

TRANSLATION

NATIONAL BANK OF SERBIA

**Financial statements prepared in accordance with
International Financial Reporting Standards
for the year ended 31 December 2010
with the Independent Auditors' Report**

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

FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
FOR THE YEAR ENDED 31 DECEMBER 2010
WITH THE INDEPENDENT AUDITORS' REPORT

CONTENT :	Page
Independent Auditors' Report	1 - 2
Financial Statements	
Income Statement	3
Statement of Comprehensive Income	4
Statement of Financial Position	5 - 6
Statement of Changes in Equity	7
Statement of Cash Flows	8
Notes to the Financial Statements	9 - 57

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TRANSLATION**Independent Auditors' Report**

TO THE GOVERNOR AND THE COUNCIL

OF THE NATIONAL BANK OF SERBIA

We have audited the accompanying financial statements of the National Bank of Serbia ("the Bank"), which comprise the statement of financial position as at 31 December 2010, and the income statement, statement of comprehensive income, cash flow statement and statement of changes in equity for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Belgrade, 11 May 2011

KPMG d.o.o. Beograd

(L.S.)

Nina Bulatović
Certified Auditor

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Belgrade, 31 May 2011

KPMG d.o.o. Beograd




Nina Bulatović
Certified Auditor

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

In thousand of RSD	Note	2010	2009
Interest income		18,845,117	22,063,720
Interest expense		(15,174,776)	(21,970,590)
Net interest income	4	3,670,341	93,130
Fee and commission income		3,494,757	4,087,149
Fee and commission expense		(772,141)	(1,250,029)
Net fee and commission income	5	2,722,616	2,837,120
Net gain/(loss) from fair value change and trading with securities	6	5,643,316	(1,521,715)
Net foreign exchange gain		75,279,183	50,442,962
Other operating income	7	6,104,842	11,722,289
Net gain on impairment	8	54,740	537,830
Personnel expenses	9	(4,153,219)	(4,636,551)
Depreciation and amortization	10	(1,552,718)	(1,086,304)
Other operating expenses	11	(4,031,685)	(3,865,964)
PROFIT FOR THE YEAR		83,737,416	54,522,797

The notes on pages 9 to 57 form an integral part of these Financial Statements.
Independent Auditor's Report – pages 1 and 2.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

In thousand of RSD	2010	2009
Profit for the year	83,737,416	54,522,797
Other comprehensive income:		
Revaluation of property	(2,291,432)	3,202,597
Change in fair value of available-for-sale securities	(2,015,030)	5,810,930
Total other comprehensive income for the year	(4,306,462)	9,013,527
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	79,430,954	63,536,324

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Independent Auditor's Report – pages 1 and 2.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

In thousand of RSD	Note	2010	2009
ASSETS			
Cash and current accounts	12	71,253,902	27,782,327
Deposits with banks	13	62,049,552	178,373,482
Gold and other precious metals	14	48,286,086	31,689,655
Financial assets at fair value through profit and loss	15	884,457,061	779,642,833
Financial assets available-for-sale	16	7,739,483	16,216,005
Loans	18	789,129	694,396
IMF membership quota and SDR holdings	19	57,712,310	50,361,168
Property, plant and equipment	20	16,471,768	18,358,036
Investment property	20	772,750	931,339
Intangible assets	20	1,001,296	418,401
Other assets	21	5,122,062	4,165,859
TOTAL ASSETS		1,155,655,399	1,108,633,501

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Independent Auditor's Report – pages 1 and 2.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010 (continued)

In thousand of RSD	Note	2010	2009
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to banks and other financial institutions	22	502,536,092	592,094,560
Liabilities to the Government and other depositors	23	133,507,872	132,561,175
Liabilities to the IMF	24	225,676,954	161,836,132
Dinars in circulation	25	91,802,658	95,521,662
Provisions	26	815,003	1,125,603
Other liabilities	27	1,270,907	2,299,575
Total liabilities		955,609,486	985,438,707
Equity			
State-owned capital		71,102,756	35,508,972
Special reserves		31,107,163	14,750,324
Revaluation reserves		8,587,139	10,881,931
Reserves from securities available-for-sale		5,508,079	7,523,109
Retained earnings		83,740,776	54,530,458
Total equity	28	200,045,913	123,194,794
TOTAL LIABILITIES AND EQUITY		1,155,655,399	1,108,633,501

Belgrade, 11 May 2011

NATIONAL BANK OF SERBIA

(L.S.)

Ivan Rangelov
*Person responsible for preparation of
financial statements*

Dejan Šoškić
Governor

The notes on pages 9 to 57 form an integral part of these Financial Statements.
Independent Auditor's Report – pages 1 and 2.

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2010

In thousand of RSD	State-owned capital	Special reserves	Revaluation reserves	Reserves from securities available for sale	Retained earnings	Total
FOR THE YEAR ENDED 31 DECEMBER 2009						
Opening balance	14,750,324	-	7,686,995	1,712,179	35,508,971	59,658,469
Allocation of profit from previous period	20,758,648	14,750,324	-	-	(35,508,971)	-
Other comprehensive income:						
Revaluation of property	-	-	3,194,936	-	7,661	3,202,597
Change in fair value of available-for-sale securities	-	-	-	5,810,930	-	5,810,930
Profit for the year	-	-	-	-	54,522,797	54,522,797
BALANCE AS AT 31 DECEMBER 2009	35,508,972	14,750,324	10,881,931	7,523,109	54,530,458	123,194,794
FOR THE YEAR ENDED 31 DECEMBER 2010						
Opening balance	35,508,972	14,750,324	10,881,931	7,523,109	54,530,458	123,194,794
Allocation of profit from previous period (*)	35,593,784	16,356,839	-	-	(54,530,458)	(2,579,835)
Other comprehensive income:						
Revaluation of property	-	-	(2,294,792)	-	3,360	(2,291,432)
Change in fair value of available-for-sale securities	-	-	-	(2,015,030)	-	(2,015,030)
Profit for the year	-	-	-	-	83,737,416	83,737,416
BALANCE AS AT 31 DECEMBER 2010	71,102,756	31,107,163	8,587,139	5,508,079	83,740,776	200,045,913

* see Note 28

The notes on pages 9 to 57 form an integral part of these Financial Statements.

Independent Auditor's Report – pages 1 and 2.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

In thousand of RSD	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	26,044,476	22,608,233
Fee and commission receipts	3,226,932	4,119,632
Cash inflows from other operating activities	17,980,435	7,117,754
Cash inflows from dividends and equity investments	238,414	218,032
Cash from operating activities	47,490,257	34,063,651
Interest payments	(21,770,099)	(29,938,140)
Fee and commission payments	(769,925)	(1,257,986)
Cash outflows from other operating activities	(13,680,656)	(6,695,241)
Cash used in operating activities	(36,220,680)	(37,891,367)
Increase in deposits	180,270,646	58,822,894
Increase in loans and investments	(19,589,094)	(9,845,901)
Increase in securities and others investments at fair value through profit and loss	(98,169,981)	(180,747,513)
Increase in investments and increase in received deposits	62,511,571	(131,770,520)
Net cash generated from/(used in) operating activities	73,781,148	(135,598,236)
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows from disposal of intangible assets and property, plant and equipment	4,868	-
Purchase of property, plant and equipment and intangible assets	(2,826,123)	(1,000,774)
Net cash used in investing activities	(2,821,255)	(1,000,774)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (outflow)/inflow from short term borrowings	(103,819,905)	72,794,307
Net cash (used in)/ from financing activities	(103,819,905)	72,794,307
Net decrease in cash	(32,860,012)	(63,804,703)
Cash at the beginning of period	29,068,796	42,430,537
Foreign exchange gains, net	75,279,183	50,442,962
CASH AT THE END OF THE PERIOD*	71,487,967	29,068,796

* Note 2(g)

The notes on pages 9 to 57 form an integral part of these Financial Statements.
Independent Auditor's Report – pages 1 and 2.

TRANSLATION

1. ESTABLISHMENT AND ACTIVITY

The National Bank of Serbia (hereinafter: the “Bank”) draws its origins to the establishment and commencement of operations of the Privileged National Bank of the Kingdom of Serbia in 1884. In 1920 the Privileged National Bank of the Kingdom of Serbs, Croats and Slovenes was established, and in 1929 the Bank changed its official name to the National Bank of Yugoslavia. Since 1946 the Bank performed its functions under the name of the National Bank of Yugoslavia (hereinafter: the “NBY”), as the central monetary institution of the FNRY, first, which was later renamed into the Socialist Federative Republic of Yugoslavia (hereinafter: the “FNRY”), until its dissolution in 1991. The Bank continued to operate in Belgrade as the Central Bank of SFRY, comprised of two republics of the former Yugoslavia – Serbia and Montenegro, which formed the Federal Republic of Yugoslavia (hereinafter: the “FRY”).

The FRY Parliament adopted the Law on the National Bank of Yugoslavia on 25 June 1993, where the Bank was defined as the unique and independent issuance bank of the FRY monetary system. All intangible and fixed assets used by the Bank are in the ownership of FRY which guaranties for all debts incurred by the Bank.

In accordance with the Law on the Implementation of the Constitutional Charter of the State Union of Serbia and Montenegro, that came in effect on February 4, 2003, the Bank continued to perform its function of the Central Bank of the Republic of Serbia, additionally regulated by the Law on the National Bank of Serbia adopted on 19 July 2003.

The National Bank of Serbia is the Central Bank of the Republic of Serbia and its role is regulated by the Law on the National Bank of Serbia (“Official Gazette of RS,” no. 72/2003 and 55/2004, 85/2005-second law 44/2010, hereinafter: the Law).

The primary objective of the NBS shall be achieving and maintaining price stability. In addition to its primary objective, the NBS shall also strive towards maintaining financial stability. Without prejudice to its primary objective, the NBS shall support the pursuance of economic policy of the Government of the Republic of Serbia.

The Bank, inter alia, is to perform the following functions:

- Determine and implement monetary policy;
- Hold and manage foreign currency reserves;
- Issue and revoke operating licences to banks, supervises creditworthiness and compliance of banks and carries out other activities, in accordance with the Law;
- Issue and revoke licenses, i.e. authorization for carrying out insurance operations, perform control i.e. supervision over such operations and also carry out other duties in line with statutory regulation governing the field of insurance;
- Issue and revoke licenses, i.e. authorization for carrying out finance lease operations, perform control i.e. supervision over such operations and also carry out other duties in line with statutory regulation governing finance lease operations;
- Issue and revoke licenses, i.e. authorization for carrying out the operations of a voluntary pension fund, perform control i.e. supervision over such operations and also carry out other duties in line with statutory regulation governing operations of a voluntary pension fund;
- Issue banknotes and coins and regulates cash flows;
- Regulate, control and promote unhindered functioning of internal and external payment operations;
- Perform specific business, regulated by Law, for Republic of Serbia and without overhanging own autonomy and independence.

The bodies of the NBS are the Executive Board, the Governor and the Council.

TRANSLATION

The Executive Board, including the Governor and the Vice Governors, set monetary and exchange policy of the Republic of Serbia and maintain and strengthen stability of the financial system.

The Governor represents and is the agent of the Bank, s/he manages the Bank and is responsible for the implementation of decisions of the Executive Board and the Governor's Council, organization and operation of the NBS, preparation of regulations and decisions within the scope of authority of the NBS, for the adoption of regulations and decisions within the scope of authority of the NBS which, in accordance with the law, are not within the scope of authority of the Executive Board and the Governor's Council. The Governor shall be nominated by the President of the Republic and appointed by the National Assembly, for a term of six years, with the right to re-election. NBS has from two to four Vice Governors who are nominated by the Council at the recommendation of Governor for a six-year term, with a right of re-election.

