KOMERCIJALNA BANKA AD BEOGRAD
ANNUAL REPORT OF A PUBLIC COMPANY

BELGRADE, APRIL 2013

CONTENTS

*Pursuant to Article 50 of the Law on Capital Market (RS Official Gazette No. 31/2011) and the provision of the Rulebook on contents, form and manner of publishing annual, semiannual and quarterly reports (RS Official Gazette No. 14/2012), **KOMERCIJALNA BANKA AD BEOGRAD** from **BELGRADE**, reg. No. **07737068**, activity code: **06419- other monetary mediation** publishes the following:*

PUBLIC COMPANY'S ANNUAL REPORT

Reporting period: from 01.01.2012 to 31.12.2012

BUSINESS NAME:	KOMERCIJALNA BANKA AD BEOGRAD
REGISTRATION NUMBER:	07737068
POSTAL CODE AND PLACE:	11000, BEOGRAD
STREET AND NUMBER:	SVETOG SAVE 14
EMAIL:	posta@kombank.com brokeri@kombank.com
INTERNET ADDRESS:	www.kombank.com
CONSOLIDATED/STANDALONE INFORMATION:	STANDALONE
ADOPTED (YES OR NO)	YES (24.04.2013.)

COMPANIES THAT COMPRISE THE SUBJECT OF CONSOLIDATION:	KOMERCIJALNA BANKA AD BEOGRAD
SEAT:	BEOGRAD
REGISTRATION NUMBER:	07737068
ADOPTED (YES OR NO)	YES (24.04.2013.)

COMPANIES THAT COMPRISE THE SUBJECT OF CONSOLIDATION:	KOMERCIJALNA BANKA AD BUDVA
SEAT:	BUDVA, MONTE NEGRO
REGISTRATION NUMBER:	02373262
ADOPTED (YES OR NO)	(consolidated report will be adopted by the end of May this year)

COMPANIES THAT COMPRISE THE SUBJECT OF CONSOLIDATION:	KOMERCIJALNA BANKA AD BANJA LUKA
SEAT:	BANJA LUKA, REPUBLIKA SRPSKA, BIH
REGISTRATION NUMBER:	11009778
ADOPTED (YES OR NO)	(consolidated report will be adopted by the end of May this year)

COMPANIES THAT COMPRISE THE SUBJECT OF CONSOLIDATION:	KOMBANK INVEST AD BEOGRAD
SEAT:	BELGRADE
REGISTRATION NUMBER:	20379758
ADOPTED (YES OR NO)	(consolidated report will be adopted by the end of May this year)

CONTACT:	JASMINKA MIRČIĆ	
TEL.	011/333-9028	
FAX.	011/333-9157	
EMAIL:	brokeri@kombank.com	
SURNAME AND NAME OF THE AUTHORISED REPRESENTATIVE:	DEPUTY CEO DRAGAN SANTOVAC	CEO IVICA SMOLIĆ

1. PUBLIC COMPANY'S FINANCIAL STATEMENT WITH AN AUDITOR'S REPORT

1.1. Balance -sheet as at december 31, 2012

(Thousands of RSD)

S/N	ASSETS		31.12.2012.	31.12.2011.
A I	Cash and cash equivalents	001	40.514.180	17.228.970
A II	Callable deposits and loans	002	43.053.502	55.260.711
A III	Interest and fees receivables	003	1.547.342	1.187.573
A IV	Loans and advances	004	177.106.865	155.719.207
A V	Trading securities	005	41.347.719	25.637.972
A VI	Shares / Stakes	006	5.917.033	5.823.583
A VII	Other investments	007	3.227.896	2.187.533
A VIII	Intangible assets	008	600.438	555.415
A IX	Fixed assets and investment property	009	7.416.846	7.530.271
A X	Non-current assets held for sale and discontinuing operations	010	78.763	101.040
A XI	Deferred tax assets	011	4.896	-
A XII	Other assets	012	3.372.293	4.256.443
A XIII	Loss over the amount of capital	013	-	-
	TOTAL ASSETS (from A I to A XIII)	014	**324.187.773**	**275.488.718**

(Thousands of RSD)

S/N	LIABILITIES		31.12.2012.	31.12.2011.
P I	Transaction deposits	101	40.336.776	31.456.575
P II	Other deposits	102	195.183.968	174.666.705
P III	Received loans	103	637.264	1.603.761
P IV	Liabilities arising from shares	104	-	-
P V	Liabilities arising from interest,fees and derivatives valuation adjustments	105	188.910	205.079
P VI	Provisions	106	2.331.760	2.135.436
P VII	Tax liabilities	107	21.799	39.737
P VIII	Liabilities relating to profit	108	85.114	172.197
P IX	Liabilities relating to non-current assets held for sale and discontinuing operations	109	-	-
P X	Deferred tax liabilities	110	-	17.036
P XI	Other liabilities	111	25.535.622	20.916.626
	TOTAL LIABILITIES (from P I to P XI)	112	**264.321.213**	**231.213.152**
1.	**Capital** Shared capital and issue premium	113	**40.034.550**	**28.462.553**
2.	Reserves from profit	114	14.785.440	11.635.440
3.	Revaluation reserves	115	867.774	689.620
4.	Unrealized losses on securities available for sale	116	7.016	63.940
5.	Profit	117	4.185.812	3.551.893
6.	Loss up to the amount of capital	118	-	-
P XII	**TOTAL CAPITAL (1 + 2 + 3 - 4 + 5 - 6)**	119	**59.866.560**	**44.275.566**
	TOTAL LIABILITIES (from P I to P XII)	120	**324.187.773**	**275.488.718**
	OFF-BALANCE SHEET POSITIONS	121	**204.642.280**	**183.524.897**
	Managed funds	122	5.013.721	4.332.764
	Commitments	123	42.452.658	36.215.842
	Received guarantees for liabilities	124	-	-
	Derivatives	125	-	261.602
	Other off-balance sheet items	126	157.175.901	142.714.689

Beograd, February 26, 2013

Signed on behalf of Komercijalna banka a.d., Beograd by:

Snežana Pejčić — *Head of Accounting*

Ivica Smolić — *President of the Executive Board*

1.2. Income Statement for the period 01.01. to 31.12.2012

(Thousands of RSD)

	INCOME AND EXPENSES		31.12.2012.	31.12.2011.
	Interest income	201	20.130.880	18.036.321
	Interest expense	202	9.220.564	8.182.953
I	**Net interest income**	203	**10.910.316**	**9.853.368**
	Net interest loss	204	-	-
	Fee and commission income	205	5.334.914	5.051.445
	Fee and commission expense	206	780.448	628.046
II	**Net fee and commission income**	207	**4.554.466**	**4.423.399**
	Net fee and commission loss	208	-	-
III	Net gains on the fair value sale of securities	209	776	-
IV	Net loss on the fair value sale of securities	210	-	19.110
V	Net gains on sale of securities available for sale	211	83.947	1.254
VI	Net loss on sale of securities available for sale	212	-	-
VII	Net gains on sale of securities held till maturity	213	-	-
VIII	Net loss on sale of securities held till maturity	214	-	-
IX	Net gains from sale of equity (shares)	215	-	-
X	Net loss from sale of equity (shares)	216	-	-
XI	Net gains from sale of other placements	217	-	-
XII	Net loss from sale of other placements	218	-	-
XIII	Net FX gains	219	-	-
XIV	Net FX expenses	220	8.041.381	27.828
XV	Dividends and other income from equity investments	221	2.251	7.997
XVI	Other operating income	222	241.022	191.207
XVII	Net income arising from impairment and provisions	223	-	-
XVIII	Net expenses arising from impairment and provisions	224	1.444.299	1.335.461
XIX	Salaries, benefits and other personal expenses	225	4.186.346	3.925.085
XX	Depreciation expenses	226	752.356	672.099
XXI	Operating and other business expenses	227	4.933.005	4.420.906
XXII	Income from assets and liabilities valuation adjustments	228	17.989.493	13.180.925
XXIII	Expenses from assets and liabilities valuation adjustments	229	9.852.222	13.305.595
XXIV	**TOTAL OPERATING PROFIT**	230	**4.572.662**	**3.952.066**
XXV	**TOTAL OPERATING LOSS**	231	**-**	**-**

XXVI	NET GAINS FROM DISCONTINUING OPERATIONS	232	**-**	**-**
XXVII	NET LOSS FROM DISCONTINUING OPERATIONS	233	-	-
XXVIII	**RESULT FOR THE PERIOD - PROFIT BEFORE TAX**	234	**4.572.662**	**3.952.066**
XXIX	**RESULT FOR THE PERIOD - LOSS BEFORE TAX**	235	-	-
XXX	Profit tax	236	472.448	426.027
XXXI	Profit from created deferred tax assets and reduction of deferred tax liabilities	237	32.885	11.578
XXXII	Loss from created deferred tax assets and reduction of deferred tax liabilities	238	10.953	23.937
XXXIII	**PROFIT**	239	**4.122.146**	**3.513.680**
XXXIV	**LOSS**	240	-	-
	Earnings per share (in RSD, rounded)	241		
	Basic earnings per share (in RSD, rounded)	242	469	399
	Diluted earnings per share (in RSD, rounded)	243	290	257

Beograd, February 26, 2013

Signed on behalf of Komercijalna banka a.d., Beograd by:

Snežana Pejčić — *Head of Accounting*

Ivica Smolić — *President of the Executive Board*

1.3. Cash flow Statement for the period 01.01. to 31.12.2012

(Thousands of RSD)

S/N	POSITION:		31.12.2012.	31.12.2011.
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
	I. Cash flows from operating activities (from 1 to 4)	301	**23.921.322**	**22.880.550**
1.	Interest receipts	302	18.412.248	17.508.232
2.	Fees and commission receipts	332	5.308.328	5.058.650
3.	Receipts from other operating income	304	198.495	305.671
4.	Receipts from dividends and profit sharing	305	2.251	7.997
II.	**Cash outflows from operating activities (from 5 to 9)**	306	**18.947.991**	**16.744.371**
5.	Interest payments	307	8.985.130	7.856.238
6.	Fees and commission payments	308	775.246	625.272
7.	Payments of gross salaries, benefits and other personal expenses	309	4.115.419	3.888.118
8.	Payments of taxes, contributions and other expenses charged to income	310	887.648	777.893
9.	Cash payments for other operating expenses	311	4.184.548	3.596.850
III.	**Net cash inflow from operating activities before increase/decrease in advances and deposits (I minus II)**	312	**4.973.331**	**6.136.179**
IV.	**Net cash outflow from operating activities before increase/decrease in advances and deposits (II minus I)**	313	-	-
V.	**Decrease in loans and increase in deposits taken (from 10 to 12)**	314	**27.169.182**	**7.749.083**
10.	Decrease in credits and loans to banks and customers	315	-	-
11.	Decrease in fair value securities, financial assets for trading and short-term securities held to maturity	316	554.116	347.814
12.	Increase in deposits taken from banks and customers	317	26.615.066	7.401.269
VI	**Increase in loans and decrease in deposits taken (from 13 to 15)**	318	**900.488**	**16.381.995**
13.	Increase in credits and loans to banks and customers	319	900.488	16.381.995
14.	Increase in fair value securities, financial assets held for trading and short-terms securities held to maturity	320	-	-
15.	Decrease in deposits taken from banks and customers	321	-	-
VII.	**Net cash inflow from operating activities before income tax (AIII minus AIV plus AV minus AVI)**	322	**31.242.025**	**-**
VIII.	**Net cash outflow from operating activities before income tax (AIV plus AVI minus AIII minus AV)**	323	-	**2.496.733**
16.	Income tax paid	324	642.361	322.866
17.	Dividends paid	325	278.218	289.042
XIX.	**Net cash inflow from operating activities (AVII minus AVIII minus 16 minus 17)**	326	**30.321.446**	**-**
X.	**Net cash outflow from operating activities (AVIII minus AVII plus 16 plus 17)**	327	**-**	**3.108.641**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
I.	**Cash flows from investing activities (from 1 to 5)**	328	**1.201.610**	**31.222**

1.	Inflows from long-term financial assets	329	1.149.802	18.253
2.	Inflows from sale of shares and stakes	330	-	-
3.	Inflows from sale of intangible and fixed assets	331	51.808	12.969
4.	Inflows from sale of investment properties	332	-	-
5.	Other inflows from investing activities	333	-	-
II.	**Cash outflows from investing activities (from 6 to 10)**	334	**16.811.890**	**8.086.052**
6.	Outflows from investing in long-term financial assets	335	16.102.276	7.312.777
7.	Outflows for purchase of shares and stakes	336	751	1.846
8.	Outflows for purchase of intangible and fixed assets	337	708.863	771.429
9.	Outflows from provision of investment properties	338	-	-
10.	Other outflows from investing activities	339	-	-
III.	**Net cash inflow from investing activities (I minus II)**	340	-	-
IV.	**Net cash outflow from investing activities (II minus I)**	341	**15.610.280**	**8.054.830**
V.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
I.	**Cash inflows from financing activities (from 1 to 6)**	342	**16.615.425**	**7.695.624**
1.	Capital increase inflows	343	11.571.997	-
2.	Net cash inflows from subordinated liabilities	344	453.870	5.232.045
3.	Net cash inflows from loans taken	345	4.589.558	2.463.579
4.	Net cash inflows from securities	346	-	-
5.	Inflows from sale of own shares	347	-	-
6.	Other inflows from financing activities	348	-	-
II.	**Cash outflows from financing activities (from 7 to 11)**	349	-	-
7.	Outflows arising from buyback arrangements (own shares purchase)	350	-	-
8.	Net cash outflow from subordinated liabilities	351	-	-
9.	Net cash outflows from loans taken	352	-	-
10.	Net cash outflows from securities	353	-	-
11.	Other outflows from financing activities	354	-	-
III.	**Net cash inflow from financing activities (I minus II)**	355	**16.615.425**	**7.695.624**
IV.	**Net cash outflow from financing activities (II minus I)**	356	-	-
G.	TOTAL NET CASH INFLOW	357	68.907.539	38.356.479
D.	TOTAL NET CASH OUTFLOW	358	37.580.948	41.824.326
Đ.	**NET CASH INCREASE (G minus D)**	359	**31.326.591**	-
E.	**NET CASH DECREASE (D minus G)**	360	-	**3.467.847**
Ž.	**CASH AT BEGINNING OF THE YEAR**	361	**17.228.970**	**20.724.645**
Z.	FX GAINS	362	5.682.006	1.257.639
I.	FX LOSSES	363	13.723.387	1.285.467
J.	**CASH AT THE END OF THE PERIOD (Đ minus E plus Ž plus Z minus I)**	364	**40.514.180**	**17.228.970**

Signed on behalf of Komercijalna banka a.d., Beograd by:

Snežana Pejčić — *Head of Accounting*

Ivica Smolić — *President of the Executive Board*

1.4. Statement of changes in equity for the period 01.01. to 31.12.2012

(Thousands of RSD)

POSITION	Share Capital	Share Premium	Reserves Retained from Earnings	Revaluation Reserves	Retained Earnings	Unrealized losses	Total
Balance at January 1, 2011	13.881.010	14.581.543	9.235.440	663.008	2.709.309	15.882	41.054.428
Correction of materially significant errors and changes in accounting policies in the previous year – increase							
Correction of materially significant errors and changes in accounting policies in the previous year – decrease							
Adjusted opening balance as of 01.01, previous year, 2011	13.881.010	14.581.543	9.235.440	663.008	2.709.309	15.882	41.054.428
Total increase in the previous year			2.400.000	82.249	3.968.545	49.855	6.400.939
Total decrease in the previous year				55.637	3.125.961	1.797	3.179.801
Balance at December 31 st. 2011	13.881.010	14.581.543	11.635.440	689.620	3.551.893	63.940	44.275.566
Correction of materially significant errors and changes in accounting policies in the current year – increase							
Correction of materially significant errors and changes in accounting policies in the current year – decrease							
Adjusted opening balance as of 01.01, current year, 2012	13.881.010	14.581.543	11.635.440	689.620	3.551.893	63.940	44.275.566
Total increase in the current year	3.310.456	8.261.541	3.150.000	188.821	4.604.631	29.241	19.486.208
Total decrease in the current year				10.667	3.970.712	86.155	3.895.214
Balance at December 31 st, 2012	**17.191.466**	**22.843.084**	**14.785.440**	**867.774**	**4.185.812**	**7.016**	**59.866.560**

Signed on behalf of Komercijalna banka a.d., Beograd by:

Snežana Pejčić
Head of Accounting

Ivica Smolić
President of the Executive Board

1.5. Auditor's opinion and notes to financial statements

KOMERCIJALNA BANKA A.D., BEOGRAD

Financial Statements
For the Year Ended December 31, 2012
and Independent Auditors' Report

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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Komercijalna banka a.d., Beograd

We have audited the accompanying financial statements of Komercijalna banka A.D., Beograd (the "Bank"), which comprise the balance sheet as of December 31, 2012 and the related income statement, statement of changes in equity and cash flow statement for the year than ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements of Komercijalna banka A.D., Beograd as of and for the year ended December 31, 2012 have been prepared, in all material respects, in accordance with the accounting regulations of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks.

Other Matter

The financial statements of Komercijalna banka A.D., Beograd as of and for the year ended December 31, 2011 were audited by another auditor whose report dated February 29, 2012 expressed an unqualified opinion.

Belgrade, February 26, 2013

Deloitte d.o.o. BEOGRAD IV

Miroslav Tončić
Certified Auditor

INCOME STATEMENT
Year Ended December 31, 2012
(Thousands of RSD)

	Note	2012	2011
Interest income	5a	20,130,880	18,036,321
Interest expense	5b	(9,220,564)	(8,182,953)
Net interest income		10,910,316	9,853,368
Fee and commission income	6a	5,334,914	5,051,445
Fee and commission expense	6b	(780,448)	(628,046)
Net fee and commission income		4,554,466	4,423,399
Net gains on the sale of securities carried at fair value through profit and loss	7	776	-
Net losses on the sale of securities carried at fair value through profit and loss	7	-	(19,110)
Net gains on the sale of securities available for sale	8	83,947	1,254
Net foreign exchange losses	9	(8,041,381)	(27,828)
Dividend and other income from equity investments	10	2,251	7,997
Other operating income	11	241,022	191,207
Net impairment losses and provisions	12	(1,444,299)	(1,335,461)
Staff costs	13	(4,186,346)	(3,925,085)
Depreciation and amortization	14	(752,356)	(672,099)
Operating and other expenses	15	(4,933,005)	(4,420,906)
Net gains/(losses) on the valuation of assets and liabilities	16;17	8,137,271	(124,670)
PROFIT FROM CONTINUING OPERATIONS		4,572,662	3,952,066
Income taxes	18	(472,448)	(426,027)
Income from creation of deferred tax assets and decrease in deferred tax liabilities	19	32,885	11,578
Losses on decrease in deferred tax assets and creation of deferred tax liabilities	20	(10,953)	(23,937)
NET PROFIT		4,122,146	3,513,680
Earnings per share (in RSD, rounded)			
Basic earnings per share (in RSD, rounded)		469	399
Diluted earnings per share (in RSD, rounded)		290	257

The accompanying notes on the following pages
form an integral part of these financial statements.

These financial statements were approved by the Executive Board of Komercijalna banka A.D., Beogpad as at February 26, 2013.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Snežana Pejčić
Head of Accounting

Ivica Smolić
President of the Executive Board

BALANCE SHEET
As of December 31, 2012
(Thousands of RSD)

	Note	2012	2011
ASSETS			
Cash and cash equivalents	21	40,514,180	17,228,970
Revocable deposits and loans	22	43,053,502	55,260,711
Receivables arising from interest, fee and commission, trade, fair value adjustments of derivatives and other receivables	23	1,547,342	1,187,573
Loans and deposits to customers	24	177,106,865	155,719,207
Securities (excluding treasury shares)	25	41,347,719	25,637,972
Equity investments (interests)	26	5,917,033	5,823,583
Other investments	27	3,227,896	2,187,533
Intangible assets	28	600,438	555,415
Property, equipment and investment property	29	7,416,846	7,530,271
Non-current assets held for sale and assets of discontinued operations	30	78,763	101,040
Deferred tax assets	31	4,896	-
Other assets	32	3,372,293	4,256,443
Total assets		324,187,773	275,488,718
LIABILITIES AND EQUITY			
Transaction deposits	33	40,336,776	31,456,575
Other deposits	34	195,183,968	174,666,705
Borrowings	35	637,264	1,603,761
Interest, fee and commission payables and change in the value of derivatives	36	188,910	205,079
Provisions	37	2,331,760	2,135,436
Taxes payable	38	21,799	39,737
Tax and dividend payables	39	85,114	172,197
Deferred tax liabilities	40	-	17,036
Other liabilities	41	25,535,622	20,916,626
Total liabilities		264,321,213	231,213,152
EQUITY			
Share capital	42	40,034,550	28,462,553
Reserves retained from earnings	43	14,785,440	11,635,440
Revaluation reserves	44	867,774	689,620
Unrealized losses on securities available-for-sale	45	(7,016)	(63,940)
Retained earnings	46	4,185,812	3,551,893
		59,866,560	44,275,566
Total Liabilities and Equity		324,187,773	275,488,718
OFF-BALANCE-SHEET ITEMS		204,642,280	183,524,897
Managed funds	47	5,013,721	4,332,764
Commitments	48	42,452,658	36,215,842
Derivatives	49	-	261,602
Other off-balance sheet items	50	157,175,901	142,714,689

The accompanying notes on the following pages form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2012
(Thousands of RSD)

	Share Capital	Share Premium	Other Reserves	Reserves Retained from Earnings for Potential Losses	Revaluation Reserves	Unrealized Losses	Retained Earnings	Total
Balance at January 1, 2011	13,881,010	14,581,543		9,235,440	663,008	(15,882)	2,709,309	41,054,428
Transfer of 2010 retained earnings portion to reserves retained from earnings	-	-	-	2,400,000	-	-	(2,400,000)	-
Gains on realized reserves	-	-	-	-	(15,051)		15,051	-
Adjustment based on the effects of underused tax assets and tax depreciation for 2010	-	-	-	-	-	-	1,428	1,428
Decrease based on the change in the fair value of equity investments and securities available for sale	-	-	-	-	(40,039)	-	-	(40,039)
Increase based on the change in the fair value of equity investments and securities available for sale	-	-	-	-	82,249	-	-	82,249
Net losses on the sale of securities available for sale	-	-	-	-	(547)	-	-	(547)
Net losses on the change in the fair value of equity Investments and securities available for sale	-	-	-	-	-	(48,058)	-	(48,058)
Payment of dividends for priority shares	-	-	-	-	-	-	(37,575)	(37,575)
Employee share in profit	-	-	-	-	-	-	(250,000)	(250,000)
Profit for the year	-	-	-	-	-	-	3,513,680 -	3,513,680
Balance at December 31, 2011	13,881,010	14,581,543		11,635,440	689,620	(63,940)	3,551,893	44,275,566
Capital increase	3,310,456	8,261,541	-	-	-	-	-	11,571,997
Transfer of 2011 retained earnings portion to reserves retained from earnings	-	-	-	3,150,000	-	-	(3,150,000)	-
Gains on realized reserves	-	-	-	-	(10,037)		10,037	-
Decrease based on the change in the fair value of equity investments and securities available for sale	-	-	-	-	(630)	9,363	-	8,733
Increase based on the change in the fair value of equity investments and securities available for sale	-	-	-	-	188,821	(22,219)	-	166,602
Adjustment based on the fair value of equity investments (Note 45)						76,783	-	76,783
Net losses on the change in the fair value of securities available for sale	-	-	-	-	-	(7,003)	-	(7,003)
Payment of dividends for priority shares	-	-	-	-	-	-	(40,264)	(40,264)
Employee share in profit	-	-	-	-	-	-	(308,000)	(308,000)
Profit for the year	-	-	-	-	-	-	4,122,146	4,122,146
Balance at December 31, 2012	17,191,466	22,843,084	-	14,785,440	867,774	(7,016)	4,185,812	59,866,560

The accompanying notes on the following pages form an integral part of these financial statements.

CASH FLOW STATEMENT
Year Ended December 31, 2012
(Thousands of RSD)

	December 31, 2012	December 31, 2011
Cash inflows from operating activities	23,921,322	22,880,550
Interest receipts	18,412,248	17,508,232
Fee and commission receipts	5,308,328	5,058,650
Receipts of other operating income	198,495	305,671
Receipts from dividends and profit distribution	2,251	7,997
Cash outflows from operating activities	(18,947,991)	(16,744,371)
Interest paid	(8,985,130)	(7,856,238)
Fees and commissions paid	(775,246)	(625,272)
Payments to, and on behalf of employees	(4,115,419)	(3,888,118)
Taxes, contributions and other duties paid	(887,648)	(777,893)
Payments of other operating expenses	(4,184,548)	(3,596,850)
Net cash generated by operating activities prior to increases or decreases in advances and deposits	4,973,331	6,136,179
Decrease in securities carried at fair value through profit and loss, trading investments and short-term securities held-to-maturity	554,116	347,814
Increase in deposits due to banks and customers	26,615,066	7,401,269
Increase in loans and advances to banks and customers	(900,488)	(16,381,995)
Income taxes paid	(642,361)	(322,866)
Dividends paid	(278,218)	(289,042)
Net cash generated by/(used in) operating activities	30,321,446	(3,108,641)
Net outflows from long-term investments in securities	(14,952,474)	(7,294,524)
Net outflows from sales of equity investments	(751)	(1,846)
Net outflows from sales of intangible assets, property and equipment	(657,055)	(758,460)
Net cash used in investing activities	(15,610,280)	(8,054,830)
Inflows arising from capital increase	11,571,997	-
Net cash inflows from subordinated debt	453,870	5,232,045
Net cash inflows from borrowings	4,589,558	2,463,579
Net cash generated by financing activities	16,615,425	7,695,624
Net increase/(decrease) in cash and cash equivalents	31,326,591	(3,467,847)
Cash and cash equivalents, beginning of year	17,228,970	20,724,645
Foreign exchange losses on translation of cash	(8,041,381)	(27,828)
Cash and cash equivalents, end of year	40,514,180	17,228,970

The accompanying notes on the following pages form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012
All amounts expressed in thousands of RSD, unless otherwise stated.

1. BANK'S ESTABLISHMENT AND ACTIVITY

Komercijalna banka a.d., Beograd (hereinafter the "Bank"), was established as at December 1, 1970 and transformed into a shareholding company as of May 6, 1992.

At December 31, 2012, the Bank's most significant holders controlling shares are the following:

1. republic of Serbia and
2. EBRD, London

A more detailed overview of the Bank's share capital structure is provided in Note 41.

The Bank has three subsidiaries with the following equity interests:

- 100% - Komercijalna banka a.d. Budva, Montenegro
- 100% - KomBank INVEST a.d., Serbia
- 99.99 % - Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina

The accompanying financial statements and notes to the financial statements represent the financial information of the Bank as a separate parent legal entity.

The Bank's business activities include credit activities, deposit and guarantee activities and payment transfer operations in the country and abroad in accordance with the Law on Banks. The Bank is obligated to operate based upon principles of liquidity, solvency and profitability.

As of December 31, 2012, the Bank was comprised of the Central Office in Belgrade at the address of No.14, Svetog Save St., 24 branches and 228 sub-branches. As of December 31, 2012, the Bank had 2,989 employees (December 31, 2011: 3,022 employees). The Bank's tax identification number is 100001931.

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

2.1. Financial Statements

These financial statements include only receivables, liabilities, profit from operations, changes in equity and cash flows of the Bank excluding its subsidiaries. Pursuant to the regulations prevailing in the Republic of Serbia, the Bank has prepared consolidated financial statements which include the financial statements of the following subsidiaries:

- Komercijalna banka a.d. Budva, Montenegro, entirely owned by the Bank;
- Investment Fund Managing Company KomBank INVEST a.d. Beograd, entirely owned by the Bank; and
- Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina, where the Bank has 99.99% equity interest.

2.2. Basis of Preparation and Presentation of Financial Statements

The Bank maintains accounting records and prepares financial statements in compliance with the effective law on Accounting and Auditing of the Republic of Serbia (Official Gazette of the Republic of Serbia nos. 46 /2006, 111/2009 and 99/2011), Law on Banks (Official Gazette of the Republic of Serbia nos.107/2005 and. 91/2010) and other relevant bylaws of the National Bank of Serbia and other effective regulations of the Republic of Serbia.

Pursuant to the Law on Accounting and Auditing, legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity with the prevailing legislation and professional rules which include: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as the related interpretations representing an integral part of these standards which were in effect as at December 31, 2002.

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

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

The amendments to IAS, as well as the newly-issued IFRS and the related interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC"), in the period between December 31, 2002 and January 1, 2009, were officially adopted pursuant to a Decision enacted by the Ministry of Finance of the Republic of Serbia ("Ministry") and published in the Official Gazette of the Republic of Serbia number 77 of October 25, 2010.

IAS/IFRS and IFRIC in effect for annual periods beginning on or after January 1, 2009 had been translated. In addition, the accompanying financial statements are presented in the format prescribed under the "Guidelines on the Prescribed Form and Content of the Financial Statements of Banks and Other Financial Institutions" (Official Gazette of the Republic of Serbia nos. 74/2008, 3/2009 and 5/2010). Such statements represent the complete set of financial statements as defined under the law, which differ from those defined under the provisions of IAS 1, "Presentation of Financial Statements," and differ in some respects, from the presentation of certain amounts as required under the aforementioned standard. Standards and interpretations in issue but not yet officially translated and adopted and standards and interpretations in issue but not yet in effect are disclosed in Notes 2.3 and 2.4.

The financial statements were prepared at historical cost principle except for the following items:

- Financial instruments carried at fair value through profit and loss, which are measured at fair value;
- financial instruments available for sale, which are measured at fair value;
- derivatives, which are measured at fair value; and
- building properties.

The financial statements were prepared on a going concern assumption entailing the Bank's continuation of operations in the foreseeable future.

The Bank's financial statements are stated in thousands of dinars (RSD). The dinar is the official reporting currency in the Republic of Serbia.

2.3. Standards and Interpretations in Issue, but not yet Translated and Adopted

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012).

2.4. Standards and Interpretations in Issue not yet in Effect

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

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after January 1, 2015);

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

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

- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – Mandatory Effective Date and Transition Disclosures (effective for annual periods beginning on or after January 1, 2015);
- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after January 1, 2013);
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after January 1, 2013);
- IFRS 12 "Disclosures of Involvement with Other Entities" (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosures of Involvement with Other Entities: Transition Guidance" (effective for annual periods beginning on or after January 1, 2013);
- IAS 27 (revised in 2011) "Separate Financial Statements" (effective for annual periods beginning on or after January 1, 2013);
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after January 1, 2013);
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 19 "Employee Benefits" – Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Government Loans with a Below-Market Rate of Interest (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012);
- Amendments to IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014);
- Annual improvements 2009 - 2011 cycle issued in May 2012 (effective for annual periods beginning on or after January 1, 2013);
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10, IFRS 12 and IAS 27 - Exemption from Consolidation of Subsidiaries under IFRS 10 'Consolidated Financial Statements' (effective for annual periods beginning on or after January 1, 2014);

2.5. Comparative Information

Comparative information includes the Bank's financial statements as of and for the year ended December 31, 2011, which were audited by another auditor.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest and Commission Income and Expenses

Interest income and expenses, including penalty interest and other income and other expenses arising from interest-bearing assets and interest-bearing liabilities, are recognized in the income statement on an accrual basis and pursuant to the contractual terms agreed upon by and between the Bank and its clients.

Income from loan origination fees and commissions is deferred and recognized as interest income within the income statement by applying the effective interest method, i.e. as the adjustment of effective return on loans issued.

Interest income also includes income from hedging financial instruments, mostly based on indexing repayment annuities to the RSD/EUR exchange rate or another currency exchange rate, or consumer price index and is calculated at each month-end over the repayment period and as at the repayment annuity maturity date.

3.2. Fee and Commission Income and Expenses

Fee and commission income and expenses are recognized as per "matching principle."

Fee and commission income and expenses from banking services are recognized when such services are invoiced and rendered within the income statement. Fees and commission charged for guarantees, sureties and letters of credit issued are deferred and recognized as income proportionately over their maturity periods.

3.3. Income and Expenses from Securities

All realized gains and losses arising from movements in the market value are carried through profit and loss.

Gains and losses arising from changes in amortized cost of securities held to maturity are recognized as income and expenses.

Unrealized gains and losses incurred upon the change in the market value of investments available for sale are recognized under revaluation reserves within equity. When such assets are sold or permanently impaired, respective portions of the previously formed revaluation reserves are stated in the income statement as gains or losses on the sale of securities, i.e. as impairment gains or losses.

Gains/losses based on the contractually agreed currency clause and changes in exchange rates of securities available for sale as well as interest income from securities available for sale are included in the income statements.

Dividend income from investments in shares issued by other legal entities is included in divided income upon dividend collection.

Impairment allowances for estimated risk effects on all types of securities are recognized in the Bank's income statement.

3.4. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at official middle exchange rates as determined in the interbank currency market and effective at the date of each transaction.

Assets and liabilities denominated in foreign currencies are translated into dinars by applying the official middle exchange rates as determined in the interbank currency market and prevailing at the balance sheet date.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Property, Investment Property, Equipment and Intangible Assets

3.5.1. Intangible Assets

The Bank's intangible assets are recognized at cost or cost price. Subsequent to the initial recognition, intangible assets are stated at cost less accumulated amortization and impairment losses.

Calculation of amortization of intangible assets commences in the month following the one in which a relevant intangible assets was placed into use or became available for use.

Amortization of intangible assets is charged to the base comprised of cost net of residual value. If the residual value of an asset is immaterial, it is not taken into consideration, i.e. it does not reduce the amortization base.

Intangible assets are amortized on straight-line basis using the annual amortization rates ranging from from14.29% to 33.34%.

3.5.2. Property and Equipment

Recognition and Measurement

Fixed assets other than property are measured at cost less accumulated depreciation and impairment losses. As from January 2005, the bank had adopted revaluation method for properties in its ownership. Based on the market value appraisal adopted by the Bank's Board of Directors, revaluation was performed and value of property was increased in 2005.

Items of fixed assets are initially measured at cost or purchase price.

Cost includes all acquisition-related expenses. Purchased software necessary for the functioning of equipment is capitalized as part of such equipment.

In instances that parts of a single asset have different useful life durations, they are carried as separate items (major components) of equipment.

Following initial recognition, the Bank applies cost model for subsequent measurement of equipment. Following initial recognition, the Bank applies revaluation model for subsequent measurement of property.

Subsequent Expenditure

Cost of spare part replacement is recognized at carrying value if it is probable that the future economic benefits associated with the respective spare part will flow to the Bank and if the spare part purchase price can be measured reliably. Spare parts and servicing equipment are recorded within the income statement when used up.

Depreciation

Depreciation is calculated on a straight-line basis to the cost or revalued amount of property and equipment by applying the following annual rates in order to write the cost or revalued amount less residual value of those assets down in equal annual amounts over their useful lives.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Property, Investment Property, Equipment and Intangible Assets (Continued)

3.5.2. Property and Equipment

Depreciation (Continued)

Annual depreciation rates applied are as follows:

Buildings	2.5%
Computer equipment	25%
Furniture and motor vehicles	10%-15.5%
Leasehold improvements and other	4.25%-86.2%

3.5.3. Investment Property

The Bank's investment property is property held to earn rental income and/or for capital appreciation or both.

An item of investment property is initially measured at cost or purchase price. Transaction costs are not included in the initial measurement. The Bank applies cost method for subsequent measurement of investment property.

Depreciation of investment property is provided on a straight-line basis to the cost of investment property by applying the annual depreciation rate of 2.5%.

3.6. Inventories

3.6.1. Inventories

Inventories are stated at the lower of cost and net realizable value.

The Bank includes in inventories assets acquired in lieu of or to secure collection of matured receivables arising from loans.

3.6.2. Non-Current Assets Held for Sale

Non-current assets held for sale are assets whose carrying amounts can primarily be recovered through sales and not through further utilization.

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

- An asset (or a group of assets) is available for immediate sale in the condition as is;
- There is an adopted plan for sales of non-current assets and activities have already commenced to achieve the sales plan;
- There is an active market for such assets and the relevant asset is actively present on the market;
- The likelihood of prospective sales is high, i.e. it is expected that the sales will be realized within a year from the date of classification of the relevant item as a non-current asset held for sale.

Non-current assets held for sale are initially measured at the lower of the net book value (carrying amount) and the market value (fair value) net of costs to sell. From the initial classification of such assets as non-current assets held for sale, the Bank ceases to depreciate those assets.

In case of changes to the sales plan, a non-current asset ceases to be classified as a non-current asset held for sale and is measured at the lower of the following two amounts:

- Carrying amount of the relevant asset prior to its classification as a non-current asset held for sale allowing for the accumulated depreciation and impairment that would be recognized had the relevant asset not been classified as a non-current asset held for sale; and
- Recoverable amount as at the date of subsequent decision not to sell the relevant asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Instruments

Classification

The Bank classifies its financial assets into the following categories: financial assets carried at fair value through profit and loss, loans and receivables, financial assets available for sale and financial assets held to maturity. Classification depends on the intended purpose for which the financial assets were acquired. The Bank's management classifies financial investments upon initial recognition.

