From the ancient Rome until the medieval times and on, up to Turkish conquest, Serbia was laying on the commercial crossroads, as the bridge between East and West. Situated on the Roman Empire’s border, Serbia was the cradle of 16 Roman emperors.

Not only witnessing Serbian medieval empire’s grandeur, Serbian monasteries (figuring on UNESCO’s list of protected sites), served as mausoleums of kings coming from Nemanjić dynasty which was ruling the Serbian territory for two hundred years. Stefan Nemanja, the Dynasty founder receives the merits for erecting Stari Ras complex, which includes monasteries Sopoćani and Đurđevi Stupovi, as well as the Holy apostles Peter’s and Paul’s church, being one of the oldest on Balkans.

Studenica monastery, Gamzigrad (Felix Romuliana), Visoki Dečani monastery, Peć Patriarchy (Pečka Patrijašija), Gračanica monastery and church of Our Lady of Ljeviš (crkva Bogorodice Ljeviške) are figuring on World’s cultural heritage list of UNESCO too.

Apart from the Empress town – Justiniana Prima (Caričin grad) being one of the most important Byzantine cities in the hearth of the Balkan peninsula, also the fortress of Smederevo (the final great fortification built by Damned Jerina, Byzantine empress married to Đurađ Branković, who was mentioned in the folk poetry of old Serbia), and old stone vineyard settlement of of Rajac village, near Negotin, widely known as Rajačke pimnice.

Among the sites to be enlisted there are also Deliblato sands, the special nature reserve (Deliblatska peščara), the largest sand area in Europe, originating from the ice age, Đavolja Varoš - meaning Devil’s town (towers of various sizes, made of earth with stones on the tops as a deed of nature), fortress of Petrovaradin, hydroelectric power plant “Under the Town” and Fruška gora mount.

Nikola Tesla Archive and Miroslav’s Gospel have already been inscribed in UNESCO’s Cultural Heritage Register, within Memory of the World Program, Serbia has also made proposal for enlisting the Yugoslav Film Archive (Jugoslovenska kinoteka) in the same register.
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This cultural, spiritual and medical centre was built between 1183 and 1196, as the last foundation of Stefan Nemanja, the Grand Prince of Rascia, and the founder of Nemanjić dynasty. After he joined a monastic brotherhood and departed to the famous Hilandar monastery, final works and imaging of the temple were supervised by Nemanja’s sons: King Stefan Prvovenčani (First-Crowned), Prince Vukan and Saint Sava (Sabba — b. Rastko), the first Archbishop of the Serbian Orthodox Church, who was the principal patron of Studenica construction. Out of 14 churches that comprised the Monastery complex, only three have been preserved, including the one dedicated to the Virgin Mary. Since it is marble-clad and with the ornaments of exceptional beauty, Studenica monastery is a genuine pearl of Serbian medieval architecture. Only few frescoes have been preserved but they belong to the highest achievements of the European painting of the period. Stefan Nemanja, his spouse Ana, his son King Stefan and his grandson King Radoslav were buried in Studenica monastery. In 1986, Studenica monastery was enlisted as the UNESCO world heritage site.
WORD FROM THE EXECUTIVE BOARD
Dear shareholders,

We would hereby like to take the opportunity to use this introductory remarks in order to present you the fundamental data on macroeconomic business conditions of the banking sector as well as on business results of JUBMES banka a.d. Beograd, achieved in the previous 2013, which shall be elaborated in details in further chapters of the Annual Report.

In 2013 significantly increased number of banks recording negative business results (from 6 to 14) characterized Serbian banking system operations, as well as the decrease of total number of banks operating in Serbia, primarily due to their default to meet legal obligations, which had for result their banking licences withdrawal by National Bank of Serbia.

JUBMES banka a.d. Beograd in 2013 was operating under aggravating conditions due to credit portfolio’s structure and quality inherited from 2012. In spite of this, positive business result was achieved in the previous year, owing to activities undertaken to increase Bank’s business volume, balance amount growth and consequently income growth.

With respect to Bank’s position in the Serbian banking sector, let it be pointed out that as of Dec. 31, 2013 Bank’s market participation measured by the net balance amount was increased from 10.18 billion dinars to 14.78 billion dinars i.e. for 45%, setting the annual growth record in Serbian banking sector. Thereby, Bank’s relative participation in Serbian banking sector was increased from 0.36% to 0.53%. In 2013 client’s number was also increased as well as the number of active accounts in dinars and foreign currency for around 25%. Local and cross border payment operations volume was increased in the same proportion. In spite of business volume growth, the Bank managed to lower its operating expenses.

In order to create credit portfolio of better quality, the Bank leads active credit policy, takes engagements in finding and attracting good clients, strives to assure greater dispersion of placements and to provide higher lending share in its credit portfolio to export oriented corporate clients.

Bank’s interest rate policy reflects its active attitude towards all depositors, both legal entities and natural persons. Leading the cautious interest rate policy, the Bank pays special attention that all raised funds are well invested and earning interest over the average passive interest rate. However, leading successful interest rate policy is aggravated by the fact that solid successful companies request loans under more favourable (lower) interest rate while passive interest rates on financial sources in Serbia are still high. Nevertheless, owing to Bank’s good organization, quick response and efficiency of all units, the corporate clients are ready to accept even higher interest rates than offered by some other banks.
The Bank pays special attention to risk management operations, which are focused not only at credit risk. All risks are carefully managed: liquidity risk and currency risk are monitored daily and the credit risk daily and monthly. All risks are managed individually – client by client. All operating indicators are moving within the limits prescribed by the National Bank of Serbia. We would specially emphasize that the Bank managed to keep a fairly high level of the capital adequacy ratio (CAR) of 42%.

In the few previous years, the majority of local banks (mostly largest banks) have implemented massive additional recapitalizations through their shareholders, in order to preserve their capital adequacy ratio. However, JUBMES banka has not recently had capital increase i.e. the recapitalization through the new shares issue. In order to overcome the inherited situation, to increase its market participation and thus affirm its stable position within Serbian banking and financial sectors, JUBMES banka needs to increase its business volume i.e. to strengthen its deposit and credit portfolio. However, higher level of deposit and credit portfolio can be achieved without jeopardizing the capital adequacy ratio, only through recapitalization, having in mind that in 2014 and 2015 capital growth in not likely to be realized through earned income thus creating the conditions for further growth. With this respect, the Bank’s development strategy was prepared, including the dynamic quantification of Bank’s growth and the necessity for a certain level of recapitalization. Bank’s management will present this strategy to the largest shareholder and thereafter adequate activities will be coordinated for taking further steps with final aim to enable finalization of the recapitalization procedure until the end of 2014.

We would like to point out that JUBMES banka in 2013, for the first time since its establishment, has started to perform operations in units located outside of the Bank’s head-office building. Namely, in September 2013 within the Singidunum University, Bank counter unit has been opened and in December 2013 the first branch of JUBMES banka was opened in the very heart of Belgrade (Braće Jugovića street). Both business points are not only gaining profit for the Bank, but also provide the permanent promotion of Bank’s services. Since operating under conditions of aggravated debt collection and with aim to settle its organization in conformity with the legal requirements, the Bank has opened the department for the non-performing loans management.

We are convinced that owing to its shareholder’s support and the management efforts, the Bank will be achieving successful business results in the long-term as well as that by implementing Strategy for 2014-2016 period and Operating Program presented at the regular General Assembly Meeting held in May 2013, the Bank will become an important factor on the financial market of the Republic of Serbia.

JUBMES banka a.d. Beograd
Executive Board
This ancient monastery, the foundation of King Milutin, his spouse Simonida and his son King Stefan Dečanski, was built in Kosovo in 1321.

During the second half of the 16th century it was the seed of Novo Budo Metropolitan, who put into operation in the Monastery the first Serbian printing press. Later, due to terrible Turkish oppression, the Monastery was abandoned, and the church served only for parish purposes. After the World War II the Monastery was rebuilt by nuns, since when it has been established as a nunnery.

Nowadays Graçanica is settled by about 20 nuns, engaged in icon painting, embroidery, agriculture and other monastic activities. It certainly is the piece of art of a genius architect. In Gračanica for the first time was displayed Nemaić dynasty genealogy in the form of a branched tree with 16 portraits, while in the entrance of the church portraits were displayed of the founder, King Milutin and his spouse Simonida. In 2006, Gračanica monastery was enlisted as the UNESCO world heritage site.
The Yugoslav Bank for International Economic Cooperation – Yugoslav Bank was established in the June 1979 with aim of improving and upgrading of the national export support system. As an specialized financial institution, it was positioned to act complementary with commercial banks engaged in providing of financial support to export projects of local companies. Yugoslav Bank succeeded the rights and obligations of the Export Credit and Insurance Fund in the capacity of its legal successor. In conformity with the special Law on the Yugoslav Bank for International Economic Cooperation, the Bank encouraged long-term production and economic cooperation (investment and other kinds) between Yugoslav companies and foreign business partners, through instruments of re-financing and co-financing, as well as by insuring national export against non-commercial risk.

The Bank was structured as national export-credit agency, the first such institution in East, Central and South-East Europe, remaining the only one until the beginning of nineties. In this period the Bank signed cooperation agreements with the world’s leading export-credit agencies and also held the observer’s status in Berne Union, international association of credit and investment insurers. The Bank gained more than two decades lasting experience in performing activities promoting national exports. To especially mention the background in extending buyers credits for execution of various capital projects abroad, as well as in co-financing operations with the IBRD, African Development Bank and Saudi Fund. The Bank is also experienced in rendering consulting services to local companies for their participation in international competitive biddings for projects financed by the IBRD, African Development Bank, Inter-American Development Bank, EBRD, International Financial Corporation etc.

In 1989, the Yugoslav Bank became the first bank (among few corporations) in the country to be established as a shareholding company, in the eve of the transformation processes in financial sector of the Central, Eastern and South-East Europe. In the last few years the Bank ranks among the outstanding public shareholding companies having shares belonging to the most liquid securities traded continuously in the Belgrade Stock Exchange, which are from time to time a component of Dow Jones STOXX index and the Belgrade Stock Exchange index - Belex 15.

Acting under the Law on Banks since 1997 and, being licensed to perform virtually all banking operations within corporate and retail banking, both in local and international markets, the Bank has developed into a universal commercial bank, offering a full range of products and services, oriented with priority to rendering financial support to small and medium enterprises, corporate clients and export. In response to challenges of very competitive and dynamic local and regional markets JUBMES banka offers to its clients wide range of traditional commercial banking/financial products and services, at the same time improving its offer related to e-banking and contemporary products and services (investment banking, trade finance). Such business concept includes establishment of various models of coop-
eration with international financial institutions, primarily focused at providing financial sources aimed for the support of Bank’s clients’ development programs.

The Bank's business policy is based primarily on observing the basic banking operation principles, including maintaining liquidity, security and profitability of placements aimed to fully protect the shareholders interest. Continually improving its system and procedures for risk management, the Bank has been fully implementing Basel II standards from the beginning of the 2012. The Bank has structurally introduced and developed the compliance function aimed to harmonizing various banking activities and operations, evaluation of compliance risk as well as implementation of international standards, local regulations and Bank’s internal rules and procedures for prevention of money laundering and terrorism financing. The Bank executed its business operations through state-of-art information and communication system.


Ever since its establishment the Bank has been engaged in improvement of its employees educational structure and paid a lot attention to their professional training. Employees’ qualifications structure has been permanently advanced. The Bank gives chance to young people, ready to apply modern knowledge and skills and offer innovative banking solutions. At the end of 2013, out of 133 employees, 65% majority are highly educated experts.

Considering our potentials and strategic orientation, we intend to maintain the position of a competitive financial institution achieving respectable business results and under a number of objective operation efficiency indicators ranked among the leading banks in the Republic of Serbia.

Bank’s strategic priorities in the forthcoming midterm period include business activities growth to be achieved owing to the deposits potential increase, which will positively affect Bank’s market participation in Serbian banking sector, capital base strengthening through recapitalization, conducting profitable operations with return rates over Serbian banking sector’s average, client base growth and placements diversification.

Bank’s business philosophy and development strategic orientation are based on active promotion of the principles of responsible business and sustainable development, defining our permanent value framework and marking our development from Bank’s establishment. From joining the UN Global Compact in 2008, the Bank has been continually engaged in operations of this leading global initiative for promotion of the responsible business as well as in activities of Global Compact Serbian network.
This ancient monastery, the foundation of King Milutin, his spouse Simonida and his son King Stefan Dečanski, was built in Kosovo in 1321.
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OPERATING ENVIRONMENT
AND OPERATING POLICY
OPERATING ENVIRONMENT

General Remarks

According to the data of the Statistical Office of the Republic of Serbia, gross domestic product in 2013 was increased for 2.5%, reaching 32 billion euro. GDP’s inter-annual growth reached 3.0% in the first quarter, 0.5% in the second, 3.8% in the third and 2.7% in the fourth quarter of 2013.

In 2013 industrial production achieved 5.5% growth unlike the year 2012 which saw a 2.9% decline compared to 2011. Growth was recorded in capital products sector - 27.6%, permanent consumer goods sector - 13.5% and in energy sector - 13.2%. Other consumer goods sector suffered drop of 3.3% as well as other half-products sector - 1.0%.

The inter-annual retail trade goods turnover achieved a 0.6% current prices growth, however is suffered a 5.1% fall in permanent prices.

In 2013 export of goods recorded 25.8% growth (11 billion euro) being a major support to GDP growth, while goods import recorded 5.1% growth (14.9 billion euro).

In 2013 foreign trade deficit of 3.9 billion euro was recorded, with an import/export coverage ratio of 73.4%, being a remarkable increase compared to the previous year (59.7%).

Deficit of Serbian balance of payments current account in 2013 amounted to 1,585 million euro, being 5% of GDP, or 50% less than in 2012 (3,176 million euro i.e. 10.7% of GDP).

The regular semiannual Employment Inquiry shows that unemployment rate in October 2013 decreased to 20.1% (in October 2012 - 22.4%) being 4% less than in April 2012 (24.1%). Although earnings in 2013 were nominally increased for 5.7%, they suffered 1.9% decrease in real terms.

According to NBS data Serbian public debt as of December 31, 2012 amounted to 20.1 billion euro, for about 2.4 billion euro (13.5%) more than in December 2012. This increase is generated by new foreign borrowings (1.7 billion euro) and sale of securities issued by the Government as well as overtaking of other internal state debt (0.7 billion euro). The public debt took 63.7% of GDP (59.2% at the end of 2012, while the legal limit is established at 45%), while budget deficit reached 4.8% of GDP (5.7% in 2012). For this reason the Government is expected to take measures for fiscal consolidation and program for public debt reduction (mainly through budget revision).

Serbian foreign debt as of December 31, 2013 amounted to 25.7 billion euro (the same as at the end of the previous year) or 80.3% of GDP (85.6% in 2012), reaching the World Bank’s high indebtedness criterion (80% of GDP). However, funds necessary for budget funding were obtained in the financial market under more favorable conditions than in 2012. Thus, owing to these new borrowings, the Government created the possibility to repay previous debt undertaken earlier, under less favourable conditions. Nevertheless, having in mind the growth of new borrowings volume and permanently high deficit of the balance of pay-
ments current account, monitoring of the foreign indebtedness level should be a high priority macroeconomic policy issue.

In contrary to other Regional stock markets indices, which started growing at the end of the second quarter, Belgrade Stock Exchange index began to recover in the third quarter of 2013. In the course of the third and fourth quarter both Stock Exchange indices’ values increased, exceeding the level reached in the end of the previous year. Thus, index of the most liquid securities Belex 15 amounted to 557.97 index points at the end of December 2013 and the general Belex line index to 1,104.92 index points.

**Inflation, Monetary Policy and Dinar Parity**

Accurate inflation targeting has been monetary strategy of the National Bank of Serbia since 2009. NBS Target inflation is defined as a total inflation rate (including allowed deviations) measured by annual shift in consumer prices index. The main instrument of NBS monetary policy for achieving targeted inflation as well as for the monetary strategy realization is the referent interest rate policy applied by NBS, optionally accompanied by NBS interventions on the inter-banking FX market and by the policy of commercial banks’ required reserves calculation and allocation with NBS.

In order to keep inflation within the targeted range (4% for 2013 with allowed deviation of ± 1.5 p.p.), NBS maintained restrictiveness of its monetary policy in the first and second quarters. Inflatory pressure mitigated during the second quarter, as a result of (apart from other measures undertaken) food processing costs reduction owing to more favorable agricultural season in the country as well as in the world. Inter-annual inflation, which in September reached 4.9%, was finally seen within the targeted frame 4% ± 1.5%.

In the course of 2013, quarterly prices growth (compared to the previous quarter) amounted to 1.1% in the first quarter, 1.8% in the second, while it dropped in the third to the negative level (-0.5%). Finally annual inflation reached 2.2%, being the consumer prices growth in December 2013 compared to December 2012.

The main instrument of NBS monetary policy for achieving targeted inflation is the referent interest rate. NBS carries out operations in the open market by securities purchase and sale with aim to manage the liquidity of the banking sector, to affect the shifting of short-term interest rates and giving certain monetary policy signal. Since 2012 midyear NBS has not implemented this interest rate directly in carrying out open market operations, but referent interest rate is used as basis for calculation of interest rates on deposits and credit facilities. In 2013 NBS’ main operations were repo reverse transactions (securities sale), with one week maturity and variable multiple interest rate.

In 2013, responding to the inflation movements, considering the inflationary expectations and giving support to macroeconomic stabilization, NBS Executive Board established referent interest rate on the following level:
NBS establishes its highest and lowest interest rates according to the referent interest rate’s level, for operations in the money market, i.e. interest rate on credit facilities (overnight credit for maintaining daily liquidity) – being the referent rate increased by 2.5% and interest rate on deposit facilities (overnight deposits with NBS) - being the referent rate decreased by 2.5.

In December 2012 NBS changed the course of its main operations on opened market, from creation to withdrawing of liquidity. NBS restricted its securities offer and auctions are conducted with application of multiple variable interest rates. Banking sector dinar liquidity increase caused the drop of interest rates on the money market, in the first quarter of 2013. In the whole period bank’s demand at repo auctions was increased which, (together with repo auction model for liquidity withdrawal) generated the decrease of average weighted interest rates applied to the securities sale operations, which reached 9.28% at the end of March 2013. At the same time banks continued to keep large amounts as overnight deposits with NBS. As a result, the demand on overnight money market decreased. Interest rates falling trend which had been permanent since September 2012, was stopped in June 2013, mostly due to lesser foreign investors’ risk appetites. IMF’s evaluations of Serbian public financials had its impact at lesser foreign investor’s interest in buying securities in dinars. For this reason the drop of demand also occurred on the primary Government’s securities market at the end of May and in June 2013.

This had a negative effect on the lower realization at auctions of Government’s securities and less on interest rates movement. Interest rates on inter-banking money market and securities market recorded a mild increase in the course of the third quarter of 2013. Interest rates on corporate borrowings in dinars were also raised, while the price of retail borrowings in dinars was diminished. Average repo interest rate was mildly increased in the course of the third quarter. At the end of September it reached 9.4% i.e. for 0.6 p.p. over the June’s rate. This rate’s increase was produced by withdrawal of higher liquidity amount at repo auctions. As a result, the difference between average repo interest rate and referent interest rate was decreased. Following the decrease of the referent interest rate, interest rates in inter-banking money market decreased too at the end of October. In the course of the month of October higher demand on the primary Government’s securities market was recorded, which resulted, after a long period, in the full realization of operations on majority of auctions. Nevertheless, higher foreign investor’s interest for investing in government’s securities was produced due to the fact that US Federal Reserves postponed adoption of the decision on quantitative facilities reduction, due to the Government’s notice that measures for fiscal consolidation of Serbian financial situation would soon be introduced as well as due to the higher return earned at auctions. Inter-
est rates on securities with short term maturity were mildly increased, while interest rates on securities with long term maturity dropped.

NBS implements managed floating exchange rate regime, which requires Bank’s interventions in foreign exchange market if large daily rate oscillations occur, if financial or price stability is jeopardized, as well as for the purpose of protection of foreign currency reserves’ adequate level. In order to support the development of swap inter-banking foreign exchange market and to enable easier banks’ liquidity management, NBS organizes swap foreign exchange auctions (in both directions). A possibility for NBS also remained of contracting bilateral swap operations with banks.

In the first quarter of 2013, FX market movements were characterized by the stable EUR/RSD cross rate, but at the end of May weakening of dinar parity occurred. In accordance with NBS notice, currencies of all regional countries implementing managed floating rate regime weakened. This was caused by expectation that US Federal Reserves would gradually diminish securities purchase and therefore reduce additional injection of funds for liquidity maintenance, which motivated foreign investors to reduce assets investments in local currencies by selling local and buying foreign currencies. This in return generated depreciation pressure on local currencies. In Serbia, additional pressures on dinar occurred due to local and international community’s concern for public financials’ situation and its long-term sustainability.

After remaining relatively stable in August 2013, dinar started weakening in September, due to maturing of foreign investor’s securities and their reluctance to further investing, which caused the growth of foreign currency demand. NBS estimated that such trends were produced primarily by the fact that US Federal Reserves and European Central Bank had not decided on orientation of their monetary policies for the further period. These factors affected in the similar way currencies of other regional countries, which apply managed floating rate regime. Nevertheless, the rate of dinar remained stable until the end of 2013.

In the course of 2013, NBS did not change the way of calculation and allocation percentage of obligatory reserves. Obligatory reserves in dinars was applied only to RSD deposits with up to 2 years maturity, with permanent allocation percentage - 5%. 29% rate was applied to foreign currency obligatory reserves to sources with up to 2 years maturity, 22% rate to foreign currency sources with longer terms and 50% rate to dinar obligations which were indexed by foreign currency clause. The percentage of allocation of foreign currency obligatory reserves in dinar equivalent, was 32% on foreign currency obligations with 2 years maturity and 24% on foreign currency obligations with longer term.


**BANKING SECTOR IN SERBIA**

**General Remarks.** As of Dec. 31, 2013 total balance of the banking sector amounted to 2,631 billion dinars (approx. EUR 23.0 billion), representing 8.65% nominal decrease compared to the end of 2012 (RSD 2,880 billion). This decrease was produced by bankruptcy procedures initiated over Nova Agrobanka a.d. Beograd and Privredna banka a.d. Beograd, as well as by termination of operation of KBC banka a.d. Beograd which transferred its license to Telenor, telecommunications provider and its portfolio to Societe Generale banka a.d. Beograd. Data for Univerzal banka a.d. Beograd (which banking license was revoked by NBS on January 31, 2014) also haven’t been included.

For the first time since 2001, Serbian banking sector suffered net loss in 2013 in amount of 611 million dinars, i.e. EUR 5.3 million (in 2012 Serbian banking sector achieved profit before taxation in amount of 11.7 billion dinars), mostly generated by expenditures due to placements’ write offs and impairment allowances, which was caused by extreme growth of clients’ defaulting liabilities. In 14 banks Serbia ended year 2013 with loss, while 15 remaining banks managed to earn net-profit.

Banks owe their profitability recorded in 2013 largely to traditional banking operations i.e. to net interest income (117.1 billion dinars) and net fees & commission income (35.5 billion dinars), as well as to foreign exchange gains (8.5 billion billion). Let’s also point out the minimal but symptomatic decrease in net interest income for 1.4%, while other income statement positions remained on the same level as in 2012.

At the end of the previous year 29 banks operated in Serbia (21 in property of foreign entities and 8 in major property of Serbian entities) which employed 25,742 persons, while in 2012 there were 32 banks employing 28,394 persons. The drop of employees number was mostly due to the fact that National Bank of Serbia withdrew the banking license from three banks and to the “de facto” closure of KBC banka a.d. Beograd.

**Banks credit activity.** Companies’ bad financial situation, as an obstacle for economy’s growth, caused the shrink in banks credit activity. The majority of Serbian economy is still under recession, resulting in decline of economic activity and employment, while only a few sectors are recovering including agriculture which has regained its average level.

Real volume of loans lent to corporate clients was lowering in the course of 2013 (10% estimated inter-annual fall). On the other hand, the growth of bad loans extended to corporate clients was accelerated. Bad loans took 21.4% stake (about EUR 4.5 billion) in total lending, while 28% stake in corporate lending. The mentioned data reflect serious financial situation present not only in companies, but also in a number of banks, which need introduction of measures for crisis prevention. Banking sector’s essential problem is not liquidity any more, as it was in 2009. Serbian banking sector is still liquid, having sufficient funds at disposal for financing. Nevertheless, significant number of corporate cli-
ents had reduced capacity to apply for new loans due to their indebtedness. Also, personal clients are cautious to apply for borrowings and companies to invest. Corporate clients are waiting for business environment to become more stable, resulting in decline of borrowings demand.