The Council shall, at the recommendation of the Governor, adopt the financial plan and the annual financial statements of the NBS. The Council shall have a Chairman and four members appointed by the National Parliament, for a six-year term, with the right of re-election.

The Bank is a legal entity headquartered in Belgrade at 12 Kralja Petra Street. It comprises branch offices in Belgrade, Novi Sad, Niš, Kragujevac, Užice and Priština, and a specialized organization: the Institute for Banknotes and Coins – Topčider (hereinafter: the "ZIN").

As at 31 December 2010 the Bank had 2,159 employees (as at 31 December 2009: 2,288 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

a) Statement of compliance with International Financial Reporting Standards

The accompanying financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as approved by the International Accounting Standards Board (IASB).

b) Basis for measurement

Financial statements are prepared in accordance with the historical cost principle, with the exception of the following items:

- Gold and other precious metals which are valued at fair value,
- Securities at fair value through profit and loss valued at fair value,
- Securities available for sale valued at fair value,
- Properties valued at fair value,
- Investment properties valued at fair value,
- Provisions for severance payments/retirement benefits and anniversary awards (Note 26) measured at present value of future liabilities for severance payments/retirement benefits and anniversary awards.

c) Use of estimates

Preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) requires the use of certain accounting estimates. In addition, the Bank's management is required to use certain estimates when applying accounting policies of the Bank. Areas that are subject to estimates of greater significance to the financial statements of the Bank are presented in note 3.13.

TRANSLATION

d) Functional and reporting currency

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

e) Changes in accounting policies

Starting from 1 January 2009 the Bank changed its accounting policies relating to presentation of financial statements. The Bank applied Revised IAS 1-Presentation of Financial Statements which is effective from 1 January 2009 and modified presentation of financial statements in accordance with the requirements of the revised standard. Presentation of information relating to the comparative year is also adjusted in accordance with the requirements of the modified standard.

In accordance with the alternative approach within the framework of IAS 1, the Bank reported all income, expenses and other gains and losses of the period in two separate statements: income statement, comprising components of current year net profit, and statement of comprehensive income that starts with current year net profit and presents other gains and losses of the period as part of comprehensive income.

f) New standards, interpretations and amendments to published standards

As of the financial statements issuance date, the following standards, interpretations and amendments were issued, but were not effective for the accounting periods commencing on 1 January 2010:

- IFRS 9 – *Financial Instruments* (effective for financial periods starting 1 January 2013 but early adoption is permitted from 2009). This standard replaces IAS 39 – *Financial Instruments: Recognition and Measurement*, deals with classification and measurement of financial assets. The standard eliminates existing categories present in IAS 39: assets held to maturity, available for sale and loans and receivables.

Financial assets would be classified in one of these two categories at initial recognition:

- Financial assets measured at amortized cost,
- Financial assets measured at fair value.

A financial asset is measured at amortized cost if the following two criteria are met: it is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Gains and losses based on the valuation of financial assets at fair value through profit and loss will be recognized in the income statement, with the exception of investments in capital instruments not held for trading, where IFRS 9 allows, during initial recognition, later unchangeable choice that all fair value changes be recognized within other comprehensive income. Amount recognized within other comprehensive income cannot be recognized in the income statement.

TRANSLATION

With the exception of change in the classification of financial assets, Management does not expect that IFRS 9 will have materially significant influence on the Bank's financial statements during initial implementation, in view of the nature of the Banks' operations and type of financial assets that the Bank currently holds. Management has not decided if it will and when it will start with the early implementation of the standard.

- Revised IAS 24 – *Related Party Disclosures* (effective for financial periods starting 1 January 2011). Change refers to exemption of entities that are related with government in respect of disclosure of transactions and relationship with the following related parties: a) State and b) other related parties owned by the State. The revised standard also changes the definition of a related party with the result that a new relationship will be included in the definition, such as associated entities of controlling shareholder and entities that are under control, or jointly controlled, by management. When implemented, this new standard will reduce demands for disclosure of transactions and relationships with government related parties.
- Amendments to IAS 36 – *Impairment of assets* (effective from 1 February 2010 for financial periods starting at that date or later);
- Amendments to IAS 12 – *Income taxes* (effective from 1 January 2012 for financial periods starting at that date or later);
- Amendments to IFRS 7 – *Financial instruments - Disclosures* (effective from 1 July 2011 for financial periods starting at that date or later);
- IFRIC 19 – *Extinguishing Financial Liabilities With Equity Instruments* (effective from 1 July 2010 for financial periods starting at that date or later);
- IFRIC 14 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective from 1 July 2010 for financial periods starting at that date or later);
- Amendments to IAS 32 – *Financial Instruments: Presentation - Classification of Rights Issues* (effective from 1 February 2010 for financial periods starting at that date or later);
- Revised IFRS 3 – *Business Combinations* (effective from 1 July 2010 for financial periods starting at that date or later);

Management of the Bank is considering the impact of these standards on the future financial statements.

Management of the Bank believes that, in view of the nature of the Banks operations, the following standards, interpretations and amendments to standards that became effective for financial periods starting at 1 January 2010 or later, did not have effect on the financial statements of the Bank:

- Amendments to IFRS 2 *Share-based Payment* - Transactions with security payments within the Group reconciled with cash (effective for financial periods starting 1 January 2010);
- Revised IFRS 3 – *Business Combinations* (effective for financial periods starting 1 July 2009);

TRANSLATION

- Amendments to IFRS 5 – *Non-current Assets Held For Sale and Discontinued Operations* (effective from 1 January 2010 for financial periods starting from that date and later);
- Amendments to IAS 1 – *Presentation of Financial Statements* (effective from 1 January 2010 for financial periods starting from that date or later);
- Revised IAS 27 - *Consolidated and Separate Financial Statements* (effective for financial periods starting 1 July 2009);
- Amendments to IAS 39 – *Financial Instruments: Presentation and Measurement – eligible hedged items* (effective for financial periods starting 1 July 2009);
- IFRIC 17 – *Distribution of Non-cash Assets To Owners* (effective for financial periods starting 15 July 2009);
- IFRIC 18 – *Transfer of assets from customer* (effective for financial periods starting 1 July 2009);

g) Statement of cash flows

Cash presented in the Statement of Cash Flows comprises cash and current accounts (Note 12) and SDR holdings (Note 19).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In the process of producing these financial statements the Bank applied accounting policies explained in note 3. Listed accounting policies are consistently applied to all presented reporting periods.

3.1. Interest, fee and commission income and expenses

Interest income and expenses, including penalty interest and other operating income and expenses arising on interest-bearing assets and/or interest-bearing liabilities, are recorded on an accrual basis, by applying the effective interest rate. Fee and commission income and expenses from banking services are recognized in full when due/earned.

3.2. Foreign exchange translation

Business transactions performed in foreign currencies whose exchange rates are officially published by the Bank, are translated into dinars by applying the official average exchange rate effective as at transaction date, whereas for currencies whose exchange rates are not officially published by the Bank, recalculation is performed by applying the adequate exchange rate of the Bank effective as at transaction date.

Monetary assets and liabilities in foreign currency at the date of balance sheet, are recalculated in dinars by applying the official average exchange rate at that date (if the currency rate is published by the Bank on the official exchange rate list), or at appropriate rate of the Bank (for foreign currencies which are not published on the official exchange rate list).

TRANSLATION

Foreign exchange gains or losses resulting from the translation of transactions, and the monetary assets and liabilities denominated in foreign currencies are credited or charged to the income statement as foreign exchange gains/ (losses).

3.3. Financial instruments

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments and financial assets available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss relate to securities initially designated as fair value through profit and loss and trading securities.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Loans and receivables are carried at amortized value net of any reduction for impairment.

Securities held-to-maturity

Securities held-to-maturity entails investments in debt securities that an entity has the positive intention and ability to hold to maturity. These securities are carried at amortized value net of any reduction for impairment.

In 2010 and 2009 the Bank owned securities held-to-maturity, but their value was fully impaired.

Financial assets available-for-sale

Available-for-sale financial assets are non-derivative financial assets that are either initially designated as available for sale or are not classified into any other category. Equity investments in international financial institutions are stated at fair value. Equity investments in legal entities in country are stated at fair value if it is determinable, or at cost net of allowance for impairment, if fair value cannot be reasonably determined.

Securities available-for-sale for which there is an active market are reconciled with market value at the end of each month. Changes in market value of equity investments available-for-sale are stated within equity as a reserve arising from securities available-for-sale. Gains and losses arising from the sale of these securities are credited / charged to the income statement.

TRANSLATION

Financial liabilities at amortized cost

Financial liabilities carried at amortized cost comprise treasury and savings bills issued by the Bank with fixed maturity. Also, liabilities arising from repurchase transactions are carried at amortized cost. The difference between cost and repurchase value is recognized in the income statement over the borrowing maturity period based on the effective interest method.

Recognition date and fair value

Regular purchases and sales of placements are recognized as of the transaction date – date when the Bank makes payments or collects funds based on the purchase or sale of assets. All placements, except for financial assets at fair value through profit and loss, are initially recognized at fair value increased for transaction costs. Financial assets at fair value through profit and loss are initially recognized at fair value, while the costs of such transactions are included in the income statement. Placements are derecognized when the rights to the economic benefits arising from these investments have expired or have been ceded and when the Bank has substantially transferred all risks and rewards arising from ownership. Financial assets available-for-sale and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and investments held-to-maturity is measured at amortized cost using the effective interest rate method.

Gains and losses arising from the change in fair value of financial assets at fair value through profit and loss, including interest income, are recorded in the income statement of the period to which they belong. Dividends from shares available-for-sale are recorded in the income statement when the right to such receivable has been established.

The fair value of financial instruments listed on the stock exchange is determined based on effective selling prices. If such instruments are not quoted on an active marker (they are not listed on a stock exchange), the Bank determines their fair value in an assessment which implies the use of information on most recent market transactions involving such instruments, using the method of discounted cash flows or reliance on the option pricing model.

Impairment of financial assets

Financial assets, except for assets carried at fair value through profit and loss, are assessed for impairment at each statement of financial position. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset, where such loss event has an impact on the estimated future cash flows of the financial asset.

For shares that are not quoted on the market and are classified as available-for-sale, a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

For all other financial assets, objective evidence of impairment of a financial asset includes the following loss events:

- significant financial difficulty of the issuer or obligor; or
- a breach of contract, such as a default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

For financial assets stated at amortized cost, the amount of impairment is the difference between the carrying value of such assets and the present value of estimated future cash flows, discounted by applying the original effective interest rate linked to that financial asset.

TRANSLATION

The carrying value of financial assets is decreased for the impairment losses directly for all financial assets except for receivables where the carrying value is reduced either directly or through the use of an allowance account. When receivables cannot be collected, these are written off and charged to the account of allowance for impairment. Subsequent recovery of written-off receivables is credited to income in the income statement. Changes in the carrying amount of provisions formed against impairment are recorded within the income statement.

With the exception of equity instruments available-for-sale, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the loss previously recognized in the income statement in the amount that will not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

As for equity instruments available-for-sale – equity investments, impairment losses previously recognized through profit and loss are not reversed through the income statement. Any increase in fair value subsequent to loss is recognized directly in equity.

Derecognition

Financial assets cease to be recognized when the Bank loses control of the contractual rights governing such instruments, which occurs when the rights of use of such instruments have been realized, expired, abandoned, and/or ceded. Financial liabilities are derecognized when they cease to exist.

3.4. Cash and current accounts with commercial banks

Cash and cash equivalents include cash and cash balances on current accounts with commercial banks.