Recognition

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

Measurement

Financial instruments are initially measured at fair value, which includes transaction costs in all financial assets or liabilities except for those carried at fair value through profit and loss. Financial assets carried at fair value through profit and loss are initially recognized at fair value whereas the transaction costs are charged to the operating expenses within the income statement.

Available-for-sale financial and assets carried at fair value through profit and loss are subsequently stated at fair value. Loans and receivables as well as financial assets held to maturity are measured at amortized cost by applying the effective interest method.

Subsequent to initial recognition, financial liabilities are stated at amortized cost using the effective interest method, except financial liabilities carried at fair value through profit and loss.

Derecognition

Financial assets cease to be recognized when the rights of use of such instruments have been realized, expired, abandoned, and/or ceded. Any right to ceded financial assets, created or retained by the Bank is recognized as a separate financial asset or liability.

Financial liabilities cease to be recognized when the Bank fulfills the obligations, or when the contractual repayment obligation has either been cancelled, ceded or has expired.

Amortized Cost Measurement

Amortized cost of a financial asset or a liability is the amount at which an asset or a liability is initially measured decreased by principal repayments made and increased or decreased by accumulated amortization by applying the effective interest method on the difference between the initial value and the nominal value at the instrument's maturity date, less any impairment.

Fair Value Measurement

Fair value of financial instruments is an amount for which an asset can be exchanged or a liability settles between informed and willing parties in an arm's length transaction.

Fair value is determined by applying the market information available at the reporting date and other valuation models used by the Bank.

Fair values of certain financial instruments stated at nominal values approximate their respective carrying values. Such instruments include cash and receivables and liabilities without contractually defined maturities or fixed interest rates. Other receivables and liabilities are reduced to the net present value b discounting the expected future cash flows by using current interest rates. In the opinion of the management, due to the nature of the Bank's operations and its generally adopted policies, there are no significant differences between the carrying value and fair value of the financial assets and liabilities.

Fair value of irrevocable loans and off-balance sheet items is equal to their carrying amounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Instruments (Continued)

Impairment

As at the balance sheet date the Bank reviews financial assets in order to determine whether there is indication of impairment. If there is objective evidence of impairment, the recoverable amount of the investment is determined. For the purpose of adequate and efficient credit risk management, the Bank has adopted internal bylaws prescribing special policies and procedures for identifying and managing bad assets.

The Bank's management assesses recoverability of receivables, i.e. allowance for impairment of investments based on individual assessment of risk-weighted receivables. Risk-weighted receivables are all past-due receivables. The Bank assesses the collectible amount of receivables and investments taking into consideration regularity in repayment, financial situation of the debtors and quality of collaterals securitizing the repayment as well as the contractually defined cash flows and historical credit losses.

The Bank charges allowance for the assessed impairment to the expenses of the period in which the impairment occurred. If in a subsequent period, the management determines that conditions have changed and the impairment no longer exists or decreases, the previously formed allowance for impairment is reversed to income in profit and loss. Reversal of impairment allowance cannot result in the carrying amount of the relevant asset in excess of what the carrying amount of the asset would have been had the impairment not been recognized.

3.8. Loans

Loans originated by the Bank are stated within the balance sheet at the amount of principal outstanding, less allowance for impairment, which is based on the assessment of specifically-identified exposures and losses that are inherent in the Bank's loan portfolio. The Bank's management applies the internally adopted methodology in the evaluation thereof based on the fully adopted and implemented IAS 39, as disclosed in Note 4.

Loans that are disbursed in dinars and index-linked to the dinar-EUR exchange rates, other currency exchange rates or to the consumer price index are revalued in accordance with the specific individual loan agreements in question. The difference between the nominal value of the principal outstanding and the revalued amount is stated within receivables from loans and advances to customers. The effects of such revaluation are included under gains and losses on the valuation of assets and liabilities.

3.9. Financial Assets

3.9.1. Financial Assets Carried At Fair Value through Profit and Loss

Financial assets carried at fair value through profit and loss are financial assets held for trading. A financial asset is classified into this category if acquired primarily for sale in the near term. Derivatives are also classified as assets held for trading except for those derivatives designated as risk hedging instruments against risks. Assets within this category are classified as current assets. Financial assets carried at fair value through profit and loss include old foreign currency savings bonds issued by the Republic of Serbia and bank and corporate shares acquired for trading.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Financial Assets

3.9.2. Financial Assets Held to Maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. This category of securities includes commercial papers issued by legal entities.

If the Bank decides to sell a substantial portion of the financial assets held to maturity, the entire category is reclassified to assets available for sale. Financial assets held to maturity are classified as non-current assets unless their maturities are due in less than 12 months after the balance sheet date, in which case such assets are classified as current assets.

Financial assets held to maturity are initially recognized at cost. As at the balance sheet date, such instruments are stated at amortized cost, i.e. the present value of the future cash flows determined by applying the effective interest rate inherent in the instrument.

3.9.3. Equity Investments and Other Financial Assets Available for Sale

Financial assets available for sale are non-derivative financial assets that are designated as available for sale or not classified as loans and receivables, financial assets held to maturity and financial assets carried at fair value through profit and loss. Available-for-sale financial assets represent financial instruments intended to be held over an indefinite time period which may be sold for liquidity purposes, due to the movements in interest rates, exchange rates or prices of capital. Securities available-for-sale with fixed maturities for which an active market and quoted prices do not exist are measured at amortized cost using the effective interest method. Financial assets available for sale comprise commercial notes and bonds issued by the Republic of Serbia, shares of other banks and shares of and equity investments in other legal entities.

Available-for-sale assets are initially measured cost and stated at market value if known as the balance sheet date. Unrealized gains and losses incurred upon the change in the market value are stated as reserves within equity until this financial asset is sold, collected or disposed of, when revaluation reserves are transferred to income or expenses.

In instances of decrease in value of financial assets available for sale due to objective evidence of impairment (long-term and continuous decrease in fair value over a period longer than 12 months, or decrease in value of more than 30% of the assets' cost), accumulated losses recognized within equity is derecognized from equity and recognized as impairment loss within expenses, although such financial assets do not cease to be recognized (IAS 39.59, IAS 39.67 and IAS 39.68).

For equity investments the Bank has intention to hold such assets over an indefinite time. Equity investments may be sold for liquidity purposes or due to the movements in market prices. Equity investments for which there is no active market are measured at cost.

3.10. Cash and cash Equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise cash on hand, balances on the accounts held with other banks and cheques in collection.

3.11. Managed Funds

The Bank manages funds on behalf of, and for the account of third parties, and charges fees for these services. These items are not included in the Bank's balance sheet but presented within off-balance sheet items.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Taxes and Contributions

3.12.1. Income Taxes

Income tax represents an amount arrived at by applying the legally prescribed tax rate to the amount of profit before taxation stated in accordance with IAS/IFRS as adjusted for effects of permanent differences that reduce the prescribed tax rate to the effective tax rate.

Current income tax is payable at the legally prescribed rate of 10% on the tax base determined within the tax balance and reported in the annual corporate income tax return. The taxable base stated in the income tax return includes the profit shown in the statutory statement of income, as adjusted for differences that are specifically defined under statutory tax rules of the republic of Serbia, less any prescribed tax credits. The income tax rate of 15% will be applied after January 1, 2013.

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carryback period. However, current period tax losses stated in tax return may be used to reduce or eliminate taxes to be paid in future periods but only for duration of no longer than five ensuing years. Tax losses incurred prior to January 1, 2010 are available for carryforward for duration of ten ensuing years.

3.12.2. Indirect Taxes and Contributions

Indirect taxes and contributions include property taxes, value added tax, taxes and contributions to salaries charged to employer and various other taxes and contributions paid pursuant to effective republic and local tax regulations. These taxes and contributions are included within operating expenses.

3.13. Deposits

Deposits are stated at the amounts of placed funds which may be increased by the interest accrued, depending on the contractual terms agreed between the depositors and the Bank. The Bank agrees on interest rates depending on the amount of funds deposited.

Foreign currency deposits are stated in RSD at the official middle exchange rates prevailing as at the balance sheet date.

Deposits are presented as transaction and other deposits within the Bank's balance sheet.

3.14. Equity

The Bank's equity is comprised of the founding capital, subsequently issued shares, reserves retained from earnings, revaluation reserves, retained earnings/accumulated losses and the profit for the year less unrealized losses on the securities available for sale.

The Bank's core capital was formed from the monetary contributions of the Bank's founders. A founder cannot withdraw assets contributed to the Bank's core capital.

3.15. Employee Benefits

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Employee Benefits (Continued)

Since December 2012, the Bank has agreed on voluntary health insurance for all members of the Bank's Executive Board. Pursuant to the effective regulations of the Republic of Serbia, such benefits are treated as salaries.

In 2012, the Bank made provisions for long-term liabilities for employee retirement benefits in accordance with IAS 19. The Bank hired a certified actuary to perform evaluation and calculation of provisions for the aforesaid purpose.

The Bank does not have defined benefit plans or share-based remuneration options and there were no identified liabilities thereof as of December 31, 2012.

3.16. Segment Information

The Bank monitors and discloses information on its operating segments – lines of business (Note 55). The major portion of the Bank's business operations is conducted in the territory of the Republic of Serbia and, therefore, the information on geographical segments is not disclosed. Subsidiaries are not material for the Bank's stand-alone financial statements. Business operations of subsidiaries are presented in the consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES

Key Accounting Estimates and Assumptions

The management makes estimates and assumptions that influence the amounts of assets and liabilities of the forthcoming financial year. The estimated values often differ from the actually achieved results. What follows are the key assumptions in respect of the future events and other sources of estimations, uncertainties as of the balance sheet date which represent risk from material adjustments to the amounts of balance sheet items in the following fiscal year.

Impairment Allowance

The Bank reviews receivables and other investments in order to determine impairment allowance and provisions on a monthly basis. In determining whether the impairment losses on receivables and investments should be recognized in the income statement, the Bank assesses whether there is information/evidence indicative of the existence of a measurable decrease in the estimated future cash flows on a portfolio level before such losses can be identified at an individual level. Information indicating impairment losses include: irregularity and default in liability settlement, local market and economic conditions which cause delays in payment etc. Management's estimates of impairment of receivables and other investments using the estimated future cash flows are based on actual historical losses incurred on financial assets with similar risk exposure and similar impairment causes. The methodology and assumptions underlying the process of defining the amounts and periods of cash inflows from investments are reviewed on an ongoing basis in order to minimize the difference between the estimated and actual losses.

Impairment assessment is performed on an individual level for each materially significant loan and on a portfolio level for materially less significant loans. The amount of impairment is individually assessed as the difference between the carrying amount and the present value of the expected future cash flows determined by discounting the relevant loan at the effective interest rate thereof.

Impairment of materially less significant loans is assessed on a portfolio basis for each credit rating group separately, given their similar characteristics in respect of credit risk in the percentage of migration of the relevant credit rating group into the V credit rating group as adjusted for the percentage of collected loans previously classified into V credit rating group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

Key Accounting Estimates and Assumptions (Continued)

Impairment Allowance (Continued)

If individual impairment assessment of a materially significant loan reveals no objective evidence of loan impairment, the impairment thereof is calculated as the percentage of impairment of the whole credit rating group the loan belongs to.

The amounts of inflows expected from a loan are assessed based on evidence of the debtor's planned earnings. In case these are determined as insufficient, the Bank assesses the cash flow from collateral foreclosure. The number of days in default against certain receivables from debtors is determined by considering all relevant evidence about the timeline of debtors' planned earnings inflow as well as historical default of those debtors.

Fair Value

The fair value of financial instruments for which an active market does not exist is determined by applying different valuation methods and techniques. For financial instruments with less trading volume, whose market prices are therefore less transparent, determination of fair value is more subjective and requires a higher degree of assessment utilization depending on the instrument liquidity, risk concentration, market uncertainties, assumptions about the prices and other factors affecting the particular financial instrument.

Provisions for Litigations

The Bank assesses the probability of adverse outcome of the ongoing litigations as well as the amounts probable or reasonable loss estimates. Reasonable estimates encompass management's judgment after considering information including notifications, settlement, legal department estimates, available facts, potentially responsible party identification and their possible contribution to the resolution of suits as well as historical experience. Provision for litigation is formed/recognized when the Bank has a present obligation it will be required to settle and when a reliable estimate can be made of the amount of the obligation through thorough analysis. The required amount of provision can change in the future due to new events or new information obtained.

Matters that either represent commitments or fail to meet the criteria for provisioning are disclosed except in the instance that there is little probability that economic benefits will flow out of the Bank.

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

5. INTEREST INCOME AND EXPENSE

a) Interest Income

	Year Ended December 31, 2012	2011
Interest income in RSD		
From loans		
- financial and insurance sector	396,740	749,096
- corporate customers	8,647,012	8,448,934
- entrepreneurs	222,550	205,600
- public sector	487,996	258,982
- retail customers	4,686,282	4,160,892
- other customers	1,674	1,032
From deposits		
- financial and insurance sector	476,332	261,588
From securities		
- financial and insurance sector	116,704	-
- corporate clients	12,214	15,396
- public sector	2,000,624	1,841,732
From other investments		
- corporate clients	108,804	138,324
- entrepreneurs	29	27
- retail customers	923,684	729,820
	18,080,645	16,811,423
Interest income in foreign currencies		
From foreign currency loans		
- corporate customers	745,177	536,226
- entrepreneurs	1,213	859
- foreign entities	426,668	368,962
From foreign currency deposits – foreign entities	13,715	76,170
From foreign currency securities – public sector	851,334	214,161
From other investments in foreign currencies		
- financial and insurance sector	11,528	25,798
- foreign entities	600	2,722
	2,050,235	1,224,898
	20,130,880	18,036,321

Within RSD interest income, deferred interest income on loans totaled RSD 505,085 thousand, whereas deferred interest income in foreign currencies amounted to RSD 21,838 thousand. Loan origination fee income represents 2.51% of the total recognized interest income.

Fees that are collected in advance comprising deferred income totaling RSD 824,282 thousand are presented within other liabilities within the Bank's balance sheet (Note 41).

The estimated effect of interest that was not accrued and stated within the Bank's income statement for the year 2012 amounted to RSD 133,880 thousand and is associated with suspended interest on loans and investments subject to litigation.

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

5. INTEREST INCOME AND EXPENSE (Continued)

b) Interest Expenses

	Year Ended December 31, 2012	2011
Interest expenses in RSD		
From loans		
- financial and insurance sector	69,643	10,156
From deposits		
- financial and insurance sector	559,846	421,375
- public enterprises	173,423	254,114
- corporate customers	497,862	605,946
- entrepreneurs	12,885	9,633
- public sector	871,631	826,015
- retail customers	128,794	114,751
- foreign entities	1,531	274
- other customers	-	1,887
Based on other liabilities		
- corporate customers	119	28
- retail customers	2,290	27,064
	2,318,024	2,271,243
Interest expenses in foreign currencies		
From loans		
- financial and insurance sector	61,950	68,003
- public sector	8	51
- foreign entities	654,288	229,892
From deposits		
- financial and insurance sector	57,036	57,428
- public enterprises	82,204	96,282
- corporate customers	573,140	519,206
- public sector	494	4,774
- retail customers	5,468,355	4,888,561
- foreign entities	4,879	5,387
- other customers	-	41,874
Based on other liabilities		
- financial and insurance sector	176	210
- foreign entities	10	42
	6,902,540	5,911,710
	9,220,564	8,182,953

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

6. FEE AND COMMISSION INCOME AND EXPENSE

a) Fee and Commission Income

	Year Ended December 31, 2012	2011
Fees and commissions in RSD		
- financial and insurance sector	196,717	228,173
- public enterprises	41,840	38,233
- corporate customers	2,067,445	1,959,159
- entrepreneurs	561,649	505,073
- public sector	1,254	1,612
- retail customers	2,176,768	2,146,471
- foreign entities	124,984	68,489
- registered agricultural producers	-	11
- other customers	-	546
	5,170,657	4,947,767
Fees and commissions in foreign currencies		
- financial and insurance sector	1,177	279
- corporate customers	12,265	-
- retail customers	51,757	47,140
- foreign entities	99,058	55,010
- other customers	-	1,249
	164,257	103,678
	5,334,914	5,051,445

b) Fee and Commission Expense

	Year Ended December 31, 2012	2011
Fees and commissions in RSD		
- financial and insurance sector	324,398	280,730
- corporate customers	246,617	180,907
- retail customers	-	22
- foreign entities	13,229	16,773
- other customers	-	124
	584,244	478,556
Fees and commissions in foreign currencies		
- foreign entities	196,204	149,225
- other customers	-	265
	196,204	149,490
	780,448	628,046

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012
All amounts expressed in thousands of RSD, unless otherwise stated

7. NET GAINS / (LOSSES) ON THE SALE OF SECURITIES CARRIED AT FAIR VALUE THROUGH PROFIT AND LOSS

	Year Ended December 31, 2012	2011
Gains on the sale of securities carried at fair value through profit and loss	2,656	20,597
Losses on the sale of securities carried at fair value through profit and loss	(1,880)	(39,707)
Net gains/(losses) on the sale of securities carried at fair value through profit and loss	776	(19,110)

8. NET GAINS ON THE SALE OF SECURITIES AVAILABLE FOR SALE

	Year Ended December 31, 2012	2011
Gains on the sale of securities available for sale	83,947	1,254
Net gains on the sale of securities available for sale	83,947	1,254

9. FOREIGN EXCHANGE (LOSSES)/GAINS, NET

	Year Ended December 31, 2012	2011
Foreign exchange gains	5,682,006	1,257,639
Foreign exchange losses	(13,723,387)	(1,285,467)
	(8,041,381)	(27,828)

Foreign exchange gains and losses comprise positive and negative effects of foreign exchange translation of transactions performed in foreign currencies during the year and translation effects of balance sheet items into dinars at official exchange rates at each month-end.

Calculation of foreign exchange gains and losses is conducted and stated at gross principle (foreign exchange gains and losses) during the financial year in accordance with the regulations of the National Bank of Serbia.

10. INCOME FROM DIVIDENDS AND EQUITY INVESTMENTS

	Year Ended December 31, 2012	2011
Income from dividends and equity investments	2,251	7,997
	2,251	7,997

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

11. OTHER OPERATING INCOME

	Year Ended December 31, 2012	2011
Other operating income	157,217	142,098
Collected receivables previously written off	506	580
Gains on the sale of property, equipment and intangible assets	38,481	12,970
Write-off of liabilities	3,314	2,831
Surpluses	2,556	32
Other income	38,948	32,696
	241,022	191,207

The most significant amount within other operating income represents rental income from lease of property for usage as business premises of RSD 101,435 thousand.

12. IMPAIRMENT GAINS/(LOSSES) AND PROVISIONS, NET

	Year Ended December 31, 2012	2011
a) Losses		
Impairment losses per balance sheet items		
- loans and advances to customers	6,336,717	6,603,913
- interest and fee receivables	298,306	571,626
- securities held to maturity	6,909	7,554
- equity investments and other securities available for sale	76,783	-
- other assets	190,055	69,134
Impairment losses per off-balance sheet items	522,524	438,497
Provisions for liabilities arising from litigations	218,528	1,124,856
Provisions for retirement benefits	49,359	48,045
Suspended interest	117,483	19,730
	7,816,664	8,883,355
b) Gains		
Reversal of impairment of balance sheet items		
- loans and advances to customers	5,458,400	6,447,654
- interest and fee receivables	234,856	553,644
- securities held to maturity	7,073	3,254
- equity investments and other securities available for sale	-	1,568
- other assets	54,537	39,485
Reversal of provisions for losses per off-balance sheet items	526,910	342,449
Reversal of unused provisions for liabilities arising from litigations	18,249	-
Reversal of unused other provisions for employee benefits	48,929	-
Collected interest previously suspended	23,411	159,840
	6,372,365	7,547,894
Losses, net (a-b)	(1,444,299)	(1,335,461)

Up to the end of January 2013, the Bank did not perform materially significant collection of impaired investments that would affect the reversal of allowance for impairment in accordance with IAS 10.

Based on the classification of loans and investments in accordance with the requirements of the National Bank of Serbia, as of December 31, 2012, the Bank assessed the special reserve for estimated losses based on the Bank's aggregate credit risk exposure.

All amounts expressed in thousands of RSD, unless otherwise stated

12. IMPAIRMENT GAINS/(LOSSES) AND PROVISIONS, NET (Continued)

In accordance with the NBS Decision on the Classification of Balance Sheet Assets and Off-Balance Sheet Items of the Bank, the difference between provisions against potential losses calculated in line with the aforementioned Decision and amount of value adjustments for balance sheet items and provisions for off-balance sheet items calculated in line with the internally adopted methodology represents the amount of required provisions against potential losses and is recorded on a separate account.

MOVEMENTS ON THE ACCOUNTS OF IMPAIRMENT ALLOWANCE AND PROVISONS FOR OFF-BALANCE SHEET ITEMS

	Interest and Fee Receivables	Loans and Deposits	Securities	Equity Investments	Other investments	Other Assets	Off-Balance Sheet Items	Total
Balance, January 1, 2012	1,639,898	10,690,247	4,611	370,189	2,793,946	163,789	502,017	16,164,697
Charge for the year	298,306	5,989,128	6,909	76,783	347,589	190,055	522,524	7,431,294
Decrease	(234,856)	(5,357,273)	(7,073)	-	(101,127)	(54,537)	(526,910)	(6,281,776)
Foreign exchange gains	27,930	445,736	224	-	171,285	10,266	-	655,441
Write-offs	(29,280)	(63,412)	-	-	(31,516)	(438)	-	(124,646)
Other changes	(138,483)	2,002	-	(18)	(2,322)	(3,893)	1	(142,713)
Balance, December 31, 2012	1,563,515	11,706,428	4,671	446,954	3,177,855	305,242	497,632	17,702,297

		Year Ended December 31, 2012	2011
	Calculation of provisions		
a)	Special reserve for estimated losses per		
	- balance sheet assets	29,535,247	29,995,075
	- off-balance sheet items	782,289	1,269,589
	Total a)	30,317,536	31,264,664
b)	Impairment allowance and provisions calculated in line with the internally adopted methodology (IAS 39)		
	- impairment allowance for balance sheet assets	17,204,665	15,662,680
	- provisions against losses per off-balance sheet items	497,632	502,017
	Total b)	17,702,297	16,164,697
c)	Difference between the amounts of calculated impairment allowance and provisions		
	- balance sheet assets	12,330,582	14,332,395
	- off-balance sheet items	284,657	767,572
	Total c (a - b)	12,615,239	15,099,967
d)	Reserves retained from earnings for estimated losses per balance sheet assets and off-balance sheet items created in prior years		
	- balance sheet assets	14,077,046	10,927,046
	- off-balance sheet items	708,394	708,394
	Total d)	14,785,440	11,635,440
e)	Total required special reserve for estimated losses according to the NBS methodology		
	- balance sheet assets	13,089,033	14,332,395
	- off-balance sheet items	368,107	767,572
	Total	13,457,140	15,099,967

Movements on reserves retained from earnings are disclosed in Note 42.

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

12. IMPAIRMENT GAINS/(LOSSES) AND PROVISIONS, NET (Continued)

Pursuant to the regulations of the National Bank of Serbia, the Bank is obligated to form additional reserves retained from earnings for risk-weighted assets in the total amount of RSD 12,330,582 thousand apart from allowance for impairment. In prior years the Bank created reserves retained from earnings for estimated losses per balance sheet assets totaling RSD 14,077,046 thousand as of December 31, 2012.

Pursuant to the regulations of the National Bank of Serbia, the Bank is obligated to form reserves retained from earnings for guarantees and contingent liabilities in the total amount of RSD 284,657 thousand. In prior years the Bank created reserves retained from earnings of RSD 708,394 thousand for these purposes.

13. STAFF COSTS

	Year Ended December 31, 2012	2011
Net salaries	2,449,198	2,176,302
Compensations	471,746	556,578
Taxes on salaries and benefits	454,665	425,983
Contributions to salaries and benefits	683,430	649,636
Temporary and seasonal employees	64,628	53,555
Other staff costs	62,679	63,031
	4,186,346	3,925,085

14. DEPRECIATION AND AMORTIZATION

	Year Ended December 31, 2012	2011
Depreciation and amortization	752,356	672,099
	752,356	672,099

15. OPERATING AND OTHER EXPENSES

	Year Ended December 31, 2012	2011
Cost of materials	520,422	442,330
Production service costs	1,923,528	1,752,349
Non-material costs (without taxes and contributions)	1,507,289	1,364,209
Taxes	87,372	80,641
Contributions	794,748	712,786
Other costs	40,827	46,079
Losses on the sale of property, equipment and intangible assets	-	237
Losses on disposal of property, equipment and intangible assets	1,672	3,034
Shortages and damages	7,600	-
Other expenses	49,547	19,241
	4,933,005	4,420,906

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012
All amounts expressed in thousands of RSD, unless otherwise stated.

15. OPERATING AND OTHER EXPENSES (Continued)

Within production service costs, rental costs for 2012 amounted to RSD 642,864 thousand. Rental costs mostly refer to the operating lease of business premises in the amount of RSD 560,119 thousand. As of December 31, 2012, commitments per operating lease contracts for business premises for future periods, excluding value added tax, for 209 business premises with the total area of 33,815.88m² totaled (in thousands of RSD):

- within a year	434,175
- from one to five years	1,213,102
- over five years	296,517
Total	1,943,794

The Bank recognizes liabilities per operating lease of business premises as regular rental costs on a monthly basis.

16. GAINS ON VALUATION OF ASSETS AND LIABILITIES

	Year Ended December 31, 2012	2011
Gains on the valuation of investments and receivables:	17,179,893	11,510,850
Gains on the valuation of securities	41,892	16,077
Gains on the valuation of liabilities	767,535	1,653,998
Gains on the valuation of property, equipment, Investment property and intangible assets	173	-
	17,989,493	13,180,925

17. LOSSES ON VALUATION OF ASSETS AND LIABILITIES

	Year Ended December 31, 2012	2011
Losses on the valuation of investments and receivables:	7,792,526	11,655,706
Losses on the valuation of securities	14,937	191,114
Losses on the valuation of liabilities	2,040,489	1,458,141
and intangible assets	4,270	-
Losses on the valuation of derivatives	-	634
	9,852,222	13,305,595
Net gains/(losses) on the valuation of assets and liabilities	8,137,271	(124,670)

Gains/losses on the valuation of assets include the calculated effect of currency clause protection against the currency risk.

Gains/losses on the valuation of securities include the effects of reduction of securities to their market value.

Gains/losses on the valuation of liabilities include the calculated effect of currency clause protection against the currency risk for deposits received from customers.

The Bank calculates effects of valuation at each month-end during the year and at each transaction date.

All amounts expressed in thousands of RSD, unless otherwise stated

18. INCOME TAXES

a) *Components of income taxes*

	Year Ended December 31, 2012	2011
Current income tax expense	(472,448)	(426,027)
Income from creation of deferred tax assets and reversal of deferred tax liabilities	32,885	11,578
Losses from creation of deferred tax liabilities and reversal of deferred tax assets	(10,953)	(23,937)
	(450,516)	(438,386)

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

	Year Ended December 31, 2012	2011
Profit before taxation	4,572,662	3,952,066
Income tax at the statutory tax rate of 10%	457,266	395,207
Tax effects of the expenses not recognized within the tax balance	42,334	115,976
Tax effects of the net capital gains/losses	(1,261)	146
Tax effects of the difference between the tax-purpose and accounting depreciation and amortization	21,364	12,874
Tax effects of the transfer prices	445	223
Tax effects of income reconciliation	(1,820)	4,917
Tax credit used in the current year	(45,880)	(103,316)
Tax effect adjustments (used and new ones)	(21,932)	12,359
Tax effects stated within the income statement	(450,516)	(438,386)
C. EFFECTIVE TAX RATE	9.85	11.09

The Bank made income tax advance payments in the amount of RSD 529,343 thousand in 2012 as monthly tax liabilities stipulated by the Income Tax Law. For settlement of the current income tax expense, the bank used RSD 472,448 thousand of the aforesaid advance tax payments made, whereas the remaining RSD 56,895 thousand will be used as a portion of the tax advance payment for the forthcoming period.

19. INCOME FROM CREATION OF DEFERRED TAX ASSETS AND DECREASE IN DEFERRED TAX LIABILITIES

	Year Ended December 31, 2012	2011
Income from creation of deferred tax assets and decrease in deferred tax liabilities – change in the statutory tax rate from 10% to 15%	14,935	-
Income from creation of deferred tax assets and decrease in deferred tax liabilities	17,950	11,578
	32,885	11,578

Change in the statutory income tax rate from 10% to 15% starting from 2013 which will be used to realize the determined deferred tax assets and/or liabilities in the ensuing years had a direct impact on increase in deferred tax assets by 50% as compared to calculation applied in 2011.

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

19. INCOME FROM CREATION OF DEFERRED TAX ASSETS AND DECREASE IN DEFERRED TAX LIABILITIES (Continued)

The total effect of the change in deferred tax assets amounted to RSD 32,885 thousand and included gains based on the change of the statutory income tax rate of RSD 14,935 thousand and the effect of creation of new deferred tax assets using the new tax rate of 15% in the amount of RSD 17,950 thousand.

	Effect of the Tax Rate Change	New Provision Charge
Provisions for retirement benefits and unused annual leaves	13,807	65
Temporarily unrecognized expenses arising from impairment of assets	1,078	17,924
Temporarily unrecognized expenses arising from calculated public duties not paid	50	(39)
	14,935	17,950

20. LOSSES ON DECREASE IN DEFERRED TAX ASSETS AND CREATION OF DEFERRED TAX LIABILITIES

	December 31, 2012	December 31, 2011
Losses on decrease in deferred tax assets and creation of deferred tax liabilities – change in the statutory tax rate from 10% to 15%	23,453	-
Decrease in loss from based on the decrease of deferred tax liabilities	(12,500)	23,937
	10,953	23,937

The total effect of change in deferred tax liabilities amounted to RSD 10,953 thousand and included the following:

a) Increase in deferred tax liabilities on the temporary difference in the carrying amounts of the fixed assets due to the increase in the income tax rate by RSD 23,453 thousand, i.e. by 50%. As of December 31, 2012, the calculation of deferred tax liabilities on this ground required decrease in liabilities of RSD 12,600 thousand, incurring net loss of RSD 10,853 thousand; and

b) Loss from reversal of deferred tax assets based on public duties calculated in the previous period yet paid in the current period in the amount of RSD 100 thousand.

	Effect of the Tax Rate Change	Decrease in Liabilities
Temporary difference in the value of fixed assets	23,453	(12,600)
Temporary unrecognized expenses based on calculated public duties not paid	-	100
	23,453	(12,500)

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

20. LOSSES ON DECREASE IN DEFERRED TAX ASSETS AND CREATION OF DEFERRED TAX LIABILITIES (Continued)

MOVEMENTS ON THE ACCOUNTS OF DEFERRED TAX ASSETS AND LIABILITIES

	Deferred Tax Assets	Deferred Tax Liabilities	Net Tax Effects
Opening balance at January 1, 2012	29,871	(46,907)	(17,036)
Loss on the creation of deferred tax liabilities (temporary difference between the tax-purpose and accounting values of the fixed assets) - change in the statutory tax rate from 10% to 15%	-	(23,453)	(23,453)
Decrease in loss from the reversal of deferred tax liabilities (temporary difference between the tax-purpose and accounting values of the fixed assets)	-	12,600	12,600
Income from creation of deferred tax assets (long-term provisions as per IAS 19) - change in the statutory tax rate from 10% to 15%	13,807	-	13,807
Income from creation of deferred tax assets (long-term provisions as per IAS 19) – new provision charge	65	-	65
Income from creation of deferred tax assets (calculated public duties not paid) - change in the statutory tax rate from 10% to 15%	50	-	50
Loss on the creation of deferred tax liabilities (calculated public duties not paid)	(139)	-	(139)
Income from creation of deferred tax assets (based on impairment of assets) - change in the statutory tax rate from 10% to 15%	1,078	-	1,078
Income from creation of deferred tax assets (based on impairment of assets)	17,924	-	17,924
Balance at December 31, 2012	62,656	(57,760)	4,896

i) **Deferred tax assets – based on long-term provisions for retirement benefits and unused annual leaves (vacations), temporarily unrecognized expenses based on impairment of assets temporarily unrecognized expenses based on public duties not paid**

	2012		2011		
	Amount of Provisions	Deferred Tax Assets at 15% Rate	Amount of Provisions	Deferred Tax Assets at 10% Rate	Loss/ Gain on the Reversal of Deferred Tax Assets
Long-term provisions as per IAS 19	276,571	41,486	276,141	27,615	13,871
Tax assets based on calculation of public duties payable - reversal	-	-	1,000	100	(100)
Tax assets based on calculation of public duties payable - creation	73	11	-	-	11
Tax assets based on impairment of assets	141,059	21,159	21,561	2,156	19,003
Total	-	62,656	-	29,871	32,785

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

20. LOSSES ON DECREASE IN DEFERRED TAX ASSETS AND CREATION OF DEFERRED TAX LIABILITIES (Continued)

ii) Deferred tax liabilities - difference between the tax-purpose and accounting carrying amounts of the fixed assets

	2012		2011		
	Amount of Provisions	Deferred Tax Liabilities at 15% Rate	Amount of Provisions	Deferred Tax Liabilities at 10% Rate	Loss/ Gain on the Reversal of Deferred Tax Liabilities
Tax-purpose amounts as per tax regulations	7,523,460	-	7,494,561	-	-
Carrying amounts	7,908,521	-	7,963,622	-	-
Difference	385,061	57,760	469,061	46,906	(10,853)
NETTED DEFERRED TAX ASSETS / (LIABILITIES)WITHIN THE BALANCE SHEET		4,896		(17,036)	

21. CASH AND CASH EQUIVALENTS

	December 31, 2012	December 31, 2011
In RSD		
Gyro account	21,884,424	9,992,491
Cash on hand	2,612,665	1,730,513
	24,497,089	11,723,004
In foreign currencies		
Foreign currency accounts	14,077,140	3,892,766
Cash on hand	1,722,461	1,410,114
Foreign currency cash equivalents – cheques in the course of collection	21,272	32,753
Other cash and cash equivalents	196,119	170,234
	16,016,992	5,505,867
Gold and other precious metals	99	99
	40,514,180	17,228,970

The Bank's required reserve represent the minimum deposits set aside in accordance with the NBS "Decision on Required Reserves of Banks with the National Bank of Serbia".

The calculation of required reserve in dinars is performed once a month – on the 17th day of the month based on the average balance of dinar deposits as found in the prior calendar month. Required reserve in dinars is allocated by the Bank in dinars at its gyro account and these funds may be used for liquidity purposes. The Bank is obligated to maintain the average monthly balance on its gyro account in the amount of required reserve in dinars where, in order to realize the daily balance of allocated required reserve, the daily balance found on the gyro account may be below or above the calculated required reserve in dinars.

Interest rate applied to allocated resources found on the regular account used for required reserves in 2010 totaled 2.5% annually. In 2012, the Bank maintained the average monthly balance in the amount of required reserve in dinars, i.e. required reserves in dinars were not used at any time.

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

22. REVOCABLE LOANS AND DEPOSITS

	December 31, 2012	December 31, 2011
In RSD		
Loans based on repo transactions	4,000,000	11,500,000
	4,000,000	11,500,000
In foreign currencies		
Required reserve in foreign currency held with NBS	39,053,502	43,760,711
	39,053,502	43,760,711
	43,053,502	55,260,711

The Bank calculates required reserve in foreign currency on the 17th day of the month based on the average balance of foreign currency deposits registered in the preceding calendar month. Required reserve in foreign currency is allocated onto a special account held with the National Bank of Serbia and these assets may be drawn as necessary. The Bank is under obligation to maintain the average monthly balance of allocated foreign currency required reserve in the amount of calculated foreign currency required reserve, where, for the purposes of realizing average daily balance of allocated required reserve, the daily balance on the account of required reserve may be below or above the calculated foreign currency required reserve.

Foreign currency required reserve does not accrue interest.

During 2012, based on the Decision on Required Reserves of Banks with the National Bank of Serbia, the Bank allocated a certain portion of its foreign currency reserve in dinars to its gyro account.

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

	December 31, 2012	December 31, 2011
Interest receivables in RSD		
- interest	2,232,991	1,947,476
- fees	142,287	117,131
Receivables from trade in RSD	177	80
Other receivables in RSD - rentals	363,100	354,738
Less: Allowance for impairment in RSD	(1,284,149)	(1,360,913)
	1,454,406	1,058,512
Interest receivables in foreign currencies		
- interest	372,299	364,014
- fees	3	4
Receivables from trade in foreign currencies	-	44,028
Less: Allowance for impairment in foreign currencies	(279,366)	(278,985)
	92,936	129,061
	1,547,342	1,187,573

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

24. LOANS AND DEPOSITS TO CUSTOMERS

	December 31, 2012	December 31, 2011
RSD loans to customers		
Transaction accounts	5,615,020	5,221,887
Consumer loans	1,903,601	4,630,134
Working capital loans	48,392,968	30,415,847
Export loans	3,076,278	9,514,560
Investment loans	33,486,818	33,597,472
Housing loans	30,109,265	25,893,496
Other loans	44,625,186	32,526,702
Less: Allowance for impairment of RSD loans	(8,638,581)	(7,912,752)
	158,570,555	133,887,346
Foreign currency loans to customers		
Loans for the payment of goods imported and services received from aboard	5,112,910	6,191,620
Overnight loans	2,170,276	8,255,053
Other loans	13,933,828	9,526,382
Less: Allowance for impairment of foreign currency loans	(2,839,872)	(2,563,568)
	18,377,142	21,409,487
Other and earmarked foreign currency deposits		
Other foreign currency deposits	387,143	636,301
Less: Allowance for impairment of foreign currency deposits	(227,975)	(213,927)
	159,168	422,374
	177,106,865	155,719,207

In the third quarter of 2013, at the request of the National Bank of Serbia, due to the requirements of harmonization of the financial statement structure throughout the country's banking sector, loans to retail customers based on payment cards were reclassified from consumer loans to other loans.

