2012

ANNUAL REPORT

Eurobank
Serbia

For creation of this report, we have used the drawings of people with L. Down syndrome that were attending the workshop “Pohvala ruci”

Contents:

1

REVIEW OF THE YEAR

Income Statement

in RSD thousands

	Note	2012	2011
Interest income	6	12,269,722	13,397,936
Interest expenses	6	(5,178,550)	(5,254,523)
Net interest income		**7,091,172**	**8,143,413**
Fee and commission income	7	2,237,312	2,151,961
Fee and commission expense	7	(282,845)	(277,376)
Net fee and commission income		**1,954,467**	**1,874,585**
Net gains from sale of securities at FVtPL	8	(5,279)	(14,222)
Net gains from sale of securities available for sale	8	2,592	3,303
Net foreign exchange gains/(losses)	9	(4,635,404)	347,578
Dividend income		-	893
Operating and other income	10	124,084	134,253
Net provisions and impairment losses on loans and advances	11	(2,107,644)	(2,297,519)
Salaries, benefits and other personnel expenses	12	(2,005,819)	(2,080,335)
Depreciation and amortization expenses	13	(402,263)	(392,190)
Operating and other expenses	14	(2,960,838)	(2,962,913)
Income arising from change in value of assets and liabilities	15	26,381,287	40,930,902
Expenses arising from change in values of assets and liabilities	15	(21,539,419)	(40,789,710)
Profit before tax		**1,896,936**	**2,898,038**
Income tax	16	(94,411)	(146,453)
Profit/(loss) from creation/reduction in deferred tax assets	16	(128,502)	(79,511)
Profit after tax		**1,674,023**	**2,672,074**
Earnings per share			
Basic earnings per share (expressed in RSD per share)	17	6,585	10,511

Balance Sheet

in RSD thousands

	Note	2012	2011
Assets			
Cash and cash equivalents	18	18,611,242	6,143,802
Callable deposits and credits	19	16,525,669	30,021,537
Interest, fees and commission receivables, change in fair value of derivatives and other receivables	20	1,049,448	820,248
Loans, advances and deposits	21	104,477,053	99,443,627
Securities (excluding own shares)	22	19,031,938	14,393,074
Equity investments	23	20,479	20,479
Other lending	24	1,820,807	1,556,098
Intangible assets	25	1,688,581	1,580,938
Property, plant and equipment	26	3,961,671	4,033,669
Deferred tax assets	27	175,337	247,090
Other assets, prepayments and accrued income	28	1,565,279	2,214,175
Total assets		**168,927,504**	**160,474,737**
Liabilities			
Transaction deposits	29	10,244,225	11,977,695
Other deposits	30	82,647,147	74,558,308
Borrowings	31	27,758,088	26,894,761
Interest, fees and commissions payable and change in fair value of derivatives	32	54,715	43,198
Tax liabilities	33	20,021	17,689
Provisions	34	295,251	258,713
Liabilities from profit	35	700	700
Deferred tax liabilities	27	110,200	28,397
Other liabilities, accruals and deferred income	36	2,385,642	2,935,455
Total liabilities		**123,515,989**	**116,714,916**
Shareholders' equity			
Share capital and other capital	37	31,481,926	31,481,926
Reserves	37	9,558,335	9,558,335
Revaluation reserves	37	141,979	18,930
Accumulated gains	37	2,555,252	28,556
Current year profit	37	1,674,023	2,672,074
Total shareholders' equity		45,411,515	43,759,821
Total liabilities and shareholders' equity		**168,927,504**	**160,474,737**
Off-Balance Sheet items			
Funds managed on behalf of third parties	38	1,336,391	1,316,086
Guaranties, sureties, assets pledged as collateral and irrevocable commitments	38	31,487,699	27,183,868
Guaranties, sureties and collaterals received	38	32,457,763	36,452,591
Derivatives	38	96,349,933	100,330,396
Other off-balance sheet items	38	299,598,166	313,751,998
		461,229,952	**479,034,939**

Cash Flow

in RSD thousands

	2012	2011
Cash inflow from operating activities		
Inflow from interest	10,228,810	11,234,462
Inflow from fees and commissions	2,179,024	2,171,907
Inflow from other operating income	376,761	573,496
	12,784,595	**13,979,865**
Cash outflow from operating activities		
Outflow from interests	(5,026,398)	(4,710,023)
Outflow from fees and commissions	(253,084)	(283,788)
Outflow from gross salaries, benefits and other personnel expenses	(1,919,893)	(2,028,134)
Outflow from taxes, contributions and other duties charged to income	(991,946)	(924,061)
Outflow from other operating expenses	(2,909,341)	(2,985,836)
	(11,100,662)	**(10,931,842)**
Net cash inflow from operating activities	**1,683,933**	**3,048,023**
Decrease in loans and investments, and increase in deposits		
Decrease in loans to banks and customers	15,872,193	26,184,002
Decrease in securities	3,348,502	6,202,049
Increase in deposits	250,796	-
	19,471,491	**32,386,051**
Increase in loans and investments, and decrease in deposits		
Decrease in deposits	-	(27,978,349)
	-	**(27,978,349)**
Net cash inflow for operating activities before profit tax		
Profit tax paid	(108,578)	(226,144)
Dividends paid	-	-
Net cash inflow for operating activities	**21,046,846**	**7,229,581**
Cash flow from investing activities		
Inflow from selling of long term investments	5,924,016	
Inflow from selling of intangible assets and fixed assets	2,464	21,486
	5,926,480	**21,486**
Cash outflow from investing activities		
Outflow for purchase of long term investments	(2,146,446)	(6,035,383)
Outflow for purchase of intangible assets and fixed assets	(412,679)	(403,175)
	(2,559,125)	**(6,438,558)**
Net cash flow from investing activities	**3,367,355**	**(6,417,072)**
Cash flow from financing activities		
Increase in borrowings		5,259,065
	-	**5,259,065**

Cash Flow

in RSD thousands

	2012	2011
Cash outflow from financing activities		
Decrease in borrowings	(1,505,242)	-
Decrease in subordinated liabilities	-	(517,976)
Outflow from securities	(10,174,642)	(1,737,651)
	(11,679,884)	**(2,255,627)**
Net cash inflow from financing activities	**(11,679,884)**	**3,003,438**
Cash inflow	**38,182,566**	**51,646,467**
Cash outflow	**(25,448,249)**	**(47,830,520)**
Net cash inflow/(outflow)	**12,734,317**	**3,815,947**
Cash at the beginning of the year	**6,143,802**	**2,845,717**
Foreign exchange gains	20,948,026	26,851,070
Foreign exchange losses	(21,214,903)	(27,368,932)
Cash at the end of the reporting period	**18,611,242**	**6,143,802**

Statement of Changes In Equity

in RSD thousands

	Share and other capital	Share premium	Revaluation reserves	Other reserves	Retained earnings/	Total shareholder's equity
As at 1 January 2011	**25,429,927**	**6,051,999**	**-**	**6,937,520**	**2,649,371**	**41,068,817**
AFS portfolio revaluation	-	-	18,930	-	-	18,930
Distribution of profit	-	-	-	2,620,815	(2,620,815)	-
Current period profit	-	-	-	-	2,672,074	2,672,074
As at 31 December 2011	**25,429,927**	**6,051,999**	**18,930**	**9,558,335**	**2,700,630**	**43,759,821**
AFS portfolio revaluation	-	-	148,104	-	-	148,105
Deferred tax on revaluation reserves	-	-	(25,055)	-		(25,055)
Distribution of profit	-	-	-	-	(145,378)	(145,378)
Current period profit	-	-	-	-	1,674,023	1,674,023
As at 31 December 2012	**25,429,927**	**6,051,999**	**141,979**	**9,558,335**	**4,229,275**	**45,411,515**

LETTER TO SHAREHOLDERS

Dear Shareholders,

The year behind us was undoubtedly a very challenging year for both the regional markets and the Serbian economy. The lingering global economic crisis, combined with the sovereign debt crisis in the Eurozone and the volatility of the local market, led to the economy in Serbia contracting.

The gradual recovery of the Serbian economy that started in 2010 and 2011 was insufficient to secure a speedier exit from the crisis. The domestic economy was thus hit by a double-dip recession in the early second quarter of 2012. It should be noted that the 2012 recession was marginally less acute (at 1.7%) than the government expected, which had forecasted a contraction of around 1.8 - 1.9%.

On a positive note, the fourth quarter brought some encouraging signs: the new Government introduced a set of fiscal consolidation measures, which if successfully implemented, should halve last year's record high budget deficit of 6.7%. These measures included increases in VAT excises, tax on profits and capital gains, the closure of several agencies, and overall tighter control of government spending.

The financial market in Serbia was hit by the serious financial situation of some banks, which had a negative impact on the overall profitability of the sector in 2012. The banking sector is expected to continue to consolidate gradually during 2013 due to the fact that a number of state-owned banks are up for sale, while certain foreign banks are or are looking for potential buyers for their Serbian subsidiaries. In addition, new players might enter the local market in 2013.

Official data shows that the local banking sector is still adequately capitalised, despite the decline in the capital adequacy ratio at the end of 2012 to 19.9% (still above the regulatory threshold of 12% and significantly above the international minimum of 8.0%), which was mostly due to an increase in loan loss provisions. Profitability in the banking sector in 2012 just about broke even.

In this very adverse environment, Eurobank managed to successfully address significant challenges in 2012 and achieve the main priorities it set out at the beginning of the year.

- We maintained our strong **capital** and **liquidity** positions. Our capital adequacy ratio of 22.7% remained well above the banking sector average of 19.9% (Dec data). We also managed to further strengthen our liquidity position by increasing retail deposits (despite all the adverse publicity related to Greece), expanding our relationship with IFIs (IFC and EBRD) and reducing our reliance on HO funding even more.

- Our total assets grew by 5% y-o-y to RSD 169 billion (cca EUR 1.5 billion) with an achieved 4% y-o-y increase in total capital of RSD 45 billion (cca EUR 399 million).

- Our **profitability** in 2012 stood at RSD 1.7 billion (cca EUR 16 million). **Operating revenues** came under pressure due to regulatory changes (e.g. the new law regarding the protection of users of financial services and the revisions to the regulations governing mandatory reserves) and the compression of margins.

- We were successful for another year in containing **expenses**, which dropped by more than 10% in 2012 bringing the cumulative reduction in the period 2009-2012 to over 30%.

- The performance of our loan portfolio continued to be better than the market.

- **Lending** activities focused on segments with optimum risk/return ratios. Strong performance in consumer finance (More than 38,000 credit cards were issued, which is the best performance since 2008). Wholesale lending grew by 4% with corporate loans growth of EUR 22 million.

- We actively **supported state subsidised programmes** and further extended our relationship with the major **IFIs** (IFC, EBRD, and EIB). It is worth mentioning that Eurobank initiated the process for the first currency swap in the region with the EBRD.

We remain a systemic bank in the Serbian market with a leading position amongst foreign investors and financial institutions and 1,500 employees meeting the everyday needs of almost half a million clients (450,000 private individuals and more than 31,000 legal entities) through a nation wide network of over 100 branches and business centres. Together with the other Eurobank Group affiliated companies, ERB Leasing and ERB Property Services, we offer a wide range of services to our retail and corporate clients.

Socially responsible business practices have been a core value of Eurobank since its establishment in the Serbian market. This is a deliberate choice made within the context of our strategy to achieve sustainable growth for the organisation in parallel with further enhancing our contribution to society.

Having won many prestigious national awards in the field of corporate social responsibility in previous years, in 2012 Eurobank accepted the invitation of the National Alliance for Local Economic Development (NALED) to participate in the first Serbian pilot CSR certification programme. We passed the demanding certification process over the course of six months with a view to further improving our internal processes and procedures. As a result, Eurobank became the first financial organisation in Serbia that can guarantee its customers, suppliers and business partners that it fully operates in accordance with the national and international standards and principles of social responsibility. In accordance with the NALED certification recommendations, we will issue, for the first time, a joint Annual and CSR report for 2012 using the internationally recognised principles of the Global Reporting Initiative (GRI).

Moreover, as one of the founders of the United Nations Global Compact network in Serbia, Eurobank continued to participate with great enthusiasm in its activities and committees in 2012, proactively contributing to the organisation of the European network meeting in Belgrade held in October in the Serbian Chamber of Commerce. As a result, we continued to actively implement the ten Global Impact principles in the areas of human rights, labour, environment and anti-corruption, the principles which we accept, support and promote in our everyday business operations.

Through the Bank's well known and widely recognised corporate social responsibility programme titled "We Invest in European Values", divided into the following pillars: education, public health, environment, social inclusion and culture, Eurobank has invested over EUR 3.6 million in local communities across Serbia since its inception in the Serbian market. Standing firmly by our commitments and despite the fragile business environment in 2012, we continued to support innovative projects and initiatives aimed at achieving important objectives:

- Reconstruction of 13 playgrounds in state-owned kindergartens across Serbia, through MasterCard's "Big Heart" Affinity Cards issued in cooperation with the Ana and Vlade Divac Foundation;
- Opening of the 10th Eurobank Park in Pirot;
- Offering clients and employees the unique health care prevention programme Medifree®, carried out in cooperation with the Bel Medic General Hospital;
- Enhancing training for our staff through the implementation of training programmes;
- Supporting the Crown Prince Alexander II Foundation for Education and many others.

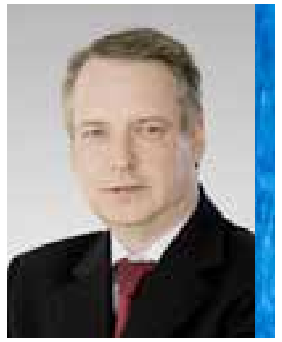
Going forward we remain committed to our vision to become the bank of first choice while operating with a sense of responsibility towards all our stakeholders and supporting the development of the Serbian economy.

Belgrade, June 2013

Theodoros Karakasis
President of the Board of Directors

Filippos Karamanolis
President of the Executive Board

EXECUTIVE BOARD

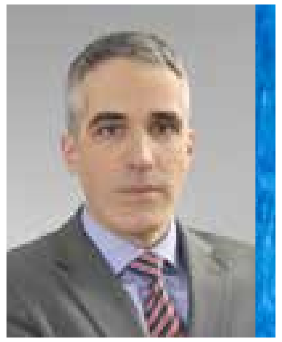


FILIPPOS KARAMANOLIS

President
of the Executive Board

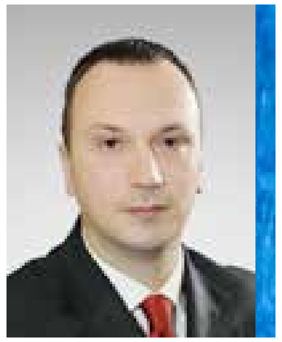
SLAVICA PAVLOVIĆ

Chief
Financial Officer



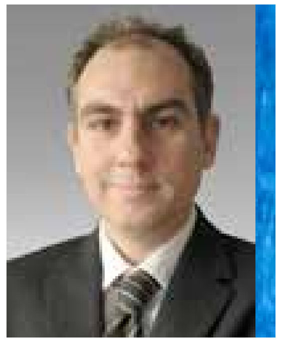
PREDRAG JANKOVIĆ

Head of Risk
Management Division



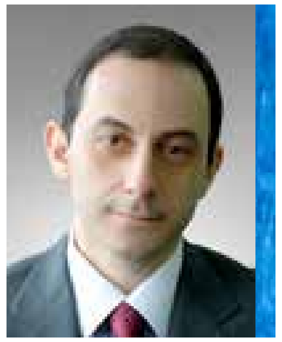
VUK ZEČEVIĆ

Head of Treasury
Division



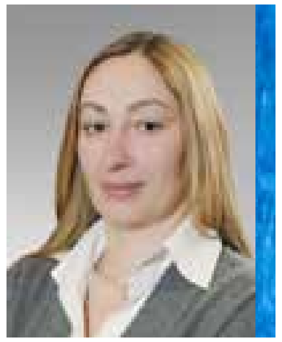
ANTONIOS CHATZISTAMATIOU

Head of Corporate
Banking Division



GEORGIOS MICHALAKOPOULOS

Head of Operations
and Organisation Division



NATAŠA STRUGAREVIĆ

Head of Human
Resources Division

BOARD OF DIRECTORS

President

THEODOROS KARAKASIS

Members

STAVROS IOANNOU

NIKOLAOS ALIPRANTIS

EVANGELOS KAVVALOS

Independent Members

SLOBODAN SLOVIĆ

ANGELOS TSICHRINTZIS

IVAN VUJAČIĆ

FINANCIAL REVIEW

After a period of moderate, but evident, economic recovery during 2010-11, last year was probably the most difficult year for the country since the beginning of the economic crisis. In 2012 Serbia entered a double-dip recession in the second quarter of 2012 and ended it as equally as badly, mostly due to a severe hit on the output of its agricultural industry and financial spillovers from Eurozone's debt crisis. The banking sector in Serbia faced the serious financial distress of some banks, which impacted the sector's overall profitability in 2012. At the same time, inflation constantly peaked, the unemployment rate grew dramatically, the local currency depreciated by 8.7% vs. 2011 (in euro terms) and with both the fiscal and external deficits of the country, banks had significantly lesser room to manoeuvre.

In that quite unfavourable business environment, Eurobank demonstrated its strength to adjust to extremely volatile market conditions while maintaining a vital role as one of the major systemic banks in the country with:

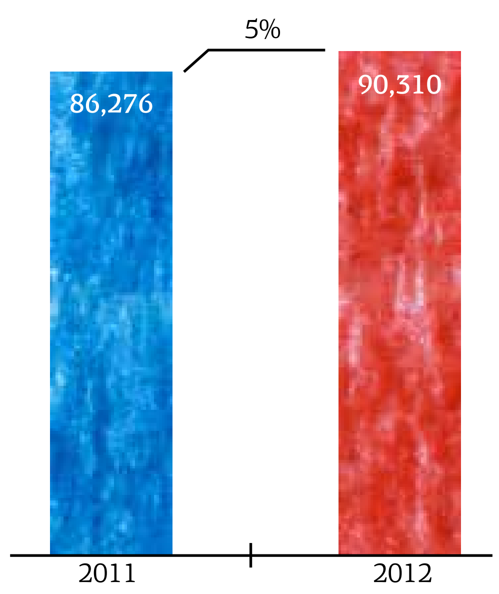
- robust liquidity and capital positions: Capital Adequacy Ratio at 22.7%; 4th bank in total deposits and 6th in total equity;
- sixth largest bank in terms of asset size with a market share of 6%
- reduction in impairment charges by 8% as a result of prudent risk management
- further reduction in operating expenses with a cumulative decrease over the last three years of 30%)
- net profit of RSD 1.7 billion
- successfully continuing our CSR projects

ROBUST LIQUIDITY AND CAPITAL POSITIONS

The Bank maintained a very good liquidity position in 2012. Total deposits grew by 5% reaching 90 billion. The Bank continued extensive cooperation with the major international financial institutions.

Eurobank a.d., Beograd remains one of the best capitalised banks in the Serbian market. Total shareholders' equity at the end of 2012 stood at RSD 45 billion.

Total Deposits (in RSD million)

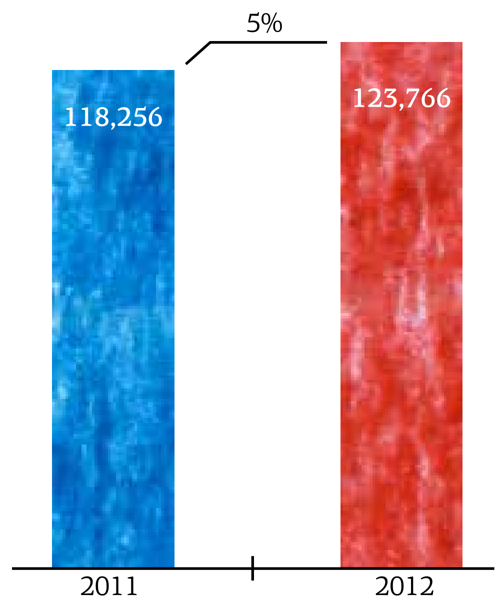


Excluding deposits from local and foreign banks and Short-term borrowings from the parent company.

NO DELEVERAGING IN LENDING

The Bank continued to grow its lending portfolio albeit at a slower pace. Total (gross) loans expanded by 5% year-on-year (including cross-border loans) to RSD 124 billion.

Total (gross) Loans (in RSD milion)

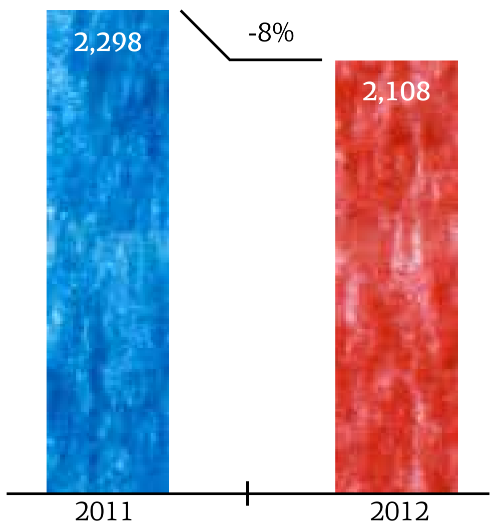


Excluding placements to local and foreign banks and Short-term placements to parent company, and including cross-border loans.

IMPROVED LENDING PORTFOLIO QUALITY

The prudent expansion policy led by the Bank resulted in a reduction in the cost of risk during 2012. Consequently, loan impairment charges were reduced by 8%, signalling an encouraging outlook for 2013.

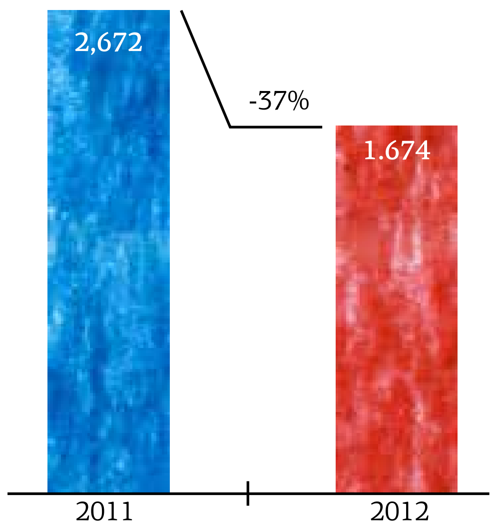
Impairment charges (in RSD million)



REMAINED PROFITABLE

Despite the adverse circumstances that held well into 2012, the Bank managed to remain profitable throughout the year. Net profit reached RSD 1.7 billion (EUR 15 million), which we see as good achievement given the macroeconomic and market conditions.

Net income (in RSD million)



CONTINUOUS COST CONTAINMENT INITIATIVES

The Bank continued to achieve excellent results in cost containment as a part of its comprehensive cost management initiatives. Operating expenses were reduced by 10% in EUR equivalent, with a cumulative decrease of over 30% in the last 3 years.

2 RISK MANAGEMENT

RISK MANAGEMENT

Effective risk management is one of the main priorities of Eurobank and, at the same time, a source of competitive advantage. The Bank has made significant efforts to improve its risk management policies, procedures, methodologies and infrastructure in order to ensure effectiveness and compliance with the regulations of the National Bank of Serbia and international credit, market and operational risk best practices.

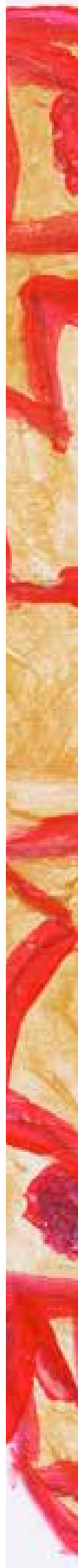
Eurobank implements a well-defined credit risk approval process, sets limits and controls. Credit risks are monitored on a continuous basis and are subject to quarterly reviews and approvals by the Board of Director's Risk Committee. After a credit approval, the quality of the Wholesale Banking and Retail Banking exposures is monitored and assessed by the Credit Control Department, thus safeguarding the Bank's asset quality.

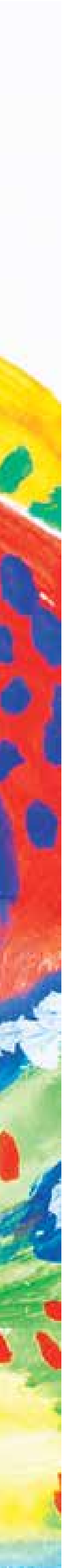
Following best practices in the area, the Bank has significantly strengthened the team in charge of the managing non-performing loans in the last couple of years. The NPL Department operates within the Risk Management Division and is in charge of managing problematic exposures whereby strongly contributing to efficient NPL resolution and preservation of the quality of the portfolio.

In order to protect the Bank against unforeseen market-related losses and contribute to earnings stability through the independent identification, assessment and understanding of the market risks inherent in the business, Eurobank has developed and implemented effective risk management policies for market risk.

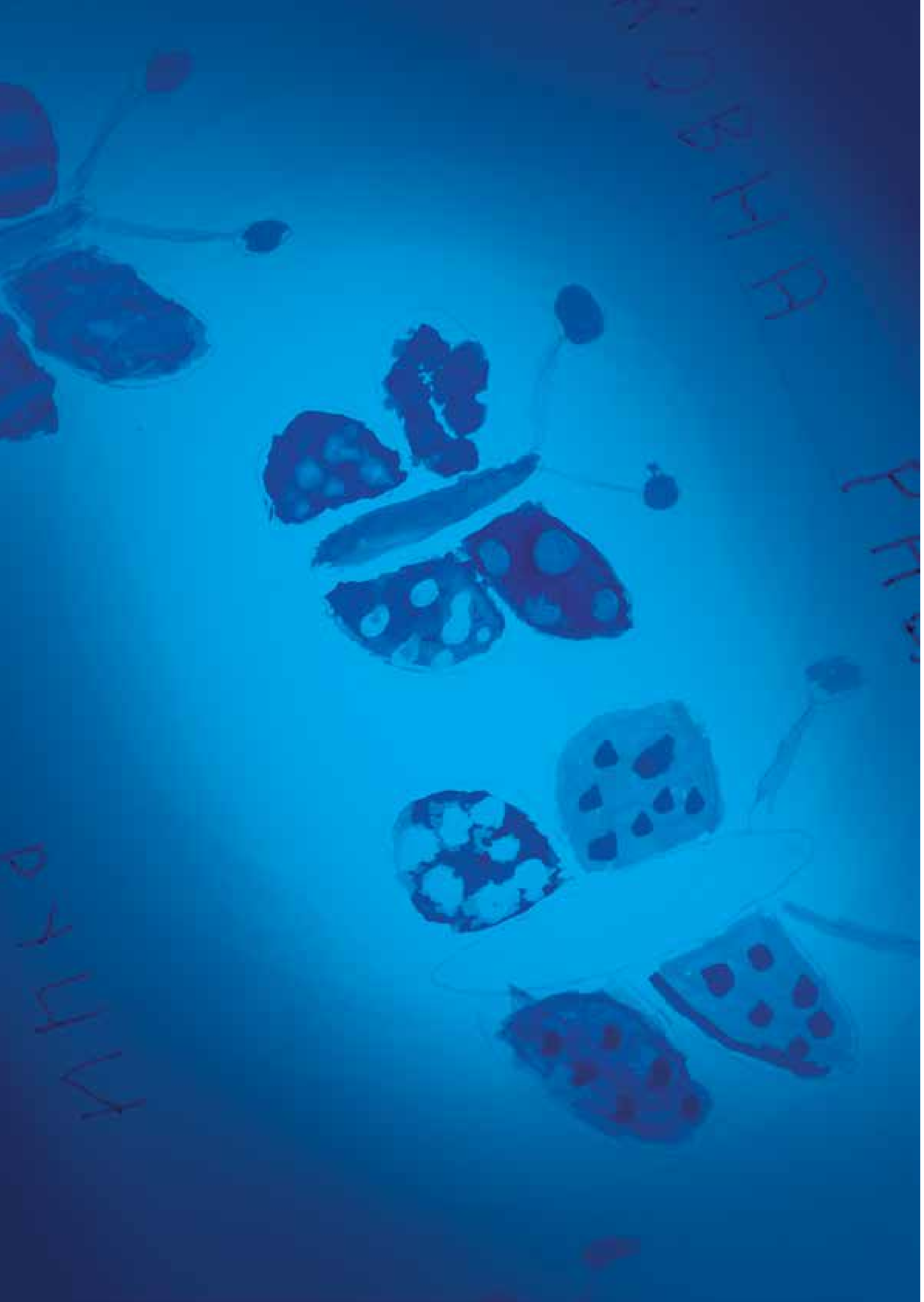
The Bank's liquidity policy and procedures are designed to ensure that sufficient liquid assets are maintained to meet liabilities as they arise and mitigate liquidity risks.

Eurobank recognizes that operational risk management has a crucial effect on its performance. The strategic objectives of the Bank's operational risk management is safeguarding the security of the Bank and its resources at an acceptable level by an ongoing process of anti-fraud shielding, decreasing operational losses and safeguarding the Bank's capital as well as by increasing the responsiveness and the adequacy of the Bank's actions in that





3
RETAIL NETWORK



RETAIL NETWORK

The Deposits and Personal Banking Department, which is under the management of Retail, has continued executing the strategic decision of Eurobank to become the top of mind Serbian bank for savings of individuals. In 2012, Eurobank managed to increase its deposits by 17 million euros, with simultaneous interest expense rationalization. In addition, the Personal Banking Unit continued to further develop the affluent customer database within the Bank's strategic shift towards a customer-centric business model. As a result, 77 branches have an assigned, dedicated Personal Banking Advisor, while all remaining branches have been trained to provide unique advisory services through a distinct range of products offered exclusively to affluent clients.

In accordance with the strategic orientation of the bank focused on continuous improvement of products and services as well as customer satisfaction level, the Bank has introduced a modern CRM application, LINK, which has increased our knowledge about customers and improved sales. Existing services such as debit card delivery, standing orders and the SMS service have also been improved.

Within the Payroll segment, during 2012, we kept our profitability stabile, CSI increased by 0.12, and the PY base increased despite the decreased PY market, irregular salary payments and increased unemployment. We opened 20,000 new PY accounts and our active PY base increased by 3,300, while the market slightly dropped by 2%.

The activities undertaken not only to acquire new customers, but to also keep existing customers satisfied supported our good performance. Many new loyalty programs were launched during 2012 (MediFree days in branches, vouchers for existing customers who recommend new PY customers, pensioner package, etc.).

Cooperation with insurance company Wiener Städtische was expanded in 2012.

Eurobank extended (completed) its product range, from insurance products needed for loan approval (property insurance and Casco insurance) to many new insurance products such as: risk life insurance for mortgage loans, life endowment insurance, travel insurance and household insurance.

In this way, the bank is able to offer its clients a complete insurance product service in almost all branches throughout Serbia.

The Bancassurance Division plan is based on improving actual insurance products, and also on introducing new products: unemployment insurance, new types of life endowment insurance, etc.

Consumer Lending

Although 2012 was a challenging year, the consumer loan and credit card market has managed to maintain its size. The market situation was a reaction to the efforts of the National Bank of Serbia to make banking activities more transparent and to provide full support to private individuals in relation to banks. This situation was the result of the enacting of the Law on the Protection of Users of Financial Services (December 5, 2011), which has brought many changes to the consumer lending market. One of the major consequences of the new law is absolute favoritism of lending in the local currency, which led to the "dinarisation" of the market. The reference interest rate of the National Bank of Serbia has had a growing trend throughout the year that contributed to the growth of interest rates for lending products. Dynamic competitiveness between banks took place in the local market which was accompanied by a lot of intensive media campaigns.

Eurobank kept up with major competitors in the market in 2012, and once again confirmed its place among the leading banks in the area of consumer loans and credit cards. Despite strong market pressures, the Bank has managed to maintain its portfolio in terms of size, quality and performance. Eurobank paid special attention to its product portfolio offer and adapted to the needs of different categories of customers.

In the area of consumer loans, Eurobank has again proved its position among the leading banks in Serbian market. A comprehensive product mix supported with strong, creative and eye-catching media campaigns ensured an annual consumer loan disbursement of 57 million euros.

Furthermore, Eurobank has finished another successful year in terms of credit cards with a market share of 13.68%. The widely known functionality of all Eurobank credit cards with "installments without interest" in conjunction

with the famous mascot "Secko" has established Eurobank as a strong credit card brand. Eurobank was the trendsetter in the market for installment functionality, since other banks launched the same feature afterwards. Another pillar of the Eurobank business was strong cooperation with merchants that expanded to include active crediting of merchant offers in more than 300 locations all over Serbia.
Eurobank continued to improve the level of service in 2012 and thus provide a high degree of customer satisfaction. In addition, as part of the Bank's social responsibility, we continued successfully cooperating with the Foundation Ana and Vlade Divac (HOD) in the issuance and promotion of the "Big Heart" affinity card. Part of the money collected from this card was used to reconstruct children's playgrounds across Serbia.

Mortgage Lending

During 2012, the mortgage market in Serbia showed signs of recovery following a drastic drop with the onset of the global economic crisis in October 2009. Under these circumstances real estate prices significantly dropped, despite being marked up to three times larger than the actual value during the period of high activity in 2007 and 2008. However, during 2012, demand for mortgage loans slightly increased due to a decline in real estate prices and due to the involvement of the state in reviving the mortgage market by offering favorable subsidized loans. Strongly considering market trends, Eurobank opted to take a cautious approach to portfolio management.
In 2012, Eurobank took an active role in the state subvention program for mortgage loans, but also maintained the diversity of its own mortgage range. Up to 2009, the majority of approved loans were indexed in Swiss francs, which, due to fluctuations in exchange rates and the strengthening Swiss franc, caused turbulences in the market and affected the ability of clients to pay installments regularly. Bearing this in mind, Eurobank is proud of the fact that its clients kept payment regularity at a highly functional level, supported by the percentage of delinquency of only 3.05%, which is significantly under the market average of 7.46%.
The Bank has started to make big efforts to cooperate with relevant institutions to find the most proper solution for easing the repayment of those loans in the future. The Bank's priorities are equally the clients with whom Bank has already established cooperation as well as new clients. That is why we are always listening clients' needs, maintaining the diversity of the mortgage range and constantly creating new offers in order to keep our clients satisfied.

SBB

During 2012, the small business banking (SBB) market in Serbia continued to recuperate from the crisis period. The market stabilized in a number of companies and quality of business became the main priority for clients. Eurobank SBB is closely following that trend by giving full banking support to good clients through loans and other financial services thus maintaining our high position on the SBB market, remaining among the top three banks in Serbia for fifth consecutive year.
Based on continuous cooperation with the International Finance Corporation (IFC), we offered special terms for loans and additionally developed a new program of loans with subsidized interest rates in local and foreign currency in cooperation with the Development Fund of Serbia.
One of our primary goals is to continuously improve overall banking services for clients through transactional banking development. To this end we bundled transactional products into a current account package product and therefore managed to increase platform fees. We also provided more efficient documentary business processes upon which we managed to increase the documentary business portfolio by 30%.
In an effort to assist clients in overcoming problems inherited from crisis period, our SBB Division offers a variety of restructuring programs, to allow them to overcome current financial difficulties and to re-organize their business back to success, thus continuing their relationship with the Bank to both their and our satisfaction.
With our traditional reputation as one of the leading banks in the market, the SBB Division continues to apply the role of forefront player, with an obligation to support all the financial needs of firms and professionals with a turnover up to 1 million euro.