3.5. Gold and other precious metals

Gold and other precious metals are measured at market value as at balance sheet date, as determined by the fixed PM price at London Gold Exchange, reduced for the cost of standardization of bullion and other precious metals. Effects of changes in market values are presented within foreign exchange gains and losses.

3.6. Deposits with foreign banks

Deposits with foreign banks include deposits placed with banks for the purpose of loan approval, special purpose deposits originated in accordance with relevant regulations, as well as time deposits on accounts opened with foreign banks with excellent credit rating that are stated at nominal value increased by the effects of accrued interest.

3.7. Financial assets at fair value through profit and loss

Financial instruments at fair value through profit and loss mostly relate to first grade bonds issued by the Organization for Economic Cooperation and Development (OECD) member countries and in the statement of financial position, these securities are stated at market value as of the statement of financial position date, officially published on the financial market. The effects of changes in market values, as well as gains and losses earned or incurred in selling these bonds are presented within net gain/(loss) on change in fair value and trading of the securities.

TRANSLATION

While holding a trading security, the Bank accrues interest and records income from coupon collection. This income is disclosed under interest income. With discount securities, interest income is recorded within gain/(loss) on change in fair value and securities trading.

3.8. Inventories

The Bank's inventories are comprised of materials, work in progress and finished products, of ZIN and Treasury mostly. These inventories are stated at the lower of cost and net realizable value.

3.9. Property, plant, equipment, investment property and intangible assets

Plant, equipment and intangible assets are stated at cost net of accumulated depreciation and amortization and impairment losses, if any. The Bank applied the allowed alternative revaluation model of measurement of property. Fair value appraisal of buildings was performed as at 31 December 2010 and was based on market information provided by an independent appraiser. The revaluation decrease from property is recorded through the proportionate decrease in cost and accumulated depreciation of property, on the other hand, the revaluation surplus from property is recorded through the proportionate increase in cost and accumulated depreciation of property. The amounts of calculated revaluation of property are credited to equity under revaluation reserves for positive revaluation effects or charged to the income statement in case of negative revaluation effects.

Investment property is measured at fair value. Rental income derived from issuing investment property under lease is recorded within other operating income, pursuant to the income accrual principle. Fair value appraisal of investment property was performed as at 31 December 2010 and was based on market information provided by an independent appraiser.

The carrying value of property, plant and equipment and intangible assets is analyzed annually, for the purpose of determining any possible impairment. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated and the net book value is reduced to its recoverable value.

The calculation of depreciation of property, plant and equipment and intangible assets commences once such assets have been placed in use. Depreciation and amortization is calculated on a straight-line basis by applying the following annual rates in order to write off the assets over their estimated useful lives:

Buildings	2%
Computer equipment	25%
Furniture and other equipment	14.2%
Motor vehicles	20%
Intangible assets	25%

Repairs and maintenance of property, plant and equipment ensuring future benefits are expensed as incurred. The expenses are capitalized only if they increase the usefulness or extend the useful life of assets.

TRANSLATION

Gains arising on the disposal of property, plant and equipment are credited or charged to other income. Losses arising on the disposal or retirement of property, plant and equipment are determined and are credited to other expenses. The revaluation reserve included in equity in respect of an item of property is transferred directly to retained earnings when the asset is derecognized.

3.10. Managed funds on behalf of and for the account of third parties

The funds managed by the Bank on behalf of and for the account of third parties, for which the Bank charges fees, are not included in the Bank's statement of financial position and are classified in the off-balance sheet book.

3.11. Income Taxes/Deferred Taxes

The Bank is excused from paying income taxes.

3.12. Employee benefits

In accordance with the regulations effective in the Republic of Serbia, the Bank has an obligation to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee, by the employer in an amount calculated by applying the specific, legally prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

For short-term employee benefits, the Bank recognises in the income statement the undiscounted amount of short-term employee benefits, expected to be paid in exchange for the services provided.

For long-term benefits the Bank recognises the discounted amount of the benefit expected to be paid in exchange for services provided by employees. The Bank follows an established employee compensation plan based on internal regulations based on which employees are entitled to retirement benefits in the amount of three salaries earned in the month preceding the month when regular retirement conditions have been met, based on years of service or age limit, or in the amount of three average monthly salaries paid out in the Bank in the month which precedes the month in which retirement benefits are paid out, depending on which of the two amounts is higher. The latest estimate of present value of liabilities based on the benefits plan was carried out as at 31 December 2010.

The Bank uses the best estimates of variables for determining total costs of provisions for retirement benefits. The base assumptions for estimates are:

- 1) The discount rate of 13% refers on referential interest rate (key policy rate) of the Bank (11.5%) increased for additional percentage of risk (1.5%);
- 2) Expected salary growth rate: 4.50% in 2011, 4% in 2012, and 3.75% in 2013 and 3.75% from 2014 to 2024;
- 3) Fluctuation rate of employees: 8.26% - 9.97% in 2011, in next period without changes.
- 4) Disability rate: average rate 0.12% - 0.14%, based on useful data in last 5 years.
- 5) Maturity limit for pension: 65 ages for male and 60 for female.
- 6) Mortality tables are the latest available as published by the Statistics Bureau of Serbia 2001-2003. Separate probabilities were used for males and females.

TRANSLATION

Based on the same assumptions, the Bank made provisions for anniversary awards that Bank disburse in accordance with internal acts following the completion of a number of years of service by employees.

The Bank's financial statements as at 31 December 2010 include provisions for unused vacation days, provisions for retirement benefits after reaching entitlement, including provisions for jubilee awards. The Bank uses the actuarial Projected Unit Credit Method for determining present value of its liabilities, as well as all relevant actuarial assumptions, primarily demographic ones (mortality and disability), in accordance with IAS 19 – Employee Benefits.

3.13. Summary of significant accounting estimates

The presentation of the financial statements requires the Bank's management to make best estimates and reasonable assumptions that affects assets and liabilities amounts, as well as disclosures of contingent liabilities and receivables as of the date of preparation of the financial statements, and the income and expenses arising during the accounting period. These estimations and assumptions are based on information available to us, as of the date of preparation of the financial statements. Actual amounts may vary from these estimates.

Estimates and assumptions are subject to constant review. Changes to accounting estimates are recognized in the period when they are made if their impact is limited to that period or in future periods, in cases where the change impacts future periods as well.

Estimates and assumptions

Below are presented key assumptions and estimates relating to material items of the statement of financial position items.

Fair value of assets

It is the Bank's policy to disclose fair value information on those financial assets and financial liabilities for which published market information is readily available or such value may be calculated by applying some alternative valuation techniques, and whose fair value is materially different from their recorded amounts. As per the Bank's management, amounts presented in the financial statements reflect fair value which is most reliable and useful for financial reporting purposes, in accordance with International Financial Reporting Standards.

The fair value of financial instruments for which an active market does not exist is determined by applying adequate methods of estimating future cash flows of assets that are discounted by applying an adequate discount rate to their fair value. The Bank applies its professional judgment in the selection of adequate methods and assumptions.

TRANSLATION

Impairment of financial assets

The Bank assesses the collectability of loans, placements and other receivables and thereupon, it forms an allowance for impairment of items assessed as fully or partially uncollectible. The Bank's assessment is based on the analysis in accordance with the internal risks analysis methodology with regard to risks which the Bank's placements are exposed. The Bank's management assessed that no additional allowance for impairment should be made to the amount of allowances already recognized in the financial statements.

Depreciation and amortization charge and rates applied

The calculation of depreciation and amortization, as well as depreciation and amortization rates are based on the assessed economic useful life of property, equipment and intangible assets. Once a year, the Bank assesses economic useful life based on current assumptions.

Provisions for long term employee benefits

The Bank has independently calculated provisions for employee retirement benefits and jubilee awards by using its professional judgment to determine discount rate, income growth rate, employee turnover rate, based on available information.

4. INTEREST INCOME AND EXPENSE

In thousands of RSD	For the year ended 31 December	
	2010	2009
Interest income arising from:		
- loans in dinars	281,577	253,167
- deposits		
- in dinars	13,405	111,990
- in foreign currency	292,705	364,432
- securities		
- available-for-sale	279,377	918,786
- at fair value through profit and loss (coupon securities)	17,960,189	20,043,812
- other placements		
- in dinars	134	353,450
- in foreign currency	17,730	18,083
	<u>18,845,117</u>	<u>22,063,720</u>
Interest expenses arising from:		
- deposits	(3,942,368)	(5,095,357)
- REPO transactions	(8,926,791)	(15,373,259)
- issued treasury bills	-	(690,808)
- borrowings	(439,297)	(180,102)
- liabilities to IMF	(1,865,995)	(629,872)
- other	(325)	(1,192)
	<u>(15,174,776)</u>	<u>(21,970,590)</u>
Net interest income	<u>3,670,341</u>	<u>93,130</u>

TRANSLATION

5. FEE AND COMMISSION INCOME AND EXPENSE

In thousands of RSD	For the year ended 31 December	
	2010	2009
Fee and commission income:		
- in dinars, arising from domestic payment transfers	2,546,164	2,788,597
- in foreign currency:		
- positive arbitrage effects	58,458	272,864
- foreign exchange transactions and purchase of foreign currency cash from foreign banks	603,425	797,348
- other	286,710	228,340
	<u>3,494,757</u>	<u>4,087,149</u>
Fee and commission expense:		
- in dinars, arising from domestic payment transfers	(18,981)	(16,642)
- in foreign currency:		
- negative arbitrage effects	(27,428)	(254,400)
- foreign exchange transactions and purchase of foreign currency cash from foreign banks	(497,615)	(346,970)
- stand-by arrangement with IMF	(176,319)	(535,978)
- other	(51,798)	(96,039)
	<u>(772,141)</u>	<u>(1,250,029)</u>
Net fee and commission income	<u>2,722,616</u>	<u>2,837,120</u>

Fee and commission income in local currency in the amount of RSD 2,546,164 thousand earned in 2010 mostly relates to fees and charges in RTGS and clearing operations (RSD 1,042,755 thousand), income from forced collection (RSD 794,285 thousand), income from supervision over insurance sector (RSD 254,820 thousand), whereas the balance of RSD 454,304 thousand is associated with other fees and commissions.

6. GAINS AND LOSSES FROM FAIR VALUE CHANGE AND TRADING WITH SECURITIES

In thousands of RSD	For the year ended 31 December	
	2010	2009
Net gain/(loss) from fair value change of securities at fair value through profit and loss	801,407	(1,139,594)
Net gain/(loss) from sale of securities at fair value through profit and loss	1,661,663	(382,121)
Net gains from sale of securities available for sale	<u>3,180,246</u>	<u>-</u>
Net gain / (loss)	<u>5,643,316</u>	<u>(1,521,715)</u>

TRANSLATION

7. OTHER OPERATING INCOME

In thousands of RSD	For the year ended 31 December	
	2010	2009
Income from operations, ZIN	4,827,113	4,400,449
Income from the sale of blank bills of exchange	182,900	158,268
Rental income	69,431	63,583
Increase in inventories	67,844	390,200
Reduction of debts	117,702	4,648,739
Income from reversal of long term employees benefits (Note 26)	353,626	-
Income from revaluation of housing loans to employees	36,515	55,615
Dividend income	229,195	218,032
Other	220,516	1,787,403
Other operating income	6,104,842	11,722,289

Income from operations, ZIN, refers to income from sale of products that are produced by the Institute for Manufacturing Banknotes and Coins - ZIN, that operates within the National Bank of Serbia. Besides manufacturing banknotes and coins for circulation and numismatic money, ZIN also deals with production of documents, securities and other valuable and secured paper products.

