

NATIONAL BANK OF SERBIA

**Financial Statements
Year Ended December 31, 2013 and
Independent Auditors' Report**

NATIONAL BANK OF SERBIA

CONTENTS

	Page
Independent Auditors' Report	1
Income Statement	2
Statement of Comprehensive Income	3
Statement of Financial Position	4
Statement of Changes in Equity	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 72

Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

To the Governor and the Council of the National Bank of Serbia

We have audited the accompanying financial statements (pages 2 to 72) of the National Bank of Serbia ("the Bank"), which comprise the statement of financial position as of December 31, 2013, and the related income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank'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 present fairly, in all material respects, the financial position of the National Bank of Serbia as of December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Belgrade, May 23, 2014



A handwritten signature in black ink, appearing to read "Nada Sudić".

Nada Sudić
Certified Auditor

INCOME STATEMENT
Year Ended December 31, 2013
(Thousands of RSD)

	<u>Note</u>	<u>2013</u>	<u>2012</u>
Interest income		13,367,916	17,420,554
Interest expenses		(17,184,594)	(12,311,701)
Net interest (expense)/income	4	(3,816,678)	5,108,853
Fee and commission income		3,867,901	4,239,901
Fee and commission expense		(431,253)	(1,010,023)
Net fee and commission income	5	3,436,648	3,229,878
Net losses from fair value adjustment and trade in securities	6	(12,287,466)	(1,932,267)
Net foreign exchange (losses)/gains		(25,667,355)	53,518,631
Other operating income	7	4,738,665	7,137,287
Net gains on impairment reversal of assets	8	74,267	796,050
Staff costs	9	(4,830,968)	(4,191,769)
Depreciation and amortization charge	10	(1,749,151)	(1,865,993)
Other operating expenses	11	(3,492,135)	(4,037,089)
(LOSS)/PROFIT FOR THE YEAR	28	(43,594,173)	57,763,581


Notes on the following pages
form an integral part of these financial statements.

These financial statements were approved by the Governor:



Dragana Milović
Preparer of the Financial Statements




Jorgovanka Tabaković, PhD
Governor

Г.бр. 3449
3. 6. 2014.

STATEMENT OF COMPREHENSIVE INCOME
Year Ended December 31, 2013
(Thousands of RSD)

	<u>2013</u>	<u>2012</u>
(Loss)/profit for the year	(43,594,173)	57,763,581
Other comprehensive income:		
Gains on the revaluation of other fixed assets	82,878	-
(Losses)/gains on the fair value adjustments of securities available for sale	<u>(818,249)</u>	<u>638,639</u>
Other comprehensive income for the year	<u>(735,371)</u>	<u>638,639</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>(44,329,544)</u></u>	<u><u>58,402,220</u></u>

Notes on the following pages
form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As of December 31, 2013
(Thousands of RSD)

	Note	2013	2012
ASSETS			
Cash and current accounts held with banks	12	103,427,562	187,713,368
Deposits held with banks	13	237,225,208	143,043,852
Gold and other precious metals	14	52,986,619	71,605,359
Financial assets at fair value through profit and loss	15	882,631,712	830,549,911
Financial assets available for sale	16	8,288,991	9,410,736
Loans	18	861,611	1,376,004
IMF membership quota and SDR holdings	19	75,209,412	85,667,790
Property, plant and equipment	20	14,440,171	15,606,294
Investment property	20	844,695	844,695
Intangible assets	20	90,283	361,010
Other assets	21	3,899,205	4,227,603
TOTAL ASSETS		1,379,905,469	1,350,406,622
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to banks and other financial institutions	22	622,023,835	566,680,661
Liabilities to the Government and other depositors	23	269,006,034	178,767,194
Liabilities to the IMF	24	147,219,872	227,662,852
Dinars in circulation	25	122,439,771	110,548,870
Provisions	26	1,346,737	1,135,876
Other liabilities	27	970,338	1,411,278
Total liabilities		1,163,006,587	1,086,206,731
Equity			
State-owned capital		119,049,539	100,803,340
Special reserves		127,140,439	90,594,522
Revaluation reserves		8,651,972	8,569,094
Reserves from securities available for sale		5,651,105	6,469,354
(Accumulated losses)/ retained earnings		(43,594,173)	57,763,581
Total equity	28	216,898,882	264,199,891
TOTAL LIABILITIES AND EQUITY		1,379,905,469	1,350,406,622