	December 31, 2012	December 31, 2011
Loans to retail customers based on payment cards	2,105,785	2,077,942

The aforestated amount for the year 2012 is included in other loans, whereas the amount for the year 2011 is included in consumer loans.

During 2012, loans up to one year in dinars and in foreign currency were approved for the period from one month to one year at interest rates ranging from 0.69% to 1.8% per month.

Loans with over one year maturities denominated in dinars and in foreign currency were approved for a period of maximum 30 years at annual interest rates ranging from 3.35% (as increased by the interest rate agreed upon according to adequate monetary collateral type) to 22.50 %.

Concentration of the aggregate loans approved to customers is presented in Note 54.

Risks and Uncertainties

The Bank's management recorded provisions for potential credit losses based on all known or anticipated credit risks as of the date of issuing the financial statements. The Bank's loan portfolio receivables were classified based on the most recent financial information available as well as based on the expected effects of the restructuring processes involving customers. If these effects fail to provide possibilities to settle the liabilities due to the bank, the Bank's receivables are mostly collateralized by mortgages assigned over property held by debtors, as well as pledges on movables. In the case that the debt recovery actions undertaken by the Bank's management are unsuccessful, additional amounts of allowances for impairment and provisions for losses based on the assessed irrecoverability would be required in the forthcoming reporting periods.

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

25. SECURTIES (EXCLUDING OWN SHARES)

	December 31, 2012	December 31, 2011
In RSD		
Securities carried at fair value through profit and loss		
- shares of banks in RSD	708	728
- corporate shares	5,703	7,825
Securities available for sale		
- shares of banks in RSD	75	79
- corporate bonds (Tigar a.d., Pirot)	67,904	83,318
- bonds of banks	1,566,640	-
- Republic of Serbia bonds and bills	17,221,078	16,895,150
- bonds of local self-government	56,089	-
Securities held to maturity		
- corporate bonds (RDP B92 a.d., Beograd)	51,167	78,476
Less: Allowance for impairment of securities in RSD	(4,671)	(4,611)
	18,964,693	17,060,965
In foreign currencies		
Securities carried at fair value through profit and loss		
- Republic of Serbia bonds	206,492	141,850
Securities available for sale		
- Republic of Serbia bonds and bills	22,176,534	8,435,157
	22,383,026	8,577,007
	41,347,719	25,637,972

Trading Securities

As of December 31, 2012, the market value of trading securities portfolio totaled RSD 212,903 thousand (December 31, 2011: RSD 150,403 thousand), whereof dinar denominated trading securities account for RSD 6,411 thousand and the foreign currency denominated trading securities amounted to RSD 206,492 thousand.

The largest investments were made into the Republic of Serbia old savings bonds, in the amount of RSD 206,492 thousand and in shares of the following companies: Galenika Fitofa a.d., Beograd in the amount of RSD 1,868 thousand; Metalac a.d., Gornji Milanovac in the amount of RSD 1,575 thousand; Sojaprotein a.d., Bečej in the amount of RSD 931 thousand; and Messer Tehnogas a.d., Beograd in the amount of RSD 689 thousand.

Securities Available for Sale

As of December 31, 2012, the structure of investments made in securities available for sale was as follows:

In RSD:

Republic of Serbia commercial bills in the amount of RSD 14,047,771 thousand; Republic of Serbia bonds in the amount of RSD 3,173,307 thousand; bonds from the City of Pančevo budget in the amount of RSD 56,089 thousand; bonds of the company Tigar a.d., Pirot in the amount of RSD 67,904 thousand; and bonds of the following banks: Societe Generale banka a.d., Beograd in the amount of RSD 1,055,102 thousand; Erste banka a.d., Beograd in the amount of RSD 511,538 thousand and AIK banka a.d., Niš in the amount of RSD 75 thousand.

In foreign currencies:

Republic of Serbia commercial bills in the amount of RSD 15,332,788 thousand, long-term Government of the Republic of Serbia bonds in the amount of RSD 6,256,302 thousand and Republic of Serbia old savings bonds in the amount of RSD 587,444 thousand.

Securities Held to Maturity

The amount of RSD 51,167 thousand entirely relates to the bonds of the company RDP B92 a.d., Beograd.

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

26. EQUITY INVESTMENTS (INTERESTS)

	December 31, 2012	December 31, 2011
Equity investments in subsidiaries domiciled in the country	140,000	140,000
Equity investments in subsidiary banks domiciled abroad	5,340,888	5,340,888
Equity investments in banks and financial organizations	136,236	117,998
Equity investments in corporate and other legal entities	451,430	405,008
Equity investments in foreign entities domiciled abroad	295,433	189,878
Less: Allowance for impairment	(446,954)	(370,189)
	5,917,033	5,823,583

As of December 31, 2012, equity investments in subsidiaries domiciled in the country related to KomBank Invest a.d., Beograd in the amount of RSD 140,000 thousand.

Equity investments in subsidiaries domiciled aboard relate to interest held in Komercijalna banka a.d., Banja Luka totaling RSD 2,974,615 thousand and Komercijalna banka a.d., Budva totaling RSD 2,366,273 thousand.

Equity investments in banks and financial institutions relate to Euroaxis bank, Moscow in the amount of RSD 78,387 thousand, AIK banka a.d., Niš in the amount of RSD 54,014 thousand, Jubmes banka a.d., Beograd in the amount of RSD 1,961 thousand and Union banka a.d., Beograd in the amount of RSD 1,874 thousand.

Equity investments in enterprises mainly refer to the following business entities: 14. oktobar a.d. Kruševac amounting to RSD 324,874 thousand, RTV Politika d.o.o., Beograd in the amount of RSD 37,634 thousand, Dunav osiguranje a.d., Beograd amounting to RSD 46,124 thousand and Politika a.d., Beograd amounting to RSD 34,526 thousand.

Equity investments in foreign entities are associated with the company VISA Inc, USA totaling RSD 244,375 thousand and Master card, USA totaling RSD 51,058 thousand.

The allowance for impairment of other equity investments of RSD 446,954 thousand relates to the full (100%) impairment of cost for those equity investments that do not have a market value out of which the largest amounts refer to the following entities: 14. Oktobar a.d., Kruševac in the amount of RSD 324,874 thousand; RTV Politika d.o.o., Beograd in the amount of RSD 37,634 thousand; Politika a.d., Beograd in the amount of RSD 28,484 thousand; Dunav osiguranje a.d., Beograd in the amount of 28,828 thousand and AIK banka a.d., Niš in the amount of RSD 19,287 thousand.

27. OTHER INVESTMENTS

	December 31, 2012	December 31, 2011
Other investments in RSD		
- Purchased investments – factoring	103,282	361,776
Placements for acceptances, bills of guarantees and payments made upon guarantees called	1,445,695	1,020,978
Other investments	380,005	452,826
Less: Allowance for impairment	(968,074)	(745,367)
	960,908	1,090,213
Other investments in foreign currencies		
Placements for acceptances, bills of guarantees and payments made upon guarantees called	286,636	241,563
Covered letters of credit and other sureties	1,662,270	598,528
Other investments	2,527,863	2,305,808
Less: Allowance for impairment	(2,209,781)	(2,048,579)
	2,266,988	1,097,320
TOTAL	3,227,896	2,187,533

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

27. OTHER INVESTMENTS (Continued)

Placements for acceptances, bills of guarantees and payments made upon guarantees called of RSD 1,445,695 thousand mostly refer to the payments made upon guarantees called in the amount of RSD 1,074,363 thousand.

Covered letters of credit and other sureties of RSD 1,662,270 thousand are mostly associated with counter guarantee issued at the request of the customer Sunoko d.o.o., Novi Sad in favor of Commerzbank AG, Frankfurt am Main for the ultimate guarantee beneficiary Pfeifer & Langen Kommanditgesellschaft in the amount of RSD 653,580 thousand, as well as payment by letter of credit through Commerzbank Brussels on behalf of the customer Sojaprotein a.d., Bečej to the company Vyncke NV Harelbeke in the amount of RSD 337,258 thousand.

Within other investments denominate din dinars, the largest portion refers to the nominal value of discounted bills of exchange totaling RSD 285,028 thousand, whereas out of other investments denominated in foreign currencies the largest portion of RSD 1,400,503 thousand accounts for receivables due Jugobanka a.d., Beograd in bankruptcy, which was fully provided for.

28. INTANGIBLE ASSETS

	December 31, 2012	December 31, 2011
Licenses and software	1,166,177	883,134
Intangible assets in progress	46,537	72,699
Less: Accumulated amortization	(612,276)	(400,418)
	600,438	555,415

Movements on the account of intangible assets:

	Licenses and Software	Intangible Assets in progress	Total
Cost			
Balance at December 31, 2011	883,134	72,699	955,833
Additions	-	256,881	265,881
Transfers	283,043	(283,043)	-
Balance at December 31, 2012	1,166,177	46,537	1,212,714
Accumulated amortization			
Balance at December 31, 2011	400,418	-	400,418
Charge for the year 2012	211,858	-	211,858
Balance at December 31, 2012	612,276	-	612,276
Net Book Value:			
at December 31, 2012	553,901	46,537	600,438
at December 31, 2011	482,716	72,699	555,415

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

29. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY

Movements on the account of property, equipment and intangible assets:

	Property	Equipment	Property, plant and equipment under construction	Investment Property	Total
Cost					
Balance, December 31, 2011	5,679,446	2,692,153	37,576	1,884,859	10,294,034
Additions	-	-	451,528	-	451,528
Transfers	107,342	308,471	(438,670)	22,857	-
Disposal and retirement	(13,503)	(204,626)	-	-	(218,129)
Other	(8,184)	-	-	-	(8,184)
Balance, December 31, 2012	5,765,101	2,795,998	50,434	1,907,716	10,519,249
Accumulated Depreciation					
Balance, December 31, 2011	890,582	1,724,005	-	149,176	2,763,763
Charge for the year 2012	143,669	363,777	-	33,052	540,498
Disposal and retirement	(3,440)	(198,272)	-	-	(201,712)
Transfers	745	-	-	(745)	-
Other	(146)	-	-	-	(146)
Balance, December 31, 2012	1,031,410	1,889,510	-	181,483	3,102,403
Net Book Value:					
at December 31, 2012	4,733,691	906,488	50,434	1,726,233	7,416,846
at December 31, 2011	4,788,864	968,148	37,576	1,735,683	7,530,271

a) Investment Property

As of December 31, 2010, the Bank stated investment property in the amount of RSD 1,726,233 thousand comprised of leased buildings.

In 2012, based on long-term lease contracts entered into, the Bank transferred properties (in Niš, Vrtište and Gornje Polje) totaling RSD 25,864 thousand to investment property.

By activating a part of investment property located at No. 29, Makedonska St., Belgrade for its own purposes, the Bank performed transfer to its own property and equipment (business premises) in the total amount of RSD 3,007 thousand.

Net effect of the aforedescribed reclassifications was increase in investment property by RSD 22,857 thousand.

As of December 31, 2012, net rental income earned totaled RSD 50,603 thousand:

Building	Area in m2	Total Expenses	Total Rental Income	Net Profit
Belgrade, Makedonska 29	7,168.91	(32,986)	73,055	40,069
Niš, Vrtište new D building	1,816.00	(176)	851	675
Niš, TPC Kalča	85.00	(802)	5,155	4,353
Belgrade, Omladinskih brigada 19	15,218.00	(14,219)	19,725	5,506
		(48,183)	**98,786**	**50,603**

In December 2012, the Bank's expert team performed valuation of investment property.

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

29. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

a) Investment Property (Continued)

The appraised fair value of investment property as of December 31, 2012 totaled EUR 17,397 thousand (equivalent to RSD 1,978,302 thousand), which is by 14.60% in excess of the carrying amount of investment property and does not represent significant departure of the fair value from the carrying amount.

The appraised value of investment property:

Building	Area in m2	Carrying Amount in RSD '000	Appraised Fair Value In EUR '000	Appraised Fair Value In RSD '000	Variance In RSD '000
Belgrade, Makedonska 29	7,168,91	1,023,887	9,170	1,042,785	18,898
Niš, Vrtište new D building	1,816,00	25,788	364	41,346	15,558
Niš, TPC Kalča	85,00	36,260	193	21,965	(14,295)
Belgrade, Omladinskih brigada 19	15,218.00	640,298	7,670	872,205	231,907
TOTAL		1,726,233	17,397	1,978,301	252,068

b) Property

The Bank has no buildings assigned under mortgage as collateral for the repayment of borrowings.

As a result of incomplete land registers, as at December 31, 2012, the Bank did not have proof of ownership for 25 buildings stated in the net book value of RSD 1,408,317 thousand. The Bank's management has taken all actions necessary to obtain the appropriate property titles for these buildings.

As at January 1, 2005, the Bank recognized revaluation effects (based on a valuation performed by an independent and certified appraiser) for property owned by the Bank. In 2012, as well as in prior years, the Bank's expert team performed valuation of property in the bank's ownership in accordance with the internally adopted bylaws.

Irrespective of the fact that the appraised fair value of property does not significantly depart from the carrying amount thereof, the Bank intends to have an independent appraiser perform valuation of property in accordance with the requirements of the relevant IAS in the forthcoming year.

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

29. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

b) Property (Continued)

The appraised value of property:

Building	Area in m2	Carrying Amount in RSD '000	Appraised Fair Value In EUR'000	Appraised Fair Value In RSD '000	Variance In RSD '000
Belgrade, Makedonska 29	10,916	2,003,225	16,450	1,870,707	(132,518)
Belgrade, Kralja Petra 19	5,358	584,185	6,266	712,538	128,353
Belgrade, Svetog Save 14	3,715	487,070	5,214	592,898	105,828
Belgrade, Svetogorska 42-44	3,333	366,268	4,703	534,765	168,497
Šabac, Jevremova 2	1,210	138,544	975	110,917	(27,627)
Kruševac, Trg fontana 1	2,959	95,033	1,039	118,209	23,176
Other property (71 buildings)		883,347	6,656	756,930	(126,417)
TOTAL*		4,557,672	41,303	4,696,964	139,292

* *The total carrying amount does not include leasehold improvements amounting to RSD 176,019 thousand.*

The appraised fair value of property as of December 31, 2012 totaled EUR 41,303 thousand (equivalent to RSD 4,696,964 thousand), which is by 3.06% in excess of the carrying amount of investment property and does not represent significant departure of the fair value from the carrying amount.

Based on the internal property valuation performed in 2012, positive effects on revaluation reserves within equity are expected in 2013.

The Bank's management believes that the net book value of property and equipment as at December 31, 2012 was stated at its market value.

Based on the annual inventory count, useless fixed assets (equipment) with the net book value of RSD 1,307 thousand were disposed of and derecognized.

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

	December 31, 2012	December 31, 2011
Non-current assets held for sale	78,763	101,040
	78,763	101,040

The Bank is in the process of selling property assessed as unnecessary for further business operations. The bank's management is taking all the necessary measures in order to realize sales of the assets held for sale. In the course of 2012, two buildings were sold: business premises in Belgrade and in Kruševac.

The Bank's management intends to sell all assets that remained unsold in the past year.

All amounts expressed in thousands of RSD, unless otherwise stated

30. NON-CURRENT ASSETS HELD FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS (Continued)

Based on the assessment of the fair value of non-current assets held for sale performed by an expert team, the Bank decreased the value of buildings in its books of account in the amount of RSD 4,097 thousand.

Non-current assets held for sale:

Building	Area in m2	Carrying Amount
Braničevo, business premises	21.08	480
Jasika, business premises	75.87	611
Požarevac, M.Pijade 2, business premises	790.82	31,839
Požarevac, M.Pijade 2, business premises	880.86	26,345
Ražanj, garage	15.00	26
Belgrade, Toše Jovanovića 7, business premises	24.05	2,213
Vrbas, M. Tita 49, business premises	145.56	4,688
Varvarin, M. Marinovića, business premises	207.00	8,144
Svrljig, ugao D. Trifunca i Hadžićeve, business premises	128.00	4,417
		78,763

31. DEFERRED TAX ASSETS

	December 31, 2012	December 31, 2011
Deferred tax assets	62,655	-
Deferred tax liabilities	(57,759)	-
Deferred tax assets, net	4,896	-

Deferred tax assets relate to the tax credits based on the taxable temporary differences in the amounts of long-term provisions as per IAS 19, impairment of assets and calculated public duties not paid.

In line with paragraph 71 of IAS 12 "Income Taxes," the Bank stated deferred tax assets and deferred tax liabilities at net principle (net tax payables are disclosed in Note 40).

All amounts expressed in thousands of RSD, unless otherwise stated

32. OTHER ASSETS

	December 31, 2012	December 31, 2011
Other receivables in RSD		
Advances paid for current assets	28,762	38,565
Advances paid for permanent investments	51,479	-
Receivables from employees	1,381	1,366
Receivables for prepaid taxes ad contributions	3,162	3,785
Receivables for prepaid income taxes	12,784	-
Other receivables from operations	231,900	207,761
Suspense and temporary accounts	198,710	156,648
Receivables in settlement	547,695	1,518,535
Less: Allowance for impairment of other receivables	(53,938)	(40,864)
	1,021,935	1,885,796
Other receivables in foreign currencies		
Receivables from employees	18	635
Other receivables from operations	98,190	97,700
Suspense and temporary accounts	174	26,330
Receivables in settlement	228,472	871,120
Less: Allowance for impairment of other receivables	(127,697)	(118,113)
	199,157	877,672
Prepayments in RSD		
Deferred receivables for accrued interest	496,147	286,056
Deferred receivables for other accrued income	-	52
Deferred expenses for liabilities carried at amortized value by applying the effective interest rate	90,497	82,002
Deferred other expenses	191,163	63,043
Other prepayments	-	1,905
	777,807	433,058
Prepayments in foreign currencies		
Deferred receivables for accrued interest	135,112	44,586
	135,112	44,586
Inventories		
Inventories of materials	26,147	15,706
Inventories of tools and fixtures	1,220	1,183
Tangibles received in lieu of cash collection	1,334,522	1,003,254
Fixtures in use	130,024	110,443
Less: Allowance for impairment of tangibles received through collection of receivables	(123,607)	(4,812)
Less: Allowance for impairment of inventories	(130,024)	(110,443)
	1,238,282	1,015,331
	3,372,293	4,256,443

Out of the total amount of receivables in settlement of RSD 547,695 thousand the largest portion refers to the receivables due from insurance companies based on the mathematical reserve for collective life insurance of the Bank's employees and receivables from sales and purchase of foreign currencies in the interbank currency market in the amounts of RSD 430,572 thousand and RSD 113,590 thousand, respectively.

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

32. OTHER ASSETS (Continued)

Tangibles received in lieu of cash collection with the net book value of RSD 1,334,522 pertain to the following:

Tangibles acquired in the past 12 months

Description	Area in m2	Value	Date of Acquisition
Mur, Novi Pazar, house and category 3 orchard	1,190.00	5,535	06/04/2012
I.C.P Kruševac, commercial building	12,836.00	49,982	08/06/2012
Soko Banja, cottage, production plant, family residential building	1,944.00	34,954	01/08/2012
Soko Banja, farming land (orchard, fields)	5,740.83 ares	35,335	01/08/2012
Beograd, Baje Pivljanina 83, commercial building	278.52	67,320	23/08/2012
Novi Pazar, Ejupa Kurtagića 13, house	139.90	4,755	24/07/2012
Majur, Tabanovačka, category 4 farming field	1,445 ha	1,630	10/08/2012
Majur, production plant with ancillary facilities	1,263	39,622	08/10/2012
Negotin, house with ancillary facilities	658.00	71,103	07/10/2012
Mladenovac, category 3 farming field	16,633	244	22/11/2012
Niš, business premises - stores	140	22,400	14/12/2012
Total I		332,880	

Tangibles acquired in prior periods

Description	Area in m2	Value	Date of Acquisition
Business premises in Novi Pazar, Kej skopskih žrtava 44	82.95	9,156	27/09/2006
Gnjilica, category 7 field	2,638.00	216	11/06/2008
The President Hotel, Čačak, Bulevar oslobođenja bb	2,278.92	127,035	21/01/2009
Residential building in Čačak, Ratka Mitrovića 6	195	3,706	12/05/2009
Cultivated land, category 4 grass field	1 ha 24 ares	337	26/11/2010
Tivat, Mrčevac – residential building, ancillary facilities in construction and garage	277	5,512	23/12/2010
Buče, category 4 forest	8,292	547	26/11/2010
NBGD, Milentija Popovića 5b, apartment MZ S2 no.1	87	24,386	24/12/2010
NBGD, Milentija Popovića 5b, apartment MZ S2 no.2	170	47,639	24/12/2010
NBGD, Milentija Popovića 5b, apartment MZ S2 no.3	173	48,480	24/12/2010
NBGD, Milentija Popovića 5b, apartment I S2 no.5	171	47,919	24/12/2010
NBGD, Milentija Popovića 5b, apartment II S2 no.9	175	49,040	24/12/2010
NBGD, Milentija Popovića 5b, business premises L4S2	153	55,880	24/12/2010
NBGD, Milentija Popovića 5b, business premises L3S2	128	46,751	24/12/2010
Mur, Novi Pazar, forest, field and orchard	33.96 ares	4,379	07/04/2011
Budva, category 4 forest	974	13,532	27/05/2011
Prijevor, category 4 forest	1,995	11,087	27/05/2011
Residential building Galathea	925	423,845	21/11/2011
Total II		919,447	

All amounts expressed in thousands of RSD, unless otherwise stated

32. OTHER ASSETS (Continued)

Tangibles acquired in the past 12 months - Equipment

Description	Value	Date of Acquisition
I.C.P Kruševac, movables	45,243	08/06/2012
Soko Banja, Sineks Niš and Trebič sunce (movables)	34,701	01/08/2012
Majur, movables	378	08/10/2012
Svrljig, movables	38	13/11/2012
Retail customers – tractor with trailer	114	18/07/2012
Retail customers – movables	32	26/01/2012
Retail customers – movables	38	19/06/2012
Retail customers – movables	20	20/03/2012
Retail customers – movables	81	20/03/2012
Retail customers – movables	70	25/01/2012
Total III	80,715	

Tangibles acquired in prior periods –Equipment

Description	Value	Date of Acquisition
Novi Pazar, equipment	275	23/06/2008
Valjevo, equipment	1,205	07/09/2009
Less: Allowance for impairment	(1,480)	
TOTAL (net book value) I + II+ III+ IV	1,334,522	

Tangibles received in lieu of cash collection within a year totaled RSD 413,595 thousand as of December 31, 2012 and referred to buildings and land (forest) securitizing the Bank's receivables from customers based on loans approved.

For the aforementioned properties, the Bank holds ownership titles. The Bank's management is undertaking actions to sell such property.

During 2012, the Bank sold two buildings, land and equipment acquired though collection of receivables for the aggregate price of RSD 86,886 thousand (cost of the assets sold amounted to RSD 82,315 thousand).

During 2012, the Bank depreciated material assets received as collection of receivables (three buildings: Galathea, the President Hotel and the one in Novi Pazar) based on the fair value appraisal performed by the Bank's expert team in the amount of RSD 118,795 thousand.

In accordance with NBS regulations for tangibles received in lieu of cash collection the Bank is under obligation to dispose of them or to deploy them for its own use within twelve months of the date of acquisition. In the event that the prescribed deadline is exceeded the Bank must make a full provision thereof.

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

33. TRANSACTION DEPOSITS

	December 31, 2012	December 31, 2011
In RSD		
- sector of finances and insurance	592,959	687,409
- public companies	2,952,311	1,715,030
- corporate customers	12,567,931	8,531,260
- entrepreneurs	1,818,444	1,778,231
- public sector	42,979	38,392
- retail customers	5,535,428	5,183,533
- foreign entities	157,962	644,129
- registered agricultural producers	1,265,464	1,056,626
- other customers	1,482,446	1,375,904
	26,415,924	21,010,514
In foreign currencies		
- sector of finances and insurance	753,711	1,031,655
- public companies	195,144	294,046
- corporate customers	7,029,121	4,781,402
- entrepreneurs	197,079	141,585
- public sector	1,363,062	936,439
- retail customers	2,658,638	2,076,044
- foreign entities	1,155,728	803,468
- registered agricultural producers	68	-
- other customers	568,301	381,422
	13,920,852	10,446,061
	40,336,776	31,456,575

Demand deposits in dinars represent balances of transaction deposits of enterprises and other legal entities. Based on the Decision on Interest Rates for the year 2012, these deposits were interest-bearing. Depending on the level of average monthly balance on transaction accounts of customers, the interest rates ranged from 0.5% to 2% annually.

Demand deposits of enterprises and non-residents denominated in foreign currencies are non-interest bearing except for specific business arrangements.

Dinar a vista savings deposits placed by retail customers were deposited at an interest rate of 0.15% annually. Foreign currency a vista savings deposits of retail customers were placed at an interest rate of 0.15% annually for EUR deposits, i.e. 0.10% annually for deposits in other currencies.

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

34. OTHER DEPOSITS

	December 31, 2012	December 31, 2011
Other deposits in RSD		
Savings deposits	1,828,785	1,856,593
Deposits for loans approved	344,192	415,857
Special-purpose (earmarked) deposits	3,829,670	610,292
Other deposits:		
- sector of finances and insurance	4,979,525	3,309,558
- public companies	811,095	1,415,659
- corporate customers	10,585,279	18,093,217
- entrepreneurs	56,650	36,621
- public sector	339,343	208,521
- foreign entities	22,102	12,078
- other customers	7	1,000
- sector of finances and insurance	5,695,334	3,813,813
	28,291,982	29,773,209
Other deposits in foreign currencies		
Savings deposits	147,512,464	127,097,759
Deposits for loans approved	2,394,006	2,743,566
Special-purpose (earmarked) deposits	1,734,876	928,838
Other deposits:		
- sector of finances and insurance	5,235,630	5,183,618
- public companies	2,432,538	3,212,258
- corporate customers	6,331,891	4,126,961
- entrepreneurs	34,570	27,579
- public sector	2,425	2,180
- foreign entities	910	-
- other customers	1,212,676	1,570,737
	166,891,986	144,893,496
	195,183,968	174,666,705

Corporate Sector Deposits

In 2012, short-term dinar deposits of corporate customers were placed at annual interest rates ranging between the reference interest rate less 2.75 percentage points and the reference interest rate, depending on the maturity date.

Short-term foreign currency deposits of enterprises were placed at an interest rate ranging between 0.25% and 4% annually.

Long-term dinar deposits of enterprises were placed at an interest rate determined by the amount of reference interest rate of the National Bank of Serbia on an annual level increased by 0.5 percentage points, whereas those denominated in foreign currency accrued interest at the rate of 2.2% to 4.5% annually.

Short-term corporate deposits denominated in EUR were placed at the interest rates ranging from 1% to 2.2% annually.

Long-term corporate deposits denominated in EUR were placed at the annual interest rate of 2.6 %.

Retail Sector Deposits

Short-term retail deposits in dinars were placed at interest rates ranging from 7% do 10% annually, whereas those denominated in foreign currency accrue interest at rates ranging from 1% to 4.5% annually.

Long-term retail deposits in dinars were placed at interest rates ranging from 10.5 % to 11% annually, whereas those denominated in foreign currency accrue interest at rates ranging from 2.2% to 5.5 % annually.

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

35. BORROWINGS

	December 31, 2012	December 31, 2011
Borrowings received in RSD		
Overnight loans	249,476	301,368
Loans received	-	1,092
Other financial liabilities	21,741	10,214
	271,217	312,674
Borrowings received in foreign currencies		
Other financial liabilities in foreign currencies	366,047	1,291,087
	366,047	1,291,087
	637,264	1,603,761

Other financial liabilities in foreign currencies mostly refer to the payments not made based on the received proceeds from abroad in the amount of RSD 333,137 thousand.

36. INTEREST, FEE AND COMMISSION PAYABLES AND CHAGE IN THE VALUE OF DERIVATIVES

	December 31, 2012	December 31, 2011
Interest, fee and commission payables in RSD and change in the value of derivatives		
Interest payable	171,976	184,711
Fees and commissions payable	11,893	6,691
Liabilities arising from the change in the value of derivatives	-	634
	183,869	192,036
Interest, fee and commission payables in foreign currencies and change in the value of derivatives		
Interest payable	5,041	13,043
	5,041	13,043
	188,910	205,079

37. PROVISIONS

	December 31, 2012	December 31, 2011
Provisions against potential losses arising from litigation	1,557,557	1,357,278
Provisions for employee benefits (IAS 19)	276,571	276,141
Provisions against potential losses per commitments and contingent liabilities (off-balance sheet items)	497,632	502,017
TOTAL	2,331,760	2,135,436

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

37. PROVISIONS (Continued)

Movements on accounts of provisions

	December 31, 2012	December 31, 2011
a) Provisions against potential losses arising from litigation		
Opening balance	1,357,278	243,321
Charge for the year	218,528	1,124,857
Reversal of provisions	(18,249)	(10,900)
Balance, end of year	1,557,557	1,357,278
b) Provisions for retirement benefits and unused annual leaves (vacations)		
Opening balance	276,141	228,096
Release during the year – annual leaves	49,359	-
Reversals during the year – retirement benefits	(48,929)	48,045
Balance, end of year	276,571	276,141
c) Provisions against potential losses per commitments and contingent liabilities		
Opening balance	502,017	405,969
Releases – reversals of provisions during the year	(4,385)	96,048
Balance, end of year	497,632	502,017

a) During 2012 the Bank adjusted possible outflows per ongoing legal suits by charging additional provision of RSD 218,528 thousand and reversing provision of RSD 18,249 thousand based on reconciling RSD counter value of an expected outflow from a legal suit in USD.

b) The main actuarial assumptions used in calculation of retirement benefits were as follows:

	December 31, 2012	December 31, 2011
Discount rate	11.25%	9%
Salary growth rate within the Bank	4%	5%
Employee turnover	5%	5%

The discount rate equaled the reference interest rate of the National Bank of Serbia as at the calculation date.

38. TAXES PAYABLE

	December 31, 2012	December 31, 2011
Value added tax payable	7,273	13,167
Other taxes and contributions payable	14,526	26,570
	21,799	39,737

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

39. TAX AND DIVIDEND PAYABLES

	December 31, 2012	December 31, 2011
Dividend payables	85,114	15,067
Current income tax payable	-	157,130
	85,114	172,197

40. DEFERRED TAX LIABILITIES

	December 31, 2012	December 31, 2011
Deferred tax assets	-	(29,871)
Deferred tax liabilities	-	46,907
	-	17,036

In line with paragraph 71of IAS 12 "Income Taxes," the Bank stated deferred tax assets and deferred tax liabilities at net principle. Changes in deferred tax assets and liabilities during 2012 are presented in detail in Note 20. Net tax assets are disclosed in Note 31.

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

41. OTHER LIABILITIES

	December 31, 2012	December 31, 2011
Liabilities denominated in RSD		
Accounts payable	227,126	226,707
Advances received	190,454	373,166
Other accounts payable	41,902	144,717
Liabilities in settlement	235,620	155,406
Suspense and temporary accounts	(292,991)	(139,086)
	402,111	760,910
Net salaries	88,187	26,741
Taxes on salaries and benefits	12,921	4,437
Contributions to salaries and benefits	6,562	5,794
Temporary and seasonal employees	-	40
Other liabilities to employees	7,277	7,119
	114,947	44,131
Liabilities for deferred interest accrued	45,711	46,469
Other accrued expenses	17,224	14,091
Deferred interest income	49,865	144,227
Deferred receivables at amortized cost calculated by applying effective interest rate (Note 5a)	824,282	728,255
Deferred other income	93,237	94,720
Other accruals	526,612	520,081
	1,556,931	1,547,843
Other foreign currency liabilities		
Advances received	10,373	4,804
Liabilities for consignment business – loan facilities	14,219,589	9,577,048
Liabilities in settlement	589,716	997,178
Suspense and temporary accounts	54	(142)
	14,819,732	10,578,888
Subordinated foreign currency liabilities	5,685,915	5,232,045
	5,685,915	5,232,045
Liabilities for deferred interest accrued	2,862,595	2,572,802
Other accrued expenses	91,803	116,172
Other accruals	1,588	63,835
	2,955,986	2,752,809
	25,535,622	20,916,626

Liabilities arising from consignment operations in foreign currencies mostly refer to the following loan facilities:

- Liabilities toward the Republic of Serbia based on a borrowing from the European Investment Bank for financing projects of small and medium-sized enterprises, as well as financing infrastructural projects of municipalities of small and medium scope:

2012 Amount in RSD '000	2012 Amount in EUR '000	2011 Amount in RSD '000	2011 Amount in EUR '000
4,815,056	42,342	2,591,542	24,766

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

41. OTHER LIABILITIES (Continued)

- Liabilities toward the Republic of Serbia based on the loans from the Republic of Italy for financing projects of small and medium-sized enterprises:

2012 Amount in RSD '000	Amount in EUR '000	2011 Amount in RSD '000	Amount in EUR '000
1,199,385	10,547	1,273,033	12,166

- Liabilities toward the Republic of Serbia based on a loan obtained from the European Agency for Reconstruction and Development:

2012 Amount in RSD '000	Amount in EUR '000	2011 Amount in RSD '000	Amount in EUR '000
124,413	1,094	89,562	856

- Liabilities toward international financial organizations:

a) EFSE 1 and 2

2012 Amount in RSD '000	Amount in EUR '000	2011 Amount in RSD '000	Amount in EUR '000
3,574,004	31,429	3,886,662	37,143

b) GGF

2012 Amount in RSD '000	Amount in EUR '000	2011 Amount in RSD '000	Amount in EUR '000
2,615,521	23,000	-	-

- Liabilities toward the European Bank for Reconstruction and Development:

2012 Amount in RSD '000	Amount in EUR '000	2011 Amount in RSD '000	Amount in EUR '000
1,883,844	20,000	1,718,242	20,000

Liabilities for deferred interest accrued in foreign currencies totaling RSD 2,780,540 thousand mostly refer to foreign currency retail savings deposits.

Deferred receivables at amortized cost calculated by applying effective interest rate of RSD 824,282 thousand represent future period income.

Liabilities arising from advances received in dinars totaling RSD 190 thousand mostly relate to the advances received from the Republic of Serbia Development Fund for subsidizing interest rates applied to loans to corporate customers and entrepreneurs in the amount of RSD 71,961 thousand ad advances received from the Ministry of Environment and Spatial Planning for subsidized interest for residential construction loans in the amount of RSD 115,721 thousand.

Within deferred interest income in RSD totaling RSD 49,865 thousand, the most significant portions account for the following: RSD 15,713 thousand collected in advance based on interest subsidized by the Ministry of Economy and Regional Development for retail cash and consumer loans and RSD 29,711 thousand collected in advance based on interest subsidized by the Environment Protection Fund for loans approved to retail customers for energy efficiency improvement.

All amounts expressed in thousands of RSD, unless otherwise stated

41. OTHER LIABILITIES (Continued)

In accordance with the regulations of the National Bank of Serbia in respect of capital adequacy requirements and implementation of Basel II standard, the Bank strengthened its core capital by obtaining a subordinated loan from IFC in 2011.

The received subordinated loan amounted to RSD 5,685,915 thousand, i.e. EUR 50,000 thousand.

42. EQUITY

	December 31, 2012	December 31, 2011
Share capital	17,191,466	13,881,010
Share premiums	22,843,084	14,581,543
	40,034,550	28,462,553

The Bank's share capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Bank as well as to shares in profit distribution.

Based on the Decision on the 26th share issue of preferred shares convertible into common shares by public offering without obligation to publish the prospectus to a qualified investor – the Republic of Serbia for the purpose of the core capital increase, the Bank issued shares in the total amount of RSD 11,571,997 thousand, i.e. 3,310,456 shares with the individual par value of RSD 1 thousand during 2012.

The new 26th share issue was realized as at October 30, 2012 by payment made by the Ministry of Finance and Economy of the Republic of Serbia in the amount of RSD 11,571,997 thousand; the Bank earned the share premium of RSD 8,261,541 thousand.

The Bank's share capital is comprised of 17,191,466 shares with the individual par value of RSD 1 thousand and of the following structure:

- 8,709,310 common shares;
- 8,108,646 referred convertible shares; and
- 373,510 preferred shares.