8. GAINS AND LOSSES FROM IMPAIRMENT OF ASSETS

a) Structure of income and expenses

In thousands of RSD	For the year ended 31 December	
	2010	2009
Losses on impairment:		
- statement of financial position items	(87,114)	(48,926)
Expenses arising from interest write-off	-	(30)
	(87,114)	(48,956)
Reversal of impairment losses:		
- statement of financial position items	141,654	380,343
Income from collected written-of interest	200	206,443
	141,854	586,786
Net gain on impairment	54,740	537,830

b) Structure of allowances for impairment

In thousands of RSD	31 December	
	2010	2009
Allowances for impairment of:		
- cash and current accounts	683,689	582,210
- deposits with banks	2,383,179	2,005,872
- loans	4,046,947	3,757,660
- securities held to maturity	723,674	728,620
- other assets	4,724,702	3,729,069
Total	12,562,191	10,803,431

c) Movements on allowances for impairment accounts

In thousands of RSD	Cash and current accounts (Note 12)	Securities held to maturity (Note 17)	Deposits with banks (Note 13)	Loans (Note 18)	Other assets (Note 21)	Total
Opening balance	582,210	728,620	2,005,872	3,757,660	3,729,069	10,803,431
Charge for the year	-	-	-	2,336	53,160	55,496
Reversal of allowances for impairment	-	(4,926)	-	(52,224)	(132,234)	(189,384)
Foreign exchange losses / (gains)	101,479	-	377,307	339,785	1,081,793	1,900,364
Write-offs	-	(20)	-	(610)	(7,088)	(7,718)
Balance, end of the year	683,689	723,674	2,383,179	4,046,947	4,724,702	12,562,191

TRANSLATION

9. PERSONNEL EXPENSES

In thousands of RSD	For the year ended 31 December	
	2010	2009
Salaries, salary taxes, statutory contributions and benefits	3,868,297	3,654,134
Provision costs for long-term employee benefits (Note 26)	43,026	745,705
Severance payments	101,610	50,703
Temporary and seasonal employees	34,036	43,427
Jubilee awards	54,238	60,451
Financial assistance to employees	21,763	24,144
Retirement benefits	14,957	43,787
Remunerations to members of the Bank's Council	9,272	8,269
Other staff costs	6,020	5,931
Total personnel expenses	4,153,219	4,636,551

10. DEPRECIATION AND AMORTISATION

Depreciation expense as at 31 December 2010 amounts to RSD 1,552,718 thousand (31 December 2009: RSD 1,086,304 thousand).

TRANSLATION

11. OTHER EXPENSES

In thousands of RSD	For the year ended	
	2010	31 December 2009
Cost of materials	2,055,997	2,185,779
Cost of production services:		
- transportation services	3,222	4,740
- telecommunications	40,217	72,903
- automatic data transfer	79,295	45,516
- maintenance	258,435	249,573
- rental expenses	11,198	11,668
- marketing and advertising	7,127	6,302
- official gazettes and magazines	9,136	9,858
- cost of finishing, ZIN	148,658	249,710
- other services	58,675	24,551
Non-material expenses:		
- business trip expenses	55,358	48,172
- cost of employee transport	72,636	79,986
- commissions paid to voluntary pension funds	82,177	58,419
- professional training of employees	15,966	23,440
- intellectual services	106,833	65,102
- guarding property and money security	44,410	53,714
- public utilities	12,972	13,233
- entertainment	36,127	38,484
- insurance premiums	52,606	44,906
- cost of insuring cash in transport	8,881	9,969
- other non-material expenses	63,237	83,135
Tax expenses:		
- fees for the use of city construction land	58,518	63,455
- VAT payable	99,608	95,315
- other taxes payable	22,640	26,392
Contributions paid	4,370	4,655
Other costs	46,228	71,605
Losses on sale, disposal and write-offs of tangible and intangible assets	4,395	3,047
Transfer of tangible assets to the Ministry of Finances and Commercial Registers Agency	178,998	66,616
Other expenses	393,765	155,719
Total other expenses	4,031,685	3,865,964

TRANSLATION

12. CASH AND CURRENT ACCOUNTS

In thousands of RSD	31 December 2010	31 December 2009
Cash on hand:		
- in local currency	78	42
- in foreign currency	20,244,327	22,991,707
	20,244,405	22,991,749
Current accounts:		
- with domestic banks and NBS	9,915,747	1,472,293
- with foreign banks	41,775,847	3,899,075
	51,691,594	5,371,368
Other cash funds in foreign currency	1,592	1,420
Cash and current accounts	71,937,591	28,364,537
Allowance for impairment	(683,689)	(582,210)
Total cash and current accounts	71,253,902	27,782,327

SDR holdings on current accounts at IMF in the amount of RSD 234,065 thousand are presented in Note 19.

13. DEPOSITS WITH BANKS

In thousands of RSD	31 December 2010	31 December 2009
Deposits:		
- term deposits	64,401,490	180,348,535
- other deposits	29,270	29,270
- accrued interest	1,971	1,549
	64,432,731	180,379,354
Allowance for impairment		
- term deposits	(2,383,179)	(2,005,872)
	(2,383,179)	(2,005,872)
Total deposits with banks	62,049,552	178,373,482

Term deposits have been placed with foreign banks with maturity of several days up to three months at annual interest rate ranging from 0.01% to 4.63% in 2010, depending on the currency, and “call deposits” that do not have a specified maturity but have been withdrawn or raised in accordance with the Bank’s needs.

Managing of deposits with foreign banks is performed based on the Guidelines for Managing Foreign Currency Reserves, as explained in Note 30.

TRANSLATION

14. GOLD AND OTHER PRECIOUS METALS

In thousands of RSD	31 December 2010	31 December 2009
Standardized gold bullions	38,388,059	25,318,021
Gold deposited with foreign banks	3,617,384	2,383,495
Gold in other forms	5,124,306	3,376,405
Other precious metals	1,156,337	611,734
Total gold and other precious metals	48,286,086	31,689,655

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

In thousands of RSD	31 December 2010	31 December 2009
Coupon bonds	666,563,872	632,332,182
Discount securities	203,326,577	135,431,622
Placements entrusted to external manager	14,566,612	11,879,029
Total financial assets at fair value through profit and loss	884,457,061	779,642,833

Coupon securities relate to bonds issued by governments and central banks of OECD member countries and by international financial institutions amounting to RSD 666,563,872 thousand. These bonds are denominated in EUR, USD, GBP and CAD.

Annual interest rates on coupon securities ranged between 0.50% and 5.63% for bonds denominated in EUR, between, 0.37% and 6.5% for bonds denominated in USD, between 2.25% and 9% for bonds denominated in GBP and between 1.25% and 6% for bonds denominated in CAD.

Discounted securities relate to treasury bills issued by the governments of Germany, USA, France and Holland amounting to RSD 203,326,577 thousand and represent short-term securities denominated in EUR at annual interest rate ranging from 0.20% to 1.02% and those denominated in USD at interest rate ranging from 0.23% to 0.38% per annum.

Assets entrusted to external manager relate to securities managed by Western Assets Management Company Ltd, New York. These assets were invested in the securities of USA federal agencies directly supported by the state (Ginnie Mae) which have direct support (guarantee) of the federal US government.

Managing of financial assets at fair value through profit and loss is based on Guidelines for Managing Foreign Currency Reserves, as explained in Note 30.

TRANSLATION

16. FINANCIAL ASSETS AVAILABLE-FOR-SALE

In thousands of RSD	31 December 2010	31 December 2009
Bonds of the Republic of Serbia	-	10,701,120
Difference to face value	-	(749,078)
	-	9,952,042
Equity investments in dinars:		
- Recreatours d.o.o., Beograd	229,498	229,498
- Other	754	755
	230,252	230,253
Equity investments in foreign currency:		
- Bank for International Settlements, Basel	7,508,902	6,033,446
- S.W.I.F.T. srl	329	264
	7,509,231	6,033,710
Total financial assets available-for-sale	7,739,483	16,216,005

Bonds of the Republic of Serbia due on 31 December of 2010 were sold before maturity date, in April 2010, and amount of fair value reserves for available for sale securities formed in previous years within equity, was reversed through profit and loss account. Interest income was recognized within interest income (Note 4), and gain from sale of these securities was recognized in gains from sale of securities available for sale (Note 6).

17. SECURITIES HELD-TO-MATURITY

In thousands of RSD	31 December 2010	31 December 2009
Securities held-to maturity		
- commercial bills, bonds and bills of exchange issued by local banks in bankruptcy and liquidation	723,674	728,620
- allowance for impairment	(723,674)	(728,620)
Total	-	-

TRANSLATION

18. LOANS

In thousands of RSD	31 December 2010	31 December 2009
Loans:		
- loans to banks in bankruptcy and liquidation	2,179,157	1,851,993
- loans to banks from primary issue	616,840	638,678
- loans to the Republic of Serbia	1,295,672	1,335,275
- housing loans to employees	741,132	625,356
- interest	3,275	754
	<u>4,836,076</u>	<u>4,452,056</u>
Allowance for impairment:		
- loans to banks in bankruptcy and liquidation	(2,179,156)	(1,851,993)
- loans to banks from primary issue	(567,347)	(567,957)
- loans to the Republic of Serbia	(1,295,672)	(1,335,275)
- housing loans to employees	(4,772)	(2,435)
	<u>(4,046,947)</u>	<u>(3,757,660)</u>
Total loans	<u>789,129</u>	<u>694,396</u>

19. IMF MEMBERSHIP QUOTA AND SDR HOLDINGS

In thousands of RSD	31 December 2010	31 December 2009
IMF membership quota	57,103,312	48,925,911
SDR holdings	234,065	1,286,469
Provisions based on the engagements of funds with IMF	374,933	148,788
Total	<u>57,712,310</u>	<u>50,361,168</u>

As at 31 December 2010 the quota of the Republic of Serbia in the International Monetary Fund amounted to RSD 57,103,312 thousand (31 December 2009: RSD 48,925,911 thousand). The membership quota is denominated in special drawing rights in the amount of SDR 467,700 thousand (31 December 2009: SDR 467,700 thousand), and is collateralized with a bill of exchange issued by the Government of the Republic of Serbia.