Weakening creditworthiness of both Serbian economy and population as well as difficult placement collection generated only modest growth of credit activity, while banks cautiousness gave boost to securities investments as a mode for safer investing. However, retail lendings stake in GDP is relatively low – around 19%, leaving potential for larger borrowing after expected GDP per capita growth and Serbian economy recovery (loans to individuals in Croatia take 46% of GDP, in Poland 36% and in Slovenia 34%).

**Non-performing Loans in Serbian banking sector.** Before global financial crisis emerged, Serbian banking system, as in other regional countries, recorded accelerated growth of supply and lending, financed by “savings import”, which caused the increase of banking sector indebtedness as well as higher clients’ exposure to currency risk. Credit risk management, subordinated to clients base enlargement policy and need for higher market participation, lead to accelerated lending growth, which finally resulted larger share of non-performing loans in total lending.

Non-performing loans (NPL) are continuously growing during the last several years in Serbia. In conformity with the last NBS report their share in total (gross) lending reached 21.4%.

NPL extended to Serbian economy reached around 382.8 billion dinars or EUR 3.34 billion. Since total Serbian banking sector’s capital amounts to EUR 5.3 billion, it is obvious that Serbian financial system is facing a significant problem. For this reason banks are forced to allocate huge funds for covering risky placements. NPL coverage by regulatory provisions is still on the satisfactory level (115.8%), but it shows that significant funds are immobilized for this reason.

NPL stake in retail lending is stable and significantly under an average (10.7%), resulting from the fact that NBS imposed (before the crisis) substantial limits for lending to individuals, which “saved the banks from themselves”. Still, such restrictions were not imposed at corporate clients.

**Regulatory Developments**

In the course of the year 2013 NBS adopted the following legal regulations, which shall have special impact on Serbian banking sector in the forthcoming period:

- Decision on Minimum Information System Management Standards for Financial Institutions, setting the minimum standards and requirements for safe and sound business operations in terms of information system management and business continuity of financial institutions. This Decision came into force on January 1, 2014;
- Amendment on Decision on Terms and Conditions of granting Short-Term Liquidity Loans Against Collateral
of Securities, which extends the list of securities acceptable as collateral.

- Amendments of the Decision on the Classification of Banks Balance Sheet Assets and Off-balance Sheet Items, related to rules governing classification of funds gained through claims collection from persons to whom the bank transferred the claims, as well as to counting past due days from subsequently agreed maturity.

**Economic and Monetary Policy in 2014 and for the forthcoming mid-term period**

*Economic policy* of the Government of the Republic of Serbia in 2014 and for the forthcoming mid-term period was elaborated in Prime Minister’s expose presented at the session of the Republic of Serbia National Assembly held on April 27, 2014. The Government shall pay special attention to the following principal tasks:

- National economy reforming by adopting comprehensive law package focused at creation of market environment and corruption elimination, which would encourage investments increase and capital attraction;

- Private sector development by encouraging SMEs, in order to increase private sector’s employment and to decrease the public sector’s employment and make the private sector more attractive than the public sector. The final aim is to make private sector larger than the public sector until 2018.

- Budget consolidation by reducing expenditures and increasing income.

  The objective of fiscal consolidation measures is to lower the budget’s consolidated deficit to the sustainable level (3% to 4% of GDP) until 2017, thus holding the public debt’s growth at the level of around 75% of GDP, with the declining trend, having for a result the higher financial stability of the country.

  At the same time, management, professionalization and elimination of losses will be implemented in public companies, as well as privatization finalization and finding solution for the status of government’s and socially owned companies as well as for companies under restructuring process.

  For the said reasons, Serbian economic recovery program will be based on:

  - Solid and credible stabilization of public financials;
  - Public sector’s reform, and
  - Economic environment’s reform.

  Economic reforms program of the Government of Serbia is divided in three phases:

  - Fiscal consolidation and comprehensive business environment’s reform is the target for the Government’s first 100 days i.e. until July, 2014;
  - Resolving the issue of general financial lack of discipline (grey economy, illiquidity etc) and creation of the framework for establishing of justice in public sector’s system of salaries and employment is the reform’s target for the second half of 2014;
Reforms for the period 2015-2017 will be targeted at creation of conditions for quality improvement of public sector’s services (education, health, administration), being a significant factor of the future economic growth.

Fiscal consolidation includes a series of concrete measures aimed at increase and stabilization of fiscal revenues, as well as to reduction of budget expenditures. Reform of business environment means the improvement of the legal framework in the field of economy, public financials and social protection defining business conditions in Serbia.

Combat against the grey economy is targeted at its reduction to the level of EU countries, through creation of institutions with adequate capacities for efficiently performing their activities. A number of actions will be shortly implemented against organized criminal as a main pillar of grey economy, which should reduce organized criminal in certain domains. With this purpose a number of concrete measures of analytical-diagnostic, legal, organisational and operative character have been prepared to be undertaken till the end of 2014.

The concept for resolving the uncollectible receivables and economic illiquidity is based on establishment of the special company in the form of investment fund, which would repurchase non-performing loans from the banks. The shareholding banks and international financial institutions would provide for the company’s capital, and the Government should improve legislation governing bankruptcy procedure, debt restructuring procedure and property value estimation. In this way banks’ balances of accounts would be cleaned up, which would enable banks further engagements in financing Serbian economy. This process would be at the same time supported by other measures for this problem’s elimination as acceleration of bankruptcy procedure, provision of subsidized loans for liquidity to corporate entities and settlement of all Government’s matured liabilities towards private creditors.

In this period significant part of activities will be directed at defining the public administration, with special focus at health, education, science, government’s administration, state and local autonomy administration, including targeted number of employees. Apart from analytical-diagnostic measures focused at public sector’s optimization (all institutions will be analysed regarding their employees number, jobs description for the purpose of jobs redesign and especially, as well as regarding the identification of their existence justifiability and possible activities “overlapping”), fair pay grades will be introduced, dynamics of salaries increase will be determined as well as dynamics for employees’ number reduction through negotiations with workers’ unions.

Finalization of judiciary reform is one of the essential conditions for functioning of economy, government’s administration and for creation of safe environment for investments. The reform’s targets are to reduce the number of unsolved cases, accelerate judicial procedures and to provide for better anticipation of judiciary system (equalization and equal interpretation of courts’ decisions within the national jurisdiction).

In the period 2015-2017 system reforms will be im-
implemented within four public sector’s segments being the most significant public services’ providers – health, education, government administration and local autonomy. This reform laws package is targeted to increase competitiveness of Serbian economy, to create attractive environment for investors and produce additional pressure on corruption. Higher competitiveness will encourage lowering of consumer goods prices. Government’s goal is that Serbia achieves largest progress according to the Global Competitiveness index until 2015 and to be ranked among first countries of the South East Europe region till 2018.

In this period the following activities will be undertaken: efficient realization of priority investment and infrastructural projects related to sectors of transport (current and new projects of highway and railway infrastructure), telecommunications and tourism, measures for Serbian export increase as signing free trade agreements with all countries and accession to World Trade Organization (WTO); further progress in sectors of energy and agriculture, being the most competitive real sector activities in Serbian economy; reform of government’s administration and local autonomy, education, science and health as well as the reform of judiciary system. A number of measures, having indirect effect on reform’s results will be implemented in domains of culture, social policy, sport etc.

The primary objective of the National Bank of Serbia monetary policy is to achieve and maintain price stability, thus contributing the maintenance of financial system stability and creation of sustainable economic growth.

In conformity with NBS’ Monetary Policy Memorandum and Memorandum on inflation targets until 2016, NBS Executive Board targeted inflation rate (with a tolerance band) for years 2013 and 2014, measured as an annual percentage change in the consumer price index, at the level of 4% with a tolerance band of ±1.5 percentage points.

The inflation target is set above the quantitative definition of price stability and the inflation targets of advanced economies (2.0% or 2.5%) due to the assessment that the process of structural reforms and the liberalisation of prices, i.e. nominal, real and structural convergence to the European Union, will not be completed. NBS will strive to realize its inflation objective by using the interest rate as the principal monetary policy instrument, which is applied in implementation of the main operations in the open market. The rate’s level will be changed in a consistent and predictable manner, depending on economic movements and inflation projection, especially taking under consideration the rate’s influence on Serbian financial system’s stability. Apart from the rate NBS will use all other disposable instruments to carry out the inflation objective for the mid-term.

NBS will continue to implement the managed floating exchange rate regime. NBS will undertake interventions on foreign exchange market in order to reduce exaggerated short-term FX rate oscillations, for the purpose of preserving price and financial stability and maintaining adequate level of foreign currency reserves.

For the purpose of having better view into macro-
financial relations, NBS will regularly implement stress tests, as one of the basis for appraising interest rate influence to banking sector’s stability.

According to its Monetary policy for 2014, NBS will continue to flexibly and promptly respond, by using its instruments, to changes of local and international circumstances, including consistence in implementation of fiscal consolidation and structural reforms, in order to prevent larger inflation deviations from the targeted level. In case of significant volatility of short-term capital flows negatively affecting Serbian financial system, NBS will (apart from monetary policy instruments) use macro-prudential instruments for financial stability preservation, as well as instruments for control of balance of payments flows.

NBS will continue to develop local financial market in order to increase efficiency of monetary policy’s transmission mechanism and contribution to financial stability. The National Bank of Serbia will maintain the implementation of dinarization strategy to reduce sensitivity of Serbian economy and population to dinar’s rate movements.

Projection of Principal Macroeconomic Indicators for the Period 2014-2016*

Based on current economic trends and outlooks for Serbia and the international environment, and taking into account the planned economic policies, the main economic aggregates and indicators have been projected for the Republic of Serbia in the period 2014-2016. GDP projections and related indicators for the period 2014-2016 have been revised to a lower level, primarily due to the slow and uncertain recovery of the euro zone countries and the consequent slowdown in domestic exports, but also because of the severe fiscal policy measures that will act to reduce domestic demand of the households, particularly private consumption and government spending.

Macroeconomic projections for the period from 2014 to 2016, indicate a slow path to recovery. The projected average GDP growth rate for the next three years of 1.6% is based primarily on the recovery of investment activity and growth in exports. Leading development factors such as the acceleration of export growth and investment, combined with the restructuring of the economy toward the tradable goods allow the creation of a solid base for sustainable economic growth with the reduction of internal and external macroeconomic imbalances.

Predicted cumulative real GDP growth of 4.9% over the next three years is based on the growth of investment and exports of goods and services at an average annual real rate of 7.7% and 7.1%, respectively, with average annual decline in personal consumption (-0.9%) and government spending (-3.4%). This will ensure an increase in productivity as well as changes in the economic structure toward increasing the share of industry in GDP and exports.

In the middle term, up to the end of 2016, macroeconomic projections envisage the increase in the share of investment to 22.7% of GDP, reducing the share of

* Document of the Ministry of Finance
government spending in GDP to 16.4% and increase in the share of exports of goods and services in GDP to 50.1%. In addition, over the next three years, an increase of the share of domestic savings to GDP is predicted due to the growth of private savings. A net inflow of foreign investment of about EUR 1.6 billion a year on average is necessary, with a change in the structure of investment toward the sector of tradable goods. Financing the deficit suppose at the same time reducing the share of deficit of goods and services and the current account deficit (including grants) to GDP to the levels of 7.4% and 3.5% respectively at the end of 2016, so as to ensure the reduction of the absorption gap, sustainability of external debt, external liquidity and solvency.

**Main macroeconomic indicators projection of the Republic of Serbia, for the period 2014-2016**

<table>
<thead>
<tr>
<th></th>
<th>Estimation</th>
<th>Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2014</td>
</tr>
<tr>
<td>Real growth of GDP components, %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP, mill. RSD (current prices)</td>
<td>3.761.289</td>
<td>4.007.841</td>
</tr>
<tr>
<td>Real GDP growth</td>
<td>*2.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Private consumption</td>
<td>- 1.2</td>
<td>- 1.8</td>
</tr>
<tr>
<td>Government consumption</td>
<td>- 3.0</td>
<td>- 2.2</td>
</tr>
<tr>
<td>Investments</td>
<td>- 3.4</td>
<td>4.7</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>14.0</td>
<td>6.4</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>2.3</td>
<td>1.6</td>
</tr>
<tr>
<td>Goods and services balance (EUR), % GDP</td>
<td>- 11.9</td>
<td>- 10.0</td>
</tr>
<tr>
<td>Inflation, end of the period, y %</td>
<td>5.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Investment ratio, % GDP</td>
<td>19.1</td>
<td>20.0</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance

* Data of the Bureau of Statistics of the Republic of Serbia
BANK’S BUSINESS
POLICY FOR 2014

Bank’s business policy for 2013 was projected on the basis of business strategy framework, defined for the period 2014-2016, which is in compliance with the Bank’s risk management and capital management strategies, as well as on the basis of Bank’s business results achieved in 2013, Bank’s current position in the market and the current and expected macroeconomic and market operation conditions in financial and real sectors.

Taking into account macroeconomic business conditions and the Bank’s current market position and financial potential, the principal strategic targets defined in Bank’s Development Strategy for 2014-2016, are the following:

- Stable, profitable, liquid and efficient operations, i.e. realization of added value with return rates over banking sector’s average;
- Capital base strengthening through recapitalization of the Bank;
- Business activity growth (measured by the balance amount) under rate higher than banking sector’s average, i.e. increase of Bank’s market participation within Serbian banking sector;
- Client’s base expanding through Bank’s services market identification with potential clients, local autonomy and population through pro-active marketing strategy;
- Taking successful position on the financial market in the long-term, by developing the Bank as specialized, dynamic and solid financial institution, recognizable by high quality products and services offered to clients;
- Non-performing loans active management;
- Keeping the deposit potential growing trend from 2013, and
- Bank’s credit portfolio active management including client base expanding, extension of placements’ maturities and placements diversification.

In order to execute successfully the above said strategic targets, the Bank shall develop a modern system for operational monitoring and improvement, considering the risks exposure appraisal. The Bank will react timely and adequately by imposing corrective measures, and provide for the permanent education of employees in order to fully understand the risk management procedures. Solid corporate management will be implemented and regular communication with Bank’s management maintained.

Since the above mentioned strategic targets are based on information coming out from the business environment, their realisation will depend on intentions of other corporate entities from the environment as well as on economic, technological and other factors determining each plans related decision, which includes certain risk and uncertainty jeopardizing targets execution.

In conformity with the strategic targets, Bank’s Business Policy for 2014 is based on paying observation of fundamental banking operations’ principles with permanent protection of shareholder’s interest. With this aim, the Bank will implement the following operational principles:

- Efficiency and services quality principle, being essential prepositions for Bank’s operations improvement;
- Liquidity principle, with aim of establishing Bank’s
stable liquid position, through fostering long-term and Bank’s own sources of funds as well as the change of the deposit potential structure;

- Safety and solvency principle, through complying assets and liabilities term structure and
- Profitability and cost-effect principle.

In line with the aforesaid, the Bank’s 2014 Business Policy defines the following targets:

- Maintaining continuity in operational profitability reached in previous years, while achieving positive operational income rate on engaged funds;
- Compliance of all Bank’s operational parameters with the regulatory criteria and limits, as well as compliance of all activities with Bank’s risk policies;
- Maintaining permanent risk identification, measuring and appraisal as well as risk management, enabling the Bank’s growth and development, while keeping acceptable level of risk defined by the Risk Management Strategy;
- Maintaining real growth of business activities volume in conformity with limits related to major market trends, performing operations with full observation of the liquidity, safety and profitability principles, as well as reducing potential risk to the optimum level;
- Lowering of the immobilized funds level, with higher participation of interest earning assets in total balance of assets, with optimal liquidity preservation;
- Improvement and significant growth of the Bank’s credit portfolio by attracting new clients, through improvement of existing and development of new banking products and services and maintaining high responsibility criterion in procedures of loan approval and accepting engagement in other modes of financing, along with strict observing of the procedures and criteria of banking risks management (therefore the Bank will tend to the clients number increase, concentration reduction and placements diversification);
- Increasing the stake of retail banking operations within the total interest earning assets, through more active offer of banking products aimed at placement’s growth and diversification;
- Corporate operations development primarily focused at maintaining and establishing long-term business relations with the existing clients, attracting new corporate clients (large companies) as well as small and medium enterprises;
- Development of new banking products and services aimed to individuals, entrepreneurs and SME’s;
- Financial potentials direction into placements bearing less risk and giving priority to criteria of liquidity and security;
- Maintaining restrictive attitude towards the Bank’s expenditures policy (efficient interest and other expenditure’s management);
- Maintaining the stable financial sources base by gaining own financial sources and deposits attraction mainly through further growth of transactional deposits (generally, the Bank will strive to realize further growth of the deposit base potential in the manner which will provide the stable financial sources base through its volume, term and purpose structure);
- Efficiency improvement based on Bank’s internal potentials;
- Bank’s credit potentials growth through new credit
lines opening with foreign banks and international financial organizations;
- Guaranty commitments volume increase and development;
- E-banking payment operations volume growth, as well as attracting new clients in local and international payment operations and enlarging the number of clients - credit cards users;
- Further improvement of the employees structure and organization with aim of clear division of officers duties and responsibilities and developing appraisal and measuring of each Bank’s unit labour results, as a basis for salaries calculation
- Rewarding of employees and managing officers in certain Bank’s units in accordance with their contributions to execution of the Bank’s General Assembly decisions and operational targets;
- Improvement of labour quality, providing employees' professional improvement through attending trainings, courses, seminars and taking participation in other forms of vocational improvement and education.

Stefan Uroš I, second half of the XIII century, fresco from Sopočani monastery, Serbia
Sopoćani monastery is situated on the source of the Raška river, near the city of Novi Pazar. It is foundation of King Stefan Uroš I Nemanjić (1243-1276). Its initial construction lasted until 1260, but later, in the 14th century, the wider construction was built by Dušan the Emperor, the grand grand son of Uroš. This monastery exceeded all previous Serbian buildings of this kind in grandeur and beauty. The Monastery’s central space is decorated by frescoes considered not only as the finest Serbian, but as the highest rated fresco paintings in the entire Europe. The beauty of the movement, clear colours and shaded compositions will appear only later in Italian Renaissance. It is a miracle that frescoes are so well preserved having in mind that the Monastery was devastated soon after the Kosovo battle, that the roof was twice destroyed, that at the end of 17th century Turks burnt it, leaving it empty for this reason for a long time (the Monastery’s reconstruction was initiated for the third time in 1926). Sopoćani Monastery entered the UNESCO list in 1979.
KEY FIGURES

The Bank’s operations executed in 2013 are characterized by:

- Compliance of all operational parameters with the Law on banks and other financial organisations;
- Continuity in operations profitability achieved through the previous years. Positive operational income was earned in 2013 in spite of relatively high level of allowance for impairment calculated in amount of 360.0 million dinars;
- Bank’s balance amount at the end of 2013 reached 14.78 billion dinars or 128.9 million euro, reflecting the growth of business activities volume of 4.6 billion dinars, being a nominal increase of 44.0% in comparison to the end of 2012;
- High rate of liquidity, both in dinars and in foreign currency. High participation of liquid assets (primary and secondary liquidity sources) in total Bank’s balance assets is a comparative advantage under the circumstances of disturbed financial stability. The amount of placements in primary and secondary liquidity sources is near the level of Bank’s total liabilities;
- Capital real value growth. In nominal terms, Bank’s capital was increased at the end of 2013 for additional 360.0 million dinars compared to its value at the end of 2012, mainly on the basis of Bank’s property value increase. Bank’s total capital as of Dec. 31, 2013 amounts to 5.55 billion dinars or 48.4 million euro;
- Financial sources stability. As of Dec. 31, 2013 total capital’s share reached 37.6% of total balance, which is significantly over the banking sector’s average, confirming thereby high stability of financing sources and proving operational stability for the forthcoming period;
- Relatively high capital adequacy ratio. Throughout the year 2013 the Bank maintained over average capital adequacy rate, produced by Bank’s Business Policy and addiction to safer placements. By giving priority to liquidity and safety more than to profitability, the Bank directed its financial potential to placements with less credit risk, gaining consequently less operational income;
- Increase of the deposit potential under decreased liquidity conditions in the real sector. As of Dec. 31, 2013 total deposits held with the Bank amounted to 8.9 billion dinars or around 77.6 million euro, being 2.03 times nominally increased or for 4.5 billion dinars increased, compared to the end of 2012, which confirms Bank’s high business rating held with the customers;
- Clients’ base and corporate lending activity growth. As of Dec. 31, 2013 Bank’s corporate lending activity reached 3.06 billion dinars (gross value) or 26.7 million euro, being for 1.02 billion dinars increase (50%) compared to the end of 2012;
- Support to the Bank’s clients when appealing for credit repayment re-scheduling. During 2013 the Bank paid a lot attention to collection of non-performing loans, striving hard together with the debtors to find optimal solutions for loan repayment, which would enable clients to keep on with their regular business operations, and
- Increase of the off-balance sheet activities. Total off-balance sheet activity amounted to 27.12 billion dinars as of Dec. 31, 2013 (20.4 million dinars at the end of December 2012). Within this amount, total guarantee operations take 2.09 billion dinars or 18.2 million euro.
MANAGING BOARD AND EXECUTIVE BOARD ACTIVITIES

Organization of JUBMES banka reflects its shareholders’ interest for continuous development, intensification of business activities and profitable operations in conformity with regulations and modern banking standards, with full attention paid to banking risks management and their minimization.

The Managing Board is Bank’s highest managing body in the period between Bank’s Assembly meetings, having highest responsibility for strategic development directions and supervision over the work of Bank’s Executive Board and other bodies. The Managing Board, having responsibilities governed by the Articles of Agreement, is consisted of 5 members – two independent ones and three belonging to largest shareholders. On the occasion of the Shareholder’s Meeting held on April 24, 2013, Managing Board members were changed and at the end of the year 2013, it was consisted of:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr Zoran Lilić</td>
<td>Independent member  Chairman</td>
</tr>
<tr>
<td>Ms Anastazija Tanja Đelić, PhD</td>
<td>Republic of Serbia  Member</td>
</tr>
<tr>
<td>Mr Radovan Mijailović</td>
<td>Farmakom MB Concern, Šabac  Member</td>
</tr>
<tr>
<td>Mr Aleksandar Živković, PhD</td>
<td>Independent member  Member</td>
</tr>
<tr>
<td>Ms Milkiica Radulović</td>
<td>Republic of Serbia  Member</td>
</tr>
</tbody>
</table>

In 2013 the Managing board held 16 sessions. In all of its business activities the Board supported Bank’s development policy, based on fundamental principles of banking operations as follows:

- Maintaining liquidity and safety in operations, specially under conditions of disturbed financial balance;
- Bank’s preservation from the operational risk;
- Bank’s capital growth;
- Improvement of Bank’s organization and services quality;
- Bank’s market position improvement
Executive Board’s members are designated by the Managing Board and they are responsible for their work to the Managing Board. In conformity with their responsibilities governed by the Articles of Agreement, in the course of 2013 the Executive Board held 112 sessions. Executive board’s activities in 2013 were focused at choosing the most favourable solutions for liquidity and profitability maintenance, economic position fostering and Bank’s market participation growth. During the previous year members of the Executive Board were changed and as of 31.12.2013 it was consisted of:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr Slobodan Janjić</td>
<td>President</td>
</tr>
<tr>
<td>Aleksandar Mališić</td>
<td>Vice President</td>
</tr>
<tr>
<td>Mr Slobodan Lečić</td>
<td>Member</td>
</tr>
<tr>
<td>Mr Velibor Tatić</td>
<td>Member</td>
</tr>
<tr>
<td>Mr Rajko Perić, PhD</td>
<td>Member</td>
</tr>
</tbody>
</table>

Members of the Managing Board and the Executive Board are expected to enjoy high business reputation, meeting the criteria required by the National Bank of Serbia. Clearly fixed and divided authorizations and responsibilities convened to the members of these two Boards is guaranteed by the legal regulations and Bank’s Articles of Association, governing that one person cannot be simultaneously member of both Boards.
INDEPENDENT AUDITOR’S REPORT

TO THE SHAREHOLDERS AND THE MANAGEMENT BOARD
OF JUBMES BANKA a.d. BELGRADE

We have audited the accompanying financial statements of JUBMES banka a.d. Belgrade (hereinafter “the Bank”), which comprise the balance sheet as of 31 December 2013, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The statistical annex represents an integral part of these financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting (“Official Gazette of the Republic of Serbia”, no. 62/2013), Law on Banks (“Official Gazette of the Republic of Serbia”, no. 107/2005 and 91/2010) and respective decisions of the National Bank of Serbia which regulate banks’ financial reporting, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

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

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

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

TO THE SHAREHOLDERS AND THE MANAGEMENT BOARD
OF JUBMES BANKA a.d. BELGRADE (Continued)

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2013, and its financial performance and its cash flows for the year then ended, in accordance with the Law on Accounting, Law on Banks and respective decisions of the National Bank of Serbia which regulate banks’ financial reporting.