4 CORPORATE BANKING DIVISION

CORPORATE BANKING DIVISION

Despite the recessionary environment of 2012, the Bank's Corporate Banking Division maintained its market share and carefully expanded with new relationships in recession-proof companies.

Among our major concerns when starting the year was to maintain a reasonable pricing for the loans offered to our clients so that we do not burden their financial expenses while, at the same time, improving the Bank's profitability. In this respect we (a) employed to a maximum extent our excellent collaboration with supranational institutions such as the EBRD and the IFC who offer reasonably priced funds for specific sectors of the economy, (b) improved our fee generation from the existing customer base by exploiting the alignment of our customer service model to that offered by other competitors and (c) last but not least, were among the first to take advantage of, to the benefit of our clients, the state's subsidized lending program.

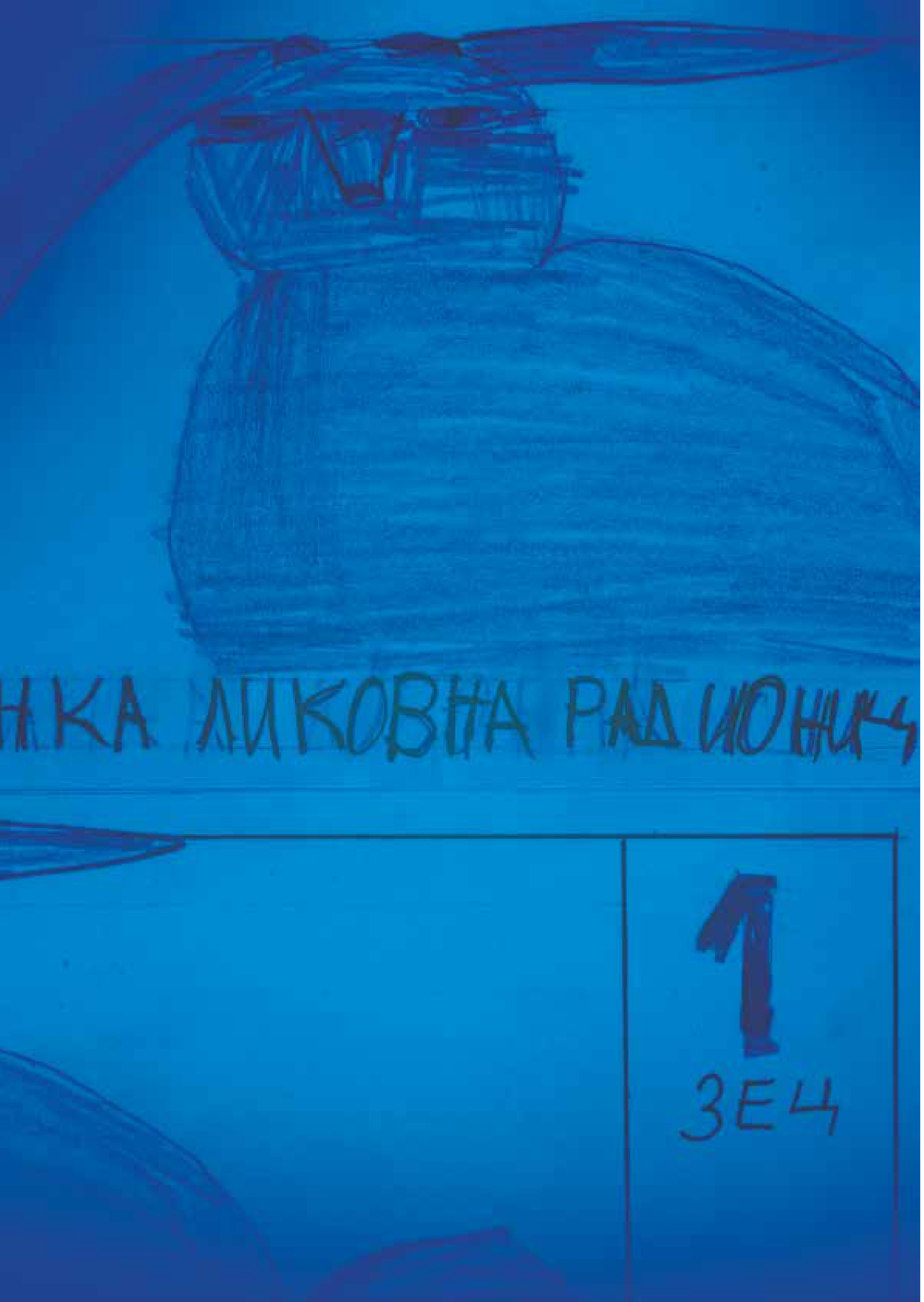
Almost all areas of our activity have improved compared to previous year but most notable has been the improvement in Transactional Banking incomes which has increased by 25% yoy. We aim to continue this momentum during 2013, especially taking into account a set of new services that were launched during H2 2012 and their impact will become more visible in 2013.

In terms of portfolio quality, we have set the base for improving dispersion, vs. the previous years, by following a strategy of disbursing "smaller tickets to a large number of companies rather than large tickets to few companies". As a result of this strategy, our SME Department grew by 20% in lending volumes while the Large Corporate Department remained at the same level of lending balances as those on 31/12/2011. The expansion was carefully performed and the business side applied the strict credit criteria set forward by our group's credit policy principles.

In the short- and medium-term we plan to continue our lending growth with focus on companies that are export-oriented and/or innovative so as to be internationally competitive. Besides the tailor made products that we offer to mid-size and large companies for financing their export activity, we have been the main sponsor of the event of Ernst & Young for the Entrepreneur of the Year Award whereby, among several Serbian companies, six were awarded for their innovation and ability to compete on an international level.

Finally, a key principle of our strategy has been the development of the qualitative and technical skills of our Corporate Banking Relationship Managers. Such trainings are aligned to assist the fulfillment of the department's annual strategic goals as well as to the business needs that arise from time to time. Our group's collaboration with the Harvard Business School, which provides long distance programs for development of managerial skills, was one of the main training initiatives in 2012, while we also continued with the internal programs offered, on a group wide scale, by our Head Office.

5 TREASURY DIVISION



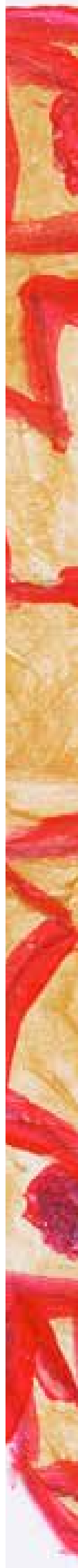
TREASURY DIVISION

Treasury

The year 2012 for the Treasury was a year full of great challenges and accomplishments. The main priority for the Treasury Division in 2012 was to ensure liquidity, sustain profitability and develop further client-oriented operations.

The year started in an adverse climate, owing to the international economic crisis and ended in even more challenging circumstances, due to the grave economic situation in Serbia.
Eurobank continued 2012 with a very clear and strong development strategy; to increase the deposit portfolio and strengthen the liquidity position. Liquidity coordination was instrumental for dealing with all the challenges in this area, including the successful continuation of cooperation with IFIs.

The Bank's involvement in the trading markets of Serbia (FX, MM, bonds) was strong and visible despite the circumstances. Seeking to disperse risk, the Trading Department also managed to achieve the most important goal this year – to be able to provide liquidity with excellent cost management. Continuously developing client-oriented operations including offering different kind of products and services to international and domestic companies, medium and large-sized enterprises, and institutional and private customers was the main goal in 2012 in order to give our clients the opportunity to protect themselves from the different risks on financial markets. Using our group presence in the region, we managed to meet our clients' needs outside Serbia where cross-selling became a very important part of the Treasury's sales activity.



Custody Services

Eurobank has been a provider of securities services on the Serbian market since 2007.
The Custody Department provides clients with access to all local market infrastructures, including the Belgrade Stock Exchange and the Depository and Clearing House. Combining high technology development, comprehensive experience and product and service capabilities with securities services, we meet the needs of a diverse clientele including both financial institutions and retail clients. We provide an end-to-end processing capability spanning the clearing, settlement, custody and asset servicing value chain.
Close engagement with market infrastructures and decision-makers ensures clients' interests are represented locally and they are kept informed of market changes impacting their business.
In the challenging environment of today's global investment market place, we recognize the very specific expectations placed on custody providers and we are well positioned to meet those expectations through our wide range of services:

- Homogeneous system and support throughout the region
- Group system experience with large volume of transactions
- Full SWIFT capability
- Settlement processing: High straight through-processing rates (STP), large experience in the local market and the availability of our services
- Corporate actions: with high degree of experience and expertise which we successfully deliver
- Portfolio reporting: timely, accurate and tailor-made reports in client-defined intervals
- Notification within 24 hours of announcement of corporate actions
- Market news

6 OTHER SERVICES

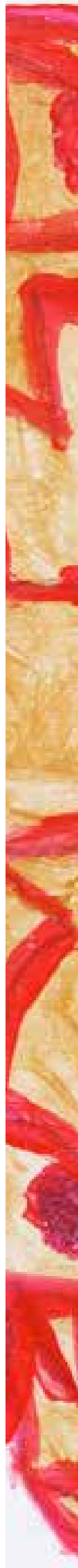
OTHER SERVICES

Operational efficiency & customer service

Our electronic banking offer was further enriched through the introduction of our new international payments module for legal entities, allowing us to become one of the leading banks in the local market by its offering in this area of business. Furthermore, through the introduction of cutting edge technology phone banking services, targeting non-IT experienced customers, Eurobank has grown into one of the pioneers in the market segment of alternative distribution channels.

The new Trade Finance workflow that is supporting, end-to-end, all documentary products, resulted in a direct positive impact during the preparation and issuance of letters of credits / letters of guarantee, covering the increased demand for this type of product, with the existing human capacity. The achieved efficiency is notable and provides us with a distinctive comparative advantage on the Serbian financial market.

A wide introduction of digitalization of documents, with a modern and totally secured document management system, allowed us the transformation from "paper based" into "paperless " operations, leading to improved and faster customer services, while preserving costs and safeguarding eco-friendliness by further optimizing paper/toner consumption.



Care for the environment

The protection of the environment is a prerequisite for sustainable development and one of the key pillars of Corporate Social Responsibility (CSR). In this vein, Eurobank continuously incorporates relevant processes into its business and undertakes actions aimed at minimizing its environmental footprint.
Striving for the continuous improvement and promotion of its environmental initiatives, Eurobank has participated in the Serbia-wide CSR certification program, organized by the National Alliance for Local Development, and became the first bank in Serbia to be certified as a corporate socially responsible company.

Climate Changes and Environmental Management System

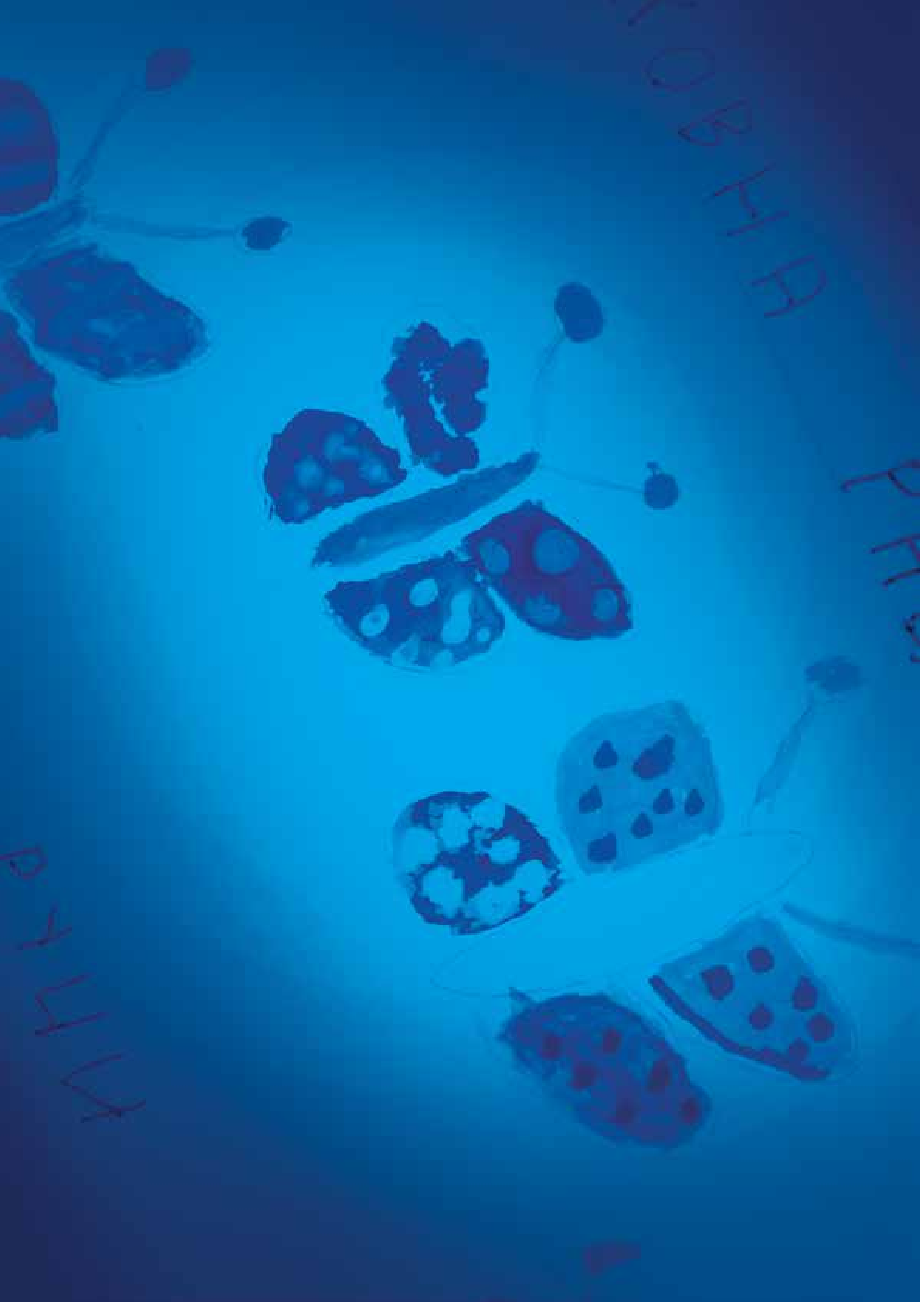
Eurobank pays special attention to the potential risks that may arise from its everyday operations. To this end, the Bank has implemented an Environmental Management System in compliance with the international ISO 14001:2004 standard. Using its internal communication channels, the Bank educated its employees and raised employees' awareness regarding the importance of energy saving and reducing greenhouse gas emissions. Moreover, in 2012, the Bank launched an energy saving program aimed at improving energy efficiency in branches and reducing its carbon footprint by replacing halogen lamps with environment friendly LED lamps.

Responsible Financing – Environmental and Social Risk Management System

An effective environmental and social risk management system is an important part of the Eurobank business development strategy. To this end, the Bank has implemented a system of environmental and social risk appraisal, assessment, evaluation and monitoring that is in compliance with Serbian legislation as well as the best international standards and practices.

7

GROUP SUBSIDIARIES

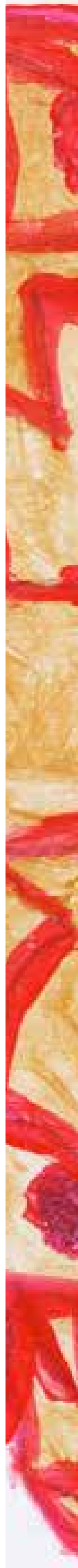


GROUP SUBSIDIARIES

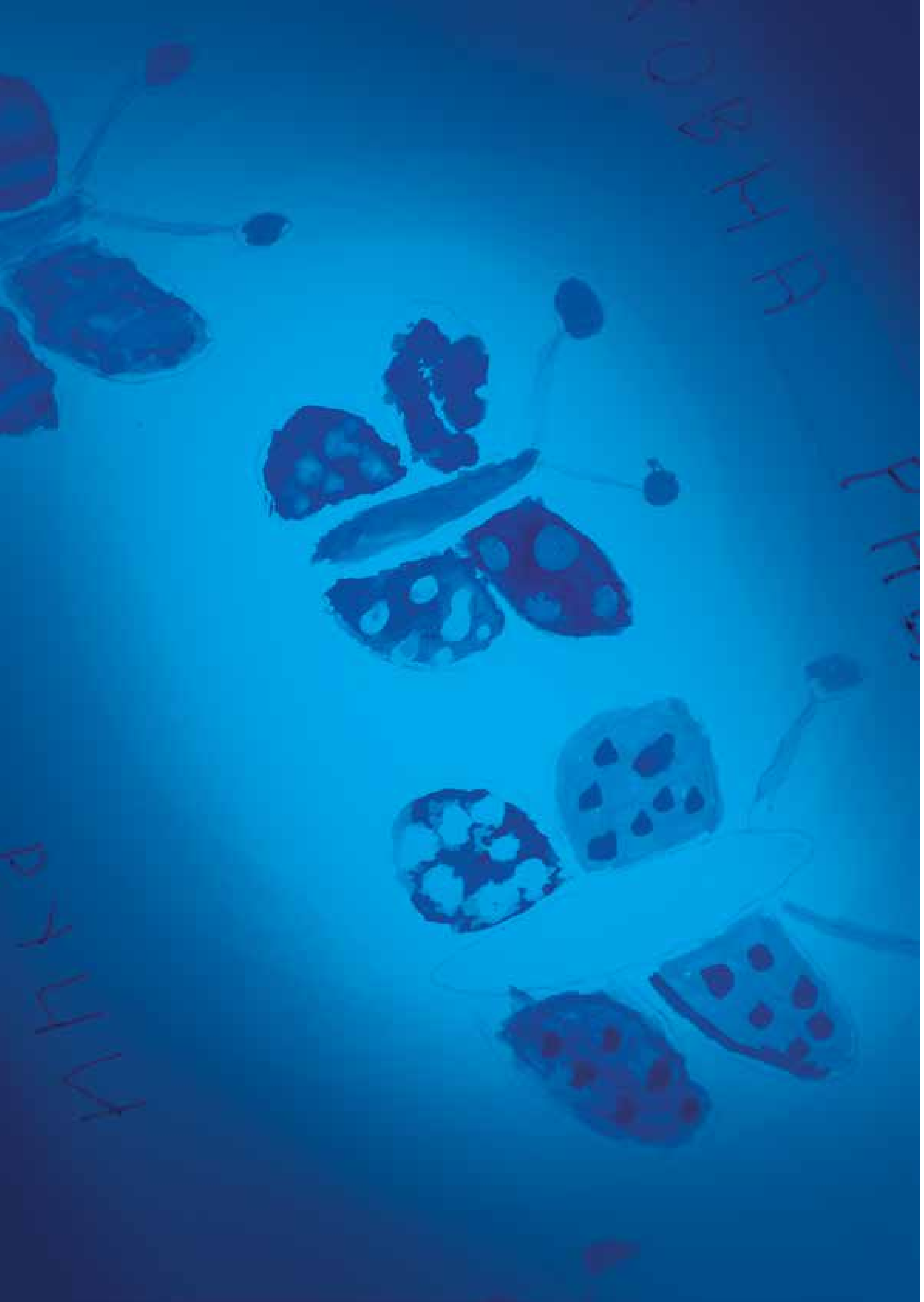
ERB Property Services

Despite the global economic crisis, ERB Property Services continued to develop and expand its services. REAL software was implemented in 2012 which significantly improved the quality of evaluations of both real estate and equipment. As the exclusive appraiser of the Eurobank Group, ERB Property Services performed over 1,700 evaluations for both the Bank and third party clients. All evaluations are done according to IVSC standards. The largest projects included evaluations of BIG C, Ušće and Grand Casino among others.

In 2012, the company relocated six branch offices in cooperation with Branch Network Development and defined the rent amount for the branch network. ERB Property Services is an exclusive sale and leasing agent as well as a consultant for the entire IMO PI portfolio. Additionally, successful cooperation was continued with third party clients such as Plaza Centers, Ušće and Fashion Company.



8
APPENDICES



Eurobank
Serbia

EUROBANK A.D. BELGRADE

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

Vuka Karadžića 10, Belgrade, Serbia
www.eurobank.gr; tel (+30) 210 333 7000
www.eurobank.rs; EuroPHONE: 0800 1111 44
Company registration: 17171178
Tax registration number: 100002532

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Contents:

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF EUROBANK A.D. BEOGRAD

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

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

OPINION

In our opinion, the accompanying financial statement present fairly, in all material respects, the financial position of Eurobank EFG a.d. Belgrade as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with the requirements of the Law on accounting and auditing of the Republic of Serbia, the regulations of the National Bank of Serbia and Note 2 to these financial statements.

PricewaterhouseCoopers d.o.o. Beograd
Saša Todorović
Licensed Auditor

Belgrade, 18 March 2013

1. General information

Eurobank A.D. Beograd has been established by merger of Eurobank EFG a.d. Beograd and Nacionalna Štedionica Banka a.d. that was completed on 20 October 2006.

The Bank is registered in Serbia for carrying out payment, credit and deposit operations in the country and abroad. The bank operates in accordance with Law on Banks based on principles of liquidity, safety and profitability.

The registered office of the Bank is Vuka Karadžića 10, Belgrade.

In December 2012, the Bank has changed business name to "Eurobank A.D. Beograd". Previous name of the Bank was "Eurobank EFG A.D. Beograd".

As at 31 December 2012 the Bank had 1,512 employees (31 December 2011: 1,539 employees). The Bank's network comprises of 107 branches (31 December 2011: 107 branches).

The Bank's Registration number is 17171178. The Bank's Tax identification number is 100002532.

These financial statements have been approved for issue by the Board of Directors on 27 February 2013.

2. Summary of significant accounting policies

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

2.1. Basis of preparation

The financial statements have been prepared in accordance with Accounting and Auditing Law which requires full compliance with IFRS, as well as in accordance with regulations of the National bank of Serbia. These regulations are as follows: Rules on the Forms and Content of Items in Financial Statement Forms to be Completed by Banks (Official gazette of RS no. 74/2008, 3/2009, 12/2009 and 5/2010), Rules on the Chart of Accounts and Content of Accounts within the Chart for Banks (Official gazette of RS no. 98/2007, 57/2008 and 3/2009), Accounting and Auditing Law (Official gazette of RS no. 111/2009)

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

Up to date of accompanying financial statements preparation not all amendments and supplements of existing standards, revised standards and new interpretations issued by IASB and IFRIC, which are in force in current reporting period, i.e. which are first time adoption for the financial year starting 1 January 2012, were officially translated by Ministry of Finance of Republic of Serbia. Mentioned amendments and supplements and new interpretations which are not officially translated in Republic of Serbia are disclosed in Note 2.1. d and Note 2.1.e). The applied accounting policies differ from the IFRS requirements in the following materially significant areas:

1. The Bank has not made certain disclosures in accordance with IAS 1 – Presentation of financial statements since the presentation of the financial statements is defined by the National Bank of Serbia.
2. "Off-balance sheet assets and liabilities" are disclosed in the balance sheet form (Note 38). In accordance with IFRS, off-balance sheet items do not represent either assets or liabilities.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

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

a) **Impact of the economic crisis in Greece**

Greece entered into a new funding and restructuring programme with the European Commission, the ECB and the eurozone member-states as agreed in the Eurogroup meeting of 21 February 2012. The programme aimed at bringing the country's public debt-to-GDP ratio below 120% by 2020.

The new funding and reform programme improved the country's financial position and outlook, via the reduction of public debt and its servicing costs from 2012 onwards.

On the back of these developments, and after the implementation/legislation of a long list of structural reforms and fiscal austerity measures for 2013-16 by the Greek Government, the Eurogroup reached on 26 November 2012 an agreement on a set of new measures for the reduction of Greek public debt to 124.0% of GDP by 2020 and 110.0% of GDP in 2022. This debt path is consistent with the debt sustainability required by the IMF.

b) **Position of the Group**

Greek sovereign debt exchange programme

On 21 February 2012 the Euro-area finance ministers agreed on a bail out programme for Greece, including financial assistance from the Official Sector and a voluntary debt exchange agreed with the Private Sector forgiving 53.5% of the face value of Greek debt. All exchanged bonds were derecognized and the new GGBs (nGBBS) recognized at fair value, based on market quotes at the date of recognition.

Following the Eurogroup's decisions on 27 November 2012 and as part of debt reduction measures, the Greek State announced on 3 December 2012 an invitation to eligible holders of nGGBs to submit offers to exchange such securities for six months zero coupon notes to be issued by the European Financial Stability Fund (EFSF). Under in participation to the Greek state's debt buyback program, the Eurobank Ergasias Group submitted for exchange the 100% of its nGGBs portfolio, amounting to € 2.3 bn.

Recapitalization Framework and Process

Given the severity of the impact of the Greek Government Bond exchange programme (PSI+), on 21 February 2012 the Euro Area finance ministers allocated specific amounts of the second support programme for Greece specifically for the recapitalisation of the Greek banking system, which have been directed through the Hellenic Financial Stability Fund (HFSF).

The Bank of Greece (BoG), after assessing the business plan and the capital needs of Eurobank, has concluded on 19 April 2012 that Eurobank is a viable bank and concluded on specific amounts regarding the Tier I capital needs of the Bank.

Management of Eurobank Ergasias S.A. has reasonable expectations that the planned recapitalization will be completed successfully in cooperation with the Bank of Greece and the HFSF.

Alpha Bank - Eurobank Merger

On 22 May 2012, the Second Repeat Extraordinary Shareholders' Meeting of Alpha Bank aborted the merger procedure with Eurobank and recalled Alpha Bank's General Meeting decisions on 15 November 2011.

National Bank of Greece S.A. Voluntary Tender Offer (VTO)

On 5 October 2012, the National Bank of Greece (NBG) announced its intention to launch a voluntary exchange offer to acquire all Eurobank's shares offering 58 new shares of NBG for every 100 shares of Eurobank tendered. NBG also stated that, Eurobank shareholders holding 43.6% of Eurobank's ordinary share capital have committed to tender their shares in the tender offer. (Note 45)

c) **Position of the Bank**

As at 31 December 2012, the Bank does not rely on funding from the Parent bank but predominantly on locally collected deposits, its own capital base and, to a lesser extent, funding from international financial institutions as disclosed in the Notes 29, 30, 31 and 37. The bank's capital adequacy ratio (as prescribed by NBS) is almost double the regulatory minimum of 12% (Note 40).

On 20 June 2011, the Bank and the Parent have concluded a netting agreement, therefore net balance sheet exposure of the Bank towards the Parent, as at 31 December 2012 was RSD 424,151 thousand i.e. the Bank had more placements to and receivables from Parent than borrowings from and liabilities towards Parent. As at 31 December 2011 net exposure was RSD 330,917 thousand. The composition of this net exposure as at 31 December 2012 is disclosed in Note 41.

Article 33 of the Law on Banks (RS Official Gazette No 107/05 and 91/10) prescribes that a bank's exposure to a single related party must not exceed 5% of the bank's regulatory capital. Sum of exposures to all related parties cannot exceed 20% of the bank's capital. As at 31 December 2012, 31 December 2011 and the date of approval of these financial statements, the Bank's exposures to the related parties of the bank did not exceed the amount prescribed by the Law

d) **Amended and new standards and interpretations effective in 2012 for EU**

The amended and new standards and interpretations effective from 1 January 2012 are listed below:

- IFRS 7, Amendment - Disclosures, Transfers of Financial Assets

The above stated amendment did not have a materially significant impact on the Bank's financial statements.

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

e) ***Standards and Interpretations issued but not yet effective for EU***

The following standards and interpretations, that were issued but not yet effective for accounting periods beginning on 1 January 2012, have not been early adopted:

- IAS 1, Amendment - Presentation of Items of Other Comprehensive Income
(effective 1 January 2013)
- IAS 19, Amendment - Employee Benefits
(effective 1 January 2013)
- IAS 27, Amendment - Separate Financial Statements
(effective 1 January 2014)
- IAS 28, Amendment - Investments in Associates and Joint Ventures
(effective 1 January 2014)
- IAS 32, Amendment - Offsetting Financial Assets and Financial Liabilities
(effective 1 January 2014)
- IFRS 7, Amendment - Disclosures, Offsetting Financial Assets and Financial Liabilities
(effective 1 January 2013)
- IFRS 9, Financial Instruments
(effective 1 January 2015, not yet endorsed by EU)
- IFRS 9 and IFRS 7, Amendment - Mandatory Effective Date and Transition Disclosures
(effective 1 January 2015, not yet endorsed by EU)
- IFRS 10, Consolidated Financial Statements (
effective 1 January 2013)
- IFRS 11, Joint Arrangements
(effective 1 January 2013)
- IFRS 12, Disclosure of Interests in Other Entities
(effective 1 January 2013)
- IFRS 13, Fair Value Measurement
(effective 1 January 2013)
- IFRS 10, 11 and 12 Amendments - Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
(effective 1 January 2013, not yet endorsed by EU)
- Annual Improvements to IFRSs 2009–2011 Cycle
(effective 1 January 2013, not yet endorsed by EU)
- IFRS 10, 12 and 27 Amendments - Investment Entities
(effective 1 January 2014, not yet endorsed by EU)

IFRS 9 is part of IASB's project to replace IAS 39 Financial Instruments which has not been finalised yet and as a result, it is not practicable to quantify its impact. The application of the other above mentioned standards and interpretations is not expected to have a material impact on the Bank's financial statements in the period of the initial application.

These financial statements do not comply with all requirements of IFRS. Therefore, these financial statements are not prepared to present financial position of the Bank, result and cash flows in accordance with accounting principles accepted outside of the Republic of Serbia.

2.2. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at the fair value,
- Financial instruments at fair value through profit or loss are measured at fair value
- Financial instruments available for sale are measured at fair value and
- Liabilities from trading activities are measured at the fair value.

2.3. Comparatives

Comparative figures i.e. opening balances represent the financial statements of the Bank as at 31 December 2011.

2.4. Foreign currency translation

a) **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Assets and liabilities denominated in foreign currencies have been translated into the functional currency at the market rates of exchange ruling at the balance sheet date and exchange differences are accounted for in the income statement.

b) **Functional and presentation currency**

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

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

2.5. Derivatives

The Bank uses derivative financial instruments such as foreign currency derivative contracts to hedge its risks associated with interest rate and foreign currency fluctuations.

Derivative financial instruments, including foreign exchange contracts, forward currency agreements, currency swaps, and other derivative financial instruments, are initially recognized in the balance sheet at fair value on the date on which a derivative contract is entered into, and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices, including recent market transactions, discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Embedded derivatives

The Bank negotiates a foreign currency clause with the beneficiaries of the loans. Foreign-currency clause is an embedded derivative that is not accounted for separately from the host contract since the economic characteristics and risks of the embedded derivative are closely related to the host contract. Gains/losses arising on this basis are recorded in the income statement as foreign exchange gains/losses.

Offsetting financial instruments

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

2.6. Income statement

a) **Interest income and expense**

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognized within 'interest income' and 'interest expense' in the income statement using the effective interest method.

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

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

b) **Fee and commission income**

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Fees and commissions mostly comprise of fees for payment operations services, issued guarantees and other services.

Loan origination fees are deferred and amortized to interest earned on loans and advances over the life of the loan using the straight - line method, which approximates the effective interest rate method. Loan origination fees are presented within Interest income (Note 6).

2.7. Property and equipment

All property and equipment are carried at cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

	Years
Buildings	77
Leasehold improvements	up to 18
Computer equipment	5-7
Furniture and other equipment	7-25
Motor vehicles	5

The assets' residual value represents the estimated amount that the Bank might obtain at present through the sale of the asset, decreased by the estimated cost of sale. If the Bank expects to utilize the asset until the expiration of its useful life, the residual value amounts to zero. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income/expenses in the income statement.

2.8. Intangible assets

Licences

Licenses are initially recognized at cost. They have limited useful life and are stated at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives (from 1 to 15 years).

Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (15 years).

Costs associated with developing or maintaining computer software are recognized as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank and will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the costs of employees involved in software development.

Computer software development costs recognized as assets are amortized over their estimated useful lives (not exceeding 10 years).

2.9. Financial assets

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

a) **Financial assets at fair value through profit or loss**

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

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated for at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost.
- Certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows.

b) **Loans and receivables**

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

c) **Held-to-maturity financial assets**

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

Held-to-maturity investments are stated at amortized cost using effective interest rate method. The amortized cost is calculated taking into consideration all discounts and premiums received at the date of purchase.

d) **Available-for-sale financial assets**

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

e) **Accounting treatment and calculation**

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognized on trade-date – the date on which the Bank commits to purchase or sell the asset. Investments are initially recognized at fair value increased for transactions costs for all financial assets not held at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest rate method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. However, interest calculated using the effective interest method is recognized in the income statement. Dividends on equity instruments are recognized in the income statement when the entity's right to receive payment is established.

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

2.10. Impairment of financial assets

a) **Assets carried at cost and amortized cost**

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

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral.

The estimated period between a loss occurring and its identification is determined by the local management for each identified portfolio type. In general, the periods used vary between three and twelve months; in exceptional cases longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted using the financial asset's original interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due, according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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

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

b) **Assets classified as available for sale**

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value – is recognized in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

2.11. Reserves for estimated losses in accordance with the requirements of the National Bank of Serbia

In accordance with the Decision of the Central Bank of Serbia, the Bank is obliged to classify loans, other placements, guarantees and other on balance sheet and off-balance sheet exposures into the categories A, B, C, D and E, based on evaluation of their collectability and associated risk exposures, which depends upon the number of days the payments are in arrears, the financial position of the counterparty, and the quality of the collaterals obtained on the exposure. Reserve for estimated losses is calculated by applying the percentages of 0% for A category, 2% for B category, 15% for C category, 30% for D category and 100% for E category to the exposures classified in the respective categories (in 2011: 0% for A category, 2% for B category, 15% for C category, 30% for D category and 100% for E category)

Required reserve for estimated losses is calculated as a difference between total reserve calculated in accordance with the requirements of the Central bank and impairment losses calculated in accordance with policy described in the Note 2.9. Required reserve for estimated losses represents a deductible item in capital adequacy calculation (Note 5.5).

2.12. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13. Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to purchase and sell ('reverse repos') are recorded as callable deposits and credits (Note 19). The difference between purchase and sale price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

2.14. Borrowings

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

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

2.15. Leases

The Bank is a lessee

Leases entered into by the Bank are primarily operating leases. With an operating lease, a significant part of both risk and benefits remains with the lessor. The total payments made under operating leases are charged to other operating expenses in the income statement on straight-line basis over period of the lease.