TRANSLATION

20. PROPERTY, PLANT, EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS

The movements on property, plant, equipment, investment property and intangible assets are presented in the following table:

In thousands of RSD	Land	Buildings*	Equipment	Other assets	Property under construction	Total property, plant and equipment	Investment property*	Intangible assets
COST / REVALUED* AMOUNT								
Opening balance as at 1 January 2010	20,969	31,004,065	5,917,190	123,232	33,216	37,098,672	931,339	841,245
Increase	-	1,249,640	1,057,327	1,731	546,234	2,854,932	31,756	955,703
Additions	-	905	161,933	1,553	1,464,720	1,629,111	-	943,638
Transfer from investments in progress	-	23,668	894,822	178	(918,668)	-	-	-
Transfer from intangible assets and from account to account	-	-	-	-	-	-	-	12,065
Revaluation (increase in value on 820)	-	1,225,067	-	-	-	1,225,067	31,756	-
Other increases	-	-	572	-	182	754	-	-
Decrease	(950)	(6,963,015)	(331,257)	(77)	(19,164)	(7,314,463)	(190,345)	(5,374)
Sale, disposal and shortages	-	-	(284,466)	(21)	-	(284,487)	-	(1,620)
Transfer to the Ministry of Finances	(950)	(218,535)	(6,476)	-	-	(225,961)	-	-
Transfer to the APR	-	-	(32,348)	-	-	(32,348)	-	(3,581)
Transfer from intangible assets and from account to account	-	-	-	-	(11,784)	(11,784)	-	12,065
Revaluation (decrease in value trough 820)	-	(6,736,749)	-	-	-	(6,736,749)	(190,345)	-
Donations	-	-	(7,967)	(56)	-	(8,023)	-	-
Other decreases	-	(7,731)	-	-	(7,380)	(15,111)	-	(173)
Balance as at 31 December 2010	20,019	20,290,690	6,643,260	124,886	560,286	32,639,141	772,750	1,791,574
ACCUMULATED DEPRECIATION								
Opening balance as at 1 January 2010	-	15,649,849	3,072,290	18,497	-	18,740,636	-	422,844
Increase	-	1,502,885	573,675	1,111	-	2,077,671	-	371,241
Charge for the year	-	607,545	573,103	1,111	-	1,181,759	-	370,960
Revaluation	-	895,340	-	-	-	895,340	-	-
Transfer form intangible assets and from account to account	-	-	-	-	-	-	-	281
Other increases	-	-	572	-	-	572	-	-
Decrease	-	(4,326,669)	(342,244)	(21)	-	(4,650,934)	-	(3,807)
Transfer to the Ministry of Finances	-	(48,384)	(6,476)	-	-	(54,860)	-	-
Transfer to the APR	-	-	(29,661)	-	-	(29,661)	-	(2,084)
Sale, disposal and shortages	-	(4,007)	(280,140)	(21)	-	(284,168)	-	(1,723)
Revaluation	-	(4,274,179)	-	-	-	(4,274,179)	-	-
Donations	-	-	(7,967)	-	-	(7,967)	-	-
Other decreases	-	(99)	-	-	-	(99)	-	-
Balance as at 31 December 2010	-	12,826,065	3,321,721	19,587	-	16,167,373	-	790,278
Net book value 31 December 2010	20,019	12,464,625	3,321,539	105,299	560,286	16,471,768	772,750	1,001,296
Net book value 31 December 2009	20,969	15,354,216	2,844,900	104,735	33,216	18,358,036	931,339	418,401

* see Note 3.9 about measurement

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

TRANSLATION

21. OTHER ASSETS

In thousands of RSD	31 December 2010	31 December 2009
Advances paid	2,387,448	1,542,797
Fee and commission receivables	176,758	185,514
Receivables from the sale of finished products and services	843,014	421,866
Receivables from employees	1,561	1,938
Other operating receivables	941,467	679,238
Inventories	3,389,128	3,299,115
Deferred other expenses	36,973	52,948
Other receivables	2,070,415	1,711,512
	<u>9,846,764</u>	<u>7,894,928</u>
Allowance for impairment:		
Advances paid	(1,505,621)	(1,063,093)
Fee and commission receivables	(86,321)	(101,219)
Receivables from the sale of finished products and services	(73,540)	(68,902)
Receivables from employees	(1,037)	(1,034)
Other operating receivables	(915,062)	(652,447)
Inventories	(141,119)	(153,724)
Other receivables	(2,002,002)	(1,688,650)
	<u>(4,724,702)</u>	<u>(3,729,069)</u>
Total other assets	<u>5,122,062</u>	<u>4,165,859</u>

22. LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

In thousands of RSD	31 December 2010	31 December 2009
Transaction deposits in dinars:		
- mandatory reserves of banks	58,091,986	126,665,042
- central deposits	9,705,248	1,267,400
- other transaction deposits in dinars	579,416	358,370
	<u>68,376,650</u>	<u>128,290,812</u>
Transaction deposits in foreign currency:		
- mandatory reserves of banks	337,222,178	262,927,990
- mandatory leasing reserves of banks	11,565,861	15,831,796
- other transaction deposits in foreign currency	10,619	10,473
	<u>348,798,658</u>	<u>278,770,259</u>
Total transaction deposits	417,175,308	407,061,071
Other deposits in dinars:		
- liquidity surpluses	11,443,000	6,960,000
- dinars in banks' vaults and Treasury Department	18,712,472	18,399,172
	<u>30,155,472</u>	<u>25,359,172</u>
Other deposits in foreign currency	38,496	514,234
Total other deposits	30,193,968	25,873,406
Borrowings received in foreign currency:		
- China Export & Credit Insurance Corporation - SINOSURE	7,858,090	6,928,943
Liabilities from REPO transactions	46,900,000	151,675,000
Liabilities towards Montenegro arising from securities and dividends in Bank for International Settlement	28,900	22,061
Other financial liabilities	124,781	105,643
	<u>54,911,771</u>	<u>158,731,647</u>
Total other liabilities	54,911,771	158,731,647
Total liabilities for interest	19,457	15,225
Accrued interest expenses	235,588	413,211
Total liabilities to banks and other financial institutions	<u>502,536,092</u>	<u>592,094,560</u>

Transaction deposits

Transaction deposits in dinars represent current accounts of the Bank's customers and mandatory reserves in dinars held on the current accounts of commercial banks which are under obligation to maintain the average balance of their dinar current accounts above the level of calculated mandatory reserves in dinars.

TRANSLATION

The Bank pays interest of 2.5% p.a. on the realized average daily balance of calculated mandatory reserves in dinars if it does not exceed the balance of the required mandatory reserve in dinars. Interest is calculated on a monthly basis.

Mandatory reserve in foreign currency refers to the obligation of commercial banks to hold non-interest bearing deposits with the Bank in accordance with rules prescribed by the Law on the National Bank of Serbia and relevant bylaws.

Borrowings in foreign currency

Loan received from the Export-Import Bank of China, in the amount of RSD 100 million, was initially approved in December 1999, with a grace period until July 2002, and it was agreed that the loan will be repaid in semi-annual instalments till January 2005. During 2009 the agreement was concluded to transfer all rights of this loan to China Export & Credit Insurance Corporation-SINOSURE. During 2010 repayment of the loan is carried out in accordance with unchanged conditions, in semi-annual instalments.

Liabilities from REPO transactions

Liabilities arising from repurchase transactions of RSD 46,900,000 thousand are associated with the Bank's liabilities towards domestic banks based on debts incurred through agreements on repurchase of treasury bills. These are short-term liabilities with fixed maturities. During 2010, the Bank was charging interest at the rate ranging from 8% to 11.50% annually (in 2009: from 9.50% to 16.75%).

TRANSLATION

23. LIABILITIES TO THE GOVERNMENT AND OTHER DEPOSITORS

In thousands of RSD	31 December 2010	31 December 2009
Transaction deposits in dinars:		
- deposits of the Ministry of Finances and Treasury Dep.	61,978,232	69,519,644
- other transaction deposits in dinars	664	93,731
	<u>61,978,896</u>	<u>69,613,375</u>
Transaction deposits in foreign currency:		
- deposits of the Ministry of Finances and Treasury Dep.	691,380	959,807
- other transaction deposits in foreign currency	4,697,109	5,313,477
	<u>5,388,489</u>	<u>6,273,284</u>
Total transaction deposits	67,367,385	75,886,658
Other deposits in dinars	-	3,070
Other deposits in foreign currency:		
- Revolving Loan Fund deposit	19,123	6,435
- special purpose deposit - Central register, deposit and clearing securities a.d. Belgrade	1,183,250	907,984
- special purpose deposits – donation accounts	2,372,770	1,024,531
- deposits of the Ministry of Finances and Treasury Dep.	575,664	955,837
- deposits of Deposit Insurance Agency	12,374,588	8,390,255
- other special purpose deposits	624,756	144,874
- deposits relating to seized foreign currency cash	1,248,542	1,033,979
- term deposits	45,005,357	42,096,690
- other deposits in foreign currency	2,656,245	2,017,994
	<u>66,060,295</u>	<u>56,578,579</u>
Total other deposits	66,060,295	56,581,649
Total liabilities for interest	67,902	89,195
Accrued interest expenses	12,290	3,673
Total liabilities to the Government and other depositors	133,507,872	132,561,175

TRANSLATION

24. LIABILITIES TO THE IMF

In thousands of RSD	31 December 2010	31 December 2009
Securities and other liabilities regulating the Bank's status with the IMF	56,971,695	48,803,596
Stand-by Arrangement	161,291,231	106,821,572
Liabilities to the IMF in SDR	7,051,698	6,051,432
Accrued interest	362,330	159,532
Total liabilities to the IMF	225,676,954	161,836,132

As at 31 December 2010, total amount of drawn (used) assets from the stand-by arrangement amounted to SDR 1,321,042 thousand, which is 282.5% of the quota of the Republic of Serbia in the IMF, with maturity end of 2015.

25. DINARS IN CIRCULATION

Dinars in circulation in the amount of RSD 91,802,658 thousand (31 December 2009: RSD 95,521,662 thousand) represent the Bank's liability towards dinar payment traffic participants. This amount does not include money in circulation held in vaults of commercial banks and Treasury Department within the Ministry of Finance and it is reported under Liabilities to banks and other financial institutions (Note 22).

26. PROVISIONS

In thousands of RSD	31 December 2010	31 December 2009
Provisions for employees' retirement benefits	294,361	332,595
Provisions for employees' jubilee awards	361,626	677,019
Provisions for unused vacation	159,016	115,989
Total provisions	815,003	1,125,603

Movements in provisions

In thousands of RSD	Provisions for retirement benefits	Provisions for jubilee awards	Provisions for unused vacation	Total
Balance as at 1 January 2010	332,595	677,019	115,989	1,125,603
Charges during the year (Note 9)	-	-	43,026	43,026
Utilized provisions in 2010	-	-	-	-
Reversal of provisions during 2010 (Note 7)	(38,233)	(315,393)	-	(353,626)
Total as at 31 December 2010	294,362	361,626	159,015	815,003

The basic assumptions taken into account in the calculation of provisions for long-term benefits of employees are shown in Note 3.12.

27. OTHER LIABILITIES

In thousands of RSD	31 December 2010	31 December 2009
Accounts payable:		
- domestic	479,981	595,564
- foreign	69,012	495,199
Advances received:		
- in dinars	47,427	13,955
- in foreign currency	5,105	4,648
Salary liabilities	1,673	63,546
Accrued expenses – office building on Slavija Square	6,182	10,003
Foreign exchange liabilities to domestic banks arising from the conversion of foreign currency cash	119,067	149,651
Liabilities arising from inheritance	40,070	35,195
Other accruals	10,280	23,188
Tax liabilities	58,469	61,639
Other operating liabilities	433,641	846,987
Total other liabilities	1,270,907	2,299,575

Tax liabilities in the amount of RSD 58,469 thousand (31 December 2009: RSD 61,639 thousand) relate to liabilities arising from VAT and liabilities for other taxes and contributions owed by employer for salaries and wages.

28. EQUITY

The structure of equity is presented in the following table:

In thousands of RSD	31 December 2010	31 December 2009
State-owned capital	71,102,756	35,508,972
Special reserves	31,107,163	14,750,324
Revaluation reserves	8,587,139	10,881,931
Reserves of securities available-for-sale	5,508,079	7,523,109
Retained earnings	83,740,776	54,530,458
Total equity	200,045,913	123,194,794

The sole owner of the Bank is the Republic of Serbia.

The Bank's equity comprises capital and reserves. In accordance with the Law on the National Bank of Serbia, the minimal amount of basic capital amounts to RSD 10 billion. The basic capital of the Bank on 31 December 2010 amounted to RSD 71,102,756 thousand (31 December 2009: RSD 35,508,972 thousand), which is above the threshold prescribed by Law.

According to the new Law, in force from July 2010, until the minimum amount of basic capital is achieved, the entire profit of the Bank is allocated to the basic capital. Upon reaching the minimum amount of basic capital of RSD 10 billion, the entire profit of the Bank is allocated to special reserves of the National Bank of Serbia until such reserves shall have reached the level of RSD 20 billion.

