contracts with clients, taking into consideration the assessment of financial position and creditworthiness of the client, the realizable value of collateral, as well as the timing of the expected cash flows from realization of collaterals, etc. Projected cash flows are discounted to their present value using the effective interest rate. Impairment loss is measured as the difference between the carrying amount of a loan and its estimated recoverable amount, being the present value of expected future cash flows. Individual assessment of the impairment of placements is performed at least semi-annually.

If new information becomes available that, as estimated by credit analysts, have an effect on the client's creditworthiness and the value of collateral, as well as the certainty of settling the liabilities toward the Bank, an extraordinary assessment of the impairment of a loan is performed.

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

Assessment of impairment of financial assets (continued)

Collective assessment of impairment

Collective Assessment of impairment is performed for loans and advances that are not individually significant and for individually significant loans and advances, where there is no objective evidence of individual impairment. Allowances are evaluated monthly with separate reviews of each sub-portfolio, which represents a specific group of loans and advances with similar characteristics.

The collective assessment of impairment takes into account impairment that is likely to be present in the Bank's portfolio, even though there is not as yet objective evidence of individual assessment. Impairment losses are estimated based on migration matrices and the probability of collection of receivables overdue by more than 90 days. Migration matrices and probabilities are determined based on monitoring of the multiannual migrations of internal ratings of clients in the Bank's portfolio.

Special reserves for estimated losses

Both for corporate and retail loans, as per the regulatory requirements of the National Bank of Serbia, the Bank also calculates special reserves for estimated losses as defined by the Decision on the Classification of Bank Balance Sheet Assets and Off Balance Sheet Items. Financial guarantees and letters of credit are assessed and provision is made in the same manner as for loans and advances.

(a) Maximum Exposure to Credit Risk

Analysis of the Bank's maximum exposure to credit risk, by geographical locations, before taking into account collaterals and other hedging funds, as of 31 December 2013 and 2012 is presented in the table below:

RSD thousand

	Accounts with other banks and placements with banks	**Loans and advances to customers**	**Equity investments and securities**	**Interests, fees and other assets**	**Guarantees and other commitme nts**	**Total 2013**
Serbia	-	**297,809,561**	**963,289**	**11,715,856**	**89,132,953**	**399,621,658**
Belgrade	-	146,929,987	963,230	8,290,475	39,010,208	195,193,899
Vojvodina	-	89,422,827	30	1,787,445	28,068,445	119,278,747
Rest of Serbia	-	61,456,746	29	1,637,937	22,054,299	85,149,012
Other countries	**2,816,900**	**1,367,546**	**-**	**20,250**	**218,275**	**4,423,422**
European Union	2,743,212	1,253,185	-	18,755	34,066	4,049,219
Other European countries	6,765	92,127	-	1,223	152,485	252,600
Rest of the world	66,924	22,234	-	271	32,174	121,603
Total	**2,816,900**	**299,177,107**	**963,289**	**11,736,106**	**89,351,678**	**404,045,080**

	Accounts with other banks and placements with banks	Loans and advances to customers	Equity investments and securities	Interests, fees and other assets	Guarantees and other commitme nts	Total 2012
Serbia	-	**287,429,339**	**963,289**	**10,063,989**	**82,281,566**	**380,738,183**
Belgrade	-	128,292,596	963,230	7,160,737	37,886,552	174,303,114
Vojvodina	-	93,409,514	30	1,535,856	23,350,449	118,295,850
Rest of Serbia	-	65,727,229	29	1,367,396	21,044,564	88,139,219
Other countries	**1,520,652**	**571,405**	**-**	**7,905**	**358,589**	**2,458,550**
European Union	1,438,333	392,904	-	5,744	93,121	1,930,101
Other European countries	10,589	164,612	-	1,862	261,420	438,752
Rest of the world	71,460	13,389	-	299	4,049	89,697
Total	**1,520,652**	**288,000,744**	**963,289**	**10,071,894**	**82,640,154**	**383,196,733**

Analysis of the Bank's exposure to credit risk, by industry sectors, before taking into account collaterals and other hedging funds, as of 31 December 2013 and 2012, is presented in the table below:

RSD thousand

	Gross maximum exposure 2013	Net maximum exposure 2013	Gross maximum exposure 2012	Net maximum exposure 2012
Central Bank, foreign and domestic banks and other monetary intermediation	23,104,975	22,875,022	2,012,209	1,993,224
Holding companies and other credit and financing services, excluding insurance and pension funds	6,081,861	3,743,988	8,567,812	5,812,476
Other legal entities (excluding banks) in bankruptcy	6,240,902	1,653,024	7,074,775	1,847,113
Financial leasing	229	133	227	138
Retail customers	102,025,872	45,306,965	100,094,165	46,629,662
Construction	29,212,718	12,223,224	31,537,255	16,231,799
Local government	10,928,082	9,929,773	12,772,152	11,329,136
Non-profit legal entities and social services clients that are not	358,089	250,449	494,942	357,174

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financed from the budget

Insurance	377,490	368,426	549,289	378,282
Other	6,612,366	1,585,491	1,918,043	326,273
Agriculture, forestry and fishing	10,282,591	3,951,657	11,097,056	4,624,060
Activities supporting financial services, insurance and pension funds	161,561	5,798	67,865	54,237
Real estate, professional, scientific, innovation and technical activities, administrative and supporting service activities, art, entertainment and recreation and other service activities	16,626,994	7,117,880	16,455,358	8,037,406
Trust, investment and similar funds and management companies of this funds	4,713	2,414	4,679	2,416
Related financial institutions that are not included in consolidation	-	-	-	-
Related financial institutions that are included in consolidation	6,064,907	6,049,298	1,755,634	1,739,920
Corporate clients of social activities that are not financed from budget	1,413,555	606,399	1,681,035	721,403
Corporate clients of social activities that are financed from budget	86,617	80,028	184,431	110,140
Republic bodies and organizations	2,261,932	2,258,252	3,324,668	3,897
Mining, manufacturing, water supply, wastewater management, waste management control and similar activities	71,863,559	30,817,290	68,960,202	34,617,970
Transportation and warehousing, accommodation and food services, information and communication	45,622,507	12,003,898	46,009,565	13,061,407
Entrepreneurs	5,937,045	3,969,027	7,147,994	5,134,895
Energy, gas and steam supply, air conditioning	4,381,024	4,060,188	1,286,560	1,032,310
Foreign legal entities	1,176,637	1,158,610	475,685	475,626
Wholesale and retail sale, repair of motor vehicles and motorcycles	53,218,459	25,512,879	59,724,677	33,397,071
Pension funds and Pension Funds Management Companies	394	197	455	227
Total	404,045,080	195,530,309	383,196,733	187,918,264

(b) Portfolio Quality

The Bank manages the quality of its financial assets using the internal classification of placements.