The structure of the Bank's shareholders in respect of common shares at December 31, 2012 was the following:

Shareholder	Share Count	% Interest
Republic of Serbia	3,709,890	42.60
EBRD, London	2,177,330	25.00
Jugobanka a.d., Beograd in bankruptcy	321,600	3.69
Artio International Equity Fund, New York	259,623	2.98
Evropa osiguranje a.d., Beograd in bankruptcy	249,420	2.86
Invej d.o.o., Beograd	230,000	2.64
Kompanija Dunav osiguranje a.d., Beograd	171,380	1.97
Other (1,207 shareholders)	1,590,067	18.26
	8,709,310	100.00

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

42. EQUITY (Continued)

The structure of the Bank's shareholders in respect of convertible preferred shares at December 31, 2012 was the following:

Shareholder	Share Count	% Interest
Republic of Serbia	3,310,456	40.83
EBRD, London	1,932,110	23.83
IFC Capitalization Fund LP	1,706,810	21.05
Deg Deutche Investitions	772,850	9.53
Swedfund International Aktiebo	386,420	4.76
	8,108,646	100.00

The structure of the Bank's shareholders in respect of preferred shares at December 31, 2012 was the following:

Shareholder	Share Count	% Interest
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Other (640 shareholders)	355,420	95.16
	373,510	100.00

During 2012, prior year dividends were paid on preferred shares in the amount of RSD 40,264 thousand.

The basic earnings per share totaled RSD 469 or 46.9 % for a common share par value in 2012, whereas in 2011 the basic earnings per share amounted to RSD 399 or 39.9 % for a common share par value.

Diluted earnings per share totaled RSD 290 or 29.04% for a common share par value in 2012 and RSD 257 or 25.7% for a common share par value in 2011.

	2012	2011
Profit for the year	4,084,795	3,473,416
Average weighted number of shares during the year	8,709,310	8,709,310
Basic earnings per share (in RSD)	469	399

	2012	2011
Profit for the year	4,084,795	3,473,416
Average weighted number of shares during the year	14,068,288	13,507,500
Diluted earnings per share (in RSD)	290	257

43. RESERVES RETAINED FROM EARNINGS

	December 31, 2012	December 31, 2011
Special reserve retained from earnings for estimated losses	14,785,440	11,635,440
	14,785,440	11,635,440

Changes in the reserves retained from earnings		
Balance, beginning of year	11,635,440	9,235,440
Other capital		
– 2011 profit distribution	3,150,000	2,400,000
Balance, end of year	14,785,440	11,635,440

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

44. REVALUATION RESERVES

	December 31, 2012	December 31, 2011
Revaluation reserves based on valuation of property and equipment	488,942	498,980
Revaluation reserves based on fair value adjustment of securities	378,832	190,640
	867,774	689,620
Changes in revaluation reserves		
Balance, beginning of the year	689,620	663,008
increase/decrease during the year	178,154	26,612
Balance, end of the year	867,774	689,620

Revaluation reserves are associated with gains on the increase in the value of property based on the valuation performed by an independent appraiser and gains on the fair value adjustment of securities available for sale.

45. UNRELAIZED LOSSES FROM THE FAIR VALUE ADJUSTMENT OF SECURITIES AVAILABLE FOR SALE

	December 31, 2012	December 31, 2011
Unrealized losses from the fair value adjustment of securities available for sale	(7,016)	(63,940)
	(7,016)	(63,940)

In the course of 2012 unrealized losses from the securities available for sale totaling RSD 76,783 thousand was transferred to the income statement given the existence of objective evidence of permanent impairment of those assets.

46. RETAINED EARNINGS

	December 31, 2012	December 31, 2011
Retained earnings		
Prior year profits	63,666	38,213
Profit for the year	4,122,146	3,513,680
	4,185,812	3,551,893
Profit for the year		
- profit from regular operations	4,572,662	3,952,066
- profit /loss from tax effects	21,932	(12,359)
- current income tax expense	(472,448)	(426,027)
	4,122,146	3,513,680
Changes in prior year profits		
Balance, beginning of year	38,213	93,055
Increases during the year:		
- transfer from profit for the year	3,513,680	2,616,254
- gains on the sale of revalued property and equipment	-	5,014
- gains on the realizes reevaluation reserves	-	10,038
Decreases during the year:		
- dividends on preferred shares	(40,264)	(37,575)
- employee profit sharing	(308,000)	(250,000)
- transfer to the bank's reserves	(3,150,000)	(2,400,000)
- adjustment for the effects of underused tax assets and tax depreciation/amortization for 2010	-	1,427
- increase due to the effect of reevaluation reserves amortization based on valuation of property and equipment	10,037	-
Balance, end of year	63,666	38,213

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

46. RETAINED EARNINGS (Continued)

Pursuant to the regulations of the National Bank of Serbia, gains on the realized revaluation reserves from property and equipment in 2012 were recognized within retained earnings from prior years in the total amount of RSD 10,038 thousand.

In 2012, pursuant the Decision enacted by the Bank's Shareholder Assembly, accumulated retained earnings from 2011 was distributed as follows:

- 2011 dividends on preferred shares	40,264
- the Bank's reserves	3,150,000
- bonuses and awards for the management members and other Bank's employees	308,000
	3,498,264

47. MANAGED FUNDS

	December 31, 2012	December 31, 2011
Funds managed on behalf and for the account of third parties	5,013,721	4,332,764

Funds managed on behalf and for the account of third parties are mostly comprised of assets for consignment loans of the republic of Serbia, the largest portion of which, in the amount of RSD 3,123,934 thousand, relates to the long-term residential loans extended to retail customers. Other managed funds relate to consignment loans of the City of Belgrade and assets received from foreign grantors for micro loans.

48. COMMITMENTS

a) Guarantees issued and other sureties, collaterals, irrevocable commitments and other liabilities

	December 31, 2012	December 31, 2011
In RSD		
Guarantees issued and other sureties	10,519,984	10,529,088
Collaterals securing liability settlement	5,856,170	5,000,000
Irrevocable commitments for undrawn loans and advances	7,896,786	7,033,612
Other irrevocable commitments	9,072,881	8,524,069
	33,345,821	31,086,769
In foreign currencies		
Guarantees issued and other sureties	4,775,632	4,220,514
Irrevocable commitments for undrawn loans and advances	919,509	908,559
Other irrevocable commitments based on the contractually agreed value of RS securities and bonds	3,411,696	-
	9,106,837	5,129,073
	42,452,658	36,215,842

Collaterals securing the settlement of liabilities of RSD 5,856,170 thousand relate to the treasury shares from the Bank's portfolio pledged in favor of the National Bank of Serbia as a prerequisite for drawing a loan for liquidity purposes.

Other irrevocable commitments mostly refer to the following: unused portion of approved retail clients' current account overdrafts in the amount of RSD 4,905,464 thousand and unused portion of the approved limit amounts per credit cards in the amount of RSD 3,882,050 thousand.

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

48. COMMITMENTS (Continued)

a) Guarantees issued and other sureties, collaterals, irrevocable commitments and other liabilities (Continued)

Total estimated provision for potential losses on off-balance sheet items as in accordance with IAS 37 was formed in the amount of RSD 497,632 thousand. This provision amount is stated within the liabilities in the Bank's balance sheet (Note 37).

As of December 31, 2012 and 2011, there were no liabilities arising from forward foreign exchange operations.

b) Litigation

As of December 31, 2012, contingent liabilities based on legal suits filed against the Bank amounted to RSD 1,144,780 thousand (for 123 legal suits). The Bank's management anticipates no materially significant losses thereof in the forthcoming period. Based on the lawsuit filed by the Company Takovo, the bank formed additional provision of RSD 1,124,857 thousand in 2011 given the fact that, after the Bank had received the legally binding court verdict in its favor and realized collection thereof, the Company Takovo filed an appeal pending decision of the Supreme Cassation Court. Potential outflows of funds from the Bank's accounts in the full amount may result from the review of the verdict and possible return of the case for redeliberation caused the Bank to retain provision of RSD 1,124,857 thousand for this legal suit.

The total provisions of the Bank against litigation losses amount to RSD 1,557,557 thousand (Note 37).

In addition, the Bank is involved in lawsuits against third parties the most significant portion of which amounts to RSD 21,041,288 thousand (for 215 cases with the largest individual amounts). The Bank's management anticipates favorable outcome of the most lawsuits.

49. DERIVATIVES

	December 31, 2012	December 31, 2011
Receivables based on derivatives	-	261,602
	-	261,602

50. OTHER OFF-BALANCE SHEET ITEMS

	December 31, 2012	December 31, 2011
Receivables for suspended interest		
- in dinars	1,636,802	796,922
- in foreign currencies	282,058	189,757
Other off-balance sheet assets	155,257,041	141,728,010
	157,175,901	142,714,689

In the course of 2012, the bank had a net increase in suspended interest of RSD 932,181 thousand comprised of:

a) increase of RSD 979,303 thousand, with the following structure:
   - newly-suspended interest of RSD 419,379 thousand;
   - continued calculation of suspended interest of RSD 543,937 thousand;
   - foreign exchange gains of RSD 15,987 thousand;

b) decrease of RSD 47,122 thousand, with the following structure:
   - write-off of RSD 7,894 thousand; and
   - collection of RSD 39,228 thousand.

Within other off-balance sheet assets, inter alia, the Bank records custody operations performed for the Bank's clients, repo investments in the state-issued securities and old foreign currency savings bonds. The Bank is not exposed to credit risk per these items.

All amounts expressed in thousands of RSD, unless otherwise stated

51. CAPITAL ADEQUACY AND BUSINESS RATIOS IN CONFORMITY WITH THE LAW ON BANKS

The Bank is required to maintain a minimum capital adequacy ratio of 12%, as established by the National bank of Serbia in accordance with the Base Convention applied to banks. As of December 31, 2012, the Bank's capital adequacy ratio, as calculated based on the financial statements prepared by the Bank's management by applying the NBS decisions effective for 2012, was 21.88%.

The Bank is also required to maintain certain ratios pertaining to the volume of its activities and composition of risk assets in compliance with the Law on Banks and with the NBS requirements. As of December 31, 2012 and 2011, all ratios pertaining to the volume of its activities and composition of risk assets were within their prescribed limits.

52. RELATED PARTY TRANSACTIONS – RECEIVABLES AND PAYABLES

A . Balance as at December 31, 2012

RECEIVABLES

Subsidiaries	Loans and Advances	Interest and Fees	Net Balance Exposure	Off-Balance Sheet Items	Total
1. Komercijalna banka a.d., Budva	5,686	892	6,578	-	6,578
2. Komercijalna banka a.d., Banja Luka	2,963	-	2,963	909,746	912,709
3. KomBank INVESTa.d., Beograd	-	1	1	200	201
TOTAL:	8,649	893	9,542	909,946	919,488

PAYABLES

Subsidiaries	Deposits and Loans	Interest and Fees	Other Liabilities	Total
1. Komercijalna banka a.d., Budva	487,804	-	1,588	489,392
2. Komercijalna banka a.d., Banja Luka	8,085	-	-	8,085
3. KomBank INVEST a.d., Beograd	14,906	38	-	14,944
TOTAL	510,795	38	1,588	512,421

INCOME AND EXPENSES

Subsidiaries	Interest Income	Fee and Commission Income	Interest Expenses	Fee and Commission Expense	Net Income/ Expenses
1. Komercijalna banka a.d., Budva	230	1,501	-	(720)	1,011
2. Komercijalna banka a.d., Banja Luka	1,570	828	(588)	(509)	1,301
3. KomBank INVEST a.d., Beograd	-	131	(1,223)	-	(1,092)
	1,800	2,460	(1,811)	(1,229)	1,220

Komercijalna banka a.d., Beograd realized net foreign exchange losses in the amount of RSD 4,662 thousand from related party transactions.

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

52. RELATED PARTY TRANSACTIONS – RECEIVABLES AND PAYABLES (Continued)

B . Balance as at December 31, 2011

RECEIVABLES

Subsidiaries	Loans and Advances	Interest and Fees	Impairment Allowance	Net Balance Exposure	Off-Balance Sheet Items	Total
1. Komercijalna banka a.d., Budva	5,061	780	-	5,841	-	5,841
2. Komercijalna banka a.d., Banja Luka	2,727	-	-	2,727	837,127	839,854
3. KomBank INVESTa.d., Beograd	6	-	-	6	194	200
TOTAL	7,794	780	-	8,574	837,321	845,895

PAYABLES

Subsidiaries	Deposits and Loans	Interest and Fees	Other Liabilities	Total
1. Komercijalna banka a.d., Budva	185,081		1,461	186,542
2. Komercijalna banka a.d., Banja Luka	3,802	-	-	3,802
3. KomBank INVEST a.d., Beograd	16,683	43	-	16,726
TOTAL	205,566	43	1,461	207,070

INCOME AND EXPENSES

Subsidiaries	Interest Income	Fee and Commission Income	Interest Expenses	Fee and Commission Expense	Net Income/ Expenses
1. Komercijalna banka a.d., Budva	276	696	(2,717)	(184)	(1,929)
2. Komercijalna banka a.d., Banja Luka	1,333	932	(39,157)	(205)	(37,097)
3. KomBank INVEST a.d., Beograd	-	169	(1,887)	-	(1,718)
	1,609	1,797	(43,761)	(389)	(40,744)

Komercijalna banka ad, Beograd realized net foreign exchange gains in the amount of RSD 129,237 thousand from related party transactions.

53. RELATED PARTY DISCLOSURES

Gross and net remunerations paid to the members of the Bank's Executive Board, Board of Directors and Audit Committee in 2012 were as follows:

	December 31, 2012	December 31, 2011
Gross remunerations		
Executive Board	72,972	66,234
Net remunerations		
Executive Board	61,199	55,535
Gross remunerations		
Board of Directors and Audit Committee	26,141	30,199
Net remunerations		
Board of Directors and Audit Committee	17,087	14,629

54. RISK MANAGMENT

The Bank has recognized risk management process as the key element of business management given that risk exposure is an inseparable part of banking and is managed through a process of continued identification, measurement, monitoring, minimizing and setting of risk limits and through other types of control, including reporting in accordance with adopted strategies and policies.

The Bank has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, appropriate organizational structure, effective and efficient process of managing all risk it is exposed to, adequate system of internal controls adequate information system and process of internal capital adequacy assessment.

Risk management process involves clear determining and documenting risk profile and adjusting risk profile to the Bank's aptitude to assume risk in accordance with the adopted strategies and policies.

The basic objectives that the Bank set for the risk manages system are the following: minimizing the negative effects on financial result and equity within acceptable risk levels, maintaining the required level of capital adequacy, developing the Bank's activities in accordance with business opportunities and market development with a view to gain competitive advantage.

The Bank implements Basel II standards and permanently monitors all the announcement and amendments to the effective regulations, analyses the risk levels and undertakes measures for timely reconciliation of its operations with newly enacted regulations in accordance with the risk level acceptable to the Bank. Through the clearly defined process of introducing new products, the bank analyses the influence of all new services and products on the future risk exposures in order to optimize its revenues and losses based on the estimated risk as well as to minimize all potential adverse effects on the Bank's financial result.

Risk Management System

The risk management system is governed by the following internal enactments:

- Risk Management Strategy and Capital Management Strategy;
- Risk Management Policies;
- Risk Management Procedures;
- Methodologies for Managing Individual Risks; and
- Other enactments.

Risk Management Strategy sets out:

- Long-term objectives, defined by the Bank's business policy and strategy and its aptitude to assume risk determined in accordance with those objectives;
- Basic principles of risk assumption and management;
- Basic principles of the process of internal assessment of the Bank's capital adequacy; and
- Overview and definitions of all types of risk the Bank is exposed to or may be exposed to.

The Bank specified the basic principles of risk management for meeting its long-term objectives.

- Organizing operation of a separate organizational unit for risk management;
- Functional and organizational separation of risk management activities from the regular operating activities of the Bank;
- Comprehensive risk management;
- Effective risk management;
- Cyclic risk management;
- Developing risk management as a strategic orientation; and
- Risk management as a part of corporate culture.

54. RISK MANAGEMENT (Continued)

Policies for managing certain risk types define the following:

- Manner of organizing risk management processes within the Bank and clear division of personnel responsibilities in all stages of the process,
- Manner of assessing the Bank's risk profile and methodology for identifying, measuring and assessing risks;
- Manners of risk monitoring and control and establishing the system of limits, i.e. types of limits the Bank uses as well as their structure;
- Measures for risk mitigation and rules for implementation thereof;
- Manner and methodology for implementing the process of internal assessment of the Bank's capital adequacy;
- Principles of the system of internal controls; functioning; and
- Framework and frequency for stress testing and procedure in instances of unfavorable test results.

Procedures for managing certain risk types define, in greater detail, the process of managing risks and competencies and responsibilities of all organizational units of the Bank in the risk management system.

Individual methodologies further and in more detail prescribe methods and approaches used in the risk management system.

Competencies

The Board of Directors is authorized and responsible for establishing a uniform risk management system and for monitoring such system, adopting policies and procedures for risk management and capital management strategy, establishment of internal control system, supervision of the work of the Executive Board and execution of the process of internal capital adequacy assessment.

The Executive Board is authorized and responsible for implementation of risk management strategy and policies, capital management strategy adoption and efficiency analysis of risk management procedure implementation, which define processes of identifying, measuring, minimizing, monitoring, controlling reporting risk the Bank is exposed to.

The Audit Committee is authorized and responsible for continued analysis and monitoring of the adequate implementation of the adopted risk management strategies and policies and internal control system. At least monthly, the Audit Committee reports to the Board of Directors on its activities and identified irregularities and proposes how to eliminate them.

The Asset and Liability Management Committee is authorized and responsible for monitoring the Bank's risk exposure resulting from the structure of its receivables, payables and off-balance sheet items, and proposes measures for managing interest and liquidity risks.

The Credit Committee decides on loan approval requests within framework determined by the Bank's enactments, analyses the Bank's exposure credit, interest rate and currency risk, analyzes loan portfolio and proposes measures to be taken to the Executive Board.

The Receivables Collections Committee is authorized and responsible for managing risk-weighted placements; it makes decisions on the write-off of risk-weighted loans up to set limits of authorization and recommends write-off of loans to the Executive Board and Board of Directors exceeding its limits of authorization.

The Risk Management Organizational Unit defines and proposes the risk management strategy and policies to the Board of Directors for adoption, defines and proposes risk management procedures and methodologies to the Executive Board for adoption, identifies, measures, mitigates, monitors, controls and reports on the risks the Bank is exposed to. It is also in charge of developing models and methodologies for all stages of risk management and reporting to the competent Bank's bodies.

The Asset Management Division is responsible for managing assets and liquidity, the Bank's assets and liabilities, their overall financial structure, and is primarily responsible for the Bank's liquidity risk, interest rate risk and foreign currency risk.

54. RISK MANAGEMENT (Continued)

Competencies (Continued)

The Internal Audit Division is authorized and responsible for continued monitoring of implementation of risk management policies and procedures at Bank level, and tests the adequacy of procedures and the Bank's compliance thereto. Internal Audit reports its findings and recommendations to the Audit Committee and the Board of Directors.

The Compliance Control Division is obligated to identify and assess compliance risks at least annually and propose risk management plans, whereof it prepares a report and submits it to the Executive Board.

Risk Management Process

The Bank regularly measures and evaluates risks identified in its operations. Measurement entails applying qualitative and quantitative measurement methods and models that enable detection of changes in risk profile and assessment of new risks. For all risks identified the Bank determines their significance based on as comprehensive assessment of risks inherent in the Bank's particular operations, products, activities and processes.

Risk alleviation or mitigation involves risk diversification, transfer, minimization and or avoidance; the Bank performs risk mitigation in accordance with risk profile and risk appetite.

Risk monitoring and control is based on limits that are set by the Bank. They in turn depend on business strategy and the business environment, as well as on the level of risk that the Bank is ready to accept.

Risk management reports are regularly submitted to: the Bank's Board of Directors, Executive Board, Audit Committee, Asset Liability Management Committee and Credit Committee, and they contain all the information required for risk assessment and reaching of conclusions about the Bank's risks.

Types of Risk

In its business operations the Bank is exposed to the following risks in particular: credit risk and related risks, liquidity risk, market risk and operational risk, investment risk, country risk and all other risks that may occur in the course of the Bank's regular operations.

54.1. Credit Risk

Credit risk represents the risk of negative effects on the Bank's financial result and capital arising from debtors' inability to settle the matured liabilities to the Bank. The Bank monitors the following risks within the credit risk:

- **Default risk** - the risk of loss that may arise if a debtor fails to settle liabilities toward the Bank;
- **Downgrade risk** - the risk of loss that may arise if a risk level of a debtor is downgraded (deterioration of the customer credit rating);
- **Risk of change in the value of assets** - the risk of loss that may arise on assets in the event of a decline in their market value as compared to the price at which assets were acquired;
- **Credit foreign exchange risk** – represents probability that the Bank will incur a loss due to default of the debtor in liability settlement within contractually defined terms, which is caused by adverse impact of the RSD exchange rate changes on the debtor's financial situation;
- **Concentration risk** – represents a risk that is a direct or indirect outcome of the Bank's exposures the same or similar risk factor or type, such as: exposure to a single entity or a group of related parties, industries, geographical regions, types of products and activities, collaterals, financial instruments;
- **Exposure risk** - is a risk that can arise from the Bank's exposure to a single entity, group of related entities or the Bank's related parties;
- **Country risk** – relates to the borrower's country of origin and represents the probability of negative effects on the Bank's financial result and equity due to the inability to collect receivables from abroad and is caused by political, economic and social conditions in the borrower's country of origin.

54. RISK MANAGEMENT (Continued)

54.1. Credit Risk (Continued)

In addition to the aforelisted risks, the Bank also monitors the following related risks:

- **Residual risk** – is a risk that credit risk mitigation techniques may be less efficient than expected, i.e. that their application is not sufficient to alleviate the risks the bank is exposed to;
- **Risk of reduced value of receivables** – is a risk of possible emergence of negative effects on the Bank's financial results and capital due to reduced value of repurchased receivables for cash on non-cash liabilities of the previous creditor to the debtor,
- **Settlement/delivery risk** – is a risk of possible emergence of negative effects on the Bank's financial results and capital due to counterparty default on free delivery transactions as of contractually defined settlement/delivery date;
- **Counterparty risk** – is a risk of possible emergence of negative effects on the Bank's financial results and capital due to counterparty failure to settle its liabilities prior to the ultimate settlement of the transaction cash flows, i.e. settlement of cash payment.

According to the volume, type and complexity of its operations, the Bank has organized the credit risk management process and clearly delineated employee responsibilities in all stages of the process. The organizational model of credit risk management system enables adequate communication, information exchange and collaboration at all organizational levels within the Bank as well as clear operational and organizational separation of functions for independent risk management and supporting activities on one hand and the activities of risk assumption on the other, i.e. segregation of duties, competencies and responsibilities. The Bank has also established an adequate information system for full coverage of persons involved in credit risk management system and appropriate management reporting.

The objective of credit risk management is to minimize adverse effects of the credit risk on the Bank's financial result and equity based on balance sheet and off-balance sheet investments and operations with counterparties for items carried in the banking book.

The level of credit risk exposure acceptable to the Bank is in line with the defined risk management strategy and depends on the Bank's portfolio structure based on which negative effects on the Bank's financial result is limited and capital requirements for credit risk, settlement/delivery and counterparty risk are minimized in order to maintain capital adequacy at an acceptable level. The Bank approves loans to (corporate and retail clients) which are estimated as creditworthy. On the other hand, the Bank does not make high-risk investments such as investments in highly profitable projects with significant risk levels.

The basic principles of credit risk management are as follows:

- Managing credit risk at the individual loan level as well as the Bank's entire portfolio level;
- Maintaining credit risk level that minimizes the negative effects on the Bank's financial result and capital;
- Investment rating according to risk;
- Operating in accordance with best banking practices of loan approval;
- Ensuring adequate credit risk management controls.

54. RISK MANAGEMENT (Continued)

54.1. Credit Risk (Continued)

In its effort to manage credit risk the Bank seeks to do business with customers that have good credit rating and to acquire appropriate collaterals to secure repayments. The Bank assesses creditworthiness of each customer upon the submission of a loan application and regularly monitors its debtors, loans and collaterals, in order to be able to undertake appropriate activities for the purpose of collecting its receivables.

Credit risk identification involves analysis of all indicators leading to the emergence and increase in credit risk exposure. The Bank determines the causes of the current credit risk exposure in a comprehensive and timely manner and assesses such causes based on the incurred and projected changes in the market, as well as based on the introduction of new products and activities. The Bank's credit risk depends on the debtor creditworthiness, its regularity in settling liabilities due to the Bank and collateral quality.

The Bank performs quantitative and/or qualitative measurement, i.e. assessment of the identified credit risk. The credit risk measurement process is based on two parallel approaches:

- Regulatory approach – process of impairing investments and estimating provisions against losses per off-balance sheet as required by IAS 39 and IAS 37 and calculating provisions pursuant to the regulations of the National Bank of Serbia;
- Internal approach – measuring risk level of individual loans and investments based on the internally adopted rating system.

The rating system is not merely an instrument for forming individual decisions and assessing risk levels of individual investments; it is also a basis for portfolio analysis, support in loan approval and loan impairment procedure as well as in estimating provisions against losses per off-balance sheet items for the purpose of loan and investment ranking by risk level and stating realistic value of receivables.

In addition to the internal rating system, in credit risk analysis the Bank also uses principles prescribed by the National Bank of Serbia, which require classification of receivables and investments based on the prescribed criteria as well as calculation of the reserve for estimated credit risk losses. Application of these principles allows the Bank to cover unexpected losses due to the customer's inability to settle liabilities as they fall due, in accordance with contractually defined terms. For these purposes, the Bank classifies receivables and assesses the level of necessary reserve using the regular analysis of portfolio. The analysis includes the measurement of adequacy of reserves formed against individual borrowers, risk categories, portion of portfolio and at overall portfolio level. Reserves for estimated losses represent a certain form of hedge against potential adverse effects in case invested funds are not repaid when due and in full.

Prior to loan approval, the Bank assesses the creditworthiness of the borrower based on internally defined criteria as a primary and offered collateral as a secondary source of collection/loan repayment. Based on the identified and measured credit risk level (assessed financial situation and credit worthiness of the borrower, value and legal security of the credit hedge and other relevant factors), and independent risk assessment, the Bank's competent bodies enact a loan approval decision in accordance with the defined decision making system.

Decisions on credit risk exposure are defined through the decision making system that depends on the type of customer and exposure level: for loans within defined limits decisions are made by the branch credit committees, although in certain cases approval of the risk management organizational unit is required. Central Credit Committee decides on the loans in excess of the defined limits (depending on the type of client) with prior opinion of the risk management organizational unit. The Executive Board and Board of Directors make decisions depending on the exposure levels.

54. RISK MANAGEMENT (Continued)

54.1. Credit Risk (Continued)

In decision making related to areas of crediting, irrespective of the decision making level, the principle of double control, the so-called "four eyes principle," is observed which ensures that there is always a party that proposes and a party that approves a particular loan/investment.

For investments contracted in foreign currencies or dinars indexed to a currency clause, the Bank estimates the effects of the changes in foreign exchange rates on the financial situation and creditworthiness of debtors and particularly analyzes adequacy of the debtor's cash flows in relation to the changed level of liabilities per loans assuming that there will be certain fluctuation in RSD exchange rates on an annual basis.

Alleviating credit risk entails maintaining the risk at the level acceptable to the Bank's risk profile, i.e. maintaining acceptable level of the Bank's loan portfolio.

The basic techniques for credit risk mitigation are as follows:

- Exposure limits – concentration risk;
- Investment diversification;
- Collaterals, and
- Residual risk.

The Bank's exposure limits per individual debtor are based on the assessment of the debtor's credit-worthiness, whereas the exposure limits at the portfolio level are focused on restricting exposure concentration within the portfolio. The Bank continuously controls credit risk movements within a defined risk profile.

Concentration risk includes: large exposure (exposure to a single entity or a group of related entities and the Bank's related parties), group exposures with the same or similar risk factors such as industry sectors, types of products, geographical areas and the like, county risk and credit risk hedges.

Investment diversification is aimed at alleviating credit risk through reduction portfolio concentrations in certain segments of assets.

Monitoring investment quality at the individual debtor level is primarily based on obtaining updated information on the financial situation and creditworthiness of the debtor as well as on the market value of collateral, whereas credit risk monitoring at the portfolio level is performed through identification of changes at the level of client groups with certain preset levels of risk, investment, collateral and required reserves for estimated and unexpected losses for the purpose of establishing management of the asset balances and quality. For protection against credit risk exposure, in addition to the regular monitoring of the customers' business operations, the Bank contractually defines security instruments (collaterals), which reduce credit risk.

In order to protect itself from changes in the market value of collaterals (mortgages, pledges, securities etc.), the Bank adjusts the appraised collateral value for a defined percentage depending on the collateral type and location, which percentage is reviewed at least annually or more frequently as appropriate, necessary. In this way, the Bank protects itself from potential losses arising from the impossibility of collection of receivables through security instrument activation.

Credit risk control entails a process of continuous reconciling business operations with the defined system of limits, both on a daily and monthly bases, as well as under conditions of large credit exposure approaching the upper risk profile limit, i.e. upon introduction of new products and business activities.

As a hedge against counterparty default risk, the Bank undertakes the following steps in respect to collection of due receivables:

- Rescheduling or restructuring;
- Out-of-court settlement;
- Seizure of goods or properties in order to collect receivables;
- Sale and/or assignment of receivables;
- Executing agreements with interested third parties; and
- Instigating court proceedings and other measures.

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

54. RISK MANAGEMENT (Continued)

54.1. Credit Risk (Continued)

The Bank reschedules and restructures receivables from customers experiencing certain difficulties in operations. If the undertaken measures for regulating collection, i.e. enforced collection and court proceedings fail to provide expected results, i.e. when receivables cannot be collected in full, the Bank initiates write-off of the remaining receivables.

Apart from credit risk exposure, the Bank also has off-balance sheet exposures (various types of payment and performance guarantees, acceptances and letters of credit) based on which the Bank has contingent liabilities to make payments on behalf of third parties. For off-balance sheet exposures the Bank uses the same control processes and procedures that are used for credit risk.

Credit risk reporting includes internal and external reporting systems executed on a monthly basis according to a preset schedule and in conformity with the defined reporting system.

Total Credit Risk Exposure

The largest credit risk for the Bank arises from actual loan arrangements; however, the Bank is exposed to the credit risk based on off-balance sheet items, which is caused by commitments and contingent liabilities. The total exposure to credit risk is presented here in the gross amount before the effects of risk alleviation and asset impairment.

Breakdown of Assets (gross)

	Assets subject to classification		Other assets		Total	
	2012	2011	2012	2011	2012	2011
1. Assets	**197,880,639**	**176,157,075**	**47,310,323**	**57,852,715**	**245,190,962**	**234,009,790**
Revocable loans and deposits	-	-	43,053,502	55,260,711	43,053,502	55,260,711
Interest, fee and commission receivables and changes in the fair value of derivatives and other receivables	3,085,283	2,766,031	25,574	61,440	3,110,857	2,827,471
Loans and advances to customers	186,179,565	165,176,321	2,633,728	1,233,133	188,813,293	166,409,454
Other investments	5,943,858	4,580,028	461,893	401,451	6,405,751	4,981,479
Other assets	2,671,933	3,634,695	1,135,626	895,980	3,807,559	4,530,675
2. Other assets	**16,818,528**	**4,863,737**	**71,412,029**	**44,201,587**	**88,230,557**	**49,065,324**
Cash and cash equivalents	14,265,528	4,058,814	26,248,652	13,170,156	40,514,180	17,228,970
Securities	1,748,287	170,426	39,604,103	25,472,157	41,352,390	25,642,583
Equity investments	804,713	634,497	5,559,274	5,559,275	6,363,987	6,193,772
3. Off-balance sheet items	**33,879,026**	**32,402,458**	**59,580**	**57,005**	**33,938,606**	**32,459,463**
Payment guarantees	7,870,828	7,145,564	-	-	7,870,828	7,145,564
Performance bonds	6,770,801	6,812,395	438	484	6,771,239	6,812,879
Acceptances	51,331	77,853	-	-	51,331	77,853
Irrevocable letters of credit	602,218	713,306	-	-	602,218	713,306
Irrevocable commitments	17,753,588	16,324,350	58,995	56,521	17,812,583	16,380,871
Other	830,260	1,328,990	147	-	830,407	1,328,990

Downgrade Risk

The quality of the Bank's assets is measured by the level of exposure to individual risk categories according to internal rating system criteria. The internal rating system focuses on quantitative and qualitative parameters for assigning customer ratings. The rating scale consists of 5 risk categories that are subdivided into 17 subcategories. The rating scale is used as a uniform method for assigning ratings which ensures that customers with the same rating have the same credit characteristics and the same probability of default, in part or in full, over the period of one year. The basic parameters of credit risk used in determining a risk subcategory are calculated and monitored on a monthly basis.

All amounts expressed in thousands of RSD, unless otherwise stated

54. RISK MANAGEMENT (Continued)

54.1. Credit Risk (Continued)

Downgrade Risk (Continued)

A low level of risk implies doing business with customers with a high credit rating (risk rating categories 1 and 2), increased level of risk implies doing business with customers with operating difficulties that could have a negative impact on the settlement of liabilities (risk rating category 3), and a high level of risk characterizes customers with negative operating results and poor credit rating (risk rating categories 4 and 5).

The Bank guards against downgrade risk through continuous monitoring of customers' business operations and by identifying changes that could arise through deterioration of a borrower's financial standing, delays in repayment and changes in the business environment, as well as by securing appropriate collaterals.

Overview of exposure per risk categories based on the Bank's internal rating system criteria

	2012		2011	
	Gross	Net	Gross	Net
Rating category 1	71,872,424	71,576,786	68,380,230	68,238,652
Rating category 2	70,608,525	70,254,565	59,388,144	58,927,923
Rating category 3	22,079,618	21,945,781	26,080,198	25,468,048
Rating category 4	6,481,071	5,795,028	1,346,361	1,289,420
Rating category 5	26,839,001	11,555,439	20,962,142	6,945,152
Total	197,880,639	181,127,599	176,157,075	160,869,195

Risk of Change in the Value of Assets

Allowance for impairment of investments is intended to ensure reasonable, cautious and timely registering of losses on loan impairment, as well as to intervene in respect of contingent liabilities with a view to protect the Bank in the period when the loss occurs and is definitely confirmed (realized), due to inability to collect contracted amounts or through outflow of assets to settle contingent liabilities.

Allowance for impairment of investments and provisions are made when there is justification and objective evidence of impairment arising as the result of events that occurred after initial recognition of a loan, that have a negative effect on future cash flows associated with a loan.

Key elements in assessing impairment of investments are as follows: overdue payments on principal or interest, cash flow difficulties on the part of the borrower, the borrower's credit rating deterioration or changes in the initial terms of contract etc.

Allowance for impairment is based on estimated future cash flows from the borrower's business or collateral foreclosure if it is assessed that a loan can be realistically settled from such assets.

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

54. RISK MANAGEMENT (Continued)

54.1. Credit Risk (Continued)

Overview of impairment per risk categories:

	Impairment allowance of balance sheet assets		Provisions for losses on off-balance sheet items	
	2012	2011	2012	2011
Rating category 1	295,638	141,578	20,378	8,630
Rating category 2	353,960	460,221	53,096	77,822
Rating category 3	133,837	612,150	36,355	79,712
Rating category 4	686,043	56,941	56,699	187
Rating category 5	15,283,562	14,016,990	331,104	335,666
Total	16,753,040	15,287,880	497,632	502,017

Assessment of Allowance for Impairment of Receivables

The Bank assesses allowance for impairment of receivables on an individual and on a group basis.

Individual Assessment

The Bank assesses impairment of each individually significant investment and considers the financial position of the loan beneficiary, sustainability of its business plan, its ability to improve performance in the event of financial difficulties, income projections, availability of other financial support and collateral value which can be realized, as well as scheduling of expected cash flows. In the event of new information coming to light that significantly alters the customer's creditworthiness, value of collateral and likelihood that liabilities toward the Bank will be settled, ad hoc assessment of loan impairment is performed.

Group Assessment

Impairment is assessed on a group basis for investments that are not individually significant and for individually significant loans and advances, when there is no objective evidence of individual impairment. Group assessment is performed monthly within groups that are determined based on internal methodology and internal rating system. Group impairment percentages are calculated based on migration of risk rating categories in default status per type of borrower or product. The obtained migration percentages are adjusted for collected receivables.

Impairment of loans decreases the value of loans and is recognized as an expense in the income statement.

Assessment of Provisions for Losses on Off-Balance Sheet Items

Assessment of provisions for losses on off-balance sheet items (contingent liabilities) is performed when it is estimated that it is fairly certain that an outflow of assets will be required to settle contingent liabilities.

In assessing provisions for contingent losses on off-balance sheet items, funds obtained by activating collaterals are recognized if it is completely certain that cash outflows for contingent liabilities will be settled from collaterals.