Upon reaching the minimum amount of basic capital and special reserve amount referred to in the preceding paragraph, the profit share originating from exchange rate gains and revaluation reserves of the National Bank of Serbia is distributed to basic capital (33.3%) and to special reserves (66.7%), and the remaining profit is distributed to basic capital (10%), special reserves (20%) and to the Budget of the Republic of Serbia (70%).

In May 2010, based on the Governor's proposal and in accordance with the Law then in force, the Council of the Bank reached the Decision on adoption of the Financial Statements for the year 2009 on which basis the Bank distributed profit from 2009.

Total revenue surplus over expenses in the amount of RSD 54,530,548 thousand consists of realized revenue surplus over expenses in the amount of RSD 4,079,835 thousand and unrealized revenue surplus over expenses in the amount of RSD 50,450,623 thousand (of which net foreign exchange gains amounted to RSD 50,442,962 and gain from cancellation of revaluation reserves from property amounted to RSD 7,661 thousand).

In accordance with the Decision, realized revenue surplus over expenses of RSD 4,079,835 thousand was allocated to special reserves in the amount of RSD 1,500,000 thousand and into the Budget of Republic of Serbia in the amount of RSD 2,579,835 thousand. Unrealized revenue surplus over expenses, in the amount of RSD 50,450,623 thousand was distributed into the basic capital in the amount of RSD 35,593,784 thousand and into special reserves in the amount of RSD 14,856,839 thousand.

TRANSLATION

29. OFF- BALANCE SHEET ITEMS

In thousands of RSD	31 December 2010	31 December 2009
a) Managed funds on behalf of third parties		
- in dinars	1,328,063	1,137,916
- in foreign currency	995,042,433	820,069,778
	<u>996,370,496</u>	<u>821,207,694</u>
b) Guarantees, collaterals received, commitments		
Guarantees and other sureties in dinars	2,698	1,770
Guarantees and other sureties in foreign currency	-	1,922,225
Securities under pledge and other collaterals received	18,065,441	29,787,360
Other irrevocable commitments:		
- in dinars	20,096	18,221
- in foreign currency	5,324,734	6,360,478
	<u>23,412,969</u>	<u>38,090,054</u>
c) Other off-balance sheet items		
Suspended interest income	4,087,271	3,074,854
Other off-balance sheet items	519,904,498	517,053,772
	<u>523,991,769</u>	<u>520,128,626</u>
d) Dinars in circulation and dinars not in circulation		
Cash in circulation	110,515,133	113,920,835
Inventories of banknotes not in circulation	127,193,235	44,610,245
Inventories of cash coins not in circulation	379,141	378,774
Other	1,365,181	94,410
	<u>239,452,690</u>	<u>159,004,264</u>
Total off-balance sheet items	<u>1,783,227,924</u>	<u>1,538,430,638</u>

- a) From the total amount of managed funds on behalf of third parties, the portion amounting to RSD 251,777,162 thousand is associated with the transactions performed in the name and for the account of the Republic of Serbia in respect of the settlement of SRJ (Federal Republic of Yugoslavia) public debt arising from foreign currency savings of retail customers and regulating the public debt of SRJ related to agreements on foreign currency deposits of retail customers placed with Dafiment banka a.d., Beograd in liquidation and from foreign currency funds placed with Banka Crne Gore d.d., Podgorica. The Bank acts as an agent in these operations.
- b) From the total amount of securities under pledge and other collaterals received, RSD 16,769,000 thousand refers to securities received as a pledge under the basis of approved loans to banks, and the remaining amount refers to received mortgages as collateral for housing loans given to employees, and also received guarantees from regular business operations. An amount of irrevocable commitments denominated in foreign currency relate to deal tickets for spot sale of currencies at the interbank foreign currency market meeting.
- c) From the total amount of other off-balance sheet items, an amount of RSD 500,000,000 thousand refers to unissued treasury bills intended for REPO transactions.

TRANSLATION

- d) From the total amount of dinars in circulation and dinars not in circulation, the amount of RSD 110,515,133 thousand relates to cash in circulation representing funds covered by the transaction participants' money. Inventories of banknotes of RSD 127,193,235 are associated with the money not covered by the transaction participants' money and located in the Bank's vaults.

30. RISK MANAGEMENT

Basic financial risks to which the National Bank of Serbia is exposed to in its daily operations are the following:

- credit risk,
- liquidity risk,
- interest rate risk,
- currency risk.

Given that the primary purpose of the National Bank of Serbia is to preserve stability of prices and financial stability in the Republic of Serbia, its financial risk management framework is different from those of other commercial financial institutions. The majority of financial risks in the Bank occur based on the management of foreign currency reserves and based on financial market operations.

Managing foreign currency reserves is based on the Guidelines for Managing Foreign Currency Reserves of the National Bank of Serbia determined on the annual basis by the Executive Board. These Guidelines define the criteria for investing foreign currency reserves, targets for the use of foreign currency reserves, global frameworks for placements, etc. Based on these Guidelines, the Investment Committee of the National Bank of Serbia prepares the Proposal of the Operational Guidelines regarding the management of foreign currency reserves on a quarterly basis and submits them to the Executive Board for adoption. The implementation of Operational Guidelines regarding foreign currency reserve management is performed within the Sector for Foreign Currency Operations within the National Bank of Serbia. This Sector also includes the Division for Risk Control and Management that is in charge of design and maintenance of the framework for financial risk management in the Bank. This Division monitors risks on a daily basis and reports to the Executive Board on the risk analysis. All organizational parts of the Bank are also subject to periodic internal audits.

As with the majority of central banks, the very nature of the Bank's business operations and its function makes it also exposed to a set of operational and reputational risks.

Credit risk

The basic exposure of the Bank to credit risk is inherent principally to managing foreign currency reserves. When investing foreign currency reserves, the Bank relies on the following principles:

- 1 safety,
- 2 liquidity and
- 3 profitability.

The analysis and measurement of credit risk inherent in the NBS portfolio is performed in accordance with the generally accepted methods, including the requirements of minimum credit rating.

Securities subject to investments must be rated as Aa1, according to the Moody's Investor Service or AA+ rating according to Standard Poor's.

TRANSLATION

Banks keeping deposits placed by the NBS that are not collateralized, must have:

- minimum long-term credit rating of A1 according to Moody's Investor Service, or rating of A+ according to Standard Poor's,
- minimum financial strength (Financial Strength Moody's) of C+,
- minimum share capital of USD 5 billion.

For each bank, individual credit limit is determined based on the bank's credit rating, prior experience in operations with these banks and by analyzing data on their business performance. Individual credit limits are determined quarterly, by means of Operational Guidelines.

Banks keeping deposits placed by the NBS that are collateralized (REPO deposits) must have:

- minimum long-term credit rating of A2 according to Moody's Investor Service, or rating of A according to Standard Poor's,
- collateral of adequate quality, i.e. the collateral must be comprised of securities included in the NBS investment Guidelines.

There are no limitations on placements with central banks and international financial institutions.

The exception to the previous paragraphs relates to funds held on the regular current accounts of the NBS held with banks without the required credit rating, used for payment transactions performed abroad.

Financial instruments (assets and liabilities)

The following table presents the net exposure of the Bank inherent in financial assets and liabilities as at 31 December 2010 and 31 December 2009:

TRANSLATION

In thousands of RSD	31 December 2010	31 December 2009
FINANCIAL ASSETS		
Cash and current accounts	71,253,902	27,782,327
Deposits with banks	62,049,552	178,373,482
Gold and other precious metals	48,286,086	31,689,655
Financial assets at fair value through profit and loss	884,457,061	779,642,833
Financial assets available for sale	7,739,483	16,216,005
Loans	789,129	694,396
IMF membership quota and SDR holdings	57,712,310	50,361,168
Other assets	992,220	540,765
Total	1,133,279,743	1,085,300,631
FINANCIAL LIABILITIES		
Liabilities to other banks and financial institutions	502,536,092	592,094,560
Liabilities to the Government and other depositors	133,507,872	132,561,175
Liabilities to the IMF	225,676,954	161,836,132
Dinars in circulation	91,802,658	95,521,662
Other liabilities	1,218,374	2,280,971
Total	954,741,950	984,294,500

Maximum exposure to credit risk

The following table shows the maximum exposure of the Bank to credit risk, net:

In thousands of RSD	31 December 2010	31 December 2009
FINANCIAL ASSETS		
Deposits with banks	62,049,552	178,373,482
Financial assets at fair value through profit and loss	884,457,061	779,642,833
Financial assets available for sale	-	9,952,042
Loans	789,129	694,396
Other assets	992,220	540,765
Total	948,287,962	969,203,518

31 December 2010

TRANSLATION

Maximum exposure to credit risk

The following table shows the structure of the Bank's assets exposed to credit risk:

In thousands of RSD	Not due and not impaired	Impaired	Total gross	Allowance for impairment	Total net
Deposits with banks	62,049,552	2,383,179	64,432,731	(2,383,179)	62,049,552
Financial assets at fair value through profit and loss	884,457,061	-	884,457,061	-	884,457,061
Securities held-to-maturity	-	723,674	723,674	(723,674)	-
Loans	789,129	4,046,947	4,836,076	(4,046,947)	789,129
Other assets	992,220	3,077,962	4,070,182	(3,077,962)	992,220
31 December 2010	948,287,962	10,231,762	958,519,724	(10,231,762)	948,287,962
Deposits with banks	178,373,482	2,005,872	180,379,354	(2,005,872)	178,373,482
Financial assets at fair value through profit and loss	779,642,833	-	779,642,833	-	779,642,833
Financial assets available for sale	9,952,042	-	9,952,042	-	9,952,042
Securities held-to-maturity	-	728,620	728,620	(728,620)	-
Loans	694,396	3,757,660	4,452,056	(3,757,660)	694,396
Other assets	540,765	2,512,252	3,053,017	(2,512,252)	540,765
31 December 2009	969,203,518	9,004,404	978,207,922	(9,004,404)	969,203,518

The Bank did not reschedule its receivables during 2010 and 2009.

The Bank did not receive tangibles in lieu of debt settlement during 2010 and 2009.

Concentration of credit risk in financial assets

a) Regional concentration

In thousands of RSD	Serbia	European Union	USA and Canada	Other	Total
FINANCIAL ASSETS					
Deposits with banks	31,241	38,623,710	4,368,339	19,026,262	62,049,552
Financial assets at fair value through profit and loss	-	719,321,045	165,136,016	-	884,457,061
Loans	789,129	-	-	-	789,129
Other assets	969,027	23,193	-	-	992,220
Total as at 31 December 2010	1,789,397	757,967,948	169,504,355	19,026,262	948,287,962
Total as at 31 December 2009	11,218,022	790,992,665	155,315,797	11,677,034	969,203,518

b) Concentration per industries

In thousands of RSD	Banks	Public sector (State and other public enterprises)	Other financial institution	Sector of other entities	Retail customers	Total
FINANCIAL ASSETS						
Deposits with banks	47,430,269	-	14,619,283	-	-	62,049,552
Financial assets at fair value through profit and loss	98,223,917	733,845,975	52,387,169	-	-	884,457,061
Loans	52,767	-	-	-	736,362	789,129
Other assets	113,697	804,552	131	73,280	560	992,220
Total as at 31 December 2010	145,820,650	734,650,527	67,006,583	73,280	736,922	948,287,962
Total as at 31 December 2009	252,843,218	660,940,874	54,255,740	523,777	639,909	969,203,518

c) Concentration per credit rating

In thousands of RSD	31 December 2010	31 December 2009
Coupon bonds:		
No rating (no risk)*	131,554,387	137,744,827
AAA	535,009,485	491,932,132
AA+	-	2,655,223
	<u>666,563,872</u>	<u>632,332,182</u>
Discount securities:		
No rating (no risk)*	19,015,016	-
AAA	184,311,561	131,639,536
AA+	-	3,792,086
	<u>203,326,577</u>	<u>135,431,622</u>
Placements entrusted to external manager:		
AAA	14,566,612	11,879,029
	<u>14,566,612</u>	<u>11,879,029</u>
Term deposits:		
No rating (no risk)**	18,987,622	9,852,574
AAA	40,932,500	167,298,193
AA+	-	-
AA	1,711,800	532,071
AA-	160,078	659,825
A+***	226,311	-
	<u>62,018,311</u>	<u>178,342,663</u>
Other financial assets subject to credit risk analysis – no rating:	1,812,590	11,218,022
Total	<u>948,287,962</u>	<u>969,203,518</u>

* Securities issued by the US Federal Government are not subject to credit rating and are treated as zero risk securities.