The following table presents the quality of the gross portfolio (gross balance exposure and off-balance sheet exposure) as of 31 December 2013, by types of placements and based on the Bank's rating system:

	Neither past due nor impaired				
	High quality Level	**Standard quality level**	**Due but not impaired**	**Impaired**	**Total 2013**
Banks	23,087,818	-	15,302	1,855	23,104,975
Customers:					
Corporate customers	71,932,646	30,614,376	1,252,710	22,194,413	125,994,145
Small size and medium size companies	113,320,652	4,944,407	7,523,407	27,131,622	152,920,088
Mortgage loans to retail customers	42,423,541	5,255	135,752	780,043	43,344,591
Other placements to retail customers	51,198,924	155,761	3,272,956	4,053,640	58,681,281
Total	**301,963,581**	**35,719,799**	**12,200,127**	**54,161,573**	**404,045,080**

The category of neither past due nor impaired placements represents high quality positions. In accordance with the Bank's Internal classification all undue receivables are classified into classes A1 and A2, while standard quality level positions include all undue receivables classified as B1. Due but not impaired receivables represent all due placements and pas due but not impaired placements[1]. Impaired placements include all placements classified as B2, C1, C2 and R accordingly to the Bank's Internal Classification.

The following table presents the quality of gross portfolio (gross balance exposure and off-balance sheet exposure) as of 31 December 2012, by types of placements and based on the Bank's grading system:

	Neither past due nor impaired				RSD thousand
	High quality level	**Standard quality level**	**Due but not impaired**	**Individually impaired**	**Total 2012**
Banks	2,002,895	-	9,314	1,816	2,014,025
Customers:					
Corporate customers	78,294,013	11,243,569	7,099,682	11,905,623	108,542,887
Small size and medium size companies	120,873,199	20,135,811	8,604,546	22,616,579	172,230,135
Mortgage loans to retail customers	36,898,069	-	5,956,949	1,055,992	43,911,010
Other placements to retail customers	50,225,876	6,102	3,500,607	2,766,090	56,498,675
Total	**288,294,052**	**31,385,482**	**25,171,098**	**38,346,100**	**383,196,733**

[1] Past due by 1 day or longer

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

(b) Portfolio Quality (continued)

Ageing analysis of loans and advances to customers past due but not impaired

The ageing analysis of loans and advances to customers past due but not impaired as of 31 December 2013 and 2012 is presented as follows:

RSD thousand

	Up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 91 days	2013 Total
Loans to customers:					
Corporate customers	1,169,663	83,048	-	-	1,252,710
Small business and SME	6,316,527	378,126	370,017	474,039	7,538,709
Mortgage loans to retail customers	123,829	8,830	3,093		135,752
Other placements to retail customers	2,753,454	364,326	154,733	443	3,272,955
Balance as of 31 December 2013	**10,363,472**	**834,329**	**527,843**	**474,482**	**12,200,127**

RSD thousand

	Up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 91 days	2012 Total
Loans to customers:					
Corporate customers	5,869,727	45,761	1,193,509	-	7,108,997
Small business and SME	6,278,264	1,902,839	423,443	-	8,604,546
Mortgage loans to retail customers	4,575,429	807,978	573,542	-	5,956,949
Other placements to retail customers	2,609,424	554,280	336,903	-	3,500,607
Balance as of 31 December 2012	**19,332,845**	**3,310,857**	**2,527,397**	**-**	**25,171,099**

Assessment of impairment of financial assets

The structure of balance sheet assets and off-balance sheet items as of 31 December 2013 and 31 December 2012 and the related allowance for impairment, i.e. provision, which are determined in accordance with the Bank's internal methodology disclosed in Note 2.7.2., is presented as follows:

RSD thousand

	Individual assessment		Collective assessment		Total 2013	
	Classified balance sheet assets	Allowance for impairment	Classified balance sheet assets	Allowance for mpairment	Classified balance sheet assets	Allowance for impairment
Banks	-	-	3,461,580	33,757	3,461,580	33,757
Retail	1,701,530	350,657	80,026,093	3,202,683	81,727,623	3,553,340
Corporate	53,572,098	17,888,303	150,201,308	3,561,109	203,773,406	21,449,412
Entrepreneurs	149,557	82,782	4,617,291	433,794	4,766,848	516,575
A (1+2+3+4)	**55,423,186**	**18,321,741**	**238,286,421**	**7,231,343**	**293,729,457**	**25,553,084**

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

(b) Portfolio Quality (continued)

	Classified off-balance sheet assets	Provision	Classified off-balance sheet assets	Provision	Classified off-balance sheet assets	Provision
Banks	-	-	289,153	23,071	289,153	23,071
Retail	194	8	20,298,055	207,886	20,298,248	207,894
Corporate	2,144,947	113,743	65,449,333	666,077	67,594,281	779,820
Entrepreneurs	-	-	1,169,996	9,765	1,169,996	9,765
B(1+2+3+4)	**2,145,141**	**113,751**	**87,206,537**	**884,034**	**89,351,678**	**997,786**
Total(A+B)	**57,568,327**	**18,435,493**	**325,512,808**	**8,115,377**	**383,081,135**	**26,550,870**

RSD thousand

	Individual assessment		Collective assessment		Total 2012	
	Classified balance sheet assets	Allowance for impairment	Classified balance sheet assets	Allowance for impairment	Classified balance sheet assets	Allowance for impairment
Banks	-	-	2,093,277	14,032	2,093,277	14,032
Retail	1,474,525	327,051	80,033,667	2,476,583	81,508,192	2,803,635
Corporate	41,606,388	13,210,508	164,656,839	4,475,702	206,263,227	17,686,210
Entrepreneurs	166,090	64,107	5,633,417	677,924	5,799,507	742,031
A(1+2+3+4)	**43,247,003**	**13,601,667**	**252,417,199**	**7,644,242**	**295,664,202**	**21,245,908**

	Classified off-balance sheet assets	Provision	Classified off-balance sheet assets	Provision	Classified off-balance sheet assets	Provision
Banks	-	-	86,120	21	86,120	21
Retail	-	-	18,901,494	122,064	18,901,494	122,064
Corporate	8,883,623	428,603	53,421,129	726,860	62,304,752	1,155,463
Entrepreneurs	14,468	3,332	1,333,321	11,983	1,347,789	15,316
B(1+2+3+4)	**8,898,091**	**431,935**	**73,742,064**	**860,929**	**82,640,155**	**1,292,846**
Total(A+B)	**52,145,094**	**14,033,620**	**326,159,094**	**8,505,170**	**378,304,357**	**22,538,772**

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management

Liquidity risk relates to the risk that the Bank does not have sufficient liquidity reserves for settling liabilities as they fall due and for covering unexpected deposit outflows and non-deposit liabilities. The liquidity issue is presented as a deficit in reserves, as well as difficult or impossible acquisition of highly liquid assets at a reasonable market price.