Belgrade, 3 March 2014

Danijela Krtinic
Certified Auditor
JUBMES banka recorded total balance as of Dec. 31, 2013 in amount of 14,781 million dinars (EUR 128.9 million). Measured by the total balance amount, in 2013, owing to deposits received in double amount than in previous year, the Bank achieved 45.2% nominal business volume growth (6.3% in 2012 and 7.8% in 2011). In years 2010 and 2009, under the negative conditions caused by the global crisis significant efforts were made to preserve the real value of the total balance at the level reached at the end of 2008, while in the previous years (2005-2008), when the business environment was much more favourable, the balance amount was cumulatively increased for 60% in real terms, with no additional borrowings.


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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>1. Cash and Cash Equivalents</td>
<td>970.807</td>
<td>718.017</td>
<td>835.888</td>
</tr>
<tr>
<td>3. Receivables arising from interest, fees &amp; commission, trade, fair value adjustments of derivatives and other</td>
<td>233.152</td>
<td>45.218</td>
<td>35.854</td>
</tr>
<tr>
<td>4. Loans and Deposits to Customers</td>
<td>4.002.433</td>
<td>2.747.978</td>
<td>2.829.634</td>
</tr>
<tr>
<td>5. Securities (excluding repurchased own shares)</td>
<td>658.573</td>
<td>1,094.578</td>
<td>1,302.810</td>
</tr>
<tr>
<td>6. Equity Investments (Interests)</td>
<td>150.977</td>
<td>141.551</td>
<td>60.492</td>
</tr>
<tr>
<td>7. Other Placements</td>
<td>888.194</td>
<td>1,228.791</td>
<td>1,178.501</td>
</tr>
<tr>
<td>8. Intangible Assets</td>
<td>11.192</td>
<td>12.688</td>
<td>14.188</td>
</tr>
<tr>
<td>9. Property, Equipment and Investment Property</td>
<td>1.337.597</td>
<td>978.157</td>
<td>995.926</td>
</tr>
<tr>
<td>10. Non-current assets held for sale and assets from terminated operations</td>
<td>24.368</td>
<td>24.368</td>
<td>24.368</td>
</tr>
<tr>
<td>11. Other Assets</td>
<td>75.707</td>
<td>33.543</td>
<td>130.755</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>14.780.694</td>
<td>10.178.495</td>
<td>9.575.416</td>
</tr>
</tbody>
</table>
## Balance Sheet Items

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>LIABILITIES</strong></td>
<td>9,221,319</td>
<td>4,833,426</td>
<td>4,275,710</td>
</tr>
<tr>
<td>1. Transaction Deposits</td>
<td>2,056,286</td>
<td>746,494</td>
<td>868,762</td>
</tr>
<tr>
<td>2. Other Deposits</td>
<td>6,846,782</td>
<td>3,619,938</td>
<td>2,212,164</td>
</tr>
<tr>
<td>3. Borrowings</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4. Interest, fees &amp; commission payables and fair value adjustments of derivatives</td>
<td>2,715</td>
<td>632</td>
<td>3,200</td>
</tr>
<tr>
<td>5. Provisions</td>
<td>37,123</td>
<td>57,949</td>
<td>32,607</td>
</tr>
<tr>
<td>6. Current Income Tax Liabilities</td>
<td>3,167</td>
<td>2,221</td>
<td>2,826</td>
</tr>
<tr>
<td>7. Tax and Dividend Payables</td>
<td>26,788</td>
<td>21,123</td>
<td>21,539</td>
</tr>
<tr>
<td>8. Deferred Tax Liabilities</td>
<td>89,707</td>
<td>53,314</td>
<td>38,494</td>
</tr>
<tr>
<td>9. Other Liabilities</td>
<td>158,751</td>
<td>331,755</td>
<td>1,096,118</td>
</tr>
<tr>
<td><strong>EQUITY</strong></td>
<td>5,559,375</td>
<td>5,345,069</td>
<td>5,299,706</td>
</tr>
<tr>
<td>1. Share and Other Capital</td>
<td>3,100,833</td>
<td>2,905,195</td>
<td>2,814,356</td>
</tr>
<tr>
<td>2. Reserves</td>
<td>2,194,891</td>
<td>1,991,621</td>
<td>2,034,945</td>
</tr>
<tr>
<td>3. Unrealized losses on securities available-for-sale</td>
<td>(12,660)</td>
<td>(16,423)</td>
<td>(13,174)</td>
</tr>
<tr>
<td>4. Share and Other Capital</td>
<td>276,311</td>
<td>463,579</td>
<td>463,579</td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Equity</strong></td>
<td>14,780,694</td>
<td>10,178,495</td>
<td>9,575,416</td>
</tr>
</tbody>
</table>

Bank’s equity in amount of 5,559 million dinars (EUR 48.5 million) was increased for around 4% and takes 37.6% of the total balance, while liabilities in amount of 9,221 million dinars (EUR 80.4 million) take 62.4%. A permanently high stake of own sources of funds within the sources of financing gives a good opportunity to the Bank’s management in negotiating placement terms and in conducting the liquidity risk management policy. This confirms high stability of the sources of financing and guarantees operational stability.

RSD sub-balance amount recorded growth in 2013 – both by the absolute amount and by share taken in total assets and liabilities. As of Dec. 31, 2013 foreign currency items (including placements with the curre
cy clause) took around 31.2% in Bank’s assets (44.0% at the end of 2012), while 29.9% in total liabilities (38.3% at the end of 2012), as an outcome of the Bank's foreign exchange risk management policy implemented by maintaining the “controlled long foreign exchange position”, primarily aimed at preservation of high foreign currency liquidity.

Regarding the term structure, at the end of 2013, short-term funds took 83.45% of Bank’s total assets, while short-term sources took 49.84% of liabilities. This data show the substantially favourable ratio of assets and liabilities term structure, produced by high stake of Bank’s capital in the total balance amount. As of Dec. 31, 2013 Bank’s assets and liabilities term structure was mostly harmonized with positive cumulative disparities (larger amount of balance assets than balance liabilities) in all term items, and negative disparities for items including assets and liabilities with 1-3 month, 3-12 month and over 1 year maturity.

**Bank’s Assets**

In Bank’s assets as of December 31, 2013 the dominant position take revocable deposits and credits (required foreign exchange reserve and claims in dinars from the Central Bank under repurchase transactions) in total amount of 6428 million dinars (56.1 million euro), credits and deposits (placements to clients and local banks) in total amount of 4002 million dinars (34.9 million euro), as well as property, equipment and intangible assets in amount of 1,349 million dinars (11.8 million euro). Balance assets is also composed of cash and cash equivalents in amount of 971 million dinars (8.5 million euro), securities investments (mostly discounted bills of exchange and Treasury bills) and equity investments in amount of 810 million dinars (71 million euro) as well as other placements and other funds (mostly purchased receivables in foreign currency and dinars) in amount of 1222 million dinars (10.7 million euro).
In comparison to the end of 2012, at the end of 2013 the following significant changes in Bank’s assets were recorded:

- **Revocable deposits and credits recorded a significant share increase (from 31% to 43.5%) due to higher level of obligatory reserves in foreign currency allocated with NBS, produced by the following circumstances:**
  
  - significant increase of corporate deposits in foreign currency and less of retail deposits;
  - unfavourable environment for placement of foreign currency funds under commercial terms with foreign banks which refused taking deposits, due to unattractive money market terms;
  - regulations of NBS, appraising deposits placed with foreign banks as risk placements, regardless their rating (contrary to deposits placed with local banks or with NBS).

- **Larger amount of received deposits enabled significant growth (45.6%) of amount of lending and deposits extended primarily to corporate clients and local banks;**

- **Securities investments dropped in nominal terms (for 40%), due to reduced volume of Banks investing into discounted bills of local issuers and**

- **Value of property and equipment was nominally increased (for 36%), due to increase of the Bank’s property value.**

### Disposable Liquid Assets, Liquidity Management

Previous years’ high level of dinar and foreign exchange liquidity was maintained in 2013. The Bank managed its assets and liabilities in the manner which provided that daily disposable liquid assets enabled a completely fluent execution of all Bank’s obligations as well as that Bank’s customers used their funds in accordance with contractual terms. Daily disposable liquid assets were permanently held on high level, and

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**Structure of Disposable Liquid Assets of JUBMES banka a.d. as of Dec. 31, 2013**

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Equivalents</td>
<td>10.8%</td>
</tr>
<tr>
<td>Repo Placements with NBS</td>
<td>18.4%</td>
</tr>
<tr>
<td>Surplus Funds Placed with NBS</td>
<td>21.5%</td>
</tr>
<tr>
<td>Time Deposits with Local Banks</td>
<td>12.0%</td>
</tr>
<tr>
<td>Foreign Exchange Required Reserves with NBS</td>
<td>31.7%</td>
</tr>
<tr>
<td>Republic of Serbia treasury Bills</td>
<td>5.6%</td>
</tr>
</tbody>
</table>
on Dec. 31, 2013 they amounted to 8976 million dinars (78.3 million euro), exceeding the total amount of deposits held with the Bank.

This assets category includes cash and cash equivalents (cash in dinars, foreign exchange cash, funds in gyro-account including required dinar reserve, as well as funds on the Bank’s current accounts held with the foreign correspondent banks), dinar surplus funds placed with NBS and local banks, foreign exchange surplus funds placed with foreign correspondent banks and local banks, required foreign exchange reserve held with the NBS as well as the placements with NBS under repurchase transactions and placements in Treasury bills issued by the Republic of Serbia in dinars and in foreign currency.

**Cash and Cash Equivalents.** This category consists of required dinar reserve allocated in Bank’s gyro account, funds in accounts with foreign correspondent banks and dinar and foreign exchange cash. At the end of 2013 funds in Bank’s current accounts amounted to 8.5 million euro (6.3 million euro at the end of 2012) being an increase of 35%, mostly due to the larger funds in Bank’s gyro account, owing to increase of obligatory reserves held in dinars with NBS. Annual average balance of these funds reached 21.9 million euro.

**Liquid Assets Surplus.** The Bank deposited daily surplus of liquid dinar funds “over night” with the Central Bank and with local solvent banks. Surplus of liquid dinar funds in an average amount of 840 million dinars placed with NBS earned interest rates on deposit facilities which varied between 7% and 9.25% p.a. These funds high level (especially in the first half of 2013) was caused by NBS decision to direct all main open market operations towards liquid funds withdrawal. (security sales through reverse repo auctions of restricted volume with multiple interest rate), which resulted in the drop of repo interest rates. Revenues in amount of 70.7 million dinars were earned under this item. Due to fall of interest rates surplus of liquid dinar funds in an average amount of 50 million dinars (280 million dinars in 2012) was placed “over night” with local banks, earning interest rates in the range between 6.8% and 9.5% p.a.

The surplus of foreign exchange liquid funds the Bank placed for periods of 1-7 days with first rate foreign banks as well as with local solvent banks. Like in several previous years, low interest rates on local and foreign money were produced primarily by the low Euribor and European Central Bank interest rates, as well as by the low US Federal Reserve interest rate. For USD the Bank earned interest rate of 0.08%- 0.25%, and for EUR 0.2%-0.35% p.a..

**Investment in the Republic of Serbia Treasury Bills.** Since limited volume securities sales calculated under variable multiple interest rate method, as principal NBS operations in open market, stressed the Serbian banking sector’s high liquidity and helped interests decline, in the first half of 2013 interest rates on repo transactions were practically equal to interest rate which NBS applied to the liquid funds surplus, resulting in reduction of Bank’s placements volume in repo transactions. In the course of the year’s second half, due to less banks liquidity, interest rates on repo transactions differed more from NBS interest rate on the liquid funds surplus, resulting in an increase of securities placements. In the course of 2013 JUBMES
banka invested 46.2 billion dinars in repo transactions under interest rates ranging from 7.65-9.95% with average placements balance of 858 million dinars and 1653 million dinars at the end of the year.

In the course of 2013 the public debt under government securities in the local market was significantly augmented under issue of bonds in dinars from 355 billion dinars to 463 billion dinars at the year end and under securities in foreign currency from 1.02 billion euro to 1.18 billion euro. In 2013 share of long-term securities in public debt was increased. For the first time bonds in dinars with 7 years and 5 years term were issued. At the year’s end return rates on bonds in dinars ranged from 8.89% to 11.89%, while rates on bonds in foreign currency from 3.5% to 5.75%.

In 2013 the Bank, due to growth of disposable funds both in dinars and in foreign currency, increased the limit of investing in governments securities from 400 million dinars to 600 million dinars. The Bank purchased treasury bonds in dinars with 3 months to 53 weeks term, bringing the yield at the rate of 8.89% to 9.45% as well as long-term securities in foreign currency with 1 year to 3 years term (yearly coupon from 4.5% to 4.875%), with the yield rate from 3.5% to 5.75%.

As of Dec. 31, 2013 the Bank held in its portfolio short-term treasury bonds in total amount of 221 million dinars and long-term treasury bonds in foreign currency in amount of 2.454.000 euro.

**Required Reserve.** As in previous years, in 2013, in conformity with NBS regulations, the Bank fulfilled its obligations in respect of required reserve calculation and allocation. The Bank allocated reserves even in the higher amount than calculated, due to the limit of Bank’s exposure against corporate clients, i.e. against groups of connected clients, including foreign correspondent banks of JUBMES banka.

During the year the Bank did not change the calculation manner and required reserve allocation percentage. Required reserve in dinars is calculated only on dinar deposits with up to 2 year maturity, in constantly unchanged allocation percentage of 5%, giving impetus to banks for raising dinar deposits. NBS applies 2.5% p.a. interest rate on banks’ required reserves allocated in dinars, while required reserve in foreign currency does not bear any interest. A 29% required reserves rate was applied to liabilities in foreign currency with up to 2 years maturity, while 22% to liabilities in foreign currency with over 2 years maturity, and 50% required foreign exchange reserves rate to dinar liabilities bearing foreign currency clause. In addition, a 32% dinar allocation rate was applied to calculated required reserves on liabilities in foreign currency with over 2 years maturity and 24% on liabilities in foreign currency with longer term.

At the end of 2013 the Bank allocated on its gyro account dinar funds in amount of 535.6 million dinars for the required dinar reserve (years average: 404 million dinars), whereof 120 million dinars for regulatory reserve in dinars and the remaining amount for the part of required foreign exchange reserve allocated in dinar counter-value. At the same time, the required foreign exchange reserve amounting to total counter-value of 7.8 million euro (annual average: 10.1 million euro) was allocated in the accounts held with NBS.

The Bank harmonized the currency structure of required foreign currency reserve allocated in NBS ac-
counts, with the needs of its foreign currency liquidity, providing thereby necessary foreign currency structure of its liquid foreign currency assets and (to the possible extent) optimal interest returns.

**Lending and Deposits**

Total of Banks lending and deposits to other banks as of Dec. 31, 2013 reached the net amount (after relevant allowances established) of 4002 million dinars (34.9 million euro), being a 45.6% nominal increase compared to the end of 2012, resulting from the growth of corporate lending and deposits held with other banks. Lending takes 27.1% of the Bank’s total balance assets.

In the Bank’s credit placements sectoral structure, placements to local companies prevail, with 65.4%, whereof over 50% for short-term credits and 12% for long-term credits. Remaining 43% of corporate lending goes to clients debt due to the Bank, the consequence of increased failure of several significant clients to fulfil their credit obligations. At the end of 2013 this category of placements reached the amount of 1,279 million dinars (at the end of 2012: 201 million dinars).

At the end of 2013, by the term structure — over 57% of total Bank’s credit placements goes for short-term placements and by the currency structure as of Dec. 31, 2013 — over 81.5% goes for dinar placements, 18.2% to the placements with currency clause and remaining 0.3% to foreign currency placements.

**Security Investments, Equity Investments and Capital Portions Investments**

As of Dec. 31, 2013 the Bank invested under these categories approximately 809 million dinars (7.1 million euro), being 5.5% of the Bank’s balance assets. Security investments amount to 659 million dinars, while investments in capital portions, other equity investments and interests in other legal entities amount to 150 million dinars.

By the currency structure of investments, 40% goes for the foreign currency investments — Serbian Government bonds and bonds of the Republic of Iraq, while dinar investments were made in bills of exchange discount purchase, the Republic of Serbia Treasury bills, shares of local banks and corporations, and investments in the mentioned shares and in capital portions of the Bank’s subsidiaries.

Bank’s investments in securities were decreased for around 40% in comparison with the previous year’s end level, resulting from decrease of investments in discount purchase of bills of exchange issued by local commercial debtors. At the end of 2013 such Bank’s investments reached 144 million dinars compared to 723 million dinars at the end of 2012.

**Other Placements**

Apart from the discount purchase of locally issued bills of exchange, JUBMES banka placed significant funds in the product which was introduced for the first time in 2010 - factoring operations, conceived as
purchasing of commercial claims with retained right of recourse. The Bank purchased corporate clients’ commercial claims against:
- Local entities (purchase of invoices), and
- Foreign entities (purchase of invoices, provisional civil engineering situations and claims under documentary letters of credit).

At the end of 2013, the Bank purchased claims against foreign entities amounted to 195 million dinars (around 1.7 million euro) and against local entities – 557 million dinars, for around 36% less than at the end of 2012. In 2013, under factoring operations the Bank earned interest revenues in amount of 152 million dinars (over 16% of interest and fees income).

To this category also belong outstanding placements under activated guarantees and avals, in amount of 322 million dinars (at the end of 2012: 122 million dinars).

**Bank’s Liabilities and Equity**

**Bank’s Liabilities**

Total Bank’s liabilities as of Dec. 31, 2013, amounted to 9,221 million dinars or 80.4 million euro (90% increase compared to 2012) and represent 62.4% of the Bank’s total financial potential. Liabilities lion’s share of 96.5% is taken by deposits* placed by legal entities and individuals with JUBMES banka, amounting to 8,903 million dinars or 77.7 million euro, being more than 100% increase compared to the end of 2012, therefore directly creating 44% real growth of balance amount as well as increase of Bank’s participation in local banking market – from 0.36% to 0.53%.

At the end of 2013 the ratio of Bank’s financial potential own sources against borrowed sources was 0.60:1.00 (at the end of 2012 it was 1.11:1.00), still many

* More details in the chapter: DEPOSIT OPERATIONS

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### Structure of JUBMES banka Liabilities and Equity as of Dec. 31, 2013

- Savings and Individual Deposits **11.1%**
- Corporate Deposits **16.8%**
- Financial Mediation Industry Deposits **8.1%**
- Other Clients’ Deposits **18.5%**
- Special Purpose and Other Deposits **5.8%**
- Equity **37.6%**
- Other Liabilities **2.1%**

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times over the Serbian banking sector average (0.27:1), implicating that the Bank is highly independent and significantly capable to invest in its further development. Under conditions of diminished liquidity in real sector, increase of the deposit potential was a high target set by the Bank’s policy for the previous year. This task was accomplished with success, creating good grounds for the increase of activities.

**Bank’s Equity**

As of Dec. 31, 2013 total equity of JUBMES banka a.d. (share capital, issue premium, reserves and retained earnings) amounts to 5,559 million dinars or 48.5 million euro (5,345 million dinars at the end of 2012), representing 37.6% of sources of financing. In distinction to the period 2005-2008, when total equity was more than doubled (owing to the earned net profit), maintaining of the equity’s real value in most recent years was one of the most significant accomplishments in a business environment still suffering the crisis effects. Relatively high capitalization was reflected by Bank’s capital adequacy ratio, which was almost 42.85% at the end of 2013, while less than 21% in the banking sector of Serbia as a whole.

Bank’s share capital as of Dec. 31, 2013, amounting to 2,912 million dinars, is represented in total number of 288,330 regular shares in nominal value of 10,100 dinars per share. Bank’s shareholders are Republic of Serbia, local and foreign public and private legal entities and individuals. Republic of Serbia and local shareholders hold over 74% and foreign shareholders the remaining 26% of the share capital. Individual clients hold 5.35% of the total Bank’s equity.

By the Decision of the Annual Shareholders’ Meeting held on April 24, 2013. retained earnings owing to income earned in 2012 were transferred the into equity. In this way JUBMES banka handed 17932 shares (replacing dividend) to shareholders, having a rather underestimated market value of 1.25 million euro as of 31.12.2013.

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**JUBMES banka Equity Structure as of Dec. 31, 2013**

- **Share Capital**: 52.4%
- **Reserves**: 39.5%
- **Share Premium**: 3.0%
- **Other Capital**: 0.4%
- **Retained Earnings**: 4.7%
Bank’s shares market price as of 31.12.2013 amounted to 8000 dinars, for 35% less that at the end of the previous year (12331 dinars). Bank’s market capitalization remained on the level from the previous year’s end - 2307 million dinars (20.12 million euro). Price to book value of Bank’s equity, is the same as ratios of other local banks whose shares are listed on the Belgrade Stock Exchange. This implies the significant potential of the Bank’s shares market price growth after stabilization of the financial sector i.e. after financial crises is ended. In 2013 as in a few past years, Bank’s shares market price has not reflected shares real value, since share price was strongly affected by simplified indices and unreal expectations, under modest turnover conditions.

Bank’s Off-balance Sheet Items

As of Dec. 31, 2013 the value of the Bank’s off-balance sheet items amounted to 27467 million dinars, being a nominal increase of 34.5%, compared to the end of the previous year. This increase is achieved due to the increase of the value of security instruments, which are held with the Bank and booked under the Off-balance Sheet.

Risky off-balance sheet assets* (payment guarantees, performance bonds, avals and acceptances, uncovered letters of credit and irrevocable commitments) at the end of 2013 amounted to 3.706 million dinars, placements managed on behalf of third parties - 407 million dinars, Republic of Iraq bonds - 144 million dinars and financial derivatives (claims deriving from swap operations) – 1.653 million dinars. Other non risk bearing off-balance assets (mostly received security instruments and evidenced loro guarantees) amounted to 20.397 million dinars, and other off-balance sheet assets to 1.159 million dinars.

* More details in the chapter: GUARANTEES

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Off-balance Sheet Items of JUBMES banka as of Dec.31, 2013

- Foreign Sovereign Bonds 0.5%
- Purchased Securities 6.0%
- Guarantees and Other Irrevocable Commitments 13.5%
- Operations on Behalf of Third Parties 1.5%
- Other Off-balance Assets 4.2%
- Non Risk Baring Off-balance Assets 74.3%
INCOME STATEMENT

In 2013 JUBMES banka a.d. gained total income (excluding net foreign exchange gains) of 1,967.8 million dinars i.e. 17.16 million euro and incurred expenditures of 1,960.9 million dinars (17.10 million euro), earning net profit upon tax assessment in amount of 6.9 million dinars.