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

54. RISK MANAGEMENT (Continued)

Determination of Probable Losses per Off-Balance Sheet Items (Continued)

Overview of Individual and Group-Level Impairment Allowance of Balance Sheet Assets

	Loans and Advances		Equity Investments	
	2012	2011	2012	2011
I. Individual impairment allowance				
Rating category 1	-	-	298,160	218,183
Rating category 2	4,302,381	9,501,151	102,100	37,755
Rating category 3	5,932,405	10,331,259	34,525	10,283
Rating category 4	3,429,283	349,976	5,328	3,676
Rating category 5	22,952,340	17,271,964	364,600	364,600
Loans and receivables, gross	**36,616,409**	**37,454,350**	**804,713**	**634,497**
Impairment allowance	**(13,199,917)**	**(11,811,811)**	**(443,036)**	**(366,270)**
Carrying amount	**23,416,492**	**25,642,539**	**361,677**	**268,227**
II. Group-level impairment allowance				
Rating category 1	66,489,041	54,546,360	-	-
Rating category 2	49,822,691	47,254,447	-	-
Rating category 3	16,146,609	15,741,521	-	-
Rating category 4	3,051,788	996,385	-	-
Rating category 5	3,886,661	3,690,178	-	-
Loans and receivables, gross	**139,396,790**	**122,228,891**	-	-
Impairment allowance	**(3,553,123)**	**(3,476,069)**	-	-
Carrying amount	**135,843,667**	**118,752,822**	-	-
III. Receivables due but not impaired				
Rating category 1	991,610	91,047	-	-
Rating category 2	5,793,228	13,381	-	-
Rating category 3	-	7,379	-	-
Rating category 4	-	-	-	-
Rating category 5	-	-	-	-
Loans and receivables, gross	**6,784,838**	**111,807**	-	-
Receivables due but not impaired include:				
0-30 days past-due	6,761,200	91,047	-	-
31-60 days past-due	23,638	13,381	-	-
61-90 days past-due	-	7,379	-	-
91-180 days past-due	-	-	-	-
Over 180 days past-due	-	-	-	-
Carrying amount	**6,784,838**	**111,807**	-	-
IV. Receivables neither due nor impaired				
Rating category 1	4,391,773	13,742,823	-	-
Rating category 2	10,690,225	2,619,165	-	-
Rating category 3	604	39	-	-
Rating category 4	-	-	-	-
Rating category 5	-	-	-	-
Carrying amount	**15,082,602**	**16,362,027**	-	-
Total carrying amount, gross	**197,880,639**	**176,157,075**	**804,713**	**634,497**
Total impairment allowance	**(16,753,040)**	**(15,287,880)**	**(443,036)**	**(36,627)**
Total carrying amount, net	**181,127,599**	**160,869,195**	**361,677**	**268,227**
Total unclassified assets	**47,310,323**	**57,852,715**	**5,559,274**	**5,559,274**
Impairment allowance	**(130,024)**	**(110,443)**	**(3,918)**	**(3,918)**
Total unclassified assets, net	**47,180,299**	**57,742,272**	**5,555,356**	**5,555,356**
Total	**245,190,962**	**234,009,790**	**6,363,987**	**6,193,771**
Rescheduled / restructured loans	**27,609,215**	**27,545,212**		

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

54. RISK MANAGEMENT (Continued)

Concentration Risk

The Bank controls concentration risk by establishing a system of limits to the exposures with the same or similar risk factors (industry sectors/activities, product types, geographical regions, single entities or groups of related parties, collaterals...). Establishment of appropriate exposure limits is the basis for concentration risk control with the aim of loan portfolio diversification.

Breakdown of loans and advances per geographical region:

	2012		2011	
	Gross	Net	Gross	Net
Serbia	**190,675,434**	**174,241,038**	**161,065,273**	**145,952,314**
Central Serbia	167,427,606	152,367,501	139,693,477	125,892,845
Vojvodina	22,816,631	21,456,956	20,983,780	19,678,499
Kosovo and Metohija	431,197	416,581	388,016	380,970
European Union	**5,417,326**	**5,405,908**	**12,689,471**	**12,689,420**
USA and Canada	**817,117**	**589,142**	**710,096**	**49,617**
Other	**970,762**	**891,511**	**1,692,235**	**1,731,291**
Total	**197,880,639**	**181,127,599**	**176,157,075**	**160,869,195**

Breakdown of loans and advances per industry:

	2012		2011	
	Gross	Net	Gross	Net
Financial and insurance sector	**7,522,661**	**7,376,033**	**8,966,327**	**8,789,317**
Public companies and enterprises	**121,686,186**	**111,199,272**	**97,775,612**	**87,635,983**
Agriculture	6,611,570	6,338,468	4,959,018	4,629,383
Processing industry	38,368,668	32,175,340	35,907,466	29,912,055
Electricity production	6,591,374	6,585,423	359,237	358,118
Construction industry	7,028,370	6,263,070	8,775,505	8,243,455
Wholesale and retail	40,428,296	38,473,427	33,993,579	32,051,084
Service industries	19,057,840	17,868,578	10,130,164	8,947,165
Real estate and related activities	3,600,068	3,494,966	3,650,643	3,494,723
Entrepreneurs	**2,364,775**	**2,101,694**	**1,914,045**	**1,668,334**
Public sector	**1,208,309**	**1,178,044**	**1,337,039**	**1,306,606**
Retail customers	**52,749,952**	**50,691,840**	**47,683,975**	**45,686,371**
Foreign entities	**7,192,531**	**6,878,458**	**15,095,469**	**14,810,903**
Other customers	**5,156,225**	**1,702,258**	**3,384,608**	**971,681**
Total	**197,880,639**	**181,127,599**	**176,157,075**	**160,869,195**

Depending on general economic trends in certain industry sectors, the Bank diversifies its investments in industrial sectors that are resistant to the impact of negative economic trends.

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

54. **RISK MANAGEMENT (Continued)**

Concentration Risk (Continued)

Breakdown of loans and advances per customer type:

	2012		2011	
	Gross	Net	Gross	Net
Corporate sector	**132,418,952**	**120,399,518**	**111,752,136**	**100,838,477**
Large customers	82,287,783	77,132,647	64,439,780	59,924,195
Small and medium-sized clients	34,264,707	28,262,927	31,902,434	26,254,060
Other	15,866,462	15,003,944	15,409,922	14,660,222
Banks	**5,972,226**	**4,235,139**	**12,603,061**	**10,985,592**
Retail sector	**59,489,461**	**56,492,942**	**51,801,878**	**49,045,126**
Private individuals	49,387,118	47,635,825	43,869,517	42,216,766
Agricultural producers	3,362,833	3,056,016	3,814,458	3,469,616
Micro businesses	6,739,510	5,801,101	4,117,903	3,358,744
Total	**197,880,639**	**181,127,599**	**176,157,075**	**160,869,195**

Off-Balance Sheet Items

In addition to credit exposure, the Bank also has off-balance sheet exposures (guarantees, letters of credit...) based on which the Bank has contingent liabilities to make payments on behalf of third parties. The Bank uses control processes and procedures for off-balance sheet exposures identical to those used for credit risk.

Off-Balance Sheet Items

	2012		2011	
	Gross	Net	Gross	Net
Rating category 1	15,542,410	15,522,032	14,771,155	14,762,525
Rating category 2	15,397,666	15,344,570	10,702,543	10,624,721
Rating category 3	1,796,744	1,760,389	6,163,987	6,084,275
Rating category 4	666,393	609,694	189,827	189,640
Rating category 5	475,813	144,709	574,946	239,279
Gross loans and receivables (1-5)	**33,879,026**	**33,381,394**	**32,402,458**	**31,900,440**

Credit Risk Hedges (Collateral)

For the purpose of protection against credit risk, in addition to regular monitoring of the customer business operations, the Bank also acquires security instruments (collaterals) to secure the collection of receivables and minimize credit risk. Depending on the assessment of the ability to settle contractual liabilities, the level of loan coverage is defined so that in case of the debtor default, the bank could collect its receivables through collateral foreclosure. The quantity and type of collateral depends on the assessed credit risk.

As a standard type of loan security instrument, the Bank demands and receives from clients contractual authorizations for account withdrawals and bills of exchange, whereas, depending on the credit risk assessment and loan type, additional collaterals agreed upon include the following:

- for commercial loans – pledge over movable and immovable property (mortgages), deposits, banking, corporate and state-issued guarantees, sureties, pledge over securities;
- for retail loans – mortgages, deposits, co-sureties and insurance of the National Corporation for Housing Loans.

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

54. RISK MANAGEMENT (Continued)

Credit Risk Hedges (Collaterals) (Continued)

For valuation of property or pledges assigned over movable assets, the bank hires certified appraisers in order to minimize potential risk of unrealistic valuation. Property, goods, equipment and other movables pledged must be insured by an insurance company acceptable to the Bank and insurance policies must be duly endorsed in favor of the Bank.

The Bank monitors the market value of collaterals and if necessary, it can demand additional collateral pursuant to the loan/deposit agreement executed.

It is the Bank's policy to ensure collection from collateral foreclosure and use the proceeds therefrom to reduce or repay debt.

Fair Value of Collaterals

	Loans and Advances	
	2012	**2011**
I. Individual allowance for impairment		
Mortgages	54,947,989	48,615,410
Deposits	45,739	44,485
Guarantees	1,027,953	483,035
Pledged securities	15,716,170	7,537,613
Pledged property	16,683,180	9,747,063
Other	16,161,024	5,670,979
Total	**104,582,055**	**72,098,585**
II. Portfolio-level allowance for impairment		
Mortgages	158,585,770	159,205,029
Deposits	1,518,945	1,589,415
Guarantees	10,350,091	11,251,591
Pledged securities	18,651,733	26,972,376
Pledged property	46,956,436	18,886,791
Other	44,115,846	34,360,564
Total	**280,178,821**	**252,265,766**
III. Loans and advances due but not impaired		
Mortgages	357,022	1,383,436
Deposits	1,199	34,573
Guarantees	708	946
Pledged securities	1,178	456,170
Pledged property	58,060	117,688
Other	371,511	565,764
Total	**789,678**	**2,558,577**
IV. Loans and advances neither due nor impaired		
Mortgages	435,874	285,977
Deposits	43,672	21,933
Guarantees	-	155
Pledged securities	821	13,771
Pledged property	215,198	164,047
Other	338,459	627,834
Total	**1,034,024**	**1,113,717**
Total fair value	**386,584,578**	**328,036,645**

All amounts expressed in thousands of RSD, unless otherwise stated

54. RISK MANAGEMENT (Continued)

Credit Risk Hedges (Collaterals) (Continued)

As of December 31, 2012, the Bank had at its disposal the following properties acquired through collection of receivables:

Collaterals acquired through collection of loans	2012	2011
Residential buildings	245,614	307,391
Business premises	939,405	662,667
Equipment	82,195	1,493
Land and forests	67,308	31,703
Total	**1,334,522**	**1,003,254**
Accumulated depreciation	(123,607)	(4,812)
Fair value	**1,210,915**	**998,442**

54.2. Liquidity Risk

Liquidity risk represents the risk of negative effects on the Bank's financial result and equity resulting from the Bank's difficulty or inability to settle its matured liabilities in instances of insufficient liquidity reserves and inability to cover for unexpected outflows and other liabilities.

The Bank operates in accordance with the basic principles of liquidity, maintaining a sufficient level of funds to cover liabilities incurred in the short term, i.e. it observes the principle of solvency by establishing the optimal financial leverage and sufficient liquidity reserves which do not compromise realization of the projected return on equity.

Liquidity risk represents the Bank's inability to settle its matured liabilities. Liquidity risk may be manifest as the risk related to sources of funds and market liquidity risk. The problem of liquidity in respect of the sources of funds relates to the structure of liabilities and is expressed through potential significant share of unstable and short-term sources of funds or their concentration. On the other hand, liquidity risk is reflected in reserves deficiency and difficulty or inability to obtain liquid assets at reasonable market prices.

The Bank has established appropriate organizational structure, which allows for clear differentiation between the process of assuming and the process of managing liquidity risk. The Asset and Liability Management Committee and Liquidity Committee have the most significant role therein as well as other competent boards/committees, whose decisions can impact the Bank's exposure to this risk.

In order to minimize liquidity risk, the Bank:

- Diversifies sources of assets in respect to their currencies and maturities;
- Forms sufficient liquidity reserves;
- Manages monetary funds;
- Monitors future cash flows and liquidity levels on a daily basis;
- Limits principal sources of credit risk with most significant impact on liquidity; and
- Defines and periodically tests Plans for Liquidity Management in Crisis Situations.

The liquidity management process comprises identification, measurement, minimizing, monitoring, control and liquidity risk reporting.

In identifying liquidity risk, the Bank identifies in a comprehensive and timely manner the causes that lead to the occurrence of liquidity risk determines current liquidity risk exposure as well as liquidity risk exposure arising from new business products and activities.

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

54. RISK MANAGEMENT (Continued)

54.2. Liquidity Risk (Continued)

Measurement and assessment of liquidity risk in the Bank is performed through quantitative and/or qualitative assessment of identified liquidity risk by using the following techniques:

- GAP analysis;
- Ratio analysis; and
- Stress test.

Minimizing liquidity risk consists of maintaining this risk at a level that is acceptable to the Bank's risk profile through definition of the system of exposure limits including both internal and statutory limits and timely implementation of measures to mitigate the risk and operation within the set internal and external limits.

Control and monitoring of liquidity risk includes the process of monitoring compliance with internally defined limits, and monitoring of defined measures for reducing the bank's exposure to liquidity risk. Liquidity risk control involves the control at all liquidity risk management levels as well as the independent control system implemented by the bank's organizational units responsible for internal audit and compliance monitoring.

Liquidity risk reporting consists of internal and external reporting systems and is performed on a daily basis and a set schedule according to the defined system. .

The Bank's operations are reconciled daily with legally prescribed liquidity ratio and narrow liquidity ratio. The legally prescribed minimum and maximum values for these ratios are defined for one working day, three consecutive working days and average for all working days within a month. During 2012, the Bank's liquidity and narrow liquidity ratios were significantly in excess of the prescribed limits.

Limits Prescribed by the National Bank of Serbia	Liquidity Ratio	Narrow Liquidity Ratio
For one working day	Min 0.8	Min 0.5
For three consecutive working days	Min 0.9	Min 0.6
Average ratio for all working days in a month	Min 1	Min 0.7

The Bank sets internal limits, based on the internal reporting on liquidity GAP.

Compliance with internally defined limits of liquidity as of the last day was as follows:

	Limits	2012	2011
GAP up to 1 month/Total assets	Max (10%)	9.18%	9.03%
Cumulative GAP up to 3 months / Total assets	Max (20%)	9.21%	2.06%

Compliance with externally defined limits of liquidity:

	Liquidity Ratio 2012	2011	Narrow Liquidity Ratio 2012	2011
As of December 31	2.18	2.91	2.04	2.5
Average for the period	2.36	2.25	2.01	1.77
Maximum for the period	3.39	3.4	2.77	2.58
Minimum for the period	1.04	1.34	0.93	1.11

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

54. RISK MANAGEMENT (Continued)

54.2. Liquidity Risk (Continued)

In addition, the bank limits and coordinates its operations with the limits defined for the structure of liabilities and maturity per major foreign currencies.

Maturity structure of monetary assets and monetary liabilities as of December 31, 2012

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash equivalents	40,514,180	-	-	-	-	40,514,180
Revocable deposits and loans	43,053,502	-	-	-	-	43,053,502
Interest, fee and commission receivables and other receivables	1,547,342	-	-	-	-	1,547,342
Loans and advances to customers	22,141,853	11,933,254	48,747,939	58,617,867	35,665,952	177,106,865
Securities	7,861,152	3,070,639	14,133,734	16,172,113	110,081	41,347,719
Equity investments (interests)	-	-	-	-	5,917,033	5,917,033
Other investments	2,370,525	823,035	33,924	412	-	3,227,896
Other assets	1,525,984	5,199	4,736	208,046	-	1,743,965
	119,014,538	**15,832,127**	**62,920,333**	**74,998,438**	**41,693,066**	**314,458,502**
Transaction deposits	40,336,776	-	-	-	-	40,336,776
Other deposits	66,758,873	26,312,863	81,221,046	20,411,849	479,337	195,183,968
Borrowings	615,524	-	-	-	21,740	637,264
Interest, fee and commission payables	188,910	-	-	-	-	188,910
Other liabilities	5,207,016	381,574	1,414,638	15,648,665	2,316,196	24,968,089
	113,107,099	**26,694,437**	**82,635,684**	**36,060,514**	**2,817,273**	**261,315,007**
Liquidity gap						
As of December 31, 2012	**5,907,439**	**(10,862,310)**	**(19,715,351)**	**38,937,924**	**38,875,793**	**53,143,495**
As of December 31, 2011	**15,734,296**	**(31,229,017)**	**(15,084,075)**	**33,342,377**	**35,042,447**	**37,806,028**

The report on the maturity structure of monetary assets and liabilities includes monetary balance sheet items distributed according to maturities outstanding, i.e. the conservative assumption was used that all transaction and demand deposits will be withdrawn within one month.

The Bank collects deposits of corporate and retail customers which commonly have shorter maturity periods and can be withdrawn at the client request. Short-term nature of such deposits increases the bank's liquidity risk and requires active liquidity risk management and constant monitoring of market trends.

In near term, the Bank manages liquidity risk by monitoring and controlling items in all major currencies in order to identify the needs for additional funding in a timely manner in case of maturities of certain items, i.e. in the long term, the Bank plans the structure of its funding sources and investments in order to provide sufficient stable funding sources and liquidity reserves.

The Bank's management believes that adequate diversification of the deposit portfolio per number and type of depositors as well as historical experience provide a solid basis for existence of a stable and long-term deposit base, i.e. no significant outflow of funds is expected thereof.

The Bank tests the Plans for Liquidity Management in Crisis Situations which are intended for testing potential crisis, checks the survival period and solvency, availability of funding for liabilities that could arise and assesses the support under the assumed crisis conditions.

54. RISK MANAGEMENT (Continued)

54.3. Market Risk

Market risk represents the possibility of occurrence of negative effects on the Bank's financial result and equity due to changes in market variables and comprises interest rate risk, currency risk for all business operations and price risk for all items in the trading book.

The Bank is exposed to interest rate risk, currency risk, risk of securities fluctuations, counterparty risk and risk of settlement related to trading book items. The trading book contains balance sheet and off-balance sheet assets and liabilities related to financial instruments that the Bank holds for sale or to hedge other financial instruments that are maintained in the trading book.

The Bank has established appropriate organizational structure, which allows for clear differentiation between the process of assuming market risks and the process of managing those risks. The Asset and Liability Management Committee and Investment Committee have the most significant role therein as well as other competent boards/committees, whose decisions can impact the Bank's exposure to this risk.

Interest Rate Risk

Interest rate risk represents the probability of negative effects on the Bank's financial result and equity through items of the banking general ledger due to adverse interest rate fluctuations. The exposure to this risk depends on the relation between the interest rate sensitive assets and liabilities.

The Bank manages the following types of interest rate risk:

- Repricing risk of temporal mismatch between maturity and repricing;
- Yield curve risk – to which the Bank is exposed due to changes in yield curve shape;
- Basic risk – to which the Bank is exposed due to different reference interest rates for interest rate sensitive items with similar maturity or repricing characteristics; and
- Optionality risk – to which the Bank is exposed due to contractually agreed optional terms – loans with an option of early repayment, deposits with an option of early withdrawal, etc.

Basic objective of interest rate risk management is maintaining the acceptable level of interest rate risk exposure from the aspect of the effect on the financial result, by conducting adequate policy of matching periods of interest rate repricing, matching adequate sources to investments per interest rate type and maturity, as well as projecting movements in the yield curve in both foreign and domestic markets. Primarily, the Bank manages the internal yield margin through the prices of loans and deposits, focusing on the interest rate margin.

The Bank particularly considers the effects of interest rate changes and changes in the structure of interest-bearing assets and liabilities from the perspective of maturity, interest rate repricing and currency structure and manages the effect thereof on the economic value of equity.

The process of interest rate risk management consists of identification, measurement, minimizing, monitoring, control and interest rate risk reporting.

Identification of interest rate risk consists of comprehensive and timely identification of the causes and factors that lead to the occurrence of interest rate risk, which includes determining current interest rate risk exposure, as well as interest rate risk exposure arising from new business products and activities.

Measurement and assessment of interest rate risk at the Bank is performed through quantitative and/or qualitative assessment of identified interest rate risk by using the following techniques:

- GAP analysis;
- Ratio analysis;
- Duration;
- Economic value of equity; and
- Stress test.

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

54. RISK MANAGEMENT (Continued)

54.3. Market Risk (Continued)

Interest Rate Risk (Continued)

Minimizing interest rate risk means maintaining this risk at a level that is acceptable for the Bank's risk profile. Alleviating interest rate risk refers to the process of defining the systems of limited exposure of the Bank to the interest rate risk and implementing measures for interest rate risk mitigation. Control and monitoring of interest rate risk entails the process of monitoring compliance with the established system of limits as well as monitoring defined measures for reducing the Bank's exposure to the interest rate risk. Control of interest rate risk refers to control on all management levels as well as an independent control system implemented by the organizational units responsible for internal audit and compliance monitoring.

Interest rate risk reporting consists of an internal system of reporting to competent boards/committees and the Bank's interest rate risk management bodies.

Internal limits are determined based on the internal report on the interest rate GAP, which includes all the balance sheet items.

Compliance with internally defined interest rate risk limits at the last day was as follows:

	Limits	2012	2011
Relative GAP	Max 15%	(4.42%)	(7.23%)
Mismatch ratio	0.75 – 1.25	0.94	0.91

During 2012, interest rate risk ratios were within internally prescribed limits.

The Bank has defined internal limits for interest rate risk exposure per major currency as well as the limit of the maximum economic value of equity.

Compliance with internally defined limits of economic value of equity:

	2012	2011
As at December 31	5.37%	10.53%
Average for the year	9.16%	10.71%
Maximum for the year	11.00%	11.81%
Minimum for the year	5.37%	9.93%
Limit	20%	20%

The exposure to interest rate risk can be reviewed through the Report on Interest Rate GAP in monetary assets and liabilities as follows:

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012
All amounts expressed in thousands of RSD, unless otherwise stated.

54. RISK MANAGEMENT (Continued)

54.3. Market Risk (Continued)

Interest Rate Risk (Continued)

The Report on Interest Rate GAP in monetary assets and liabilities as of December 31, 2012

	Up to 1 Month	From 1 - 3 Months	From 3 -12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Cash and cash equivalents	19,886,483	-	-	-	-	19,886,483	20,627,697	40,514,180
Revocable loans and deposits	4,000,000	-	-	-	-	4,000,000	39,053,502	43,053,502
Interest, fee and commission receivables and changes in the fair value of derivatives and other receivables	-	-	-	-	-	-	1,547,342	1,547,342
Loans and advances to customers	58,020,958	21,027,461	48,970,218	31,565,751	17,522,477	177,106,865	-	177,106,865
Securities	7,953,441	5,901,067	13,591,281	11,737,176	-	39,182,965	2,164,754	41,347,719
Equity investments (interests)	-	-	-	-	-	-	5,917,033	5,917,033
Other investments	1,341,811	172,795	34,217	-		1,548,823	1,679,073	3,227,896
Other assets	-	-	-	-	-	-	1,743,965	1,743,965
Total	**91,202,693**	**27,101,323**	**62,595,716**	**43,302,927**	**17,522,477**	**241,725,136**	**72,733,366**	**314,458,502**
Transaction deposits	40,336,776	-	-	-	-	40,336,776	-	40,336,776
Other deposits	70,510,718	23,150,293	80,633,671	20,409,949	479,337	195,183,968	-	195,183,968
Borrowings	616,010	-	-	-	21,254	637,264	-	637,264
Interest, fee and commission payables and changes in the fair value of derivatives	-	-	-	-	-	-	188,910	188,910
Other liabilities	2,342,325	-	-	5,613,516	6,263,748	14,219,589	10,748,450	24,968,089
Total	**113,805,829**	**23,150,293**	**80,633,671**	**26,023,465**	**6,764,339**	**250,377,597**	**10,937,410**	**261,315,007**
Interest rate GAP								
- at December 31, 2012	**(22,603,136)**	**3,951,030**	**(18,037,955)**	**17,279,462**	**10,758,138**	**(8,652,461)**	**61,795,956**	**53,143,495**
- at December 31, 2011	**(7,365,346)**	**(22,729,214)**	**(29,537,253)**	**18,813,297**	**20,889,432**	**(19,929,083)**	**57,735,111**	**37,806,028**

Interest rate risk GAP report of monetary subbalance includes monetary balance items distributed according to the shorter of period of interest rate repricing and maturity outstanding. In accordance with the aforesaid, the conservative assumption is used that all transactions and demand deposits will be withdrawn within one month.

The Bank's management believes that appropriate compliance of positions per interest rate type and interest rate repricing period constitutes a solid prerequisite for existence with required financial results achieved and maintenance of economic value of equity.

Currency Risk

Currency risk represents the possibility of negative effects on the Bank's financial result and equity due to fluctuations in exchange rates between currencies, fluctuations in the domestic currency with respect to foreign currencies or changes in the value of gold and other precious metals. All items in the banking book and the trading book that are denominated in a foreign currency and gold, including dinar items indexed to foreign currency clause are exposed to currency risk.

In order to minimize the currency risk exposure, the Bank diversifies the currency structure of its portfolio and currency structure of liabilities, reconciling open positions in certain currencies pursuant to the principles of maturity transformation. The Bank has established appropriate organizational structure, which allows for clear differentiation between the process of assuming currency risk and the process of managing currency risk. The Asset and Liability Management Committee has the most significant role therein as well as other competent boards/committees, whose decisions can impact the Bank's exposure to this risk.

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

54. RISK MANAGEMENT (Continued)

54.3. Market Risk (Continued)

Currency Risk (Continued)

The process of currency risk management entails identifying, measuring, minimizing, monitoring, control and currency risk reporting.

In identifying currency risks, the Bank identifies in a comprehensive and timely manner the causes that lead to emergence of currency risk and includes the determination of current currency risk exposure, as well as currency risk exposure resulting from new business products and activities, by items that are recorded in the banking book and the trading book.

Measurement and assessment of currency risk in the Bank is performed through quantitative and/or qualitative assessment of identified currency risk by using the following techniques:

- GAP analysis and currency risk ratio;
- VaR analysis;
- Stress test;
- Back testing.

Relieving foreign currency risk entails maintenance of risk at an acceptable level for the Bank's risk profile through the establishment of a transparent system of limits and defining measures used to mitigate foreign currency risk.

Control and monitoring of the currency risk consists of observation and supervision of compliance with internally and externally defined limits as well as monitoring of defined and implemented measures. Continuous monitoring and control of foreign currency risk during the day ensures timely undertaking measures for the purpose of maintaining the currency risk within defined limits. Foreign currency risk control means control at all management levels as well as independent control system implemented by the organizational units responsible for internal audit and compliance monitoring. Reporting on currency risk includes internal and external reporting systems, it is performed on a daily basis and according to set schedules and in accordance with the defined system.

The Bank reconciles its business operations with the prescribed foreign currency risk ratio, which represents the ratio between the total net foreign currency balance and the position of gold relative to the Bank's regulatory capital.

An overview of the total currency risk balance and legally defined currency risk ratio as at December 31:

	2012	2011
Total currency risk balance	333,032	452,801
Currency risk ratio	0.82%	1.68%
Legally-defined limit	20%	20%

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

54. RISK MANAGEMENT (Continued)

54.3. Market Risk (Continued)

Currency Risk (Continued)

Summary of Monetary Assets and Monetary Liabilities per Currencies as of December 31, 2012

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause	RSD Items	Total
Cash and cash equivalents	12,494,575	871,548	1,836,911	813,959	16,016,993	-	24,497,187	40,514,180
Revocable deposits and loans	31,586,883	7,466,619	-	-	39,053,502	-	4,000,000	43,053,502
Interest, fee and commission receivables and changes in the fair value of derivatives and other receivables	92,936	-	-	-	92,936	75,522	1,378,884	1,547,342
Loans and advances to customers	16,205,464	2,058,516	-	272,330	18,536,310	116,146,960	42,423,595	177,106,865
Securities	22,383,026	-	-	-	22,383,026	170,701	18,793,992	41,347,719
Equity investments	-	-	-	-	-	-	5,917,033	5,917,033
Other investments	1,595,568	671,422	-	-	2,266,988	-	960,908	3,227,896
Other assets	272,798	61,258	-	39	334,095	40,205	1,369,665	1,743,965
Total	**84,631,248**	**11,129,363**	**1,836,911**	**1,086,328**	**98,683,850**	**116,433,388**	**99,341,264**	**314,458,502**
Transaction deposits	12,131,446	1,108,290	569,666	111,450	13,920,852	-	26,415,924	40,336,776
Other deposits	150,680,623	9,922,814	5,433,222	855,328	166,891,987	10,134,829	18,157,152	195,183,968
Borrowings	297,703	51,980	13,093	3,271	366,047	21,254	249,963	637,264
Interest, fee and commission payables and changes in the fair value of derivatives	4,631	285	-	125	5,041	3,184	180,685	188,910
Other liabilities	21,377,422	68,737	1,947,357	68,064	23,461,580	494	1,506,015	24,968,089
Total	**184,491,825**	**11,152,106**	**7,963,338**	**1,038,238**	**204,645,507**	**10,159,761**	**46,509,739**	**261,315,007**
Net currency position								
December 31, 2012	**(99,860,577)**	**(22,743)**	**(6,126,427)**	**48,090**	**(105,961,657)**	**106,273,627**	**52,831,525**	**53,143,495**
December 31, 2011	**(87,615,643)**	**(12,317)**	**(5,792,568)**	**10,709**	**(93,409,818)**	**92,944,426**	**38,271,420**	**37,806,028**

54.4. Operational Risk

Operational risk represents the possibility of negative effects on the Bank's financial result and equity due to employee errors (intentional or accidental), inadequate procedures and processes in the Bank, inadequate management of information and other systems in the Bank, as well as occurrence of unforeseen external events. Operational risk includes legal risk.

Operational risk is defined as an event that occurred as the result of inappropriate or unsuccessful internal processes, employee and system actions or system and other external events, internal and external abuses, hiring and security practices at the workplace, customer receivables, product distribution, fines and penalties for infractions, damage incurred to property, disruptions in operations and system errors and process management.

The Bank monitors operational risk events according to the following business lines: corporate financing, trade and sales, retail brokerage services, corporate banking, retail banking, payment transfers, agency services and asset management.

The process of operational risk management represents an integral part of the Bank's activities conducted on all levels and ensures identification, measuring, relieving, monitoring and reporting continually on operational risks ahead of their realization, as in accordance with the legal requirements and deadlines. The existing process relies on known methods of measuring operational risk exposures, database on operating losses, an updated control and reporting system.

54. RISK MANAGEMENT (Continued)

54.4. Operational Risk (Continued)

The Bank monitors operational risk events daily and manages operating risks. For the purpose of efficient operational risk monitoring, the Bank appoints employees who are in charge of operational risk with the objective of monitoring operational risk in its every organizational part, where such employees are responsible for accuracy and timeliness of information about all operational risk events that occur in their organizational unit, as well as for keeping records about all such events in the operational risk database. The organizational part of the Bank which is responsible for risk management monitors and reports operational risks to the Bank's Board of Directors, the Bank's Executive Board and the Audit Committee.

Measurement and assessment of operational risk at the Bank is done through quantitative and/or qualitative assessment of identified operational risk. The Bank measures operational risk exposure through event records, self-assessment and stress testing. Self-assessment consists of assessment of risk exposure by organizational units based on the roadmap for identifying operating risks, through measurement of potential ranges and frequencies of events that can result in losses, identification of levels of control that business areas must maintain over these risks and measures of improvement. Stress test represents an operational risk management technique which is used to assess potential effects of specific events and/or changes in several financial variables on the Bank's exposure to operational risk.

The Bank cannot eliminate all operational risks, but by introducing a rigorous framework of control, monitoring and response to potential risks it is capable of managing these risks. The Bank takes measures in order to relieve operational risks and ensure proactive response to events potentially creating operational risks through continued monitoring of all activities, application of adequate and reliable information system and by applying project approach orientation, the implementation of which helps improve the business practice and optimize the Bank's business processes.

Through reliable reporting on the implementation of measures undertaken to mitigate operational risks, the Bank has established a system for monitoring the activities undertaken by the Bank's organizational parts in order to reduce arising operational risks. The Bank assess the risk of entrusting third parties with activities related to the Bank's operations and based on the service contracts executed with such third parties which clearly define terms, rights, obligations and responsibilities of the contracting parties.

With the objective of smooth and continued operation of all significant systems and processes in the Bank, and to limit losses that could be incurred in extraordinary circumstances, the Bank adopted the Business Continuity Plan, in order to ensure the restoration and recovery of the information technology systems in the event of interruption or stoppage of operations, the Bank adopted the Disaster Recovery Plan.

54.5. The Bank's Investment Risk

The Bank's investment risk relates to the risk of investing in other entities and capital expenditures. The Bank's investments in a non-financial sector entity cannot exceed 10% of the Bank's equity, whereby such investments entail investments through which the Bank acquires equity interest or shares in a non-financial sector entity. The total Bank's investment in non-financial sector entities and Bank's own fixed assets cannot exceed 60% of the Bank's equity, but this restriction does not apply to the acquisition of shares for further trading and sales thereof within six months from the acquisition date.

54. RISK MANAGEMENT (Continued)

54.6. Exposure Risk

Large exposures of the Bank to a single entity or a group related entities, including Bank's related parties, are exposures amounting to over 10% of the Bank's capital.

In its operations, the Bank takes care of the compliance with statutory exposure limits:

- The Bank's exposure to a single party or group of related parties cannot exceed 25% of the Bank's equity;
- The Bank's exposure to a party that is related to the Bank cannot exceed 5% of the Bank's equity, while total exposure to the Bank's related parties cannot exceed 20% of the Bank's equity;
- The aggregate amount (sum) of the Bank's large exposures cannot exceed 400% of the Bank's equity.

The Bank's exposure to a single party or group of related parties, as well as exposure to the Bank's own related parties, were within the prescribed limits.

54.7. Country Risk

Country risk relates to the risk of the country of origin of the entity the Bank is exposed to, i.e. the possibility of negative effects on the Bank's financial result and equity due to inability to collect receivables from abroad and is caused by political, economic and social conditions in the borrower's country of origin. Country risk includes the following risks:

- Political and economic risk relates to the likelihood of losses due to the inability to collect the Bank's receivables because of deterioration in macroeconomic stability, due to limitations prescribed by government regulations or due to other structural changes in the economy of the given country;
- Transfer risk relates to the probability of losses due to the inability to collect receivables in a currency which is not the official currency in the borrower's country of origin, due to limitations to liability settlement toward creditors from other countries in specific currency that is predetermined by the official state regulations and bylaws of state and other bodies of the borrower's country of origin.

Measurement of country risk is made per individual loans and advances and at the Bank's portfolio level. Measurement of exposure of an individual receivable to country risk is based on the country rating of the Bank's borrower's country of origin as defined by internationally recognized agencies, while measurement of portfolio exposure to country risk is based on setting limits to exposure in terms of a percentage of the Bank's equity, depending on the internal country rating category. The Bank measures and controls portfolio exposure to country risk by grouping receivables by level of risk of the borrower's country of origin.

For the purpose of adequate country risk control, the Bank defines exposure limits by countries or regions.

The Bank's investments approved to the borrowers domiciled outside of the Republic of Serbia for financing businesses in the Republic of Serbia, whose financial obligations to the Bank are expected to be settled from the operating results achieved in the Republic of Serbia, represent the Bank's receivables without exposure to the risk of the borrower's country of origin.

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

54. RISK MANAGEMENT (Continued)

54.8. Capital Management

The Bank manages capital on a continuous basis in order to:

- Ensure the business continuity in the unlimited period of foreseeable future;
- Preserve optimal equity structure;
- Minimize capital costs;
- Hedge risks;
- Ensure growth, by widening the range of its services i.e. the Bank's development of new software and methodology solutions;
- Preservation of customer trust in the Bank's financial potential.

The Bank's regulatory capital represents the sum of share capital and additional capital, reduced for deductible items. The capital adequacy ratio represents the proportion of bank capital and sum of assets weighted by credit risk, open foreign currency positions and exposure to operational risk. Risk-weighted balance sheet and off-balance sheet items are determined pursuant to risk weights prescribed for all types of assets. Exposure to operational risk is determined by multiplying the reciprocal value of the prescribed capital adequacy ratio by the capital requirement for operational risk, which represent a three-year average of the product of exposure indicators for all lines of business by the prescribed capital requirement rates for each individual business line.

Capital adequacy ratio	2012	2011
Core capital	50,696,348	41,749,118
Additional capital	5,329,728	5,852,703
Deductible items	(15,648,210)	(20,655,322)
Capital	**40,377,866**	**26,946,499**
Credit risk-weighted assets	169,333,007	142,142,319
Operational risk exposure	15,196,808	14,105,358
Capital adequacy ratio (max. 12%)	**21.88%**	**17.25%**

In the course of 2012, the Bank's capital adequacy ratio was in excess of the prescribed regulatory limit of 12%.

Through its capital management strategy and plan, the Bank controls and ensures maintenance of the level and structure of the internal capital, which adequately supports increase in loans and advances, future sources of funding and their utilizations, dividend policy and changes in regulatory requirements.

As part of the system of capital management, the Capital Management Plan, includes the following:

- Strategic goals and schedule for realization thereof;
- Manner of organizing the process of available internal capital management;
- Procedures for planning adequate levels of available internal capital;
- Manner of reaching and maintaining adequate levels of available internal capital; and
- The Business Continuity Plan in case of unforeseen events.