Liquidity risk is measured by continuous monitoring and analysis of assets and liabilities through appropriate reports and indicators: report on maturity matching that is analyzed through three scenarios - baseline scenario, specific liquidity crisis scenario and systemic crisis scenario (maturity mismatch), further on by indicators of structural maturity mismatch so called Rule 2, and the liquidity ratio required by the National Bank of Serbia. In addition, the Bank has in compliance with the standards of the Basel 3[2] introduced two new indicators of liquidity that are regularly calculated, controlled and reported. These are LCR (Liquidity Coverage Ratio) which shows the short-term liquidity up to a month, and NSFR (Net Stable Funding Ratio), which indicates medium-and long-term bank liquidity for over a year. LCR indicator is calculated as the ratio of liquid assets and a net cash outflow of up to one month period. Liquid assets are assets that can be quickly converted to cash (mandatory reserve requirements, treasury bills of the Republic of Serbia, the National Bank of Serbia placements on reverse repurchase agreements etc.). Net cash flow represents the difference between the potential cash outflows and inflows for the period up to one month. Potential inflows and outflows are calculated using the coefficients of behavior required by the Basel Committee[3] on all bank balance sheet items. Coefficients of behavior are designed to take into consideration liquidity crisis stress scenarios as well. The Bank's LCR is above the regulatory minimum of 100 %, which indicates that the bank has sufficient liquid assets to compensate for the net cash outflows, which may occur during one month period. NSFR indicates whether the long-term loans and investments are funded from stable (long-term) funding sources. Long-term and stable funds are all funds (liabilities) with a maturity date over a year and certain (prescribed) the percentage of short-term funding that are considered stable or permanent. Long-term placements and investment are considered all loans given and investments with a maturity of over one year and certain (prescribed) percentage of short-term investments that have long-term character in the sense that the Bank will not have a net inflow of funds in the short term from them. The Bank's NSFR is above the minimum requirement of 1, which means that the Bank funds all long-term placements and investments from long-term and stable sources.

The Risk Management Department is responsible for measuring and monitoring liquidity and for the regular preparation of reports which present the effects of the migration of various categories of assets and liabilities of the Bank to its liquid asset position. The Risk Management Department reports on liquidity to the parent bank and the ALCO Committee. Furthermore, the Risk Management Department provides support to the Treasury Department within the field of statistical analysis and testing of assumptions on the behavior of certain assets and liabilities items affecting cash inflows and outflows. Applied assumptions on behavior are approved and periodically revised by the ALCO Committee.

Objectives of liquidity management comprise:

- Planning of cash inflows and outflows;
- Implementation and monitoring of liquidity indicators;
- Measurement and monitoring of the Bank's liquidity;
- Measurement of liquidity gaps and the estimation of deposit stability; and
- Preparation of the Reports for the management.

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[2] Basel III – „International framework for liquidity risk measurement, standards and monitoring" - December 2010.

[3] Basel Committee is a committee of banking supervisory authorities that was established by the central bank governors of the G-10. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision.

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

Short-term liquidity management is done through monitoring following limits/indicators:

- Limits on cumulative net position in the interbank market in the period up to 7 days;
- Limits on short-term liquidity gaps up to a month;
- The minimal amount of liquid assets and liquid reserves;

- Monitoring of indicators of the concentration of interbank lending and customer deposits.
- Monitoring of LCR indicators;

Structural liquidity management is done through monitoring:

- Reports on structural maturity;
- Indicators of structural compliance, so called Rules - Rule 2;
- Monitoring of early warning indicators that point to the existence of specific or systematic liquidity crisis;
- Monitoring of NSFR indicators;
- Preparation of reports for management.

Liquidity ratios (current ratio and narrow ratio) are defined by the National Bank of Serbia and they represent the relation between first-order and second order liquid assets and current liabilities and relation between first-order liquid assets and current liabilities. First-order liquid assets include all receivables cashable immediately (cash, checks, securities etc.) while second-order liquid assets include expected inflows from placements within a month. Current assets consist of all of the Bank's liabilities payable at sight or due within a month.

This liquidity indicator cannot be less than 1 (the average liquidity indicator for all work days in a month), or less than 0.9 for more than three consecutive work days or 0.8 – when calculated for a single work day.

Narrow ratio (Acid-test) represents the relation between firs-order liquid assets and current liabilities. This liquidity ratio cannot fall below 0.7 (the average of liquidity ratios of all work-days per month), or below 0.6 for more than 3 subsequent work-days or 0.5 when calculated on the basis of one work-day.

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

Liquidity indicator	**2013**	**2012**
As of 31 December	2.87	2.00
Average for the period	2.77	1.96
Highest	3.22	2.42
Lowest	2.13	1.40

Narrow liquidity indicator	**2013**
As of 31 December	1.45
Average for the period	1.82
Highest	2.43
Lowest	1.33

In a report on the structural maturity compliance (maturity mismatch) all balance sheet and off-balance sheet items are classified into certain maturity groups by remaining contractual maturity.

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

The following table presents the remaining maturity mismatch report as of 31 December 2013:

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	With non-defined maturity(including impairment)	Total
ASSETS								
Cash and cash equivalents	20,857,301	594,755	-	-	-	-	(30,380)	21,421,677
Revocable deposits and loans	69,453,952	-	-	-	-	-	-	69,453,952
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	-	-	-	-	-	-	3,689,503	3,689,503
Loans and advances to customers	67,531,248	17,127,568	23,649,402	32,743,207	103,264,954	42,942,465	(21,723,069)	265,535,775
Securities (excluding treasury shares)	2,850,610	424,734	8,491,614	6,215,151	23,341,914	-	-	41,324,022
Equity investments	-	-	-	-	-	-	962,568	962,568
Other placements	4,722,054	2,820,387	857,436	750,019	2,640,983	127,385	(1,862,843)	10,055,420
Intangible assets	-	-	-	-	-	-	926,476	926,476
Property, equipment and investment property	-	-	-	-	-	-	7,345,133	7,345,133
Fixed assets held for sale and assets from discontinued operations	-	-	-	-	-	-	344,321	344,321
Deferred tax assets	-	-	-	-	-	-	79,122	79,122
Other assets	-	-	-	-	-	-	6,103,387	6,103,387
TOTAL ASSETS	**165,415,164**	**20,967,444**	**32,998,452**	**39,708,377**	**129,247,851**	**43,069,850**	**(4,165,782)**	**427,241,356**