Profit decline in 2013 (164.3 million dinars in 2012) was directly generated by the net losses increase under indirect impairment of financial assets and provisions and, to a lower extent, by fees and commissions income decrease. Nevertheless, the Bank recorded higher operating efficiency rate achieving 76% “cost to income


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<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>107</td>
<td>933.126</td>
<td>870.751</td>
<td>980.246</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>139</td>
<td>(189.802)</td>
<td>(136.620)</td>
<td>(141.344)</td>
</tr>
<tr>
<td>1. Net Interest Income</td>
<td>101</td>
<td><strong>743.324</strong></td>
<td><strong>733.931</strong></td>
<td><strong>838.902</strong></td>
</tr>
<tr>
<td>Fees &amp; Commission Income</td>
<td>60</td>
<td>104.348</td>
<td>172.801</td>
<td>156.383</td>
</tr>
<tr>
<td>2. Net Fees &amp; Commission Income</td>
<td>53</td>
<td><strong>84.085</strong></td>
<td><strong>157.888</strong></td>
<td><strong>142.678</strong></td>
</tr>
<tr>
<td>3. Net gains (losses) on the sale of securities</td>
<td>(1)</td>
<td>(439)</td>
<td>55.980</td>
<td>4.445</td>
</tr>
<tr>
<td>4. Net Exchange Gains (Losses)</td>
<td>(82)</td>
<td>19.598</td>
<td>(23.786)</td>
<td>25.618</td>
</tr>
<tr>
<td>5. Dividend &amp; Other Equity Investment Income</td>
<td>500</td>
<td>13.655</td>
<td>2.730</td>
<td>22.362</td>
</tr>
<tr>
<td>6. Other Operating Income</td>
<td>697</td>
<td>133.609</td>
<td>19.167</td>
<td>16.467</td>
</tr>
<tr>
<td>8. Staff Costs</td>
<td>89</td>
<td>(339.336)</td>
<td>(381.187)</td>
<td>(373.182)</td>
</tr>
<tr>
<td>9. Depreciation and Amortization Charge</td>
<td>92</td>
<td>(41.386)</td>
<td>(44.837)</td>
<td>(47.265)</td>
</tr>
<tr>
<td>10. Other Operating Expenses</td>
<td>82</td>
<td>(247.590)</td>
<td>(300.142)</td>
<td>(285.098)</td>
</tr>
<tr>
<td>11. Net gains (losses) on the valuation of financial assets and liabilities</td>
<td>1</td>
<td>943</td>
<td>73.631</td>
<td>(549)</td>
</tr>
<tr>
<td>PROFIT BEFORE TAXATION</td>
<td>4</td>
<td><strong>6.217</strong></td>
<td><strong>163.040</strong></td>
<td><strong>251.659</strong></td>
</tr>
<tr>
<td>13. Deferred Tax Income/Expenses</td>
<td>52</td>
<td>675</td>
<td>1286</td>
<td>497</td>
</tr>
<tr>
<td>NET PROFIT</td>
<td>4</td>
<td><strong>6.892</strong></td>
<td><strong>159.408</strong></td>
<td><strong>241.096</strong></td>
</tr>
</tbody>
</table>
ratio” (operating expenses including staff costs, against net interest, fees and commission income) for the period January 1 to December 31, 2013 which, compared to 81% achieved in 2012, indicates certain increase of Bank’s operational productivity.

Interest, Fees and Commission

Total of the Bank’s income on interest, fees and commission in 2013 amounted to 1,037.5 million dinars (around 9.05 million euro), while net income on interest, fees and commission amounted to 827.4 million dinars (7.2 million euro). Compared to 2012, the Bank’s net profit coming from interest, fees and commission was decreased for 7.2%, which is also characteristic for the operation of the banking sector as a whole.

In 2013 the Bank gained income from interest in amount of 930.1 million dinars, and incurred interest expenditures of 189.8 million dinars. Such a high interest differential (on every 4.90 dinars of interest income, only one dinar of interest expenditures) is the consequence of the high stake of Bank’s own financial sources in the Bank’s total financial potential.

**Interest.** Lending and deposit income take 62% (575.4 million dinars) of the total interest income, while income gained from interest on security investments take 357.7 million dinars (mostly related to placements in repo transactions, Republic of Serbia Treasury Bills, bonds issued by the Republic of Iraq, placements in discount purchase of bills of exchange and claims purchase). A 39% interest growth was mainly due to increase of deposits of private and public companies. One third of total interest expenditures (63.7 million dinars) goes to interests calculated on retail deposits (primarily foreign currency time deposits).

**Fees and commission.** Total fees and commission income in 2013 amounted to 104.3 million dinars, for 40% less than in 2012, produced by lower amount of factoring operations’ fees and commissions. Approximately 55% fees and commissions income belongs to commission fees for the issued guaranties and claims purchase transactions, while the remaining 45% goes to payment operations and other banking services charges. Total fees and commission expenses amounted to 20.2 million dinars, with 38.5% belonging to payment operations charges.

Other Expenses

In the reporting period the Bank recorded net losses from impairment of financial assets and provisions in amount of 360.1 million dinars, for 176% more than in 2012. Such trend is resulting from the increased allowances for impairment of balance sheet placements and provisions for off-balance sheet items, due to more cautious attitude when estimating the placements impairment considering the generally aggravated economic situation in Serbia during 2013 and in previous years as well as considering the aggravated collections of placements.

This negative effect to the Statement of Income was partly compensated by reduction of earnings, benefits and other personal expenses (11% in nominal and 13% in real terms, considering the 2.2% annual inflation) amounting to 339.3 million dinars (381.2 million dinars in 2012), while their stake in total expenses (without foreign exchange gains/losses effect) decreased from 24.5% to 17.3%. Operational and other expenses were reduced from 300.1 million dinars in 2012 to 247.6 million dinars in 2013 i.e. for 17.5%, taking 12.6% share in Bank’s total expenses (19.2% in 2012).
Net Income and Profitability of the Bank’s Operations in 2013

In 2013, as in previous years, taking into account standard indicators of operational efficiency, JUBMES banka achieved better results than the banking sector's average. Comparison of the Bank's stake in total balance amount (23rd place; 0.53% share) and in total capital (19th place) of the banking sector, with the Bank's participation in financial results of the banking sector measured by the profit before taxation (15th place), shows the Bank’s relatively successful business results achieved in 2013.

Standard operation efficiency indicators of the Bank and the banking sector of Serbia for the period 2009-2013 are compared below:

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<tr>
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</thead>
<tbody>
<tr>
<td><strong>Net Income / Assets (RoA)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JUBMES banka</td>
<td>0.05%</td>
<td>1.57%</td>
<td>2.63%</td>
<td>2.31%</td>
<td>3.82%</td>
</tr>
<tr>
<td>Bank Sector Average</td>
<td><strong>- 0.02%</strong></td>
<td><strong>0.97%</strong></td>
<td><strong>1.23%</strong></td>
<td>1.00%</td>
<td>0.93%</td>
</tr>
<tr>
<td><strong>Net Income / Equity (RoE)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JUBMES banka</td>
<td>0.12%</td>
<td>2.98%</td>
<td>4.75%</td>
<td>4.15%</td>
<td>13.90%</td>
</tr>
<tr>
<td>Bank Sector Average</td>
<td><strong>- 0.10%</strong></td>
<td><strong>4.65%</strong></td>
<td><strong>6.04%</strong></td>
<td>5.08%</td>
<td>4.48%</td>
</tr>
<tr>
<td><strong>Net Income per Employee</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JUBMES banka</td>
<td>EUR 452</td>
<td>EUR 11948</td>
<td>EUR 20041</td>
<td>EUR 16234</td>
<td>EUR 27832</td>
</tr>
<tr>
<td>Bank Sector Average</td>
<td><strong>EUR 24</strong></td>
<td><strong>EUR 7866</strong></td>
<td><strong>EUR 8959</strong></td>
<td><strong>EUR 8056</strong></td>
<td><strong>EUR 6630</strong></td>
</tr>
<tr>
<td><strong>Net Interest Income / Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JUBMES banka</td>
<td>5.03%</td>
<td>7.21%</td>
<td>8.76%</td>
<td>6.76%</td>
<td>7.27%</td>
</tr>
<tr>
<td>Bank Sector Average</td>
<td><strong>4.54%</strong></td>
<td><strong>4.07%</strong></td>
<td><strong>5.81%</strong></td>
<td><strong>4.28%</strong></td>
<td><strong>4.65%</strong></td>
</tr>
</tbody>
</table>

The ruins of Felix Romuliana (the emperor’s town) are situated 250 km east from Belgrade, in Gamzigrad. It was built in the beginning of the 4th century by Roman Emperor Galerius Maximianus. He built this magnificent Palace as well as the three churches and the Jupiter’s temple at the place of his birth, dedicating it not only to himself, but also to his mother, after whom the name to the building was given. During the excavation initiated in 1953 two graves were discovered in the form of two rare tumuli at the spot where emperor and his mother were sacrificially burned after death. Two thousand square meters of mosaics are yet under Romuliana’s surface, but one of the finest already discovered is depicting to Dionysius and the labyrinth (held in the National Museum in the city of Zaječar). This archeological site from the third century has been presented in the UNESCO’s list since 2007.
PLACEMENTS AND GUARANTEES
DEPOSIT OPERATIONS
LENDING

The total lending (excluding short-term deposits with local banks in amount of 1,075 million dinars, which have been formally classified under lending), were 30% increased in 2013 compared to 2012, amounting to net value (upon allowance for impairment) of 2,927 million dinars (25.5 million euro) as of Dec. 31, 2013, taking 19.8% stake in Bank's total assets. This increase was due to lending disbursed to companies i.e. to corporate clients. Nevertheless relatively low share of lending in the balance of assets was the outcome of Bank's more conservative placements policy and increased lending allowances for impairment, due to the general aggravation of real sector operations and decrease in banks placements collectability owing to the fact that significant volume of corporate clients' obligations had to be classified as non-performing. Furthermore, at the end of 2013 written-off placements took 10.12% share in total lending (5.54% in 2012), NPL ratio in lending reached 36.39% (16.34% in 2012), and Bank’s matured receivables under lending as of Dec. 31, 2013 amounted to 1,275 million dinars compared to only 198 million dinars from 2012.

### Sectoral Structure of JUBMES banka Lending as of Dec. 31, 2013

- **Commerce**: 40.7%
- **Processing Industry**: 29.4%
- **Civil Engineering**: 8.1%
- **Individuals (Retail)**: 9.0%
- **Civil Engineering**: 4.8%
- **Other Clients**: 12.8%

Under the term structure, 85.6% of lendings (including matured receivables) was approved on a short-term (up to one year), while under currency structure, lending denominated in dinars take 74.7%, lendings with currency 24.9% and only 0.4% take lendings denominated in foreign currency.

### JUBMES banka Lending Maturity Term Structure as of Dec. 31, 2013

- **From 1 to 3 Months**: 20.7%
- **From 3 to 12 Months**: 21.8%
- **Over 1 Year**: 15.0%
- **Up to 30 Days**: 4.8%
- **Matured Receivables**: 37.7%
Credit Policy of the Bank

According to the credit policy for 2013, the Bank planned to increase placements in conformity with expected growth of financial potential and the planned decrease of immobilized funds as well as larger share of interest earning assets in the total balance. Placements policy required the Bank to pay attention to the credit portfolio quality, risk mitigation, increase of capital turnover ratio, placements dispersion, preserving of capital value and capital adequacy, increase of engaged funds’ economic efficiency and to compliance with required business indicators.

The placements policy also required that Bank extends placements to clients having already developed business relationship, thereby providing maximum safety and profitability as well as, after other conditions have been met, that the Bank shall give priority to:

- Clients having already opened accounts with the Bank, carrying out a larger volume of payment operations through the Bank;
- Clients performing their foreign exchange operations through their accounts held with the Bank, and
- Clients capable to deposit funds as a security instrument for loan repayment.

The Placement policy also requires that the Bank, according to its financial potential and in conformity with the financial sources term structure approves short-term and long-term loans also to new clients – companies, shops, institutions, individuals and other clients.

Lending to Legal Entities

In 2013 the Bank approved loans to its clients, companies, SMEs and entrepreneurs with various security instruments as: mortgages on real estate, collaterals in foreign currency and in dinars, guarantees issued by first rate banks and bills of exchange with first rate banks aval added, blank promissory notes issued by legal entities and individuals, direct debit authorizations, sureties based on debt assignment contracts, securities pledge (government’s bonds, shares, investments units), pledge on movables, insurance policies for loans transferred in Bank’s favour, balance netting etc. As a rule, long-term loans were approved with real security – first rate mortgage established on real estate registered in Bank’s favour, collaterals deposited with the Bank in foreign currency and in dinars and future collections under export deals directed to Bank’s client’s account with the Bank.

In 2013 the Bank approved to legal entities (corporations, SMEs, entrepreneurs and other legal entities) the following categories of loans:

- long-term framework credit arrangements;
- long-term investment loans and loans for works in Serbia and abroad;
- long-term loans for permanent working capital;
- long-term loans for procurement of equipment and vehicles for operation purposes,
- long-term loans for purchase, construction and adaptation of business premises;
- short-term loans for working capital with instalment or single repayment;
- short-term loans for export preparation;


- short-term revolving loans;
- loans under project financing arrangements supporting civil engineering projects and other projects;
- short-term loans for purchase of shares on the stock exchange covered by shares pledged;
- deposit loans in amount and term equal to deposits amount and term;
- start up loans for entrepreneurs and companies starting business, with 20% borrower’s participation and surety provided by another company;
- loans for authorized overdraft in transaction accounts, with repayment period up to 12 months, covered by blanc promissory notes or direct debit authorizations, and
- loans for refinancing of credits approved by other banks.

As of Dec. 31, 2013, corporate loans approved amounted to 3,060 million dinars, i.e. 26.7 million euro, whereof 8.3 million dinars represent dinar equivalent of foreign currency loans approved to companies for payments abroad.

Short-term loans were approved with fixed interest rates in range from 10.03% to 29.84% p.a. for credits in dinars and from 12.01% to 14.02% p.a. for foreign currency loans or loans with currency clause. Long-term loans were approved up to 10 years term with fixed rates in the range from 11.00% to 14.02% for loans with currency clause and from 14.50% to 17.00% for dinar loans. Restructured loans were charged the interest at 10.00% to 19.20% p.a. interest rate, while subsidized loans were charged with the referent interest rate.

Lending to Individual Clients

In 2013 the Bank approved short-term and long-term loans to its individual clients. As of Dec. 31, 2013 total loans disbursed to natural persons amounted to 304.5 million dinars (2.72 million euro). Total interest, fees and commission income from these operations was gained in amount of 28.9 million dinars.

Long-term loans were approved with interest rates in the range from 5% to 21% p.a., consumer loans with rates from 16% to 23%, cash loans from 12.5%-24%, loans covered by cash collateral deposits with 5% rate p.a. and for overdrafts on individuals accounts with rate 1.5% to 2% on monthly basis.

The following categories of credits have been disbursed by the Bank:
- Housing loans - loans in dinars and loans with currency clause;
- Car loans requiring borrowers participation – in dinars as well as with the currency clause;
- Cash loans – short-term and long-term dinar loans, long-term loans with currency clause (without time deposit or with partial or 100% deposit required in foreign currency);
- Lombard loans;
- Loans under credit cards limits;
- Consumer loans in dinars and cash subsidized loans approved in conformity with Government of Serbia regulations;
- Loans under authorized overdraft on individual’s current account.
**Individual Clients Lending Structure under Products Type, as of Dec. 31, 2013 and Dec. 31, 2012**

<table>
<thead>
<tr>
<th>Product Type</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credits for housing</td>
<td>210,338</td>
<td>247,263</td>
</tr>
<tr>
<td>Credits under credit cards</td>
<td>4,775</td>
<td>5,051</td>
</tr>
<tr>
<td>Long-term cash credits</td>
<td>60,414</td>
<td>71,328</td>
</tr>
<tr>
<td>Long-term credits for car purchase</td>
<td>5,913</td>
<td>9,992</td>
</tr>
<tr>
<td>Lombard credits</td>
<td>3,218</td>
<td>3,218</td>
</tr>
<tr>
<td>Credits for authorized overdraft on current account</td>
<td>7,921</td>
<td>4,281</td>
</tr>
<tr>
<td>Other credits to individual clients</td>
<td>11,826</td>
<td>21,716</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>304,454</strong></td>
<td><strong>362,849</strong></td>
</tr>
</tbody>
</table>

Decrease of Bank’s total lending to individual clients was a consequence of the crisis developments impact on the individual customers sector, being directly reflected on the loans categories designed to support long-term investments, e.g. housing loans and credits for car purchase. In 2013 as in 2012, owing to the favourable repayment model, majority of borrowers rather took advantages of cash credits than used credit cards.

**SECURITY INVESTMENTS**

The book value of the Bank’s security investments, as of Dec. 31, 2013 amounted to 658.6 million dinars or about 5.8 million euro, taking 4.46% of the Bank’s total balance amount. In comparison to the previous year, security investments dropped for 40% or 416 million dinars, due to lowering of Bank’s clients’ funding through debtors’ bills of exchange discount purchasing.

Total Bank’s market portfolio, as Dec. 31, 2013 includes the following:

- Shares of banks and companies traded in the Belgrade Stock Exchange, in amount of 6.8 million dinars, whereof 6.7 million dinars goes to securities available for trade and the remaining 61,000 dinars to securities at fair value in profit or loss account;
- Corporate bonds to be held until maturity, in amount of 18.2 million dinars;
- Debt securities – Serbian Government bonds issued for settlement of the debt related to former foreign currency savings nominated in euro, in RSD counter-value of 21.8 million dinars under fair value through the Statement of Income;
- Debt securities – bonds of the Republic of Iraq, which are tradable and nominated in US dollars, amounted in RSD counter-value to 23.2 million dinars;
- Serbian Government Treasury bills (to be held until maturity), in amount of 501.9 million dinars, and
- Discount-purchased bills of exchange (held until maturity) in amount of 144 million dinars.
As of Dec 31, 2013 in Bank’s security investments structure foreign currency investments (Serbian Government bonds issued for settlement of the debt related to former foreign currency savings and bonds of the Republic of Iraq) take 6.8% and the remaining 93.2% was made in security investments in dinars.

**Debt Securities Portfolio**

*Serbian Government Bonds.* Nominal value of the Government bonds issued to settle the debt related to former foreign currency savings, from the Bank’s debt securities portfolio, amounted to EUR 199,882 as of Dec. 31, 2013. Market value of the bonds portfolio was for 4.73% lower, amounting to EUR 190,435,25 or 21.8 million dinars. Thus, discrepancy from the nominal value was EUR 9,446,75.

*Bonds of the Republic of Iraq.* As of Dec. 31, 2013 the nominal value of the bonds of the Republic of Iraq, in Bank’s portfolio, amounted to USD 328,943,02, while their market value was USD 279,190,39 i.e. 27.3 million dinars. They were bought from companies who did not have bonds of nominal amount sufficient enough for their transfer and sale on international bond market.

At the end of 2012 the bonds’ market value amounted to 84.875% of their nominal value, to grow for 90% of nominal value in the beginning of 2014, which was caused by investor’s almost permanent confidence in Iraqi ability to service its debt, depending more on oil prices than on world economy and market recovery. Since Iraqi bonds are traded on Eurobond market, their recent value fluctuates depending mostly on oscillations of EUR and USD cross rate.

*Corporate Bills of Exchange in the Bank’s Portfolio.* In its securities portfolio structure in 2013, the Bank booked securities in dinars to be held until maturity – the bills of exchange issued by solvent local corporations in nominal value of 144 million dinars.

*Republic of Serbia Treasury Bills.*

In the course of 2013, owing to larger amount of disposable funds in dinars and foreign currency, the Bank increased the limit for investments in the Republic of Serbia Treasury bills from 400 to 600 million dinars. The Bank purchased bills with 3 month to 53 weeks maturity earning return rate of 8.89% to 9.45%. As of Dec. 31, 2013 the Bank held in its portfolio short-term
Republic of Serbia Treasury bills in total amount of 221 million dinars. During 2013 JUBMES banka invested in long-term Treasury bills nominated in foreign currency with maturity periods of 1 to 3 years (annual coupon 4.5%-4.875%) with the yield rate of 3.5% to 5.75%. At the end of 2013 the total amount of long-term Republic of Serbia Treasury bills in foreign currency held in Bank’s portfolio was 2.45 million euro.

GUARANTEES

The Bank’s liabilities under guarantees, documentary credits and other warranties as well as for the irrevocable commitments for undisbursed credits (classified off-balance sheet assets) as of Dec. 31, 2013 amounted to 3,706 million dinars, being 8.4% decrease compared to the end of 2012. This is Bank’s expected result having in mind that crisis effects have been permanently present in the real sector as well as reduction in commitments volume under framework loan agreements and credit limits.

For this reason in 2013 the total amount of the payment guarantees the Bank issued has not been significantly increased, especially by order of the clients engaged in local civil engineering projects.

At the end of 2013 the volume of guarantee operations (guarantees and other sureties) amounted to 2,095 million dinars taking 7.6% of the off-balance sheet structure. The volume of RSD guarantee operations amounted to 752 million dinars (904 million dinars as of Dec. 31, 2012), while the volume of foreign currency guarantee operations reached 1.172 million euro (1.129 million euro at the end of 2012).

Guarantee operations were harmonized with the Bank’s business policy, which ties their volume strictly to limits fixed by risk management criteria and also to the balance sheet limitations. This policy also requires efficient security instruments necessary to cover those potential liabilities.

In spite of Bank’s efforts to minimize the possibility to receive demands for payment under any guarantees issued, it was forced to pay under guarantee demands due to the fact that a number of Bank’s clients was not able to meet their contractual obligations covered by Bank’s guarantees. The total amount of these “compulsory payments” was increased in 2013 for 200 million dinars.

<table>
<thead>
<tr>
<th>Classified Off-balance Sheet Assets Structure as of Dec. 31, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment Guarantees 16.7%</td>
</tr>
<tr>
<td>Irrevocable Commitments for Undisbursed Credits 43.5%</td>
</tr>
<tr>
<td>Performance Bonds 39.8%</td>
</tr>
</tbody>
</table>
DEPOSIT OPERATIONS

As of Dec. 31, 2013 the Bank raised total deposits in amount of 8,903 million dinars (77.7 million euro), being more than a double increase compared to the end of 2012, (precisely 103.9% increase), thus achieving the 2013 Business Policy targets to foster the deposit base, to provide financial sources stabilization and to improve Bank’s market share in Serbian banking sector. Deposits hold a lion’s share of over 96.5% in Bank’s total liabilities and over 60% of the balance amount. Thus, their portion is significantly increased compared to the end of 2012 (90% of liabilities, i.e. 43% of balance amount).

The basic data on the Bank’s deposits structure against clients’ categories as of end of 2012 and 2013 are presented below:

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Clients</td>
<td>3,803,566</td>
<td>42.7%</td>
<td>2,201,712</td>
<td>50.4%</td>
<td>173</td>
</tr>
<tr>
<td>Individuals</td>
<td>1,677,017</td>
<td>18.8%</td>
<td>1,617,780</td>
<td>37.1%</td>
<td>104</td>
</tr>
<tr>
<td>Local Banks and Insurers</td>
<td>473,902</td>
<td>5.3%</td>
<td>315,467</td>
<td>7.2%</td>
<td>150</td>
</tr>
<tr>
<td>Foreign Entities</td>
<td>64,452</td>
<td>0.8%</td>
<td>53,766</td>
<td>1.2%</td>
<td>120</td>
</tr>
<tr>
<td>Local Banks under Bankruptcy Administration</td>
<td>990,251</td>
<td>11.1%</td>
<td>110,000</td>
<td>2.5%</td>
<td>900</td>
</tr>
<tr>
<td>Public Sector and Other Depositors</td>
<td>1,893,880</td>
<td>21.3%</td>
<td>67,677</td>
<td>1.6%</td>
<td>2798</td>
</tr>
<tr>
<td><strong>TOTAL DEPOSITS</strong></td>
<td><strong>8,903,068</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>4,366,402</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>204</strong></td>
</tr>
</tbody>
</table>

These data show that in business environment suffering from the real sector’s lasting liquidity crisis, the deposits of companies, SME’s and the public sector were significantly increased. This is of great importance for the Bank, as the precondition of a faster increase of activities for an institution mainly focused at corporate banking operations. At the same time a mild increase in retail and other raised deposits was recorded.

In 2013, average total deposits monthly balance amounted to 5,846 million dinars, representing a 1,635 million dinars (or 38.8%) growth in comparison with 2012 monthly average, being 4,211 million dinars.

At the end of 2013 foreign currency deposits took 48.7% in Bank’s currency structure of deposits (compared to 83.8% at the end of 2012), while dinar deposits took remaining 51.3%. Radical change of the deposit’s currency structure was generated by the dramatic growth of deposits in dinars (546.7%), while significant growth of foreign currency deposits on the level of 18.4% was also recorded. With respect to the deposits term structure, lion’s share of all deposits take short-term deposits (79.2%).

In 2013 the Bank held legal entities’ time deposits in dinars and foreign currency, paying interest un-
nder 1.5%-5.0% rates for EUR deposits, 0.75-1.5% for USD deposits and 6%-11.75% for RSD deposits. On transaction deposits in dinars the Bank paid 1.5%-2.5% interest rate, while transaction deposits in foreign currency have not earned interest.

Let it be added that in 2013, JUBMES banka paid interest to individuals transaction deposits under 2.5% rate, while the interest rate between 0.1%-1% was paid to transaction deposits in foreign currency. At the same time, interest rate on individuals dinar short-term deposits was paid under 7%-10.5% interest rate, while short-term deposits in foreign currency earned 0.8%-4.8% interest rate depending on the deposit term and the currency.