The Bank continuously implements processes of internal assessment of capital adequacy in accordance with the nature, volume and complexity of its business operations and in compliance with the adopted risk management strategy, individual risk management policies and capital management strategy.

54. RISK MANAGEMENT (Continued)

54.8. Capital Management (Continued)

As a documented and continuous process, internal assessment of capital adequacy meets the following criteria:

- it is based on risk identification and measurement;
- it provides comprehensive assessment and monitoring of risks the Bank is or may be exposed to;
- it provides adequate level of internally available capital according to the Bank's risk-weighted portfolio;
- it is included in the Banka management system and decision making process; and
- it is subject to regular analysis, supervision and review.

Stages of the internal capital adequacy assessment include the following:

- determination of materially significant risks as per qualitative and quantitative criteria;
- calculation of the amounts of internal capital requirements;
- determination of the aggregate internal capital requirement;
- comparison of the following elements:
  - capital to available internal capital;
  - minimum prescribed capital requirements to internal capital requirements for individual risks; and
  - sum of the minimum capital requirements to the aggregate internal capital requirement.

55. EVENTS AFTER THE REPORTING PERIOD

Unreconciled outstanding item statements

Based on the analysis of the regular annual inventory count performed as of December 31, 2012, the Bank has unreconciled outstanding item statements in the amount of RSD 476 thousand. Statement unreconciled with 24 customers mostly relate to the clients which contest the amount or the manner of calculation of interest and fees.

Unrealized preferred dividends

Unrealized preferred dividends for disbursement in 2013 total:
- RSD 37,351 thousand from the year 2012 (10% for the individual par value of the preferred shares).

All amounts expressed in thousands of RSD, unless otherwise stated

56. SEGMENT REPORTING

A) Balance as at December 31, 2012

	Retail Sector Operations	Corporate/ Legal Entity Operations	Investment Banking and Interbank Operations	Other	Total
Interest, fee and commission income	9,059,320	11,636,415	4,770,060	-	25,465,794
Interest, fee and commission expenses	(6,044,113)	(2,451,989)	(1,504,910)	-	(10,001,012)
Other income (foreign exchange gains, reversal of impairment allowance and other income)	9,717,064	18,696,613	884,926	1,075,137	30,373,740
Other expenses (foreign exchange losses, impairment allowance and other expenses)	(15,404,415)	(13,050,675)	(2,008,770)	(989,113)	(31,452,973)
Operating result before operating expenses	(2,672,144)	14,830,364	2,141,306	86,024	14,385,550
Operating expenses	-	-	-	-	(9,812,887)
Profit before taxation*	-	-	-	-	4,572,662
Assets per segment	97,400,214	138,834,124	76,480,199	11,473,236	324,187,773
Loans and advances	56,360,007	123,162,951	53,623,897	-	233,146,855
Special reserve	41,040,207	15,671,173	2,035,667	-	58,747,047
Other	-	-	20,820,635	11,473,236	32,293,871
Liabilities per segment	164,532,866	62,826,756	28,066,627	8,894,964	264,321,213
Deposits	164,532,866	62,826,756	8,161,123	-	235,520,744
Other resources (loan facilities and subordinated debt)	-	-	19,905,504	-	19,905,504
Other liabilities	-	-	-	8,894,964	8,894,965

* Results per segment do not include effects of the inter-segment relations.

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

56. SEGMENT REPORTING (Continued)

B) Balance as at December 31, 2011

	Retail Sector Operations	Corporate/ Legal Entity Operations	Investment Banking and Interbank Operations	Other	Total
Interest, fee and commission income	7,880,524	10,977,524	4,229,717	-	23,087,765
Interest, fee and commission expenses	(5,381,227)	(2,515,392)	(914,380)	-	(8,810,999)
Other income (foreign exchange gains, reversal of impairment allowance and other income)	6,410,223	14,476,076	566,267	754,948	22,207,514
Other expenses (foreign exchange losses, impairment allowance and other expenses)	(6,301,826)	(14,377,243)	(986,600)	(1,870,966)	(23,536,635)
Operating result before operating expenses	2,607,694	8,560,965	2,895,004	(1,116,018)	12,947,645
Operating expenses	-	-	-	-	(8,995,579)
Profit before taxation*	-	-	-	-	3,952,066
Assets per segment	85,854,965	115,847,205	61,649,378	12,443,170	275,488,718
Loans and advances	48,935,190	101,452,915	51,667,763	-	202,055,868
Special reserve	36,613,775	14,394,290	1,745,076	-	52,753,141
Other	-	-	8,236,539	12,443,170	20,679,709
Liabilities per segment	143,061,647	56,243,065	21,627,661	10,280,779	231,213,152
Deposits	143,061,647	56,243,065	6,818,568	-	206,123,280
Other resources (loan facilities)	-	-	14,809,093	-	14,809,093
Other liabilities	-	-	-	10,280,779	10,280,779

* Results per segment do not include effects of the inter-segment relations.

57. EXCHANGE RATES

The official exchange rates for major currencies as determined in the interbank currency market and used in the translation of balance sheet components denominated in foreign currencies into dinars (RSD) as of December 31, 2012 and 2011 were as follows.

	December 31, 2012	December 31, 2011
USD	86.1763	80.8662
EUR	113.7183	104.6409
CHF	94.1922	85.9121

2. ANNUAL REPORT ON BANKS OPERATION

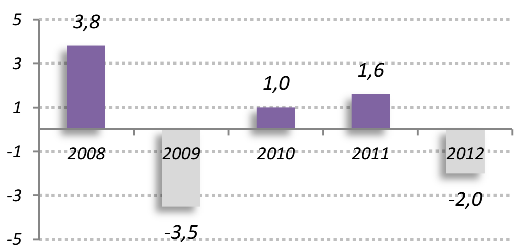
1. KEY PERFORMANCE INDICATORS

ITEM	2012	2011	2010	2009	2008
BALANCE SHEET					in 000 RSD
Balance-sheet assets (000 RSD)	324,187,773	275,488,718	255,868,309	205,257,221	170,861,369
growth in percentage	17.7%	7.7%	24.7%	20.1%	16.1%
Off-balance sheet operations (000 RSD)	204,642,280	183,524,897	145,180,526	66,248,482	59,365,257
RETAIL					in 000 RSD
Loans and advances (000 RSD)	55.917.000	48.555.491	45.372.699	38.831.745	34.827.292
growth in percentage	15.2%	7.0%	16.8%	11.5%	43.3%
Deposits (000 RSD)	164.532.866	143.061.647	130.964.790	104.438.978	76.933.266
growth in percentage	15.0%	9.2%	25.4%	35.8%	13.1%
CORPORATE					in 000 RSD
Loans and advances (000 RSD)	118,860,421	98,486,288	90,244,925	75,091,060	69,347,419
growth in percentage	20.7%	9.1%	20.2%	8.3%	59.7%
Deposits (000 RSD)	62,826,756	56,243,065	61,540,409	57,966,269	49,787,113
growth in percentage	11.7%	-8.6%	6.2%	16.4%	-4.9%
LOANS TO DEPOSITS RATIO					in percentage
Gross loans/deposits	80.2%	80.7%	80.9%	74.6%	86.7%
Net loans/deposits	75.2%	75.5%	75.6%	68.8%	79.9%
CAPITAL (000 RSD)	59,866,560	44,275,566	41,054,428	27,276,381	25,433,143
Capital adequacy in %	21.88%	17.25%	17.14%	14.82%	13.60%
Number of employees	2,989	3,022	3,101	3,155	3,209
Assets per employee in (000 EUR)	954	871	782	678	601
PROFITABILITY INDICATORS					
Profit before tax (000 RSD)	4,572,662	3,952,066	2,791,964	2,055,495	2,815,222
ROA	1.51%	1.53%	1.15%	1.06%	1.76%
ROE – on share capital	15.05%	13.89%	12.27%	12.05%	18.61%
ROE – on total capital	9.44%	9.21%	6.98%	7.78%	11.90%
Net interest margin on total assets	3.6%	3.8%	3.1%	3.3%	3.9%
Net interest income (000 RSD)	10,910,317	9,853,368	7,437,483	6,334,099	6,300,214
Net fee and commission income (000 RSD)	4,554,466	4,423,399	3,892,459	3,531,165	2,767,714
Cost income ratio	63.5%	63.0%	74.7%	80.5%	81.2%
Operating expenses (000 RSD)	9,812,888	8,995,578	8,462,471	7,940,766	7,363,183
Net gains from exchange rate differentials (000 RSD)	95,890	-152,498	1,141,520	1,245,486	2,410,976
Net expenses for indirect loan write-off and provisions (000 RSD)	-1,444,299	-1,335,461	-1,416,354	-1,365,223	-1,525,237
Asset quality - NPL	13.1%	10.7%	11.1%	11.8%	11.9%

2. MACROECONOMIC OPERATING CONDITITIONS

Continued recessionary tendencies and a decrease in GDP of 0.4% in the Eurozone, as well as traditional slow-down in economic activity during the election and in the wake of it, accompanied by adverse weather conditions during both summer and winter season, all had a negative effect on Serbian economy in 2012, resulting in estimated decrease in GDP of 2 %. However, industrial production recorded its first signs of recovery in the final quarter, primarily thanks to oil, pharmaceuticals, chemical and automobile industry. Key factors that contributed to a fall in economic activity in 2012 were US Steel's exit, due to increase in price of input and decrease in demand in the global market, extremely bad agricultural season (resulting in decreased production by 20%), absence of foreign direct investments (until November 2012 EUR 137 million – net, including, among other things, the effect of purchasing Telekom shares from Greek OTE) despite the continuation of the Government's credit support program, by means of which approx. EUR 950 million was invested in subsidized loans. More considerable effects of growth of automobile industry, announced infrastructural projects, modernization of Pančevo oil refinery and investments in NIS are expected in 2013. According to the latest official data, unemployment figure is 22.4% (September 2012).

TRENDS IN GDP in %



Considerable increase in current account deficit in 2012 to 10.5% of GDP came primarily as a consequence of the deficit in the balance of trade of EUR 5.9 bn. NBS's expectations are that the current account deficit will decrease in 2013 (8.1% GDP) as a result of further expansion of oil and automobile industry, anticipated recovery of agricultural production and implementation of measures aimed at fiscal consolidation.

2012 budget revision marked a process of fiscal consolidation that was initiated in September after an exceptionally expansionist fiscal policy, especially in the first half of the year, and after exceeding the limit set by law at 4.5% of GDP, which was the key cause for postponed revision of arrangement with IMF.

The most important measures were:

- *increase in VAT from 18% to 20%,*
- *increase in income tax from 10% to 15%,*
- *increase in profit tax (from 10% to 12%),*
- *rise in excise tax on tobacco and oil derivatives,*
- *limited growth of salaries in public sector and pensions to 2% in October 2012 and April 2013 and*
- *limit on maximum salaries in public sector.*

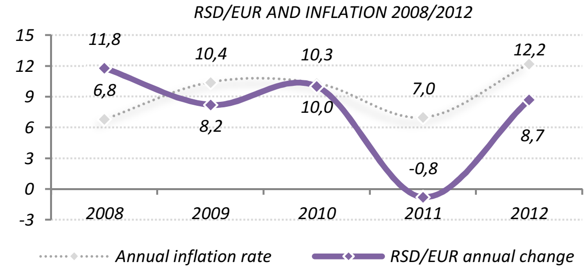
According to the preliminary data from the Ministry of Finance and Economics, realized budget deficit was below planned value of RSD 203.6 bn (anticipated at approx. 6% GDP). RS budget for 2013 was prepared and adopted within truly record time with deficit planned at 3.5%. Talks with IMF over a new stand-by arrangement are expected to take place in spring 2013.

Despite a standstill in talks with IMF, postponed date for the start of EU accession negotiations, along with the reemergence of Kosovo issue and revision of Serbia's credit rating back to BB-(S&P), there was a decrease in Serbia's risk premium, which currently stands at 380 pp. This came primarily as a result of ECB's measures to protect the euro and further expansionist policy of the world's leading economies, but affected Serbia after several months delay i.e. after the announcement of measures and preparation of Fiscal Consolidation 2013-2015.

Two Eurobond issues were successfully completed in the total amount of USD 1.75 bn and a return of 6.625% (10Y) and 5.45% (5Y). With additional indebtedness on domestic market through the issue of T-bills (with a decrease in interest rates at the end of the year) public debt rose to EUR 17.7 bn (+EUR 3.2 bn) or approx. 61.5% of GDP, breaking the limit set by law at 45% of GDP.

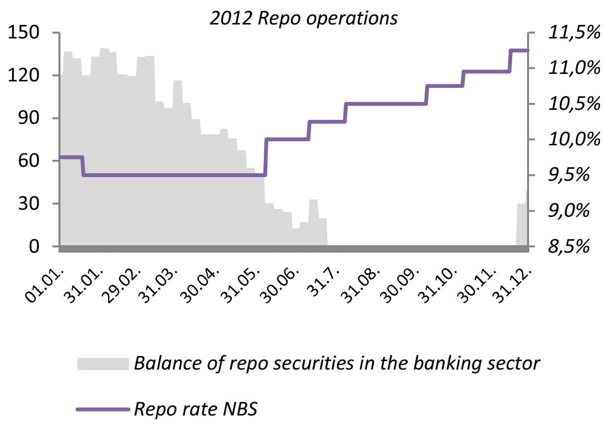
Consequently, foreign debt rose by EUR 1.6 bn, to EUR 25.7 bn or approx. 87% of GDP.

RSD/EUR AND INFLATION 2008/2012



The year 2012 saw the greatest rise in prices since 2007 – inflation rate was 12.2% (base inflation of 8.2%), which was significantly above the targeted level of 4±1.5%, mostly as a result of a rise in food prices (almost 50%, despite limiting retail mark-ups on certain groups of products), trends in the price of oil on the world market, exchange rate spillover effect, rise in regulated prices (heating and transportation) as well as increase in VAT and excise tax. According to NBS, key factors that will counter inflation in the upcoming period will be low aggregate demand, cheaper agricultural produce from the new agricultural season, as well as lower import prices as a consequence of dinar appreciation.

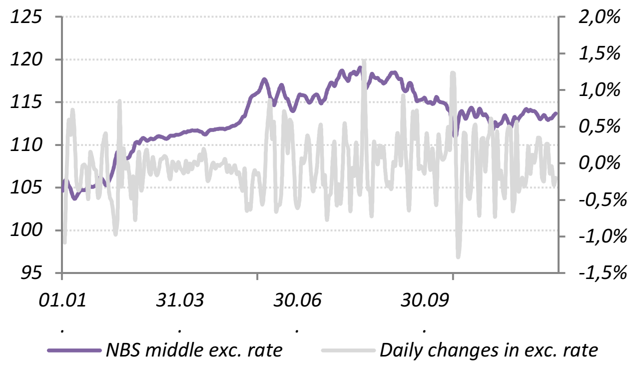
During 2012 NBS made its monetary policy more restrictive, with the aim of decreasing inflationary pressures and expectations. After a trend characterized by the lowering of key policy rate (the last one in January 2012 to 9.50%), NBS rose key policy rate on several occasions (December 2012 to 11.25%) and changed regulations on required reserve resulting in increased share of RSD allocation into required reserve, leading to sterilization of approx. RSD 66 billion in total in 2012. Additionally, after discontinuation of reverse repo operations and introduction of direct ones in the middle of the year, in December, investment of banks' liquidity into commercial papers was again enabled, but by auction and with the application of multiple interest rates that are currently much lower than the key policy rate.



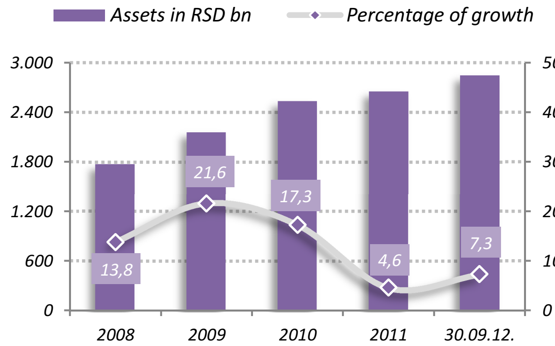
All these monetary policy measures also affected the trends in FX exchange rate in 2012. Despite interventions from NBS in the amount of EUR 1.3 billion and the change in required reserve regulations, the dinar significantly depreciated again by September (approx. 12% against the euro) and then changed its direction, primarily as a result of restrictive NBS measures, implementation of the Government's subsidized loan program for corporates, but also as a result of renewed interest in government securities among portfolio investors.

In the final quarter we witnessed for the first time NBS intervention that was caused by significant daily appreciation of the local currency. In total, the dinar depreciated against the euro by 7.98%.

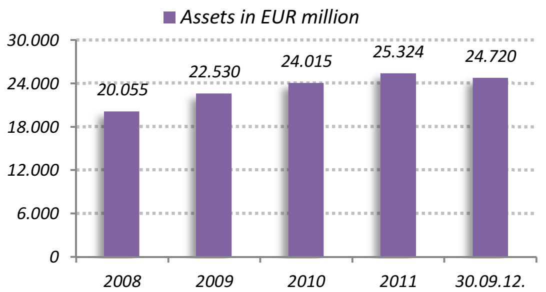
At the end of 2012 foreign currency reserves held by NBS amounted to EUR 10.9 bn, which is enough to cover 7 months' imports of goods and services.



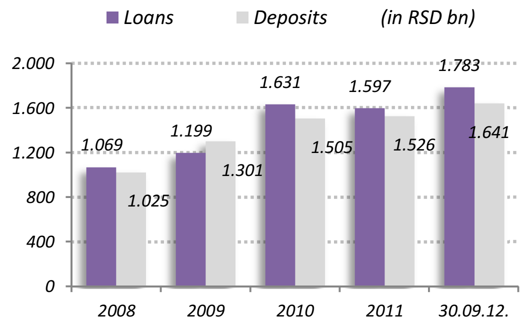
3. BANKING SECTOR OF THE REPUBLIC OF SERBIA



At the end of 2012 the banking sector in Serbia comprised 32 banks with assets of approx. EUR 25 bn. Agrobanka was put into receivership and part of its assets and liabilities (via Nova Agrobanka, as the bridge bank) was transferred to Poštanska štedionica. Uncertainty surrounding the fate of Razvojna banka Vojvodine continues into 2013. Sberbank bought Volks bank.



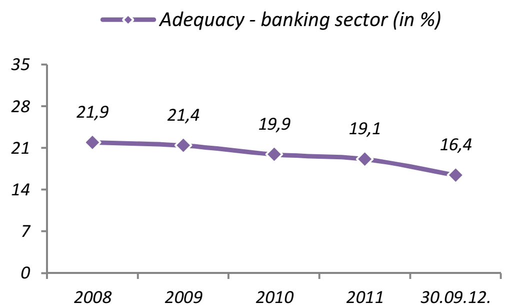
What is evident is the outflow of funds i.e. banks' foreign debt settlement, which has been a business trend since mid-2011 among European banks which operate in the region through their subsidiaries. According to the report from the Vienna Initiative, deleveraging in Serbia started later than in other countries (probably due to the implementation of Basel II) but has reached almost EUR 2 billion or over 5% of GDP, of which banks' direct debt settlement accounts for approx. EUR 1 bn (note: approx. EUR 40bn has left the entire region). Despite LTRO program for banks, it is expected that the gradual debt settlement of banks in the region will continue and that subsidiaries will increasingly focus on local sources of funds. Withdrawal of funds was buffered by substantial credit lines from international financial institutions.



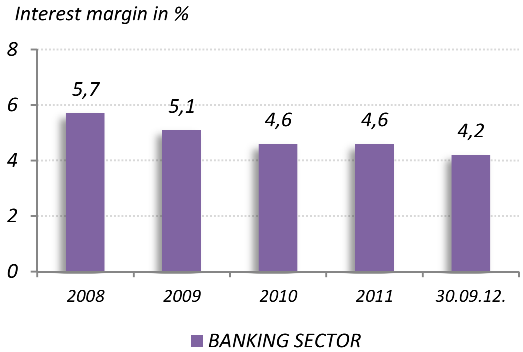
***Lending activity** of banks stagnated in the first 8 months and was somewhat more intensive from September, thanks to the subsidized loan program. According to NBS data, by October 2012 inclusive, gross loans rose by EUR 92 million. Significant portion of funds was invested in government securities (approx. RSD 290 bn). After reaching its maximum of 19.9% in August, share of **NPL** (loans in default of over 90 days) stagnated and went down slowly at the end of the year to 18.8%. Considerably higher NPL level, compared with other countries in the region, is partly a result of the current tax treatment of loan write-offs and limitations imposed on sale of receivables. In the upcoming period we can expect the effects of the Law on deadlines for settlement of monetary liabilities, which should, as of 1 April 2013, set a limit to settlement deadlines to 60 days and even 45 for liabilities of the state.*

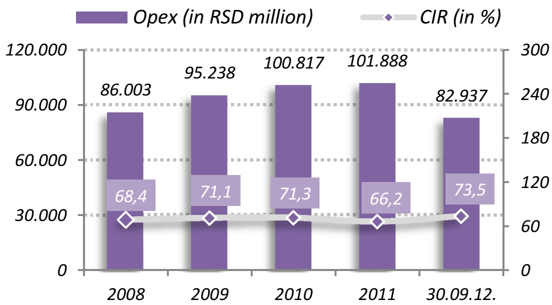
***Retail FX savings** continued to grow and reached EUR 8 bn at the end of December, with a still high level of insured deposits (EUR 50,000)*

***Capital adequacy**, although on the decrease it is still significantly above the prescribed minimum of 12%. Apart from the rise in credit risk, this is also due to currency depreciation as well, given that the capital is denominated in RSD and risk bearing assets are in most part tied to the EUR. By October 2012, total banking sector's capital was EUR 5.2 bn.*

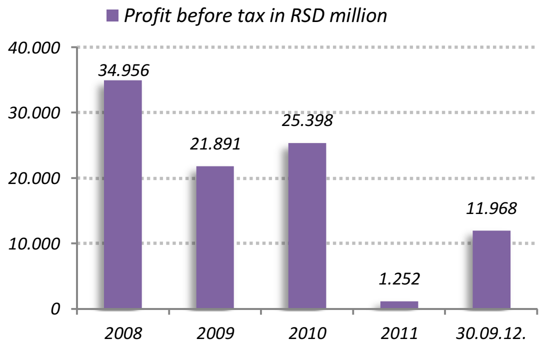


*Decrease in **banks' profitability** in 2012 came primarily as a result of pressures on interest margin and rising cost of risk, but also as a result of changed regulations which govern the allocation of required reserve. Compared to the first three quarters of 2011, banking sector's profit fell by 52%, even before the disclosure of Agrobanka's losses of EUR 284 million.*

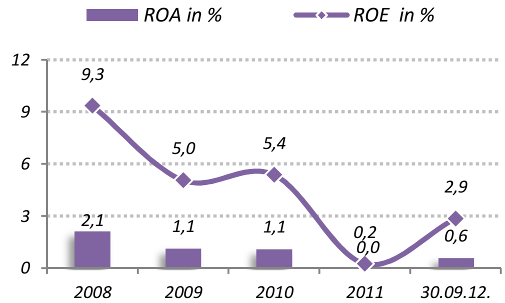




***Operating expenses and Cost-to-Income ratio**, despite decreasing the number of employees, they tend to rise as a result of increased operating expenses and their sensitivity to the exchange rate.*



Note: Profit before tax in 2011 includes Agrobanka's loss of EUR 284 million, while result as at 30.09.2012 also includes the loss made by Razvojna banka of EUR 70 million.



Factors that had a decisive effect on profitability of banks in Serbia include high level of capital, high level of required reserve, focus on local sources of funds (regional trend), limited possibilities for investment (lack of retail demand, limited number of good quality corporate clients) and the Government's borrowing strategy.

4. OPERATIONS OF KOMERCIJALNA BANKA IN 2012

A positive trend from 2011 continued, with mid-term orientation to sustainable growth as the key strategic objective, while observing all the limitations that arise from the nature of the market in which we operate and the attendant risks.

Balance-sheet total. *Data on the growth of the banking sector for 2012 are not yet available, but it is estimated that the market share of over 10% is preserved, with a growth of 17.7%. With a focus still on sustainable growth of profitability, activities were continued in the direction of quality growth of portfolio and further optimization of the structure of sources by encouraging IFIs to grant credit lines.*

Sources. *In November 2012 the Bank's capital was increased by the Government in the amount of RSD 11.6 bn. Similarly as in 2011, a rise in FX savings and corporate deposits continued, despite deterioration in market circumstances and competitors' strong focus on local sources along with a decreasing tendency in cross border financing. EFSE Green for Growth credit line was drawn in the amount of EUR 23 million. Credit lines from several international financial institutions in the amount of EUR 155 million are currently either in the process of negotiation or the drawdown is underway.*

Loans. *Growth of corporate loans is evident as a result of intensive activities, with a somewhat slower growth of retail portfolio, but with an increase in interest margin. Despite the re-launch and quick depletion of the subsidized loan program, deterioration in the quality of demand is still present with the widespread underestimation of risk premium, still making the Government the most attractive investment. A portion of liquid funds was invested in dinar and FX securities.*

Loan portfolio quality*. Contrary to market tendencies, the Bank's loan portfolio is characterized by considerably lower share of NPL. However, constant caution should be exercised, as well as monitoring and proactive approach to each client. Financing structure and liquidity of corporate clients remain the greatest problem and an absolute priority in the upcoming period. Despite decreased living standards, there are still no considerable shifts in the retail portfolio, but we may expect them in the upcoming period, given the level of unemployment.*

Profitability. *Strong pressures on interest margin, especially from the loans side, in the form of price to risk ratio, but also the changes in required reserve regulations that are going towards a twofold increase in RSD portion of RR (additional RSD 10.5 bn), had an adverse effect on the income side. There is little maneuvering space for profitability growth – planned stabilization of interest margin in 2012 was achieved through further optimization and diversification of sources.*

4.1. Board of Directors

NAME AND SURNAME	SHAREHOLDER / MEMBER INDEPENDENT OF THE BANK	POSITION
Vesna Džinić	Republic of Serbia	Chairperson
Dejan Erić, Ph.D.	Republic of Serbia	Member
Vladimir Šarić	Republic of Serbia	Member
Dragica Pilipović – Chaffey	EBRD	Member
Philippe Delpal	EBRD	Member
Khosrow Zamani	IFC	Member
Miroslav Todorović Ph.D.	Member independent of the Bank	Member
Marija Pantelić, MSc	Member independent of the Bank	Member
Mats Kjaer	Member independent of the Bank	Member

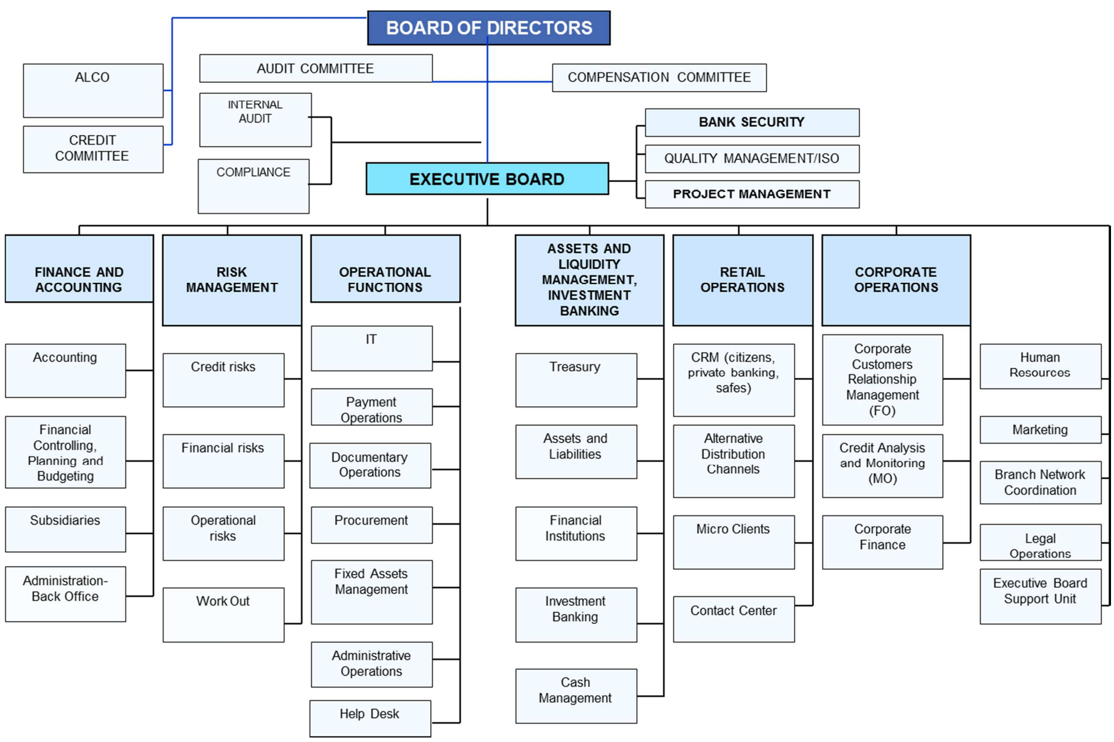
4.3. Executive Board

NAME AND SURNAME	POSITION
Ivica Smolić	President
Dragan Santovac	Deputy President
Slavica Đorđević	Member
Andrijana Milanović	Member
Lidija Sklopić	Member

4.2. Audit Committee

NAME AND SURNAME	MEMBER OF THE BOARD OF DIRECTORS / INDEPENDENT OF THE BANK	POSITION
Miroslav Todorović, Ph.D.	Member of the Board of Directors	Chairperson
Dragica Pilipović – Chaffey	Member of the Board of Directors	Member
Jelka Milošević	Independent of the Bank	Member

KOMERCIJALNA BANKA AD BEOGRAD



4.4. Bank's Head Office in Belgrade

ADDRESS	Svetog Save 14	Svetogorska 42-44	Kralja Petra 19	Makedonska 29
TELEPHONE	+381-11- 30-80-100	+381-11-32-40-911	+381-11-33-08-002	+381-11-33-39-001
TELEX	12133 COMBANK YU	12133 COMBANK YU	12133 COMBANK YU	12133 COMBANK YU
FAX	3442-372	32-36-160	32-82-732	33-39-196
S.W.I.F.T. code	KOBBRSBG	KOBBRSBG	KOBBRSBG	KOBBRSBG
REUTERS code	KOMB	KOMB	KOMB	KOMB
INTERNET	http:www.kombank.com	http:www.kombank.com	http:www.kombank.com	http:www.kombank.com
E-mail	posta@kombank.com	posta@kombank.com	posta@kombank.com	posta@kombank.com

4.5 Regional distribution of the Bank's branches in the Republic of Serbia

	BRANCH	ADDRESS
1.	Kruševac	Trg fontana 1
2.	Niš	Episkopska 32
3.	Zrenjanin	Trg Slobode 5
4.	Čačak	Gradsko šetalište 10-14
5.	Kraljevo	Trg S. Ratnika bb
6.	Novi Pazar	Njegoševa 1
7.	Novi Sad	Novosadskog sajma 2
8.	Užice	Petra Ćelovića 4
9.	Vranje	Stefana Prvovenčanog 58
10.	Valjevo	Gradski Trg bb
11.	Subotica	Korzo 10
12.	Šabac	Gospodar Jevremova 2
13.	Kragujevac	Save Kovačevića 1
14.	Smederevo	Karađorđeva 37
15.	Požarevac	Moše Pijade 2
16.	Jagodina	Kneginje Milice 10
17.	Loznica	Gimnazijska 1
18.	S. Mitrovica	Kralja Petra I 5-7
19.	Zaječar	Nikole Pašića 25
20.	Kikinda	Braće Tatić 7
21.	Sombor	Staparski Put 14
22.	Vršac	Trg Svetog Teodora vršačkog 2
23.	Beograd	Svetogorska 42 - 44
24.	K. Mitrovica	Kralja Petra I 23

4.6. Group Komercijalna banka AD Beograd

Members of the Group, apart from the parent bank Komercijalna banka AD Beograd, are:
1. Komercijalna banka AD Budva in the Republic of Montenegro,
2. Komercijalna banka AD Banja Luka in Bosnia and Herzegovina and
3. KomBank INVEST AD Beograd.

	BUDVA	BANJA LUKA	INVESTMENT FUND MANAGEMENT COMPANY
ADDRESS	Potkošljun bb	Veselina Masleše 6	Kralja Petra 19
TELEPHONE	00382-86-426-300	00387-51-244-700	011-330-8310

Komercijalna banka AD Budva has:
- 117 employees,
- 21 organizational units (6 branches and 15 outlets).

Komercijalna banka AD Banja Luka has:
- 144 employees,
- 17 organizational units (10 branches and 7 agencies).

4.7. Corporate operations

Market – key tendencies:

2012 was characterized by a significant decrease in economic activity. This was exacerbated by the recession experienced by key foreign trade partners and the pre-election and election period, as well as adverse weather conditions in Q1 and Q3 2012.

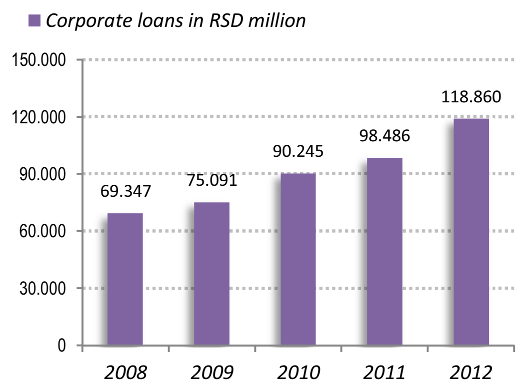
Liquidity remains the greatest problem in the market. A decreasing trend in the number of registered business entities (in the first half of the year 1255 business entities fewer) was halted due to suspended implementation of provisions from the Bankruptcy Law, which refer to automatic receivership and liquidation.

The Government's program of subsidized loans to corporates was launched in September, with extremely aggressive offer on the market, that is, banks offered terms that were more favorable than those set in the Program.

Loans – KB operations

CORPORATE	31.12.2011		31.12.2012		Rise in %, 12/11
	amount (RSD m)	share (%)	amount (RSD m)	share (%)	
LOANS	98,486		118,861		20.7%
Short-term	27,182	27.6%	40,961	34.5%	50.7%
Long-term	58,183	59.1%	61,831	52.0%	6.3%
FX loans	13,122	13.3%	16,069	13.5%	22.5%

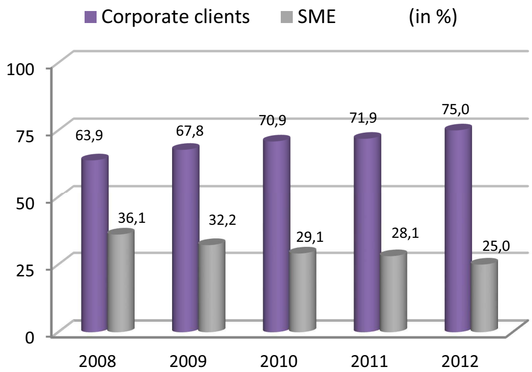
Despite market circumstances, there was a real growth of corporate loan portfolio from the start of the year of EUR 104 million, primarily through the expansion of client base during the refinancing campaign in June and July (84 new clients and loans of approx. EUR 50 million), and the implementation of the subsidized loan program (414 clients in the total amount of EUR 95.6 million).



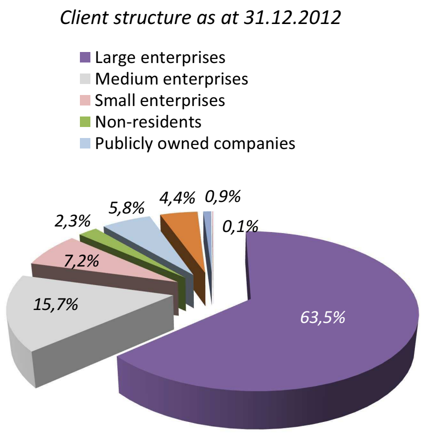
Due to considerable RSD depreciation and still favourable RSD interest rates, the demand for RSD loans increased, resulting in greater share of these loans in portfolio of 19.1%.

In accordance with the strategy to compensate limited price competitiveness with extended maturities a rising trend in the share of long-term loans slowed down in September due to a rise in demand for loans from the Program.

Approx. EUR 12 million was invested from the GGF energy efficiency credit line.



Interest income was RSD 10.1 bn and were 6% higher than in the same period 2011, despite lower key policy rates and competitors' focus on a limited number of clients.