Notes on the following pages
form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2013
(Thousands of RSD)

	State-Owned Capital	Special Reserves	Revaluation Reserves	Reserves from Securities Available for Sale	Retained Earnings/ (Accumulated losses)	Total
Balance at January 1, 2012						
Opening balance	97,591,139	84,161,673	8,569,094	5,830,715	12,440,053	208,592,674
Previous year profit allocation (*)	3,212,201	6,432,849	-	-	(12,440,053)	(2,795,003)
Other comprehensive income:						
Gains on the fair value adjustments of securities available for sale	-	-	-	638,639	-	638,639
Profit for the year	-	-	-	-	57,763,581	57,763,581
Balance at December 31, 2012	<u>100,803,340</u>	<u>90,594,522</u>	<u>8,569,094</u>	<u>6,469,354</u>	<u>57,763,581</u>	<u>264,199,891</u>
Balance at January 1, 2013						
Opening balance	100,803,340	90,594,522	8,569,094	6,469,354	57,763,581	264,199,891
Previous year profit allocation (*)	18,246,199	36,545,917	-	-	(57,763,581)	(2,971,465)
Other comprehensive income:						
Gains on the revaluation of other fixed assets	-	-	82,878	-	-	82,878
Losses on the fair value adjustments of securities available for sale	-	-	-	(818,249)	-	(818,249)
Loss for the year	-	-	-	-	(43,594,173)	(43,594,173)
Balance at December 31, 2013	<u>119,049,539</u>	<u>127,140,439</u>	<u>8,651,972</u>	<u>5,651,105</u>	<u>(43,594,173)</u>	<u>216,898,882</u>

* Please refer to Note 28

Notes on the following pages
form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
Year Ended December 31, 2013
(Thousands of RSD)

	Note	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		16,596,238	21,164,978
Fee and commission receipts		3,060,561	3,557,541
Receipts of other operating income		11,251,368	12,314,926
Receipts from dividends and profit sharing		121,361	125,143
<i>Cash generated by operating activities</i>		<u>31,029,528</u>	<u>37,162,588</u>
Interest payments		(19,071,935)	(14,767,606)
Fee and commission payments		(435,439)	(1,013,116)
Payments for operating expenses		<u>(14,591,529)</u>	<u>(14,482,558)</u>
<i>Cash used in operating activities</i>		<u>(34,098,903)</u>	<u>(30,263,280)</u>
(Decrease)/ increase in deposits received		(14,018,541)	21,372,623
Increase in loans and advances		(60,922,130)	(19,492,970)
(Increase)/decrease in securities carried at fair value through profit and loss and other investments		<u>(55,013,488)</u>	<u>67,246,996</u>
(Increase)/decrease in investments and (decrease)/increase in deposits received		(129,954,159)	69,126,649
Transfer to the Republic of Serbia Budget		(2,971,465)	(2,795,003)
Net cash (used in)/generated by operating activities		(135,994,999)	73,230,954
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from the sale of intangible assets, property and equipment		313	2,228
Purchases of intangible assets, property and equipment		<u>(139,470)</u>	<u>(240,451)</u>
Net cash used in investing activities		(139,157)	(238,223)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net inflows /(outflows) from short-term borrowings		<u>69,166,348</u>	<u>(81,078,755)</u>
Net cash generated by/(used in) financing activities		69,166,348	(81,078,755)
Net cash decrease		(66,967,808)	(8,086,024)
Cash at the beginning of year		211,391,822	164,437,313
Foreign exchange (losses)/gains, net		<u>(25,660,778)</u>	<u>55,040,533</u>
CASH AT THE END OF YEAR	2 (e)	<u>118,763,236</u>	<u>211,391,822</u>

Notes on the following pages
form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***1. BANK'S 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 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 the Kingdom 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 FNRJ, which was later renamed into the Socialist Federative Republic of Yugoslavia (hereinafter: the SFRJ), until dissolution in 1991. The Bank continued to operate in Belgrade as the Central Bank of SFRJ, 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 June 25, 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 were in the ownership of FRY, which guaranteed 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 July 19, 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, nos. 72/2003 and 55/2004, 85/2005-other law and 44/2010, 76/2012 and 106/2012 hereinafter: the Law).