**Purpose Structure of Deposits Placed with JUBMES banka as of Dec. 31, 2013**

- **Term Deposits**: 59.4%
- **Transaction Deposits**: 23.1%
- **Savings**: 15.8%
- **Collateral Deposits**: 1.7%
This is one of the oldest Serbian monasteries, dedicated to Saint George. It was built by the great "župan" (local feudal lord) Stefan Nemanja, during the initial years of his reign. The construction was finalized in 1171 and four years later the Monastery was decorated with fresco paintings. It is the first monastery to be constructed in the style of Raška škola (Architecture School of Ras) – Serbian medieval church building tradition. The significance of the Monastery is expressed not only in old handwritings or by its extraordinary dominant position, on the top above the river Raška, but also by the special architectural style applied in construction of the church, which has two towers (pillars like). The Monastery was much later named after these towers. The Monastery was mostly heavily devastated in the period after Austrian-Turkish war in 1689, when the nearby Peter's Church and church of the Monastery Sopoćani were ruined too. Some of the Monastery's valuable frescoes also suffered irrevocable damage at the time. During the World War II Nazi forces treated the Monastery in the similar manner. Đurđevi Stupovi monastery has been figuring on the UNESCO's list since the year 1979.
The willingness of banks to take risks in their daily operations is a necessary prerequisite for achieving positive financial results. Risk management includes appraisal and measuring of risk exposure, quantification of acceptable risk exposure through a system of limits, reporting on and monitoring over limits utilization and corrective measures intended to bring the items within established limits. Risk management also involves adequate risk valuation, charging customers for the risk price, special provisions for the risk covering, managing the risk portfolio and control over complete risk management. With aim to improve business results, banks expose to all risks that are subject to quantification, to credit and market risks in particular, they apply risk monitoring, measuring and managing, observing uniform standards and developed models.

The Bank developed comprehensive and reliable risk management system, which is completely integrated in all business operations, enabling management over all risks to which the Bank is exposed or might be exposed on the basis of all its business activities. Bank’s bodies and the unit in charge for the risk management are permanently engaged in monitoring the changes in legal requirements, analysing their influence on the Bank’s overall risk exposure and take measures for complying operations and procedures with new regulations.

Bank’s risk management system is defined by risk and capital management strategies, adopted policies and rules related to risk management as well as by Bank’s readiness to take risks. All risks which can be measured or appraised are subject to Bank’s limits structure and compliance with those limits is permanently monitored. Setting limits and monitoring of limits observation are based on transparent and uniform principles.

Credit Risk. Following its placement policy, a bank strives to minimize credit risk and bring it within acceptable limits by selection of credit applications – based on regular analyses of capabilities of clients or potential applicants to fulfill their obligations, by establishment of credit limits and adequate credit pricing covering placement risk, as well as by applying credit revaluation, protective interest and currency clauses and acquiring deposit collateral.

Credit risk is the most significant risk to which the bank is exposed to. It is defined as the risk of potential negative effects on financial results and bank’s capital caused by borrower’s default on its obligations to the bank. Bank’s business policy requires and provides maximum protection from the credit risk exposure. In the course of 2013 no significant events essentially affecting the Bank have been recorded. In the forthcoming period the credit risk exposure will largely depend on the state of Serbian economy and liquidity of the corporate sector.

The Bank classified balance sheet and off-balance sheet assets against assessed collectability level and clients’ financial position, in conformity with NBS regulations and Bank’s own enactments. In accordance with the adopted enactments, the Bank identified credit risks and established allowances for impairment of balance sheet receivables, provisions for losses incurred on off-balance sheet items and contingencies for the estimated losses.

Maximum credit risk exposure of JUBMES ban-
JUBMES BANKA A.D. BEOGRAD

ka as of Dec. 31, 2013, amounted to 10,382 million dinars (classified balance sheet assets: 6,676.6 million dinars, classified off-balance sheet items: 3,705.4 million dinars), i.e. 90.6 million euro, for 4.25% more than at the end of 2012.

Total special provisions covering potential losses under placements to clients, based on claims classification in conformity with NBS regulations, as of Dec. 31, 2013 amounted to 2,958.3 million dinars or 93.06% more compared to Dec. 31, 2012. Required provisions at the end of 2013 amounted to 2,159.6 million dinars, for 919 million dinars more than on Dec. 31, 2012. Having in mind that Bank’s special provisions exceed the required provisions, we can state that JUBMES banka is ranked among reliable commercial banks, which valorize credit risk in conservative manner.

Larger required reserves during 2013 was primarily caused by group of Bank’s clients’ defaults on their obligations (especially in the last quarter of 2013), which finally resulted in increase of non-performing loans. Those clients were mutually connected and belonging to Bank’s largest clients. For this reason non-performing loans (NPL) share in the Bank’s total lending reached 36.39% (in Serbian banking sector: 21.4%).

As of Dec. 31, 2013 total provisions for credit risk covering (allowances for impairment, provisions and required contingencies) reached 28.81% of the value of assets classified (15.43% in 2012), caused by weaker business results and clients’ lower solvency, reflected by the drop of investment categories of placements (A and B classifications) share in total assets classified. Namely, in the structure of classified balance sheet and off-balance sheet items (gross amount) placements exposed to low risk (classifications A and B) take 26.48% (29.77% at the end of 2012), while categories C, E and D take 73.52% of total classified assets.

Credit Portfolio Structure under NBS Categorization as of Dec. 31, 2013
**Foreign currency credit risk.** This risk is the possibility of adverse effects on the financial result and bank’s equity due to changes in dinar (RSD) parity on financial markets that could affect the creditworthiness of borrowers.

If fluctuation of dinar rate could cause significant decrease of a debtor’s creditworthiness, this debtor would be categorized as exposed to increased foreign currency credit risk. Also, if the Bank could not adequately appraise the client’s exposure to this risk, such client would be categorized as exposed to increased foreign currency credit risk.

Bank’s placements to legal entities exposed to increased foreign currency credit risk were increased for 5.68% i.e. from 2,133.4 million dinars at the end of 2012 to 2,254.5 million dinars as of Dec. 31, 2013.

**Liquidity Risk.** Banks are exposed to daily calls on their disposable cash resources from transaction deposits, current accounts, matured deposits, credit disbursements, as well as interest and margin payments. Matching and controlled mismatching of maturities of assets and liabilities are fundamental for liquidity management. By observation of these principles, banks prevent immoderate financing of long-term investments from short-term financial sources, ensure the fulfillment of obligations out of short-term liquid funds and finally, significantly reduce liquidity risk.

In conformity with the regulatory requirements the Bank maintained the liquidity ratio on the level over 1.0 (0.70 – narrow liquidity ratio), i.e. over 3.0 – in accordance with its internal regulations. In the course of 2013 Bank’s daily liquidity index was moving from 2.98 to 9.23, reaching the level of 4.74 as of Dec. 31, 2013. Narrow liquidity index shifted in the range 1.88 - 7.75, reaching 3.52 as of Dec. 31, 2013. Let it be mentioned that the liquidity index for Serbian banking system as a whole was 2.40 and the narrow liquidity index 1.80 at the end of the last year.

Placements which may be considered as the primary liquidity reserve (cash on hand, funds in Bank’s accounts, up to 7-days term placements with local and foreign banks, liquid funds surpluses with NBS and required reserves with NBS) amounted 6,821.4 million dinars, taking almost 46% of the Bank’s total balance as of Dec. 31, 2013.

Secondary liquidity reserves include non-risk repurchase placements, currency and dinar denominated Treasury bills and currency savings bonds as well as the bonds issued by the Republic of Iraq. Placements which form the secondary liquidity reserves amounted to 2,200.2 million dinars i.e. almost 15% of the balance amount as of Dec. 31, 2013.

**Currency Risk.** Currency risk is the risk of Bank’s exposure to effects of fluctuation of foreign exchange rates in the case of general unbalanced foreign exchange position (different levels of foreign exchange assets and liabilities), as well as in the case of unbalanced exchange positions by individual currencies. In 2013 the currency risk ratio was shifting between 7.23% and 15.46% of so called “opened foreign currency position” against the equity, to be 7.49% as of Dec. 31, 2013 with opened foreign currency position of 202.4 million dinars. In conformity with NBS requirements, maximum allowed indicator level was 20% during 2013. Structure of Bank’s total foreign currency position is consisted of “long” positions in all currencies, in accordance with
the foreign currency liquidity requirements. Owing to its careful “long” position management, the Bank managed to achieve positive exchange rate differentials in amount of 26.6 million dinars (including profit under currency indexed property).

Considering the significance of dinar parity volatility against the currency pool present in the balance sheet, the Bank monitored VaR (Value at Risk) of structural currency risk (considering the parity tendencies of last 250 days and a 10 day estimation period), which showed the decrease in comparison with the end of 2012, due to lowered currencies’ exchange rates volatility. Furthermore, the Bank considers the stress scenario of the fluctuation in dinar parity of ±10%.

**Interest Rate Risk.** The Bank leads the policy of placements interest risk quantification and its minimizing, by determining interest rates to different levels, depending on individual placement risks, tenors of granted loans, security instruments covering the credit repayment, the credit nomination (dinar or currency clause) etc. Interest risk jeopardizes specially long-term placements with fixed interest rates. Therefore, such contracts contain clauses enabling the Bank to additionally revise and change interest rates fixed by the contract. However, the Bank places the vast majority of funds with tenors up to 12 months, keeping the interest risk at a very low level. Risk of interest rate fluctuations has been mitigated by using acceptable interest rates, enabling quick revaluation of monetary assets and liabilities. Thus, each concrete risk of interest rates fluctuation becomes negligible. Interest sensitive assets and liabilities are shown in bookkeeping items, being classified by placements and liabilities maturities, i.e. by the remaining period up to the agreed interest rate change date.

At the end of 2013 a positive disparity was indicated between the total interest sensitive assets and interest sensitive liabilities in dinars under all term zones, except in 1-3months term zone, while the EUR operations show negative cumulative disparity between the interest sensitive assets and interest sensitive liabilities under all term zones up to 5 years, resulting in total negative cumulative EUR disparity. As for the operations in US dollars, negative disparities have been measured in all term zones.

**Price Risk.** Total market value of the Bank’s designated for trade placements portfolio as of Dec. 31, 2013 amounts to 45.1 million dinars, for 73% more than at the end of 2012, primarily due to increase of Republic of Iraq bonds value in the Bank’s portfolio.

Having in mind the high price risk of securities investments, the system of risk exposure monitoring and analyzing for securities investments has been implemented, based on VaR (Value at Risk) methodology, as well as on the stress scenarios enabling consideration of potentially extreme market fluctuations influence. VaR position recorded in the trade book was significantly decreased compared to the end of 2012, due to reduced volatility of the price of bonds of Republic of Iraq on the Eurobond market.

**Country Risk.** As in previous years, the Bank continued to grant financial support to its corporate clients for the execution of capital works abroad. For this reason, the Bank implemented the system of country risk appraisal and management, established earlier in conformity with the legal regulations. The country risk was analyzed together with the identification of credit and
market risks and represented an additional limitation to the Bank’s investments in certain foreign countries and to the financial support to relevant business ventures of our corporate clients.

As of Dec. 31, 2013 the Bank recorded in its placements significant country risk exposures against Russian Federation, Germany, Bosnia and Herzegovina, USA, France and Switzerland. Risk exposure against the Republic of Iraq (5.4 million dinars) is related to bonds issued by the Iraqi Government under the debt conversion and only these bonds are classified in Bank’s trade book. Other placements exposed to country risk are evidenced in the banking book. Placements exposed to country risk take 437.5 million dinars of uncovered exposure (gross amount) in total of Bank’s risky placements, whereof 23.07% goes to Russian Federation, 18.67% to Germany, 16.44% to Bosnia and Herzegovina, 9.44% to USA, 7.55% to Switzerland and 7.11% to France.

Placements under discount-purchased foreign exchange receivables take 44.6% of Bank’s placements exposed to country risk, being 195.1 million dinars in absolute terms as of Dec. 31, 2013, where-off exposure to Algeria amounts to 22.89 million dinars, to Bosnia and Herzegovina - 71.9 million dinars and to Russian Federation – 100.2 million dinars. Placements recorded in the trade book, which are exposed to country risk, amounted to 23.2 million dinars (related to bonds of the Republic of Iraq) as of Dec. 31, 2013.

**Risk Exposures and Investment Risk.** In 2013, the Bank took care that the risk exposure and investment risks ratios were in compliance with the regulations, and by applying certain activities (envisaged by the relevant procedures and decisions with reference to loan origination and investments in financial and nonfinancial assets) ensured the compliance of its placements and investments with the ratios prescribed by the National Bank of Serbia. Pursuant to the risk management procedures, the Credit Committee sets the limits, i.e. the allowed concentration of placements per particular legal entities or groups of related entities, and entities related to the Bank. The Management Board strives to ensure compliance of the Bank’s exposures with prescribed limits, i.e. it ensures that the sum of all significant exposures of the Bank does not exceed 400% of the Bank’s capital, and also that the total of all significant exposures of the Bank to its related party does not exceed 5% (total not exceeding 20% towards all entities related to the Bank) of the Bank’s capital, or 25% capital in exposures towards a single entity or a group of related entities. At the end of 2013 total exposure towards all entities related to the Bank amounted to 34.8 million dinars i.e. 1.22% of the regulatory capital (2.5% at the end of 2012) while to total of significant exposures amounted to 1,452.2 million dinars i.e. 50.94% of the regulatory capital (66.56% at the end of 2012).

In accordance with the NBS regulations, all Bank investments are regularly monitored, in order to provide that investments in a single non-financial sector entity does not exceed 10% of Bank’s capital, as well as to provide that investments in non-financial sector entities together with investments in property and equipment do not exceed 60% capital. Total Bank’s permanent investments (in property and equipment and in entities from non-financial sectors) as of Dec. 31, 2013 amounted to 1,356.4 million dinars, taking 47.74% of the Bank’s regulatory capital. This figure has been in-
increased compared to 2012 (29.95%), due to reduction of the capital regulatory value.

**Compliance of Operational Indicators with the Criteria Set by the Law.** During the whole 2013, the Bank paid a lot of attention to comply its operation indicators with criterions set by the Law on Banks. As an outcome, all achieved operational indicators significantly exceeded the limits required by the Law.

Capital Adequacy Ratio, calculated (according to local regulations) as the ratio of equity against balance & off-balance risk bearing assets, amounted to 42.85% at the end of the year 2013 (44.69% at the end of 2012). Permanently high level of capital adequacy is a result of the Bank’s strategy towards safe investments and a conservative credit policy. The Serbian banking sector average for 2013 was 20.90% as of Dec. 31, 2013.

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</tr>
</thead>
<tbody>
<tr>
<td>1. Equity (EUR)</td>
<td>48,493,311</td>
<td>47,002,716</td>
<td>50,646,602</td>
<td>Min. 10 million euro</td>
</tr>
<tr>
<td>2. Capital Adequacy Ratio – CAR (Equity / Risk Bearing Assets)</td>
<td>42.85%</td>
<td>44.69%</td>
<td>45.22%</td>
<td>Min. 12%</td>
</tr>
<tr>
<td>3. Investments in Property &amp; Equipment and in Non-banking Equity</td>
<td>47.74%</td>
<td>29.95%</td>
<td>28.45%</td>
<td>Max. 60% of capital</td>
</tr>
<tr>
<td>4. Exposures to Bank Related Parties</td>
<td>1.22%</td>
<td>2.50%</td>
<td>3.25%</td>
<td>Max. 20% of capital</td>
</tr>
<tr>
<td>5. Great Exposures to Single Clients / Groups of Related Clients</td>
<td>50.94%</td>
<td>66.56%</td>
<td>69.49%</td>
<td>Max. 400% of capital</td>
</tr>
<tr>
<td>6. Liquidity Ratio (L2)</td>
<td>4.74</td>
<td>4.84</td>
<td>5.75</td>
<td>Min. 1</td>
</tr>
<tr>
<td>7. Foreign Exchange Risk Ratio</td>
<td>7.49%</td>
<td>13.93%</td>
<td>5.94%</td>
<td>Max. 20% Equity</td>
</tr>
</tbody>
</table>
The most significant natural phenomenon of the region is the magnificent Đerdap gorge of the Danube river. The national park takes 100 km of Danube’s right bank from the town of Golubac to Karataš (nearby town of Kladovo), as well as the narrow (2-8 km wide) wooded mountainous part, located 50-80 m above the Danube. Đerdap gorge was announced as the national park in 1974. The specific historical development, very favourable climate, complex network of gorges, canyons and deep coves have made this area the unique European reserve of tertiary flora, vegetation and fauna. This national park is figuring on Serbian preliminary list for the UNESCO’s world cultural and natural heritage list.
LOCAL PAYMENT OPERATIONS

In 2013, under the conditions disturbed by the permanent economic crisis, JUBMES banka achieved 88% increase of local payment operations volume and slight increase (7%) in transaction number, compared to the previous year, as well as income gained under payment operation fees in amount of 14.6 million dinars, exceeding the planned annual income.

Volume of 293,527 transactions was executed through Bank’s accounts, with turnover in total amount of 318 billion dinars (169 billion dinars billion dinars in 2012). Majority of effected payments – about 91.6%, was executed through RTGS system (77% in 2012).

In 2013 dinar cash payments volume amounted to 2,400 million dinars (on the level reached in 2012), and the number of transactions was increased for 8% - from 39,017 in 2012 to 42,290 in 2013.

At the end of 2013 total of 700 corporate clients’ current RSD accounts was held with the Bank including 68 non-residents’ accounts. At the same time, majority of new clients opened foreign currency accounts too, entrusting to the Bank their international payment operations, being important for conducting business under crisis affected conditions.

In 2013, electronic banking share in dinar payment operations continued to grow compared to the previous years. Namely, over 78% of the total number of payment orders (75% in 2012) was executed through E-banking facility i.e. over 89% of the transaction value. In 2013 near 76% of all Bank’s corporate clients were E-banking participants. E-banking operations are encouraged by putting at client’s disposal free of charge necessary hardware and software and by charging fees 20% lower than the fees applicable to traditionally executed operations.

RETAIL BANKING OPERATIONS

As in few previous years, in 2013 the Bank rendered and continually improved the following banking and financial services to individual clients:

- Raising funds from individuals in the form of savings, dinar and foreign exchange deposits, special purpose accounts for trade in bonds on foreign currency savings, treasury bills and shares;
- Dinar and foreign exchange payment operations;
- Currency exchange operations;
- Personal clients’ current and gyro accounts keeping;
- Home banking and mBanking services;
- Issuing of DinaCard national debit and credit cards, VISA Electron and VISA Classic credit cards, DinaCard Business cards, VISA Business cards and Visa Virtuon card for Internet payments, as well as providing connection of card users with SMS information system;
- Retail lendings / extending short-term and long-term loans to individuals, and
- Vault rental and other vault operations.

Accounts Maintenance and Foreign Exchange Savings. Apart from keeping Individuals’ current accounts the Bank also opens savings and special purpose accounts which include dinar saving deposits at sight, time saving deposits in dinars, special purpose deposits for share purchase under privatization procedure, special purpose accounts for trade in shares
and special purpose deposit accounts for establishment of companies.

Total payments turnover under individuals’ current accounts amounted to 1.386 million dinars, being a 18.8% decrease compared to 2012 (1.708 million dinars).


Foreign Exchange Savings, as of Dec. 31, 2013 and Dec. 31, 2012 (euros)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Special purpose foreign exchange accounts</td>
<td>377,840</td>
<td>194,349</td>
</tr>
<tr>
<td>Sight foreign exchange savings</td>
<td>2,049,069</td>
<td>2,423,603</td>
</tr>
<tr>
<td>Term foreign exchange savings deposits:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to 3 months</td>
<td>1,252,899</td>
<td>1,132,908</td>
</tr>
<tr>
<td>From 3 to 6 months</td>
<td>1,271,232</td>
<td>1,145,796</td>
</tr>
<tr>
<td>From 6 to 12 months</td>
<td>7,207,283</td>
<td>7,391,342</td>
</tr>
<tr>
<td>From 12 to 24 months</td>
<td>2,494,998</td>
<td>1,938,335</td>
</tr>
<tr>
<td>TOTAL</td>
<td>14,653,321</td>
<td>14,226,333</td>
</tr>
</tbody>
</table>

Retail Foreign Currency Cash Payments and Currency Exchange Operations. Foreign currency cash turnover in 2013 amounted to 31.7 million euro (dinar equivalent of 3,633 million dinars), being a 45% increase compared to the previous year. The largest turnover was recorded in euro transactions, with significantly smaller transactions volume in other currencies.

Total turnover of foreign currency cash under exchange operations amounted to 145.7 million dinars in dinar equivalent (333.4 million dinars in the period January-December 2012). The largest turnover was recorded also in EUR exchange operations – under both volume (EUR 1.05 million) and number of transactions. Turnover downfall was a consequence of stronger competitiveness of exchange offices’ offers for exchange.

Payment Cards. Within payment cards operations JUBMES banka offers to its clients, as follows:

- debit cards – DinaCard debit card and VISA Electron
- credit cards – DinaCard credit card and VISA Classic
- business cards – DinaCard business card and VISA Business
- internet trade cards – VISA Virtuon

Total balance of credits approved through credit cards reached 87.4 million dinars as of Dec. 31, 2013, whereof 45 million dinars under consumption on the reporting date. In 2013 the Bank earned 8.7 million dinars of total income under interests, fees and commissions related to all cards.

Other Retail Operations. The Bank rents the vaults to both individuals and companies (1009 out of 1236 vaults were rented as of Dec. 31, 2013). The Bank also offers day and night vault services, and ATM (Automatic Teller Machine) services around a clock.

The Bank also offers to its customers insurance operations, under agency agreements concluded with one of the leading local insurance companies (life and non-life insurance).

Bank’s Network. On the basis of the Managing Board’s Decisions, in September 2013 the Bank opened
the counter unit in the premises of the “Singidunum” University, Belgrade, offering retail banking services in conformity with the contract on business/technic cooperation signed with that University. In December 2013 the new branch was opened in the hearth of Belgrade (Braće Jugovića street) effecting all retail banking operations (except vaults rental), as well as corporate local payment operations.

**Operations on Behalf of Third Parties.** In 2001 Government of the Kingdom of Norway approved the donation in amount of 2.0 million DEM for the execution of the irrigation equipment supply project for the Republic of Serbia. In conformity with the Memorandum of understanding, signed on April 17, 2002, between IMG Serbia, Federal Ministry for International Economic Relations of the former FRY (legal successor – Serbian European Integration Office) and Agricultural Development Fund of the Autonomous Province of Vojvodina, Novi Sad, the Revolving Fund was established for financing of reconstruction and supply of the irrigation equipment, as well as for other purposes related to agricultural production. Total of 904 loans has been realized through the Bank, including 40 loans approved in 2013.

**INTERNATIONAL OPERATIONS**

**Payment Operations**

In 2013 the Bank executed total of 44,499 foreign exchange nostro remittances, while the gross accounts turnover amounted to 311.2 million euro, being for 20.4% i.e. 52.8 million euro more than in the previous year.

As in previous years the Bank rendered its assistance to clients interested for nostro and loro documentary credit operations. With respect to loro documentary credits (opened in favour of Bank’s clients), the Bank advised LCs in total amount of EUR 23.7 million.

During 2013 the Bank executed 5,147 payment orders in foreign currency (3,170 in 2012) amounting to the equivalent of 58.6 million euro, for 25.8% more than in 2012. Most of orders are nostro remittances and payments under nostro documentary credits related to payments of goods and services of Bank’s corporative clients and entrepreneurs, including transfers to foreign currency accounts with other local banks. Through current accounts held with JUBMES banka foreign correspondent banks was executed over 2561 collections (2000 in 2012) in amount of 66.2 million euro, being for about 4% more than in 2012, mostly under collections of goods and services coming from abroad belonging to companies, entrepreneurs and individuals.

In 2013 the Bank gained from fees and commissions for international payment transactions and other foreign exchange services 16.3 million dinars, slightly exceeding the plans, being close to Bank’s regular annual income from fees and commissions.

In 2013, upon client’s request the Bank sold 16.6 million euro and bought from clients the total amount of 27.6 million euro in foreign currency. Higher amount bought reflects the high demand for dinars on the lo-
cal market, showing the same trend from the previous two years.

The Bank also offers money transfer services in cooperation with the Western Union and company Beo-Export Australia and since the beginning of 2013 also in cooperation with the company PayDek.

“My Land” Project. In 2011 the Bank continued the cooperation with Australian company Beo-Export Pty Ltd. on “My Land” project related to servicing retail payment orders. This service takes the leading position on Australian market under money transfers of Serbian community in Australia in favour of individuals in Serbia and neighboring countries – Macedonia and Montenegro. In 2013 total number of remittances reached 6,637, while total turnover amounted to EUR 3.37 million, being on the level of 2012. Thus, total turnover since the contract conclusion with the Australian partner reached 17.3 million euro.