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

The Bank is a lessor

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

The Bank is leasing the assets under operating lease. The asset under operating lease is included in the balance sheet of the Bank based on the nature of the asset.

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

2.16. Income tax and deferred income tax

Income tax presents the amount calculated and paid to the tax authorities based on legislations of Republic of Serbia. Estimated monthly instalments are calculated by the Tax authority and paid in advance on a monthly basis.

Income tax at the rate of 10% is payable based on the profit calculated as per the tax return. In order to arrive at the taxable profit, the accounting profit is adjusted for certain differences and reduced for certain investments made during the year. Tax return is submitted to tax authorities 10 days after submission of the financial statements, i.e. until the 10 March of the following year.

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognized for all taxable temporary differences between the tax basis of assets and liabilities at the balance sheet date, and their amounts disclosed for reporting purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognized for all deductible temporary differences, unused tax assets and unused tax losses, to the extent that it is probable that future taxable profits will be sufficient to enable realization (utilization) of deductible temporary differences, unused tax assets and unused tax liabilities.

Current and deferred income tax is recognized in the current year's income statement.

2.17. Employee benefits

a) **Employee's benefits**

Short term benefits to employees include salaries and social contributions. They are recognized as an expense in the period when they are incurred.

The Bank and its employees are obliged to make payments to the pension fund of Republic of Serbia in accordance with the defined contribution plan. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due.

b) **Other employee's benefits**

The Bank provides other benefits for the retirement. An employee is usually entitled to these benefits if they were employees of the Bank until reaching the prescribed age for retirement and the minimum required years of employment. The above mentioned benefits are accumulated during the service. The defined retirement obligations are estimated annually by an independent certified actuary through the projected credit unit valuation method. The present value of benefit obligations is determined by discounting the expected future cash payments by reference to the interest rates of the high quality bonds expressed in the same currency, which mature approximately at the same period when retirement obligations are due.

c) **Termination benefits**

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

2.18. Repossessed properties

Land and buildings repossessed through an auction process to recover impaired loans are, except where otherwise stated, included in “Other Assets”. Assets acquired from an auction process are held temporarily for liquidation and are valued at the lower of cost and net realizable value. Any gains or losses on liquidation are included in “Other operating income”.

2.19. Related party transactions

Related parties include associates, fellow subsidiaries, directors, their close families, companies owned or controlled by them and companies whose financial and operating policies they can influence. Transactions of similar nature are disclosed on an aggregate basis. All banking transactions entered into with related parties are in the normal course of business and on an arm’s length basis.

2.20. Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and reliable estimates of the amount of the obligation can be made.

2.21. Share capital

a) **Share issue costs**

Share issue costs directly attributable to the issue of new shares are shown in equity as a deduction.

b) **Dividends on ordinary shares**

Dividends are recognized as liabilities for the period in which the decision of their payment has been reached. Dividends approved for the year after the balance sheet date are dealt with in the subsequent events note.

2.22. Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank’s liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management. Any increase in the liability relating to guarantees is taken to the income statement.

2.23. Cash and cash equivalents

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

2.24. Assets managed on behalf of third parties

The bank manages foreign currency frozen bonds issued by Republic of Serbia on behalf of the state and acts as an agent in this business.

3. Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) **Impairment losses on loans and advances**

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

b) **Income tax**

The Bank is subject to income taxes in Serbia. Certain estimates are required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

c) **Fair value of financial assets and liabilities**

The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). If there is no active market for a financial instrument, the Bank establishes fair value using valuation techniques. These include the use of recent arm’s length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

4. Financial assets per categories and classes

Financial assets per categories and classes are as follows:

	2012	2011
Loans and receivables	104,477,053	99,443,627
Financial assets at fair value through profit or loss	13,093	511,756
Held-to-maturity financial assets	6,315,976	17,560,640
Available for sale financial assets	12,702,869	1,837,064
Total	**123,508,991**	**119,353,087**

5. Risk management policies

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Risk management is done through specialized Risk management division. The Bank has defined procedures for risk identification, measurement and risk management in accordance with regulations and best practices.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Bank is exposed to the following most important risks:

5.1 Credit risk
5.2 Market risk
5.3. Liquidity risk
5.4. Operational risks

Market risk includes:

- Foreign currency risk
- Interest rate risk
- Other price risks

5.1. Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, sector risk, repayment risk, etc.).

5.1.1. Management of credit risk

The Bank approves loans in accordance with business policy and by adjusting maturity dates of loans approved and interest rates with the purpose of loans, type of the loan or client and creditworthiness of its clients.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

The Board of Directors has delegated responsibility for the approval of credit exposures to several different levels in accordance with the limits set forth by the Board. The underlying foundation of the credit processes is the application of the "four-eye principle" on one side from the Business Units and on the other side from Risk Management for all exposures above the business unit level of approval. In case of exposures approved within the business unit level of approval, the "four-eye principle" is ensured within that business unit.

Business Units, under the Corporate Banking Division, incorporate the following:

- Large Corporate (LC) Department
- Small & Medium Enterprises (SME) Department

Business Divisions, responsible for retail lending operations, incorporate the following:

- Household Lending Division
- Small Business Lending Division

The Risk Management Division (RMD) incorporates the following units handling credit risk:

- Credit Risk Department (CRD)
- Credit Control Department (CCD)
- Non-Performing Loans Department (NPL)

Credit Control Department and Credit Risk Department are responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements. This task is performed by Credit Control Department.

- Credit Risk Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned, and provides independent credit opinion. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties, countries and industries (for loans and advances), and by issuer, credit rating band and market liquidity (for investment securities).

- Developing and maintaining the Bank's risk grading policy in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is maintained by Credit Control Department. The risk grading system is used in determining where impairment allowance may be required against specific credit exposures. The current risk grading framework for wholesale placements consists of eleven grades and for retail exposures of fourteen grades (delinquency based) reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. Risk grades are subject to regular reviews.

- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types is the responsibility of Credit Control Department. Regular reports are provided to various Bank bodies on the credit quality of portfolios and appropriate corrective action is taken. One of its main tasks is providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement Bank's credit policies and procedures, with credit approval authorities delegated from the Board of Directors. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

The bank has developed and adopted a credit policy for each lending business unit. Each credit policy of Eurobank a.d. Beograd (hereinafter: the Credit Policy) defines basic concepts, guidelines and rules that ensure the proper management of the process of approving, disbursing, monitoring and collecting of loans and other exposures

Credit Policy defines:

- the goals of the credit policy,
- the basic concepts of credit policy,
- lending principles,
- the organization of credit operations,
- responsibilities and decision making,
- the procedure for granting loans and other placements,
- credit risk,
- collateral instruments,
- procedures for collecting outstanding amounts.

For the purposes of implementing the relevant Credit Policy, the Bank has also passed other necessary acts, decisions, rules, procedures, etc.

When assuming credit risk, the Bank applies the following fundamental rules:

A prerequisite for every financing transaction is the understanding of the economic background of the transaction.

A loan is granted only when the Bank has sufficient information on the borrower's creditworthiness. The Bank will not grant a loan (or increase an existing one) to a borrower who is unwilling or unable to provide sufficient information.

Collateral is accepted only to support an exposure. It cannot serve as a substitute for the borrower's ability to meet obligations (exception: Lombard loans, cash collateralized loans, etc.).

The large and largest exposures towards any borrower (or group of connected borrowers), exposures towards connected persons as well as the total exposure of the Bank (both on and off-balance sheet), is kept within limits prescribed by the Law on Banks and relevant decisions of the National bank of Serbia.

The Bank approves new loans or decides to extend or not to extend the existing ones based on creditworthiness of the client, as well as details and characteristics of the transaction.

All Bank credit facilities are based on relevant approvals, which lay down the terms and other conditions for their implementation. The approval levels and limits are defined by the relevant Board of Directors Decision on approval levels.

For wholesale placements, there are 7 approval authority levels with the highest one being Board of Directors (or other nominated authority) in case of large exposures and exposures to related parties.

For retail placements, there are also different approval levels depending on the type of business (consumer lending, mortgage lending or SBB lending), with the highest authority being specific Credit Commission for each business type.

In each committee/commission, risk management has the right of vote. All decisions must be unanimous.

In addition to the client's creditworthiness, risk limits are also determined taking into account various collateral instruments. Risk exposure to individual borrower, including banks, is limited and includes both balance and off-balance sheet risk exposures. The total risk exposure per individual client (or group of related parties) with regards to the limits, is considered and analysed prior to completion of the transaction.

In order to ensure the safety of the business operations, and based on the estimated risks of potential losses, the Bank calculates provisions, which arise from loans and off-balance sheet exposures. Levels of provision are related to the risk grade of the placement..

Risk grading system for wholesale clients

The 11 grade system derives the rating of the borrower (and not the credit facility) is based on the weighted average of the following risk parameters:

- Financials
- Sector
- Management
- Operations

In addition, other factors such as debt servicing, change in the borrower's ownership, etc., may affect the final rating of a customer.

The credit rating is based on a profound analysis of qualitative and quantitative factors:

Qualitative factors: are those that deal with the borrower's management, industry, operating conditions, etc.

Quantitative factors: are those that refer to a set of various ratios (main ratios: profitability, leverage, liquidity) emerging from the borrower's financial statements (balance sheet, income statement, notes to financial statements etc.)

Credit related commitments

The primary purpose of undrawn credit commitments is to ensure that funds are available to a customer in accordance with the agreement.

Guarantees and letter of credits carry the same credit risk as loans

5.1.2. Impairment and provisioning policy

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). Individually impaired assets are those which have been individually assessed for impairment and for which an impairment loss has been recognized. For individually assessed accounts, loans are treated as impaired as soon as there is objective evidence that an impairment loss has been incurred. Accounts in portfolios of homogeneous loans are treated as impaired once facilities are 90 days or more overdue for consumer and SBB placements, and 180 days or more overdue for mortgage placements.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that recognizing impairment loss is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank. The term 'past due financial asset' is defined as 'day-1 delay'. That is when a counterparty has failed to make a payment when contractually due. The buckets used by the Bank for the purpose of this disclosure are:

- Consumer Lending: 1 – 89 days past due
- Mortgage: 1 – 179 days past due
- SBB: 1 – 89 days past due (loans for which specific provisions have been recognized are excluded).
- Corporate Lending: 1 – 359 days past due and internal grading score below eight (loans which have been recognized as individually impaired are excluded)

Allowances for impairment

The Bank establishes allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss components that relate to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Impairment of wholesale placements

For exposures to borrowers with a rating of 8 or worse, NPV charge is calculated in accordance with IAS 39 requirements, depending on collateral and impairment analysis on “case by case” basis for the client. This charge is added up to the impairment calculated in accordance with the appropriate impairment rate and the sum represents total impairment

Impairment of retail placements

The classification of retail clients is based on the full delinquency analysis. The required impairment is computed by applying the appropriate rate to the net exposure per each product group and per each delinquency bucket. In case of individually impaired loans, future expected cash-flows are discounted in accordance with IAS 39 requirements, in order to arrive to appropriate level of impairment.

Special reserves

For both wholesale and retail placements, as per the regulatory requirements of the National Bank of Serbia, the Bank also calculates reserves for estimated losses as defined by the Decision on the Classification of Banks Balance Sheet Assets and Off-Balance Sheet Items, and other relevant regulations of the National Bank of Serbia.

Write-off policy

The Bank writes off a loan/security balance (and any related allowances for impairment losses) when it is determined that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer’s financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to collect entire exposure. For unsecured retail loans, write off decisions generally are based on a product specific past due status. Any write-off is approved by the relevant body in accordance with the decision of Board of Directors.

5.1.3. Collaterals

For a majority of exposures, the Bank requires collateral. Collateral generally is not held over loans and advances to banks. Most often the collateral consists of one or more of the following collateral instruments (or instruments for credit support):

- cash deposits in dinars and foreign currencies,
- guarantees from the government, government funds or first class banks,
- guarantees from parent companies, other legal entities and individual persons,
- letters of comfort from parent companies,
- mortgage over real estate,
- pledge over movable property,
- own blank bills of exchange,
- pledge over shares or ownership stakes
- a pledge over other securities (e.g. bonds) or precious metals,
- assignment of receivables (with or without notification) etc.,
- assignment of insurance policies.

The Bank reserves the right to request any other type of instruments (or variation of the above instruments) which it may deem necessary.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are updated periodically in accordance with the relevant credit policy.

5.1.4. Credit monitoring

The Bank constantly monitors the state of the borrower’s business and any change in its creditworthiness. To this end, besides the regular evaluation of financial statements, the responsible business units carry out regular checks of the borrower’s business operations.

The monitoring of the borrower is institutionalized through regular credit reviews. Credit reviews are prepared by the relevant business unit and approved by the relevant approval authority. In case of wholesale customers, the review frequency depends on their risk grade.

The Bank’s maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the Balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment

5.1.5. Loans and advances

Loans and advances are summarized as follows:

	31 December 2012		31 December 2011	
	Loans and advances to customers	**Loans and advances to banks**	**Loans and advances to customers**	**Loans and advances to banks**
Neither past due nor impaired	72,389,754	17,826,598	69,248,660	16,031,413
Past due but not impaired	7,104,122	-	10,692,612	-
Impaired	16,026,708	-	10,181,970	-
Total gross amount	**95,520,584**	**17,826,598**	**90,123,242**	**16,031,413**

a) **Loans and advances neither past due nor impaired**

The credit quality of the portfolio of loans and advances that were neither past due nor impaired at 31 December 2012 can be assessed by reference to the Bank's standard grading system. The following information is based on that system:

	31 December 2012		31 December 2011	
	Loans and advances to customers	**Loans and advances to banks**	**Loans and advances to customers**	**Loans and advances to banks**
Neither past due nor impaired - grades:				
Satisfactory risk (wholesale grades 1 to 6)	27,710,035	17,826,598	20,350,882	16,031,413
Watch list and special mention (wholesale grade 7)	264,169	-	594,985	-
Total retail	44,415,550	-	48,302,793	-
Total gross amount	**72,389,754**	**17,826,598**	**69,248,660**	**16,031,413**

b) **Loans and advances past due but not impaired**

The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

Loans and advances past due but not impaired as at 31 December 2012 are as follows:

	Retail customers			Wholesale	
31 December 2012	**Mortgages**	**Consumer lending**	**Small Business lending**	**Corporate lending**	**Total**
Past due up to 29 days	24,535	1,146,194	1,361,391	569,084	3,101,204
Past due 30 - 89 days	706,917	979,994	1,366,452	400,340	3,453,703
Past due 90 - less than 1 year	403,476	-	-	145,739	549,215
Total gross amount	**1,134,928**	**2,126,188**	**2,727,843**	**1,115,163**	**7,104,122**

Loans and advances past due but not impaired as at 31 December 2011 are as follows:

	Retail customers			Wholesale	
31 December 2011	**Mortgages**	**Consumer lending**	**Small Business lending**	**Corporate lending**	**Total**
Past due up to 29 days	33,308	958,246	511,655	3,801,902	5,305,111
Past due 30 - 89 days	570,811	929,395	1,221,243	1,704,235	4,425,684
Past due 90 - less than 1 year	335,914	-	-	625,903	961,817
Total gross amount	**940,033**	**1,887,641**	**1,732,898**	**6,132,040**	**10,692,612**

c) **Loans and advances individually impaired**

The breakdown of the gross amount of individually impaired loans and advances by class as at 31 December 2012 are as follows:

	Retail		Wholesale	
31 December 2012	**Mortgages**	**SBB**	**Corporate lending**	**Total**
Individually impaired loans - gross	545,735	10,858,805	2,532,726	**13,937,266**

The breakdown as at 31 December 2011 is as follows:

	Retail		Wholesale	
31 December 2011	**Mortgages**	**SBB**	**Corporate lending**	**Total**
Individually impaired loans - gross	345,563	7,540,851	959,357	**8,845,771**

d) **Financial Effect of Collaterals**

The corporate and small business banking portfolios are covered by collateral 42% and 75% respectively (in 2011: 45% and 68% respectively). Consumer loans are generally not collateralized with exception of cash deposits taken as collateral in certain circumstances. Mortgage loans are fully collateralized. Collateral coverage disclosed satisfies the criteria prescribed by relevant regulations and it includes: cash deposits, high quality securities and mortgages if meeting prescribed criteria. The bank also holds other collaterals not disclosed above, such as: pledges over receivables, own blank bills of exchange, movable goods and other collaterals which do not satisfy aforementioned criteria and whose fair value is difficult to measure.

5.1.6. Securities, treasury bills and other eligible bills

As at 31 December 2012, the Bank has dinar bonds of Republic of Serbia Ministry of Finance in the total amount of RSD 10,141,453 thousand, and foreign currency trading securities of Republic of Serbia (frozen savings bonds) in the amount of RSD 8,870,806 (Note 22). The above mentioned bonds and trading securities are not rated. The rating of country is BB based on Standard and Poor's rating.

As at 31 December 2011, the Bank has reverse repo transactions of purchase and sale of securities with the Central Bank in the amount of RSD 5,516,385 thousand (Note 19), Republic of Serbia Ministry of Finance dinar bonds in the total amount of RSD 12,989,638 thousand, and foreign currency trading securities of Republic of Serbia (frozen savings bonds) in the amount of RSD 1,378,883 (Note 22). The above mentioned bonds and trading securities are not rated.

5.1.7. Repossessed collateral

As at 31 December 2012 Bank had the following assets that were obtained by taking possession of collateral held as security:

Nature of assets	Carrying amount	
	2012	2011
Residential property	11,510	11,510

5.1.8. Concentration of risks of financial assets with credit risk exposure

a) **Geographical sectorsa**

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the geographical sectors of counterparties:

	Serbia	Greece	Western Europe	Total
Interest, fees and commission receivable	1,047,948	1,500	-	**1,049,448**
Loans and advances to banks	390,000	17,315,242	121,356	**17,826,598**
Loans and advances to customers:				
- Corporate lending	30,562,023	-	-	**30,562,023**
- Consumer lending	19,023,050	-	-	**19,023,050**
- Mortgages	24,089,849	-	-	**24,089,849**
- Small business lending	12,975,533	-	-	**12,975,533**
Securities (excluding own shares)	19,025,352	-	6,586	**19,031,938**
Other lending	1,820,807	-	-	**1,820,807**
Other assets, prepayments and accrued income	1,401,567	102,438	7,080	**1,511,085**
As at 31 December 2012	**110,336,129**	**17,419,180**	**135,022**	**127,890,331**
As at 31 December 2011	**107,853,730**	**15,924,858**	**123,590**	**123,902,178**

b) **Industry sectors**

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of counterparties:

	Commerce and services	Construction	Financial services	Manufacturing	Private individuals	Other	Total
Interest, fees and commission receivable	300,259	96,413	20,710	147,251	426,198	58,637	**1,049,448**
Loans and advances to banks	-	-	17,826,598	-	-	-	**17,826,598**
- Corporate lending	17,580,742	1,453,852	4,549	7,626,299	-	3,896,581	**30,562,023**
- Consumer lending	-	-	-	-	19,023,050	-	**19,023,050**
- Mortgages	-	-	-	-	24,089,849	-	**24,089,849**
- Small business lending	4,207,316	627,171	-	2,118,217	5,562,585	460,244	**12,975,533**
Securities (excluding own shares)	-	-	18,775	-	-	19,013,165	**19,031,938**
Other lending	-	-	-	-	-	1,820,807	**1,820,807**
Other assets, prepayments and accrued income	-	-	-	-	-	1,511,085	**1,511,085**
As at 31 December 2012	**22,088,317**	**2,177,436**	**17,870,630**	**9,891,747**	**49,101,682**	**26,760,519**	**127,890,331**
As at 31 December 2011	**20,811,195**	**3,819,367**	**21,684,990**	**8,716,325**	**48,794,216**	**20,076,085**	**123,902,178**

5.2. Market Risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

5.2.1. Foreign exchange risk

Exposure to foreign currency risk is monitored on regular basis by complying with the requirements of the National Bank of Serbia. The Bank manages its foreign currency position by granting loans that are indexed to foreign currency. The Bank also actively manages the foreign currency risk by careful estimation of the open foreign currency positions and compliance with the risk ratios prescribed by the National Bank of Serbia as well as the limits prescribed in the internal acts enacted by the Bank's management and Risk Management Committee. Bank is using scenario analysis for measurement of FX risk.

5.2.2. Interest rate risk

Interest rate risk is the exposure of bank's financial condition to adverse movements in interest rates. Generally, there are two ways on which the bank could be affected by changes in interest rates. Firstly, changes in interest rates are affecting the value of banks assets, liabilities and off-balance sheet items, and secondly, it impacts banks future cash flows that the bank will obtain. Interest rate risk could come in the variety of forms, including reprising risk, yield curve risk, basis and optionality risk. The Bank's interest rates are set taking into account the market interest rates and other factors (such as cost of risk, reserve requirement, etc.) and the Bank regularly adjusts them.

The purpose of the interest rate management activities is to optimize the net interest income, and to maintain the interest margins on a consistent level in accordance to the Bank's business strategy. The management is based on maturities matching of the assets, liabilities and off balance sheet items, on the basis of: macro and micro economic estimations, estimations of the conditions for achieving liquidity, and the estimation of the interest rates' trends.

For purpose of measurement of interest rate risk, Bank is using sensitivity analysis by applying duration-based sensitivity weights, followed with stress tests incorporating various changes in interest rate variables. The Bank is managing interest rate risk through set of interest rate exposure limits.

5.2.3. Sensitivity analysis

The management of interest rate risk and currency risk against gap limits is supplemented by monitoring the sensitivity of the Bank's income statements to various interest rate and foreign currency rate scenarios. The sensitivity of the income statement is the effect of the assumed changes in interest rates and FX rate on the net interest income for one year.

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates and FX rates (assuming no asymmetrical movements in yield curves and constant balance sheet position) is as follows:

	Sensitivity of income statement	
Interest rate sensitivity	**2012**	**2011**
Increase in basis points		
+100 bps parallel shift	(257,385)	(758,071)
Foreign exchange sensitivity		
10% depreciation of RSD	(884)	(14,524)

5.3. Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations which can have a negative result on the Bank's financial results and equity. The Bank manages liquidity risk by obtaining different funding sources that include:

- customer's deposits with different maturities
- deposits from the money market and available lines with financial institutions
- available lines form the majority shareholder
- available lines from international financial institutions
- share capital.

Sources of liquidity are regularly reviewed so as to maintain a wide diversification by currency, geography, provider, product and term.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

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

Diversity and stability of core deposit base involves an analysis allowing for Bank to more effectively controls and measures deposit based liquidity and more accurately measures liquidity risk by defining deposit inputs.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Liquidity risk measurement includes assessment of the risk under normal market conditions and under stress scenarios. Scenarios, which are defined based on historical data and case studies, should allow the bank to evaluate the potential adverse impact these factors can have on its liquidity position. Liquidity risk is monitored through set of short term limits. Following NBS methodology, the Bank had defined minimum level of liquidity expressed as short term liquidity ratio. For internal methodology purposes, limit framework includes ratios as limit definition of acceptable levels of short term liquidity mismatches.

Non – derivative cash flow

he amounts disclosed in the table below are the contractual undiscounted cash flows for the years 2012 and 2011.

a) **Balance sheet items**

As at 31 December 2012	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Transaction and other deposits	33,392,907	8,858,641	50,083,864	1,656,428	-	93,991,840
Borrowings	170,853	341,707	1,566,155	27,651,817	681,881	30,412,413
Other liabilities	318,958					318,958
Total liabilities (contractual maturity dates)	33,882,718	9,200,348	51,650,019	29,308,245	681,881	124,723,211
Assets held for managing liquidity risk (contractual maturity dates)	**55,728,969**	**17,226,356**	**42,592,525**	**25,674,787**	**21,973,689**	**163,196,326**
As at 31 December 2011	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Transaction and other deposits	40,602,152	7,847,998	37,942,551	3,703,193	-	90,095,874
Borrowings	258,676	337,846	2,125,025	26,762,825	66,268	29,550,638
Other liabilities	153,436	-	-	-	-	153,436
Total liabilities (contractual maturity dates)	**41,014,264**	**8,185,844**	**40,067,556**	**30,466,016**	**66,268**	**119,799,948**
Assets held for managing liquidity risk (contractual maturity dates)	**67,075,047**	**17,559,408**	**19,403,431**	**24,321,419**	**26,253,734**	**154,613,039**

b) **Off-balance sheet items**

As at 31 December 2012	No later than 1 year	1-5 years	Over 5 years	Total
Loan commitments	3,783,926	5,807,192	1,025,766	10,616,884
Guarantees and acceptances	1,589,640	6,849,835	10,822,979	19,262,454
Other irrevocable commitments	981,107	627,253	-	1,608,360
Operating lease	114,554	78,938	104,671	298,163
Capital commitments	20,532			20,532
Total	**6,489,759**	**13,363,218**	**11,953,416**	**31,806,393**
As at 31 December 2011	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Loan commitments	2,850,220	4,602,671	1,092,321	8,545,212
Guarantees and acceptances	1,168,336	5,571,778	11,044,728	17,784,842
Other irrevocable commitments	66,151	648,406	-	714,557
Operating lease	78,938	-	-	78,938
Capital commitments	34,331	-	-	34,331
Total	**4,197,976**	**10,822,855**	**12,137,049**	**27,157,880**

Derivative cash flow

The Bank's derivatives that are be settled on gross basis include foreign exchange swaps over-the-counter (OTC).

The table below analyses the Bank's derivative financial assets and liabilities that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Derivatives settled on gross basis					
Financial liabilities as at 31 December 2012	**Less than 1 month**	**Between 1 and 3 months**	**Between 3 and 12 month**	**Between 1 and 5 years**	**Over 5 year**
Currency swaps and forwards	21,552,591	22,744	-	-	-
Total	**21,552,591**	**22,744**	**-**	**-**	**-**
Financial assets as at 31 December 2012	**Less than 1 month**	**Between 1 and 3 months**	**Between 3 and 12 month**	**Between 1 and 5 years**	**Over 5 year**
Currency swaps and forwards	21,578,543	24,760	-	-	-
Total	**21,578,543**	**24,760**	**-**	**-**	**-**

As at 31 December 2011 the contractual undiscounted cash flows are presented below:

Financial liabilities as of 31 December 2011	Less than 1 month	Between 1 and 3 months	Between 3 and 12 month	Between 1 and 5 years	Over 5 year
Currency swaps	23,441,640	-	-	-	-
Total	**23,441,640**	**-**	**-**	**-**	**-**

Financial assets as of 31 December 2011	Less than 1 month	Between 1 and 3 months	Between 3 and 12 month	Between 1 and 5 years	Over 5 year
Currency swaps	23,344,710	-	-	-	-
Total	**23,344,710**	**-**	**-**	**-**	**-**

5.4. Operational risk

Operational risk is the risk of negative effects on the financial result and capital of the bank caused by human error, inadequate internal procedures and processes, inadequate management of the information system and other systems in the bank, as well as by unforeseeable external events. Part of this risk is legal risk, arising from bank's failure to comply with the legal or contractual provisions, negatively affecting the operations or status of the Bank

They are monitored per business lines and per operational loss event types, and regularly reviewed in order to take corrective actions where necessary.

5.5. Capital management

The Bank maintains an actively manage capital base to cover risk inherent to the business. The Bank's objectives, when managing capital, which is a broader concept than "equity" on the face of the balance sheet, are:

- To comply with the capital requirements set by the National Bank of Serbia
- To provide an adequate level of capital so as to enable the Bank to continue its operations as a going concern
- To maintain a strong capital base to support the development of its business.

Capital adequacy, as well as the use of the Bank's capital is monitored on a monthly basis by the Bank's management.

The National Bank of Serbia has defined the following capital limits:

- The minimum amount of the capital of EUR 10 million
- Capital adequacy ratio of 12%

The Bank's total capital comprises of tier 1 and tier 2 capital and deductible items.

Tier 1 capital: share capital from ordinary shares, share premium, statutory reserves and retained loss. Tier 1 deductible items comprise intangible assets and regulatory adjustments i.e. required reserve for estimated losses as prescribed by relevant NBS regulations.

Tier 2 capital: share capital from preference shares, share premium from preference shares, part of positive revaluation reserves arising from effects of changes in fair value of fixed assets, securities and other assets, hybrid capital instruments up to 35% of tier I capital, subordinated debt up to 50% of tier 1 capital, and acquired own preference shares as Tier 2 capital deductible items.

Deductible items: direct or indirect investments in banks or other financial institutions in excess of 10% of the capital of these banks or other entities, the amount of the tier 2 capital of the bank which exceeds its tier 1 capital and other items. Deductions are subtracted from the capital in following manner: 50% of the total amount of deductible items is being deducted from the Tier II capital and the rest of the Tier I capital.

The risk weighted balance and off-balance assets are determined in accordance with the prescribed risk ratios for all types of assets. When calculating the capital adequacy ratio, and in accordance with the regulations of the National Bank of Serbia, the overall risk-weighted balance and off-balance assets are increased for the calculated foreign currency and price risk.

The table below summarises the structure of the Bank's capital as at 31 December 2012, as well as the capital adequacy ratio:

	2012	2011
TIER 1 capital	39,403,148	39,488,430
Tier 1 deductible - reserve for estimated losses	(16,669,633)	(18,053,764)
TIER II capital	155,131	21,837
Deductible items		
Investments in shares over 10%	(20,479)	(20,479)
Total regulatory capital	**22,868,167**	**21,436,024**
Risk weighted assets		
Credit and counterparty risk	87,416,932	76,265,841
Market risk	657,979	844,683
Operational risk	12,837,721	13,616,892
Total risk weighted assets	**100,912,632**	**90,727,416**
Capital adequacy	**22.7%**	**23.6%**

5.6. Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. A market price, where an active market (such as a recognized stock exchange) exists, is the best evidence of the fair value of a financial instrument. However market prices are not available for a significant number of financial assets and liabilities held by the Bank. Therefore, for financial instruments where no market price is available, the fair values of financial assets and liabilities are estimated using present value of future cash flows or other estimation and valuation techniques based on current prevailing market conditions.

The values derived from using these techniques are significantly affected by underlying assumptions concerning both the amounts and timing of future cash flows and the discount rates used. The following methods and assumptions indicate that the fair values of financial assets and liabilities approximate their carrying amounts:

a) Trading assets, derivatives and other transactions undertaken for trading purposes as well as treasury bills, available-for-sale securities and assets and liabilities designated at fair value through profit or loss are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then the fair values are estimated using valuation techniques based on observable market data.

b) Substantially all of the Bank's other financial assets and liabilities are at floating rates of interest, which re-price at pre-defined intervals. Therefore the Group has no significant exposure to fair value fluctuations and the carrying value of the financial assets and liabilities is substantially equivalent to their fair values, unless otherwise stated.

5.6.1. Assets and liabilities measured at fair value

a) **Fair value hierarchy**

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

31 December 2012	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Equities (Note 22)	13,093	-	-	13,093
Derivative assets (Note 20)	-	48,047	-	48,047
Financial assets available for sale				
Frozen bonds (Note 22)	8,870,806	-	-	8,870,806
Equities (Note 22)	6,586	-	-	6,586
Treasury bonds (Note 22)	-	3,825,477	-	3,825,477
Total assets	**8,890,485**	**3,873,524**	**-**	**12,764,009**
Derivative liabilities (Note 32)	-	49,284	-	49,284
Total liabilities	**-**	**49,284**	**-**	**49,284**

31 December 2012	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Equities (Note 22)	18,372	-	-	18,372
Treasury bonds (Note 22)	-	493,384	-	493,384
Derivative assets(Note 20)	-	29,765	-	29,765
	-			
Financial assets available for sale				
Frozen bonds (Note 22)	1,378,883	-	-	1,378,883
Equities (Note 22)	6,180	-	-	6,180
Treasury bonds(Note 20)	-	452,001	-	452,001
Total assets	**1,403,435**	**975,150**	**-**	**2,378,585**
Derivative liabilities (Note 32)		38,167	-	38,167
Total liabilities	**-**	**38,167**	**-**	**38,167**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in level 1.