The primary objective of the NBS shall be to achieve and maintain price stability. In addition to its primary objective, the NBS shall also strive towards maintaining financial system 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 also performs the following functions:

- Determines and implements monetary policy;
- Manages state foreign currency reserves;
- Establishes and implements activities and measures falling under its remit that relate to the maintaining and strengthening of financial stability;
- Issues and revokes operating licenses to banks, supervises bank solvency and legal compliance of banking operations, and performs other activities in accordance with the law governing banks;
- Issues and revokes licenses, i.e. authorization for carrying out insurance operations, supervises such operations and performs other duties in line with the law governing the field of insurance;
- Issues and revoke licenses, i.e. authorization for carrying out finance lease operations, supervises such operations and performs other duties in line with the law governing finance lease operations;
- Issues and revokes licenses, i.e. authorization for carrying out the operations of a voluntary pension fund, supervises such operations and performs other duties in line with the law governing voluntary pension funds;

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***1. BANK'S ESTABLISHMENT AND ACTIVITY (Continued)**

- Protects the rights and interests of the beneficiaries of services rendered by banks, leasing companies, insurance companies and companies managing voluntary pension funds in accordance with the law;
- Issues banknotes and coins and manages cash flows;
- Regulates, oversees and promotes uninterrupted functioning of internal and external payment operations;
- Performs specific statutory operations for the Republic of Serbia without compromising its own autonomy and independence.

The governing bodies of the Bank are: the Executive Board of the National Bank of Serbia (Executive Board), the Governor of the National Bank of Serbia (Governor) and the Council of the Governor of the National Bank of Serbia (Council).

The Executive Board, comprised of the Governor, Director of Administration for Supervision of Financial Institutions and Vice-Governors, determines monetary and foreign exchange policy and establishes measures and activities for the purpose of strengthening financial stability.

The Governor represents and act as the agent of the Bank, manages the Bank's operation and is responsible for the implementation of decisions of the Executive Board and the Council, proposes regulations, general and individual acts to be enacted by the Executive Board and the Council, unless otherwise provided by the Law, enact regulations, general and individual acts falling within the scope of authority of the National Bank of Serbia, which are not assigned by law to the authority of the Executive Board and the Council, regulate the internal organization of the National Bank of Serbia and the classification of jobs in the National Bank of Serbia, as well as labor relations of employees in the National Bank of Serbia, perform other tasks laid down. The Governor shall be nominated by the President of the Republic and appointed by the National Assembly, for a six-year renewable term of office. The Bank has between 2 and 4 Vice-Governors, who are elected by the National Assembly, for a six-year renewable term of office at the Governor's proposal. The Director of Administration for Supervision of Financial is elected by the National Assembly, for a six-year renewable term of office at the proposal of the National Assembly committee in charge of financial affairs.

The Council of the Governor consists of five members including the Chairman, who are appointed by the National Assembly on proposal of the National Assembly committee in charge of financial affairs. The Council members are elected for a five-year renewable term of office. The Council of the Governor's members are not employed with the Bank. Among other matters, the Council of the Governor enacts the financial plan, adopts the annual financial statements of the Bank, selects an external auditor, considers and discusses the external (independent) auditor's report and monitors the implementation of the auditor's recommendations throughout the National Bank of Serbia.

The Bank is a legal entity headquartered in Belgrade, at 12 Kralja Petra Street. The activities of the National Bank of Serbia as determined by the law and other regulations are performed through the Bank's basic organizational units, Administration for Supervision of Financial Institutions, the Institute for Manufacturing Banknotes and Coins - Topčider and branch offices in Belgrade, Novi Sad, Niš, Kragujevac, and Užice.

As at December 31, 2013, the Bank had 2,280 employees (December 31, 2012: 2,226 employees).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS****a) Statement of Compliance with the International Financial Reporting Standards**

The accompanying financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standards (IFRS).

b) Basis of Measurement

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

- Gold and other precious metals, which are stated at fair value;
- Securities at fair value through profit and loss, which are stated at fair value;
- Securities available for sale, which are stated at fair value;
- Properties, which are stated at fair value;
- Investment properties valued at fair value,
- Provisions for retirement benefits and jubilee awards, which are stated at the present value of the future liabilities for retirement benefits and jubilee awards; and
- Foreign currency swaps, which are stated at fair value;

c) Use of Estimates

Preparation of financial statements in accordance with IFRS requires the Bank's management to make certain decisions, estimates and assumptions that influence the application of the accounting policies and have effects on the presented amounts of assets and liabilities, income and expenses. These estimates and assumptions are based on the information available as at the financial statements' preparation date. However, actual results may vary from these estimates.