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	With non-defined maturity(including impairment)	Total
LIABILITIES								
Transaction deposits	110,309,862	-	-	-	-	-	-	110,309,862
Other deposits	29,399,899	27,720,132	29,846,695	60,925,126	14,855,109	678,189	-	163,425,150
Borrowings	1,089,857	1,198,374	1,979,229	4,027,731	27,337,076	8,929,431	2,175,234	46,736,931
Liabilities arising from securities	168,490	-	-	-	-	-	50,395	218,885
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	-	14,450	14,450
Provisions	-	-	-	-	-	-	1,531,606	1,531,606
Tax liabilities	-	-	-	-	-	-	115,810	115,810
Liabilities from profit	-	-	-	-	-	-	-	-
Other liabilities	5,863	6,495	16,720	19,962	3,221	-	5,949,214	6,001,475
TOTAL LIABILITIES	**140,973,970**	**28,925,001**	**31,842,644**	**64,972,820**	**42,195,405**	**9,607,620**	**9,836,708**	**328,354,168**
TOTAL EQUITY	-	-	-	-	-	-	**98,887,188**	**98,887,188**
TOTAL LIABILITIES AND EQUITY	**140,973,970**	**28,925,001**	**31,842,644**	**64,972,820**	**42,195,405**	**9,607,620**	**108,723,896**	**427,241,356**
MATURITY MISMATCH	**24,441,194**	**(7,957,557)**	**1,155,808**	**(25,264,443)**	**87,052,446**	**33,462,230**	**(112,889,678)**	-
CUMULATIVE MATURITY MISMATCH	**24.441.194**	**16.483.636**	**17.639.444**	**(7.624.998)**	**79.427.447**	**112.889.678**		

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

The following table presents the remaining maturity mismatch report as of 31 December 2012:

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	With non-defined maturity(including impairment)	Total
ASSETS								
Cash and cash equivalents	33,665,831	1,359,014	-	-	-	-	(11,270)	35,013,575
Revocable deposits and loans	56,757,728	-	-	-	-	-	-	56,757,728
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	-	-	-	-	-	-	3,278,233	3,278,233
Loans and advances to customers	33,041,508	14,833,706	27,006,480	46,992,331	109,402,979	45,966,685	(17,693,190)	259,550,499
Securities (excluding treasury shares)	5,025,606	4,987,252	6,071,367	12,621,718	6,375,787	-	-	35,081,730
Equity investments	-	-	-	-	-	-	962,568	962,568
Other placements	5,275,809	885,940	1,829,214	1,085,390	1,475,386	205,314	(1,560,162)	9,196,891
Intangible assets	-	-	-	-	-	-	1,040,637	1,040,637
Property, equipment and investment property	-	-	-	-	-	-	7,376,493	7,376,493
Fixed assets held for sale and assets from discontinued operations	-	-	-	-	-	-	228,010	228,010
Deferred tax assets	-	-	-	-	-	-	66,240	66,240
Other assets	-	-	-	-	-	-	4,776,985	4,776,985
TOTAL ASSETS	**133,766,482**	**22,065,912**	**34,907,061**	**60,699,439**	**117,254,152**	**46,171,999**	**(1,535,456)**	**413,329,589**

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	With non-defined maturity(including impairment)	Total
LIABILITIES								
Transaction deposits	99,338,201	-	-	-	-	-	-	99,338,201
Other deposits	27,543,329	28,397,908	30,170,428	62,147,466	13,485,694	454,987	-	162,199,812
Borrowings	1,661,020	771,660	737,791	2,973,556	36,227,856	9,772,279	1,421,259	53,565,421
Liabilities arising from securities	87,680	11,087	33,933	-	-	-	9,280	141,980
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	-	74,412	74,412
Provisions	-	-	-	-	-	-	1,922,334	1,922,334
Tax liabilities	-	-	-	-	-	-	98,614	98,614
Liabilities from profit	-	-	-	-	-	-	-	-
Other liabilities	2,344	8,243	13,690	17,223	2,526	-	5,892,958	5,936,984
TOTAL LIABILITIES	**128,632,574**	**29,188,898**	**30,955,842**	**65,138,245**	**49,716,076**	**10,227,266**	**9,418,856**	**323,277,758**
TOTAL EQUITY	-	-	-	-	-	-	**90,051,831**	**90,051,831**
TOTAL LIABILITIES AND EQUITY	**128,632,574**	**29,188,898**	**30,955,842**	**65,138,245**	**49,716,076**	**10,227,266**	**99,470,688**	**413,329,589**
MATURITY MISMATCH	**5,133,908**	**(7,122,986)**	**3,951,219**	**(4,438,806)**	**67,538,076**	**35,944,733**	**(101,006,144)**	
CUMULATIVE MATURITY MISMATCH	**5,133,908**	**(1,989,078)**	**1,962,141**	**(2,476,665)**	**65,061,411**	**101,006,144**		

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

Ratios of maturity mismatch are calculated based on data from the Maturity Mismatch Report, so-called Rule 2 indicator. Rule 2 indicates coverage of stable long-term investments with long-term funds.

For the purpose of the calculation of structural maturity mismatch indicators, the short-term is defined as a period up to 18 months, middle-term as a period between 18 months to 5 years, while the long-term is defined as a period over 5 years.

Rule 2:

Long-term receivables + 0.5*(middle-term receivables) <= (regulatory equity – fixed assets – equity investments) + long-term liabilities + 0.5*(middle-term liabilities) + 0.25*(current accounts and savings deposits) + 0.25*(liabilities to clients with maturity up to 18 months) + 0.25*(interbank liabilities with maturity from 3 to 18 months) ± 1*(cash flows from derivatives with maturity over 18 months) – 0.05*(potential cash outflows deriving from undisbursed irrevocable credit lines) – 0.03*(potential cash outflows deriving from undisbursed irrevocable bank guarantees)

The Bank has no maturity mismatch which means that all fixed investments are covered with capital and all long-terms investments are covered with long-term funds.

34.3. Market risk

In its ordinary course of business the Bank is exposed to fluctuations in market variables which might affect the Bank's income in a positive or a negative way. The Bank is exposed to the following market risks:
- Interest rate risk,
- Foreign currency risk

34.3.1. Interest rate risk

Interest rate risk is the risk of decrease in profit or net assets value of the Bank due to changes in market interest rates. The Bank's exposure to interest rate risk depends on the ratio of the interest-sensitive assets and interest- sensitive liabilities.

Interest rate risk is calculated separately in the banking book and for the AFS and HTM securities portfolio. For the securities portfolio only Value at Risk (VaR), duration and convexity are calculated. Scenario analysis techniques and stress analysis is used as well.

In the banking book, interest rate risk is measured and monitored by calculating the gap between interest-sensitive assets and interest-sensitive liabilities (Repricing Gap). Based on the determined gaps, the profit and equity sensitivity analysis is performed for certain changes in market interest rates.

Acceptable level of interest rate risk is defined through limits for highest possible sensitivity of net assets to changes in yield market rates of 100bps and highest possible value at interest rate risk (IRR VaR) for positions in the trading book and securities available for sale.