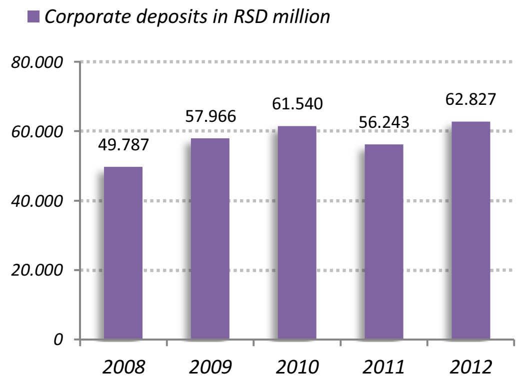


Deposits

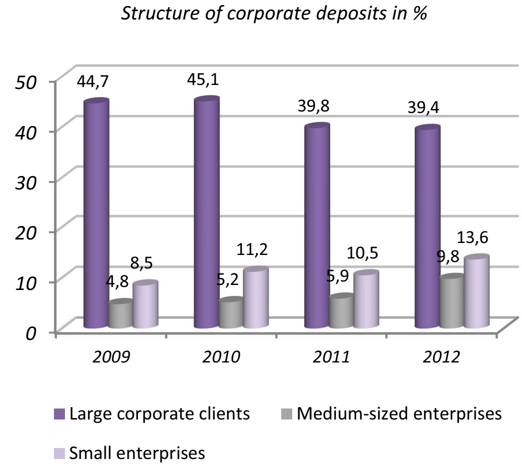
CORPORATE	31.12.2011		31.12.2012		Rise in %, 12/11
	amount (RSD m)	share (%)	amount (RSD m)	share (%)	
DEPOSITS	56,243	100.0%	62,827	100.0%	11.7%
Transaction - RSD	12,104	21.5%	16,974	27.0%	40.2%
Short-term - RSD	22,487	40.0%	19,859	31.6%	-11.7%
Long-term - RSD	653	1.2%	410	0.7%	-37.1%
FX	21,000	37.3%	25,584	40.7%	21.8%

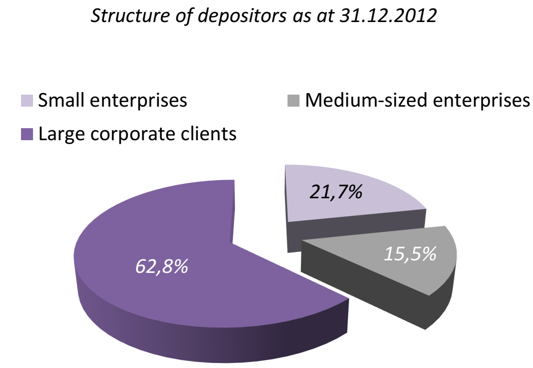
Despite significantly worsened market circumstances, a rise in corporate deposits was recorded. This rise was particularly great in RSD transaction deposits.

Despite a rise in NBS key policy rate, a decrease in the cost price of RSD deposits was recorded.



Despite a rise in price of corporate deposits on the market, interest expenses were 5% lower than in 2011.





4.8. Retail operations

<u>Market – key tendencies:</u>

What is evident is the decrease in demand for loans and a fall in general population's capacity to borrow (RSD depreciation), except for cash loans in RSD (particularly because these loans no longer require a deposit).

Average indebtedness is still relatively low compared to other countries in the region and stands at EUR 812 or 2.2 average salaries, of which EUR 732 is for loans, EUR 29 for overdraft, EUR 45 for credit cards and EUR 6 for leasing.

Demand for housing loans is on the decrease. In 2012 the amount of approved loans was 21.8% lower than in 2011, with subsidized loans recording a rise of 9.7% and unsubsidized ones recording a fall of 32.0%.

Housing loans insured by NMIC with no subsidy					
Year	Banking sector		Komercijalna banka		Share of KB in the amount
	Number	Amount	Number	Amount	
2012	4,394	146,409,524	633	17,707,779	12.09%
Subsidized housing loans					
Year	Banking sector		Komercijalna banka		Share of KB in the amount
	Number	Amount	Number	Amount	
2012	2,374	85,608,678	525	17,970,377	20.99%
Insured housing loans - total					
Year	Banking sector		Komercijalna banka		Share of KB in the amount
	Number	Amount	Number	Amount	
2012	6,768	232,018,202	1,158	35,678,156	15.38%

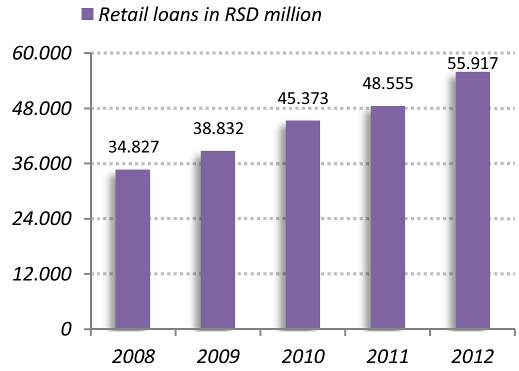
The demand for cash loans, primarily RSD ones, is on the increase – the banks offer longer maturities.

In order to overcome the problem of illiquidity, the Government introduced a subsidy program for this purpose, which led to a rise in loans granted to microclients.

The number of defaulting retail clients continued to rise – NPL of the banking sector is 8.6%.

<u>Loans – KB operations</u>

In 2012 RSD 16.5 bn worth of loans were disbursed, which was 20.9% more than in 2011. Cash loans accounted for the greatest part of disbursed loans (41.4%), followed by loans to micro-clients and housing loans. Of the total number of disbursed loans approx. 60% were in RSD, which contributed to a rise in their share in total retail loans to 31.3% (from 28.5% in 2011).



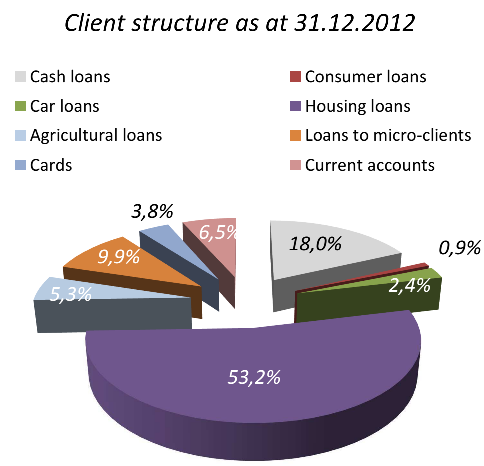
PRODUCTS	31.12.11 (RSD m)	% of share	31.12.12 (RSD m)	% of share	31.12.12./31.12.11
Cash loans	8,853	18.2%	10,071	18.0%	13.8%
Consumer loans	773	1.6%	492	0.9%	-36.4%
Car loans	1,722	3.5%	1,355	2.4%	-21.3%
Housing loans	25,503	52.5%	29,735	53.2%	16.6%
Agricultural loans	3,385	7.0%	2,971	5.3%	-12.2%
Loans to micro-client	3,137	6.5%	5,537	9.9%	76.5%
Cards	2,063	4.2%	2,101	3.8%	1.8%
Current accounts	3,119	6.4%	3,655	6.5%	17.2%
TOTAL	48,555	100.0%	55,917	100.0%	15.2%

Negative trends in agricultural loans are a result of more restrictive conditions for subsidies (purpose and amount) and drought.

Due to decreased demand and absence of Government subsidies, car and consumer loans are gradually decreasing.

Portfolio quality was maintained - NPL at 4.3%

Interest income was RSD 6.1 bn and recorded a rise of 15.5% from 2011.



Alternative payment methods

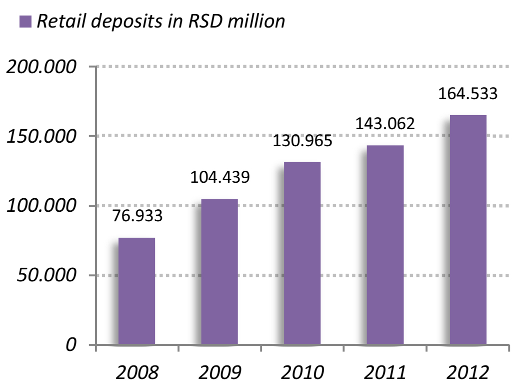
In payment cards operations the Bank places a particular emphasis on the quality of its offer by introducing new products and services, raising the security of payments and maintaining high quality of service.

- *With the aim of increasing security we switched Master and Visa cards to chip technology;*
- *New service: Dynamic Currency Converter*
- *Compared to 2011:*
    - *increased volume of transactions at POS by 26%, at ATM by 15%*
    - *rise in the number of issued cards of 12%*
    - *sale in installments: over 280 vendors in 860 locations*

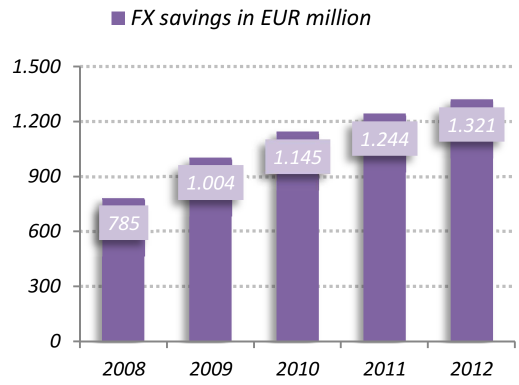
All this contributed to the fact that the Bank's main business activities, according to Visa and Master, recorded a faster growth than the banking sector in Serbia, which resulted in increased market share.

Deposits – KB operations

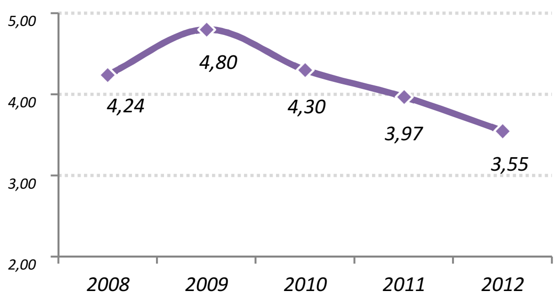
Slower rise in FX savings in the first three quarters was compensated for in Q4 ("savings month") which resulted in a rise in the banking sector of approx. € 600 million (2011 approx. € 506 m).



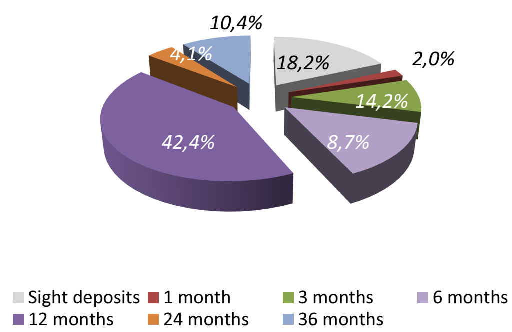
Average price of (total) retail deposits continued to fall. Given the market conditions, it appears that a right balance has been achieved between the price, image i.e. the Bank's brand on one hand and a targeted and stable growth of deposits on another.



Trends in weighted interest rate on FX savings deposits



Despite lowering interest rate on three occasions, the Bank achieved growth of € 78 million in 2012 and performed above plan while keeping the leading position with a market share of 16.1%.



In FX savings, stable share of term FX savings to a period of 12 months or longer stood at 64.2%, as well as the dominant participation of small deposits – up to 50,000 € (in terms of number over 99%, in terms of amount 79%).

The Bank will continue with its still active interest rate policy in order to preserve the balance of price *and the targeted growth of deposits, while making full use of the Bank's brand.*

4.9. Treasury operations

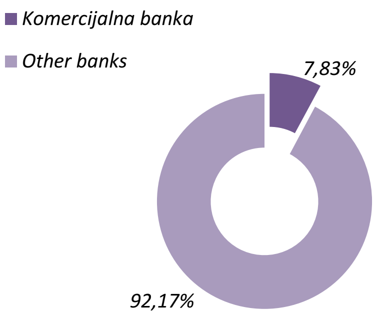
In accordance with the Bank's strategic orientation, in 2012 the key objectives and business activities of the Treasury business function focused on:

- *Appropriate liquidity management with the aim of securing unhindered functioning of the Bank, despite all the limitations imposed by the nonexistence of a parent bank and the resultant lack of support for liquidity;*
- *Support to the Bank's primary activities (retail and corporate clients);*
- *Optimization of the sources of finance in terms of structure and price;*
- *Investment of surplus funds on money market and capital market for the purpose of making profit.*

By agreeing new foreign credit lines in 2012, completing the capital increase process and restructuring a number of larger deposits, Komercijalna banka rearranged its sources in the direction of their full optimization in the medium run. Achieved effects include simultaneous decrease in the average price of funds and decrease in the concentration of deposits. Also, the Government's capital increase in October 2012, with the presence of IFIs in the ownership structure, secured for Komercijalna banka an image of one of the safest financial institutions in Serbia.

Concurrently, through a policy of cautious investment of funds into first-class financial instruments, in 2012 Komercijalna banka reaffirmed itself as one of the most active participants in domestic financial market.

Sale and purchase of foreign currency

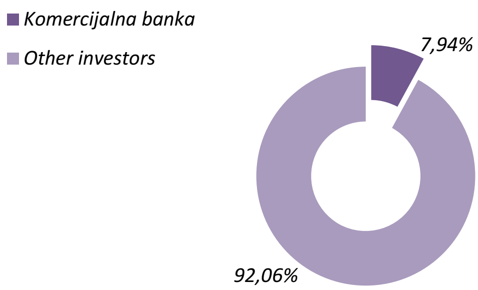


With a total sale of EUR 769 million and a total purchase of EUR 749 million, Komercijalna banka is one of the few and rare financial institutions that have approximately equal volume of sale and purchase of foreign currency, thanks to a considerably higher number of clients that are net exporters, compared to the average of the banking sector.

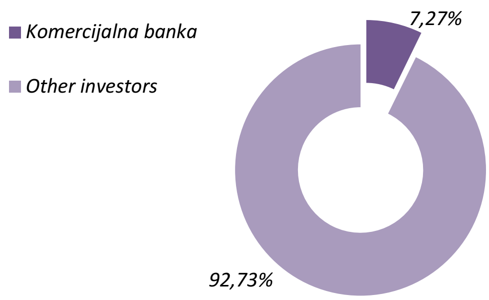
Investment in securities

In 2012 NBS changed its decision on required reserve on three occasions. Additionally, the direction of key operations in the open market was changed twice: in July from reverse repo to active repo operations and in December from active repo to reverse repo operations. The results of these changes included considerable sterilization of RSD liquid funds and release of liquid FX funds, which had a considerable effect on Komercijalna banka's policy on funds investment in 2012.

Share of Komercijalna Banka in total investment in securities of the Republic of Serbia as at 31.12.2012

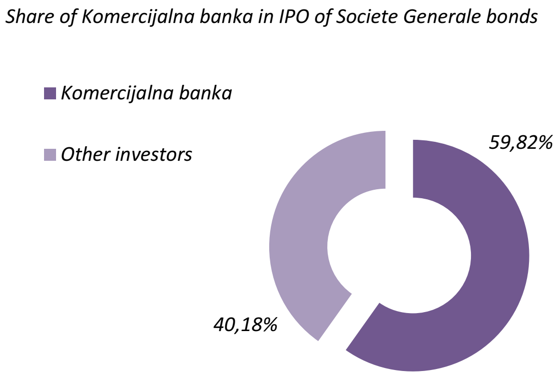


Share of Komercijalna Banka in reverse repo operations with NBS in 2012

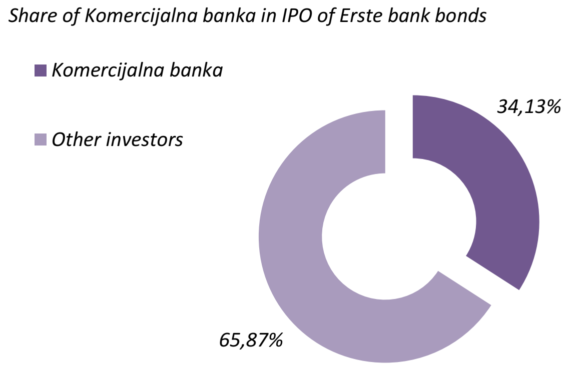


As a result of central bank's measures, which had a direct effect on considerable decrease in RSD liquidity, the share of Komercijalna banka in RSD investments in securities and reverse repo operations was considerably below its share in the total assets of the banking sector in 2012.

Additionally, during 2012, RSD bank bonds were issued for the first time and included bonds from Societe Generale and Erste.



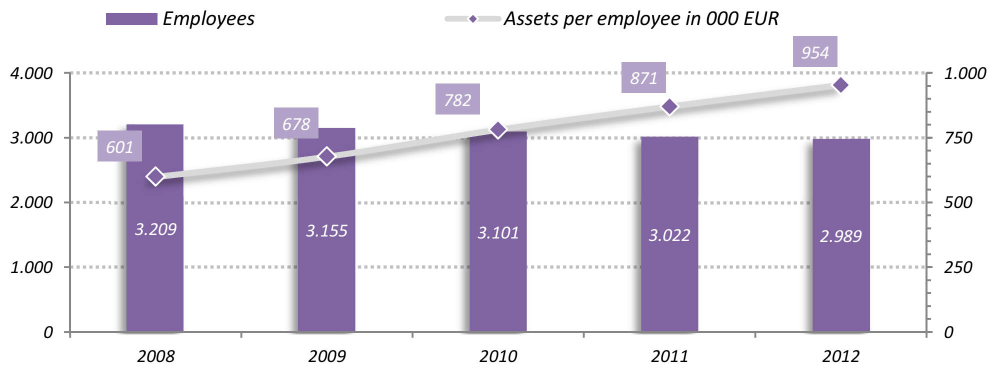
Societe Generale banka Beograd issued three-year RSD bonds (coupon – reference rate + 5.25%) in the amount of RSD 1.7 billion. Komercijalna banka was the largest single investor, having purchased approx. RSD 1 billion worth of these bonds.

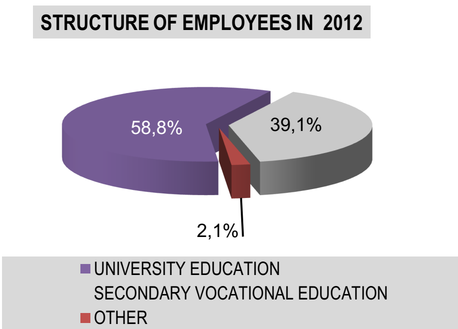


Out of the total RSD 2.1 bn of two-year RSD bonds by Erste bank Beograd (coupon – 15%) RSD 1.46 billion was realized. Komercijalna banka was the largest single investor, having purchased RSD 500 million worth of these bonds.

4.10. Bank's Human Resources

Considerable increase in the volume of business along with continued optimization of the number and structure of employees, resulted in a drastic increase in Bank's efficiency, measured in terms of assets per employee in both RSD and EUR.





The Bank invests in professional training and development of its employees. Training includes seminars, working groups and lectures on all activities related to internal audit, international accounting standards, human resources, risk management, performance appraisals and other areas. Apart from professional training, the Bank invests especially in training which focuses on developing employees' skills with the aim of performing duties in a more efficient way (sales skills, presentation skills, management skills, communication).

In cooperation with business functions, HR identifies the needs that business functions may have for certain profile of employees. The Bank resorted to external recruitment of employees only in the situations where it was clear that there were no employees within the Bank who had the necessary knowledge and skills or their knowledge and skills could not be improved through training. In 2012 the Bank recruited primarily employees with work experience in banking. In cooperation with the competent managers, the Bank identified employees whose knowledge and skills did not measure up to a job, which resulted in the implementation of two Voluntary Redundancy Programs in 2012 that led to termination of employment for these employees with appropriate compensation payments.

The Bank has been conducting performance appraisals for quite a long time already, with regard to the set annual objectives The Bank monitors the achievement of such objectives, but also assesses employees' abilities exhibited during the accomplishment of objectives. Annual performance appraisal is the basis for bonus, career and budget planning and employee training program.

Principles of employee remuneration are clearly defined in the Remuneration Policy passed by the Board of Directors of the Bank at the proposal of the Compensation Committee which is the body of the Board of Directors. The aim of this policy is not only to appropriately remunerate employees, but also to motivate them to achieve better work results. The amount of bonus depends on the tasks an employee performs and an annual performance appraisal mark.

4.11. Marketing and CSR activities

The Bank's marketing division had a demanding but rewarding task to promote good performance of the Bank and its business results, and at the same time open sales channels for the Bank's existing and new products.

Marketing activities revolved around tried and tested methods that included brand campaigns and sales promotion campaigns for the Bank's products and services, complemented by PR activities and social responsibility campaigns. Marketing activities focused on further strengthening of external public's trust, improvement of products and

services, promotion of functional benefits, continuing expansion and consolidation of client base in terms of quality, primarily by paying adequate attention to younger and financially more potent population (e-banking services, improvement of payment card products…).
Special attention was given to digital media and communication via the most popular social networks. Interactive communication with existing and prospective clients intensified, which contributed to a noticeable rise in regular followers, whose number reached thirty thousand on Facebook, by way of example, with a tendency of further rise. Apart from this, mobile phone application "Closest to me" was improved under our own steam and adjusted to all three existing platforms.

Carefully planned marketing campaigns resulted in winning professional recognition from the Serbian Market Communications Association that included:

- *Silver award for the TV commercial "Housing loans",*
- *Silver award for appearance at the "Agricultural fair in Novi Sad" and*
- *Silver award for promotional integrated campaign "E-services"*
- *Award for best commercial in Serbia for August 2012.*

In 2012 we made a leap forward against competitors. We entered new areas of advertising, the most effective of which was the use of exceptionally large marketing potential generated by the naming sponsorship of Kombank arena, the most prestigious sports and concert venue in Serbia. The introduction and media positioning of the new name completed successfully and ahead of the planned schedule, turning Kombank arena into the Bank's sub-brand of its kind.
The Bank completed the branding of its branch network in keeping with its visual identity standards that were set by the Standardization of the Bank's Appearance Project. Although the Project was completed in 2012, it has been agreed to apply the same standards in the future as well as when opening new and renovating existing branches.

As for the corporate social responsibility, the Bank continued with the current good practice of investing in a small number of big, carefully chosen and focused campaigns that will have a long-term positive effect on both the society and the Bank's image, and which attract a lot of public attention. Younger population remains our priority, either by supporting the development of general and special talents or helping handicapped population. The Bank supported, to an extent, a great number of cultural and sports events, TV series, multimedia events, etc., invariably those that enjoy wider social recognition, while maximizing the effects of investment in all sponsorship deals.
The Bank continued to carefully monitor and analyze results of quantitative and qualitative surveys of Serbian banking market and the Bank's position, with the aim of improving the quality of marketing activities. The results show that the Bank firmly holds the leading position in the eye of the public as well, as measured by standards of recognizability and quality. With the aim of reinforcing the company loyalty and power of communication with external public, all survey results, primarily those obtained from IPSOS (Strategic marketing) and GFK, are regularly posted on the Bank's portal.

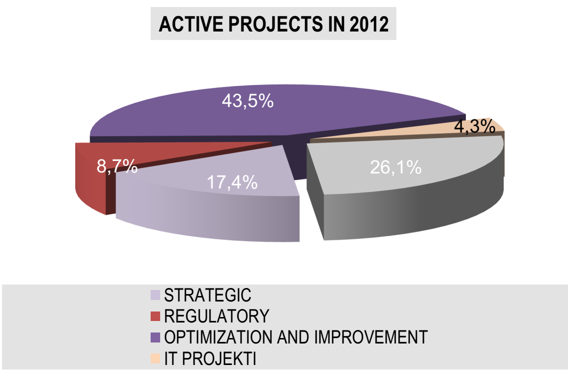
4.12. Project management and project portfolio management

In 2009 the Bank set up corporate PMO (Project Management Office), which enables the achievement of 2 key targets through implementation of project portfolio management concept:

- *implementation of the adopted Strategy of the Bank i.e. introducing changes in the Bank through selecting the right project initiatives with the greatest benefit and maximum added value;*
- *best possible implementation of selected projects with optimum allocation of resources i.e. their use in the most rational way, prompt solutions to problems that arise and prevention of delay in project implementation.*

In 2012 a total of 11 projects were implemented, with a total budget of EUR 6.87 million. At the end of 2012 the Bank had 23 active projects.

Category	Number of implemented projects
Strategic	2
Regulatory	1
Optimization and improvement	5
New products	1
IT projects	1
Other	1
Total	**11**



The most important active projects are:

- ***Basel II implementation program, internal approach***

The Program comprised 5 projects. The purpose of implementing the internal approach in the Bank is to improve risk management through developing internal models adjusted to the Bank's specific risk profile. Improving the Bank's capacity to more precisely measure and assess the risks the Bank is exposed to would also result in lower negative effects on the Bank's financial result and capital and this, in turn, would increase capital adequacy ratio. The project is scheduled to complete by 31.12.2016.

- ***ALM Software WO2 implementation project***

Improvement of the process of assets and liabilities management in the aspect of technical support for the preparation of static and dynamic analysis of liquidity risk and interest risk in the process of further implementation of Basel II standard. The project is scheduled to complete by 31.12.2013.

- ***Improvement of the Project Management System and Project Portfolio***

More efficient selection and allocation of the Bank's resources on projects and programs that will contribute to achievement of the Bank's set strategic targets; improvement of the cost management system; improvement of the HR management system; improvement of reporting system; improvement of PMO document management system; increased efficiency of PMO activities and better use of human resources. The Project is scheduled to complete by 31.12.2013.

- ***Management of business processes***

The aim of the project is to improve the Bank's business processes through the "Six Sigma" methodological approach. By successfully completing the pilot project, the Bank will obtain an adequate Know-How that could be used for other processes. The Project is scheduled to complete by 31.12.2013.

5. CAPITAL

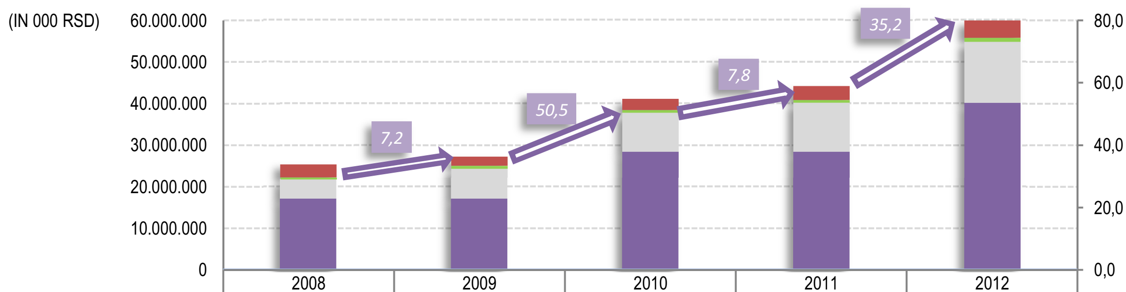
The most important change in capital in 2012 was the issue of preference convertible shares and capital increase conducted by the Republic of Serbia in the amount of RSD 11,572 million, in accordance with the Agreement between RS and the group of international financial institutions (the Bank's shareholders - EBRD, IFC, SwedFund and DEG) from 2009, with total capital amounting to RSD 59,866.6 million at the end of 2012.

Changes in capital from 2008 to 2012:

ITEM	2012	2011	2010	2009	2008
BANK'S CAPITAL (000 RSD)					
Share capital	40,034,550	28,462,553	28,462,553	17,062,534	17,062,534
Reserves from profit	14,785,440	11,635,440	9,235,440	7,385,440	4,685,440
Revaluation reserves	860,758	625,680	647,126	694,117	648,379
Retained profit	4,185,812	3,551,893	2,709,309	2,134,290	3,036,790
TOTAL CAPITAL	59,866,560	44,275,566	41,054,428	27,276,381	25,433,143

SHAREHOLDER	31.12.2012	
LARGEST SHAREHOLDERS OF THE BANK	*in 000 RSD*	*in PERCENTAGE*
Republic of Serbia	7,020,346	40.84
EBRD	4,109,440	23.90
IFC	1,706,810	9.93
DEG	772,850	4.50
SWEDFUND	386,420	2.25
OSTALI	3,195,600	18.58
TOTAL	17,191,466	100.00

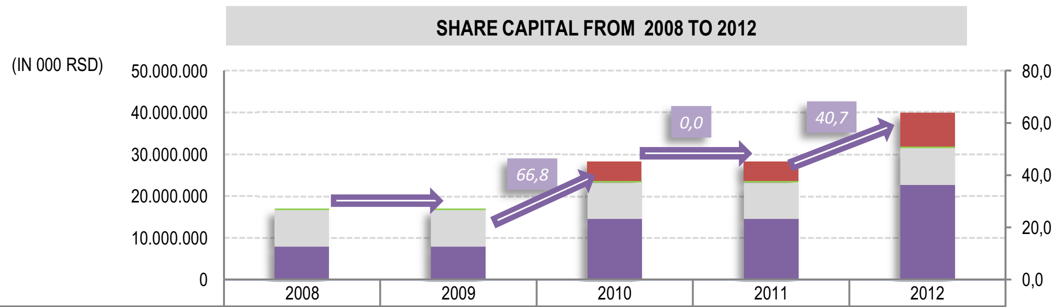
TOTAL CAPITAL IN THE PERIOD FROM 2008 TO 2012



	2008	2009	2010	2011	2012
PROFIT	3.036.790	2.134.290	2.709.309	3.551.893	4.185.812
REVALUATION RESERVES	648.379	694.117	647.126	625.680	860.758
RESERVES FROM PROFIT	4.685.440	7.385.440	9.235.440	11.635.440	14.785.440
SHARE CAPITAL	17.062.534	17.062.534	28.462.553	28.462.553	40.034.550
GROWTH RATE	32,7	7,2	50,5	7,8	35,2
TOTAL CAPITAL	25,433,143	27,276,381	41,054,428	44,275,566	59,866,560

Changes in the Bank's capital in the period from 2008 to 2012, that is, the largest increase in capital came as a result of capital increase and as a result of allocation of realized profit into credit loss reserve. At the end of 2012, the Bank's total capital stood at RSD 59,866.6 million and has been increased twice in the past five years. In the observed period, share capital rose by RSD 22,972.0 million from two increases in capital (XXI issue of preference convertible shares in the amount of RSD 11,400.0 million and XXVI issue of preference convertible shares in the amount of RSD 11,572.0 million).

Reserves from profit rose by RSD 10,100.0 million. Considerable increase in reserves from realized profit, for each year, was a rational choice of shareholders and the management with the aim of protecting the Bank from risk, on the one hand, and ensuring safe operation of the Bank in the environment of adverse macroeconomic conditions and restrictive measures by the National Bank of Serbia, on another.

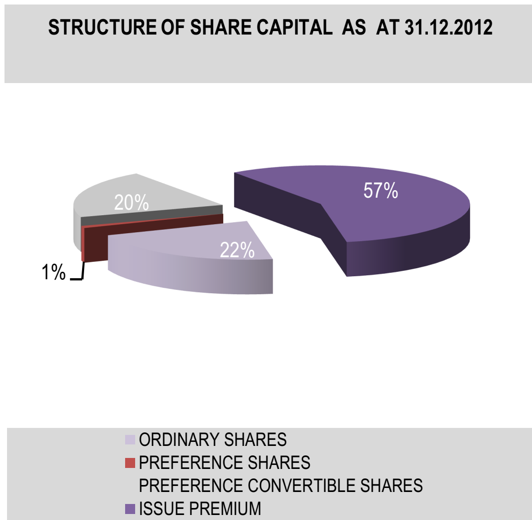


	2008	2009	2010	2011	2012
PREFERENCE CONVERTIBLE SHARES			4.798.190	4.798.190	8.108.646
PREFERENCE SHARES	373.510	373.510	373.510	373.510	373.510
ORDINARY SHARES	8.709.310	8.709.310	8.709.310	8.709.310	8.709.310
ISSUE PREMIUM	7.979.714	7.979.714	14.581.543	14.581.543	22.843.084
GROWTH RATE	29,4	0,0	66,8	0,0	40,7
TOTAL SHARE CAPITAL	17,062,534	17,062,534	28,462,553	28,462,553	40,034,550

Since 2010 the Bank's shares have traded on the Standard Market of the Belgrade Stock Exchange.

In the past five years, the number of shareholders in possession of ordinary (voting) shares has increased.

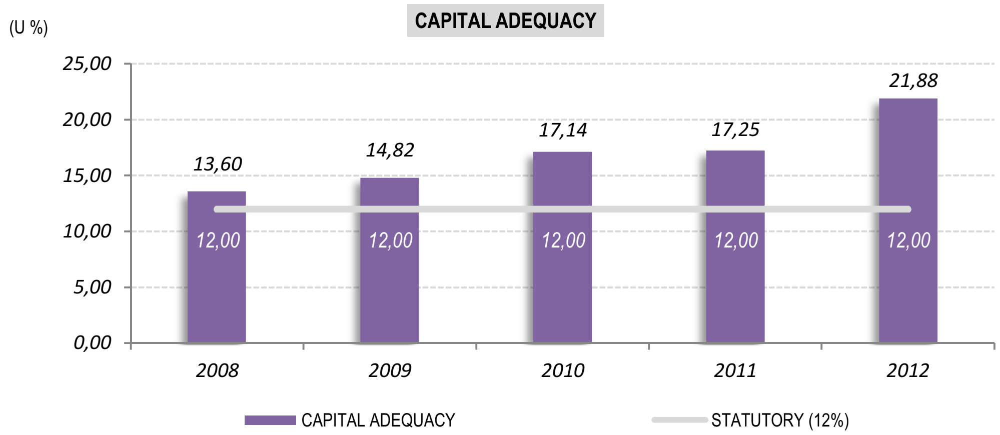
At the end of 2012 1,214 shareholders owned ordinary shares of the Bank, 641 shareholders owned preference shares and 5 shareholders owned preference convertible shares.



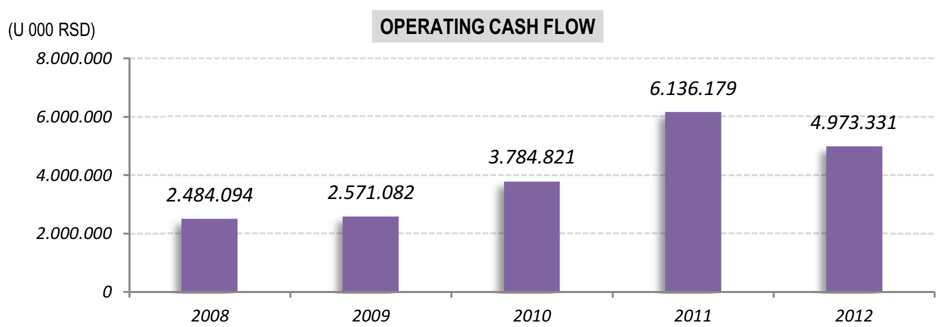
6. FINANCIAL RATIOS

No.	ITEM	STATUTORY	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
1.	CAPITAL ADEQUACY RATIO (NET CAPITAL/CREDIT RISK + OPERATIONAL RISK +OPEN FX POSITION)	MIN. 12%	21.88%	17.25%	17.14%	14.82%	13.60%
2.	INVESTMENT IN ENTITIES OUTSIDE FINANCIAL SECTOR AND IN FIXED ASSETS	MAX. 60%	18.38%	27.98%	21.70%	32.47%	37.06%
3.	LARGE EXPOSURES OF THE BANK	MAX. 400%	107.37%	109.51%	82.51%	114.30%	88.69%
4.	FX RISK RATIO	MAX. 20%	0.82%	1.68%	7.19%	18.12%	18.99%
5.	LIQUIDITY RATIO	MIN. 1%	2.18%	2.91%	2.45%	2.71%	2.09%

The Bank meets all the prescribed operating parameters, along with an increased capital adequacy, which is a reliable indicator of improved security of operation.
Finalized capital increase had the greatest effect on the rise in the Bank's capital adequacy given the constant increase in credit risk and changes in macroeconomic parameters, especially RSD depreciation, that placed additional pressure leading to a rise in exposure, rise in credit loss reserve and decrease in capital adequacy.



During 2012 NBS amended and supplemented the following decisions, within its regulatory competence which includes control of banks' activities: Decision on classification of balance-sheet assets and off-balance sheet items, Decision on risk management, Decision on banks' reporting and Decision on external audit of banks.
In accordance with the requirements set in regulations, the Bank conducted an internal capital adequacy assessment in which it analyzed all the risks the Bank is or might be exposed to, and calculated the internal capital requirements for materially significant risks, as well as the available internal capital.
The process of internal capital adequacy assessment is a continuous process that involves decision-making on a daily basis and forms an integral part of the risk management system.



Percentage of collected interest in 2012 was 98.6%

7. BALANCE SHEET FOR 2012

7.1. Bank's assets as at 31.12.2012

(IN 000 RSD)

No.	ITEM	31.12.2012	31.12.2011	INDICES	% OF SHARE AS AT 31.12.2012
1	2	3	4	5=(3:4)*100	6
	ASSETS				
1.	Cash and cash equivalents	40,514,180	17,228,970	235.2	12.5
2.	Callable deposits and loans	43,053,502	55,260,711	77.9	13.3
3.	Receivables for interest, fee and sale	1,547,342	1,187,573	130.3	0.5
4.	Loans and deposits to customers	177,106,865	155,719,207	113.7	54.6
4.1.	Corporate	118,860,421	98,486,288	120.7	36.7
4.2.	Retail	55,917,000	48,555,492	115.2	17.2
4.3	Banks and financial organizations	2,329,444	8,677,427	26.8	0.71
5.	Securities (other than own)	41,347,719	25,637,972	161.3	12.8
6.	Equity investments	5,917,033	5,823,583	101.6	1.8
7.	Other investments	3,227,896	2,187,533	147.6	1.0
8.	Intangible assets	600,438	555,415	108.1	0.2
9.	Fixed assets and investment property	7,416,846	7,530,271	98.5	2.3
10.	Fixed assets intended for sale	78,763	101,040	78.0	-
11.	Deferred tax assets	4,896	-	-	-
12.	Other assets	3,372,293	4,256,443	79.2	1.0
	TOTAL ASSETS (from 1. to 12.)	**324,187,773**	**275,488,718**	**117.7**	**100.0**

In 2012 the Bank's balance-sheet assets rose by RSD 48,699.1 million or 17.7% compared to the previous year. Loans to customers increased by RSD 21,387.7 million or 13.7%. As at 31.12.2012 total loans to customers stood at RSD 177,106.9 million, which accounts for 54.6% of total balance-sheet assets.