6. Interest income and expense

	2012	2011
Interest income		
Interest income from dinar assets		
Loans	9,034,599	9,518,825
Deposits	275,837	185,699
Securities	1,265,616	1,511,175
Other placements	461,305	1,005,865
Interest income from foreign currency assets		
Loans	338,311	448,326
Deposits	554,679	563,408
Securities	298,643	116,596
Other placements	40,732	48,042
	12,269,722	**13,397,936**
Interest expense		
Interest expense from dinar liabilities		
Borrowings	-	(351)
Deposits	(774,242)	(741,779)
Other liabilities	(759)	(967)
Interest expense from foreign currency liabilities		
Borrowings	(893,481)	(880,616)
Deposits	(3,485,935)	(3,622,461)
Other liabilities	(24,133)	(8,349)
	(5,178,550)	**(5,254,523)**
Net interest income	**7,091,172**	**8,143,413**

7. Fee and commission income and expense

	2012	2011
Fees and commissions income		
Fees for banking services	1,651,705	1,450,250
Commissions from issued guarantees and other sureties	446,211	524,807
Other fees and commissions	139,396	176,904
	2,237,312	**2,151,961**
Fees and commissions expense		
Fees for domestic payment transactions	(26,448)	(21,981)
Fees for payment transactions abroad	(17,725)	(12,297)
Commissions for received guarantees and sureties	(18,851)	(10,216)
Other fees and commissions	(219,821)	(232,882)
	(282,845)	**(277,376)**
Net fees and commissions income	**1,954,467**	**1,874,585**

8. Net gains/(losses) from sale of securities

Net gains/ (losses) from sale of securities at fair value through profit and loss are as follows:

	2012	2011
Gain from sale of securities	9	2,540
Loss from sale of securities	(5,288)	(16,762)
Net (losses)/gains	**(5,279)**	**(14,222)**

Net gains/ (losses) from sale of available for sale securities are as follows:

	2012	2011
Gain from sale of securities	2,601	3,320
Loss from sale of securities	(9)	(17)
Net (losses)/gains	**2,592**	**3,303**

9. Net foreign exchange gains/ (losses)

	2012	2011
Foreign exchange gains	70,158,625	81,258,229
Foreign exchange losses	(74,794,029)	(80,910,651)
Net foreign exchange rate gains/(losses)	**(4,635,404)**	**347,578**

10. Operating and other income

	2012	2011
Collected written-off claims	78,580	84,407
Lease of premises	7,310	6,584
Gains from sale of fixed and intangible assets	330	4,251
Lease of safe boxes	35	21
Collected damages and lawsuits	6,488	3,186
Other income	31,341	35,804
Total	**124,084**	**134,253**

11. Net provisions and impairment losses on loans and advances

	2012	2011
Income from releases of provisions and reversal of impairment losses on loans and advances		
Reversal of impairment for balance sheet items		
Interest, fees and commission receivables (Note 20)	3,353	339
Loans, advances and deposits (Note 21)	11,047	19,334
Other lending (Note 24)	-	16
	14,400	19,689
Release of provisions for retirement indemnities (Note 34)	-	1,743
Release of provisions for court proceedings (Note 34)	-	29,178
Release of provisions for off-balance sheet positions (Note 34)	400	64,160
Release of bonus provisions (Note 34)	89,250	-
Release of provisions for legal cases (Note 34)	1,474	-
Release of provisions for other positions (Note 34)	-	15,117
Total	**105,524**	**129,887**
Expenses for provisions and impairment losses on loans and advances		
Impairment for balance sheet items		
Interest, fees and commission receivables (Note 20)	(198,702)	(226,745)
Loans, advances and deposits (Note 21)	(1,699,939)	(1,924,414)
Other lending (Note 24)	(164,653)	(261,245)
Other assets, prepayments and accrued income (Note 28)	(64,380)	(3,497)
	(2,127,674)	(2,415,901)
Provisions for off-balance sheet items (Note 34)	(27,617)	-
Provisions for legal cases (Note 34)	(7,293)	(4,283)
Provision for retirement(Note 34)	(4,696)	(7,222)
Other provisions (Note 34)	(45,888)	-
Total	**(2,213,168)**	**(2,427,406)**
Net income/(expense) from indirect write-off of lending and provisioning	**(2,107,644)**	**(2,297,519)**

12. Salaries, benefits and other personnel expenses

	2012	2011
Salaries	1,417,111	1,462,616
Tax on salaries and benefits	223,168	232,730
Contributions on salaries and benefits	314,210	320,034
Fees for temporary and occasional assignments	-	5,493
Other personnel expenses	51,330	59,462
Total	**2,005,819**	**2,080,335**

13. Depreciation and amortization expenses

	2012	2011
Intangible assets (Note 25)	177,444	155,097
Property, plant and equipment (Note 26)	224,819	237,093
Total	**402,263**	**392,190**

14. Operating and other expenses

	2012	2011
Administrative expenses	1,566,920	1,573,052
Non-material expenses (excluding taxes and contributions)	732,255	720,993
Contributions	323,518	332,074
Materials	158,118	165,249
Taxes	93,348	81,566
Write off of receivables	16,187	9,461
Disposals and write-offs of intangible assets and PPE	10,790	23,654
Legal expenses and taxes	32,512	37,275
Other expenses	27,190	19,589
Total	**2,960,838**	**2,962,913**

Detailed breakdown of administrative expenses is presented in the table below:

	2012	2011
Transportation services	79,137	81,018
Communication services	102,799	106,733
Telephone	29,517	31,441
Software maintenance	367,754	357,550
Hardware maintenance	47,713	40,192
Maintenance of fixed assets	36,060	33,455
ATM maintenance	16,940	16,343
Marketing and advertising	227,230	290,485
Donations	19,168	19,065
Rent	521,074	498,382
Other services	119,528	98,388
Total	**1,566,920**	**1,573,052**

As of 31 December 2012, non-material expenses in the amount of RSD 732,255 thousand comprise of the following expenses: deposit insurance expenses in the amount of RSD 315,779 thousand, employee transportation expenses in the amount of RSD 46,558 thousand, expenses for legal services in the amount of RSD 60,469 thousand, safeguarding expenses in the amount of RSD 24,628 thousand, services of youth organization in the amount of RSD 22,339, cleaning services in the amount of RSD 29,769 thousand, collection services in the amount of RSD 22,503, thousand, information system services in the amount of RSD 25,885 thousand, intellectual services in the amount of RSD 9,320 thousand and other expense.

As of 31 December 2011, non-material expenses in the amount of RSD 720,993 thousand comprise of the following expenses: deposit insurance expenses in the amount of RSD 301,601 thousand, security, employee transportation expenses in the amount of RSD 46,809 thousand, expenses for legal services in the amount of RSD 31,248 thousand, safeguarding expenses in the amount of RSD 30,313 thousand, services of youth organization in the amount of RSD 33,915, cleaning services in the amount of RSD 30,365 thousand, collection services in the amount of RSD 28,004, thousand, information system services in the amount of RSD 27,088 thousand, intellectual services in the amount of RSD 19,029 thousand and other expense.

15. Income and expenses arising from revaluation of assets and liabilities

	2012	2011
Income arising from change in value of assets and liabilities		
Placements and receivables - exchange rate gains	25,721,839	38,341,087
Liabilities - exchange rate gains	632,448	2,560,050
Increase of market value of derivatives	26,766	29,765
Other income	234	-
	26,381,287	**40,930,902**
Expenses arising from change in value of assets and liabilities		
Placements and receivables - exchange rate losses	(20,632,795)	(38,199,408)
Liabilities - exchange rate losses	(887,024)	(2,547,138)
Decrease of market value of derivatives	(19,600)	(42,260)
Other assets impairment	-	(904)
	(21,539,419)	**(40,789,710)**
Net income/(expense) from change in value of assets and liabilities	**4,841,868**	**141,192**

16. Income tax

Income tax is composed of the following taxes:

	2012	2011
Current income tax	(94,411)	(146,453)
Deferred tax	(128,502)	(79,511)
Total	**(222,913)**	**(225,964)**

The tax on the Bank's profit or loss before tax differs from the theoretical amount that would arise using prescribed tax rate:

	2012	2011
Profit/ (Loss) before tax	1,896,936	2,898,038
Tax calculated at the rate of 10%	(189,693)	(289,804)
Tax effect of non -deductible expenses and non-taxable revenues	871	(3,102)
Tax effect from the current year result	**(188,822)**	**(292,906)**
Tax effect of the changed tax rate	(28,381)	-
Tax effect of temporary differences	(23,184)	(25,169)
Tax effect of deferred tax on tax credits	(76,937)	(54,342)
Utilized tax credits	94,411	146,453
Income tax	**(222,913)**	**(225,964)**

As at 31 December 2012, corporate tax payable amounts to RSD nil, and comprise of corporate tax liability in the amount of RSD 94,411 thousand for the profit realized in 2012 which is offset with prepaid corporate tax in the amount of RSD 94,411 thousand. Breakdown is as follows:

	2012	2011
Current tax liability for the realized profit	94,411	146,453
Prepaid corporate tax	(94,411)	(146,453)
Total	-	-

17. Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

As at 31 December 2012, the Bank has 48 preference shares issued. No preference dividends are declared, therefore there is no effect on basic earnings per share.

	2012	2011
Profit attributable to equity holders of the Company	1,674,023	2,672,074
Weighted average number of ordinary shares in issue	254,224	254,224
Basic earnings per share (expressed in RSD per share)	**6,585**	**10,511**

18. Cash and cash equivalents

	2012	2011
In dinars		
Current account	12,782,831	4,065,757
Cash in hand	871,652	669,303
In foreign currency		
Foreign currency accounts	2,482,641	119,870
Cash in hand	2,458,187	1,272,736
Other cash and cash equivalents	15,931	16,136
Total	**18,611,242**	**6,143,802**

In accordance with the Decision of the National bank of Serbia (Official Gazette of Republic of Serbia no. 116/2006, 3/2007, 31/2007, 93/2007, 35/2008, 94/2008, 100/2008, 107/2008, 110/2008, 112/2008, 12/2009, 39/2009, 44/2009, 47/2009, 111/2009, 12/2010 78/2010, 3/2011 and 8/2011), mandatory reserves in local currency are included in the balance of the current account, therefore it is not presented separately. As at 31 December 2012 calculated mandatory reserves in local currency amounted to RSD 7,985,929 thousand (in 2011: RSD 3,752,652 thousand). The Bank can use mandatory reserves to maintain its liquidity.

19. Callable deposits and loans

	2012	2011
Reverse repo with the NBS – held to maturity	-	5,516,386
Mandatory reserves in foreign currency	16,525,669	24,505,151
Total	**16,525,669**	**30,021,537**

Pursuant to NBS Decision on mandatory reserves the Bank is obligated to set aside funds for mandatory reserves in foreign currency on the separate account with NBS.

As of 9 August 2012, the Decision on mandatory reserves was amended, the effect of which was that the foreign currency mandatory reserves on deposits with maturity up to 2 years stand at 29%. The reserve should be maintained as follows: 32% of the reserve should be maintained in dinars and 68% of reserve should be maintained in euros.

Foreign currency mandatory reserves on deposits with maturity over 2 years stand at 22%. This reserve should be maintained as follows: 24% of the reserve should be maintained in dinars and 76% of the reserve should be maintained in euros.

As of 7 September 2012 the Bank is no longer obliged to maintain foreign currency reserve based on assets pledged by leasing providers. The Bank used to keep 100% reserve for such purposes.

20. Interest, fees and commission receivables, change in fair value of derivatives and other receivables

	2012	2011
Receivables in dinars		
Interest	1,278,952	1,007,749
Fees	214,752	180,846
Sales	740	34
Increase in fair value of derivatives	97	44
Other receivables	240,893	142,442
Receivables in foreign currency		
Interest	54,109	51,046
Fees	40,052	4,376
Increase in fair value of derivatives	47,950	29,721
Interest, fees and commission receivables, gross	**1,877,545**	**1,416,258**
Less: Impairment allowance	(828,097)	(596,010)
Interest, fees and commission receivables, net	**1,049,448**	**820,248**

Movements in impairment allowance are presented below:

	2012	2011
Opening balance	596,010	367,392
Impairment charge (Note 11)	198,702	226,745
Release (Note 11)	(3,353)	(339)
Net foreign exchange effect	38,491	3,130
Write off	(1,753)	(918)
Closing balance	**828,097**	**596,010**

Derivative assets and liabilities:

	31 December 2012			31 December 2011		
		Fair values			Fair values	
	Contract/ notional amount	Assets	Liabilities	Contract/ notional amount	Assets	Liabilities
Derivatives held for trading						
Currency swaps	21,553,942	19	1,334	23,324,457	44	8,447
Currency forwards	45,487	77	-	-	-	-
Interest rate swaps	5,850,969	47,950	47,950	4,581,179	29,721	29,721
Total	**27,450,399**	**48,046**	**49,284**	**27,905,635**	**29,765**	**38,168**

21. Loans, advances and deposits

	2012								2011
	Domestic banks	Financial institutions	Companies	Entrepreneurs	Individuals	Foreign entities	Other clients	Total	Total
Deposits in dinars									
Other deposits	390,000	-	-	-	-	-	-	390,000	630,000
Deposits in foreign currency									
Other deposits	-	-	-	-	-	17,315,242	-	17,315,242	15,287,565
Other special purpose deposits	-	4,549	-	-	-	121,356	-	125,905	118,035
Placements in dinars									
Investment loans	-	-	2,022,113	564,033	-	-	-	2,586,146	2,905,145
Overdrafts	-	-	1,490,131	36,350	784,009	-	-	2,310,490	3,590,970
Working capital loans	-	-	28,312,053	6,696,695	-	-	38,976	35,047,724	29,057,892
Mortgage loans	-	-	-	-	23,966,980	-	-	23,966,980	23,052,034
Other loans	-	-	6,208,541	938,566	20,442,028	-	113,745	27,702,880	25,113,109
Placements in foreign currency									
Import loans	-	-	955,242	-	-	-	-	955,242	2,600,605
Other placements	-	-	100,230	-	-	-	2,846,343	2,946,573	3,799,300
Loans and placements, gross	**390,000**	**4,549**	**39,088,310**	**8,235,644**	**45,193,017**	**17,436,598**	**2,999,064**	**113,347,182**	**106,154,655**
Less: Provisions	-	-	(4,078,483)	(2,673,058)	(2,080,119)	-	(38,470)	(8,870,130)	(6,711,027)
Loans and placements, net	**390,000**	**4,549**	**35,009,828**	**5,562,586**	**43,112,898**	**17,436,598**	**2,960,594**	**104,477,053**	**99,443,627**

Interest rates for indexed loans to legal entities ranged between 3.50% and 27.00% per annum and for RSD loans between 10.50% and 35.50%.

The Bank approves foreign currency indexed RSD loans to retail customers, where the interest rate ranges from 4.22% - 18.72% per annum and RSD loans with interest rates between 11.05% and 35.34%.

Movements in impairment allowance for loans and advances to customers are presented below:

	Corporate	Consumer	Mortgage	SBB	Total
Opening balance 2011	561,645	1,246,741	141,596	2,816,269	4,766,251
Impairment charge (Note 11)	192,520	270,370	25,502	1,436,022	1,924,414
Release (Note 11)	(4,559)	(9,092)	-	(5,683)	(19,334)
Net foreign exchange	8,155	(7,079)	7,269	35,807	44,152
Write off	-	(1,909)	-	(2,547)	(4,456)
Closing balance 2011	**757,761**	**1,499,031**	**174,367**	**4,279,868**	**6,711,027**
Impairment charge (Note 11)	256,274	313,423	41,533	1,088,709	1,699,939
Release (Note 11)	-	(8,889)	-	(2,158)	(11,047)
Net foreign exchange	57,295	51,542	16,939	361,976	487,752
Write off	-	(7,827)	-	(9,714)	(17,541)
Closing balance 2012	**1,071,330**	**1,847,280**	**232,839**	**5,718,681**	**8,870,130**

22. Securities (excluding own shares)

	2012	2011
Securities in dinars		
Securities at FVtPL		
RS Ministry of Finance bills	-	493,384
Shares	13,093	18,372
Securities available for sale		
RS Ministry of Finance bills	3,825,477	452,001
Securities held to maturity		
RS Ministry of Finance bills	6,315,976	12,044,254
Securities in foreign currency		
Securities available for sale		
Frozen savings bonds	8,870,806	1,378,883
Shares	6,586	6,180
	19,031,938	**14,393,074**

Foreign currency frozen bonds are bonds issued by Republic of Serbia based on the Law on Settlement of Public Debt of the Federal Republic of Yugoslavia arising from the Citizens' Foreign Exchange Savings (Official Gazette of Republic of Serbia no. 36/2002). Bonds are zero-coupon bonds and they are transferable. Bonds are denominated in EUR and payable either in EUR or in RSD and are registered in the Central register. Bonds are actively traded in the Belgrade Stock Exchange.

23. Equity investments

	2012	2011
Equity shares	20,479	20,479
	20,479	**20,479**

As at 31 December 2012 the Bank is holding 25.56% of the voting rights of the ERB Leasing a.d. Beograd (31 December 2011: 25.56%).

24. Other lending

	2012	2011
Other placements in dinars		
Factoring	137,500	117,500
Payments claimed under issued guarantees	37,295	10,654
Other placements	7,419	1,432
Covered letters of credit	1,024	960
Other placements in foreign currency		
Payments claimed under issued guarantees	1,969,273	1,573,889
Other placements	328,033	304,460
Other lending, gross	**2,480,544**	**2,008,895**
Less: impairment allowance	(659,737)	(452,797)
Other lending, net	**1,820,807**	**1,556,098**

Movements in impairment allowance are presented below:

	2012	2011
Opening balance	**452,797**	**185,307**
Impairment allowance (Note 11)	164,653	261,245
Release (Note 11)	-	(16)
Net foreign exchange	42,287	6,285
Write off	-	(24)
Closing balance	**659,737**	**452,797**

25. Intangible assets

	Licenses and software	In course of construction	Total
At 1 January 2011			
Cost	2,312,868	49,636	2,362,504
Accumulated amortization	(923,525)	-	(923,525)
Net book value	**1,389,343**	**49,636**	**1,438,979**
Year ended 31 December 2011			
Opening net book value	1,389,343	49,636	1,438,979
Additions	-	297,057	297,057
Disposals	(1)	-	(1)
Transfers	310,057	(310,057)	-
Amortization (Note 13)	(155,097)	-	(155,097)
Closing net book value	**1,544,302**	**36,636**	**1,580,938**
At 31 December 2011			
Cost	2,622,924	36,636	2,659,560
Accumulated amortization	(1,078,622)	-	(1,078,622)
Net book value	**1,544,302**	**36,636**	**1,580,938**
Year ended 31 December 2012			
Opening net book value	1,544,302	36,636	1,580,938
Additions	-	285,087	285,087
Transfers	262,728	(262,728)	
Amortization (Note 13)	(177,444)	-	(177,444)
Closing net book value	**1,629,586**	**58,995**	**1,688,581**
At 31 December 2012			
Cost	2,885,652	58,995	2,944,647
Accumulated amortization	(1,256,066)	-	(1,256,066)
Net book value	**1,629,586**	**58,995**	**1,688,581**

Book value of intangible assets does not materially differ from fair value.

26. Property and equipment

	Land and buildings	Equipment and other assets	In course of construction	Total
At 1 January 2011				
Cost	4,121,104	1,876,280	39,958	6,037,342
Accumulated depreciation and impairment	(706,224)	(1,136,166)	-	(1,842,390)
Net book value	**3,414,880**	**740,114**	**39,958**	**4,194,952**
Year ended 31 December 2011				
Opening net book amount	3,414,880	740,114	39,958	4,194,952
Additions	-	-	105,554	105,554
Transfers	42,636	83,666	(126,302)	-
Disposals/Sales	(22,701)	(6,708)	-	(29,409)
Write off	-	-	-	-
Donated assets	-	(103)	-	(103)
Other	(232)	-	-	(232)
Depreciation (Note 13)	(89,759)	(147,334)	-	(237,093)
Closing net book value	**3,344,824**	**669,635**	**19,210**	**4,033,669**
At 1 January 2012				
Cost	4,107,569	1,861,279	19,210	5,988,058
Accumulated depreciation and impairment	(762,745)	(1,191,644)	-	(1,954,389)
Net book value	**3,344,824**	**669,635**	**19,210**	**4,033,669**
Year ended 31 December 2012				
Opening net book amount	3,344,824	669,635	19,210	4,033,669
Additions	-	-	151,160	151,160
Transfers	61,624	45,390	(107,014)	-
Transfer from advances within Other assets			15,177	15,177
Disposals/Sales	-	-		-
Write off	(8,064)	(5,452)		(13,516)
Donated assets				-
Other				-
Depreciation (Note 13)	(89,272)	(135,547)		(224,819)
Closing net book value	**3,309,112**	**574,026**	**78,533**	**3,961,671**
At 31 December 2012				
Cost	4,095,628	1,825,463	78,533	5,999,624
Accumulated depreciation and impairment	(786,516)	(1,251,437)	-	(2,037,953)
Net book value	**3,309,112**	**574,026**	**78,533**	**3,961,671**

Book value of property and equipment does not materially differ from fair value.

Rental expenses in the amount of RSD 521,074 thousand (2011: RSD 498,382 thousand) in relation to the rental of property are included in the operating expenses (Note 14).

As at 31 December 2012 there are no charges over the Bank's fixed assets.

27. Deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31 December:

	2012	2011
Deferred tax assets	175,337	247,090
Deferred tax liabilities	(110,200)	(28,397)
	65,137	**218,693**

Deferred tax is recognized on temporary differences, losses carried forward and unused tax credits.

	2012	2011
Deferred tax assets on unused tax credits		
- from 2007	175,337	247,090
Deferred tax(liabilities)/ assets on temporary differences	(110,200)	(28,397)
Net deferred tax assets	**65,137**	**218,693**

Movements in net deferred tax assets:

	2012	2011
Opening balance of deferred tax (assets)	218,693	298,204
Changes during the year:		
Change of tax rate	(28,381)	-
Decrease/(increase) of deferred tax liabilities and (decrease)/ increase of deferred tax assets related to temporary differences	(23,184)	(25,169)
Deferred tax assets on tax credits	(76,937)	(54,342)
Total deferred tax (expense)/income for the year	**(128,502)**	**(79,511)**
Deferred tax liabilities on revaluation reserves (Note 37)	**(25,054)**	-
Deferred tax assets	**65,137**	**218,693**

Deferred tax income/(expense) relates to the following items:

	2012	2011
Change of tax rate	(28,381)	-
Depreciation	(28,366)	(25,169)
Long term provisions	5,182	-
Utilized tax credits	(76,937)	(54,342)
	(128,502)	**(79,511)**

28. Other assets, prepayments and accrued income

	2012	2011
Prepayments and accrued income in dinars		
Accrued interest	552,643	599,096
Other accrued income	37,793	39,833
Prepayments	111,512	139,717
Other prepayments and accrued income	497,794	1,030,906
Prepayments and accrued income in foreign currency		
Accrued interest	65,659	14,210
Interest prepayments	144,209	204,696
Other prepayments and accrued income	1,895	1,641
	1,411,505	**2,030,099**
Other receivables in dinars		
Employees	46	167
Advances for current assets	15,873	8,136
Advances for property, plant and equipment	751	16,492
For prepaid taxes and contributions	227	1,388
For prepaid income tax	41,869	25,670
Cards receivables	37,517	18,804
Suspense and temporary accounts	(20,702)	(5,338)
Other receivables in dinars	62,859	101,776
Other receivables in foreign currency		
Employees	1,805	398
Advances for current assets	4,348	4,158
Suspense and temporary accounts	5,034	1,070
Other receivables	66,456	9,571
	216,083	**182,292**
Inventory		
Assets received in collection of claims	12,415	12,808
Material	2,843	2,947
	15,258	**15,755**
Other assets, gross	**1,642,846**	**2,228,146**
Less: Impairment allowance for financial assets	(76,664)	(12,673)
Less: Impairment allowance for inventory	(903)	(1,298)
Other assets, net	**1,565,279**	**2,214,175**

Movements in impairment allowance are presented below:

	2012	2011
Opening balance	12,674	19,958
Impairment charge (Note 11)	64,380	3,497
Net foreign exchange	911	-
Write off	(1,302)	(10,781)
Closing balance	**76,663**	**12,674**

29. Transaction deposits

	2012	2011
Transaction deposits in dinars		
Banks and other financial organizations	103,904	41,015
Companies	1,418,850	2,316,402
Entrepreneurs	667,727	621,594
Private individuals	1,119,427	1,172,018
Foreign entities	82,679	19,631
Other clients	280,525	227,735
Transaction deposits in foreign currency		
Banks and other financial organizations	11,521	220,050
Companies	2,036,516	3,958,949
Entrepreneurs	23,191	20,676
Private individuals	4,133,809	2,962,174
Foreign entities	342,545	393,080
Other clients	23,531	24,371
Total	**10,244,225**	**11,977,695**

30. Other deposits

	2012								2011
	Domestic banks and other financial institutions	**Public sector**	**Companies**	**Entrepreneurs**	**Private individuals**	**Foreign entities**	**Other clients**	**Total**	**Total**
Other deposits in dinars									
Savings deposits	-	-	-	-	319,631	6,060	-	325,691	370,773
Special purpose deposits	-	-	31,679	207	20,499	15,346	-	67,731	194,716
Deposits pledged as collateral	-	-	29,659	300	2,907	-	3,655	36,521	254,809
Other deposits	898,007	391,735	2,434,300	58,476	-	-	2,872,999	6,655,517	7,499,992
Other deposits in foreign currency									
Savings deposits	-	-	-	-	65,835,062	1,390,461	-	67,225,523	59,975,752
Special purpose deposits	-	-	261,941	-	44,437	56,115	30,223	392,716	1,201,028
Deposits pledged as collateral	-	-	311,151	2,559	767,970	19,913	-	1,101,593	1,402,968
Other deposits	1,043,175	-	2,065,040	14,215	-	3,453,551	265,874	6,841,855	3,658,290
Total	**1,941,182**	**391,735**	**5,133,770**	**75,757**	**66,990,506**	**4,941,446**	**3,172,751**	**82,647,147**	**74,558,308**

The interest rate calculated on demand corporate deposits in local currency up to 12.50% per annum, while interest rate on foreign currency deposits is up to 5.50%. Term corporate deposits in local currency carry interest rate from 4.4% to 12.50% per annum and corporate foreign currency term deposits carry interest rate from 1.00% to 6.75% per annum.

The interest rate on the current and demand deposits of citizens range up to 4.89% per annum, depending on the currency and maturity. Interest rate on foreign currency term deposits varied from 2.35% to 7.00% while interest rate on RSD term deposits of citizens ranged from 8.53% to 12.98% per annum.

31. Borrowings and other financial liabilities

	2012	2011
Borrowings in dinars		
Other financial liabilities in dinars	16,045	17,618
Borrowings in foreign currency		
Borrowings	27,708,390	26,870,315
Other financial liabilities in foreign currency	33,653	6,828
Total	**27,758,088**	**26,894,761**

As at 31 December 2012, borrowings in foreign currency in the amount of RSD 27,708,390 thousand comprise:

Counterparty	Borrowing date	Maturity date	Interest rate	Currency	Amount in original currency (in thousands)	Amount in RSD thousand
European Investment Bank	5/20/2010	5/20/2016	1.50%	EUR	7,464	848,765
European Investment Bank	7/28/2010	7/28/2016	1.50%	EUR	4,395	499,830
European Investment Bank	1/28/2011	1/28/2016	1.50%	EUR	4,318	491,070
European Investment Bank	12/9/2011	12/9/2017	1.57%	EUR	4,856	552,186
European Investment Bank	12/10/2012	12/10/2019	1.35%	EUR	200	22,744
European Investment Bank	2/10/2011	2/10/2018	1.09%	CHF	6,956	655,157
European Investment Bank	5/11/2010	5/10/2017	1.14%	CHF	5,160	486,010
International Finance Corporation	4/26/2011	6/15/2015	3.57%	EUR	38,390	4,365,646
European Bank for Reconstruction and Development	11/15/2010	10/8/2014	3.68%	EUR	24,000	2,729,239
Eurobank Ergasias	3/26/2010	12/31/2013	2.38%	EUR	150,000	17,057,745
Total						**27,708,390**

As at 31 December 2011, borrowings in foreign currency in the amount of RSD 26,870,315 thousand comprise:

Counterparty	Borrowing date	Maturity date	Interest rate	Currency	Amount in original currency (in thousands)	Amount in RSD thousand
European Investment Bank	20.05.2010	20.05.2016	2.09%	EUR	9,596	1,004,160
European Investment Bank	11.05.2010	10.05.2017	0.65%	CHF	6,306	541,794
European Investment Bank	10.02.2011	10.02.2018	0.60%	CHF	8,220	706,213
European Investment Bank	28.07.2010	28.07.2016	2.19%	EUR	5,494	574,915
European Investment Bank	28.01.2011	28.01.2016	2.16%	EUR	5,552	580,977
European Investment Bank	09.12.2011	09.12.2017	2.36%	EUR	5,827	609,730
International Finance Corporation	26.04.2011	15.06.2015	4.67%	EUR	38,390	4,017,164
European Bank for Reconstruction and Development	15.11.2010	08.10.2014	4.75%	EUR	30,000	3,139,227
Eurobank Ergasias	26.03.2010	31.12.2013	3.62%	EUR	150,000	15,696,135
Total						**26,870,315**

32. Interest, fees and commissions payable and change in fair value of derivatives

	2012	2011
Liabilities in dinars		
Interest	324	285
Fees and commissions	4,774	4,410
Reduction in the market value of derivatives	1,334	8,447
Liabilities in foreign currency		
Interest	333	335
Reduction in the market value of derivatives	47,950	29,721
	54,715	**43,198**

33. Tax liabilities

	2012	2011
Withholding tax	7,197	3,502
Value added tax	7,334	10,824
Other taxes and contributions	5,490	3,363
Total	**20,021**	**17,689**

34. Provisions

	2012	2011
Provisions for off-balance sheet exposures	101,794	67,204
Provisions for legal cases (Note 39 b)	57,925	53,587
Provision for retirement indemnities	34,548	31,929
Provisions for bonuses	55,000	105,993
Provisions for client damages	45,984	-
Total	**295,251**	**258,713**

Movements in total provisions:

	Client damages	Bonus provisions	Retirement indemnities	Legal cases	Other provisions	Off- balance sheet	Total
Opening balance 2011		**70,945**	**30,554**	**81,758**	**15,417**	**130,189**	**328,863**
Provisions used during the year	-	(70,945)	(4,104)	-	-	-	(75,049)
New provisions	-	105,993	7,222	4,283	-	-	117,498
Release of provisions (Note 11)	-	-	(1,745)	(29,178)	(15,117)	(64,160)	(110,198)
Indemnities paid	-	-	-	(1,730)	-	-	(1,730)
Net exchange gain/loss	-	-	-	(1,547)	(300)	1,175	(672)
Closing balance 2011		**105,993**	**31,929**	**53,587**	**-**	**67,204**	**258,713**
Provisions used during the year	-	(16,743)	-	(5,464)	-	-	(22,207)
New provisions (Note 11)	45,889	55,000	4,696	7,293	-	27,617	140,495
Release of provisions (Note 11)	-	(89,250)	-	(1,474)	-	(400)	(91,124)
Indemnities paid	-	-	(2,077)		-		(2,077)
Net exchange gain/loss	95	-	-	3,983	-	7,373	11,451
Closing balance 2012	**45,984**	**55,000**	**34,548**	**57,925**	**-**	**101,794**	**295,251**

Principal actuarial assumptions used for retirement indemnities (expressed as weighted averages):

	2012	2011
	%	%
Discount rate	9%	8.50%
National average salary increase	2%	4.00%
Inflation rate	4%	3.50%

35. Liabilities from profit

	2012	2011
Liabilities from profit	700	700
Total	**700**	**700**

36. Other liabilities, accruals and deferred income

	2012	2011
Liabilities for salaries and benefits		
Net salaries	42	7,520
Tax on salaries and benefits	-	1,237
Contributions on salaries and benefits	-	170
Temporary and occasional assignments	397	326
Other liabilities towards employees	15,793	398
	16,232	**9,651**
Other liabilities in dinars		
Operations managed on behalf of third parties	5,897	5,935
Advances received	20,176	302
Suppliers	103,790	72,572
Temporary and suspense accounts	17,797	4,867
Financial leasing	9,974	13,903
Other liabilities	28,358	27,402
Other obligations in foreign currency		
Advances received	10,898	83,261
Suppliers	30,127	47,794
Other liabilities	973	584
	227,990	**256,620**
Accruals and deferred income in dinars		
Accrued interest expense	39,774	49,617
Other accrued expenses	43,100	50,006
Deferred income from fees	627,322	652,350
Deferred interest income	458,806	646,092
Other accruals and deferred income	130,762	617,182
Accruals and deferred income in foreign currency		
Accrued interest expense	797,558	591,906
Other accrued expenses	25,179	19,574
Other accruals and deferred income	18,919	42,457
	2,141,420	**2,669,184**
Total	**2,385,642**	**2,935,455**

37. Shareholder's equity

Capital of the bank comprises share capital, share premium, statutory reserves, revaluation reserves and accumulated gains and losses:

	2012	2011
Share capital common shares	25,422,400	25,422,400
Share capital preference shares	4,800	4,800
Share premium	6,051,999	6,051,999
Other capital	2,727	2,727
	31,481,926	**31,481,926**
Statutory and other reserves	9,558,335	9,558,335
	9,558,335	**9,558,335**
Revaluation reserves		
Revaluation reserves - AFS securities	167,034	18,930
Deferred tax loss - AFS Securities	(25,055)	-
Accumulated gains	2,555,252	28,556
Current year's profit	1,674,023	2,672,074
	4,229,275	**2,700,630**
Total shareholder's equity	**45,411,515**	**43,759,821**
Number of issued shares	**254,272**	**254,272**

Nominal value of the shares amounts to RSD 100,000 per share.

The shareholders structure of the Bank as at 31 December 2012 is presented in the table below:

Shareholder	Ordinary shares	%	Preference shares	%	Total shares	%
Eurobank Ergasias	141,868	55.80%	17	35.42%	141,885	55.80%
Berberis Investments Limited	3,690	1.45%	-	0.00%	3,690	1.45%
ERB N.E. BV Holding Company Holland	108,666	42.74%	-	0.00%	108,666	42.74%
Agromerkantilija z. zadruga	-	0.00%	3	6.25%	3	0.00%
AKT	-	0.00%	1	2.08%	1	0.00%
Bambi banat	-	0.00%	3	6.25%	3	0.00%
Buducnost	-	0.00%	2	4.17%	2	0.00%
Dunav AD	-	0.00%	1	2.08%	1	0.00%
Habit pharm	-	0.00%	5	10.42%	5	0.00%
Kopaonicanka ZP	-	0.00%	2	4.17%	2	0.00%
Saobracajni institut CIP	-	0.00%	3	6.25%	3	0.00%
Siemens IT solutions and service	-	0.00%	2	4.17%	2	0.00%
Stem	-	0.00%	1	2.08%	1	0.00%
TP Beogradelektro	-	0.00%	6	12.50%	6	0.00%
Trustex	-	0.00%	1	2.08%	1	0.00%
ZZ Bajina Basta	-	0.00%	1	2.08%	1	0.00%
Total	**254,224**	**100.00%**	**48**	**100.00%**	**254,272**	**100.00%**

The reconciliation of the movements in number of common and preference shares is as follows:

	Common shares	Preference shares
Closing balance 2011	**254,224**	**48**
Closing balance 2012	**254,224**	**48**

Share issues and the changes in the Eurobank's share capital structure

During 2012 the Bank did not perform any capital increase.

Share premium

Share premium represents amounts issued over par. As at 31 December 2012 the Bank's share premium was RSD 6,051,999 thousand (31 December 2011: RSD 6,051,999).

Statutory reserves

Statutory reserves and other reserves in total amount of RSD 9,558,335 thousand (31 December 2011: RSD 9,558,335 thousand) are formed in accordance with regulations and the Statute of the Bank.

38. Off-balance sheet

a) **Funds managed on behalf of third parties**

	2012	2011
Funds managed on behalf of public sector - agriculture		
- Short-term	391,677	421,597
- Long-term	642,170	636,021
Long-term loans - young couples program	302,544	258,468
Total	**1,336,391**	**1,316,086**

b) **Guarantees, sureties, assets pledged as collateral and irrevocable commitments**

	2012	2011
In dinars		
Issued guarantees and other sureties	2,246,486	3,001,063
Irrevocable commitments from undisbursed loans and placements	8,487,822	6,854,075
Other irrevocable commitments	1,585,681	671,522
In foreign currency		
Issued guarantees and other sureties	17,015,967	14,783,779
Irrevocable commitments from undisbursed loans and placements	2,129,063	1,691,138
Other irrevocable commitments	22,680	182,291
Total	**31,487,699**	**27,183,868**

c) **Guaranties, sureties and collaterals received**

	2012	2011
Mortgage loans insured with National Mortgage Insurance Corporation	28,285,941	25,859,221
Securities received as collateral	4,171,822	10,593,370
Total	**32,457,763**	**36,452,591**

d) **Derivatives**

	2012	2011
Derivatives	96,349,933	100,330,396
Total	**96,349,933**	**100,330,396**

e) **Other off-balance sheet items**

	2012	2011
Collaterals received	99,875,078	87,174,207
Received guarantees and letters of credit	4,526,580	6,950,926
Foreign currency frozen bonds in Central register	101,365,452	117,055,460
Securities from reverse repo transactions with NBS	-	5,500,000
Securities of NBS and Ministry of finance	1,800,000	4,523,900
Other off-balance assets	92,031,056	92,547,505
Total	**299,598,166**	**313,751,998**

39. Contingent liabilities and commitments

a) **Operating lease commitments**

Non-cancellable operating lease rentals are payable as follows:

	2012	2011
Not later than one year	114,554	78,938
Later than one year but no later than five years	-	-
Later than five years	-	-
Total	**114,554**	**78,938**

b) **Litigations**

As at 31 December 2012, there are four legal claims filed against the Bank in respect of payments of frozen bonds made to unauthorized persons based on forged documents. Although, the Bank acts as an Agent of the Government of the Republic of Serbia, servicing "old foreign currency savings bonds" the Bank has made provision for claims related to the frozen bonds payments in the amount of RSD 54,619 thousand (31 December 2011: RSD 45,498 thousand) .