Accounting estimates and related assumptions are subject to continuous review at each reporting date. The effects of changes in the accounting estimates are recognized in the period in which the estimates were reviewed and in the future reporting periods affected by the changes that have occurred.

Areas that are subject to estimates of greater significance to the financial statements of the Bank are presented in Note 3.13.

d) Functional and Presentation Currency

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

e) New Standards, Interpretations and Amendments to the Issued 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 January 1, 2013:

- IFRS 9 "Financial Instruments" and subsequent amendments (effective date was not yet determined). This standard replaces IAS 39 "Financial Instruments: Recognition and Measurement," and deals with classification and measurement of financial assets. The standard eliminates existing categories present in IAS 39: assets held to maturity, assets available for sale and loans and receivables.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)****e) New Standards, Interpretations and Amendments to the Issued Standards (Continued)**

Financial assets will 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 collection of cash flows on specified dates 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 instrument not held for trading, where IFRS 9 allows upon initial recognition subsequently irreversible choice that all fair value changes be recognized within other comprehensive income. The amount recognized within other comprehensive income cannot be recognized in the income statement.

With the exception of change in the classification of financial assets, the 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.

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 19 - Defined Benefit Plans: Employee Contributions Statements' (effective for annual periods beginning on or after July 1, 2014);
- Amendments to IAS 32 "Financial Instruments: Presentation" – *Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IFRS 10, IFRS 12 and IAS 27 - *Exemption from Consolidation of Subsidiaries under IFRS 10* "Consolidated Financial Statements" (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 36 "Impairment of Assets" - *Recoverable Amount Disclosures for Non-Financial Assets* (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 39 "Financial Instruments:" Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after January 1, 2014);
- Amendments resulting from Annual Improvements 2010-2012 Cycle issued in December 2013 (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014);

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)****e) New Standards, Interpretations and Amendments to the Issued Standards (Continued)**

- Amendments resulting from Annual Improvements 2011-2013 Cycle issued in December 2013 (IFRS 1, IFRS 3, IFRS 13 and IAS 40) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014);
- IFRIC 21 “Levies” (effective for annual periods beginning on or after January 1, 2014).

Management of the Bank considers the influence of the aforelisted standards on the future financial statements of the Bank and holds that they will have no materially significant effects on the financial statements.

The following standards, interpretations and amendments to published standards became effective for accounting periods starting on or after January 1, 2013:

- Amendments to IFRS 7 “Financial Instruments: Disclosures” – *Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2013);
- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 12 “Disclosures of Involvement with Other Entities” (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 1 “Presentation of Financial Statements” – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012),
- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after January 1, 2013). The Bank prospectively applied the new definition of fair value as disclosed in Note 3.13. The aforesaid change has no material effect on the valuation of assets and liabilities in the Bank’s financial statements. However, the Bank included in the financial statements additional disclosures as required by IFRS 13;
- Amendments to IAS 19 “Employee Benefits” – *Improvements to the Accounting for Post-Employment Benefits* (effective for annual periods beginning on or after January 1, 2013). The amendment to IAS 19 has not been applied to these financial statements. Management has considered the amendment and decided that it will not have a materially significant impact on the financial statements.
- IAS 27 “Separate Financial Statements” (effective for annual periods beginning on or after January 1, 2013);
- IAS 28 “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after January 1, 2013);

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)****e) New Standards, Interpretations and Amendments to the Issued Standards (Continued)**

- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after January 1, 2013). This interpretation has not been applied to the Bank’s financial statements given the nature of the Bank’s activity.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 “Consolidated Financial Statements,” “Joint Arrangements” and “Disclosures of Involvement with Other Entities” - *Transition Guidance* (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – *Government Loans with a Below-Market Rate of Interest* (effective for annual periods beginning on or after January 1, 2013);
- Annual improvements 2009-2011 cycle issued in May 2012 (effective for annual periods beginning on or after January 1, 2013), related to IAS 1, IAS 16, and IAS 32.

f) Comparative Information

For the purpose of reconciliation with the presentation of the current period information, certain reclassifications were made to the data presented in the financial statements for the year 2012. Reclassifications do not have a material impact on any of the presented periods.

g) Statement of Cash Flows

Cash presented in the statement of cash flows includes cash and balances on the current accounts held with banks (Note 12) and SDR (special drawing right) holdings (Note 19).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In the preparation of the accompanying financial statements, the Bank adhered to the accounting policies described in Note 3. The described accounting policies were consistently applied to all presented reporting periods, except for the change in the accounting estimate in respect of precious metals described in Note 3.5.