Cash payments in the total amount of approximately 1.5 million euro were effected over the Bank’s counter and thereby 2,224 beneficiaries were serviced. Transfers in favour of individual beneficiaries in Serbia were executed owing to Bank’s successful cooperation with OTP Bank a.d. Novi Sad. Through its banking network (and networks of other local banks) was effected 3,179 remittances in total amount of 1.5 million euro.

For individual beneficiaries from Macedonia and Montenegro total of 330 remittances were serviced in total amount of EUR 223,000 through local banks networks.

Individual transfers initiated in Dek - Co UK Ltd T/A PayDek, London network, have been executed through payout locations established on the counters of JUBMES banka and Čačanska banka a.d., Čačak.

International Financial Cooperation

Cooperation with International Financial Institutions. The Government of the Republic of Italy accepted JUBMES banka as one of local intermediary banks for realization of the approved credit line. With this respect the Bank, in capacity of an agent, signed an Intermediary Agreement with NBS. The Bank published on its website a presentation of the new Italian credit line, with details on financial conditions and facilities. Upon invitation of the Italian party and NBS, the Bank forwarded complaints to operative guideline regulations, being the obstacle to credit lines implementation. These complaints propose more flexible attitude towards interpretation of certain financial requirements and mitigation of criteria on minimum period for potential credit line beneficiaries’ operations in the industries eligible for funding. At the end of January the Italian party changed the operational guidelines and presented more flexible interpretation of eligibility conditions for local SMEs to be engaged under this credit line. The Bank has sent adequate information to a number of its clients which could be interested.

Collection of Commercial Debt from Highly Indebted Countries – Republic of Cuba. In many previous years JUBMES banka has been engaged in activities focused at the issue of civil credit commercial claims of Serbian claimants against Cuban debtors. The Bank has maintained permanent communication with Serbian claimants, government authorities of the Republic of Cuba, Serbian diplomatic and consular representatives in Cuba, local banks and other relevant institutions, in conformity with the mandates received.
from claimants and its capacity of nominated institution for the collection matter, according to the bilateral documents adopted at mixed committee meetings. Those contacts are aimed primarily at preparation of conditions for implementation of expert negotiations with the institution nominated by the Cuban party, at establishment of security instruments for collection of claims and at provision of commercial/financial documentation and government documents necessary for carrying out of multimillion debt collection.

In the course of 2013 the Bank was especially engaged in the following activities:

- The Drafts of two statements of the Government of Republic of Serbia were prepared and presented to the Ministry in charge. Upon approval the statements were forwarded to the Cuban party;
- Paper for preparation of the Platform for visit of the Serbian Minister of foreign affairs to Cuba was prepared. This document contains detailed review of the issue of collection of commercial claims of local companies against Cuban debtors.
- The Bank requested in number of occasions the adequate security instruments from legal successors of the banks which were engaged in execution of Serbian exports to Cuba, being a legal basis for collection of claims.
- In October Bank’s representatives took participation in the meeting held in the Ministry for foreign affairs, having for issue the collection of claims against Cuban debtors. This Ministry forwarded to the Cuban party the Bank’s letter urging realization of activities agreed during previous meetings of the Mixed Intergovernmental Commission for Economic and Scientific-Technical Cooperation.
- The resume of activities undertaken in 2013 was forwarded to local commercial claimants.

**Administration of Civil Sector Claims against Iraq.**

Since 2002 the Bank has been executing administrative services related to the civil sector claims against Iraq. In 2013 the Bank continued to sell or transfer Iraqi bonds in its name and for the account and upon order of legal successors of commercial claimants under exports of goods and services to Iraq (1984-1990), through the intermediary of the first rate foreign custody bank. In the course of the year, claimants received also the interest under semi-annual maturities, collected by JUBMES banka from the Republic of Iraq. In conformity with the legal requirements, the Bank purchased from the commercial claimants bonds of the Republic of Iraq under favourable terms, in nominal amount of USD 263,000.

Bank’s relevant units present information to the Bank’s bodies and its legal representatives, courts, experts and other persons in charge for disputes related to administration of commercial claims against Iraq and to creditor-debtor relationship of companies engaged in business operations in Iraq. Relevant Bank’s units regularly monitor and present reports and information on current prices of the bonds issued by the Republic of Iraq.

**Correspondent Banking.** The Bank exchanged SWIFT codes under RMA model with 193 correspondent banks (as of Dec.31, 2013), in conformity with requests of Bank’s units in charge and the current procedures.

JUBMES banka regularly contacted the Banker’s Almanac, a publisher providing “on line” presentation of the banking data, with aim of regular up-dat-
JUBMES banka a.d. maintains regular business contacts with leading foreign banks, primarily with the most important correspondents (keeping the accounts of JUBMES banka a.d.), as well as with the international financial institutions interested for financing of international trade and financial support to corporate clients in Serbia. Regular correspondence is maintained with those banks, related to exchange of information, control and other documents.

The Bank has open accounts with 14 first class foreign banks.

MAJOR CORRESPONDENT BANKS

<table>
<thead>
<tr>
<th>Country</th>
<th>Bank Name</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BELGIUM</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>KBC Bank N. V., Brussels</td>
</tr>
<tr>
<td><strong>AUSTRALIA</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Commonwealth Bank of Australia, Sydney</td>
</tr>
<tr>
<td><strong>ITALY</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Intesa SanPaolo S. p. A., Milan</td>
</tr>
<tr>
<td><strong>SWITZERLAND</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>UBS AG, Zurich</td>
</tr>
<tr>
<td><strong>GERMANY</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Commerzbank AG, Frankfurt/Main</td>
</tr>
<tr>
<td></td>
<td>Deutsche Bank AG, Frankfurt/Main</td>
</tr>
<tr>
<td><strong>USA</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Deutsche Bank Trust Company Americas, New York</td>
</tr>
<tr>
<td><strong>FRANCE</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Société Générale, Paris</td>
</tr>
</tbody>
</table>
Tara is one of the most beautiful mountains in Europe, being attractive in any time of the year. It is located in the west of Serbia – partly bordered by the deep canyon of the Drina river. The mountain is covered by the dense pine and deciduous forests and meadows. This is the area of pure nature, rich in flora and fauna. Only on Tara one can find the widely known tree – Pančić picea, being a relict coming from pre-historic times. The tree was named after the great Serbian scientist Josif Pančić, who discovered it in 1875.
JUBMES BANKA A.D. BEOGRAD - ORGANIZATION CHART
COMPLIANCE FUNCTION

Bank’s Compliance Department, in charge for monitoring operational compliance, performs three principal groups of activities:

- Money laundering and terrorism financing prevention;
- Compliance operations, and
- Compliance risk assessment.

Large segment of Bank’s activities in this area is governed by the Law on Prevention of Money Laundering and Terrorism Financing. In the course of 2013 programming of suspicious transactions indicators was carried out, enabling monitoring all individuals’ transactions as well as in both RSD and foreign currency payment operations. Application for monitoring of clients under legal entity’s ownership has been also created.

In the course of 2013, internal control in charge for prevention of money laundering and terrorism financing, apart from the control over authorized person, also performed control over transactions under sample, as well as enhanced measures for monitoring of certain categories of clients.


Apart from these, monthly reports on internal control of prevention of money laundering and terrorism financing were prepared, new Suspicious transactions indicators list was adopted, Internal rules of the Compliance Department were created and the contract signed with the new provider of data related to foreign functionaries, terrorists, arms and drug dealers etc.

As for the assessment of operational compliance risk, in conformity with adopted methodologies for assessment and monitoring of the Bank’s operational compliance risk, managers in charge of all Bank’s units executed the self-assessment of the compliance risk occurrence probability. In the previous year, there was no need for informing the management team on the compliance risk occurrence. In the report on principal compliance risks for 2013 the risk probability was ranked in the range from small to medium, Nevertheless, due to increased percentage of non-performing loans and to exposure concentration, the credit risk was more unfavourably appraised, with conclusion that this risk could be controlled and reduced in perspective, if adequate financial losses risk management plan are implemented.

With respect to the risk against money laundering and terrorism financing, upon carrying out thorough analyzing of all risk factors (geographic risk, products
risk, customer risk and transaction risk) the risk probability was ranked from minimal to moderate.

In 2013 the Compliance Department focused a lot of its efforts at minimizing the risk from sanctions that may be imposed by regulatory authority and further improvement of the system for prevention of money laundering and terrorism financing, especially on development of program solutions for detection and reporting of suspicious transactions.

**RESEARCH AND DEVELOPMENT ACTIVITIES**

Banks development is based on permanent introduction of new products and technologies. With this respect, the main segment of these activities is market research, being a pillar for introduction of new products, as well as continuous monitoring of development and implementation of new technologies in banking operations. The Bank is permanently engaged in market research, by implementation of the following research groups:

- Bank’s position research (at least once a year);
- Competition research (continuous);
- Research related to corporate entities and big systems (operations with corporate clients);
- Research related to retail clients (operations with individuals);
- Research related to products and services offered on the market;
- Research related to units ad hoc needs.

Research activities comprehend systemized collection of interim and other reports from the banks and financial institutions operating in the Region, appraisal of their profitability and liquidity as well as consideration of their products, services and pricing.

**INTEGRATED MANAGEMENT SYSTEM – ISO STANDARDS**

The Bank has been implementing the Integrated Quality Management System for standards: ISO 9001:2008, ISO 14001:2004 and ISO 27001:2005. In February 2013 the first surveillance was done for all three standards. The Certification authority has confirmed that the Bank meets all goals required and that it continuously and regularly improves the management quality system.

The Bank continually monitors execution of requests coming out of all three ISO standards, implementing the following activities:

- All new documentation and up-dating of existing documentation is being harmonized in conformity with the standards and internal rules;
- Employees are encouraged to attend trainings, professional courses and seminars as well as to read adequate books and magazines necessary for their professional improvement;
- Cases of non-compliance are recognized and incidents are reported in accordance with internal rules;
- EMS standards (Environmental Management System) are implemented in relation with waste management,
energy resources savings and with other environmental impacts, in conformity with internal rules.

The representative of the Management for quality, in conformity with the Integrated Management’s Rules of Procedure and obtained personal authorities and responsibilities, regularly supervises implementation of all three standards’ requirements and provides for observation of the adopted policies: Quality Policy, Information Safety Policy and Environmental Policy.

ISO Standards logos:

ISO 9001:2008 Quality Management System;

ISO 14001:2004 Environmental Management System;

INFORMATION AND COMMUNICATION TECHNOLOGIES

Information system of JUBMES banka is an important pillar, enabling stable and reliable operating, therefore being a significant prerequisite for Bank’s functioning. Adequate information system management provides maximal functionality, capacity and performance, necessary for providing support to business processes.

Having the task to provide correct and complete information in due course of time, Information system creates preconditions for business decisions making, efficient operational activities performance and risk management, i.e. safe and stable operations execution and the Bank management.

Due to dispersion of banking operations and major volumes of data created every day, information system has to be reliable and safe. This is an essential prerequisite, both for the managing team and Bank’s clients. In order to keep its competitiveness in rendering financial services, the Bank needs to permanently develop and improve its information system, since only in this way the Bank can follow development of new products and services in the financial market.

The most important activities carried out through information system management are the following:

- Providing confidentiality, integrity, accessibility of the Bank’s information system, all in conformity with the strategy for operational risks management and ISO 27001:2005 Standard;
- Development and implementation of new software solutions enabling introduction of new banking products and data processing for the needs of risk management, clients control and monitoring, Bank’s compliance function and reporting;
- Development and implementation of new system and communication platforms in support of banking processes and
- Monitoring and development of new technologies and knowledge, trainings and permanent professional improvement of employees from the Information Technologies Division.

In conformity with the Strategy on information technology system development of JUBMES banka, information and communication technologies system has been permanently advanced. Bank’s Information system is harmonized with the NBS Decision on Minimum Information System Management Standards for Financial Institutions, which governs the following information system segments:

- Information system management, responsibility, normative regulation and competence of all employees in the Information system sector;
- Information system risk management, administrative, technical and physical control;
- Information system’s review, monitoring manner and failures elimination;
- Information system’s safety, information classification and access control, users rights, users authentication, information system’s supervision system, systems for prevention, detection and alarm of breakthrough, logos safe keeping and monitoring etc.;
- Development and maintenance of information systems with organized development test and production environment;
Providing and management of business continuity and activities recovery in the case of unpredictable events (Business Continuity and Disaster Recovery Plan).

The following groups of operations are implemented in the Information Technologies Division:

I  System and communication support;
II  Development, software support and data base administration
III Electronic banking and payment cards operations

I  In 2013 two significant projects were implemented:
1. Information infrastructure improvement project – primary location was improved by introduction of the new generation equipment (and removal of the old one), virtual server platform was introduced as well as the new EMS storage system for data safe-keeping, safe communication with the latest CISCO communication devices was established and Disaster Recovery location improved. The number of services enabling operational continuity was increased.
2. Bank’s conference hall was reconstructed. Independent information system was introduced with respect to regular electricity supply or possible short cuts, air condition system, fire protection system, access control and emergency ventilation system.

Regular activities which have been continuously implemented are as follows: system monitoring, regular and extraordinary maintenance of servers/clients and network platforms and support to users of Bank’s information system.

II  Software development and data base administration take the huge operations segment and belong to the special department which prepares new application solutions and maintains application software. At the same time special care is taken on data base updating, data back-ups, data protection and keeping in conformity with the standard ISO 27001: 2005 and the adopted internal rules.

III  Electronic banking is related to continuous support to Bank’s corporate clients using e-banking services, HomeBanking and mBanking for retail clients as well as to payment cards operations administration.

In the course of 2013 Halcom – new electronic banking solution was introduced too. Two objectives have been achieved by this project: large number of clients was covered (those having Halcom integral internal solutions) and service providers change-ability was assured.

With the respect to HomeBanking (Web Retail application), the new functionality was finalized, enabling foreign currency transfers between the accounts belonging to the same natural person. Also, new HomeBanking - WEB2 application has been implemented. With respect to mBanking, clients are enabled to make payments and have access to their accounts through mobile phones (Java platform, Android operative system and iOS).

Operations related to payment cards administration and ATM machines and POS terminals maintenance have been permanently performed. The project for introduction of EMV chip technology for all three kinds of VISA cards (Electron, Classic and Business) has been finalized, enabling higher security level and better safety of VISA payment cards use.
Dear shareholders and esteemed friends,

It is our utmost pleasure to present you our third Report on JUBMES banka corporate social responsibility (CSR) activities, reflecting our permanent addiction to the modern concept of corporate social responsibility and sustainable development.

As the basic characteristic of all of its evolution phases, the Bank since its early days has been developing not only as a highly competitive financial institution, offering wide scale of traditional and innovative banking products and services adjusted to its (mainly corporate) clients’ needs, but also as a socially responsible institution, which establishes its business goals in creative and synergy correlation with needs of the social community. Strategic and value orientation of JUBMES banka towards CSR principles was affirmed in March 2008, upon Bank’s joining the UN Global Compact. By taking active participation in all structures of the UN Global Compact Serbia, we intensify addiction to CSR concept, i.e. to the new business model – model of responsible business, based on integral implementation of the ten principles of the Global Compact, related to protection of human and labour rights, environmental protection and anti-corruption combat. Namely, we are bound by the membership in UN Global Compact to observe and implement fundamental CSR principles i.e. to permanently improve our related internal rules and corporate practice. Thereby we encourage the dynamic-developmental dimension of the concept of the corporate social responsibility and sustainable development, aiming to establish wider meaning of company’s business success, which includes also non-financial indicators (social dimension, environmental protection, anti-corruption combat etc).

Thus, JUBMES banka was motivated for taking more creative participation in realization of the community’s economic and developmental goals, which are in conformity with the Republic of Serbia agenda for EU accession, as well as in regional and global projects for the sustainable development support. Strategic transition towards competitive, dynamic and knowledge-based economy and society requires social cohesion which is not possible to create without responsible business implementation.

Our addiction to the Global Compact principles is also confirmed by our active support extended to initiatives and program actions of UN Global Compact national, regional and global networks, promoting principal universal values and modern sustainable development concept. By this proactive attitude we also pay our contribution to advancement of the corporate policies and practice related to social responsibility, thereby becoming potential partner in implementation of the current corporate sustainability platform promoted by many international business associations.

In the spirit of internationally adopted standards of socially responsible business, the Bank is addicted to promote fundamental principles of CSR, sustainable development and healthy business, through cooperation with employees, local and wider social community, on long term basis. By such strategic agenda, the Bank gave its constructive response to complex global and regional economic processes, generating not only Bank’s successful financial market position, but also improvement of the modern business model, which includes implementation of CSR principles. Corporate responsibility requires permanent improvement, therefore being considered a key element of new operation and management model. Only implementation of this model can produce affirmation of sustainable development, being coordinated and interactive process,
resulting in harmonic relation towards economic, socio-cultural and ecologic targets. There is no sustainable integral development without cooperative action of the public sphere, business sector and civil society entities. Thereby, business entities promoting sustainable development become the key actors in transition process towards the business and social environment characterized by the harmonic relation among economic progress, social balance and high level of environmental protection, with rational natural resources management. This is the condition for realization of the UN Millennium development goals for the year 2015.

In this way the Bank has taken active participation in implementation of relevant international recommendations related to business sector’s support of CSR concept, based on creation of long-term values, using company’s current and development potentials, with permanent development of the risk management system, accompanying economic, social and ecologic progress. We have affirmed this attitude also by taking active participation in the UN Global Compact Leader’s Summit held in September 2013 – Architects for the better world. The platform for the implementation of the corporate sustainability was defined on this occasion. Since business community and society are mutually tied, society’s development priorities are harmonized with long term targets of business entities. This shows necessity of long term partnership and horizontal and vertical cooperation of public and private sectors with civil society as a non-governmental sector. Inter-sector dialogue between the business community (corporate and financial sectors), civil society and public sphere is the main instrument for sustainable development concept implementation.

Since social corporate responsibility is both Bank’s long term strategic concept and the pillar of our corporate ethics, we are striving to provide its continual and essential development. By promoting corporate sustainability, as our creative response to the modern business challenges, we provide for necessary prerequisites for realization of the new progressive phase in implementation of the socially responsible business principles. New evolution phase has been initiated in the beginning of 2012 by introduction of the integrated management quality system for standards ISO 9001:2008 – Quality Management System, ISO 27001:2005 – Information Safety Standard and ISO 14001:2004 – Environmental Protection Standard. By adoption of Quality Policy, Safety Information Policy and Environmental Protection Policy we have assured prerequisites for gaining more significant role in financial market and position of a respectable financial organization which follows modern market trends, permanently improving the quality of its services, providing financial information safety, protecting environment, and thereby improves its activities and organization in conformity with requirements of international quality standards. In the beginning of 2013 the certification company from the United Kingdom issued the first supervision report, showing that all standards have been implemented successfully. Implementation of the integrated management quality system is a dynamic and continual process, permanently improving and evaluating. In 2013, amendments to Standards ISO 27001 for information safety have been introduced as well as professional training of the employees, inevitable for successful implementation of the modern operation standards.

By application of the integrated management quality system in synthesis with fundamental CSR principles, we are improving our market position, but still not neglecting ecologic and social aspects of the projects, carried out by our clients in Serbia and abroad. Thereby we affect our corporate clients carrying out big civil engineering projects in Serbia and abroad, to develop towards socially responsible entities. In accordance with their business and development orientation, corporate clients also adopt the new policy of integrated management quality, based on modern market principles, aiming to satisfy the needs not only of internal and external stakeholders but also of the social community, with permanent improvement of the operational quality and corporate culture. Namely, sustainable development is not only responsibility of the public sphere and civil sector, but also of various subjects from corporate and financial sectors, which tend to harmonize their goals with the goals of the social
community. Thus, earning of profit and conducting of socially responsible business do not necessarily have to be confronted processes. On this principle the new business philosophy has been developed, by which companies voluntarily introduce socially responsible business principles in their business operations, thereby in many ways improving working conditions and giving contribution to environment and society in the widest sense.

Progress in implementation of socially responsible business principles is specially reflected in application of Anti-corruption program, defined after signing of the Anti-corruption Combat Declaration. JUBMES banka is the first signatory of the Declaration, created by the UN Global Compact Serbia i.e. its Anti-corruption Working Group as well as the first to present the Report on implementation of the 10th principle within UN Global Compact Serbia. Our program and report have been positively appraised by experts on several occasions during the international meetings held in 2012 and 2013 in organization of the UN Global Compact New York and UN Global Compact Serbia. Our Communication on Progress and anti-corruption platform have been appraised as an example of innovative practice among Global Compact members at the occasion of the international meeting dedicated to challenges of reporting on socially responsible business, held in May 2013 and organized by the Serbian Chamber of Commerce (seed of the Secretariat of UN Global Compact Serbia).

Promotion of healthy business through comprehensive implementation of the Anti-corruption program is a key segment for improvement of the concept of socially responsible business and sustainable development. In this manner we pay our contribution to realization of the National Strategy for Anti-corruption Combat in all fields, as well as to successful implementation of the Republic of Serbia's agenda for EU accession (chapters 23, 24). Namely, the role of business sector is creating new business model, which promotes healthy business values, requiring zero tolerance against corruption, in all segments of the business and social environment.

When presenting Bank’s business profile and results, we give great importance to synthetic link of financial and non-financial indicators and we take responsible attitude when considering all potential risks of jeopardizing human rights and environment, as well as to potential corruption risk management. Therefore, apart from the business reports, we forward to all stakeholders our report on socially responsible business.

We creatively promote implementation of the basic CSR principles through various forms of cooperation with entities from non-profitable sector (non-governmental humanitarian organizations, elite and amateur sport organizations, cultural and health institutions etc.). Regarding our cooperation with non-profitable sector we would like to emphasize our support to activities of the “Child’s Hearth” Foundation which we established in 1992 as well as cooperation with the National Association of Parents of Children with Cancer (NURDOR), because we believe that only healthy population can be pillar of the sustainable development. We also support projects focused at development of creativity with children, paying special attention to ecology issues (project of the non-profitable organization “Life Redesign”, Beograd etc).

We continued to support employees' education, for the purpose of providing further advancement of their knowledge and skills related to modern banking operations and responsible business principles and safety business culture. We increased our support to sustainable development concept through development of solidary and human relation at socially jeopardized persons, by giving support to various initiatives and projects launched by non-governmental organizations. The Bank gives much significance also to promotion of human rights protection and inclusion of minority and socially jeopardized groups in community. We find this inclusion as one of the preconditions for sustainable development. We have supported the project of daily stay for disabled children and children disturbed in development launched by the Center for social work in Sečanj municipality, as well as “Dunav” Paraplegic and Quadriplegic Association, Beograd. We are supporting such institutions and non-profitable associations because we find that inclusive society is the condition for sustainable development in all its segments.

With respect to environment protection we continued to execute our long
cooperation with the “Uvac” - Special Nature Reserve d.o.o. Nova Varoš and “Beloglavi Sup” (Griffon Vulture) Birds of Prey Protection Fund.

We also permanently improve implementation of the ISO 14001/2004 standards, by adopting relevant internal enactments – guidelines for this standard application. In this manner, we are affirming the essence of the sustainable development concept, based on interaction of environmental development and mutual compliance and complementarity of development and environmental policies, thus observing the laws of ecological systems.

Observation of socially responsible business principles is Bank’s long term strategic business orientation. Comprehensive implementation of these principles through cooperation with entities from non-profitable sphere is a pillar of our business philosophy and culture. By taking developmental attitude when implementing the CSR principles and by increasing number of activities focused at principles promotion, we provide the essential prerequisites for establishment of Bank’s sustainable competitive position in local and regional financial markets and also enable the Bank to take more efficient and active participation in all phases of the process of integration of the Republic of Serbia in European Union.

Sincerely yours,
Slobodan Janjić, President

I

Introductory Remarks

European integration process as well as global economic crisis effects request serious approach to structural reforms in all parts of the economy, as well as creation of the new business environment, favourable to sustainable development. In the modern international business community, companies’ business results can be evaluated only in context of a social development. Since companies are not isolated from the society, their activities are obviously affecting the society. Only sustainable company is decisive to create values on long term basis, using its current and developmental potentials and risk management accompanying economic, social and ecologic development. In this context, the management has duty to create adequate company’s organization that would meet the sustainability targets and tasks.

Companies which promote the integrated CSR system become creators of new strategies for competitive advantages mainly by implementation of CSR principles and its practice – social sustainability. In this way new chances for gaining profit are opened, as a result of orientation towards current community needs and methodology for development of CSR principles and practice.

Business entities from financial and corporative spheres are significantly responsible for activities of importance for the community. Striving to meet the needs of the community, business entities implement various corporate social initiatives. It is very important that
companies present their commitment to the activities of wider social interest in the most transparent manner.