As at 31 December 2012, the provision for other legal cases amounted to RSD 3,306 thousand (31 December 2011: RSD 8,090 thousand) – Note 34.

40. Compliance with regulatory requirements

The Bank is obliged to comply with ratios defined by the Law on Banks and Other financial institutions. As at 31 December 2012 the Bank's ratios were in compliance with the prescribed levels:

Business indicators	Determined level	2012
Capital adequacy	min 12%	22.66%
Long term investments indicator	max 60%	17.32%
Exposure to related parties	max 20%	4.28%
Large exposures indicator	max 400%	45.16%
Liquidity indicator:		
first month of reporting period	min 1	1.41
second month of reporting period	min 1	2.52
last month of reporting period	min 1	3.02
Currency risk	max 20%	0.29%

As at 31 December 2011, the Bank was in compliance with all regulatory requirements.

41. Related parties transactions

Eurobank a.d. Beograd is a subsidiary of Eurobank Ergasias which is listed on the Athens Stock Exchange.

Until 23 July 2012, Eurobank Ergasias S.A. was a member of the EFG Group, having as operating parent company the "European Financial Group EFG (Luxembourg) S.A." and ultimate parent company the "Private Financial Holdings Limited", the latter owned and controlled indirectly by members of the Latsis family. In particular, the EFG Group held 44.70% of the Bank's ordinary shares and voting rights, through wholly owned subsidiaries of the ultimate parent company and the remaining ordinary shares and voting rights were held by institutional and retail investors, none of which, to the knowledge of the Bank, held 5% or more.

On 23 July 2012, 43.55% of the ordinary shares and voting rights held by EFG Group were transferred to ten legal entities, each of which acquired approximately 4.4%, while the EFG Group retained the remaining 1.15%. These entities have formally stated they are independent from each other. As a result, from 23 July 2012, onwards, Eurobank ceased to be under EFG Group's control and will no longer be consolidated in the financial statements of the EFG Group. In addition, the Bank's corporate and trade name have already been amended in order to no longer include the "EFG" suffix.

The Bank enters daily into transactions with major shareholders and other related parties in the ordinary course of business.

Transactions with related parties for the year ended on 31 December 2012 are presented in the table below:

	Eurobank Ergasias	IMO Property Investments	ERB Property Services	ERB Leasing	RECO Real Property	ERB Asset Fin	ERB Business services	ERB New Europe Funding BV	ERB New Europe Holding BV	ERB IT Shared Services
Assets										
Foreign currency account	182,110	-	-	-	-	-		-	-	-
Interest and fee receivables	55,913	-	-	-	579	-	-	38,414	-	-
Loans to customers and deposits	17,315,242	-	13	-	68,231	-	2,818	-	-	-
Equity shares	-	-	-	20,479	-	-	-	-	-	-
Other receivables	-	35	373	326	-	-	-	-	-	-
Total assets	**17,553,265**	**35**	**386**	**20,805**	**68,810**	**-**	**2,818**	**38,414**	**-**	**-**
Liabilities										
Due to customers	62,582	570,985	53,935	679,351	220,174	120,268	-	-	43,366	-
Borrowings	17,057,745	-	-	-	-	-	-	-	-	-
Interest payable	4,196	-	-	-	-	-	-	-	-	-
Other liabilities	4,591	-	959	-	-	-	268	-	-	15,060
Total liabilities	**17,129,114**	**570,985**	**54,894**	**679,351**	**220,174**	**120,268**	**268**	**-**	**43,366**	**15,060**
Income										
Interest income	699,979	-	-	-	2,401	-	109	-	-	-
Net gains from securities	35,469	-	-	-	-	-	-	-	-	-
Fee income	-	262	57	693	140	206	33	39,975	-	-
Rental income	-	353	3,710	3,247	-	-	-	-	-	-
Other income	26,766									
Total income	**735,448**	**615**	**3,767**	**3,940**	**2,541**	**206**	**142**	**39,975**	**-**	**-**
Expenses										
Interest expense	703,418	40,447	3,432	48,073	3,336	3,829	39	-	-	-
Fee expenses	38,137	-	3,589	-	-	-	-	-	-	-
Services	19,968	-	5,070	-	-	2,548	3,444	-	-	239,473
Other expenses	19,600	-	-	-	16,202	984	-	-	-	
Total expenses	**781,123**	**40,447**	**12,091**	**48,073**	**19,538**	**7,361**	**3,483**	**-**	**-**	**239,473**
Off balance sheet										
Letter of guarantees,	-	-	-	-	-	-	-	-	-	-
Derivatives	21,553,193	-	-	-	-	-	-	-	-	-
Other off balance sheet (undrawn commitments)	-	-	287	41	-	-	2,182	-	-	-
Total Off balance sheet	**21,553,193**	**-**	**287**	**41**	**-**	**-**	**2,182**	**-**	**-**	**-**

Transactions with related parties for the year ended on 31 December 2011 are presented in the table below:

	Eurobank Ergasias	IMO	ERB Property Services	ERB Leasing	RECO Real Property	ERB Asset Fin	ERB Business services	ERB New Europe Funding BV	ERB New Europe Holding BV	ERB IT Shared Services
Assets										
Foreign currency account	116,129	-	-	-	-	-	-	-		-
Interest and fee receivables	2,918	-	-	-	-	-	-	-		-
Loans to customers and deposits	15,917,565	-	-	-	-	-	-	-		-
Equity shares	-	-	-	20,479	-	-	-	-		-
Other receivables	4,376	4	6	-	-	-	-	-		-
Total assets	**16,040,988**	**4**	**6**	**20,479**	**-**	**-**	**-**	**-**		**-**
Liabilities										
Due to customers	3,335	415,119	56,687	3,225,999	174,599	108,039	3,036	5,474	39,909	-
Borrowings	15,696,135	-	-	-	-	-	-	-		-
Subordinated liabilities	-	-	-	-	-	-	-	-		-
Interest payable	9,120	-	-	-	-	-	-	-		-
Other liabilities	1,481	-	-	13,903	-	-	-			17,942
Total liabilities	**15,710,071**	**415,119**	**56,687**	**3,239,902**	**174,599**	**108,039**	**3,036**	**5,474**	**39,909**	**17,942**
Income										
Interest income	954,576	71,192	-	-	-	-	-	-		-
Net gains from securities	-	-	-	-	-	-	-	-		-
Fee income	47,302	329	52	1,033	3,460	170	9	2,272		-
Rental income	-	678	3,336	2,930	-	-	-	-		-
Total income	**1,001,878**	**72,199**	**3,388**	**3,963**	**3,460**	**170**	**9**	**2,272**		**-**
Expenses										
Interest expense	804,214	-	2,592	99,895	908	2,418	378	-		-
Rent expense	-	-	-	-	-	-	-	-		-
Fee expenses	31,310	-	1,774	-	-	2,238	3,026	-		-
Services	9,848	-	9,968	-	-	865	-	-		-
Total expenses	**845,372**	**-**	**14,334**	**99,895**	**908**	**5,521**	**3,404**	**-**		**-**
Off-balance sheet										
Letter of guarantees, derivatives	-	-	-	-	361,545	-	-	-		-
Derivatives	-	-	-	-	-	-	-	-		-
Other off-balance sheet (undrawn commitments)	-	-	-	41	-	-	-	-		-

As at 31 December 2012, loans to employees amounted to RSD 2,564,872 thousand (31 December 2011: RSD 2,358,276 thousand). All loans are given under terms defined in the Bank's lending policy and interest rates vary from 0.91% to 8.04% for mortgage loans, while for consumer loans interest rates for indexed loans vary from 6.0% to 13.6% and from 11.9% to 33.8% for RSD loans.

In the ordinary course of the business the Bank initiates auction and court sales of the collaterals of defaulted clients. In 2012, collaterals in the amount of EUR 3,293 thousand (RSD 374,487 thousand) were sold to IMO Property Investments a.d. (2011: EUR 4,090 thousand i.e. RSD 428,027 thousand).

a) **Payments to directors and key management personnel**

	2012	2011
Salaries and other contributions	136,831	157,399
	136,831	**157,399**

42. Foreign Exchange rates

The official exchange rates of major currencies which were used for translation of balance sheet items as at 31 December were as follow:

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

43. Reconciliation of loans, deposits and other liabilities with clients

As required by the Accounting and Auditing Law, the Bank has performed reconciliation of loans, deposits and other liabilities with clients as at 30 November 2012.

44. Board of directors

Members of the Board of directors of Eurobank as at 31 December 2012 are listed below:

Chairman	Members
Karakasis Theodoros	Stavros Ioannou
	Nikolaos Aliprantis
	Evagelos Kavvalos
	Angelos Tsichrintzis
	Slobodan Slovic
	Ivan Vujacic

45. Events after the reporting period

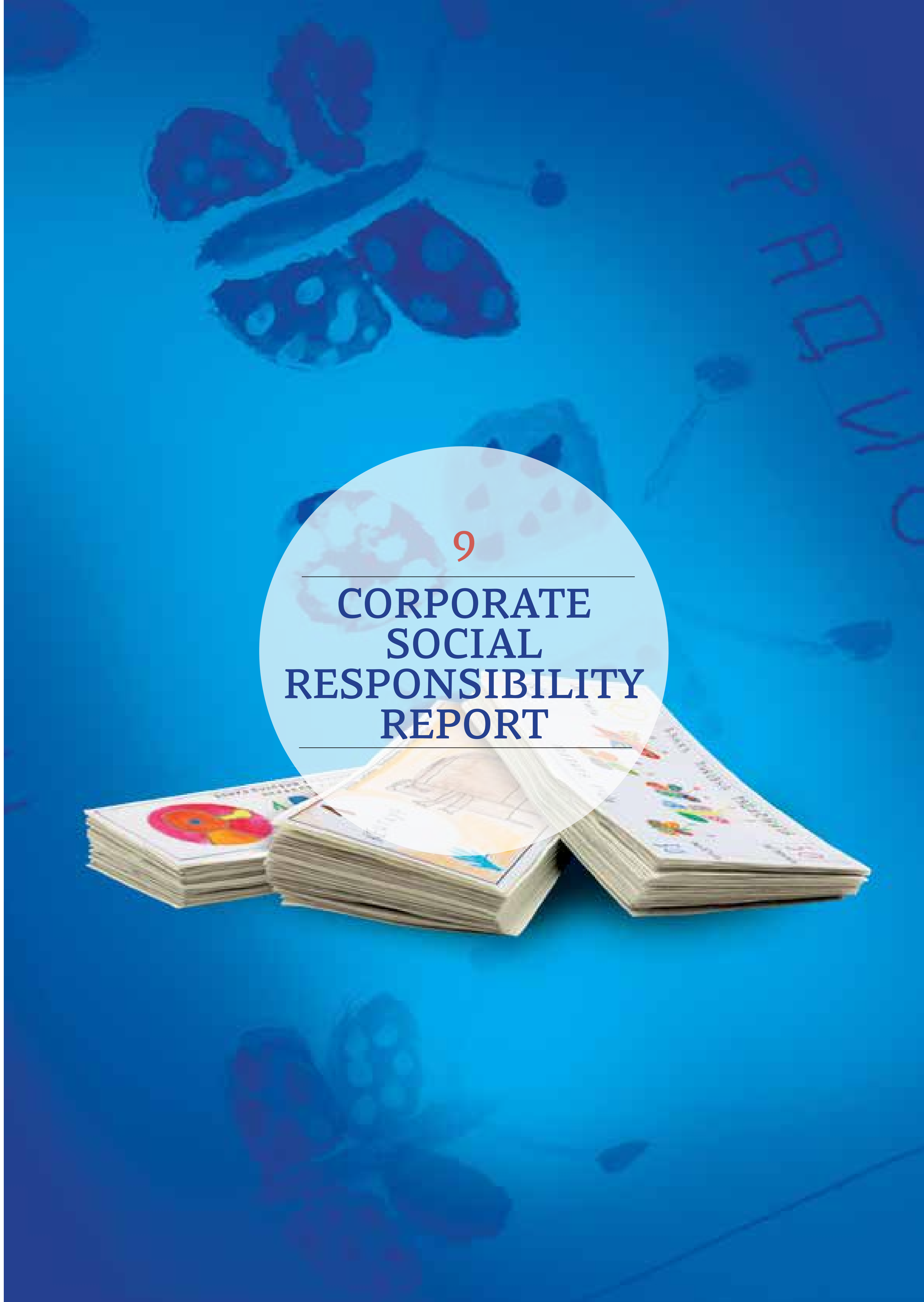
National Bank of Greece S.A. Voluntary Tender Offer (VTO)

On 5 October 2012, the National Bank of Greece (NBG) announced its intention to launch a voluntary exchange offer to acquire all Eurobank's shares offering 58 new shares of NBG for every 100 shares of Eurobank tendered. NBG also stated that, Eurobank shareholders holding 43.6% of Eurobank›s ordinary share capital have committed to tender their shares in the tender offer.

On 11 January 2013, the Board of Directors of Eurobank Ergasias S.A., having considered the content of the VTO information memorandum and the reports provided by the Bank's financial advisors, concluded in summary that the Offer Consideration satisfies the requirements of the Law and is fair from a financial point of view.

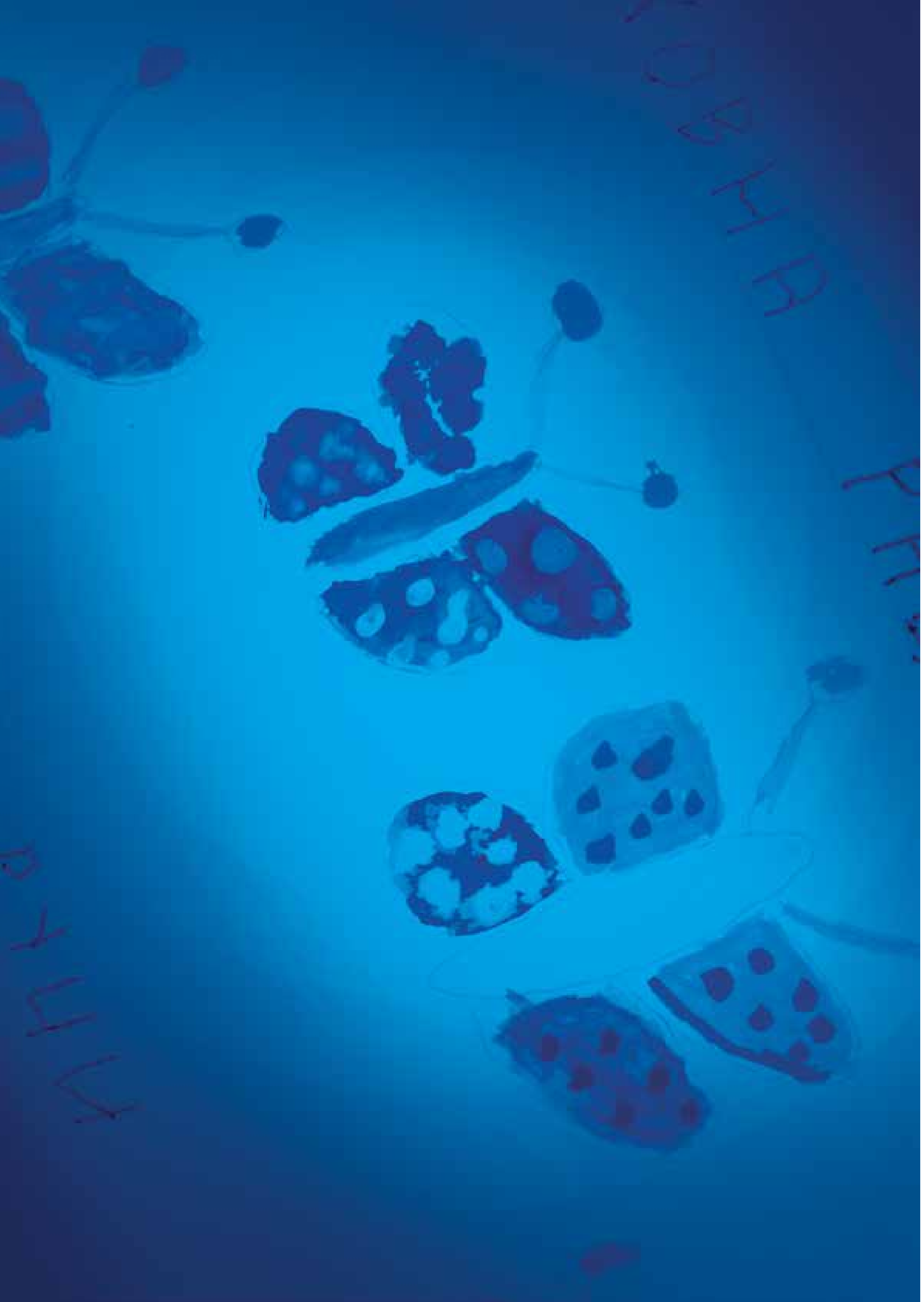
On 15 February 2013, NBG announced that all necessary regulatory approvals have been obtained.

On 18 February 2013, NBG announced that during the offering's acceptance period for Eurobank's shareholders, 84,35% of Eurobank's shareholders have accepted legally the VTO; thus NBG holds 84,38% of Eurobank's paid in Share Capital.



9

CORPORATE SOCIAL RESPONSIBILITY REPORT



COMPANY PROFILE

Eurobank in Serbia – Responsibly by your side

Eurobank a.d., Beograd has been doing business in Serbia since 2003 and today it represents one of the leading foreign investors and financial institutions in the country. After a decade of successful business operations, the Bank is constantly top ranked in terms of capital, level of deposits and it has a credit portfolio worth over 1.2 billion euros.

Together with its affiliated leasing and real estate management companies, Eurobank, as a universal financial institution, offers a wide range of standard and innovative banking products/services to its clients, natural and legal entities, through national coverage via a business network of 100 branch offices/business centres, where 1,472 banking experts facilitates 500,000 accounts. Eurobank has also proven its strategic commitment through the ownership of a modern office building in the heart of Belgrade – Eurobank Centre, as well as the 16,000 m2 of office space in the most attractive locations throughout the country.

Ranked as the 11th investor according to the indicators of the Serbian Investment and Export Promotion Agency (SIEPA), the Bank gives an exceptional contribution to the development of the economy by organising and supporting important economic events aimed at strengthening the Serbian economy and attracting foreign investments. The business forum "Go International – Multilateral Trade and Regional Synergy", which was held in 2011 in Belgrade, gathered more than 300 companies from the wider region of CE and SEE.

Continuously committed to investing in the community in which we are successfully doing business, Eurobank invested more than 3.6 million euros to support education, health, culture, social inclusion and environmental protection, through its comprehensive CSR programme called "Investing in European Values."

Eurobank is the first financial institution in Serbia to be certified for CSR by the National Alliance for Local Economic Development (NALED), in October 2012. This certificate represents guarantees for clients and business partners that the company is doing business entirely in accordance with the law, local and international standards and CSR principles. Besides this, Eurobank has been awarded the most prestigious recognitions in the field of corporate social responsibility, like the national Virtus award, Best of Serbia, Serbian Chamber of Commerce, Association of Economic Journalists, Landscape Architects of Serbia and the Serbian Association of Public Relations.

Awards in 2012

First financial institution in Serbia to be certified for CSR


NACIONALNA ALIJANSA ZA LOKALNI EKONOMSKI RAZVOJ (NALED)
dodeljuje
CSR CERTIFIKAT
reg. broj 02/2012, kojim se potvrđuje da je kompanija
Eurobank EFG a.d. Beograd
ispunila standarde društvene odgovornosti (CSR) u pet ključnih oblasti poslovanja: korporativno upravljanje, tržište, radno okruženje, lokalna zajednica i životna sredina
U Beogradu, 02. 10. 2012.
Certifikat važi do: 02. 10. 2014.
Vladimir Čupić
Predsednik UO NALED-a

Eurobank is the first financial company in Serbia to be awarded the CSR certificate by the National Alliance for Local Economic Development (NALED). NALED, as an organisation known for certifying cities and municipalities with favourable investment climates and business environments, supported by USAID, SMART Kolektiv, Balkan Community Initiatives Fund and Institute for Sustainable Communities, started a pilot project in Serbia in 2012. It was aimed at highlighting the importance of corporate social responsibility among companies which are successfully doing business in different areas.
This recognition is confirmation of the fact that Eurobank does business in line with the highest CSR standards and represents guarantees for all the stakeholders that we are operating fully in accordance with the law, local and international standards and the principles of CSR.
In the process of certification, which lasted for 6 months, companies had to fulfil at least three quarters of a total of 119 criteria (83.6% of criteria met), split into 5 equally important areas:

- corporate governance (transparent and ethical system of managing and supervising companies),
- market (fair attitude towards suppliers, competitors and customers),
- local community (support to economic and social development of the local community),
- environment (minimizing of negative effects on the environment) and
- working environment (safe and motivating working conditions).

Award for long-term partnership

General Hospital and Health Care Centre Bel Medic rewarded Eurobank for the long-term partnership and cooperation. As a socially responsible company, we pay considerable attention to preserving the health of our clients and employees, enabling free physicals aimed at medical prevention in this renowned medical institution.

Bank's memberships

- **American Chamber of Commerce** member of the Management Board
- **Foreign Investors Council,** member of the tax, legal, real-estate, HR committees
- **Hellenic Business Association of Serbia** President of the EB of Eurobank is the Chairman of HBAS
- **Serbian Association of Managers**
- **National Alliance for Local Economic Development**
- **Serbian Chamber of Commerce**
- **Association of Serbian Banks,**
  participation in the Management Board, as well as Committees for Risk, Compliance, Legal, Marketing and presiding over the task force for CSR of banks

INITIATIVES AND CRS NETWORKS
UN Global Compact in Serbia, member of the Management Board

The Bank is one of the founders of the Global Compact of United Nations in Serbia, which was founded in December 2007 at the initiative of the National Bank of Serbia and the United Nations Development Programme (UNDP).
Eurobank actively and continuously implements the ten principles of the Global Compact in areas including protection of human rights, environment and fight against corruption. It accepts, supports and promotes these principles in its daily operations.
We have been providing UN Global Compact Progress Reports since 2010.
Eurobank is active in the following bodies/task forces of the Global Compact in Serbia:

- Management Board (second term)
- Working Group for Social Inclusion
- Working Group for the environment
- Working Group for CSR in finance and banking

Also, Eurobank supported and helped the organisation of the Third Annual European Global Compact Network Meeting, which was held for the first time in Belgrade in October 2012.
An example of Eurobank's good practice was presented in the national publication at the World Summit on Sustainable Development RIO+20, which represented the official document and strategy of the state delegation of the Republic of Serbia, led by Serbian President Tomislav Nikolić.

10 PRINCIPLES OF THE GLOBAL COMPACT

The Bank accepts, supports and promotes in its daily operations the ten principles of the Global Compact Agreement in the field of human rights, environmental protection and the fight against corruption.

Human Rights:
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights
Principle 2: Make sure that they are not complicit in human rights abuses.

Labour:
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
Principle 4: the elimination of all forms of forced and compulsory labour
Principle 5: the effective abolition of child labour
Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment:
Principle 7: Businesses should support a precautionary approach to environmental challenges
Principle 8: Undertake initiatives to promote greater environmental responsibility
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption:
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Association of Serbian Banks, Working Group for CSR

At Eurobank's initiative, the Working Group for CSR in banks was founded in 2012 as part of the Marketing Committee. Its founding was supported by the Management Board of the ASB. As the only bank from Serbia which is a member of the UN Environment Programme among financial organisations UNEP FI, Eurobank undertook to chair this Working Group, which has 7 members, representatives of banks which are most active in the field of contributions to the social community of Serbia.

Also, the Working Group held a Conference called Marketing and CSR in banks in April 2012. It was attended by representatives of banks, media experts in CSR area. At the invitation of our bank, Mr Harry Papageorgiou, Member of MB UNEP FI and Director of the Environmental and Quality Sector of Eurobank Group, gave a lecture on the topic of *Transition towards sustainable/responsibly business, Overview of current trends in the financial sector.*

UN Environment Programme Financial Initiative UNEP FI

Following the example of its parent bank, Eurobank became the first financial institution in Serbia to become an affiliated member of the UN Environment Programme Financial Initiative, with the intention and desire to provide access to the entire banking sector in Serbia for this international institution, which is a branch of the UN and which promotes sustainable development and environmental initiatives in banking-financial institutions. Terms like green procurement, green financing, environmental risk, development of banking products/services which support environmental protection, monitoring and minimising the consumption of energy resources are not well-known in Serbia and Eurobank wants to contribute to the education of the financial sector with the aim of improving these areas through its membership and expertise.

Business Leaders Forum

Business Leaders Forum is the first coalition of socially responsible companies in Serbia, established with the mission of stimulating the development of CSR and establishing permanent and stable CSR practice in the domestic business sector.
The Forum conducts an array of activities which are directed at promoting the CSR concept in the business sector in the entire Serbian public, educational activities, conferences and round tables. Eurobank joined the Forum in September 2010 and actively participates in its activities directed at the promotion of CSR principles in business operations and volunteer campaigns.

METHODOLOGICAL APPROACH

CSR report of Eurobank a.d. Beograd for 2012 was for the first time done according to the internationally recognised methodology of the Global Reporting Initiative (GRI), which is at the same time accepted as the progress report for the UN Global Compact. GRI methodology represents a reliable, globally accepted, comprehensive frame for reporting on sustainability with consistent terminology and standard performance measures, which can be used by all organisations regardless of the size, sector or location. As a company with the strategic approach to CSR operating, we included the Report on Sustainability in our Annual Report, with the intent of making it available to all the stakeholders, affected directly or indirectly by our business. This report is made in accordance with the latest tendency of the European Commission, which in April 2013 announced a law proposal obliging large companies to report on the non-financial parameters, apart from the financial ones, i.e. on their impact on the environment and society (for more information please follow this link: **http://ec.europa.eu/internal_market/accounting/non-financial_reporting/index_en.htm.)**
Besides this, our mission and vision, ways of implementing CSR principles, strategic aims of the bank as a good corporate citizen, achieved financial results and their influence on the domestic product of a country can be found in the report.

In order to ensure clear insight into the level of use of the GRI framework in the preparation of the report for all the stakeholders, 3 levels of its application have been set (C, B and A level). Eurobank independently set itself to meet the B level of reporting, with the aim of expanding the application of the methodology in the upcoming period.

		C	C+	B	B+	A	A+
Required	Self-definition of the level		Report verified by an external source	✔	Report verified by an external source		Report verified by an external source
Not-required	Checked by a third party						
	Checked by GRI						

Reporting parameters

In 2006, Eurobank started to more actively inform the public about conducted CSR activities in the form of press releases and publications. The first report on the CSR operations of the Bank was published in 2009, as a separate publication (for the previous year, 2008), following the dynamics of the Annual Financial Reports. The report for 2012 became for the first time part of the Annual Financial Reports, improved and in line with the GRI methodology of reporting.
Feedback on this report is welcome and will be used with a view to improving future activities and reports of the Bank on the CSR strategy.
For any questions, comments and suggestions in accordance with Corporate Social responsibility report, you can adress to Mrs.Milena Stupar, CSR Specialist, in Corporate Communications Department, on e mail corporate-communication@eurobank.rs, or via phone +381 11 308 2863.

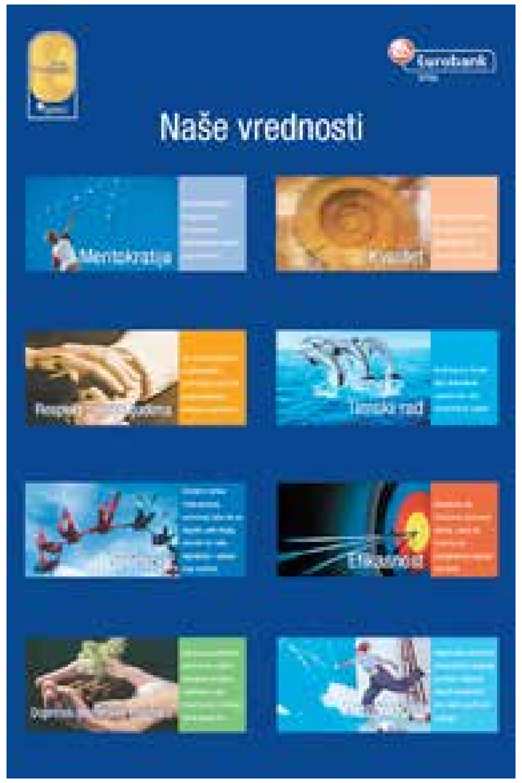
You can find the feedback form on page 106.

Principles of reporting according to GRI methodology

We are aware of the fact that implementation of the CSR principles is very important for a company to operate in a sustainable way on the market. Therefore, Eurobank is a company which entirely integrates CSR in its operations through 5 areas:

- corporate governance, as a transparent system of running and supervising the company,
- local community, support to their economic and social development,
- working environment, in the form of safe and motivating working conditions,
- environment, by minimising the negative effects on the environment and the market
- fair treatment of suppliers and competition.

For each of the specified areas, the principles of reporting according to GRI methodology have been applied, in order to secure quality: materiality, inclusion of stakeholders, sustainability, balance, comparativeness, completeness. Also, we wanted to make the report clear, easy to follow and easily accessed by all the stakeholders, as well as to make the information in it accurate and reliable.
All information put forward in the report exclusively refers to the activities of Eurobank. Financial and economic indicators are part of the annual financial report of Eurobank.



The mission of Eurobank is:

"We want to become the first choice bank for our retail and corporate clients, operating with a sense of responsibility towards customers, employees, stakeholders and society"

The cornerstone in the realisation of this vision is the creation of a climate of trust and understanding among employees in the Bank, which represents a necessary element for the continuation of dynamic growth. Eurobank based its growth on strong principles and values such as:

meritocracy, team work, quality, trust, efficiency, creativity, respect for people and social contribution.

STRATEGY AND DESCRIPTION OF KEY EFFECTS, RISKS AND OPPORTUNITIES

Since its founding in Serbia in 2003, the Bank has strived towards not being just a financial institution with the purpose of collecting and placing money, but also towards becoming recognised as systemic and responsible, i.e. a good corporate citizen. We cultivate CSR business and dedication towards sustainable development through a two-way and partnership relationship towards our employees, clients, shareholders and the community, but also via comprehensive CSR programme titled “We are Investing in European Values”, which is divided into five basic areas:

Through the mentioned programmes, we have invested nearly 4 million euros in the social community of Serbia to date.

Despite the challenging business environment in Serbia in 2012, as well as the unfavourable economic circumstances at the global level, Eurobank continued to develop and improve its strategies and dedication to CSR. We continued to carry out an array of activities and projects throughout Serbia with the aim of improving the community in which we are successfully doing business, as well as improve internal processes and performances for the sake of their long-term sustainability. Thanks to the efforts invested in the past few years, we can proudly say that our efforts directed at continuously investing in the community have been met with social recognition and are additionally motivating employees in Eurobank to continue in this direction.

The Bank strives to develop and implement its strategic commitment to CSR with the support and dedication of 1,472 of our employees, working actively at the same time on making CSR an imperative of the corporate culture of the Bank. Special emphasis is put on intensifying the engagement of employees in CSR activities. Besides this, in the process of designing and implementing CSR projects, the Bank actively works with local self-government (cities where specific activities are realized), in line ministries, civil society organisations, etc..

Contribution of the bank to the social product

Social product shows how much of our total revenue is invested in the community, and which part is kept by us in the form of profits. Investing in the community is reflected in various ways, for example, through direct and indirect costs of employees, suppliers for various services, tax costs and contributions which are paid to the state, etc. This actually shows the Bank’s contribution to the development of the community.

Social product

Contribution of the Group to the social product 2012	**In RSD million**
Bank’s turnover	14,835
Costs of interests and fees	-5,461
Costs of adjusted values	-2,108
Social product and allocation	**7,266**
I. Employees	
Gross salaries	2,006
Health and social insurance	638
Income tax	223
	2,867
Total	
II. Supplier of goods and services	**3,028**
III. Donations/Sponsorships	**19**
IV. Country	
Corporate tax and various taxes	223
VAT	
Deposit insurance	316
Health care and social insurance	-638
Income tax	-223
	-322
V. Bank	
Profit	**1,674**
Social product	**7,266**

Relationship with stakeholders

The CSR operations of Eurobank involve a system of values, approach and way of thinking by the management, with the intention of contributing to making positive changes to the lives of people in environments where the Bank does business, presenting at the same time an incentive for clients and our employees. Also, in this way, we want to fortify and develop a two-way relationship with the stakeholders who are affected by our business operations.

Stakeholders are all interested parties (individuals, groups or organizations) which affect/ are affected by Eurobank and its business operations

Eurobank tries to actively consult all its stakeholders in the process of making strategic decisions.
We use various methods to involve stakeholders, as part of our regular activities, with the help of which we collect opinions useful for making decisions, in the form of public opinion polls, customer satisfaction research, participation in the operations of the local community bodies and business associations, as well as intensive and strategically directed internal communications with our employees.

The map of stakeholders is a part of the annual plan of corporate communications of the Bank and an integrated part of this report.