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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****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 middle exchange rates effective as at the transaction date, whereas for currencies whose exchange rates are not officially published by the Bank, recalculation is performed by applying the adequate exchange rates of the Bank effective as at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated into dinars by applying the official middle exchange rate prevailing at the statement of financial position date (if the currency rate is published by the Bank in the official exchange rate list) or at the appropriate rate of the Bank (for foreign currencies which are not published in the official exchange rate list).

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

3.3. Financial Instruments

The Bank classifies its financial assets into the following categories: financial assets carried at fair value through profit and loss, loans and receivables, financial assets available for sale and investments held to maturity. Classification depends on the intended purpose for which the financial assets were acquired. The Bank's management classifies financial investments upon initial recognition, whereas any subsequent reclassification is performed only if certain specific criteria are met for a particular financial instrument category.

Financial Assets Carried At Fair Value through Profit and Loss

Financial assets carried at fair value through profit and loss refer to securities designated as securities at fair value through profit and loss upon initial recognition and to securities held for trading.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable repayment maturities that are not quoted in an active market. Loans and receivables are measured at amortized cost net of any impairment. Loans are presented in a separate line, while receivables are presented within "other assets."

Securities Held to Maturity

Securities held to maturity represent investments in debt securities where the Bank has the positive intention and ability to hold these securities to maturity. The securities are measured at amortized cost net of any impairment.

In 2013 and 2012 the Bank owned securities held to maturity. However, their value was fully impaired.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.3. Financial Instruments (Continued)***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 denominated in foreign currencies. The effects of foreign exchange rate changes are included in the income statement under foreign exchange gains and losses. Equity investments in legal entities in the country are stated at fair value if determinable or at cost net of allowance for impairment, if the 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.

Financial Liabilities Carried at Amortized Cost

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

Swap Transactions

The Bank organizes foreign exchange swap purchase or sale auctions, as a regular instrument for provision of foreign currency and dinar liquidity of the banking sector. The aim of organization of these auctions was to encourage the development of interbank foreign exchange swap trading and the development of hedging instruments against foreign exchange risk.

At the statement of financial position date, swaps are measured at fair value. The positive fair value of a swap is stated as an asset, the negative swap fair value is stated as a liability and the effects of the changes in fair value are recorded within the income statement.

Recognition Date and Fair Value

Regular purchases and sales of investments are recognized as at the transaction date – the date when the Bank makes payments or collects funds based on the purchase or sale of assets. All investments, except for financial assets at fair value through profit and loss, are initially recognized at fair value increased by transaction costs. Financial assets at fair value through profit and loss are initially recognized at fair value while costs of such transactions are included in the income statement. Investments 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 are measured at amortized cost using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.3. Financial Instruments (Continued)***Recognition Date and Fair Value (Continued)*

Gains and losses arising from the changes in fair value of financial assets at fair value through profit and loss, including interest income, are recorded in the income statement for the period when earned/incurred. Dividends from shares available for sales are recorded in the income statement when the right to such receivable has been established.

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 market (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 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 date. The Bank performs individual assessment of impairment of financial assets, no assessment on portfolio level. 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.

Objective evidence of impairment may include the following loss events:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It is becoming probable the debtor will enter bankruptcy, liquidation or other financial reorganization.

For the purpose of assessment of evidence of objective evidence of impairment of financial assets, the Bank assesses the financial position of borrowers and also the net realizable value of collaterals.

For shares that are not quoted on the market and 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 financial assets carried at amortized cost, the amount of impairment loss is recognized as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted by using the original effective interest rate of the respective financial asset.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.3. Financial Instruments (Continued)***Impairment of Financial Assets (Continued)*

Except for 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 previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale equity securities – equity investments, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized within equity.

Derecognition of Financial Assets

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

3.4. Cash and Cash Equivalents

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

3.5. Gold and Other Precious Metals

Gold and other precious metals are measured at market value as at the statement of financial position date.