** Deposits with FED and BIS Basel bank are not subject to credit rating and are treated as investments without risk.

*** Composite rating of the bank is A+, and funds are held on call account.

Liquidity risk

Liquidity risk relates both to the risk of inability to finance the Bank's assets from funds with equal maturities and interest rates, and to the risk of not being able to collect assets at adequate price and within agreed timelines.

The Bank is one of the significant sources of financing for commercial banks in Serbia. Its daily activities are focused on ensuring the necessary liquidity, i.e. settlement of all liabilities when due. The Bank relies on numerous sources of financing (deposits, securities issued, loans and others). In this manner, the flexibility of sources of financing is increased, the dependence on a single source is diminished and generally the price of financing source is decreased. The Bank maintains a balance between the continuity of its financing and flexibility of sources of financing by relying on sources with different maturities.

TRANSLATION

The Bank assesses liquidity risk by identifying it and by controlling changes in the sources of financing necessary to attain business targets determined in the Bank's strategy. In addition, as a part of liquidity risk management strategy, the Bank is in possession of a portfolio of liquid assets, including funds held on accounts with foreign banks and bonds of the OECD member countries, in line with guidelines for managing monetary reserves.

The following table presents the analysis of maturities of the Bank's assets and liabilities according to their contractually-agreed terms of payment or assumed liquidity. The contractual maturities of assets and liabilities are determined based on the outstanding agreed maturity periods as of the statement of financial position date.

In thousands of RSD	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Without specified maturity	Total
Cash and current accounts	71,253,902	-	-	-	-	-	71,253,902
Deposits with banks	61,247,719	-	-	-	-	801,833	62,049,552
Gold and other precious metals	48,286,086	-	-	-	-	-	48,286,086
Financial assets at fair value through profit and loss	18,778,680	106,217,050	196,628,489	494,318,761	53,947,470	14,566,611	884,457,061
Financial assets available-for-sale	-	-	-	-	-	7,739,483	7,739,483
Loans	3,274	29,956	24,614	92,056	639,229	-	789,129
IMF membership quota and SDR holdings	234,065	-	-	-	-	57,478,245	57,712,310
Property, plant, equipment, investment property and intangible assets	-	-	-	-	-	18.245.814	18.245.814
Other assets	983,540	4,267	3,248,696	5,315	2,253	877,991	5,122,062
	200,787,266	106,251,273	199,901,799	494,416,132	54,588,952	99.709.977	1.155.655.399
Liabilities to banks and other financial institution	126,969,020	-	-	3	8,030,478	367,536,591	502,536,092
Liabilities to the Government and other depositors	131,657,798	1,850,074	-	-	-	-	133,507,872
Liabilities to the IMF	-	362,330	-	1,321,042	-	223,993,582	225,676,954
Provisions	-	-	-	-	-	815,003	815,003
Dinars in circulation	-	-	-	-	-	91,802,658	91,802,658
Other liabilities	1,096,417	-	-	-	-	174,490	1,270,907
	259,723,235	2,212,404	-	1,321,045	8,030,478	684,322,324	955,609,486
Liquidity gap as at 31 December 2010	(58,935,969)	104,038,869	199,901,799	493,095,087	46,558,474	(584.612.347)	200.045.913
Liquidity gap as at 31 December 2009	300,356,066	(1,560,169)	13,174,332	(106,748,832)	(6,383,567)	(75,643,036)	123,194,794

31 December 2010

TRANSLATION

Fair value information

The following table presents a comparison of carrying values (as adjusted for impairment) and fair values of all financial assets and liabilities items of the Bank as at 31 December 2010 and 2009:

In thousands of RSD	Carrying value		Fair value	
	2010	2009	2010	2009
FINANCIAL ASSETS				
Cash and current accounts	71,253,902	27,782,327	71,253,902	27,782,327
Deposits with banks	62,049,552	178,373,482	62,049,552	178,373,482
Gold and other precious metals	48,286,086	31,689,655	48,286,086	31,689,655
Financial assets at fair value through profit and loss	884,457,061	779,642,833	884,457,061	779,642,833
Financial assets available for sale	7,739,483	16,216,005	7,739,483	16,216,005
Loans	789,129	694,396	789,129	694,396
IMF membership quota and SDR holdings	57,712,310	50,361,168	57,712,310	50,361,168
Other assets	992,220	540,765	992,220	540,765
Total	1,133,279,743	1,085,300,631	1,133,279,743	1,085,300,631
FINANCIAL LIABILITIES				
Liabilities to banks and other financial institutions	502,536,092	592,094,560	502,536,092	592,094,560
Liabilities to the Government and other depositors	133,507,872	132,561,175	133,507,872	132,561,175
Liabilities to the IMF	225,676,954	161,836,132	225,676,954	161,836,132
Dinars in circulation	91,802,658	95,521,662	91,802,658	95,521,662
Other liabilities	1,218,374	2,280,971	1,218,374	2,280,971
Total	954,741,950	984,294,500	954,741,950	984,294,500

What follows are the main methods and assumptions used in the assessment of fair value of financial instruments presented in the table.

(a) Financial assets at fair value through profit and loss

Assets held for sale are associated with securities issued by the governments and central banks of OECD member states and international financial institutions, and are measured at fair value based on the market prices published on financial markets.

(b) Securities available-for-sale

Securities available-for-sale are measured at the best available fair value assessment through cash flow discounting by use of market interest rate.

(c) Loans and receivables

Loans and receivables are measured at amortized cost net of any reduction for impairment, using effective interest rate method.

TRANSLATION

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instruments.
- Level 2: Valuation inputs which are not quoted market price for identical instruments in market, instead are based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets from similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation techniques include inputs not based on observable and available data and as such have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant adjustments or assumptions are required to reflect difference between the instruments.

In thousands of RSD	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss	884,457,061	-	-	884,457,061
Financial assets available for sale	-	7,508,902	230,581	7,739,483
31 December 2010	884,457,061	7,508,902	230,581	892,196,544
Financial assets at fair value through profit and loss	779,642,833	-	-	779,642,833
Financial assets available for sale	-	15,985,488	230,517	16,216,005
31 December 2009	779,642,833	15,985,488	230,517	795,858,838

Interest rate risk

Interest rate risk comprises risk from changes in interest rates that could cause interest bearing assets and liabilities to mature or be contractually rescheduled over a different period and in different size. The Bank manages interest risk in the following way:

- by determining interest rates, which it further monitors and adjusts for the purpose of achieving objectives of the adopted monetary policy (mandatory reserve in dinars and in foreign currency, foreign currency deposits in banks associated with foreign currency savings of retail customers);
- by holding deposits placed by the state and its institutions;
- by maintaining funds on current accounts and by deposits with up to one month maturities and with maturities from 1 to 3 months as placed with foreign banks, and by investing into highly liquid bonds of governments and central banks of OECD member states.

TRANSLATION

The following table presents average annual interest rates for most significant interest-bearing financial instruments disclosed in the statement of financial position as at 31 December by most important currencies:

31 December 2010

	RSD (%)	EUR (%)	USD (%)	SDR (%)
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FINANCIAL ASSETS

Current accounts with foreign banks	-	0.44	0.17	-
Deposits with foreign banks	-	0.17-0.95	0.01-0.83	-
Financial assets at fair value through profit and loss	-	0.20-5.62	0.23-6.5	-

FINANCIAL LIABILITIES

Mandatory reserves of banks in dinars	2.5	-	-	-
Term deposits	-	0.25-0.79	0.00-0.36	-
Loans	-	-	1.69-2.27	-
Liabilities arising from REPO transactions	8.00-11.5	-	-	-
Liabilities to the IMF	-	-	-	0.22-1.41

31 December 2009

	RSD (%)	EUR (%)	USD (%)	SDR (%)
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FINANCIAL ASSETS

Current accounts with foreign banks	-	0.71	0.01-0.14	-
Deposits with foreign banks	-	0.15-1.93	0.00-0.96	-
Financial assets at fair value through profit and loss	-	0.28-5.75	0.6-6.5	-
Financial assets available for sale	8.5	-	-	-

FINANCIAL LIABILITIES

Required reserves of banks in dinars	2.5	-	-	-
Term deposits	-	0.05-2.66	0.00-0.93	-
Borrowings	-	-	2.16-2.84	-
Liabilities arising from REPO transactions	9.5-16.75	-	-	-
Liabilities to the IMF	-	-	-	0.23-1.84

The change for 100 basis points in the presented interest rates, exclusive of the effect of changes in interest rates on financial instruments at fair value through profit and loss, as of the statement of financial position date, would increase/(decrease) capital and net profit of the Bank in the amounts presented in the following table. This analysis presumes that all other variables, particularly exchange rates, remain unchanged. The same analysis was prepared for 2009.

TRANSLATION

In thousands of RSD	31 December 2010			
	Capital		Net profit	
	100 bp Increase	100 bp decrease	100 bp increase	100 bp decrease
FINANCIAL ASSETS				
Cash and current accounts	400,619	(405,906)	400,619	(405,906)
Deposits with banks	618,189	(622,762)	618,189	(622,762)
Loans	7,505	(7,613)	7,505	(7,613)
IMF membership quota and SDR holdings	2,332	(2,349)	2,332	(2,349)
	1,028,645	(1,038,630)	1,028,645	(1,038,630)
FINANCIAL LIABILITIES				
Liabilities to banks and other financial institutions	(1,149,097)	1,336,764	(1,149,097)	1,336,764
Liabilities to the Government and other depositors	(1,064,259)	1,109,955	(1,064,259)	1,109,955
Liabilities to the IMF	(1,653,217)	1,710,976	(1,653,217)	1,710,976
	(3,866,573)	4,157,695	(3,866,573)	4,157,695
Net effect	(2,837,928)	3,119,065	(2,837,928)	3,119,065

In thousands of RSD	31 December 2009			
	Capital		Net profit	
	100 bp increase	100 bp Decrease	100 bp increase	100 bp decrease
FINANCIAL ASSETS				
Cash and current accounts	30,753	(31,676)	30,753	(31,676)
Deposits with banks	1,774,612	(1,792,826)	1,774,612	(1,792,826)
Financial assets available for sale	94,378	(119,644)	94,378	(119,644)
Loans	6,136	(6,226)	6,136	(6,226)
IMF membership quota and SDR holdings	12,771	(12,958)	12,771	(12,958)
	1,918,650	(1,963,330)	1,918,650	(1,963,330)
FINANCIAL LIABILITIES				
Liabilities to banks and other financial institutions	(2,600,646)	3,243,934	(2,600,646)	3,243,934
Liabilities to the Government and other depositors	(1,099,428)	1,153,218	(1,099,428)	1,153,218
Liabilities to the IMF	(272,667)	284,153	(272,667)	284,153
	(3,972,741)	4,681,305	(3,972,741)	4,681,305
Net effect	(2,054,091)	2,717,975	(2,054,091)	2,717,975