MAP OF STAKEHOLDERS

Employees	Clients	Shareholders and investors	State	Local community	Business community	Media	Non-government sector
Management	Private individuals	Minority	State bodies	Local self-government	Business associations and organizations	Print	NGO
Other employees	Legal entities	Majority	Ministries	Regional chambers of commerce		Electronic	Non-profits
Full time employment	Entrepreneurs		Regulatory bodies	Suppliers/business partners		Online	
Temporary service contract	State		State agencies				
Union							
Communication channels							
Internal magazine Euro NEWS which is published quarterly, and which contains current topics, new appointments, sector/department presenting, CSR projects, professional development of employees, current products and services, bank's initiatives, interests, employees, etc..	Customer service EuroPHONE 0800 11 4444; e-mail address office@eurobank.rs, internet presentation of the bank, www.eurobank.rs, business network of 100 branch offices and business centres	Bank's internet presentations www.eurobank.rs	Meetings and consultations	Meetings and consultations	Meetings and consultations	Media conferences	Meetings and consultations
Internal portal Euro PORT, which contains all active policies, procedures, organisational scheme, calendar of important events, job competitions, employee discounts at bank suppliers, and other important information	Corporate Facebook and Twitter profiles	Regular publications and Annual Bank Reports	Conferences			Media releases	Form for donations and sponsorships on the web page www.eurobank.rs/community contribution
Corporate profile on Facebook and Twitter						Interviews, PR texts	
Electronic letters on new appointments, organisational changes, strategy, financial results, news from the Group, CSR activities and advertising campaigns						Via authorised PR agency	
Internal department meetings	Office for client relations, who work closely with the National Bank of Serbia, i.e. Centre for Consumer Protection, in order to secure transparency and objectivity in managing client relations. their objections, suggestions and praise	Media releases				Corporate communication department, in charge of the release of accurate and timely information	
Ways of engagement							
Regular meetings and direct dialogue with the bank management (working breakfast with the President of EB, semi-annual meetings of the middle and high management, tour of regional centres)	Satisfaction survey (per client segment and branch office)	Session of the Bank Assembly	Meetings and consultations	Donations and sponsorships via form on the website of the Bank www.eurobank.rs/communitycontribution	Active participation in committees of various associations, SAM, NALED, PKS, UNDP, UNEP FI, UBS, etc.	Participation in panels, professional trainings and conferences	
Internal prizes and recognitions for employees (internal competition"Good Feeling for Good Ideas," proposals for reconstruction of playgrounds in state kindergartens throughout Serbia as part of the"Big Heart" project, naming of new products/services, recognitions for achieved results in sales and customer service, etc.)	Customer service department, which applies measures for improving relations and upgrading service to a high quality level)			Cooperation agreement	Participation in task forces and committees	Eurobank satisfaction survey, as well as improvement suggestions	
Idea box or online platform, where employees suggest ideas for improving business operations	Allowing the option to contribute without additional costs to the reconstruction of playgrounds in state kindergartens in the Big Heart campaign by using MasterCard			Participation in the work of the committees of regional chambers			
"Volunteering (participation in volunteer campaign ""Our Belgrade"" and ""Our Gornji Milanovac,"" collecting books for the toy library in Ada, clothes for the most destitute, free workshops for citizens on the topic of planning and managing personal finances)	Engagement of bank clients in CSR activities			Tender requests for suppliers			
Participation in sports competitions (Bank's football league, basketball tournament as part of Unicef's School Without Violence programme)	Health care prevention service			CSR "We are Investing in European Values" programme			
Participation in business, non-government and non-profit organisations (Committees of the American Chamber of Commerce in Serbia, Foreign Investors Council, National Alliance for Local Economic Development, Serbian Association of Managers, Foundation for Science and Culture of the Serbian Academy of Science and Arts, Management Board and Task Forces of the Global Compact, Business Leaders Forum).							
Expectations 2013							
Active training program	Customer satisfaction research	Transparent and efficient communication	Support to Government programs for improving the economy and business climate	Two-way dialogue with representatives of the local environment (meetings with the bank representatives of local self-government, participation in working bodies at the local level, etc.)	Development of partnerships and start-up of mutual initiatives	Strengthening and developing a relationship with the local media through direct contact	Initiation of new projects via cross-departmental cooperation
Introducing procedures for employee volunteering		Additional strengthening of management frameworks		More active participation of local community representatives in Bank's projects in the form of partnerships		Developing partnerships with the media in the field of the CSR activities of the Bank in order to create "public opinion" on the needs of society and the community	Developing partnerships with the aim of common identification of needs
				Application of the environmental protection clause as mandatory in standard contracts with suppliers			

Level of met expectations for 2012 according to areas where GRI reporting principles have been applied

Working environment

- ○ upgrade of trainings programme (sales skills, customer service, general banking knowledge, using IT, e-Learning)
- ○ volunteering activities, it is necessary to systemize and monitor volunteering hours,
- ◊ employee satisfaction and engagement research done according to pre-defined pace
- ● compensations and benefits above the legal minimum

Market

- ● papplication of principle of ethical and responsible advertising
- ● implementation of the platform “Your Opinion Matters To Us”, conducting a survey “How Much Are We Focused on Providing a Quality Service” with the aim of improving customer satisfaction
- ● training for employees who are involved in the quality control of suppliers and ethical questions related to suppliers
- ○ inclusion of social companies in the supply chain, where it is applicable
- ● applying green procurement principles

Environment

- ● waste management control
- ◊ specify the annual costs and investments which refer to the environment as part of the annual budget
- ● implementation of the energy savings programme and giving recommendations to employees in order to reduce the consumption of energy resources and reduce the carbon footprint

Corporate governance

- ● responsible management which includes ethical business operations, timely and accurate financial reporting, compliance with country legislative and rules of the Group
- ● protection of interests of all the stakeholders through a sustainable system of risk management, adequate reward programme

Local community

- ◊ upgrade of cooperation with the local city structures and the civil sector in implementing CSR projects
- ● reporting on the CSR activities according to the international GRI methodology
- ● continuation of the programme “We Are Investing in European Values”
- ◊ policy of investing in the community which would define CSR areas and standards for Eurobank in Serbia

◊ **not met**
● **met**
○ **partially met**

10
CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Effective and sustainable management is an important part of the identity and corporate values of Eurobank where transparency and responsibility are some of the basic postulates of doing business which ultimately protect the interests and rights of the shareholders.

Responsible management and control of the Bank's operations is ensured by applying good corporate management practices, which include some of the following aspects, such as ethical business operations, healthy and stable business practice, timely and accurate financial reporting, compliance with country legislation and the rules of the Group, protection of interests of all stakeholders, sustainable risk management system, adequate rewarding and promotion of human talent.

The Bank upholds the highest standards of doing business and business conduct in its universe, which is founded on the principles of sound corporate management and rules set by the local regulatory bodies and our banking Group. Special attention is paid to compliance with the rules and regulations of the local supervisors, as well as with Group guidelines and rules, in the overall process of adjusting to the best managerial and business practices in the EU.
The Management Board of the Bank, with the help of the corporate management service, is constantly trying to upgrade and develop the managerial processes, structures and policies of the Bank, in order not to just ensure compliance with laws and regulations, but also secure a transparent decision-making process and responsibilities, and development of a corporate culture founded on sound business ethics which is led by the interests of the shareholders and the wider community.

The control functions of the Bank, as well as some associated units, enable the undisturbed application of the best practices and recommendations for constant improvement, taking care of:

- Compliance with laws and regulations
- Clear management lines and authorisations
- Transparency and responsibility
- Timely publishing of important information and data
- Efficient cooperation and communication between all stakeholders

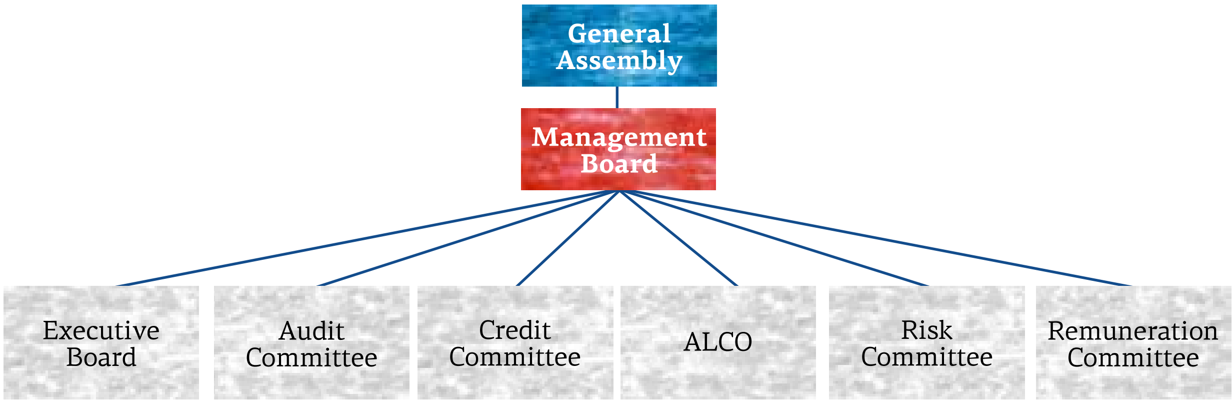
The foundation of the overall organisational structure and management of the Bank is defined in the **Internal Control Manual.** The **Code of Conduct** of the Bank brings together both delicate and general rules and guidelines of ethical business operations, and the **Conflict of Interest Policy** regulates the prevention of conflict of interest and defines rules of doing personal transactions, which refer to and are applied to all our employees and management equally.

The Bank strives to secure balanced and sustainable growth of local business activities and at the same time forge a trusting relationship with the community in which it does business.

The bank is aligned with the locally prescribed management model which is defined by the national banking regulator – the National Bank of Serbia in the Law on Banks. The management bodies of the Bank are the Management Board and the Executive Board while the highest body is the Assembly comprised of shareholders of the Bank. The percentage of women in the Bank's top management is 43.75%.

Management structure and composition of managerial bodies

Governance System



The Assembly of the Bank appoints the Management Board[1] members in line with regulations. The Management Board convenes four times a year or more often if needed. One of the main duties of the Management Board is to ensure that banking operations are compliant with the laws, regulations and acts of the National Bank of Serbia, as well as the internal acts of the Bank. The Management Board is responsible for establishing a unique system of risk management and internal audits in the Bank.

The Management Board consists of seven members, including the President. Three members are non-executive, independent members. During 2012, the Management Board held a total of ten meetings. Among the most important topics in the context of strategic and business decisions were monitoring financial performance and the position of the Bank, strategic business initiatives, compliance with new laws, issues from the domain of risk management, compliance of operations and audits, harmonisation and implementation of the Basel II framework and the regular review of policies and procedures from the domain of applying the Basel II framework of internal audits.

The Executive Board, as the managing body, which is appointed by the Management Board, currently consists of seven members including the President. Of the seven members, two members are women (28.6%), and five members are men (71.4%). The Executive Board convenes on weekly basis and more often when the need arises. During last year, there were a total of 45 meetings of the Executive Board. One of the basic responsibilities of the Executive Board is the supervision of daily business activities of the Bank, application and execution of the decisions of the Management Board and the Bank's Assembly, and ensuring that the overall organisation of the Bank is adequately supporting the business strategy and aims of the Bank.

The Management Board attains a clear management frame and independence in performing its duties through adequate membership and expert knowledge of its members, where members of the Management Board cannot be members of the Executive Board.

Five specialised sub-committees of the Management Board have been formed: the Audit Committee, Assets & Liabilities Management Committee (ALCO), Risk Committee, Credit Committee and Remuneration Committee, which serve to assist the Board in carrying out its duties effectively from supervision, financial, risk, internal control and strategic areas, in accordance with pertinent local laws, internal acts of the Bank and Eurobank Group policies and guidelines.

The Executive Board also appoints its function committees which help the performance of duties in various areas of business. Currently there are nine such committees which are dedicated to professionally reviewing issues in the domains of risk management, monitoring the work and conduct of employees, information technologies, operational work and procurements.

The duties and responsibilities of the above-mentioned committees are defined in separate operational rules and duty descriptions, which are adopted by the managerial bodies which appoint them. These operational rules are updated in due time. The Bank introduced annual reports on the evaluation of the activities of the Management Board and Audit Committee, with the aim of identifying and raising compliance with the regulatory framework to an optimal level and ensuring an adequate system of corporate management.

[1] Members of the managing bodies and subcommittees are given in a separate table.

System of internal audits and risk management

Apart from managerial bodies, the Bank's system of internal audits includes the function of compliance control and the function of internal audit, which are both independent in their work and reporting to the managerial bodies of the Bank, as well as the Audit Committee which helps the Management Board perform supervision, and the relevant levels of Eurobank Group.

The Bank applies a comprehensive approach to risk management[2] through strategies, policies, procedures, instructions and other internal acts which define the principles of risk management, identification methods and mechanisms, monitoring, measuring, reporting and reducing potential risks. Risk management is the subject of regular monitoring by the Executive Board, the Management Board, the Risk Committee and the Audit Committee of the Bank.

Connection between compensations and results

The Remuneration Policy of the Bank is an integral part of good corporate management, defined in accordance with operational models and business strategy of the Bank as well as the risk management strategy of the Bank. Its basic principle is to adjust the individual goals of employees to the long-term business goals and strategy of the Bank, as well as the long-term creation of value for shareholders.

Compensations have a significant role in attracting and keeping people talent whose performance and contribution to the overall result of the Bank is of extreme importance. Compensation mechanisms include principles, which take into consideration employee skills and performances, while at the same time they support the long-term business aims. Total earnings of employees consist of a fixed and variable component.

The salary and other earnings policy of the Bank encourages reasonable and cautious risk taking, and the employee compensation system is founded on realising business goals and it is symmetrical (i.e. the total fund of the variable component is defined in accordance with the realised business goals, which involves a bonus – the malus principle).

The Bank policy applies to all employees of the Bank. Remuneration of certain employee categories is approved by the Management Board, at the proposal of the Remuneration Committee, and after it has been ratified by the Eurobank Group Remuneration Committee and Group Supervisory Remuneration Committee.

The Management Board prepares and submits to the Assembly a proposal on the compensations of its independent members for their engagement and after receiving the proposal of the Supervisory Board for Remuneration of Eurobank Group. This proposal is prepared based on the Bank's Policy and best banking practices, in a way which takes into consideration the time and performance of each member of the Management Board.

Managing sustainability

The mission and vision of the Bank include the principle of CSR in its operations. The Bank defines corporate social responsibility principles (CSR) and the main directions of action in the CSR strategy, which is an integral part of the corporate communications strategy. The Marketing and Corporate Communications Sector is responsible for the implementation of CSR activities. It reports directly to the President of the Executive Board of the Bank and if needed to the Management Board of the Bank on the planned strategic approach in the area of corporate social responsibility.

In these challenging times, the management of the Bank will continue to develop and monitor best practices and shall further strengthen structures and skills in order to enable set goals to be achieved and the monitoring of results, and their long-term sustainability.

The Bank will strive to additionally strengthen the management structures and framework in order to secure strategic management, continued growth and monitoring of best practices and set measurable goals with special care and attention given to the highest interest of employees, shareholders and stakeholders.

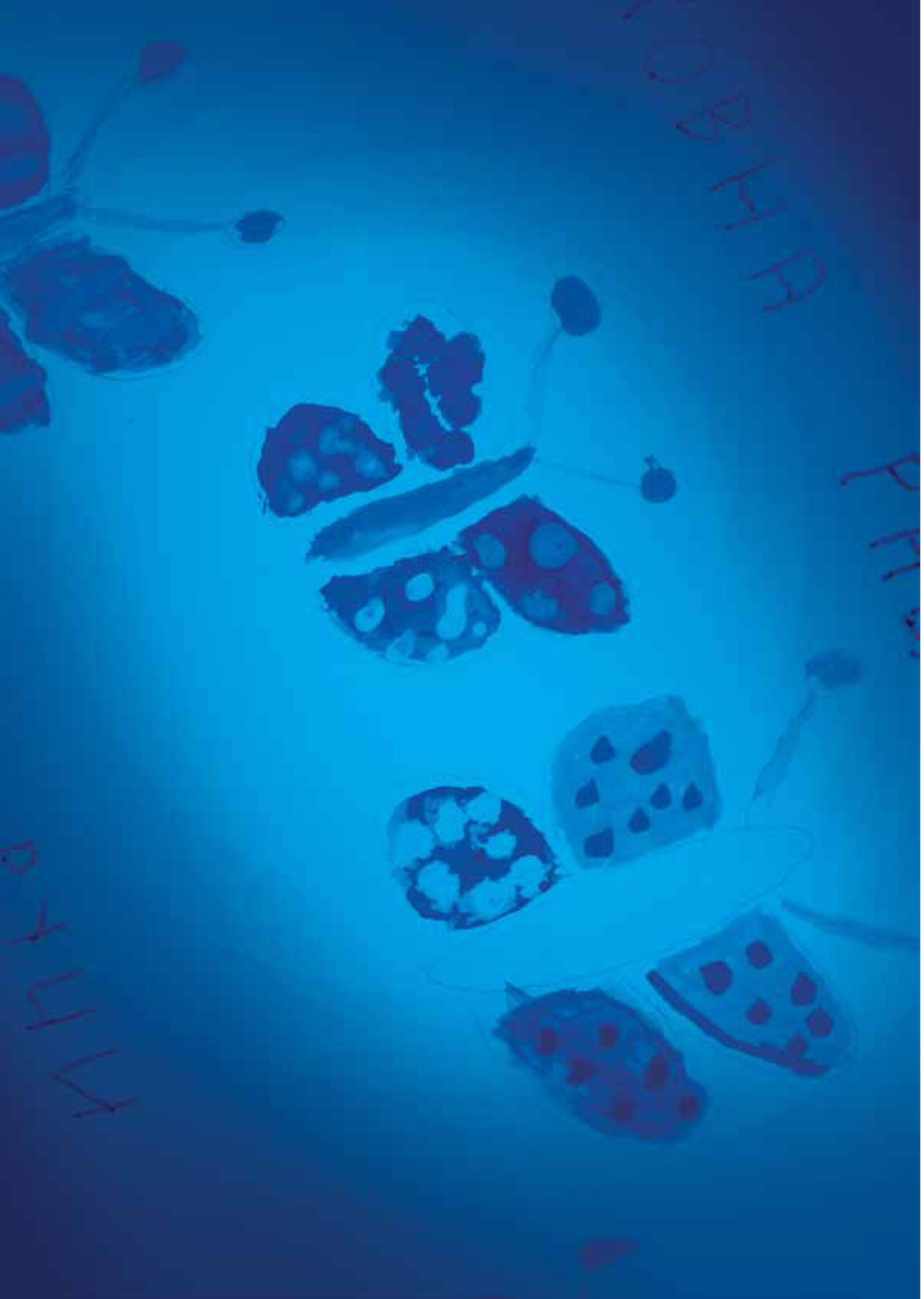
[2] More information on page 19

		Management Board[3]	Executive Board	Audit Committee	Risk Committee	Credit Committee	ALCO	Remuneration Committee
Non-executive Chair	T. Karakasis	President						x
	S. Ioannou	x		x	x			
	E. Kavvalos	x						
	N. Aliprantis	x						
	A. Delikoura				Chair	x		
	C. Komiopulos					Chair		
	D. Psichogios						x	
Indepen-dent & Non-executive	A. Tsichrintzis	x		x			x	
	S. Slović	x						
	I. Vujačić	x						
	L. Scaramanga			Chair				
Executive Directors	F. Karamanolis		President		x		x	
	S. Pavlović		x				x	
	V. Zečević		x				Chair	
	G. Michalakopoulos		x					
	N. Strugarević		x					
	A. Chatzistamatiou		x			x	x	
	P. Janković[4]		x		x	x	x	
	A. Bursać					x		

[3] Management Board adopts the Rulebooks on activities of its sub-committeees, which are a part of theBank's Internal audit/managing rulebook.

[4] Became a member in January 2013

11 WORKING ENVIRONMENT



OUR EMPLOYEES

Global trends in 2012 in the banking sector brought the continuation of the process to adapt to new conditions and challenges in the market. In order to achieve business success, the contribution of all employees is essential. Eurobank Group has since its establishment defined the improvement of human resources as one of the basic priorities and, accordingly, in 2012 it continued with the selection of high-level professionals, development and training and with the assessment and rewarding of employees.

Employment

Eurobank has clear procedures that are applied in the recruitment and promotion of employees. Equal employment opportunities for all persons for any position within the bank are guaranteed by the Employment Policies and Procedures with which all managers are familiar.
Adapting to local market conditions, Eurobank in 2012 increased its number of employees (1472 employees in 2012 compared to 1436 in 2011). The average age at Eurobank in 2012 was 40. In line with modern trends in the field of financial services, women prevail in relation to the number of men employed in the Bank – 65% women and 35% men. Also, women hold 48% of managerial positions, which demonstrates a balanced gender representation in the management of the Bank. A key criterion in the selection of new employees is their expertise and professional approach to work commitments.
The head office of the Bank is in Belgrade where 65% of employees work. Besides Belgrade, the business is divided into another three regions (Novi Sad, Nis, Kragujevac). Over 99% of employees are locals. Eurobank practice is to employ a local workforce, thus only local workforce from larger centres (Novi Sad, Nis, Kragujevac) and surrounding cities work in the regions (regional centres).

Total number of employees

By location (region)	
Belgrade	1026
Kragujevac	150
Nis	139
Novi Sad	157

By gender	
Women	1013
Men	459

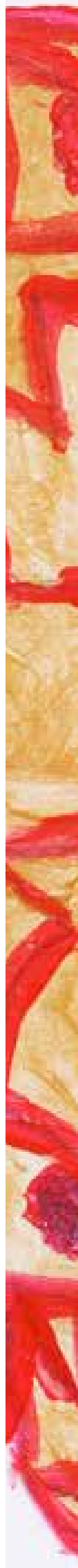
By the type of contract and the type of employment	
Temporary contracts	125
Executives	110

Employee age structure	
Up to 30 years	206
30-40:	750
40-50:	279
50-60:	222
Over 60	15

Total number and rate of fluctuation of employees	
Retirement	14 (0.9%)
Employed	Men– 25 (1.65%); Women – 56 (3.7%)
Termination of employment	63 (4.17%)

Employees of Eurobank are guaranteed the right of association, without discrimination based on membership in associations or unions.
In Eurobank there is a union with which there are ongoing negotiations on concluding a collective agreement and in that sense there is regular communication and meetings are held with union representatives. Until the conclusion of a collective agreement, employees’ rights are regulated by the *Rules of Procedure.*

Eurobank respects legal obligations in the field of health and safety at work and implements adequate measures for protection, such as adequate training of employees in safe working, training in fire safety, first aid training and regular control of potential risks in the workplace. Eurobank has adopted the Security Act, as well as the Risk Assessment Act, and it has a person responsible for security affairs about which



all employees are notified. The Risk Assessment Act has been formulated on the basis of the Law on Safety and Health at Work, which is consistent with international standards so that the Bank operates in accordance with them, although it does not have the OHSAS 18001 standard.

Given that under the Risk Assessment Act positions with increased risk in terms of health and safety at work were not found, in 2012, there were no deaths related to accidents at work or occupational diseases which would result in a longer absence from work. In 2012 a total of 13 injuries were recorded, of which nine injuries were in the Belgrade region, 2 injuries in the Nis region and one occupational injury in the regions of both Kragujevac and Novi Sad. Due to these 13 injuries in 2012, there were 2,496 hours of employees on sick leave. All employees who, due to possible injuries at work or work-related injuries, were forced to go on sick leave were paid the full amount of income for the duration of the sick leave, without the deduction that is typical for other types of sick leaves.

The work of the Human Resources Division covers the following areas:

- Candidate Selection
- Training
- Performance Assessment of Employees
- Compensation and Benefits of Employees

Candidate Selection

In accordance with business needs in 2012, the Bank offered a number of new jobs in order to attract new future colleagues with whom it would achieve a mutually successful relationship. Characteristics, which the Bank required from candidates, were expertise, team spirit, dynamic nature and readiness to continuously improve.

The educational profile of candidates is high, so 75% of personnel have a college and university education, 22% have a secondary education and 3% of employees have a Master's degree.
In the area of candidate selection, the Bank continued its cooperation with eminent faculties, both with local and international educational institutions. The process of candidate selection is based on the values of Eurobank Group while criteria for selection include a written assessment, interviews and psychometric methods.

In 2012, the bank implemented internship programmes with the National Employment Service. So far, 417 people passed these programmes, and in 2012 over 110 people passed of which 70 are employed in the Bank.

We also have active cooperation with other relevant institutions such as the Association of Serbian Banks, Career Development Centre of the University of Belgrade and the Academy of Banking and Finance, established by the National Bank of Serbia. By allowing internships for high school students of economic and legal orientation, the Bank has enabled future professionals' insight into practical knowledge and thus facilitated their further selection of educational profiles. During 2012, a total of 34 high school and university students were on work practice.

During 2012, the Bank offered its employees internal open competitions for open positions whereby employees were encouraged to actively participate in transfers between departments if they wanted to change the nature of their work, further develop their skills and continue their careers within the Bank. Internal recruitment filled 68% of new positions, compared to 2011, when the percentage was around 80%.

Performance Assessment System

he results achieved by the Bank are determined by employees' individual contributions, abilities and efforts. For this reason, an objective assessment of the contribution of each employee was given great importance. The evaluation process is designed to ensure transparent assessment and is based on clearly defined procedures. The Assessment System relates to the level of achievement of objectives, where combined quantitative and qualitative criteria provide a complete picture of achievement. Achievement Assessment is done for all employees (100% of employees) who in the year to which the assessment relates worked a minimum of three months. All employees who have the role of assessors in the annual assessment have been trained in the objective evaluation of employees' performance, in line with the annual assessment policy.

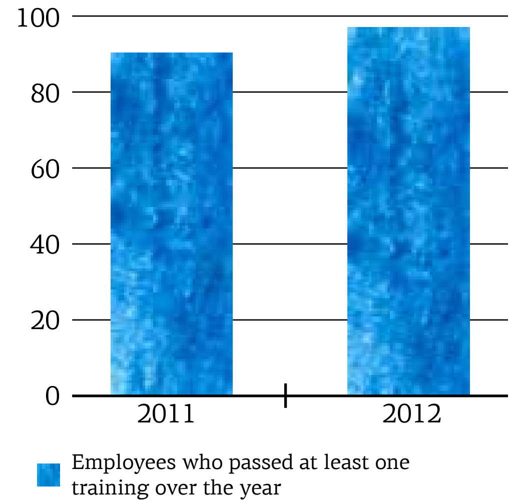
Training

Training in Eurobank is intended for all employees and is adapted to specific tasks carried out in the Bank. The programmes are designed to contribute to the continuous improvement of knowledge and skills in accordance with the annual training plan that is created in cooperation with all sectors of the Bank. Trainings are based on a combination of theoretical and practical knowledge and training involves colleagues from different sectors who pass their knowledge to candidates in the training programmes.

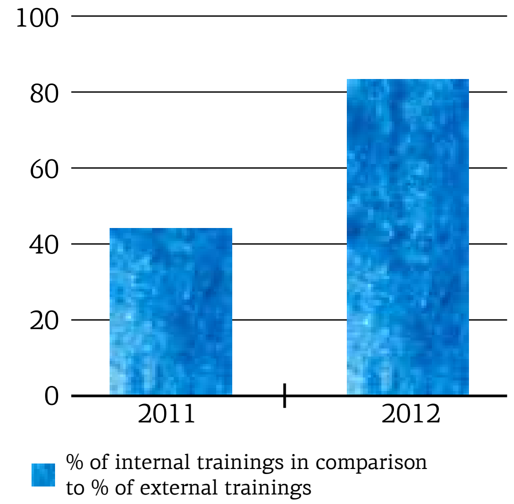
In order to quickly and efficiently incorporate new employees into the work environment, a customised introductory training programme (induction programme) covering a number of topics, depending on the nature of the work that the new employee is to perform, has been established. Programmes that are unique are: the basics of banking operations (general banking knowledge), the basic principles of working with customers (customer service), selling skills, training for work in the Bank's operating systems (IT Training) and specialised trainings prescribed by legislation such as trainings in the field of the prevention of money laundering and financing of terrorism.

In 2012, the proportion of trainings performed via the Internet (e-learning) increased compared to traditional teaching methods in the classroom. By using this new method, training was available to all employees in shorter period with significant cost savings. Some of the training programmes that were available in electronic form: prevention of money laundering and terrorist financing, increasing the level information security, code of conduct, products and procedures. Driven to be a responsible employer that takes care of its employees, in accordance with the legislation of the Republic of Serbia, with the help of external expert lecturers and instructors, trainings in health and safety at work and fire protection were conducted.

Employees who passed at least one training over the year

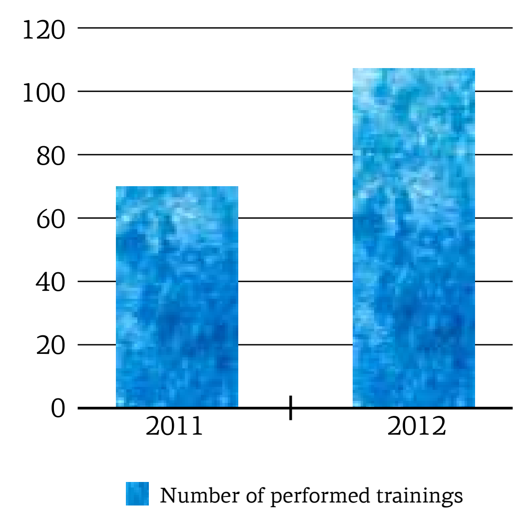


% of internal trainings in comparison to % of external trainings

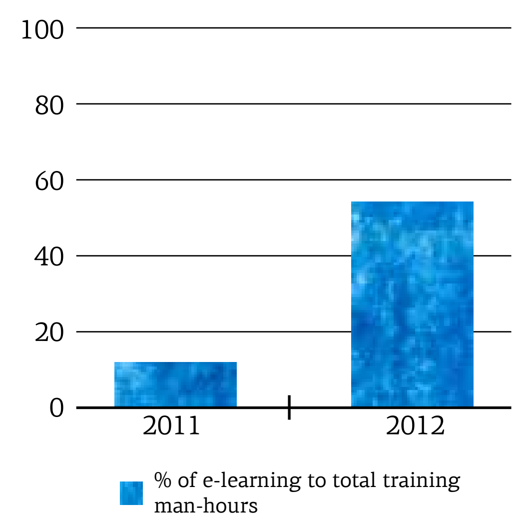


The percentage of employees who passed at least one of the trainings in 2012 increased to 94.77%, compared to 91.5% in 2011. Bearing in mind that the share of electronically conducted trainings over traditional training methods in the classroom increased (55.6% in 2012 compared to 13.67% in 2011), training costs per employee were also lowered. The share of internal trainings increased to 82.37% compared to 45.31%, as was the percentage of internal training during 2011. Also, the number of performed trainings increased - 105 performances against 72 performances during 2011. In 2012, of the total 17,949 hours of training, 28% were trainings for managers while 72% of performed trainings were for other employees who are not in managerial positions.

Number of performed trainings



% of e-learning to total training man-hours



Harvard Business School programme

Thanks to the results and the fact that so far participants have rated the programme as being excellent, in 2012, collaboration between the educational institutions of the prestigious Harvard Business School Publishing, which started in 2008, continued. The programme was attended by 19 participants, and all of them successfully completed the theoretical modules and certification tests. They could have used a wide range of titles from the world's leading authors in such areas as leadership, management skills, coaching. After successfully completing the programme, all candidates receive diplomas with the certificate of Harvard Business School Publishing.

Specialised Seminars

During 2012, the practice of Eurobank employees participating in specialised seminars and conferences organised by professional organisations such as the Association of Serbian Banks and the Academy of Banking and Finance continued. Recognising the business needs of the Business Network Sector, a series of training sessions in the field of time management and priorities for branch managers was organised.

Certification Programmes

In accordance with the practice of the Group, Eurobank helps its employees to secure the necessary certification to perform certain types of work. During 2012, the Bank covered the costs of training and certificates such as ACCA (Association of Chartered Certified Accountants), CIA (Certified Internal Auditor), and certificates that are necessary for colleagues in the IT sector.

Scholarships

In 2012, the postgraduate academic programme for two employees was completed at the prestigious University of ALBA, Athens. The costs of the postgraduate studies were borne by the Bank in collaboration with the University of ALBA and the scholarships were granted to the best candidates who were selected in the open competition that was open to all employees.

Compensations (pecuniary compensation) and other benefits

Compensation and the benefits policy is based on the principles of competition and payment by results. Compensations of employees in Eurobank consist of a fixed part and a variable part, where it is applicable. The fixed part is determined on the basis of the professional qualifications (educational level) of the employee, previous work experience and the importance of the position in the local labour market. The variable part consists of bonuses and awards for outstanding achievements.
As a responsible employer, the Bank offers employees rights that are little more than the legal minimum. In 2012, cooperation with the renowned Bel Medic General Hospital continued, which provided all employees a free physical examination and, if necessary, further examinations for employees and their family members with special rates and discounts.
In addition, all employees of Eurobank are insured in case of surgery and / or serious illness, in the event of injury and/or temporary or permanent work disability and in accidents in accordance with the insurance policy paid for by Bank. Also, for the children of employees who have died, scholarships during mainstream schooling are paid, and flexible working hours in special cases are allowed, e.g. employees in the head office of the Bank in Belgrade, and who reside outside of Belgrade, have the opportunity to spend part of the week in their place of residence.

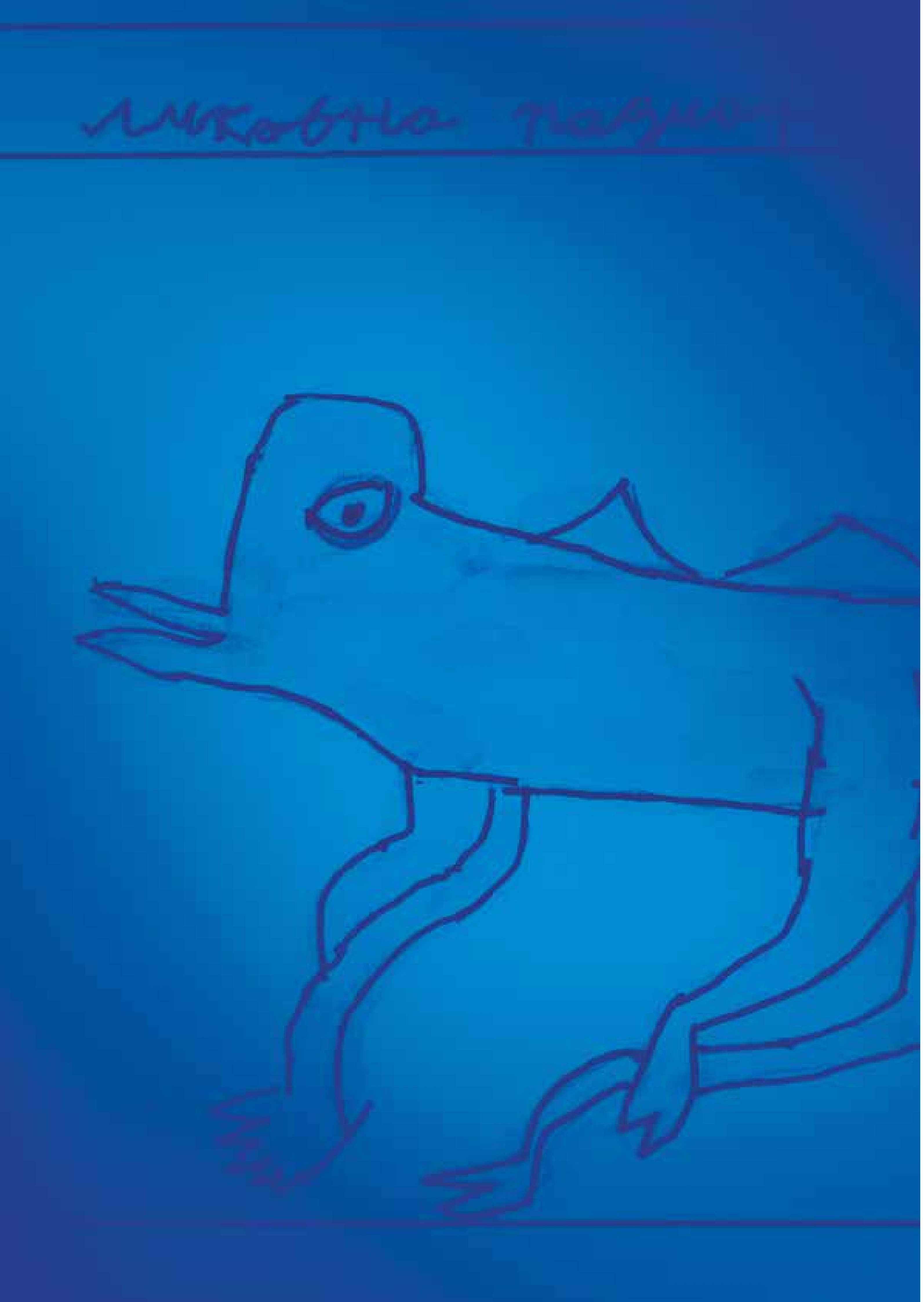
Internal Communication

Quality internal communication can significantly contribute to increasing motivation and productivity and is the basis of good relations in the organisation and maintain understanding between management and employees. If internal communications function properly, employees are more committed to the organisation and they build a sense of belonging because they see the company as their own.
One of the primary goals of internal communication in Eurobank is to strengthen the image of the Bank in the minds of all employees as a socially responsible company that cares about employees, customers, shareholders and the community in which it operates.