Precious metals within foreign exchange reserves that comply with standards for trading on stock exchange are estimated in the amount of gold and silver on the PM price fixing at London Gold Exchange (London Bullion Market Association), by applying the official middle exchange rate of RS dinar for US dollar that was valid on the last day in the month, and based on price of platinum published at the London Platinum & Palladium Market Association, PM price fixing, by applying the official middle exchange rate of RS dinar for US dollar that was valid on the last day in the month.

Effects of changes in market values of gold and other precious metals are credited or charged to the income statement.

During 2013, the Bank's accounting policy on precious metals was revised – impairment of precious metals for the costs of further refining of the precious metals within the foreign exchange reserves which do not fulfill the standards for international market trading was reversed. In accordance with IAS 8 "Accounting Policies, Changes of Accounting Estimates and Errors," comparative information was not adjusted. The change in the accounting estimate resulted in the higher values of gold and other precious metals, i.e. net loss amount lower by RSD 97 million.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.6. Deposits Held with Banks**

Deposits with foreign banks include deposits placed with banks for the purpose of loan approval, and time deposits on accounts opened with foreign banks with adequate rating (Note 30) that are stated at face value increased by the effects of deferred interest accrued.

3.7. Financial Assets Carried at Fair Value through Profit and Loss

Financial instruments carried 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; these securities are stated at market value as officially published in the financial market as at the statement of financial position date. The effects of changes in market values, as well as gains and losses earned or incurred from selling these bonds are presented within net gains/(losses) on the change in fair value and trading of the securities. While holding a trading security, the Bank defers interest accrued and records income from coupon collection. This income is disclosed under interest income. Interest income from discount securities is recorded separately from gain/(loss) on change in fair value and trading of the securities.

3.8. Inventories

The Bank's inventories comprise materials, work in progress and finished products of ZIN and Treasury mostly, as well as precious metals used for making commemorative coins, and ZIN products intended for the market. 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. The most recent fair value appraisal of buildings was performed as at December 31, 2010, by an independent appraiser. The revaluation decrease of property is recorded through the proportionate decrease in cost and accumulated depreciation of property, and on the other hand, the revaluation surplus from property is recorded through the proportional increase in cost and accumulated depreciation of property. The amounts of calculated revaluation of property are credited to other comprehensive income and accumulated in equity under revaluation reserves for positive revaluation effects. Positive revaluation effects are credited to the income statements only to the extent of the decrease previously expensed in instances that a decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Negative revaluation effects are charged to expenses within the income statements except if revaluation reserves were formed for particular assets in previous periods; if so, the negative revaluation effects are charged to the other comprehensive income, at a maximum level of revaluation reserves balances.

Investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise. Rental income from the lease of investment property is credited to the income statement within other operating income by applying the deferral principle.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.9. Property, Plant, Equipment, investment Property and Intangible Assets (Continued)**

As of October 31, 2013, the Bank had an independent appraiser perform valuation of works of art – paintings owned by the Bank. Positive revaluation effects were credited to the other comprehensive income and accumulated on the account of revaluation reserves within equity.

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

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

Depreciation and amortization rates applied in current and previous period are as follows:

	Up to October 31, 2013	From November 1, 2013
Buildings	2%	2%
Computers	25%	6.49%-78.35%
Furniture and other equipment	14.2%	0.37%-34.46%
Vehicles	20%	2.76%-20%
Intangible assets	25%	12.49%-33.6%

Pursuant to "Decision on Determining Adjustments to the Remaining Useful Lives of Certain Fixed Assets and Intangible Assets" dated October 17, 2013, the remaining useful lives of certain intangible assets, property and equipment were adjusted, i.e., the accounting estimate related to depreciation/amortization rates was changed. The calculation of depreciation/amortization in accordance with the adjusted accounting estimate commenced as of November 1, 2013. The aforesaid change in the accounting estimate resulted in the increase in the carrying values of property, equipment and intangible assets, i.e. in decrease in depreciation and amortization charge by RSD 96 million.

Repairs and maintenance of property, plant and equipment preserving the value in use are expensed as incurred. The expenses are capitalized only if they increase the value in use or extend the useful lives of assets.

Gains arising on the sale or disposal of property, plant and equipment are credited to other income. Losses arising on the disposal or retirement of property, plant and equipment 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 disposed of and derecognized.

3.10. Managed Funds

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 positions but classified as off-balance sheet items.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.11. Income Taxes/Deferred Taxes**

The Bank is exempt from income taxation.