JUBMES banka is striving to integrate CSR principles in all aspects of its activities, organization, strategy and operational/financial performances, together with permanent progress in realization of this strategic management concept.

We are showing our long term addiction to observe fundamental quality management principles, information safety and environmental protection by implementation of integrated quality management system for three ISO Standards (ISO 9001:2008, ISO 27001:2005 and 14001:2004). By paying respect to the integrated management system for these three standards, the Bank has posed several targets:

- To maintain high quality of products and services in order to fulfill all current clients’ expectations and foster Bank’s deposit base;
- To continually manage information and IT property and to provide necessary confidentiality, inviolability and disposability – the Bank pays special attention to assure secrecy of clients’ data and property;
- To take special care of: business impact on the environment, savings of energy and resources, waste management and measuring and monitoring impact on the environment.

In February 2013 the first supervision of the three standards was completed. Upon checking made in conformity with the plan and program, the system was positively appraised, as well as the advance made in implementation. At the end of September 2013 ISO Standard 27001 related to information safety, was amended. The Bank permanently strives to be well positioned and for this purpose it constantly improves the information management and IT property policy, which is necessary for the quality level of offered products and services. Thus, the Bank gives contribution to affirmation of SRB principles and realization of the sustainable development concept.

In this way the Bank maintains the position of a referent entity in local financial sector, which contributes to promotion of all pillars of sustainable development, by permanent improvement of its services quality and financial information safety as well as by paying respect to ecologic standards.

JUBMES banka has adopted Corporate Management Code, which contains rules and principles determining the basis of Bank’s good business practice, being an open shareholder’s company. It establishes organizational principles as the directives for Bank’s managing bodies. This document tends to establish high standards related to corporate management, with the purpose of strengthening shareholders and investors’ confidence in JUBMES banka. This is a precondition for Bank’s long term, sustainable and stable development and for further confirmation of Bank’s reputation of a successful business financial institution.

By improving activities within UN Global Compact Serbia, the Bank contributes in a progressive manner to exchange of good practice and ideas, inter sector dialogue, linking the various business entities and institutions dedicated to sustainable development.

We have confirmed our active position among local leaders which promote GC principles and transparent attitude in presentation of activities related to CSR, by our participation in several meetings organized by the Global Compact network. Under recommendation of the Working Group for anti-corruption combat (UN Global Compact Serbia) in May 2013 we took participation in the meeting dedicated
to challenges of reporting on socially responsible business, organized by the Serbian Chamber of Commerce as the sole representative of the financial sector within UN Global Compact members. Of great importance is participation of the President of Bank’s Executive Board at the Leader’s Summit: „Architects of the Better World“ organized by UN Global Compact, held September 19-20, 2013 in New York. Leader’s Summit was designed to be the leading international meeting related to social responsibility in public sphere, business and non-governmental sector, with aim to “create new global architecture for realization of sustainable development in corporate sphere”. In the Summit all aspects of the global development agenda were concretized in the context of realization of the three pillars of sustainable development (economic, social and ecologic) through necessary trans-sector dialogue and partnership on all levels.

Our engagement is also dedicated to affirmation of the new progressive phase in implementation of the UN Global Compact principles, making us the recognizable and appreciated partner in realization of international, global and regional initiatives and frameworks for development of CSR principles and sustainable development and also to participating in activities promoting goals of European integration process and new EU strategy 2011-2014 for corporate social responsibility, aimed to harmonize global and European attitudes towards socially responsible business, strengthening its transparency and spreading socially responsible business practice.

Our commitment in promoting transparent approach in the area of corporate social responsibility has been also expressed through Bank’s participation in preparation of the Study on contribution of banking sector to development of Serbian economy and community, launched by Serbian Association of Banks – Working group for bank responsible business. The Association has conferred the realization of the Study to A.T. Kearney, Budapest consultants. Exploration has included operation of 21 banks in Serbia and the Study was presented in December 2013. Its conclusion was that banks in Serbia were highly responsible institutions, having in mind activities related to SRB principles i.e. to integral application of the principles on both internal and external level.

ISO standards logos:

ISO 9001:2008 - Quality Management System
ISO 14001:2004 - Environment Protection Standard
1. Human Rights

“You cannot think in the 21st century about sustainable development without thinking about human rights”

(Craig Mokhiber, representative of the UN Committee for human rights in occasion of panel discussion held on April 27, 2012 in New York, in relation with human rights, within preparations of the Rio+20 conference on sustainable development held in June 2012)

Companies should support and respect protection of internationally proclaimed human rights

(Global Compact Principle I)

UN member states are legally obliged to respect and to protect and implement human rights in practice. This includes human rights protection against violations committed by public and business entities. This duty is governed by the Convention on elimination of discrimination against women and Convention on elimination of racial discrimination. A state legally bounded to protect human rights has the duty to prosecute companies violating human rights. On Rio+20 Corporate Sustainability Forum, held in June 2012 and Leader’s Summit held in September 2013, integral approach in promotion and protection of human rights was promoted, especially in the corporate sphere. Every corporate policy has to support basic human rights principles and to integrally implement them during operating in order to properly meet integral development requests.

Right to development i.e. sustainable development encourages business entities to give their creative contributions to its implementation, by developing their mechanisms for maintaining ethical business process, which promotes CSR principles related to human rights protection.

Human rights must lie in the middle of sustainable development concept. Sustainable development must encourage development of inalienable human rights, elimination of all discrimination forms, environmental protection and observation of cultural differences and must support the reign of law needed to assure observation of these principles. Sustainable development includes all human rights—economic, social, cultural, civil and politic, assuming their integrative implementation. By putting an individual in the centre of development activities and by proclaiming of the integral vision of all human rights, Universal Declaration of human rights has become a normative instrument for accomplishment of inseparability and complementarity for various categories of human rights as well as for recognition of human rights protection as a developmental basis.
**Human resources management policy and promotion of the first UN Global Compact Principle**

Human resources management policy is one of the most important segments of the socially responsible business. In conformity with Bank’s business and development policy, we have continued to improve our employment policy and to encourage permanent improvement of all employees, which helps achievement of our strategic goals, according to Rules for training and professional improvement of Bank’s employees.

While implementing CSR concept i.e. UN Global Compact principles, JUBMES banka, has not neglected education as a significant developmental determinant and therefore its human resources management policy was adequately prepared in this sense.

Together with regular evaluation of employees’ working results in conformity with modern standards and strategy for human resources management, the Bank continued to improve employees’ qualification structure, by employing young, highly educated persons, capable to apply new skills and offer innovative solutions in banking operations. The Bank continued with enabling the employees to attend various types of post graduate studies and courses related to modern banking operations, including participation in local and international financial meetings and forums dedicated to banking products and services development issues. Employees attended the course related to trade finance business (organized by KBC Banker’s School), international seminar related to payment operations in EU countries (“Payments in Banking”). They improved knowledge related to SEPA payment system for corporate clients, innovative technology and mobile banking, FATCA project related to USA tax authorities reporting, loyal customers system etc. Special attention was dedicated to education of IT experts specialized for e-banking and IT safety. JUBMES banka constantly develops its information system, being the only way for following introduction of new products and services on financial market.

JUBMES banka adopted strategy for IT development in conformity with adopted ISO standards, including implementation of new system and communication platforms for support to banking operations and processes, monitoring and development of new technologies and knowledge, training and permanent professional advance of employees. In 2013 Bank’s employees attended the seminar organized by Microsoft-Sinergy.

By human resources management policy, employees are encouraged to take additional trainings and professional education and skills related to prevention of money laundering and terrorism financing, anti-corruption combat. The purpose of the policy is raising consciousness on importance of introduction of ethic principle in business operations, which requires zero tolerance towards violation of guaranteed economic, social, civil and other rights in Bank’s business operations.

In conformity with its strategic orientations, JUBMES banka continues to provide permanent education to its employees, through presentation on various forms of SRB, including protection of human rights and freedoms. Special attention is paid to issues of gender equality and inclusion of disabled persons on all levels community’s social life. Furthermore special attention is conferred to protection of the endangered cultural heritage and its relation with sustainable development.

With aim of gaining knowledge and good practices in the field of corporate social responsibility, since the year 2012 Bank’s representatives have been attending courses in organization of highly esteemed institutions. We have taken participation also in a seminar dedicated to corporate anti-corruption in organization of Serbian Chamber of Commerce and Industry, Ministry of Justice and Public Administration with technical assistance rendered by EU.

New model of responsible business which pays respect to human rights principles requires certain management i.e. optimal management of the risks in social (including risks jeopardizing human rights) and ecological sphere.

In conformity with adopted policies of quality, information safety and environment protection and standards, the Bank has also adopted adequate rules and guidelines for permanent improvement of integrated management, which includes social responsible business.
In this respect, we would like only to mention that JUBMES banka continued to develop systems for support of human rights protection, especially system for protection of health and safety of employees, through regular trainings in the domain of protection of health at work and fire protection, as well as through knowledge evaluation. The Bank also develops its internal enactments on risk appraisal at working points and in working environment. For this purpose the Bank provided assistance from a company specialized in protection of health and safety at work and environment protection. The Bank applies the By Law on rights, obligations and responsibilities in the field of safety and health at work.

The Bank regularly evaluates and updates its By-Law on rights, obligations and responsibilities related to health and safety at work. It sets working conditions standards aimed at diminishing risk of injury and professional illness and diseases at work and establishes technical, ergonomic, health, educational, social, organizational and other measures and means for prevention or elimination of the risk of injury and employee’s health damage.

JUBMES banka has also provided the free systematic medical examination and medical experts service under preferable conditions (including ophthalmology examination) for all Bank’s employees and their family members. Having in mind the importance of economic and social rights protection, in conformity with its financial potentials the Bank takes care of extraordinary needs of its employees, as well as of their family members’ needs, especially in case of their illnesses or some other irregular events.

**Cultural heritage protection as an element of the national cultural identity**

One of Bank’s long-term target activities oriented at affirmation of the first Global Compact principle is improvement of the cultural heritage protection, being a determinant of the national cultural identity and an important segment of sustainable development (cultural diversities preservation).

The culture is a primary determinant in identity formation, making us unique and at the same time open for intercultural dialogue. Cultural aspect of integration process is directly connected to the issue of identity considered as a dynamic and dialectical category. European integration process supports cultural diversity development as well as preservation of common cultural heritage i.e. common values within European cultural space. Protection and development of the cultural heritage is a significant precondition for preservation and promotion of the national cultural identity i.e. national culture open for dialogue and interaction with other cultures, being at the same time an integral part of the European common cultural heritage.

It is our great pleasure to point out that the Bank supported Andrić Institute, Višegrad (Srpska Republic, Bosnia and Herzegovina), led by its director Mr Emir Kusturica, globally respected film director and writer. The Institute is named after Ivo Andrić, the Nobel Prize winner for literature (1961) for the novel “Na Drini Ćuprija” (“The Bridge on the Drina”). The Institute was founded in 2012, jointly by the Government of the Srpska Republic and the Government of the Republic of Serbia. After the creative idea of Mr Kusturica, the town of Andrićgrad and the Institute were built in renaissance style. The Institute will
have various scientific departments, its own production and will become the new centre of Serbian culture, science and art. The Institute will pay respect to cultural diversity and open dialogue among artists, scientists, researchers on all issues from the domain of contemporary culture and development.

The Bank carries on supporting “Ćirilica” citizen’s association, dedicated to prevention of ćirilica – an authentic Serbian (Cyrillic) alphabet, which has been in use for ten centuries. In the course of the last year the Bank continued to develop cooperation with representatives of Serbian community in Australia and to support the final phase of construction of “St Sava” Serbian Orthodox Church College in Sydney, which will be the first Serbian official educational institution in Australia and the first such institution abroad.

In 2013 the Bank also supported the Celebration of 1700 years since the Edict of Milan, which was adopted by Constantine the Great, the Roman emperor, born in Naisus (today: city of Niš, Republic of Serbia).

“Edict of Milan 313-2013 Serbia” project is significant in both international and national sense, emphasizing significant influence of the Roman heritage in the area of today’s Serbia and concluding all European nations belong to the Christian civilization.

Companies should make sure that they are not complicit in human rights abuses

(Global Compact Principle II)

Responsible business and sustainable development values may be affirmed only after necessary systematic normative conditions are provided for human rights improvement in all spheres of the society, including the business sphere. Socially responsible business includes also the preventive action directed against human rights abuses.

We pay special attention to support rights protection of displaced persons and refugees from Autonomous Province of Kosovo and Metochia. With this aim we continued to support projects of "Naša Srbija" ("Our Serbia") humanitarian organization. Principal mission of this organization is to enable improvement of living conditions and education, social and health protection of children suffering loss of one or both parents in wars during last decade of the previous century, ill children, of children coming from socially endangered families, as well as of gifted children and youth – by providing material and psycho-social support.

Support to activities of non-governmental organizations dedicated to rights protection of displaced persons and refugees from Autonomous Province of Kosovo and Metochia and to other humanitarian activities

We supported activities of Association of families of killed and kidnapped people from Kosovo and Metochia and preparation and issue of Association’s magazine “Kosovo victims” (22 issues published up to present). Association was established in 1998 and registered in 2003. It is very active in dealing with this huge humanitarian problem, through cooperation with non-governmental and government’s organizations. The Association also deals with protection of material heritage of Serbian people in Kosovo and Metochia, for example with the issue of destruction of medieval Serbian churches and monasteries in Kosovo and possibility for their reconstruction in conformity with the relevant international conventions. Since 1998 up to date in Kosovo and Metochia 155 churches and monasteries were destroyed or seriously damaged. These monuments are important part of Serbian cultural heritage and determinant of Serbian national identity, being at the same time the significant source of European common cultural heritage.

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“Edict of Milan 313-2013 Serbia” project is significant in both international and national sense, emphasizing significant influence of the Roman heritage in the area of today’s Serbia and concluding all European nations belong to the Christian civilization.
rights violation. By taking preventive actions related to human rights protection, entities belonging to the business sphere become important factors which create healthy business climate and competition among socially responsible entities that do not ignore social and ethical dimension of their operation.

The Bank, being a socially responsible entity, apart from projects’ economic parameters, considers their impact to social environment. We encourage dialogue with corporate clients carrying out complex infrastructural projects with influence on society and environment. Thus we create preconditions for prevention of human rights violation, by encouraging adoption of new value orientation by corporate clients carrying out such projects. Particular attention is paid to appraising projects’ social components as well as to social and cultural characteristics of the project’s environment and prevention of violation of guaranteed rights and freedoms in conformity with the current Serbian legal regulations and ratified international legal documents.

Through promotion of conducting good business practice, the Bank encourages its clients - exporters engaged especially in hydro-power and hydro-energy projects, to create conditions for prevention of human rights violation. Special attention is paid to conditions provided to locally engaged workers in the country where the project is executed (healthy and safe working conditions, labour rights protection, prohibition of any form of child labour and discrimination etc.). In this way, through cooperation with our clients we give our active contribution to sustainable development in regions of our business exposure.

The Bank continued to support various projects, which affirm healthy society, human rights, solidarity, corporate citizenship, disabled persons inclusion in society, sport spirit etc. Only by such approach we can emphasize importance of inclusion of persons with special needs in social and labour environment, which is also pointed out by the National strategy for sustainable development.

Creativity is the principal element to encourage overall children’s development.

In 2013 the Bank continued to support inclusive society projects, which affirm the importance of efficient inclusion of disabled persons in society, on equal terms with others. Only by such approach we can emphasize importance of inclusion of persons with special needs in social and labour environment, which is also pointed out by the National strategy for sustainable development.
In accordance with this orientation, the Bank has also supported the “Dunav” Paraplegic and Quadriplegic Association, Beograd. The association was established in 1998 as a social and humanitarian organization of disabled persons, with aim to improve the life conditions of its members. It has over 20 members, mostly active within art workshops and sport sections.

In 2013 the Bank also supported activities of the Paralympic Committee of Serbia and preparations for 2014 Winter Paralympic Games, held in Sochi. Paralympic Committee of Serbia is the member of International Paralympic Committee (IPC) which, as its primary mission, supports realization of program activities related to the sport of disabled persons. We believe that by supporting development of paralympic movement, we shall contribute to the elimination of all forms of discrimination and isolation of disabled persons from the community activities.

JUBMES banka in a long term period gives its contribution to elite sport organizations, which achieve significant sport results in both local and international contests. In 2013 we supported Red Star basketball club, one of the leading basketball clubs in Serbia. Since its establishment in 1945, Red Star won 15 national championships, 6 national Cups and the European Cup.
In 2013 the Bank has continued to support ,,Child’s Heart“ Humanitarian Foundation, which stands among earliest foundations of its kind. It was established on December 16, 1992 on initiative of the Paediatric Cardiothoracic Team of »Dr Vukan Ćupić« Mother and Child Health Care Institute of the Republic of Serbia. Thereby we have expressed our addiction for development of long-term partnership with institutions of the non-profitable sector. During twenty years the Foundation confirmed its mission and aims through permanent activities focused on raising funds and giving support to create better conditions for surgical treatment, rehabilitation and social inclusion of the youngest patients suffering indigenous heart defects as well as to assist children’s parents. The Foundation provided the procurement of necessary medical equipment/devices, assured education of medical experts and personnel in the field of children cardiothoracic surgery and was active under various programs for prevention and medical researches of indigenous heart defects with children etc. Owing to Foundation’s activities funds were raised for procurement of various devices and equipment such as: monitors for invasive monitoring of the vital functions, respirators for ventilation support, cardiovascular supersonic diagnostics equipment, blood saving device etc. which are necessary to enable the Paediatric Cardiothoracic Team to perform the much needed surgical interventions. In 2013 the Bank assisted in organization of of the scientific meeting “Congenital Megacolon: Yesterday, Today, Tomorrow – Our Experience” held in »Dr Vukan Ćupić« Institute.

Winners Cup and many of its sportsmen and sportswomen won Olympic medals and medals at the world and European contests. Thereby the Bank encourages propagation of this sport, sporting competitive spirit, healthy life, especially among young persons who should focus at affirmation values of the healthy, open and inclusive society, liberated from stereotypes and preconceptions.

In addition to supporting elite sport organizations, the Bank gives importance to the amateur sport support, as one of the significant factors for improvement of the nation’s health in general. For this reason in 2013 we continued to financially support “Ekonomac” the small-football club from Kragujevac and preparations of its team for competing in the first small-football league of Serbia as well as to University, Kragujevac for development of sporting activities.

By implementation of the UN Global Compact second principle the Bank helps creation of the inclusive society i.e. society of inclusive cohesion which requires the corporative sector to promote human rights and freedoms and prevent their violation. Thereby, the corporative sector should assist creation of the democratic open society new values, contributing to social and cultural development of the community.

Bank’s target corporate social responsibility activities oriented at health institutions and humanitarian organizations supporting children’s
health, for without healthy population sustainable development goals could not be achieved.

JUMES banka has been permanently supporting individual actions for rendering assistance to medical treatment to children suffering from serious illnesses. All these activities enable better protection of children population in Republic of Serbia, especially under the economic crisis conditions, with issues of safe and sustainable financing of health sector still not resolved.

Furthermore, we extended aid to the National Association of parents of children with cancer (NURDOR). The mission of the Association is to provide the best possible treatment conditions to every child suffering from cancer, as well as psycho-social support to parents and whole family during the child’s medical treatment. One of more important projects is construction and equipping of the parent’s house in Belgrade, for the accommodation of children suffering from cancer and their families from across the country.

2. Labour Standards

Observation and permanent progress in implementation of the labour law standards is an important component of socially responsible business. It is important to develop employee’s knowledge on importance of observation and protection of economic and social rights, especially rights related to employment policy, labour and labour relationship and their importance for democratic and sustainable social development. These are significant prerequisites for creating social cohesion society. Trilateral social dialogue is an important framework which defines orientation for development and realization of social and economic rights, based in internal and international legal documents.

Since sustainable development is based on the balance established between economic development, social-market economy, high competitiveness, full employment degree and social progress, it is necessary to foster capacities for social cohesion realization. The European social model is the way for creation of the European social cohesion society. Social cohesion is in function of economic growth, and development of social responsibility with business entities is the principal instrument enabling social stability and development.

New European policy on company’s social responsibility published by European Commission in 2011, underlines greater company’s responsibility against social challenges. It draws attention to the importance of observation of national legal regulations and collective bargains among social partners, which is a condition for company’s social responsibility. For the purpose of full implementation of corporate social responsibility principles related to labour standards, better transparency needs to be reached in realization of national social dialogue including strong and independent organizations of workers and employers. Social dialogue and collective bargaining, being in the dialogue’s centre, help social cohesion and democracy, i.e. realization of a development model based on economic and social sustainability

For realization of sustainable development’s second pillar – the social cohesion, new jobs creation and unemployment rate decreasing needs to be achieved, as well as diminishing gender inequality and social inequality of marginalized groups and encouraging new jobs creation for the young people and disabled persons and other risky groups.

Companies should uphold the freedom of association and the effective recognition of the right to collective bargaining

(Global Compact Principle III)

Freedom of association and related basic employees/employers’ rights, establish the foundation for the labour relations development.

Progress in social dialogue is one of the key elements in the European social policy. Social dialogue includes collective bargaining and concluding agreements among social partners. European social model is a permanent task of unions. Social
partners need to achieve permeation of economic dynamic and social balance. Freedom of syndicate organization can be achieved only in a democratic system which provides observation of fundamental human rights. In the process of syndicate bargaining new ideas can emerge, aimed at improvement of legal and contractual solutions related to labour law.

JUBMES banka has always fully recognized the freedom of association and the right to collective bargaining. Constitutional and legal regulations related to freedom of association are also being observed. Union acts as an independent, autonomous and voluntary organization of all employees, responsible for their representation and protection of their professional, labour, economic and other rights. Thus, all Bank’s employees are free to decide whether they would join the Bank’s Union. This Union is incorporated in the Union of Financial Organizations of Serbia, which holds the representative status within the plural syndicate structure in Serbia. President of Bank’s Union is also a member of the Board of the Union of Financial Organizations of Serbia. Bank’s union members regularly take participation in various activities of the Union of Financial Organizations of Serbia, including attending seminars related to labour standards, syndicate organization issues, collective bargaining etc.

In the previous year, Bank’s Union has supported the activities of the Union of Financial Organizations of Serbia related to many social and labour issues which follow the changes occurring in the banking/financial system of Serbia. Traditionally, the Bank’s Union shows its solidarity with the Union members needing aid (for example for medical treatment, or for the members who are on long sick leave) regularly provides free systematic medical examination for employees as well as free theatre tickets, organizes free visits to cultural institutions as well as excursions etc. Positive labour environment and addiction to institution give impetus to every employee and help the Bank to establish the position of a stable, respected financial institution, which pays attention to corporative ethics and respects labour and social rights and standards, as the social cohesion principal component.

In addition to the activities focused at union organization issues within banks in Serbia, as in previous years, in 2013 the Union of Financial Organizations of Serbia was focused at enlarhing the number of its members and at encouraging establishment of banks’ unions.

Union performs transparent operations and enables active contribution of each member through presenting suggestions, initiatives etc.

**Elimination of all forms of forced and compulsory labour**

**Effective abolition of child’s labour**

(Global Compact Principle IV and Global Compact Principle V)

These Global Compact principles are “conditio sine qua non” for the ethical business conducting, which prohibits any form of compulsory labour and especially child’s labour.

Freedom of labour is one of fundamental freedoms of people and workers, laying thereby in the foundation of labour law and having importance equal to constitutional principles. It includes a freedom of choosing certain kind of work (job, employment) and employer as well as freedom of labour during the period of labour relationship.

Compulsory labour is unacceptable from both moral and legal aspects, opposite to the principle of freedom of labour, which is one of the fundamental labour law principles. Compulsory labour is prohibited by Serbian and international legal regulations (ILO Conventions No 29 and 105). Overall ILO (International Labour Organization) activities have the highest significance for the combat against compulsory labour, mostly due to the fact that ILO is international organization,
engaging all member states in resolving this problem. Concrete goals and plans are established by the program: “Special action combat to forced labour”, which should eliminate compulsory labour until the year 2015.

ILO strongly supports all activities and initiatives in the sphere of companies’ socially responsible business which are focused at respect of labour rights and elimination of compulsory labour.

By implementation of these principles, business entities directly affect the society, in the economic aspect as well as in the social and ethical aspects. By elimination of all forms of forced and compulsory labour, by abolition of child’s labour and by promotion of policies and standards exceeding the national and international legal framework, socially responsible business entities express their permanent orientation to responsible and ethical business. They implement the principles in dynamic manner, with the tendency of continuous improvement.