Value at interest rate risk (IRR VaR) represents highest possible one day loss on positions in the trading book and securities available for sale that the Bank could undertake under usual market movements in interest rates. Considering that the value at interest rate risk is calculated with a confidence interval of 99%, realized one day loss may be higher than value at interest rate risk once in 100 days. Value at risk is calculated using the method of hybrid historical simulation.

The sensitivity of net asset value to changes in market interest rates of 100 bps is calculated and monitored monthly, and value at interest rate risk daily. Information on level of interest rate risk is regularly submitted to Alco Committee and to the Parent Bank.

34. RISK MANAGEMENT (continued)

34.3. Market risk (continued)

34.3.1. Interest rate risk (continued)

The following table represents Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2013:

	RSD thousand							
	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
ASSETS								
Cash and cash equivalents	20,857,301	594,755	-	-	-	-	(30,380)	21,421,677
Revocable deposits and loans	30,000,000	-	-	-	-	-	39,453,952	69,453,952
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	-	-	-	-	-	-	3,689,503	3,689,503
Loans and advances	151,473,805	80,140,775	18,898,909	14,939,126	19,456,403	2,349,826	(21,723,069)	265,535,775
Securities (excluding treasury shares)	11,442,645	424,734	8,491,614	4,599,515	16,365,514	-	-	41,324,022
Equity investments	-	-	-	-	-	-	962,568	962,568
Other placements	5,644,348	2,766,134	803,184	641,514	1,935,699	127,385	(1,862,843)	10,055,420
Intangible assets	-	-	-	-	-	-	926,476	926,476
Property, equipment and investment property	-	-	-	-	-	-	7,345,133	7,345,133
Fixed assets held for sale and assets from discontinued operations	-	-	-	-	-	-	344,321	344,321
Deferred tax assets	-	-	-	-	-	-	79,122	79,122
Other assets	-	-	-	-	-	-	6,103,387	6,103,387
TOTAL ASSETS	**219,418,100**	**83,926,399**	**28,193,706**	**20,180,155**	**37,757,616**	**2,477,211**	**35,288,170**	**427,241,356**

34. RISK MANAGEMENT (continued)

34.3. Market risk (continued)

34.3.1. Interest rate risk (continued)

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
LIABILITIES								
Transaction deposits	110,309,862	-	-	-	-	-		110,309,862
Other deposits	34,821,398	24,557,163	27,755,711	60,893,226	14,719,463	678,189	-	163,425,150
Borrowings	725,459	25,447,198	14,408,110	579,652	2,946,997	454,281	2,175,234	46,736,931
Liabilities on securities	168,490	-	-	-	-	-	50,395	218,885
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-		14,450	14,450
Provisions	-	-	-	-	-		1,531,606	1,531,606
Tax liabilities	-	-	-	-	-		115,810	115,810
Liabilities from profit	-	-	-	-	-		-	-
Other liabilities	5,863	6,495	-	-	3,221	-	5,949,214	6,001,475
TOTAL LIABILITIES	**146,031,071**	**50,010,856**	**42,180,542**	**61,492,841**	**17,669,681**	**1,132,470**	**9,836,708**	**328,354,168**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**-**	**-**	**98,887,188**	**98,887,188**
TOTAL LIABILITIES AND EQUITY	**146,031,071**	**50,010,856**	**42,180,542**	**61,492,841**	**17,669,681**	**1,132,470**	**108,723,896**	**427,241,356**
PERIODICAL GAP	**73,387,029**	**33,915,543**	**(13,986,836)**	**(41,312,686)**	**20,087,935**	**1,344,741**	**(73,435,726)**	**-**
CUMULATIVE GAP	**73,387,029**	**107,302,572**	**93,315,736**	**52,003,050**	**72,090,985**	**73,435,726**		

34. RISK MANAGEMENT (continued)

34.3. Market risk (continued)

34.3.1. Interest rate risk (continued)

The following table represents Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2012:

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
ASSETS								
Cash and cash equivalents	33,654,561	1,359,014	-	-	-	-	-	35,013,575
Revocable deposits and loans	10,000,000	-	-	-	-	-	46,757,728	56,757,728
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	-	-	-	-	-	-	3,278,233	3,278,233
Loans and advances	118,616,130	82,987,432	25,938,059	21,547,983	24,727,678	3,426,407	(17,693,190)	259,550,499
Securities (excluding treasury shares)	8,083,711	4,987,252	6,071,366	12,621,718	3,317,683	-	-	35,081,730
Equity investments	-	-	-	-	-	-	962,568	962,568
Other placements	5,275,808	885,941	1,829,214	1,085,390	1,475,386	205,314	(1,560,162)	9,196,891
Intangible assets	-	-	-	-	-	-	1,040,637	1,040,637
Property, equipment and investment property	-	-	-	-	-	-	7,376,493	7,376,493
Fixed assets held for sale and assets from discontinued operations	-	-	-	-	-	-	228,010	228,010
Deferred tax assets	-	-	-	-	-	-	66,240	66,240
Other assets	-	-	-	-	-	-	4,776,985	4,776,985
TOTAL ASSETS	**175,630,210**	**90,219,639**	**33,838,639**	**35,255,091**	**29,520,747**	**3,631,721**	**45,233,542**	**413,329,589**

34. RISK MANAGEMENT (continued)

34.3. Market risk (continued)

34.3.1. Interest rate risk (continued)

	RSD thousand							
	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
LIABILITIES								
Transaction deposits	99,338,201	-	-	-	-	-	-	99,338,201
Other deposits	34,580,330	24,002,249	28,998,941	60,776,311	13,386,994	454,987	-	162,199,812
Borrowings	1,299,558	31,390,225	14,196,216	506,347	3,665,832	1,085,984	1,421,259	53,565,421
Liabilities on securities	87,681	11,087	33,933	-	-	-	9,279	141,980
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	-	74,412	74,412
Provisions	-	-	-	-	-	-	1,922,334	1,922,334
Tax liabilities	-	-	-	-	-	-	98,614	98,614
Liabilities from profit	-	-	-	-	-	-	-	-
Other liabilities	2,344	8,243	13,690	17,223	2,526	-	5,892,958	5,936,984
TOTAL LIABILITIES	**135,308,114**	**55,411,804**	**43,242,780**	**61,299,881**	**17,055,352**	**1,540,971**	**9,418,856**	**323,277,758**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**-**	**-**	**90,051,831**	**90,051,831**
TOTAL LIABILITIES AND EQUITY	**135,308,114**	**55,411,804**	**43,242,780**	**61,299,881**	**17,055,352**	**1,540,971**	**99,470,687**	**413,329,589**
PERIODICAL GAP	**40,322,096**	**34,807,835**	**(9,404,142)**	**(26,044,790)**	**12,465,395**	**2,090,750**	**(54,237,145)**	**-**
CUMULATIVE GAP	**40,322,096**	**75,129,931**	**65,725,790**	**39,681,001**	**52,146,395**	**54,237,145**		

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34. RISK MANAGEMENT (continued)

34.3. Market risk (continued)

34.3.1. Interest rate risk (continued)

The table below shows the effect of change in interest rates on the Bank's net income and net assets value:

Scenario	Market interest rate fluctuation	Net income effect RSD thousand	Net assets effect RSD thousand
1	1%	795,222	(66,747)
2	2%	1,590,445	(129,494)
3	-1%	(795,222)	71,074
4	-2%	(1,590,445)	146,834

The following table represents value at risk for the trading book and securities available for sale::

Value at risk:	In EUR IRR VaR
Average	515,429
Maximum	755,648
Minimum	331,923

34.3.2. Foreign Currency Risk

Foreign currency risk is the risk of occurrence of negative effects on the financial result and equity of the Bank due to changes in foreign currency exchange rates. Banking operations in different foreign currencies result in exposure to fluctuations in exchange rates of foreign currencies.