3.12. Employee Benefits

In accordance with regulations effective in the Republic of Serbia, the Bank is under obligation to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employees by the employer in the amounts calculated by applying the specific legally prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees and to transfer the withheld portions on their behalf directly to the appropriate Government funds. The 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 recognizes in the income statement the undiscounted amount of short-term employee benefits, expected to be paid in exchange for the services rendered.

For long-term benefits the Bank recognizes the discounted amount of the benefits expected to be paid in exchange for services provided by employees. The Bank follows an established employee compensation plan in accordance with the 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 condition have been met, based on years of service or age limit, or in the amount of three average monthly salaries paid by the Bank in the month which precedes the month in which retirement benefits are paid out, depending on which of the two amounts is more favorable for the vesting employee. The most recent estimate of the present value of liabilities based on the benefits plan was carried out as at December 31, 2013.

The Bank uses the best estimates of variables for determining total costs of provisions for retirement benefits. The basic assumptions underlying these estimates are the following:

- 1) Discount rate of 6.74% (yield on foreign long-term bonds allowing for the expected inflation rate);
- 2) Expected salary growth rate: 10% in 2014, 3% in 2015, 3.5% in 2016 and 4% from 2017;
- 3) Employee turnover rate: 6.19% for ZIN and 6.78% for other organizational units;
- 4) Disability rate: average rate of 0.16% for ZIN and 0.11% for other organizational units, based on the data on the number of employees that were entitled to disability retirement from 2006 to 2013;
- 5) Age for retirement: 65 years of age for men and 60 years of age for women;
- 6) Mortality tables are the most recent available tables as published by the Republic of Serbia Statistical Office 2001-2003. Separate probabilities were used for men and women.

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

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.12. Employee Benefits (Continued)**

The Bank's financial statement as at December 31, 2013 included provisions estimated based on the present value of assets for retirement benefits upon reaching entitlement, including provisions based on the present value of assets for jubilee awards. The Bank used the actuarial projected unit credit method for determining present value of these liabilities, as well as all relevant actuarial assumptions, primarily demographic ones (mortality and disability), in accordance with IAS 19 – "Employee Benefits."

Accumulating compensated absences (annual vacation leaves) may be carried forward and used in future periods if the current period's entitlement is not used in full. Expenses for compensated absences are recognized at the amount the Bank expects to pay as a result of the unused entitlement that has accumulated at the statement of financial position date. In the case of non-accumulating compensated absences, an obligation or expense is recognized when the absences occur.

3.13. Summary of Key Accounting Estimates

The presentation of the financial statements requires the Bank's management to make best estimates and reasonable assumptions that affect 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 as at 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 case when the change impacts future periods as well.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

It is the Bank's policy is 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 certain alternative valuation techniques, and whose fair value is materially different from their recorded amounts. As per the Banks' 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.13. Summary of Key Accounting Estimates (Continued)***Impairment of Financial Assets*

The Bank assesses the collectability of loans and receivables and thereupon, it forms an allowance for impairment of items assessed as fully or partially irrecoverable. The Bank's assessment is based on the analysis in accordance with the internal risks analysis methodology with regard to risk which the Bank's loans and receivables are exposed to. 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 estimated 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 the discount rate, income growth rate and employee turnover rate based on the available information.

Provisions for Litigations

The Bank estimates the probability of occurrence of unfavorable event that is the result of past event, and if it is estimated that the event will occur with probability greater than 50%, the Bank makes provisions in the total amount of liability. The Bank is conservative in its estimates, but due to high level of uncertainty, in some cases, the estimate might not be consistent with eventual future outcome of the dispute.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