TRANSLATION

The exposure to risk from changes in interest rates on 31 December 2010 is presented in the following table:

In thousands of RSD	Interest bearing items	Non – interest bearing items	Total
FINANCIAL ASSETS			
Cash and current accounts	40,326,243	30,927,659	71,253,902
Deposits with banks	62,047,581	1,971	62,049,552
Gold and other precious metals	-	48,286,086	48,286,086
Financial assets at fair value through profit and loss	869,890,449	14,566,612	884,457,061
Financial assets available for sale	-	7,739,483	7,739,483
Loans	755,898	33,231	789,129
IMF membership quota and SDR holdings	234,065	57,478,245	57,712,310
Other assets	-	992,220	992,220
	<u>973,254,236</u>	<u>160,025,507</u>	<u>1,133,279,743</u>
FINANCIAL LIABILITIES			
Liabilities to banks and other financial institutions	124,293,076	378,243,016	502,536,092
Liabilities to the Government and other depositors	121,058,253	12,449,619	133,507,872
Liabilities to the IMF	168,209,656	57,467,298	225,676,954
Dinars in circulation	-	91,802,658	91,802,658
Other liabilities	-	1,218,374	1,218,374
	<u>413,560,985</u>	<u>541,180,965</u>	<u>954,741,950</u>
Interest rate gap as at 31 December 2010	<u>559,693,251</u>	<u>(381,155,458)</u>	<u>178,537,793</u>
Interest rate gap as at 31 December 2009	<u>434,967,820</u>	<u>(333,961,689)</u>	<u>101,006,131</u>

Sensitivity to market risk in reference to financial assets through profit and loss

Two basic methods which the Bank used to quantify market risks in respect to financial assets at fair value through profit and loss include Value at risk ("VaR") and Stress test. The first method is used to anticipate maximum possible loss under normal market conditions, while the second one is used to forecast losses under extreme market conditions.

VaR

VaR is the method that predicts with high probability (95% or 99%) the total loss which, in the given time interval, will not be exceeded. The Bank calculates VaR as a synthetic measure of currency risk, interest rate risk, risk from changes in other prices and effects of correlations based on the matrix of variances/covariance or correlation matrix.

TRANSLATION

Monthly VaR (parametric method) for total portfolio recalculated in USD on 31 December 2010 indicates that in normal market conditions in only 5% of the cases the Bank can expect loss greater than 3.91% per month or RSD 21,320 million (USD 268.92 million), and for portfolio recalculated in EUR, VaR amounted to 1.23% or RSD 6,692 million (EUR 63.43 million).

As at 31 December 2009, for portfolio recalculated in USD, under normal market conditions in only 5% of the cases a loss greater than 3.41% per month or RSD 19,293 million (USD 289.12 million) can be expected, and for portfolio recalculated in EUR, VaR amounted to 1.18% or RSD 6,652 million (EUR 69.37 million).

Stress Test

In case of extreme market risks, VaR is not the most suitable tool to be used in the assessment of potential loss. Instead, the stress test is used, which provides a model that approximates the effects contingent on the movements of interest rates and other worst case scenarios on the portfolio value based on duration and convexity of the portfolio.

For the Bank, potential drastic increase in interest rates is of the highest significance, which is why the Bank needs to calculate what would happen with the portfolio if interest rates increase by 100 basis points, i.e. by 1% under the assumption that other variables remained unchanged. The portfolio as at 31 December 2010 denominated in EUR as the original currency would register a loss of RSD 9,802 million (EUR 92.91 million), part of the portfolio denominated in USD would register a loss of RSD 2,836 million (USD 35.77 million), while the part denominated in GBP would register a loss of RSD 389 million (GBP 3.18 million), and the part denominated in CAD would register a loss of RSD 188 million (CAD 2.37 million). The total effect of increased interest rate for 100 basis points on the portfolio as at 31 December 2010 would amount to RSD 13,215 million.

As at 31 December 2009, part of the portfolio denominated in EUR as original currency would register a loss of RSD 9,293 million (EUR 96.91 million), part of the portfolio denominated in USD would register a loss of RSD 2,893 million (USD 43.35 million), part of the portfolio denominated in GBP would register a loss of RSD 339 million (GBP 3.16 million), and part of the portfolio denominated in CAD would register a loss of RSD 132 million (CAD 2.08 million). The total effect of increased interest rate for 100 basis points on the portfolio as at 31 December 2009 would amount to RSD 12,656 million.

Currency risk

The Bank is exposed to currency risk through transactions performed in foreign currency. The risk exposure leads to the increase in foreign exchange gains and losses recorded within the income statement. The exposure to foreign currency risk occurs based on monetary assets and liabilities that are not denominated in the Bank's functional currency. The Bank manages foreign currency risk through the policy of determining the currency structure of assets in accordance with the expected future foreign currency liabilities.

The 10% decline in the dinar value as compared with the following currencies as at 31 December 2010 would (decrease)/increase capital and net profit of the Bank in the amounts presented in the table below. This analysis presupposes that all other variables, in particular interest rates, remain unchanged. The analysis for the year 2009 is prepared in the same manner. In addition, this analysis excludes the effect of currency risk on financial instruments at fair value through profit and loss.

In thousands of RSD

31 December 2010

	Capital	Net profit
EUR	(31,425,857)	(31,425,857)
USD	379,064	379,064
CHF	133,370	133,370
SDR	2,171,529	2,171,529

31 December 2009

EUR	(14,982,890)	(14,982,890)
USD	(392,572)	(392,572)
CHF	415,563	415,563
SDR	1,926,996	1,926,996

Strengthening of the dinar by 10%, when compared with the currencies presented in the table, would have the exact opposite effect on the amounts presented in the table, under the assumption that all other variables remain unchanged.

The analysis of financial assets and liabilities per currencies as at 31 December 2010 was as follows:

31 December 2010

TRANSLATION

In thousands of RSD	EUR	USD	SDR	Other currencies	Total foreign currencies	RSD	Total
FINANCIAL ASSETS							
Cash and current accounts with banks	55,902,391	3,531,604	-	1,904,082	61,338,077	9,915,825	71,253,902
Deposits with banks	32,573,975	10,937,066	-	18,507,346	62,018,387	31,165	62,049,552
Gold and other precious metals	-	-	-	48,286,086	48,286,086	-	48,286,086
Financial assets at fair value through profit and loss	650,222,692	197,813,403	-	36,420,966	884,457,061	-	884,457,061
Financial assets available for sale	329	-	7,508,902	-	7,509,231	230,252	7,739,483
Loans	-	-	-	-	-	789,129	789,129
IMF membership quota and SDR holdings	-	-	14,568,900	-	14,568,900	43,143,410	57,712,310
Other assets	47,421	295	-	2,662	50,378	941,842	992,220
	738,746,808	212,282,368	22,077,802	105,121,142	1,078,228,120	55,051,623	1,133,279,743
FINANCIAL LIABILITIES							
Liabilities to banks and other financial institutions	334,758,481	22,147,750	-	30,989	356,937,220	145,598,872	502,536,092
Liabilities to the Government and other depositors	67,719,521	3,078,894	186	663,217	71,461,818	62,046,054	133,507,872
Liabilities to the IMF	-	-	362,330	-	362,330	225,314,624	225,676,954
Dinars in circulation	-	-	-	-	-	91,802,658	91,802,658
Other liabilities	268,793	18,291	-	241,973	529,057	689,317	1,218,374
	402,746,795	25,244,935	362,516	936,179	429,290,425	525,451,525	954,741,950
Net exposure as at 31 December 2010	336,000,013	187,037,433	21,715,286	104,184,963	648,937,695	(470,399,902)	178,537,793
Net exposure as at 31 December 2009	336,315,463	130,239,786	19,269,965	77,988,281	563,813,495	(462,807,364)	101,006,131

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

TRANSLATION

31. LITIGATIONS

As at 31 December 2010, there were law suits filed against the Bank. Based on available information, the Bank's management does not anticipate negative outcomes which might have substantial effects on financial statements for the year ending 31 December 2010, and accordingly, these financial statements do not include any provisions for litigations.

32. RELATED PARTY TRANSACTIONS

Transaction with state, government institutions and state owned companies

Having in mind that the Bank is owned by the Republic of Serbia, transactions performed as part of regular operations of the Bank with the government, government authorities and institutions, as well companies owned by Republic of Serbia, represent related party transactions. The Bank disclosed transactions and relationships with related entities within the notes that present specific statement of financial position items.

Transactions with key management

According to the Bank, key management refers to: the President and members of the Council, Governor, Vice Governors, General Secretary and Deputy General Secretary, managers and deputies of independent and basic organizational units, and heads of departments.

The Bank's management receive compensation for their services to the Bank and do not hold equity investments in the Bank.

In addition to net salaries received by its management, the Bank also pays contributions on behalf of the management in accordance with the legal provisions of the Republic of Serbia. The net salaries of the management are also subject to personal income tax charged annually. The Bank neither makes payments to its management subsequent to the termination of their employment, nor does it compensate their work in shares or equity.

The compensations paid to management are associated with short-term benefits in the gross amount of RSD 449,475 thousand (2009: RSD 400,867 thousand). These benefits are included within personnel expenses.

The summary of individual benefits paid to key management of the Bank is provided in the following table in thousand of RSD:

TRANSLATION

Position	Head count in 2010	Gross salaries in 2010	Net salaries in 2010	Head count in 2009	Gross salaries in 2009	Net salaries in 2009	Withheld part of net salaries paid to Budget fund in 2009
Governor*	2	10,403	8,482	1	7,156	3,126	2,495
Vice Governor	3	19,670	15,851	3	13,565	6,421	4,140
General Secretary	1	6,376	5,116	1	5,861	2,792	1,736
General Directors, Directors of Organizational Units within the Headquarters, Directors of Branch Offices and Managing Director of ZIN	24	84,779	64,053	21	73,134	46,559	7,178
General Secretary Deputy, Deputies and Assistants of General Directors and Directors of Organizational Units	26	70,473	51,951	25	69,859	45,476	4,322
Heads of Departments	89	243,811	175,508	84	218,825	141,399	9,526
President and members of the NBS Council**	6	13,963	9,272	5	12,467	7,806	475
Total for the year	151	449,475	330,233	140	400,867	253,579	29,872

* Until 28 July 2010, the Governor was Radovan Jelašić, and from 29 July 2010 the Governor was Ph.D. Dejan Šoškić.

** On 28 July 2010 the mandate of the NBS Council President Ph.D. Dejan Šoškić was terminated, and from 29 July 2010 Ph.D. Boško Živković was elected as NBS Council President.

TRANSLATION

33. SUBSEQUENT EVENTS

On the day of the financial statements, negotiations with the mission of the International Monetary Fund (IMF) were successfully completed. The implementation of agreed economic program of the Republic of Serbia in the final revision of the current stand-by arrangement was positively assessed. Positive feedback and verification of this revision, which is expected at the end of March, would allow the withdrawal of funds amounting to 365 million Euros aimed at strengthening foreign exchange reserves.

Up to the day of issuance of these financial statements there were no subsequent events that would require correction of these financial statements (corrective events).

Based on the Governor's consent the date for issuing financial statements of the Bank for the year 2010 is set for 11 May 2011.

34. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of statement of financial position components denominated in foreign currencies as at 31 December 2010 and 2009 were as follows:

In RSD	31 December 2010	31 December 2009
USD	79.2802	66.7285
EUR	105.4982	95.8888
GBP	122.4161	107.2582
CHF	84.4458	64.4631

Belgrade, 11 May 2011

Ivan Rangelov
*Person responsible for preparation of
financial statements*

Dejan Šoškić
Governor