Apart from elimination of the compulsory labour, preconditions for effective realization of labour rights and dignity at work is elimination of compulsory labour and abolition of child’s labour. Child’s labour results in child’s damage, abuse and exploitation and prevents its education and development.

By paying respect to the legal regulations in force and internal enactments which implement the mentioned Global Compact principles, the Bank confirms its attitude for the promotion of the responsible business values. With this aim the Bank’s employees are being regularly informed on the ratified international legal documents in concern with compulsory labour and child’s labour prevention being the basic precondition for the respect of children rights as a part of the set of human rights. Through the synergy established between compliance activity and social responsibility business principles the Bank has intensified its activities and strengthened its position towards internal and external interest groups, especially towards our clients, whose transactions the Bank supports.

This is an important segment of the corporative management model, which includes the responsible attitude and cooperation established among the wide range of social partners and civil society, which should help affirmation of international standards for child’s labour abolition (Declaration on Child Rights, ILO Convention on the worst forms of child labour etc.) and prohibition of various forms of forced and compulsory labour and slavery (Universal Declaration on Human Rights, EU Convention for the protection of human rights and fundamental freedoms etc.)

Elimination of discrimination in respect of employment and occupation

(Global Compact Principle VI)

Discrimination is an act by which a person is unfairly disadvantaged compared to others. The causes of discrimination are usually negative prejudices, existing in a society towards the certain social groups, which are manifested against individuals belonging to such a group. Responsible behaviour at employment includes prevention of minorities discrimination, older employees, women, people unemployed in longer period, disabled persons and others that should help combat against social exclusion and mitigation of unemployment. Constitution of the Republic of Serbia prohibits any kind of discrimination of the persons seeking employment whether direct or indirect, in concern with the gender, race, social origin, age, religion, political or other beliefs, material situation, culture, language, disability etc.

Concrete legal regulations are governing this matter in details. We have the opportunity to point out hereby only some of them: The Law on labour, Law on prevention of discrimination, the Law on prevention of discrimination against persons with disabilities, the Law on prevention of rights and freedoms of national minorities etc.

In accordance with the legislation in force, Bank’s enactments and its strategic orientation towards corporate social responsibility principles, we fully implement the UN Global Compact sixth principle.

Direct or indirect discrimination of the persons seeking employment and employees is prohibited, in concern with the gender, race, skin colour, age, health condition i.e. disability, nationality, religion, matrimonial status, political or other beliefs, social origin etc. Discrimination is also prohibited in respect of the employment conditions and candidate selection, working conditions and all rights arising from the labour relationship, education, professional training, promotion etc. Regulations of the
labour contract allowing discrimination under any of such basis shall be considered as null and void.

By taking pro-active attitude, we encourage our clients to promote this principle especially when they carry out complex works abroad including employment of local workers. JUBMES banka is affirming its positive relation to employment of disabled persons and takes participation in actions supporting their employment in various sectors, which are in function of their inclusion.

Republic of Serbia has adopted a number of regulations governing equal participation of persons with disabilities in the market and their employment. The regulations are in conformity with ratified UN Convention governing rights of disabled persons as well as in conformity with Millennium development goals, EU Disability Strategy 2010-2012, ILO recommendations on professional rehabilitation and employment of persons with disabilities etc. Much importance has the Law on professional rehabilitation and employment of persons with disabilities, adopted in 2009, including paying respect to various alternative measures in case when companies are not able to employ disabled persons. JUBMES banka pays full respect to such measures, having in mind that they encourage social attitude towards disabled persons.

3. Environment

Bank gives much importance to protection of environment as a part of socially responsible business i.e. to activities focused at integration of ecological principles into our strategic management and also into business operations.

Sustainable development brings a new vision of global development, i.e. development for all people, pointing out new business strategies of companies as promoters of the new business concept having more rigorous ecological criteria. For evolution development of this concept, the great importance had the UN Conference on Environment and Development, held in Rio de Janeiro in 1992. In the course of this Conference a few important documents were adopted, especially the Action plan designed for resolving environmental problems. This program for 21th century (Agenda 21) was consisted of a number of mutually harmonized actions focused at sustainable (economic, social and ecologic) development. According to Rio Declaration, environmental protection is the integral part of the development process. Environmental issues should be resolved in cooperation of all structures of society: public sector, business community and non-governmental sector. Conferences’ key philosophy was: “Development in harmony with the environment and resources preservation serving to common economic progress”. Many global and regional initiatives, supporting the concept of development through observation of corporate social responsibility principles, were launched on the basis of the said declaration.

Documents adopted at June 2012 Rio+20 Conference, together with obligations coming out of EU accession process, have great importance for the Republic of Serbia, having in mind that the transition process into the “green economy” requires coordination of inter-sector policies, creation of adequate institutional environment, regional cross-border cooperation, technologies transfer and development, additional financial resources especially related to support which public sector provides to the business sector.

Environment protection and rational use of national natural resources include integration and reconciliation of targets and measures of all sector policies, as well as harmonization of local regulations with EU legislation and their full implementation. One of the principal instruments for sustainable development’s implementation is trans-sector dialogue and cooperation which is aimed at realization of the National Strategy of Sustainable Development, especially significant for the environmental protection.

As an active member of the Global Compact and a participant of the Forum Rio+20 and Summit of the UN Global Compact Leaders, our special attention is directed at conclusions of these meetings which are related to the ecology component of the sustainable development. Green economy is one of the opportunities for financial sector’s potential engagement. Responsible investment requires implementation of ecologic and
social standards. Implementation of corporate social responsibility principles within business operations of financial institutions produces change in their profiles, pointing them out as socially responsible entities, which include community development interest into their business goals. Business entities cannot individually create the sustainable development conditions. They should take participation in this process together, with other entities from the business, public and non-governmental sectors.

This is of priority importance for JUBMES banka, which is intermediary in financial realization of the international credit line for support of SMEs and local public utility companies. In accordance with the credit line’s terms, each project’s eligibility is to be appraised on the basis of project’s environmental impact assessment. The terms also require strict observation of Serbian legal regulations, European standards related to project’s environmental impact assessment as well as ISO standards 14001, with focus on projects to be realized in less developed Serbian regions.

**Companies should take precaution measures related to preservation of environment**

**Encouraging the development and diffusion of environmentally friendly technologies**

(Global Compact Principle VII and Global Compact Principle IX)

The Bank adopted Environment Protection Policy with aim to pay special attention to its business activities environmental impact and to permanently improve its environmental protection management system in conformity with ISO Standard 14001:2008. By improvement of the integrated management system with respect to environmental protection, the advance in implementation of GC principles related to improvement of environmental preservation and quality is achieved.

By environmental protection the Bank has provided for:

- Monitoring and implementation of the legal regulations and good practice related to environmental protection;
- Identification of all environmental aspects with aim to prevent environmental pollution;
- Saving of natural resources and energy by using renewable and recycled resources;
- Development of adequate knowledge, with all employees, providers and external suppliers of services, on environmental impacts and regular procedure to be carried out with dangerous materials;
- Prevention of ecological incidents and organized activities in case of extraordinary circumstances;
- Providing permanent information on environmental protection system results to all interested parties.

The environmental protection policy general goals are as follows:

- Application of modern and ecologically clean technologies related to current maintenance;
- Natural resources and energy savings by reducing of harmful materials and harmful waste usage;
- Waste management through proper collection, storage and treatment of all kinds of waste;
- Permanent training with application of dangerous materials and temporary reaction to ecological catastrophes;
- Measuring and monitoring of environmental impacts;
- Interested parties are more satisfied, owing to socially responsible business and mutual communication.

Having in mind these environmental policy components and permanent monitoring of improvement of ISO standards 14001 implementation, JUBMES banka has adopted a number of internal documents – rules and instructions, programs and plans in order to achieve goals of adopted policy and improve integrated quality management system. These activities include the following: defining climate
conditioning regime and the use of Freon gas; recycling of used batteries; usage of facsimile machines, copy machines and printers, toners and cartridges; reduction in consumption of office paper and waste office paper management; altering technologically outdated and damaged electronic equipment and electric and electronic waste management; glass package, PET package and cans management and recycling; reducing consumption of drinking water; reducing electricity consumption as well as maintenance of lights and diesel aggregates; dangerous materials storing, power substation maintenance and prevention of transformer oil leaking; using of cars for official purposes, car maintenance and care, tyre waste management; fire prevention, evacuation plan in the event of fire, earthquake etc.

By special Rules for waste management the waste is divided into dangerous and non dangerous waste. Non dangerous waste appears in everyday’s work as: office paper waste, communal waste; glass packaging, PET plastic packaging; aluminium packaging – AL cans.

Waste elimination procedure is as follows:
1. Employees put office paper waste in special paper boxes situated in every office. Waste cans must not be filled with paper waste.
2. Communal waste (all kinds of waste from households and plastic glasses for coffee) will be put in waste cans situated in every office;
3. Glass, PET (plastic) and aluminium packaging is left in offices for the cleaning person, who will collect this waste.

Dangerous waste occurs by changing of cartridge, fluorescent tubes or bulbs and batteries. Such waste shall be eliminated by specially skilled persons.

All Bank’s employees are regularly informed on the rules and guidelines related to implementation of the mentioned ISO standard and on corporate responsibility principles related to the environment and sustainable development.

Companies should undertake initiatives to promote greater environmental responsibility

(Global Compact Principle VIII)

Striving hard to undertake activities focused at promotion of Global Compact principles, JUBMES banka in 2009, upon recommendation of the relevant Government department, established cooperation with “Uvac” - Special Nature Reserve d.o.o. Nova Varoš and “Beloglavi Sup” (“Griffon vulture”) Birds of Prey Protection Fund.

Due to insufficient animal population (and animal corpses as well) inhabiting the area, the vulture’s feeding by slaughter house waste is still necessary. In previous years one European government has been supporting “Uvac” - Special Nature Reserve by its donations for the purpose of vulture feeding.
In the meantime, owing to efforts undertaken by volunteers and officers of "Uvac" - Special Nature Reserve as well as to assistance of various institutions and donors, Griffon vulture population has grown from 7 (in 1990) to 360 individual vultures or 85 nesting couples, meaning that the extinction threat has been significantly mitigated. This outstanding growth has helped "Uvac" - Special Nature Reserve to become the regional centre, enabling further re-colonisation and spreading of this species to other habitats in Serbia and Balkans.

Apart from the Griffon vulture this area is also known for the only goosander (Mergus Merganser) nesting site in Serbia, as well as for around 100 various bird species, 11 fish species and over 200 plant species (flora taxa) proving the very rich area biodiversity.

In long-term the Reserve plans to reintroduce other species, which deserted the surrounding (lynx and two other eagle species). However, for this action the cooperation with governments willing to export these rare species to Serbia is needed, as well as huge financial support since the funds offered by the Reserve’s donors are not sufficient for procurement of these animals from the other countries.

The Reserve is situated in the area of untouched vegetation of extraordinary beauty, widely known for the wonderful landscape created by the Uvac river, by cutting the deep meanders into the limestone massives of Zlatar and Javor mountains in west Serbia. The surrounding is rich in numerous examples of various karst formations including the longest cave system in Serbia.

4. Anti-corruption Combat

Компаније треба да се боре против корупције на сваком нивоу, укључујући изнуђивање и подмићивање
(Десети принцип Глобалног договора)

JUBMES banka has confirmed its leading position in implementation of the Global Compact 10th Principle with the national network of this respectable non-profit organization which promotes corporate social responsibility and sustainable development.

Our proactive, progressive and innovative attitude towards implementation of Global Compact principles is undertaken with relation to all phases of Serbia’s accession to European Union. This accession process is complex and developing on several levels. The first level is related to implementation of the stabilization and association process and the second level to accession negotiations. Accession negotiations include 35 chapters of acquis communautaire, preceded by the screening phase – the summary of legal regulations related to the 35 chapters. Integration process’ dynamics depends on results of the transition process (institutional and normative) i.e. on structural reforms, being the stabilization and association process requirement.

These reforms should result in creation of the healthy business environment, assisting the sustainable development and achievement of zero tolerance against all forms of corruptive behaviour.

Having in mind that harmonization of Serbian legislation in all fields is principal duty of the Republic of Serbia under the Stabilization Agreement, in certain moment chapters 23 and 24 should be specially elaborated (Chapter 23 – Jurisdiction and fundamental rights and Chapter 24 – Justice, freedom and security). In this sense, we are paying special attention to the issue of anti-corruption combat in the light of all activities within screening phase of positive legal regulations, in relation with the mentioned chapters. European Commission has affirmatively appraised activities of Serbian Government related to anti-corruption combat (especially in normative sphere), which are focused on achieving zero tolerance against all corruption forms. New National Anti-corruption Combat Strategy and Action Plan for 2013-2018 has been adopted fixing concrete measures and duties of entities from the public sphere focused at execution of Strategy’s tasks and goals. The Strategy forms comprehensive and integral framework for creation of institutional and social environment, promoting zero tolerance against corruption in the society, including the business sector. Several legal regulations have also come into force.
providing normative prerequisites for realization of Strategy’s goals and tasks, especially the new Public Procurement Law of the Republic of Serbia. The Law on Protection of Whistleblowers is currently being prepared by representatives of the Ministry of justice and public administration and the Anti-corruption Agency, Commissioner for information of public importance and personal data protection, court’s and public prosecutor’s representatives etc. During the screening the necessity of implementation of CSR fundamental principles including anti-corruption combat was specially pointed out as a prerequisite for realization of sustainable development, being one of the European integration goals.

UN Global Compact Serbia gives its significant contribution to realization of such business model and promotion of ethical business. Preparation of policies and corporate practice is also encouraged in the segment of CSR principles implementation, especially of 10th principle – anti-corruption combat. Members of UN Global Compact Serbia create and implement various actions having wider importance focused at anti-corruption combat, by encouraging partner relationship and cooperation with various entities from public and business sectors and civil society, but also with global and regional organizations, EU institutions and others, being one of Global Compact’s program and action methods.

Anti-corruption working group and JUBMES as one of its most active members, have been engaged under preparation of the new National Anti-corruption Combat Strategy for the period 2013-2018. The strategy is designed to support promotion of corporate good practice in anti-corruption combat. Companies are encouraged to adopt Business ethics code, Professional behaviour code as well as Anti-corruption Combat Declaration (creator – Global Compact Anti-corruption Working Group), with aim of creation of favourable business environment with respect to ethically responsible business.

All activities undertaken in this segment by the UNGlobalCompact Serbia should help creation of globally acceptable framework for development and implementation of the socially responsible business. Apart from the exchange of ideas related to corporate practice and recommendations for improvement in sustainability sectors, these activities are an important impetus to responsible and healthy business. Global Compact has become the key partner of various entities from business and public sectors and of non-governmental organizations in creation of the new public-private partnership platform, which implements GC principles. This platform will help establishment of the new leadership among companies which implement sustainable development principles. It is very important that business entities incorporate into their business goals the new innovative business models, products and services which comprise CSR principles including anti-corruption combat principle.

We would like to point out our creative and innovative contribution to promotion of UN Global Compact 10th principle, giving us leader’s position among business entities which promote principles of ethical and healthy business i.e. sustainable development principles. Such appraisal was adopted at many international meetings dedicated to this matter, held during 2012 and 2013 in organization of the UN Global Compact Serbia and UN Global Compact Office from New York.

JUBMES banka has implemented the unique Anti-corruption combat program. This program does not comprise only formal support of anti-corruption combat i.e. zero tolerance corruption, but requires concrete activities for implementation of documents related to anti-corruption combat. Our strategic and concrete orientation are integrity and ethics, observation of normative framework, promotion of values exceeding this framework being an outcome of CSR principles implementation, but also creation of new products which contain those values and ethic standards. This is the essence of our business ethics and improvement of banking integrity, dignity, objectivity, responsibility, credibility, efficiency, transparency etc.

The Anti-Corruption Combat Declaration is an important segment of the Program,
created by the UN Global Compact Serbia. JUBMES banka was the first among the members of the UN Global Compact Serbia to sign this document and start with its implementation through a number of activities on internal plan. The Declaration is an important document for the Bank’s position as a responsible business entity, improving activities related to socially responsible business, particularly to implementation of the 10th principle – anti-corruption combat. By signing this document, we have not expressed only our formal support of anti-corruption combat, but also our addiction for anti-corruption combat in all aspects, including bribery and blackmail. At the same time we promote transparency, cooperation between internal and external stakeholders, we emphasize the importance of cooperation-partnership with various local institutions from public sector and civil society and with international institutions, which are engaged in various activities – anti-corruption combat projects. In this way we contribute to promotion of good practice in the anti-corruption combat in all social spheres.

The Bank has also adopted Reporting Guidelines related to 10th principle, as an important meritorious source, which established the procedure for reporting on activities related to anti-corruption combat. Thereby the Bank stimulated the efficient implementation of all internal enactments regulating anti-corruption combat, as well as the adoption of the new enactments. All aforesaid is presented in our first Report on 10th principle implementation, being at the same time the first report to be presented to the Global Compact Serbia. The concrete activities and measures for better application of the set of documents related to anti-corruption combat were specially pointed out in the Report, including the new integrated management quality policy, which was confirmed through implementation of ISO Standards 9001, 27001 and 14001.

In our opinion, these innovative solutions aimed at better reporting on activities and measures taken in anti-corruption combat as well as examples of good practices can give impetus to progress of the total anti-corruption activity in the business sector of Serbia and to development of environment which will encourage conducting of healthy business and rising of the new leadership among business entities tending to achieve zero tolerance to corruptive behaviour.

JUBMES banka adopted the Anti-corruption Combat and Conflict of Interests Code which is consisted of measures and activities for more efficient implementation of the Anti-corruption Combat Declaration i.e. implementation of item 11 of this document. The Code defines the following measures and activities: providing information and professional training for employees, regarding the anti-corruption combat issue, precise definition of responsibilities and duties for realization of the anti-corruption combat and reporting on program’s execution. By this document we confirm that we are dedicated to spread integrity culture and to keep Bank’s enactments strictly in conformity with the legal regulations in force, including anti-corruption regulations, both local and international.

Rules for reputation risk identification, measuring, mitigation and monitoring also belong to the internal documents set which comprehends Bank’s Anti-corruption Program. The Code has synthesized ethical principles and professional banking rules with aim to maintain high level of standards reached. The Code brings provisions which even surpass the Serbian legal regulations related of banking principles, with aim of achieving high Bank’s reputation on financial market, successful targets execution and growth of Bank’s financial potential. The Code is binding upon all Bank employees.

The Code is consisted of several segments: Business Ethics (ethical norms governing employees’ behaviour etc.), Professional Behaviour, Corruption and Collision of Interests.
In the part concerning professional behaviour the Bank applies the Code of Professional Banking Behaviour issued by the Association of Banks of the Republic of Serbia. This document defines general principles and norms of professional banking behaviour for Bank’s employees and their business relationship with clients. It enables Bank’s clients to get acquainted with the minimal standards of the good banking practice.

The Code of Professional Banking Behaviour defines the following principles, binding Bank’s employees:

- Bank’s property and interests protection and client’s property and interests protection are in the employees’ focus;
- Observation of legal regulations (paying respect to the legal provisions in force, implementation of Bank’s business policy and internal rules);
- Responsibility in operations (operating within the authorizations’ limits, operating in Bank’s best interest, avoiding personal motifs’ impact i.e. avoiding all situations that could provoke conflict of interests, using of insiders’ information and any kind of benefits etc);
- Keeping banking and business secrets;
- Politeness, i.e. diligent and correct attitude towards clients, colleagues and higher officers;
- Equal treatment of all clients;
- Providing clients with accurate and timely information regarding: required services, relevant regulations of the Law on Banks, Law on prevention of money laundering and terrorism financing, Bank’s General Terms and Conditions, Rules on Bank’s approved products, together with paying respect to the Financial Services Consumer Protection Law;
- Healthy competition. In accordance with this principle the Bank is recognized in the market for its dedication to keep the healthy practice.

Bank’s current enactments and rules define in details implementation of the principles.

The final segment of this paper is dedicated to corruption and interest collision.

The Law on Anti-corruption agency defines corruption as a relation based on abuse of authority or influence in public or in private sector, for the purpose of gaining individual benefit or benefit in favour of another person, being a serious criminal act. The Code is related to all activities of the Bank, since the Bank, as the active GC member has taken obligation to pay respect to the highest anti-corruption standards. In order to give its contribution to mitigation and minimization of the strategic and reputation risk, the Bank has the duty to pay special attention to all forms of corruption behaviour, their identification and prevention.

According to the Code of professional banking behaviour issued by the Association of Banks of the Republic of Serbia and the Bank’s Code on anti-corruption combat and interest collision, corruption risks in the Bank may occur for revealing of professional banking secret, collision of employees’ interests and Bank’s business interest,
private arrangements concluding, privileged information disclosing, unauthorized goods and services procurement and property disposal. For the aim of the corruption and interest collision risks minimizing, the employees are required:

- To pay respect to business secrecy rules;
- To protect Bank’s and its clients property. Using Bank’s devices, equipment and intellectual property for private purposes is forbidden;
- Not to publish insider’s information or to disclose them to persons who may gain benefits thereby;
- Not to request, receive of accept any benefits and presents except symbolic i.e. cheep gifts (as calendars etc.);
- Not to sign private arrangements with Bank’s clients;
- To arrange procurement of goods and services as well as their selling in conformity with Bank’s authorizations, enactments and rules;
- To avoid situations possibly leading to collision of employees’ interests and Bank’s business interest. All employees are subject to this regulation, especially members of the Managing Board and Executive Board. They have the duty to pay special respect to the following principles:
  - Members of the Managing Board shall not be engaged in another private company being the Bank’s competitor, except in case that they have been authorized by the Managing Board;
  - Members of the Managing and the Executive Board have the duty to keep Bank’s interests in “bona fide” and loyal manner as well as not to use Bank’s property in their personal interest, not to use their high position and access to information for the purpose of their personal enrichment or associated persons enrichment;
  - When approving loans, members of the Credit Committee and the Executive Board shall keep their personal interests separated from Bank’s business interest, fully support realization of Bank’s interests and observe legal provisions and rules in force.

Breach of the principles shall be, according to the Code, considered as violation of the labour duty and therefore sanctioned.

This document, finalizing Bank’s Anti-corruption Program in synergy with the Corporate Management Code and Integrated management quality policy, sets frameworks to Bank’s further progressive positioning in the field of socially responsible business conducting. Bank thereby confirms its business and value orientation, which is based on respect of integrity and ethics, promotion of responsible business values, which exceed legal regulations, creation of new products implementing those values and ethic standards.
Integrated quality management system and implementation of the international ISO standards (9001, 14001 and 27001) in dialectical connection with CSR principles, are determinants of our progressive attitude towards SRB principles and innovative attitude to their implementation as well as of the Bank’s new competitive market position merited due to implementation of CSR and sustainable development principles among the entities from local and regional banking sectors.

Having the affirmative attitude towards the strategic concept of responsible business and sustainable development, in the forthcoming period JUBMES banka will actively and transparently carry out activities related to implementation and improvement of all Global Compact principles, together with various interested groups from business and public sectors and the civil society.

Advance made in implementation of the UN Global Compact fundamental principles related to human rights, labour standards, environment and anti-corruption combat, accompanied by transparent presentation of activities undertaken for the principles realization, will affect further advance in SRB reporting policy which reflects all Bank’s activities. In our opinion SRB reports or non-financial reports will become an important element of entire activities of entities from financial and real sectors, which adopted Global Compact’s principles.

In accordance with its strategic orientation and potentials, the Bank shall continue to support various activities, initiatives and projects initiated by the UN Global Compact national, regional and global networks, especially activities for realization of the developmental goals stated in the Millennium Agenda. Having in mind the strategic importance of the sustainable development concept, we shall support initiatives, projects activities and partnerships, especially with entities from the non-profitable sector, focused at realization of democratic inclusive open society, ethical business promotion, integral application of human rights corpus, improvement of the environmental protection, health improvement and better medical treatment conditions especially with young population, protection of material and non-material heritage, promotion of the national cultural identity through democratic dialogue with other cultures etc.

Since the Bank highly recognize the strategic advantages of the CSR policy and socially responsible practice in context of taking competitive and socially responsible position in financial market, it will continue to improve implementation of Global Compact principles and to support the integral development on long-term basis. In conformity with its orientation and being a recognized representative of the Serbian banking/financial community, JUBMES banka undertook activities for the realization of the development and strategic goals of the Republic of Serbia which include EU accession process and also became a partner in implementation of the new platform of Global Compact and other UN international development institutions and agencies which support the role of business sector in realization of harmonic sustainable development as the new universal value.