In accordance with the internal policy of the Bank, considering potential fluctuations in foreign currency exchange rates, the Board of Directors decides on the limit on the open foreign currency position of the Bank based on the proposal of the Risk Management Department.

The Bank's Board of Directors has established the limit on the open foreign currency position which is more conservative than the regulatory limit of foreign currency position and which is monitored on a daily basis, in order to ensure that the Bank's currency risk exposure is maintained within established limits.

The Bank measures the foreign currency risk daily, in accordance with the methodology of the National Bank of Serbia, through the Report on the foreign currency risk indicator.

The foreign currency risk indicator is the ratio between the total open net foreign currency position and the Bank's regulatory capital (calculated in accordance with the Decision on Capital Adequacy of Banks), whereby the Bank is obliged to ensure that its total net open position does not exceed the amount of 20% of its capital.

During 2013, the Bank strictly paid attention to keeping its foreign currency risk indicator within the prescribed limit, where this indicator was always at the level far below the limit.

34. RISK MANAGEMENT (continued)

34.3. Market risk (continued)

34.3.2. Foreign Currency Risk (continued)

The following table shows the Bank's foreign currency risk exposure, i.e. open net foreign currency position as of 31 December 2013:

RSD thousand

	EUR	USD	CHF	Other currencies	Total in foreign currency	Total in RSD	Total
ASSETS							
Cash and cash equivalents	2,225,990	2,247,417	283,354	476,098	5,232,858	16,188,818	21,421,677
Revocable deposits and loans	39,453,952	-	-	-	39,453,952	30,000,000	69,453,952
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	1,569,868	4,336	4,674	98	1,578,976	2,110,527	3,689,503
Loans and advances	203,520,691	3,490,380	722,406	-	207,733,477	57,802,298	265,535,775
Securities (excluding treasury shares)	4,013,561	-	-	-	4,013,561	37,310,461	41,324,022
Equity investments	-	-	-	-	-	962,568	962,568
Other placements	7,033,687	-	-	-	7,033,687	3,021,732	10,055,420
Intangible assets	-	-	-	-	-	926,476	926,476
Property, equipment and investment property	-	-	-	-	-	7,345,133	7,345,133
Fixed assets held for sale and assets from discontinued operations	-	-	-	-	-	344,321	344,321
Deferred tax assets	-	-	-	-	-	79,122	79,122
Other assets	843,052	1,138	6,398	309	850,896	5,252,491	6,103,387
TOTAL ASSETS (I)	**258,660,801**	**5,743,271**	**1,016,831**	**476,504**	**265,897,408**	**161,343,948**	**427,241,356**
LIABILITIES							
Transaction deposits	52,276,478	2,503,966	4,862,723	1,408,383	61,051,550	49,258,312	110,309,862
Other deposits	134,000,059	3,156,617	7,496,221	815,308	145,468,205	17,956,945	163,425,150
Borrowings	44,393,781	2,948	1,614,569	10,412	46,021,710	715,221	46,736,931
Liabilities arising from securities	-	-	-	50,395	50,395	168,490	218,885
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	14,450	14,450
Provisions	-	-	-	-	-	1,531,606	1,531,606
Tax liabilities	-	-	-	-	-	115,810	115,810
Liabilities from profit	-	-	-	-	-	-	-
Other liabilities	2,639,857	29,101	122,912	6,047	2,797,917	3,203,558	6,001,475
TOTAL LIABILITIES	**233,310,175**	**5,692,631**	**14,096,425**	**2,290,544**	**255,389,776**	**72,964,392**	**328,354,168**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**-**		**98,887,188**
TOTAL LIABILITIES AND EQUITY (II)	**233,310,175**	**5,692,631**	**14,096,425**	**2,290,544**	**255,389,776**	**72,964,392**	**427,241,356**
Financial derivatives affecting the foreign currency position, recorded in the off balance sheet (III)	**(27,126,040)**	**(37,419)**	**13,034,502**	**2,076,234**	**(12,052,723)**	**-**	**-**
Open net foreign currency position (I-II+III)	**(1,775,414)**	**13,221**	**(45,092)**	**262,194**	**(1,545,091)**	**88,379,556**	**-**

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34. RISK MANAGEMENT (continued)

34.3. Market risk (continued)

34.3.2. Foreign Currency Risk (continued)

The following table shows the Bank's foreign currency risk exposure, i.e. open net foreign currency position as of 31 December 2012:

RSD thousand

	EUR	USD	CHF	Other currencies	Total in foreign currency	Total in RSD	Total
ASSETS							
Cash and cash equivalents	3,082,565	259,846	221,020	461,892	4,025,324	30,988,251	35,013,575
Revocable deposits and loans	46,757,728	-	-	-	46,757,728	10,000,000	56,757,728
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	744,585	3,420	2,592	42	750,639	2,527,594	3,278,233
Loans and advances	188,814,594	3,757,478	528,855	-	193,100,928	66,449,571	259,550,499
Securities (excluding treasury shares)	5,450,867	-	-	-	5,450,867	29,630,863	35,081,730
Equity investments	-	-	-	-	-	962,568	962,568
Other placements	6,270,184	-	-	102,293	6,372,477	2,824,414	9,196,891
Intangible assets	-	-	-	-	-	1,040,637	1,040,637
Property, equipment and investment property	-	-	-	-	-	7,376,493	7,376,493
Fixed assets held for sale and assets from discontinued operations	-	-	-	-	-	228,010	228,010
Deferred tax assets	-	-	-	-	-	66,240	66,240
Other assets	816,489	2,365	8,345	453	827,652	3,949,333	4,776,985
TOTAL ASSETS (I)	**251,937,013**	**4,023,110**	**760,812**	**564,680**	**257,285,615**	**156,043,974**	**413,329,589**
LIABILITIES							
Transaction deposits	52,755,981	2,135,360	5,373,860	1,111,883	61,377,083	37,961,118	99,338,201
Other deposits	127,690,966	2,925,345	7,795,395	808,391	139,220,097	22,979,715	162,199,812
Borrowings	51,268,582	66,356	933,107	5,319	52,273,363	1,292,058	53,565,421
Liabilities arising from securities	-	-	-	9,280	9,280	132,700	141,980
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	74,412	74,412
Provisions	-	-	-	-	-	1,922,334	1,922,334
Tax liabilities	-	-	-	-	-	98,614	98,614
Liabilities from profit	-	-	-	-	-	-	-
Other liabilities	2,337,951	29,329	216,969	6,099	2,590,348	3,346,636	5,936,984
TOTAL LIABILITIES	**234,053,480**	**5,156,389**	**14,319,330**	**1,940,972**	**255,470,171**	**67,807,587**	**323,277,758**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**-**	**-**	**90,051,831**
TOTAL LIABILITIES AND EQUITY (II)	**234,053,480**	**5,156,389**	**14,319,330**	**1,940,971**	**255,470,171**	**67,807,587**	**413,329,589**
Financial derivatives affecting the foreign currency position, recorded in the off balance sheet (III)	**(17,565,025)**	**1,130,306**	**13,590,003**	**1,701,199**	**(1,143,518)**	**-**	**-**
Open net foreign currency position (I-II+III)	**(318,508)**	**(2,973)**	**31,485**	**324,908**	**671,926**	**88,236,387**	**-**