Channels of communication with employees and key activities in 2012 were presented in the introduction, in the stakeholder map, page 56/57.

12

CLIENTS AND MARKET



CLIENTS

Eurobank, as a stable and systemic bank which successfully operates inSerbia since 2003 with a wide base of over 500,000 customers, retailclients, companies of all size, entrepreneurs and state owned institutions,is oriented toward building an efficient care for its clients. Eurobank makes constant efforts to offer tailored made and individual solution forevery client, while retaining their confidence, and also committed itself to creation and maintaining healthy and long-term mutual relations.

PRODUCTS AND SERVICES

With its various products and services, Eurobank tries to meet the different needs of customers in the most efficient and best way. In addition to standard banking products, special emphasis is put on the so-called “socially responsible” products of which the following should be highlighted:

Customer Support

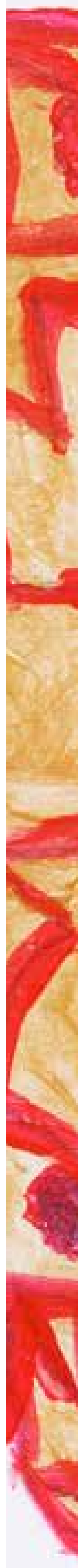
- ***Subsidised housing loans*** – mortgage loans subsidised by the state of Serbia, for young married couples and clients who have not owned property before
- ***Energy efficiency loans*** – these subsidised loans are intended for financing construction works and purchasing of equipment that will improve the energy efficiency of individual houses or apartments
- ***Free health services for customers who receive their salary or pension through Eurobank*** – Unique MediFree programme made by Eurobank in collaboration with Bel Medic General Hospital
- ***MasterCard “Big Heart” card*** - humanitarian card of Eurobank and the Ana and Vlade Divac Foundation which, when used by the customers of the Bank, assists the rebuilding of children playgrounds in state-owned kindergartens across Serbia
- ***Old foreign currency savings bonds*** - Eurobank made it possible for its clients, by simply handing over transfer orders, to directly transfer money from their old foreign savings account to a savings account (Free Savings), with the possibility of using their funds whenever they want, without having to wait in lines. It should also be noted that Eurobank hired additional service support staff during the first weeks of payment at the branches with the largest frequency of old foreign savings depositors, in order to help customers by reducing the waiting time and making the process as effective as possible
- ***Savings for children*** - the children’s savings account is intended for those who want to plan and provide a secure future for their children through savings as their children grow up
- ***Mortgage loans*** - for all customers who, for objective reasons, cannot repay their mortgage loans (death or loss of a job), Eurobank offers a grace period of 12 months (only interest is paid). Our common goal is to build partnerships with our customers and try to find a solution that is best for them

Support for the economy

- ***Subsidised loans for liquidity*** - in line with the Government’s regulations, Eurobank was actively involved in the programme of payment of subsidised loans for the economy, which can be used to maintain liquidity and finance working capital and export businesses in 2012. In 2012, the Bank, as part of its programme, approved subsidised loans for companies (small, medium and large) to a total value of 41.9 million

Alternative channels

- **e–Banking** - electronic banking is a modern way for clients to communicate with their



bank. Without going into a bank, a client can perform a number of tasks quickly and easily

- **Electronic Bank Statement** – Eurobank enables its customers to receive monthly account/credit card statements via e-mail, reducing the amount of printed paper and acting responsibly towards nature. With double-sided printing, digitising of documents and the introduction of electronic statements, total expenditure of paper was decreased to 12.26% in 2012 compared to the total consumption of paper in 2011

- **Telephone Banking** - a service that enables customers to conduct transactions and access information about different products they have in the bank by talking on the phone with a call centre operator

- **APS** - a device that allows customers to pay off loans and credit cards instalments, as well as to transfer cash payments to their current account without waiting in line

Customer Care

Providing a quality service is the key to organisational success, and a satisfied customer directly affects revenues and increases profitability. Eurobank has strategically focused on providing quality customer service and is fully committed to building a competitive advantage on this basis.

- **Developed Business Network** - Services are provided to citizens and companies through the Bank's network of 100 branches and nine business centres throughout Serbia, located in 57 cities

- **Special department in a bank that deals with customer care** - The responsibility of this department is exactly on processes and activities that have an impact on customer satisfaction and the main goal is to set up the service for the customer at a level that will be a competitive advantage of ours

- **Availability of products and services for people with disabilities** - by adapting branches and the head office and removing physical barriers

- **Project "Your Opinion Matters To Us"** - a comprehensive platform that actually connects all networks and channels to deliver services and provide customers easy access to and communication with the bank.

  - Contact centre –EuroPHONE , 080 1111 44
  - Official website and e-mail address of the bank - www.eurobank.rs; office@eurobank.rs
  - A network of over 100 branch offices
  - Eurobank Centre, Vuka Karadzica 10

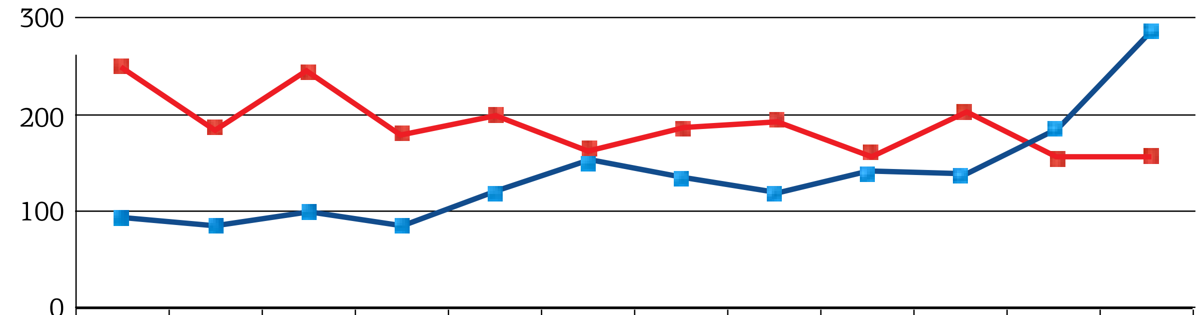
- **Survey by the Customer Care Department "How Are We Focused On Providing High-Quality Services"** – the results of the survey are used to define action plans of the surveyed Department, whose fulfilment on a highly satisfactory level would ensure the highest possible standard in terms of access relating to customer care

- ***Personal banking*** - in 84 Eurobank branch offices (approximately 75%) customers can use a personal banker and a specially marked area that provides an exclusive and discreet service to wealthy clients. Personal bankers are solely responsible for serving wealthy clients and proactively meeting all their needs

- **Transparent communication with clients**
    - All marketing materials are in compliance with the Law on Protection of Financial Service Consumers; the Bank has accepted all the objections of the National Bank of Serbia and corrected all irregularities in the short-term.
    - The official Facebook page, which is an important channel of communication with customers, with the basic aim of achieving closer ties with customers and also developing a unique platform that will help the Bank further improve its image as a modern, transparent and customer-oriented institution.
    - Information about the Bank's products and services is available on the website of the bank. The Code of Responsible Advertising - Eurobank has developed an internal document which is the basic standard of ethics to be followed in the practice of advertising and marketing communications. Its standards are applicable in all forms of advertising. In cases where an advertisement for deposits or loans contains interest rate or any other numerical data relating to the price or income, on a representative example the following information is listed - types of deposits or loans, the total amount, the amount and variability of annual nominal interest rate, the amount of the effective interest rate, the period of contract, the costs borne by the user.

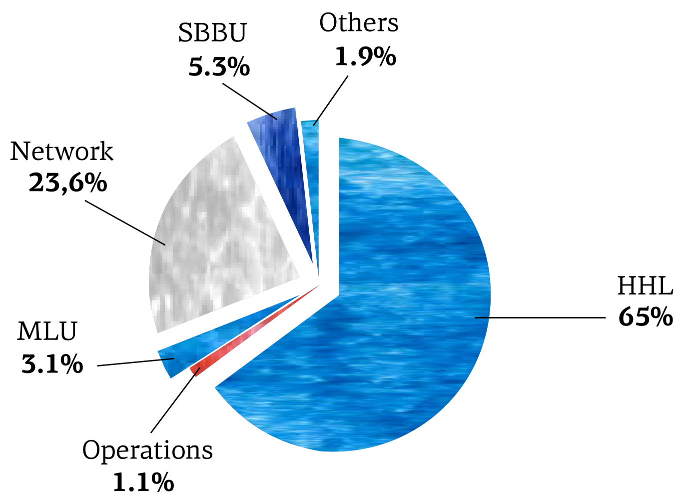
- **Client Relationship Office, CRO -** works closely with the National Bank of Serbia (Centre for Consumer Protection), in order to ensure transparency and objectivity in the management of relationships with customers of the Bank.

Number of complaints on a monthly basis

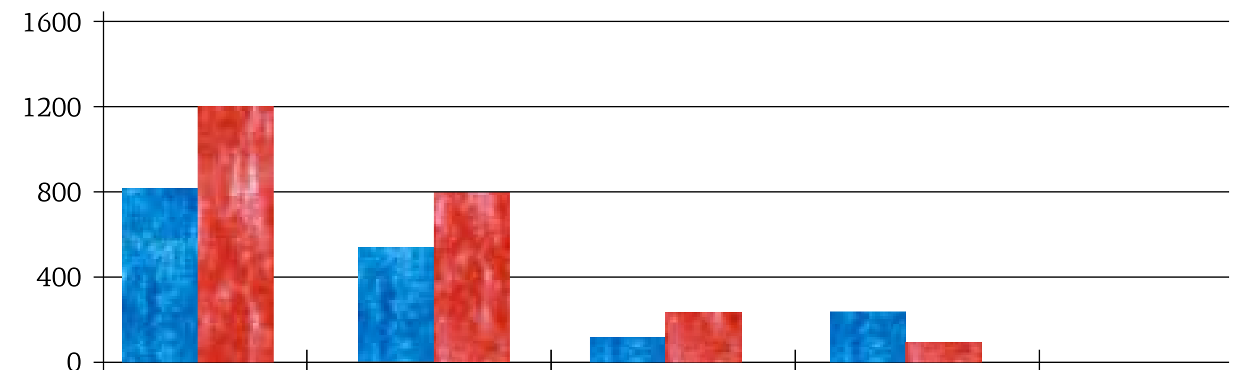


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2011	91	85	96	82	118	156	131	115	138	135	183	283
2012	246	184	244	178	191	160	183	188	154	199	157	153

Share in the total number of complaints - by bank sector

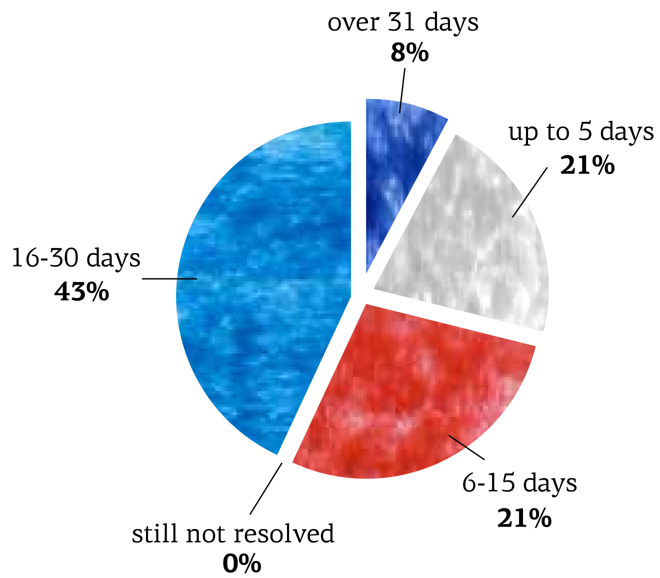


Method of delivery of complaints



	Written	Verbal	NBS	Call Center	Media
2011	818	532	103	160	0
2012	1194	797	171	75	0

The time required for resolving complaints



“Mystery Shopper” research

The aim of this research is the inclusion of all important aspects that contribute to final value for the customer; impression of the branch, the state of the branch, sales and final interviews.
Based on the obtained results, Eurobank employees demonstrated a high level of quality of service to their clients, keeping in mind that the main findings showed that:

- **Eurobank branches look neat,** both outside and inside the branch, with clearly and neatly positioned advertising material in accordance with the standards of Eurobank;
- **The organisation in branches is at a high level** and helps customers to easily solve and efficiently complete all their transactions without excessive queuing;
- **Employees show a high level of professionalism,** they are completely focused on the customer and are sales-oriented, providing clear and comprehensive information to customers, proving their competence and training.

A detailed survey of customer satisfaction is conducted on annual or biannual basis in cooperation with the market research agency GFK. In addition to the level of satisfaction, the survey also monitors indicators related to each service. The financial omnibus survey which Eurobank, among other parameters, uses to monitor the level of overall satisfaction of the Bank’s clients is conducted twice a year.
The results show that 84 percent of customers are satisfied with the Bank’s service, 2% are not, while 14% have no opinion.

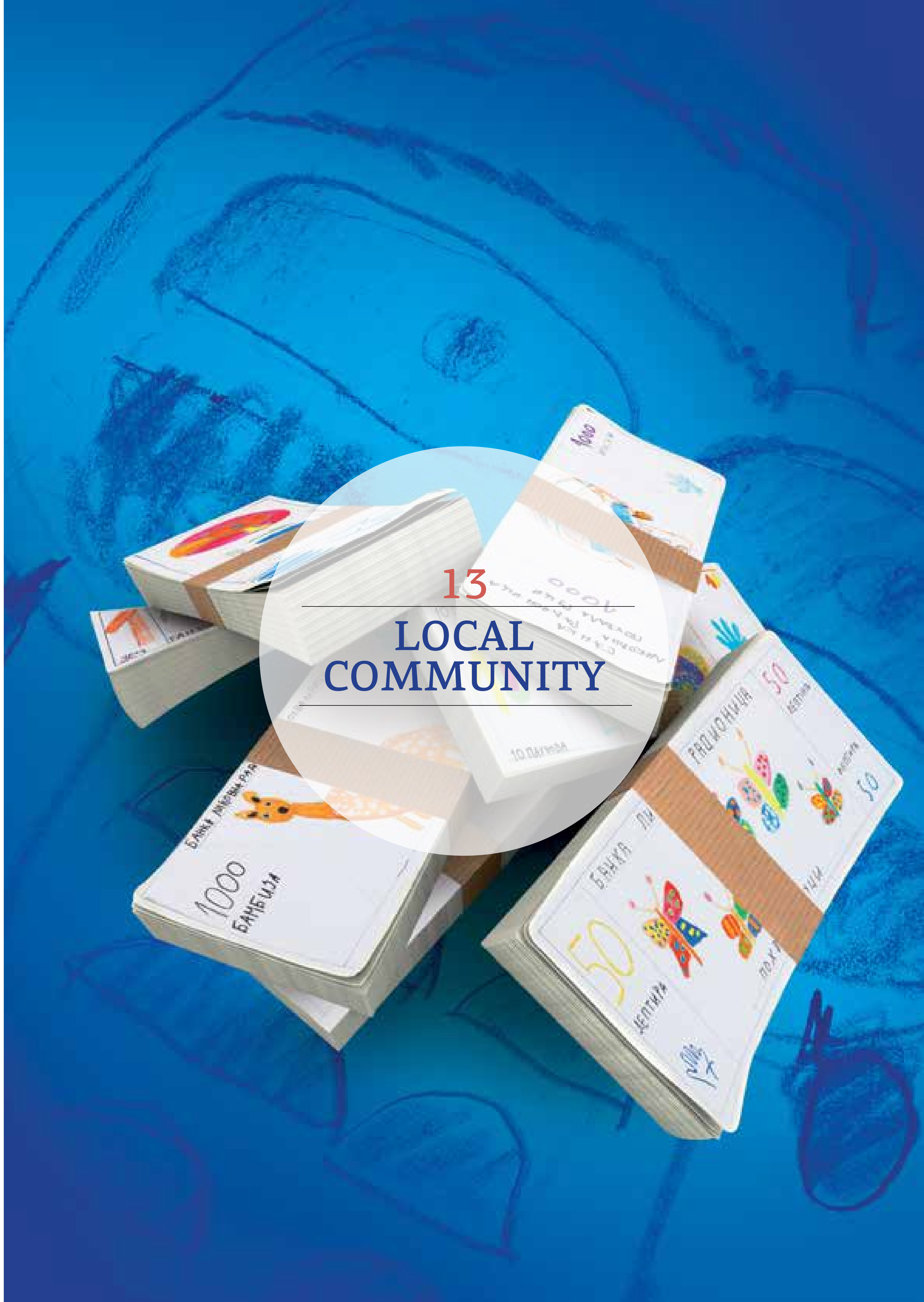
Relations with business partners and suppliers

Eurobank cultivates transparent relationships with its business partners and suppliers, sets transparent tendering conditions and ensures equal treatment of all participants in accordance with the approved Procurement Policy.

Based on the requirements of the tender requests and invitations to bid, which are in accordance with the above policy, the obligations of suppliers are defined, with full respect to the goods/services to be procured, and are the same for all, by which discrimination or favouritism of suppliers is avoided. The Bank uses the electronic tendering platform Ariba, so that the whole procurement process is automated and transparent, and there is reduced paper consumption. After the supplier is chosen, an agreement is the form by which all necessary details are regulated.

Evaluation of suppliers with whom the Bank has entered into an agreement is done quarterly, with the participation of the department that is the end-user of specific services/products. Internal procedures do not cover a two-way evaluation, which is planned for 2013. The Procedure for Evaluation of Suppliers and a procurement agreement define the issues related to appeals and complaints from suppliers. In some cases, the supplier is required to fulfil additional conditions; for example, to apply effective environmental standards in their business, to regularly pay contributions, and the like. As a socially responsible company, Eurobank also promotes socially responsible practices among its business partners, includes some of its suppliers in CSR activities. From 2012, in bid invitations, apart from economic and technical criteria on which the selection of suppliers is based, they include other criteria such as commitment to environmental protection and respect for human rights and the like. Also, that some products are purchased from social enterprises, which includes them in the supply chain.

Local suppliers are predominantly represented. Eurobank engages foreign suppliers mainly as far as IT equipment in concerned, the acquisition of which is centralised at Group level.



13
LOCAL COMMUNITY

THE LOCAL COMMUNITY IN WHICH WE ARE DOING BUSINESS

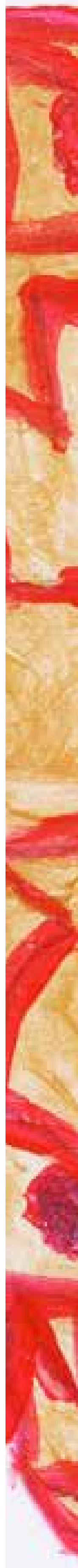
In spite of the fact that 2012 was extremely difficult for global society and the worldwide economy, Eurobank has been implementing a strategy of continual investment in the community in which it has been successfully operating. The fact that we have won the CSR certificate, awarded by the National Alliance for Local Economic Development and the Social Responsibility Champion prize, of which we are really proud, speaks volumes of this.

While doing business in 57 cities in Serbia, when making strategic decisions, Eurobank takes into consideration the interests of all stakeholders, and pays special attention to the effects of its operations on the local community. As a good corporate citizen, we are trying to maximise the positive and minimise the negative effect of our work in the local community. Eurobank has a mission to entice economic and social development of the local community in which it operates, for it is involvement in the local community that produces greater economic and social results, improves the quality of living of the community, and creates a well-regulated environment favourable for all stakeholders.

Ever since forming its Serbian unit in 2003, Eurobank has insisted on a well-designed and sustained CSR programme, being a large investor and a system bank that regarded the Serbian market as a strategically important one. The comprehensive CSR programme entitled ‘Let’s Invest in European Values’ is grouped in 5 basic areas through which the Bank has been supporting education, health, environmental protection and integration of people with disabilities into the social and business community, as well as improvement of Serbian culture. So far, nearly 4 million euros has been invested in these projects, aimed at providing support to the Serbian community and society in the areas where support is needed the most.

Eurobank Parks

We have been investing in the revitalisation and reconstruction of the central parks of the cities where we have been successfully operating. We are pleased to see formerly dilapidated green oases being revamped. So far, we have reconstructed 10 parks in 7 cities in Serbia: National Garden in Pančevo, European Garden in Jevremovac Botanical Garden in Belgrade, park of the Faculty of Teachers Education in Jagodina, Danube Park in Novi Sad, Čair Park in Niš, Sunny Park in Požarevac, Wedding Park on Ada Ciganlija in Belgrade, Inclusive Rainbow Colours Park in Bežanijska Kosa in Novi Beograd, the park in Vrnjačka Banja and Inclusive Park in Pirot.



In September 2012, the reconstruction of the **first Inclusive Park in Pirot** and South-East Serbia was completed. This is the tenth park within the big environment protection project "Eurobank PARKS", and is located in the city's biggest settlement with over 6,000 inhabitants. Eurobank's donation and support of Pirot Municipality and the Feniks Association of Persons with Disabilities, the park was equipped with street furniture and gymnastics apparatus adapted to suit the needs of people with disabilities. The implementation of the project was possible thanks to internal contest *"Good Sense for Good Deeds"* that the Bank organised with the aim of raising awareness among its employees about the importance of investing in CSR projects. Priority was given to projects involving a higher number of parties (e.g. employees, the bank, the media, state or local government authorities, NGO sector), and those resolving some of the acute social problems.
Of the 40 proposals receives, Inclusive Park in Pirot was pronounced the winning CSR project. This proposal was sent by our colleague, the Pirot branch manager. By planting a sweet chestnut tree, the symbol of welfare and long life, we set an example of environmental awareness and contribution to the landscaping of Inclusive Park.

"Our city has today received an exceptional gift from Eurobank - the very first inclusive park in Pirot and the eastern Serbia region. Now, all children will have an equal opportunity to play. Their joy is the indicator of our success, and when we contribute to the children's smiles in this way, we can be sure we have done a huge thing for the future of the entire community"

Vladan Vasić, Pirot Mayor

Facebook page "Eurobank Parks"

As part of the park reconstruction in Serbian cities project, with the aim of informing and engaging the public to take environment protection into consideration, Eurobank opened in early October a Facebook fun page, Eurobank Parks. In the autumn of 2012, a photo contest was organized on that page, with 'The Reason to be in a Park' as a theme. Fans were able to submit photographs they took in parks that the bank had reconstructed. The contest lasted for 2 months, and it produced really noticeable results, for it attracted over 5,000 park admirers. All that made the special jury's work to select 3 best photographs really difficult.

www.facebook.com/EurobankParkovi

Eurobank and Bel Medic's joint campaign MediFree® service

Making health protection and prevention the focal point of its CSR activities, Eurobank, in association with Bel Medic Hospital, launched a unique health protection system MediFree®, intended for the bank's clients and employees.

MediFree® allows clients who receive their salary or pension via the Bank to have an unlimited number of check-ups at the Bel Medic Hospital by certain specialists. This is a unique service in the Serbian banking market. The fact there are over 9,000 satisfied clients using this kind of service is proof of its success.

Users of MediFree service get an SMS message once a month, in which the bank informs them about available free check-ups for the current month. Wishing to upgrade the promotion of health prevention and accommodate the needs of our clients making all transactions at a bank branch, we organised free check-ups at 15 branch offices in the Belgrade region. The campaign had a positive response. Here is a comment of one of our colleagues:

"This was a really interesting and successful day at our branch office. I believe this campaign has been a success, since the doctor received some 20 clients for consultations and check-ups"

In order to allow its employees to have high quality and regular check-ups, the Bank initiated a free general check-ups programme, and it also provided a number of discounts for the immediate family members of employees.

Affinity MasterCard 'Big Heart' card

After supporting and carrying out a number of CSR projects in the communities in which it is present, the Bank decided for the first time to offer one of its own products – the affinity credit card. Eurobank and the Ana and Vlade Divac Foundation launched in early February 2010 an affinity 'Big Heart' MasterCard, under the auspices of the Ministry of Education of the Government of the Republic of Serbia. While cooperating with the local government, it came to the Bank's knowledge that many playgrounds needed maintenance or reconstruction, and with launching the affinity card, the Bank wanted to improve the state of the playgrounds and offer children in Serbia better and safer places to play. Research into individual and corporate philanthropy confirmed that companies were willing to support the most when it came to the children's needs, since they are the most vulnerable group in society. Moreover, the Ana and Vlade Divac Foundation was recognised as being the most trustworthy foundation.

The use of the unique MasterCard offers clients the opportunity to support the reconstruction of children's playgrounds of state-run kindergartens in Serbia, with no extra costs. Namely, for every transaction using the 'Big Heart' card, the Bank donates 1% of the value of the transaction and 50% of the monthly maintenance fee to the reconstruction of the playgrounds.
Clients who opt for a MasterCard 'Big Heart' credit card will not bear any additional costs and may use it like any other standard credit card – for purchases and cash withdrawals. Numbers speak of the success of this project: over 25,000 clients, users of 'Big Heart', i.e. 32% of issued cards in total), thanks to whom 13 kindergarten playgrounds across Serbia, providing accommodation for 9,000 children, have been reconstructed. At the same time, every playground was adapted to make it safe for children with disabilities to play, through which we contributed to their social inclusion.

As we mentioned earlier, in implementing the project, the Bank cooperates with the local government (cities in which specific activities are being carried out), relevant ministries, parents and pre-school facilities' management in the cities in Serbia where the project has been carried out so far: Belgrade, Niš, Nova Pazova, Vlasotince, Čačak, Pančevo, Bor, Rujišnik, Prokuplje, Novi Pazar, Kraljevo, Inđija and Kragujevac. Also, the Bank cooperates with NGOs and renowned humanitarian workers.

In these projects, special focus has been given to intensifying inclusion of Bank employees in activities and the implementation of the CSR strategy, through their participation in concrete projects. In March, an internal contest for branch managers was organised. They were encouraged to nominate kindergarten playgrounds for reconstruction. A selection committee, comprised of representatives of the Ana and Vlade Divac Foundation and Eurobank management, used ranked and selected the kindergartens that met the pre-defined criteria. Also, all of our colleagues were informed about the criteria.

The nominations of our colleagues won in the internal contest. In 2012, the following kindergarten playgrounds were reconstructed:

- **Crvenkapa** kindergarten in Kragujevac. It is one of the oldest pre-school institutions, which has the highest number of children – over 4,500 (May)
- **Sunce** in Inđija, with over 520 children in 18 groups (June)
- **Mladost** in Kraljevo, with 270 children. It has a developmental group with whole-day accommodation for children with disabilities (September)
- **Moje Dete** kindergarten, and the Regional Day-Care Centre for Children with Disabilities who share this playground, Novi Pazar (October)

Eurobank and the Foundation have a joint mission – to secure care, education and a healthy environment for all children, regardless of their nationality, race, religion or any other category. We have succeeded in this, we hope. Our partnership with the Divac Foundation was communicated with all target groups:

- **Clients** - each month a 'Big Heart' credit card holder was informed about activities of the 'Big Heart' project. They received SMS messages too. The Bank sends a New Year and Christmas thank you note and a gift to clients who used this card the most
- **Employees** – all the employees were informed in a tamely manner about 'Big Heart' activities through e-mail, the bulletin or Euro PORT. Also, they took part in the selection of the kindergarten candidates for reconstruction via the internal contest.
- **Local government / municipality** - we hope we helped local government / municipalities, which did not have to provide their own funds for the dilapidated playgrounds. We also hope we inspired other companies to carry out CSR activities
- **Public** - The public was informed in a timely manner via local / national media outlets. After each playground was opened, the Bank issued press releases and photographs to the representatives of the local / national media outlets. Inaugurations were attended by mayors, management of the kindergartens, local NGOs, the media, and a documentary about the project was distributed to the media, with the aim of providing basic pieces of information about the project and raise awareness among potential card holders.

'Big Heart' is one of Eurobank's most successful CSR projects and it has attracted huge media attention, with a total of 333 announcements since the project was launched. In 2012 alone, there were 70 media reports.
Being a distinguished humanitarian worker, former basketball player and president of the Olympic Committee of Serbia, Vlade Divac has been dedicating his time to children, playing and talking to them, encouraging them to play sports, thus taking care of their health from an early age.

"Promoting the playing of sports from an early age and encouraging children to embrace a team spirit and proper development. Moreover, this is one of the simplest ways for business people and other credit card holders to support an easier childhood for children attending public kindergartens"

Vlade Divac

"I am sending you the photo of my children, for I didn't know how else to thank you. I thought the smile of my children will be a BIG THANK YOU for your BIG HEART"

message sent by the Delimeđac Family, Novi Pazar

Big Heart in social networks

In mid-2012, we jointly launched Facebook fun page 'Big Heart', which has over 5,000 followers. Apart from presentation of the project and certain campaigns, in late 2012 we organised the 'Small Drawing for a Big Prize' contest. We received 50 drawings from children, with their description of how they would like their kindergarten playground to look. The top 3 winning drawings, selected by representatives of the Bank, the Foundation and the media, were awarded the prize of the reconstruction of the playgrounds of the kindergartens they attend. Hence, the playgrounds in Dimitrovgrad, Belgrade (Zvezdara) and Pečenjevci (Leskovac Municipality) will be inaugurated in 2013.

https://www.facebook.com/Velikosrce

Awarding of the best high school graduates in Serbia under the auspices of HRH Crown Prince Alexander II Karađorđević

In June 2012, Eurobank financially supported for the sixth consecutive year the support programme of talented high schools students in Serbia, which HRH Crown Prince Alexander II Karađorđević organises in the White Palace in the form of a traditional award ceremony for the 500 best scholars from all high schools in Serbia. By supporting this programme, Eurobank is contributing to the proper education and guidance of young people who are the future of Serbia.

Support for the 'Meet the Business First Hand' programme

The American Chamber of Commerce and Centre for Career Development and Student Counselling of Belgrade University organised a visit for students and recent graduates to our bank. Students and graduates of the Law School and Economics Faculty, as well as those attending of the Faculty of Organisational Sciences, had the opportunity to spend a whole day in the Bank. Through meeting the bank management first hand, they were able to gain new knowledge about the modern business operations of a financial institution. The students were welcomed by CEO Philippos Karamanolis and Ivan Vujačić, Member of the Board of Directors, who briefly informed them about the operations of the bank in Serbia, and Danijela Milić, Head of Large Corporate, who presented the Corporate Banking Division. Also, the students saw the work of the Treasury in practice.
Since 2008, when the programme started, 15 visits to member companies have been organised. So far, over 500 students had the chance to meet the business first hand.
Evaluation records gained after the visit indicate that the visit met the students' expectations, that the speakers were accessible and open for questions and debate, and that the pieces of advice they got would be useful during their future career planning.

Eurobank grand sponsor of Atelje 212 Theatre

In the 2011/2012 theatre season, Eurobank was the grand sponsor of the Belgrade-based Atelje 212 theatre. Through its decision to sponsor one of the most distinguished theatres in Serbia, where you can watch numerous modern plays of national and foreign playwrights, Eurobank confirmed its commitment to supporting society and culture, which are the pillars of our country. The cooperation was established at the initiative of the Atelje 212 actors, wishing to jointly develop and promote art and culture in Serbia.

Donations and sponsorships of the bank

Eurobank's activities entail charity initiatives across Serbia, covering the needs of social and educational institutions in local communities where the Bank is operating.
Some of sponsorships we would like to mention:

- Sponsoring the Book Night in cooperation with Laguna publishing house and Delfi bookstores
- The campaign of giving New Year gifts to children with cancer in cooperation with NURDOR
- Donation to the Kragujevac-based Radnički basketball club
- Donation to Belgrade Baby Club
- Donation to Belgrade Association for Help for Autistic Persons

Also, it is useful to underline that accounts for donations which are opened in our Bank are free from account maintenance and payment operations fee in the country and abroad.

All interested parties can find applications for sponsorships and donations for the community at www.eurobank.rs/doprinos_zajednici. All applications are e-mailed to corporate-communication@eurobank.rs, which sends a reply within 30 days.

14

CARE ABOUT THE ENVIRONMENT

CARE ABOUT THE ENVIRONMENT

Environmental protection is the pre-condition of sustainable development and one of the key pillars of corporate social responsibility. In light of this, Eurobank continuously introduces relevant processes in its business operations and undertakes actions with the aim of reducing negative effects on the environment.

The environmental policy was adopted at Group level in 2003 by the top management. The Bank's environmental aims are defined in the Policy, and explained in detail in the *Environmental Management System* guidelines together with implementation recommendations and examples of good practice. The Department of Environmental Protection, as part of the Bank's Operations Sector is in charge of this area. The manager of this department reports directly to a member of the top management (member of the Executive Board). The bank shall introduce its policy, guidelines and procedures for environmental protection to all new employees through the distribution of an internal document *Guidelines for Managing Ecological and Social Risks in the Credit Process and the Programme of Energy Savings*, which are available on the internal portal.

Daily banking operations have a direct effect on the environment, primarily due to the usage of energy, water and paper as well as other natural resources. During 2012, Eurobank intensified activities with a view to reducing negative effects on the environment.

Climate changes and environmental management system

Eurobank pays special attention to potential ecological risks which can arise during the performance of daily operations. With the aim of reducing these risks, the Bank continuously works on the development and adequate application of the Environmental Management System which complies with the international ISO 14001 standard.