During 2012, cash and cash equivalents recorded a rise of 135.2%, primarily due to changed NBS regulations on required reserve for banks i.e. higher amount for RSD required reserve.

The most significant relative increase in the previous year was noted in investment in securities. At the end of the year, total amount of invested funds, primarily in risk-free government securities, amounted to RSD 41,347.7 million.

7.2. Bank's liabilities as at 31.12.2012

(IN 000 RSD)

No.	ITEM	31.12.2012	31.12.2011	INDICES	% OF SHARE AS AT 31.12.2012
1	2	3	4	5=(3:4)*100	6
I	**LIABILITIES**				
1.	Transaction and other deposits	**235,520,744**	**206,123,280**	114.3	72.6
1.1.	Corporate	62,826,756	56,243,065	111.7	19.4
1.2.	Retail	164,532,865	143,061,647	115.0	50.8
1.3.	Banks and financial organizations	8,161,123	6,818,568	119.7	2.5
2.	Borrowings	637,264	1,603,761	39.7	0.2
3.	Liabilities from securities	-	-	-	-
4.	Liabilities from interest and fees	188,910	205,079	92.1	0.1
5.	Provisions	2,331,760	2,135,436	109.2	0.7
6.	Tax liabilities	21,799	39,737	54.9	-
7	Liabilities from profit	85,114	172,197	49.4	-
8.	Liabilities from funds held for sale and from discontinued operations	-	-	-	-
9.	Deferred tax liabilities	-	17,036	-	-
10.	Other liabilities	25,535,622	20,916,626	122.1	7.9
11.	**TOTAL LIABILITIES (from 1. to 10.)**	**264,321,213**	**231,213,152**	**114.3**	**81.5**
	CAPITAL				
12.	Share capital and issue premium	40,034,550	28,462,553	140.7	12.3
13.	Reserves from profit	14,785,440	11,635,440	127.1	4.6
14.	Revaluation reserves	867,774	689,620	125.8	0.3
15.	Unrealized losses from securities available for sale	7,016	63,940	11.0	-
16.	Profit	4,185,812	3,551,893	117.8	1.3
17.	**TOTAL CAPITAL (from 13. to 16.)**	**59,866,560**	**44,275,566**	**135.2**	**18.5**
18.	**TOTAL LIABILITIES (11.+17.)**	**324,187,773**	**275,488,718**	**117.7**	**100.0**
II	**COMMISSION OPERATIONS AND OFF-BALANCE SHEET ITEMS**	**204,642,280**	**183,524,897**	**111.5**	

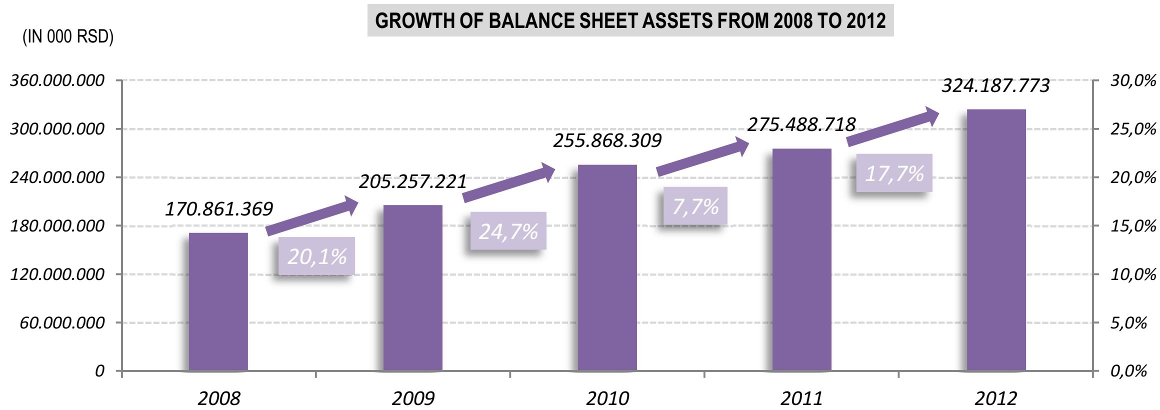
Deposits from customers (transaction and other deposits) stood at RSD 235,520.7 million and accounted for 72.6% of total balance-sheet liabilities, which was a rise of RSD 29,397.5 million or 14.3%.

At the end of 2012 transaction deposits amounted to RSD 40,336.8 million and recorded a year-on-year increase of 28.2%.

Other deposits rose in 2012 by RSD 20,517.3 million or 11.7%. Other deposits at the end of 2012 stood at RSD 195,184.0 million, which is 60.2% of total balance-sheet liabilities. Growth of other deposits came primarily as a result of an increase in retail FX savings.

Other liabilities include subordinated debt in the amount of RSD 5,685.9 million and credit lines in the amount of RSD 14,219.6 million. Funds from credit lines were intended primarily for loans to small and medium-sized enterprises in order to finance export, acquire permanent working capital, equipment and machines and for other purposes.

In 2012 the Bank's capital increased by RSD 11,572.0 million.



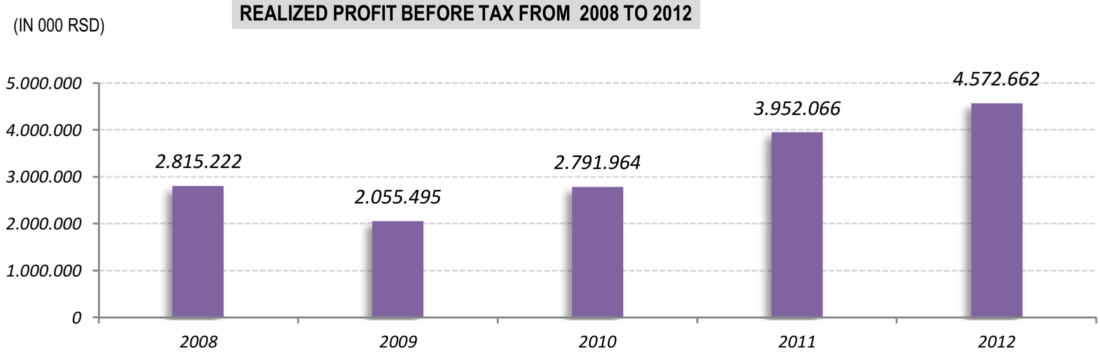
8. *INCOME STATEMENT FOR 2012*

(IN 000 RSD)

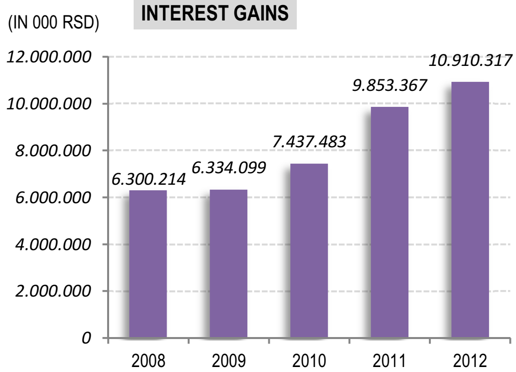
No.	ITEM	31.12.2012	31.12.2011	INDICES (3:4)*100
1	2	3	4	5
	OPERATING INCOME AND EXPENSES			
1.1.	Interest income	20,130,880	18,036,321	111.6
1.2.	Interest expenses	-9,220,564	-8,182,953	112.7
1.	**Interest gains**	**10,910,316**	**9,853,368**	**110.7**
2.1.	Fee and commission income	5,334,914	5,051,445	105.6
2.2.	Fee and commission expenses	-780,448	-628,046	124.3
2.	**Fee and commission gains**	**4,554,466**	**4,423,399**	**103.0**
3.	Net gains/losses from sale of securities at fair value through income statement	776	-19,110	-4.1
4.	Net gains/losses from sale of securities available for sale	83,947	1,254	6.694.3
5.	Net gains/losses from sale of securities held to maturity	-	-	-
6.	Net gains/losses from sale of equity (shareholding)	-	-	-
7.	Net gains/losses from sale of other loans and advances	-	-	-
8.	Net foreign exchange gains/losses and valuation adjustment of assets and liabilities	95,890	-152,498	-62.9
9.	Income from dividends and equity investments	2,251	7,997	28.1
10.	Other operating income	241,022	191,207	126.1
11.	Net income/expenses for indirect loan write-off and provisions	-1,444,299	-1,335,461	108.1
12.	Salaries, benefits and other personnel expenses	-4,186,346	-3,925,085	106.7
13.	Depreciation	-752,356	-672,099	111.9
14.	Other operating expenses	-4,933,005	-4,420,906	111.6
15.	**RESULT FOR THE PERIOD – PROFIT BEFORE TAX (from 1. to 14.)**	**4,572,662**	**3,952,066**	**115.7**
16.	Profit tax	-472,448	-426,027	110.9
17.	Profit from increased deferred tax assets and decreased deferred liabilities	32,885	11,578	284.0
18.	Loss from decreased deferred tax assets and increased deferred tax liabilities	-10,953	-23,937	45.8
19.	**PROFIT (from 15. to 18.)**	**4,122,146**	**3,513,680**	**117.3**

What mostly affected an increase in profit in 2012 was a rise in net interest income (of 10.7%) and net fee income (of 3.0%).

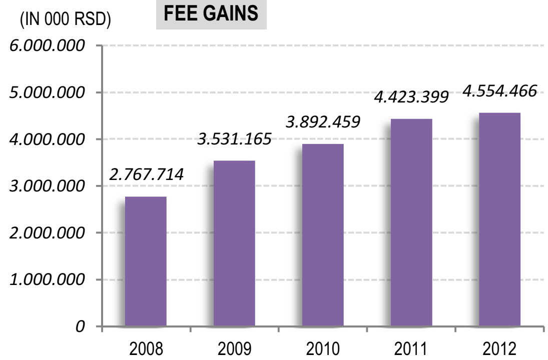
REALIZED PROFIT BEFORE TAX FROM 2008 TO 2012



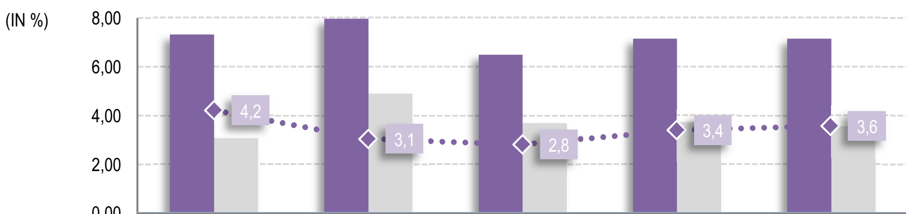
INTEREST GAINS



FEE GAINS



TRENDS IN BANK'S INTEREST MARGIN FROM 2008 TO 2012

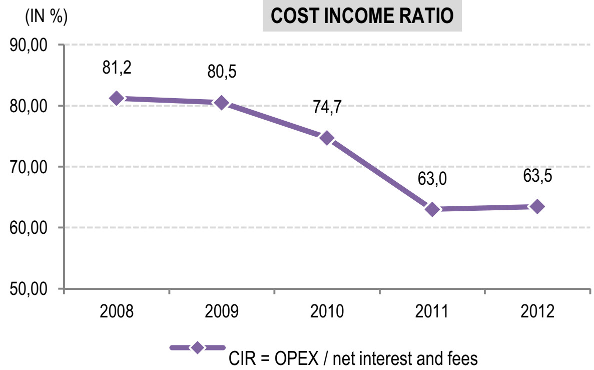


	2008.	2009.	2010.	2011.	2012.
Average lending rates	7,3	8,0	6,5	7,1	7,1
Average borrowing rate	3,1	4,9	3,7	3,7	3,6
Average interest margin	4,2	3,1	2,8	3,4	3,6

Interest margin recorded a rise despite market pressures from the loans side (keen competition for limited demand) and deposits side (pronounced focus of banks on domestic sources of finance).

Activities aimed at optimizing the sources of funds in terms of price, structure and maturity yielded results and made interest margin sustainable in the medium run.

COST INCOME RATIO



The Bank continued to actively manage and control operating expenses and increase efficiency of operation, which resulted in maintaining Cost Income Ratio (CIR) at the level of 63.4%.

9. IMPLEMENTATION OF THE BANK'S BUSINESS PLAN FOR 2012

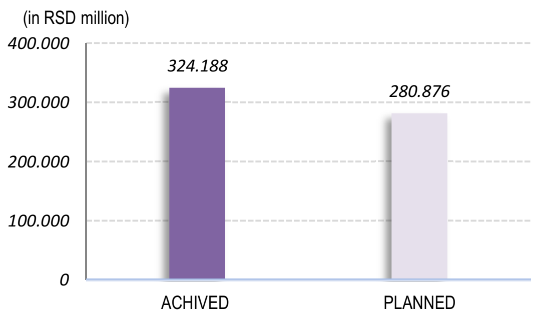
In 2012 the Bank achieved the set objectives and planned profitability, despite adverse macroeconomic operating conditions in 2012 (decreased GDP, RSD depreciation, high inflation rate, rise in unemployment), generally bad economic situation not only in Serbia but in the region as well, and restrictive monetary policy measures in the form of withdrawal of money from circulation in order to maintain inflation rate within planned limits (changes in the method of calculation and allocation of required reserve). In these circumstances, the increase in Bank's capital in the final quarter of 2012 posed a special challenge for the achievement of an adequate rate of return.

Macroeconomic indicators	Plan 2012	Realized 2012
GDP growth	5.0%	-2.0%
Money market rate	9.0%	11.3%
Inflation rate (CPI)	5.5%	12.2%
RSD/EUR (end of year)	107.1	113.7

Targets	2012 achieved	2012 planned
Assets growth	15.4%	6.8%
Profit (RSD million)	4.573	4.366
Net interest margin (net interest income / total assets)	3.6%	3.7%
ROA	1.5%	1.6%
ROE – on share capital	15.1%	13.5%
ROE – total capital	9.4%	9.4%
CIR	63.5%	64.4%
NPL	13.1%	12.9%

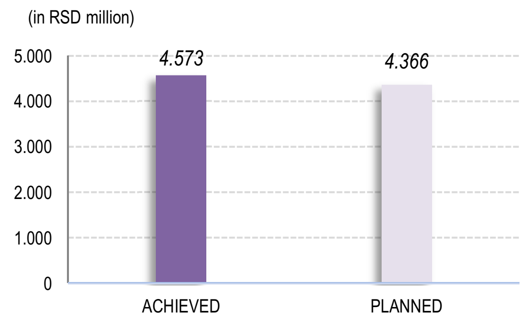
Higher-than-planned growth of assets came as a result of not only the effect of exchange rate, but also of the greater-than-planned inflow of retail deposits as well as the fact that a portion of corporate deposits were not withdrawn. Market share remained at the level of over 10%.

BALANCE SHEET TOTAL IN 2012

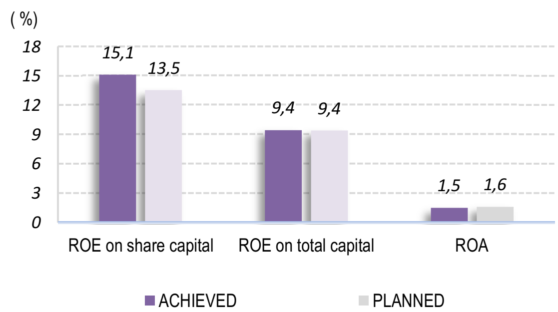


Unplanned decrease in RSD liquidity i.e. changes in NBS regulations and increase in RSD required reserve of RSD 10.5 billion had a decisive effect on the Bank's profitability, as the income planned from the employment of these funds was not realized, and led to additional cost of liquidity management. Profit before tax was above planned by 4.7% and profitability indicators were at the planned level thanks to further decrease in the price of funds, adequate investment of additional capital, preserved asset quality through conservative approval of new loans as well as timely activities on collection of existing loans and continuous cost management.

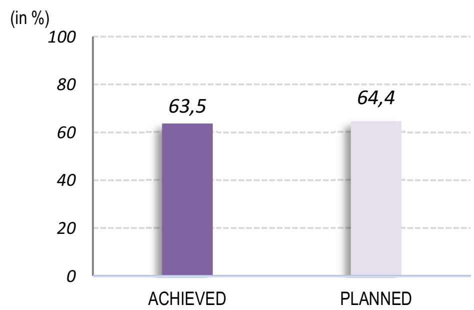
PROFIT BEFORE TAX IN 2012



PROFITABILITY INDICATORS IN 2012



PLANNED - ACHIEVED COST INCOME RATIO IN 2012



9.1. Balance sheet for 2012

(in RSD million)

No.	ITEM	ACHIEVED IN 2012	PLANNED FOR 2012	INDICES (3:4)*100
1	2	3	4	5
	ASSETS			
1.	Cash and cash equivalents	40,514	14,974	270.6
2.	Callable deposits and loans	43,054	54,017	79.7
3.	Receivables from interest, fees, sale, change in fair value of derivatives and other receivables	1,547	1,590	97.3
4.	**Loans and deposits to customers (4.1.+4.2.+4.3.)**	**177,107**	**161,721**	**109.5**
4.1.	Corporate	118,861	106,201	111.9
4.2.	Retail	55,917	50,520	110.7
4.3.	Banks	2,329	5,000	46.6
5.	Securities (other than own)	41,348	27,621	149.7
6.	Equity investments	5,917	5,819	101.7
7.	Other investments	3,228	2,100	153.7
8.	Fixed assets and investment properties	7,417	8,108	91.5
9.	Other assets	4,056	4,926	82.3
10.	**TOTAL ASSETS (from 1. to 9.)**	**324,188**	**280,876**	**115.4**

- *Change in the structure of required reserve led to the departure from projected values for Cash and Callable deposits and loans.*
- *Realized growth of corporate and retail loans was higher than planned, with a portion of available funds invested in government securities and bank bonds.*
- *Other loans were higher than planned due to an increase in covered letters of credit and other guarantees in foreign currency that were deposited with foreign banks.*

(in RSD million)

No.	ITEM	REALIZED IN 2012	PLANNED FOR 2012	INDICES (3:4)*100
1	2	3	4	5
	LIABILITIES			
1.	**Deposits**	**235,521**	**201,886**	**116.7**
1.1.	Corporate	62,827	49,562	126.8
1.2.	Retail	164,533	146,526	112.3
1.3.	Banks	8,161	5,798	140.8
2.	Credit lines	14,220	17,257	82.4
3.	Provisions	2,332	1,128	206.7
4.	Other liabilities	12,248	11,920	102.8
5.	**TOTAL LIABILITIES (from 1. to 4.)**	**264,321**	**232,191**	**113.8**
6.	Share capital and issue premium	40,035	28,463	140.7
7.	Reserves from profit and retained profit	19,832	20,222	98.1
8.	**TOTAL CAPITAL (6.+7.)**	59,867	**48,685**	123.0
9.	**TOTAL LIABILITIES (5.+8.)**	**324,188**	**280,876**	**115.4**

- *Rise in both corporate and retail deposits despite constant fall in price.*
-
- *Due to a change in drawdown schedule during 2012, planned credit lines will be drawn in 2013, in the amount higher than was originally planned.*
- *Capital was increased in the fourth quarter of 2012.*

9.2. Income statement for 2012

(in RSD million)

No.	ITEM	REALIZED IN 2012	PLANNED FOR 2012	INDICES (3:4)*100
1	2	3	4	5
1.1.	Interest income	20,131	18,945	106.3
1.2.	Interest expenses	9,221	8,788	104.9
1.	**Interest gains (1.1.-1.2)**	**10,910**	**10,157**	**107.4**
2.1.	Fee and commission income	5,334	5,397	98.8
2.2.	Fee and commission expenses	780	624	125.1
2.	**Fee and commission gains (2.1. -2.2.)**	**4,554**	**4,773**	**95.4**
3.	Exchange rate differentials and change in value (currency clause)	96	100	95.9
4.	Other operating income	330	195	169.2
5.	Net expenses for indirect loan write-off and provision	1,444	1,169	123.5
6.	Operating and other expenses	9,873	9,690	101.9
7.	**OPERATING PROFIT**	**4,573**	**4,366**	**104.7**

- *Higher than planned net interest income came as a result of a greater volume of loans and decreased price of funds despite higher-than-planned inflow of deposits.*
- *Net fee income was somewhat lower than planned due to increased fee expenses from card operations and contracted credit lines.*
- *Departure from the planned level of cost of indirect loan write-off resulted from additional impairment, among other things.*
- *Operating and other expenses were within planned limits.*
- *Realized profit for 2012 exceeded the planned value by 4.7%.*

3. CREDIBLE PRESENTATION OF THE BANK'S DEVELOPMENT AND BUSINESS RESULTS, AND ESPECIALLY THE FINANCIAL STATE OF THE COMPANY, AS WELL AS THE DATA RELEVANT FOR THE ASSESSMENT OF THE STATE OF THE COMPANY'S ASSETS

3.1. Overview of the company's development

Detailed overview of the Bank's development was explained in items 4.7. to 4.12. of the Annual Report, pages 104 to 112.

3.2. Overview of the company's business results

Detailed overview of the Bank's business results is shown in items 5 to 8 of the Annual Report, pages 114 to 120.

3.3. Financial status of the company

Financial status of the Bank is shown in the balance-sheet and profit and loss account, items 7 and 8 of the Annual Report, pages 117 to 120.

3.4. Information on the data relevant for the assessment of the state of the company's assets

The Bank's assets, as at 31.12.2012 are shown in detail in note 28, on page 46 in the Notes to financial statements.

4. DESCRIPTION OF THE ANTICIPATED DEVELOPMENT OF THE COMPANY IN THE UPCOMING PERIOD, CHANGE IN THE COMPANY'S OPERATING POLICIES AND A DESCRIPTION OF KEY RISKS AND THREATS THE COMPANY'S OPERATIONS ARE EXPOSED TO

4.1. Description of anticipated development of the company in the upcoming period

At its meeting held on 23.01.2013 the General Meeting of Bank's Shareholders approved the "Strategy and Business Plan for the period 2013-2015", thus continuing the practice of three-year development of the Bank. As the starting point of the strategy that was adopted in January of this year, a document entitled "Strategy and Business Plan for the period 2013-2015" was taken, this contained the values that were used up as the drafting basis of the most recent document, with the necessary corrections and adjustments of the previously projected values. When setting up the basic strategic objectives for the next period, a stable and sustainable business, primarily through the defending the interest margins and maintaining the quality of the portfolio, was set in the focus of the monitoring.

12.3% balance sheet growth is planned in 2013, this being an increase that is based primarily on the growth of deposits and partly on raising a certain amount of funds in the form of credit lines and Bank's borrowing abroad.

Loan growth is planned in the business 2013 (balance sheet position "loans and advances to customers") to the amount of RSD 205,908 million or 15.0%.

In the ordinary course of business, and in the preparation of a business plan for the next three years, maximum attention is dedicated to preserving the quality of the loan portfolio. Despite the unfavorable macroeconomic conditions prevailing at the end of 2012, non-performing loans ratio totaled 13.1%, which is significantly below the average of the banking sector. The NPL ratio is projected at 13.5% at the end of 2013.

The Bank's equity investments, primarily in the capital of legal entities of which the Bank is the only or controlling stakeholder (Komercijalna Banka Budva, Komercijalna Banka Banja Luka and Kombank Invest), totaled RSD 5,917.0 million at the end of 2012. The business plan for 2013 does not anticipate significant additional investments in the capital of these entities.

Also, no significant new investments in non-interest bearing assets - fixed assets (fixed assets, intangible assets and investment property) have been planned in 2013. The business plan for 2013 is to adjust new investments in fixed assets to the amount of depreciation of existing assets.

Profit from regular operations of RSD 5,487 million in planned to be achieved in 2013, which would be an increase of 25.4% compared to profit achieved at the end of 2012. With the stated amount of net profit, the rate of return on assets has been projected at 1.6% and the rate on return on capital has been projected at 9.0% with credit loss reserves included in capital, or at 13.7% without the credit loss reserves included in capital.

In 2013, the Bank will continue to implement these planning objectives upon the universal bank principles, being equally prepared to invest funds in both the corporate and retail segments. However, the sectorial distribution of bank loans will remain to be implemented based on the level of risk contained in the loan approval application, and not the sectorial reference.

During the previous period, the small and medium enterprises proved to be extremely resistant to adverse macroeconomic business conditions. The Bank will continue to seek to provide quality support to this segment of the economy through the provision of new loans.

In the area of retail banking, in addition to lending and deposit activities, special attention is paid to the development of the business cards and electronic banking. In the previous period, the Bank presented to its retail customers a set of modern services that allows a greater number of operations through electronic banking using the Internet and mobile phones.

Excluding the Bank's outlets, Komercijalna Banka operates at the following four locations in Belgrade: 14 Svetog Save St, 42 Svetogorska St, 24 Makedonska St and 19 Kralja Petra St. Doing business at several locations has already been identified as an aggravating circumstance in regular work, so in order to overcome this problem by the Board of Directors approved the Bank's plan to locate the Bank's Head Office at a single location. However, the negative effects of the economic crisis, and worsened business circumstances somewhat slowed down the implementation of this plan.

4.2. Description of changes in the company's operating policies

In the course of 2011, the Bank did not significantly change its business policy, except that certain adjustments were made to the Business Policy concerning the provisions of the Law on the Protection of Rights and Interests of Consumers of the Financial Services (Official Gazette of the Republic of Serbia, No. 36/2011, entered into force June the 4th 2011th, in effect since December the 5th 2011). The new policy of the Bank was adopted by the General Meeting of Bank's Shareholders on 26.01.2012.

Business policy determined the basic principles of business and defined tasks performed by the bank in order to meet business performance and priorities defined by the current strategy and business plan of the Bank, which is based on:

- *The Bank's position on the financial market and the gained confidence of customers*
- *Projections of key macro-economic policy parameters*
- *Bank's development goals.*

Policy of the Bank is aligned with the risk management strategy and capital management strategy, as well as individual risk management policies.

The bank operates independently, according to market principles, by applying the rules of liquidity, profitability and security, while respecting the laws, regulations, and general principles of banking business in achieving its objectives in a socially responsible manner, in accordance with the fundamental values and business ethics.

4.3.Description of key risks and threats the company's operations are exposed to

The Bank has recognized risk management process as the key element of business management given that risk exposure is an inseparable part of banking and is managed through a process of continued identification, measurement, monitoring, minimizing and setting of risk limits and through other types of control, including reporting in accordance with adopted strategies and policies.

The Bank has established a comprehensive and reliable risk management system that includes: risk management strategies, policies, and procedures, appropriate organizational structure, effective and efficient process of managing all risk it is exposed to, adequate system of internal controls, adequate information system and process of internal capital adequacy assessment.

The basic objectives that the Bank set for the risk manages system are the following: minimizing the negative effects on financial result and equity within acceptable risk levels, maintaining the required level of capital adequacy, developing the Banks activities in accordance with business opportunities and market development with a view to gain competitive adventage.

***Credit risk** represents the risk of negative effects on the Banks financial result and capital arising from debtors' inability to settle the matured liabilities to the Bank. The Bank's credit risk depends on the debtor creditworthiness, its regularity in settling liabilities due to the Bank and collateral quality.*

The level of credit risk exposure acceptable to the Bank is in line with the defined risk management strategy and depends on the Bank's portfolio structure based on which negative effects on the Bank's financial result is limited and capital requirements for credit risk, settlement/delivery and counterparty risk are minimized in order to maintain capital adequacy at an acceptable level. The Bank approves loans to (corporate and retail clients) which are estimated as creditworthy. On the other hand, the Bank does not make high-risk investments such as investments in highly profitable projects with significant risk levels.

***Liquidity risk** represents the risk of negative effects on the Bank's financial result and equity resulting from the Bank's difficulty or inabilitiy to settle its matured liabilities in instances of insufficient liquidity reserves and inability to cover for unexpected outflows and other liabilities. Liquidity risk may be manifest as the risk related to the sources of funds and market liquidity risk.*

The problem of liquidity in respect of the sources of funds relates to the structure of liabilities and is expressed through potential significant share of unstable and short-term sources of funds or their concentration.On the other hand, liqudity risk is reflected in reserves deficiency and difficulty or inability to obtain liquid assets at reasonable market prices.

5. ALL KEY BUSINESS EVENTS THAT OCCURRED AFTER THE BUSINESS YEAR FOR WHICH THE REPORT IS PREPARED

There were two General Meetings of Bank's Shareholders held from 31.12.2012 until 30.04.2013.

- *Regular General Meeting of Bank's Shareholders held on 23.01.2013.*

  Decision on the adoption of the Strategy and Business Plan of the Bank covering period 2013-2015 was made at this session.

- *Regular General Meeting of Bank's Shareholders held on 24.04.2013.*

  Decision on the adoption of the Report on Bank's Operation for 2012 was made at this session, including:

  a. *DECISION ON ADOPTION OF THE REPORTS ON OPERATION FOR 2012*
  b. *DECISION ON ADOPTION OF BANK'S REGULAR FINANCIAL STATEMANTS FOR 2012, WITH THE EXTERNAL AUDITOR'S OPINION*
  c. *DECISION ON DISTRIBUTION OF 2012 PROFIT AND ACCUMULATED PROFIT FROM PREVIOUS YEARS.*

6. ALL KEY TRANSACTIONS WITH RELATED ENTITIES

At 31.12.2012 the following entities were related to the Bank:

1. *Komercijalna Banka a.d. Budva, Montenegro,*
2. *Komercijalna Banka a.d Banja Luka, Bosnia and Herzegovina,*
3. *Kombank Invest a.d. Beograd and*
4. *Physical persons, according to the provisions of the Article 2 of the Law on Bank defining the concept of „persons related to the bank".*

Total exposure to persons related to the Bank, as at 31.12.2012, amounted RSD 683,808 thousands, which, compared to the capital totalling RSD 40,377,866 thousands resulted to 1.69% (maximum value of total loans to persons related to the Bank, as defined by the Law on Banks, shall not exceed 20% of the capital).

Highest portion of exposure to persons related to the Bank, as at 31.12.2012, the amount of RSD 671.161 thousands or 1.66% of the Bank's capital relates to the loans granted to individuals related to the Bank.

According to the Article 37 of the Law on Banks, the Bank did not approve loans to persons related to the Bank under more favourable conditions than those of loans granted to persons unrelated to the Bank, i.e. persons who are not Bank employees.

7. COMPANY'S ACTIVITIES IN RESEARCH AND DEVELOPMENT

The Banks are specific institutions and in their ordinary course of business the research and development activities have a much different form than those applied by the companies.

The Bank conducts regular surveys of financial markets, analyzes the financial needs of its customers and engages itself in researching the level of satisfaction of the users of financial services.

The above researches the Bank most often does not perform independently, but for the purpose of conducting these studies it employs specialized agencies for public opinion research.

We are particularly pleased with the fact that over an extended period of time the Bank has been in the top of the banking system by a brand identity and the quality of the services offered.

In the segment pertaining to development of new products and services the Bank endeavors, based on the information and conclusions obtained through the activities of market research and the customers' needs, to develop and market the modified existing products, or entirely new products and services.

It is as a result of the activities undertaken in the field of research and development that the Bank over the last period offered the new types of deposits and loans, and developed a range of services in the segment of electronic banking.

8. COMPANY'S OWN SHARES

Reason for acquisition of own shares:	-
Number of acquired own shares:	-
Percentage of acquired own shares:	-
Nominal value of own shares:	-
Names of the persons from whom the shares have been acquired:	-
Amount paid for the acquisition of own shares, or an indication that they have been acquired without charge:	-
Total number of own shares:	-

9. STATEMENT FROM COMPETENT PERSONS

I hereby declare that, to the best of my knowledge, the annual financial statements were prepared by applying the appropriate international financial reporting standards and that they provide the true, accurate and objective information about assets, liabilities, financial position and business operations, gains and losses, cash flows and changes in equity of the public company, inclusive of its companies that are included in the consolidated financial statements.

KOMERCIJALNA BANKA AD BEOGRAD

Executive Director of Finance and Accounting

Savo Petrović

Member of the Executive Board	Deputy President of the Executive Board
Lidija Sklopić	Dragan Santovac

KOMERCIJALNA BANKA AD BEOGRAD

GENERAL MEETING OF THE BANK'S SHAREHOLDERS

No. 7710/1-1

Belgrade 24.04.2013

Pursuant to Article 66 of the Law on Banks and Article 14 of the Articles of Association of Komercijalna banka AD Beograd (revised text), at its regular session, held on 24.04.2013, the General Meeting of Shareholders of Komercijalna banka ad Beograd passed the following

D E C I S I O N
ON ADOPTION OF REPORT ON OPERATIONS OF KOMERCIJALNA BANKA AD BEOGRAD FOR 2012

I

The Report on Operations of Komercijalna banka AD Beograd for **2012** is hereby adopted, in the wording that forms an integral part of this decision.

II

This decision becomes effective on the day of its passing.

CHAIRPERSON OF THE
GENERAL MEETING OF SHAREHOLDERS

Sanja Jevtović

KOMERCIJALNA BANKA AD BEOGRAD

GENERAL MEETING OF THE BANK'S SHAREHOLDERS

No. 7710/1-2

Belgrade 24.04.2013

Pursuant to Article 66 of the Law on banks and Article 14 of the Articles of Association of Komercijalna banka AD Beograd (revised text), at its regular session held on 24.04.2013, the General Meeting of the Bank's Shareholders passed the following:

D E C I S I O N

ON ADOPTION OF REGULAR FINANCIAL STATEMENTS OF KOMERCIJALNA BANKA AD BEOGRAD

FOR 2012

I

Financial statements of Komercijalna banka AD Beograd for **2012** are hereby adopted, with the report and an opinion of the Bank's external auditor (DELOITTE doo Beograd):

1. Income statement for the period from 01.01.2012 to 31.12.2012,
2. Balance sheet as at 31.12.2012,
3. Report on cash flow for the period from 01.01.2012 to 31.12.2012,
4. Report on changes in capital for the period from 01.01.2012 to 31.12.2012,
5. Statistical annex for 2012 and
6. Notes to financial statements for 2012

in the wording which forms an integral part of this decision.

II

This decision becomes effective on the day of its passing.

CHAIRPERSON OF THE
GENERAL MEETING OF THE BANK'S SHAREHOLDERS

Sanja Jevtović

KOMERCIJALNA BANKA AD BEOGRAD

GENERAL MEETING OF THE BANK'S SHAREHOLDERS

No. 7710/1-3

Belgrade, 24.04.2013

Pursuant to Article 66 of the Law on banks and Article 14 of the Articles of Association of Komercijalna banka AD Beograd (revised text), at its regular session held on 24.04.2013, the General Meeting of the Bank's Shareholders passed the following:

D E C I S I O N

ON DISTRUBUTION OF PROFIT FROM **2012** AND ACCUMULATED RETAINED EARNINGS FROM PREVIOUS YEARS

I

Recorded profit for 2012 and retained accumulated profit from previous years amount to:

No.	ITEM	Amount in RSD
	PROFIT FOR DISTRIBUTION	
1.1.	Profit from 2012 available for distribution	4,122,146,051.51
1.2.	Retained accumulated profit from previous years	63,666,109.42
1.	**TOTAL AMOUNT FOR DISTRIBUTION (1.1. + 1.2.)**	**4,185,812,160.93**

and are being distributed in the following manner:

No.	ITEM	Amount in RSD
2.1.	2012 dividends for preference shares (ISIN: RSKOBBE19692, CFI: EPNXAR) at an average for 12 months term savings deposit rate of 10.00% per year:	37,351,000.00
	31.12.2012 is the ex-dividend date for which a list of shareholders who own the Bank's preference shares from item 2.1 is prepared in accordance with Article 13b of the Memorandum of Association of the Bank.	
2.2.	Profit-sharing bonus (profit-based earnings) for the Bank's employees in accordance with the Remuneration Policy and the decision by the Compensation Committee:	296,852,933.42
2.	**TOTAL DISTRIBUTED PROFIT (2.1. + 2.2. +2.3.)**	**334,203,933.42**
3.	**RETAINED PROFIT (1-2)**	**3,851,608,227.51**

In accordance with this decision, the decision of the Compensation Committee and the Bank's internal documents, the Executive Board is authorized to pass a decision on the amount of profit-sharing bonus (profit-based earnings) payable to the Bank's employees, according to their individual performance in 2012, within the amount given in item 2.2.

II

The Executive Board of the Bank shall oversee the implementation of this decision.

III

This decision becomes effective on the day of its passing.

CHAIRPERSON OF THE
GENERAL MEETING OF THE BANK'S SHAREHOLDERS

Sanja Jevtović

BEOGRAD, April 2013.

NOTE:

Decision on adoption of the audit report, Decision on adoption of the report on business operations, Decision on adoption of the annual financial statements and Decision on distribution of profit were adopted on 24.04.2013 by the General Meeting of Bank's Shareholders. Decision on adoption of consolidated financial statements and Decision on adoption of the report on the audit of the consolidated financial statements will be adopted at the General Meeting of Bank's Shareholders, which is expected to be held by the end of May of this year.