34. RISK MANAGEMENT (continued)

34.3. Market risk (continued)

34.3.2. Foreign Currency Risk (continued)

Furthermore, the Bank has developed the internal methodology for measuring foreign currency risk, which implies that VaR is calculated and monitored on a daily basis with a 99% confidence interval. VaR is the highest possible loss the Bank could suffer in normal market conditions with the probability of 99%. Foreign currency VaR is calculated and monitored daily and is reported to the Director of Treasury, Executive Board member responsible for risks and the Parent bank.

The table below presents the benchmark amounts of the foreign currency VaR in 2013 and 2012:

		VaR (in EUR)
Foreign currency VaR	**2013**	**2012**
Average	34,699	59,778
Maximum	206,747	181,538
Minimum	1,078	1,877

The following table presents the impact of changes in foreign exchange rate on the Bank's profit:

	RSD thousand
Scenario	**Impact on the profit**
10% depreciation of RSD	(154,509)
20% depreciation of RSD	(309,018)

During 2013, the Bank's foreign currency VaR (FX VaR) was always at the level below the limit prescribed by the Parent Bank and approved by the Bank's Board of Directors.

34.4. Operational Risk

Operational risk is the risk of negative effects on the Bank's financial result and equity due to failures in performance of operating activities (processes), human mistakes, system errors and the influence of external factors. This definition includes legal risk, but excludes strategic and reputational risk.

The function of the operational risk management process is to identify, assess, control and minimize the possibility of occurrence of net losses and their effects. The Bank cannot eliminate all operational risks, but through the processes of recording and analyzing operational risks it can identify failures in its processes, products and procedures. Hence, the Bank's improvement of its processes, products and procedures can decrease the frequency and negative influence of operational losses on its operations and profitability. An important aspect of operational risk management is updating the management on significant operational risks in timely manner, as well as permanent education of all employees included in the process of collecting data on operational risks and comprehensive development of the awareness on the importance of identification, measurement, control and mitigation of operational risks.

Data on operational risks are gathered from all organizational parts of the Bank. Data is classified and analyzed, while the methods of risk mitigation and its impact reduction are recommended.

34. RISK MANAGEMENT (continued)

34.4. Operational Risk (continued)

Once per year the Bank performs its own risks assessment. The first part of this process is based on a certain number of scenarios, where the members of the Executive Board assess the frequency and possibility of operational occurrences, and their influence on profits, from the perspective of their area of responsibility. In the second part, members of the Executive Board evaluate risk factors in the business environment, where the importance and impact of some risk factors are estimated, as well as the level of control and management of risk, and suggestions of measures to mitigate the possible impact of certain risk factors are made. By combining the results of the Bank's risk assessment and statistics of historical cases of operational risks, a clear picture of the Bank's exposure to operational risks is obtained.

The Bank has established and maintains a complete and transparent reporting system. The purpose is to analyze and monitor development of the Bank's exposure to operational risk and to prevent the occurrence of high intensity (worst case). Reports developed by the Bank include: monthly and semi-annual reports (for Members of the Executive Board, CRO, Internal Audit and Director of Risk Management Department), quarterly reports on capital requirements for operational risk (for the National Bank of Serbia).

For the purposes of capital requirements for operational risk calculation, the Bank uses a standardized approach. The capital requirement for operational risk calculated using the standardized approach is equal to the three-year average of annual capital requirements for all lines of business. The annual capital requirement is equal to the sum of capital requirements for all individual lines of business for the year. The capital requirement for individual business line is equal to the product of the exposure indicator calculated for that line of business and the corresponding rate of capital requirements defined by the regulator (the National Bank of Serbia). The capital requirement for Bank's operational risk calculated using the standardized approach is RSD 3,970,288 thousand as of 31 December 2013.

34.5. Exposure Risks

The Risk Management Department monitors, measures and reports to the Bank's boards on the Bank's exposure to a single client or a group of clients, risk of investment in other legal entities, as well as in fixed assets, country risk to which the Bank is exposed, as well as operational risk. In 2013, the Bank maintained compliance of the exposure risk and investment risk indicators and performed appropriate activities defined by relevant procedures and decisions on credit approval and investments in financial and non-financial assets, ensuring compliance of the Bank's placements and investments with indicators prescribed by the National Bank of Serbia.

Exposure risks include the risk of the Bank's exposure to a single client or a group of related clients, as well as exposure risk toward related parties of the Bank.

In accordance with the Risk Management Policy, the Bank's management sets exposure limits, i.e. the concentration of placements to a single client or a group of related clients, and related parties of the Bank.

The Bank's management and relevant bodies and employees of the Bank seek to ensure the compliance of the Bank's exposures with prescribed limits, i.e., exposure to a single client or a group of related clients does not exceed 25% of the Bank's equity, total amount of all large exposures does not exceed 400% of the Bank's equity, total exposure to a related party does not exceed 5% of the Bank's equity and total exposure to all related parties of the Bank does not exceed 20% of the Bank's equity.

34. RISK MANAGEMENT (continued)

34.6. Investment Risks (continued)

Investment risks include the risk of investment in other legal entities and investment in fixed assets. In accordance with the National Bank of Serbia's regulations, the Risk Management Department monitors the Bank's investments and reports to the Executive Board. The Department also ensures that the Bank's investment in a single non-financial sector entity does not exceed 10% of the Bank's equity and that total investments of the Bank in non-financial entities and in fixed assets do not exceed 60% of the Bank's equity.