System of environmental management

In accordance with our commitment to ecologically responsible operations and efforts to develop and implement an Environmental Management System, the total effects that the Bank has on the environment while performing daily operations have been analysed. The results of this analysis served as the basis for defining key initiatives aimed at reducing effects on the environment:

1. Rationalisation of energy consumption and reduction of greenhouse gases
2. Paper and paper waste management
3. Green purchases principles
4. Reduction of waste generated by daily operations
5. Reusing materials, i.e. printer toners
6. Process of reusing produced waste
7. Safe and secure waste disposal
8. Recycling of all kinds of paper (paper, electrical and electronic waste, packaging waste, used batteries and other)
9. Assessment of environmental effects when making decisions on sponsorships/decisions on financing
10. Development of green products and services

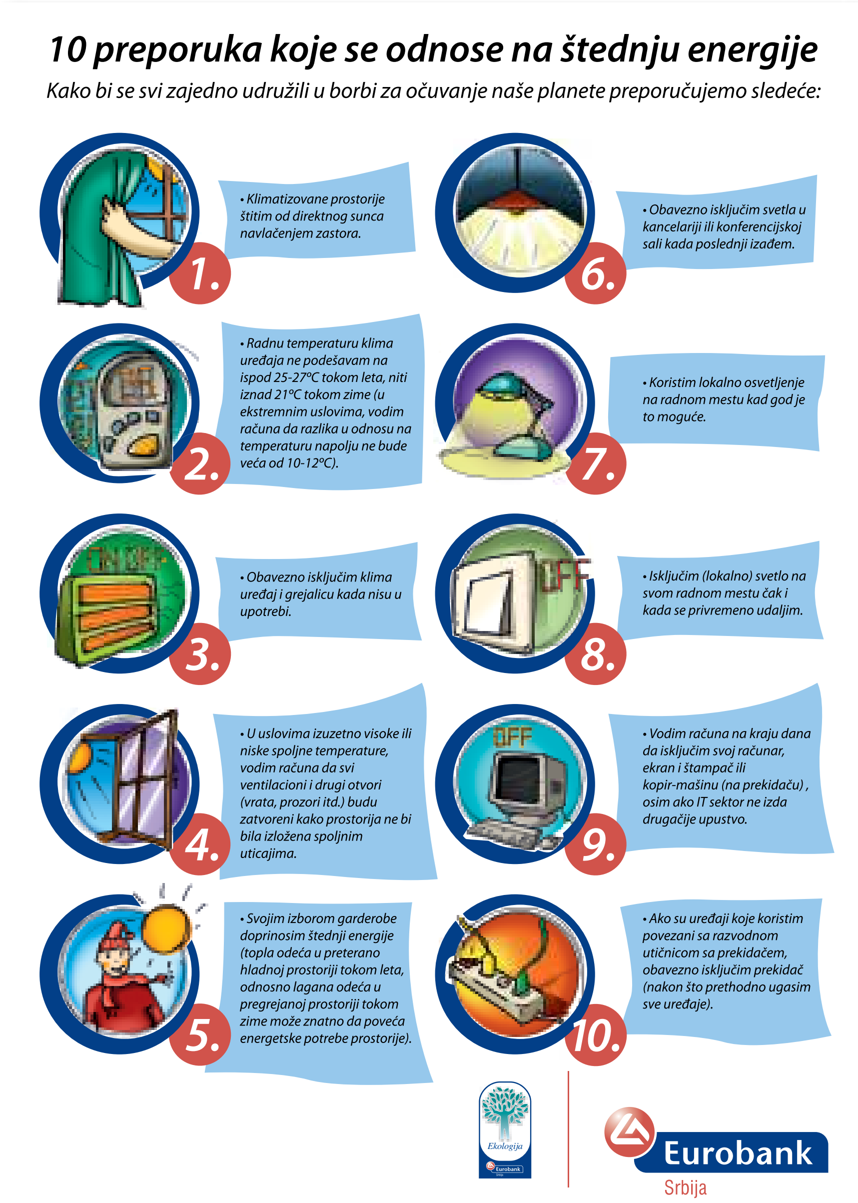
Preservation of energy and natural resources

Wide introduction of digitalization of documents, with a modern and completely safe management system, allowed us to transform operations from paper-based to paper-free, leading us to provide an improved and faster service to our clients, preserving at the same time costs and the environment and optimising paper and toner consumption.

Energy management

Implementing an efficient system for managing energy and reducing energy consumption is a very important component of reducing greenhouse gases. To this effect, the Bank undertook the following actions:

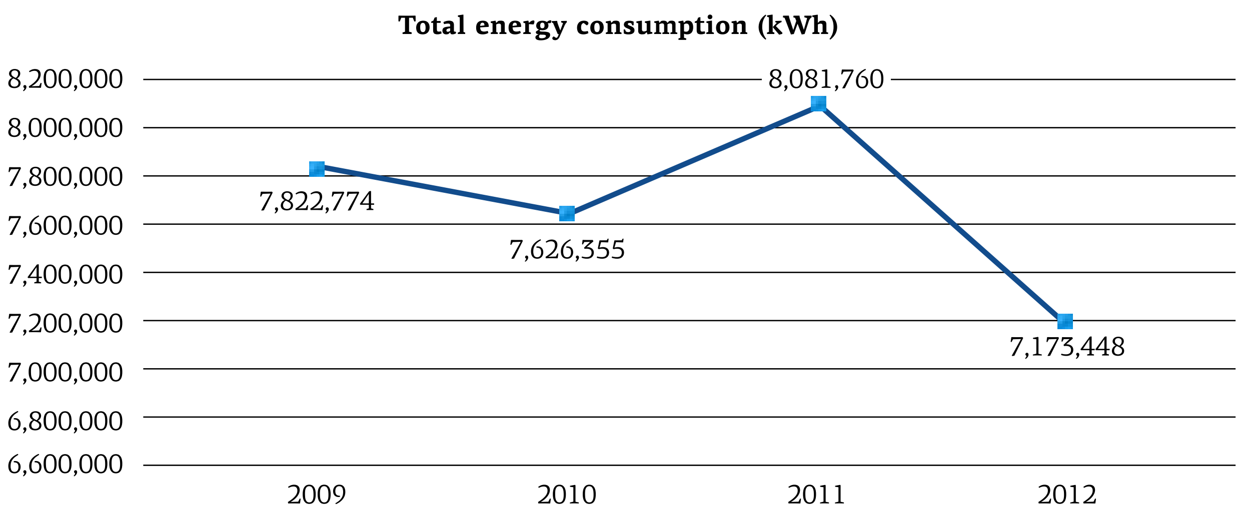
- Dispensing advice on energy savings in the work place to all employees via electronic mail, the internal newsletter and the intranet
- Replacement of decorative halogen lamps with more acceptable LED lamps in all branch offices
- Installation of energy efficient heating systems, ventilation and cooling in all remodelled office space



These campaigns were the first phase of our efforts to continuously increase energy efficiency, which will result in positive effects on climate changes.

Despite the fact that the Bank mostly indirectly affects the emission of greenhouse gases (through consumption of electrical energy), the significance of monitoring the effects on climate changes is defined as one of our top priorities in the fight to preserve the environment, which resulted in monitoring of energy consumption of all kinds, as well as arisen gas emissions.
Direct consumption of energy refers to the burning of natural gas and oil for the needs of heating, while indirect consumption refers to electrical energy used during the daily operations of the Bank.
The Bank monitors and keeps a record of energy consumption in all office space where it conducts business (five administrative buildings, a warehouse and 100 branch offices). In 2012, consumption of electrical energy amounted to 7,143,447.67 kWh, which is, in comparison to the total consumption of electrical energy in 2011, a reduction of 11.24%.
In more detail, total consumption of direct energy in 2012 was:

- Natural gas (40,380 m3), i.e. 394,609 kWh
- Oil (23,000 l), i.e.241,500 kWh



Total direct and indirect gas emissions in weight

In 2012, Eurobank continued its efforts to reduce CO2 emissions by taking action with the aim of reducing energy consumption:

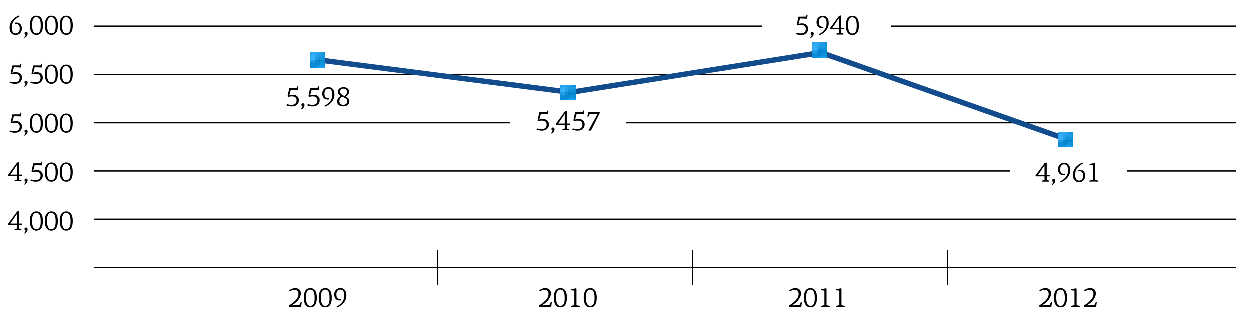
- Replacement of decorative lighting with ecologically more acceptable light bulbs
- Installation of energy efficient heating systems, ventilation and cooling when remodelling office space

Total emissions of CO2 measured based on consumption of direct and indirect forms of energy. Conversion of used energy in the sense of carbon-dioxide was calculated based on official calculators from the WRI/WBCSD GHG Protocol.

Total emissions of greenhouse gases arisen from energy used expressed as the equivalent carbon dioxide was in 2012:

Energy resources	Emission of CO_2 (t)
Natural gas	73.09
Oil	75.59
Electrical energy	4,812.48
Total	**4,961.16**

Emission of CO_2 from the used energy (in tons)



Water consumption in 2012 (m3)	**23,370.00**

SOLID WASTE MANAGEMENT

Financial institutions mostly use office equipment and supplies in daily business operations. The most significant categories of office material are paper, cardboard packaging, computer, electrical and electronic equipment, toners and cartridges. Keeping all of this in mind, the Bank generates mostly non-hazardous waste when performing its activities, but also electrical and electronic waste, which does fall into the category of hazardous waste. Taking all the categories of waste into consideration, Eurobank implemented a Hazardous and Non-Hazardous Waste Management System.

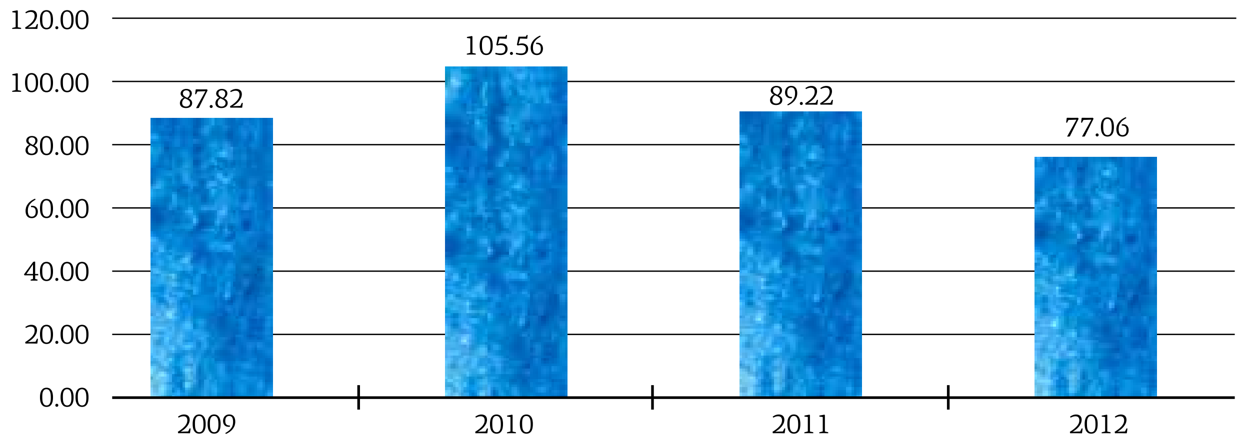
Recycling and managing paper consumption

In accordance with the basic principles of waste management (reduce, reuse and recycle), Eurobank implemented the Paper and Paper Waste Management System with the aim of reducing paper consumption as well as waste arising from this consumption. During 2012, Eurobank undertook an array of actions:

- electronic account statement
- document digitalisation
- managing print, i.e. duplex printing on paper, where savings in the consumption of paper are 25%

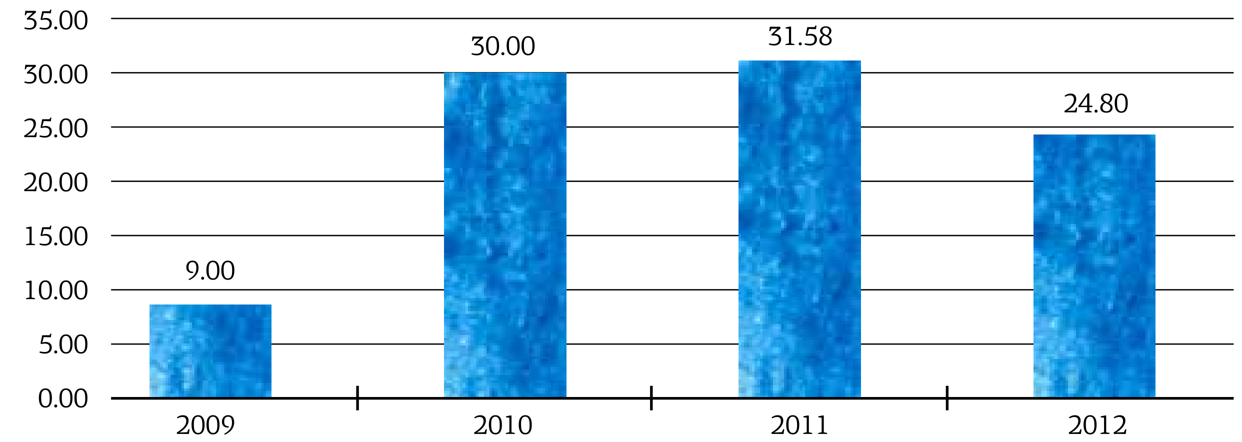
Undertaken actions reduced the total consumption of paper by 12.26% in 2012, as compared to paper consumption in 2011.

Consumption of paper (t)



Besides this, the Bank created procedures for managing paper waste. Special baskets for collecting paper waste are placed in all administrative buildings.
In 2012, the Bank recycled 24.8 tons of paper, which amounts to 32.18% of the total annual paper supply.

Paper recycling (t)



Toner recycling

In 2011, the Bank implemented a system of managing used toners. All used toners and cartridges from branch offices and administrative buildings are sent for recycling. In 2012, 766 toners were recycled, which is an increase of 213.93% in comparison to the 244 toners recycled last year.

Managing electronic and electrical equipment

In accordance with legal regulations governing waste disposal, Eurobank signed a contract with a company which has all the required licenses for the transport, disposal and treatment of hazardous waste. In 2012, the Bank recycled 3.27 tons of electrical waste (IT equipment, monitors, laptops, printers, scanners and other electronic devices).

Total amount of recycled waste per year (t)	
Year	
2010	11.36
2011	6.30
2012	3.28
Total	**20.94**

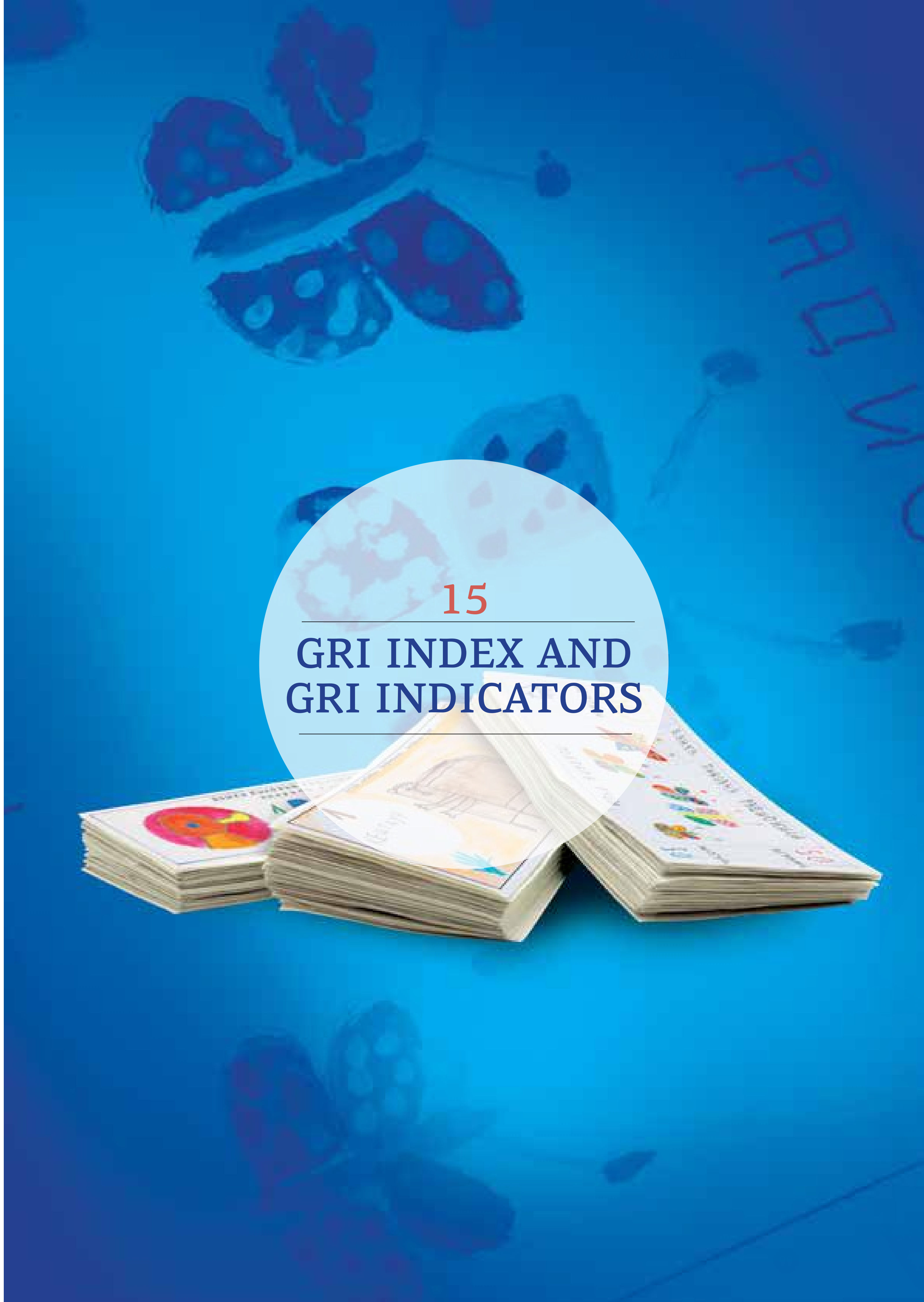
Responsible financing – System of managing ecological and social risks

An efficient system for managing ecological and social risks is an extremely important part of development of the business strategy of Eurobank. In that sense, the Bank implemented ecological and social risks assessment, evaluation and monitoring systems, which are in line with the legislation of the Republic of Serbia, as well as international good practice and standards.

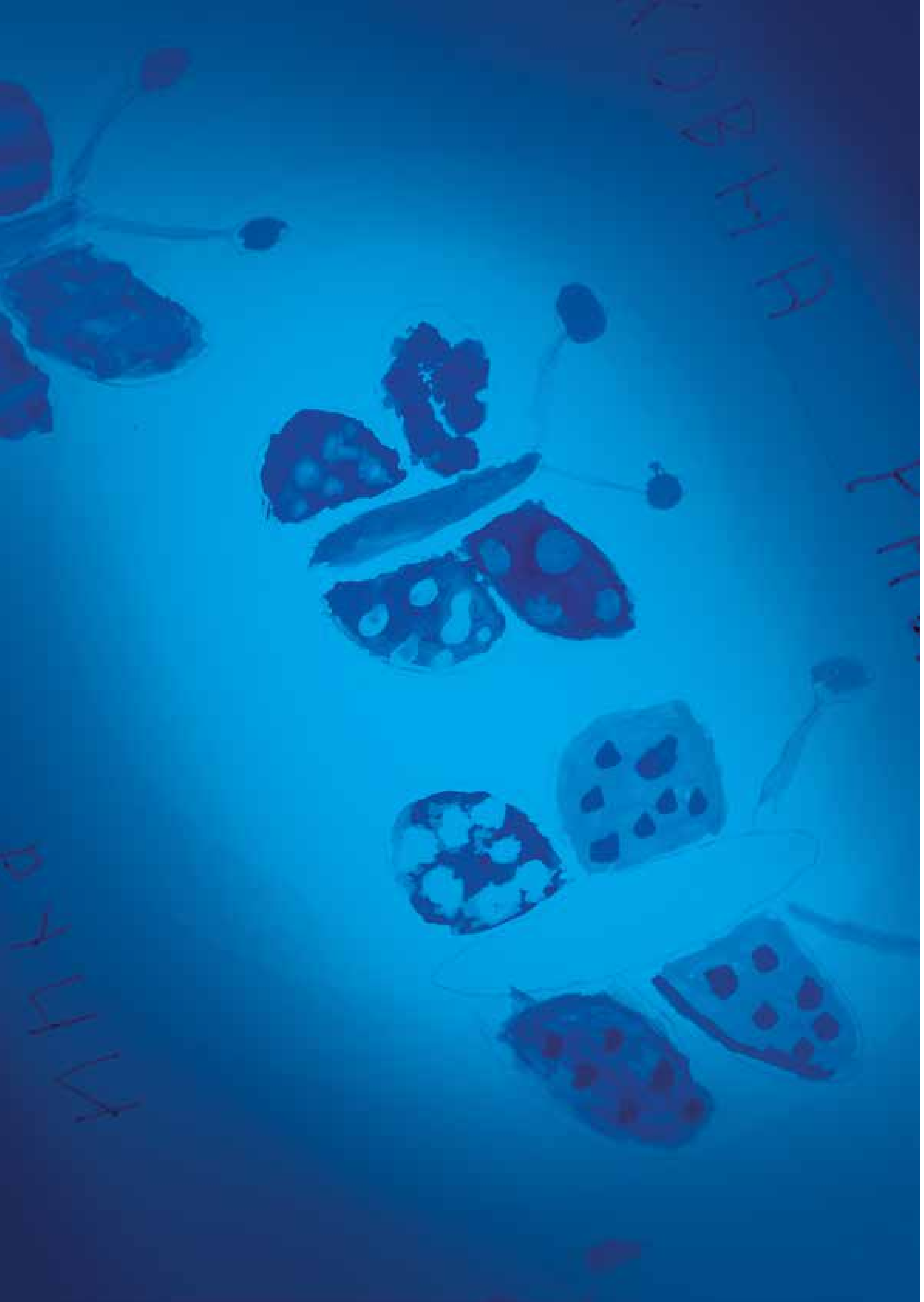
Investments aimed at reducing the effects on the environment

In all branch offices of the Bank, halogen lights were replaced with LED lamps, which have a far less negative influence on the environment bearing in mind their technical characteristics.
Total investment in the replacement of the decorative lighting in branch offices amounted to 12,400 euros. The expected positive effect on the environment is shown in the table below:

	Halogene		Led		
Energy consumption WAT	**35**	✘	**4**	✔	**8.75 times lower**
Efficiency Lm / W, Lumen per watt	**22**	✘	**107**	✔	**4.86 times higher**
Duration number of hours	**3000**	✘	**30-50000**	✔	**11.67 times longer**
Zagađenje živ. sredine izraženo u CO2 kg/god.	**175**	✘	**35**	✔	**5 times lower**
Heat emission, degrees C Reducing the released heat directly affects the need to use cooling devices, which saves energy and reduces emission of CO_2.	**250**	✘	**20**	✔	**12.5 times lower**

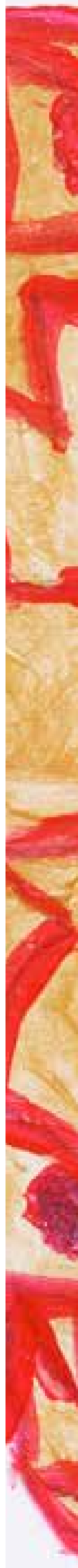


15
GRI INDEX AND GRI INDICATORS



GRI INDEX AND INDICATORS

1.	**Strategy and analysis**		Status
1.1		Statement by the President of the Executive Board	●
1.2		Strategy and description of key influences, risks and opportunities	●
2.	**Profile**		
2.1		Company name	●
2.2		Core activity, products and services	●
2.3		Operational structure	●
2.4		Locations	●
2.5		Number of countries where the company does business	●
2.6		Legal form and nature of ownership	●
2.7		Markets where the company does business	●
2.8		Size of the company	●
2.9		Important changes in the reporting period	●
2.10		Rewards	●
3.	**Reporting parameters**		
3.1		Reporting period	●
3.2		Date of the last report	●
3.3		Reporting cycle	●
3.4		Contact person	●
3.5		Methodology of making the report, materiality and defining the content of the report	●
3.6		Limits of the report	●
3.7		Relevance of the report	●
3.8		Principles of quality reporting	●
3.9		Techniques of measuring and calculating	●
3.10		Materiality matrix	●
3.11		Changes in comparison to the previous report regarding these limits, comprehensiveness or method of reporting	●
3.12		Verification of the report	●
4.	**Management, responsibilities and engagement of all stakeholders**		
Management			
4.1		Management structure, mandate and composition of the highest managing body and its boards	●
4.2		Percentage of women in managerial bodies	●
4.3		Does the president of the highest managerial body have at the same time	●
4.4		How do employees and shareholders communicate with the highest managerial bodies?	●
4.5		Connection between compensations for the highest managerial bodies, senior management and performance of the company	●
4.6		Conflicts of interest	●
4.7		Procedure for appointment of members of the highest managerial bodies	●
4.8		Policies and strategies	●
4.9		How does the supervisory body control the management of sustainability	●
4.10		How is the work of the top managerial body evaluated	●



Responsibilities towards external initiatives		
4.11	Managing risks	●
4.12	Commitment to externally developed principles	●
4.13	Membership of associations	●
Involvement of stakeholders		
4.14	List of stakeholders involved	●
4.15	Process for defining stakeholders	●
4.16	Approach to involving stakeholders	●
4.17	Key topics raised by stakeholders	●
5. Areas and indicators		
EC Economic indicators		
EC1 Core	Direct generated and distributed economic value	●
EC7 Core	Procedures for employing local labour and share of locals in the ranks of top management	●
EN Environment		
EN 4 Core	Indirect consumption of energy from a primary source	●
EN 5 Ad	Energy savings due to reduced consumption and increase of energy efficiency	●
EN 7 Ad	Initiatives for reduction of indirect consumption of energy and realised savings.	●
EN8 Core	Total water consumption, against the source	●
EN16 Core	Total direct and indirect emissions of greenhouse gases, weight (CO2)	●
EN22 Core	Total weight of waste according to kind and method of disposal	●
EN26 Core	Initiatives for alleviating the effects of the products and services on the environment and the scope of alleviation of effects	●
LA Working rights and employees		
LA1 Core	Total labour	●
LA 2 Core	Total number of rate of employee fluctuations	●
LA 3 Ad	Benefits ensured for employees with full time employment	●
LA 7 Core	Injury rate, occupational illnesses, lost days due to absence and number of deaths related to work accidents per region	●
LA 8 Core	Education programmes, trainings, counselling, prevention and control of risks intended to help labour representatives, their families or members of the community related to serious illnesses.	●
LA 10 Core	Total number of hours of training per employee category.	●
LA 11 Ad	Programmes for acquiring skills and life-long learning which supports constant possibility of employing staff and helps them finish their working years.	●
LA 12 Ad	Percentage of employees who receive regular evaluation of their work performance and individual development	●
LA 15 Core	Return to work and rate of keeping positions after maternity leave, per gender	

HR Human rights		
HR 4 Core	Total number of discrimination cases and taken corrective measures	●
HR 5 Core	Activities recognised as those which could seriously compromise exercising of the right to freedom of association and collective negotiating as well as measures taken to support these rights.	●
SO Local community		
SO 1 Core	Percentage of sites and operations/activities where programmes of involving the local community exist, assessment of effects and development.	●
PR Responsibility for the product		●
PR 3 Core	Type of data on the product/service defined by company rules and procedures	●
PR 5 Ad	Company conducts client satisfaction survey	●
PR 6 Core	Programmes for upholding the law, standard and voluntary code which refer to marketing communications	●

● Met

Dear All,

We have published the first edition of the CSR report of Eurobank a.d. Beograd, drawn up according to the internationally recognised GRI methodology.

We tried to include all the relevant topics, which are related to our operations and financial performance, with a sense of responsibility towards employees, shareholders, users of banking services and the community in which we have been doing business since 2003.

With the aim of upgrading communication with you – our stakeholders, whom we affect directly or indirectly through our operations, as well as aiming to provide you with a higher level of involvement in our business operations, we want to establish open and transparent communication in this way.

In other words, your opinion matters to us!

If you would be kind enough to set aside a little time and fill in the questionnaire below, you will help us upgrade the next reporting process and realize what are the important topics and activities which we need to improve and/or highlight.

QUESTIONNAIRE

1. Which group of stakeholders do you belong to?

- ☐ Investors and shareholders
- ☐ Clients
- ☐ Employees
- ☐ Suppliers
- ☐ NGO
- ☐ Media

2. Are you aware of the CSR initiatives and projects that Eurobank is undertaking?
(choose any of the choices given)

- ☐ No
- ☐ Yes, via the report on socially responsible operations
- ☐ Yes, through sponsorships/donations
- ☐ Yes, through the media
- ☐ Other (specify)

....
....

3. Which initiative or project do you think was especially noticed?

....
....

4. State the area or topic where you think the Bank showed an insufficient degree of understanding for the needs of stakeholders.

....
....

5. Do you think there are certain areas/activities which the Bank could move into/conduct in order to additionally improve its strategy of corporate social responsibility?
(if the answer is yes, specify them)

....
....

6. In your opinion, which Eurobank communication channel is the most useful? (choose one or more)

- ☐ Phone call
- ☐ Internet (e-mail)
- ☐ Eurobank employees (in branch offices)
- ☐ Official event organised by the Bank
- Other (specify)

....
....

7. Is the information in the report given in a systematic and clear way?

- ☐ No
- ☐ Yes

For legal entities

Name and surname: ______________________

Company: ______________________

Address: ______________________

Telephone: ______________________

E-mail: ______________________

For natural persons

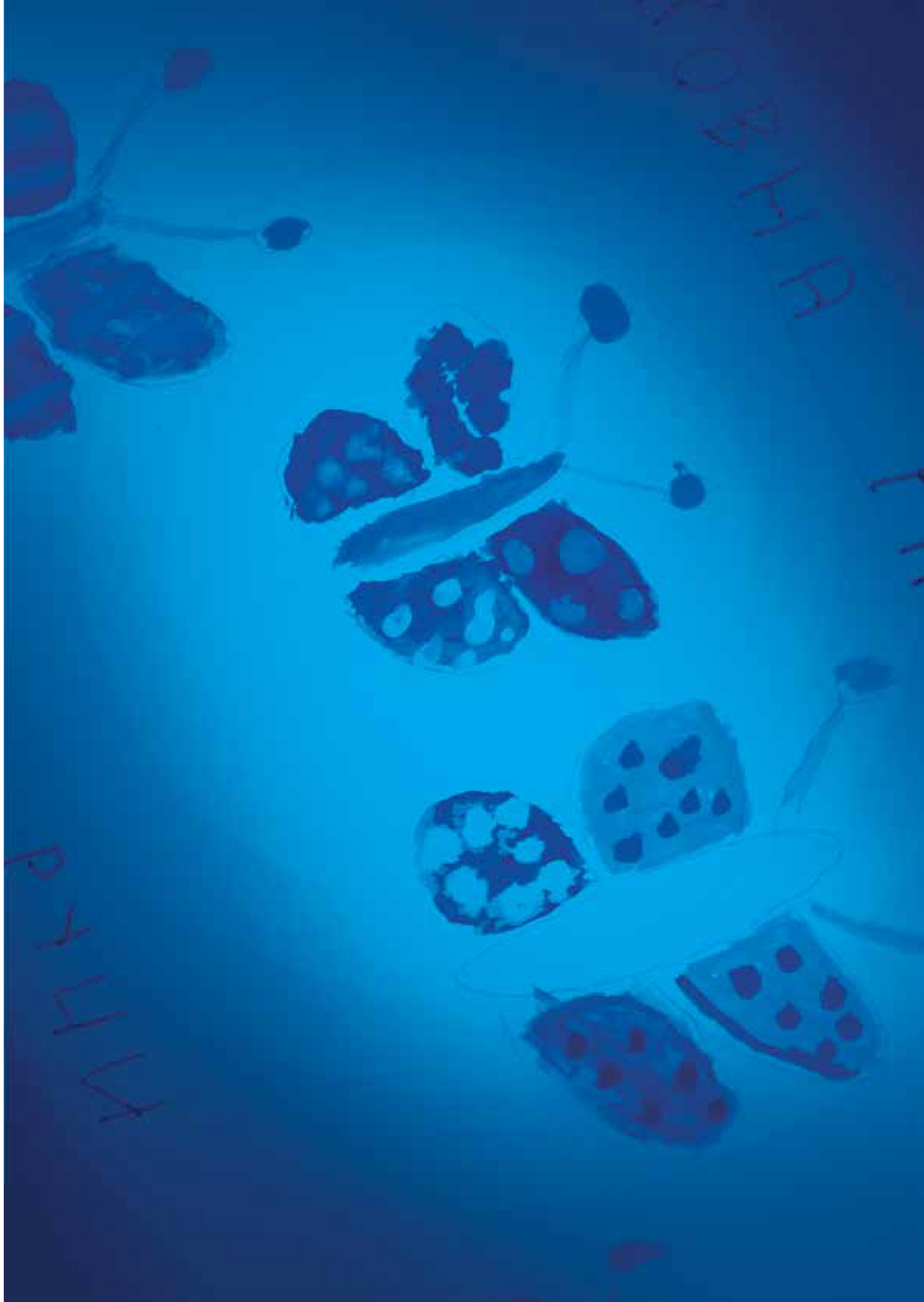
Name and surname: ______________________

Address: ______________________

Telephone: ______________________

E-mail: ______________________

Please mail the filled-in questionnaire to:
Eurobank a.d., Beograd
Vuka Karadžića 10, Beograd
Mrs. Milena Stupar
e-mail: corporate-communication@eurobank.rs



Eurobank
Serbia

www.eurobank.rs

This report is printed on FSC certified paper that is manufactured with controlled growth of forest