34.7. Country Risk

Country risk relates to the country of origin of the Bank's client and includes negative effects which may influence financial result and equity of the Bank, as the Bank might not be able to collect receivables from such a client, as a result of political, economic or social conditions in the client's country of origin.

The Bank's exposure to country risk is low, due to insignificant share of non-residents in the total loan portfolio of the Bank.

34.8. Capital Management

The objective of the Bank's capital management is to maintain the Bank's ability to continue operating into the foreseeable future, in order to maintain the optimal structure of capital with a view to decreasing the costs of capital, and securing dividends for shareholders.

The Bank permanently manages its capital in order to:

- Ensure compliance with capital requirements set by the National Bank of Serbia;
- Ensure adequate level of capital in order to ensure operations as a going concern; and
- Maintain capital at the level that will ensure future development of the business;
- Maintain capital at the level that is adequate to cover internally assessed capital requirements for all significant risks identified in the Internal Capital Adequacy Assessment Process (ICAAP)

Capital adequacy, as well as use of the Bank's capital, is monitored on a monthly basis by the Bank's management. The National Bank of Serbia has set the minimal capital adequacy ratio at 12%, with restriction to dispose the realized profit if it is under 14.5%.

The Bank's total capital comprises Tier 1 and Tier 2, and deductible items:

- Tier 1 capital include: share capital from ordinary shares, share premium, reserves from profit, retained earnings/accumulated losses, capital gains/losses on repurchase of treasury shares as well as intangible assets and repurchased treasury shares (excluding cumulative preference shares) as Tier 1 capital deductible items..
- Tier 2 capital include: share capital from preference shares, share premium on preference shares, revaluation reserves related to fixed assets and equity investments, subordinated liabilities up to 50% of capital and repurchased treasury preference shares as Tier 2 capital deductible item.
- Deductible items comprise: the amount of required special reserves for potential losses, equity investments in banks or other financial organization exceeding 10% of its capital, and 10% of the investing bank capital, and the amount of the Tier 2 capital of the Bank which exceeds its Tier 1 capital.

34. RISK MANAGEMENT (continued)

34.9. Fair Value of Financial Assets and Liabilities

The Bank's policy is to disclose information on the fair value of assets and liabilities for which official market information is available and when their fair value significantly differs from their carrying amounts.

Sufficient market experience, or stability and liquidity for the purchase and sale of receivables and other financial assets and liabilities do not exist in the Republic of Serbia, due to the fact that official market information is not always available. Consequently, fair value cannot be reliably determined in the absence of an active market. The Bank's management estimates its overall risk exposure and provides allowances for losses in case it assess that the carrying amount of an asset is not collectable.

The Bank's financial instruments carried at amortized cost mostly have short maturity terms and/or bear variable interest rates that reflect current market conditions. Consequently, the Bank considers that carrying amounts of financial instruments approximate their fair value. The fair value of loans and placements to customers is equal to their carrying value, decreased for related allowance for impairment. Available for sale investments include treasury bills of the Republic of Serbia and equity instruments. Available for sale investments are carried at fair value, except for equity instruments that do not have a quoted market price in an active market and whose value cannot be reliably determined, and that are carried at cost less estimated allowances for impairment. Fair value of quoted securities is based on currently offer prices. Fair value of treasury bills is based on discount value that gradually, until maturity, increases by the amount of accrued interest. Deposits from banks and customers are mostly short-term deposits with fixed or variable rates and therefore the Bank's management considers that their carrying amounts approximate their fair value.

The Bank's management believes that the carrying amounts in the accompanying financial statements reflect values that are most appropriate and most useful for reporting purposes.

35. CONTINGENT LIABILITIES

(a) Court cases

As of 31 December 2013, the Bank is a defendant in a certain number of legal proceedings. Total estimated amount of claims is RSD 436,770 thousand (31 December 2012: RSD 378,642 thousand), including penalty interests and fees.

The final outcome of the ongoing legal proceedings is uncertain. As disclosed in Note 29 to the financial statements as of 31 December 2013, the Bank recognized provisions for potential losses that could arise from the aforementioned litigations in the total amount of RSD 328,539 thousand (31 December 2012: RSD 357,011 thousand). The Bank's management considers that no significant losses will arise from the ongoing litigations, other than those provided for.

The Bank is involved in a number of lawsuits as plaintiff related to collection of receivables. All disputed receivables from corporate and retail customers have been fully impaired and charged to the results of the current and previous years

(b) Tax Risks

The tax system of the Republic of Serbia is in the process of continuous review and amendments. The tax period in the Republic of Serbia is considered to be open for five years. Under various circumstances, the tax authorities could have a different approach to certain issued, and could assess additional tax liabilities together with related penalty interest and fees. The Bank's management believes that tax liabilities recognized in the accompanying financial statements are presented fairly.

36. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

In accordance with Article 20 of the Law on Accounting and Auditing, the Bank performed reconciliation of liabilities and receivables with its debtors and creditors as of 31 December 2013, and maintained reliable documentation.

From a total of 2,439 submitted confirmations of balances, 58 were disputed.

The larges unreconciled outstanding balances of receivables are as follows:
- RSD 480,124 thousand refer to receivables from companies in bankruptcy and companies in restructuring
- RSD 403,856 thousand refers to other receivables
- RSD 166,350 thousand refer to a different methodology of recording receivables and liabilities arising from derivatives, as well as from calculation of their fair value
- RSD 50,749 thousand refer to receivables from corporate clients Irva doo Beograd, Duga doo. Petlovača. PKB Imes doo Padinska Skela and Rivex doo Kragujevac. The confirmations of balances are disputed on the grounds that a Reorganization Plan prepared in advanced has been adopted.
- RSD 58,052 thousand mostly relates to accrued interest.
- RSD 62,741 thousand, refers to purchase of short-term receivables - factoring. Legal entities generally do not change in the accounting records the client toward which they have an obligation, regardless of the fact that the client has ceded the receivables to the bank pursuant to the Sale of Receivables Agreement.
- RSD 11,384 thousand refers to non-compliance arising from receivables related to credit card transactions.

37. EXCHANGE RATES

The official foreign exchange rates of the National Bank of Serbia determined on the Interbank Foreign Currency Market, used for translation of balance sheet items denominated in foreign currencies as of 31 December 2013 and 2012 into Serbian Dinars (RSD) were as follows:

		RSD
	2013	**2012**
EUR	114.6421	113.7183
USD	83.1282	86.1763
CHF	93.5472	94.1922

38. SUBSEQUENT EVENTS

There have been no significant events subsequent to the balance sheet date, which would require disclosures in the notes to the accompanying financial statements of the Bank as of and for the ended 31 December 2013.

Rada Radović Head of Finance and Accounting Department	Marco Capellini Deputy President of the Executive Board	Draginja Đurić President of the Executive Board