4. INTEREST INCOME AND EXPENSES

	Year Ended December 31,	
	2013	2012
Interest income from:		
Securities:		
- carried at fair value through profit and loss	13,004,654	16,395,592
- available for sale	-	814
Deposits placed:		
- in RSD	72,947	229,803
- in foreign currencies	281,620	480,772
Loans approved in RSD	8,210	154,173
Repurchase transactions	-	144,389
Other investments:		
- in RSD	485	15,011
	<u>13,367,916</u>	<u>17,420,554</u>
Interest expenses arising from:		
Deposits in RSD:		
- required special reserve of banks in RSD	(3,606,907)	(2,723,043)
- surpluses of liquid assets of banks	(3,063,747)	(1,108,897)
- transaction deposits	(1,832,139)	(1,295,374)
Deposits in foreign currencies:		
- time deposits	(21,891)	(211,182)
- demand deposits	(116)	(2,110)
- other	(1,938)	(4,352)
Repurchase transactions	(7,226,628)	(4,807,839)
Liabilities to IMF	(1,315,938)	(1,994,432)
Borrowings	(112,104)	(151,946)
Other	(3,186)	(12,526)
	<u>(17,184,594)</u>	<u>(12,311,701)</u>
Net interest (expense)/income	<u><u>(3,816,678)</u></u>	<u><u>5,108,853</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

5. FEE AND COMMISSION INCOME AND EXPENSES

	Year Ended December 31,	
	2013	2012
Fee and commission income in RSD:		
- fees for RTGS and clearing operations	1,125,108	1,138,590
- fees for enforced collection	962,289	1,076,275
- fees for supervision over insurance operations	277,027	251,499
- other fees in RSD	372,393	374,692
Fee and commission income in foreign currencies	1,131,084	1,398,845
	<u>3,867,901</u>	<u>4,239,901</u>
Fee and commission expenses in RSD:		
- commission based on the sales of bill of exchange forms	(14,355)	(16,005)
- other RSD fees and commissions	(2,122)	(1,386)
Fee and commission expenses in foreign currencies:		
- stand-by arrangement with IMF and commitment fee	(43,028)	(154,427)
- foreign account maintenance fees and foreign payment transactions	(58,779)	(66,457)
- other foreign currency fees	(312,969)	(771,748)
	<u>(431,253)</u>	<u>(1,010,023)</u>
Net fee and commission income	<u><u>3,436,648</u></u>	<u><u>3,229,878</u></u>

6. NET LOSSES ON THE FAIR VALUE ADJUSTMENT OF SECURITIES AND TRADE IN SECURITIES

	Year Ended December 31,	
	2013	2012
Net losses on the fair value adjustment of securities at fair value through profit and loss	(9,355,778)	(981,216)
Net losses on the sale of securities at fair value through profit and loss	<u>(2,931,688)</u>	<u>(951,051)</u>
Net loss	<u><u>(12,287,466)</u></u>	<u><u>(1,932,267)</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

7. OTHER OPERATING INCOME

	Year Ended December 31,	
	2013	2012
Income from operations - ZIN	3,649,744	4,310,637
Income from unreplaced out-of-circulation money	-	1,472,959
Income from swap transactions	220,008	546,746
Income from the sale of bill of exchange forms	143,654	159,159
Rental income	79,046	85,210
Increase in inventories	161,342	11,442
Revaluation of housing loans	5,164	73,817
Reversal of provisions for litigations (Note 26)	61,087	58,087
Dividend income	118,639	125,999
Subsequently recognized fixed assets	15,977	74,179
Other	284,004	219,052
Other operating income	4,738,665	7,137,287

Income from ZIN operations refer to the income from the sales of ZIN products – products of the Institute for Manufacturing Banknotes and Coins, which operates within the Bank. In addition to manufacturing banknotes and coins for circulation and numismatic money, ZIN is involved in production of documents, securities and other security and protected paper products.

Rental income of RSD 79,046 thousand earned during 2013 includes income from the lease of investment property in the amount of RSD 72,414 thousand (2012: RSD 79,277 thousand). Expenses incurred in respect of the lease of investment property in 2013 amounted to RSD 18,566 thousand (2012: RSD 18,912 thousand).

Dividend income of RSD 118,639 thousand (2012: RSD 125,999 thousand) was realized based on equity investment in the Bank for International Settlements, Basel.

8. NET INCOME FROM REVERSAL OF IMPAIRMENT ALLOWANCES OF ASSETS

a) Structure of Income and Expenses

	Year Ended December 31,	
	2013	2012
Gains on the reversal of impairment allowances:		
- per balance sheet assets	146,988	974,502
- collected suspended interest	20,893	394
	167,881	974,896
Impairment losses:		
- per balance sheet assets	(93,404)	(178,644)
- suspended interest	(210)	(202)
	(93,614)	(178,846)
Net gains on reversal of impairment allowances	74,267	796,050

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

8. NET INCOME FROM REVERSAL OF IMPAIRMENT ALLOWANCES OF ASSETS (Continued)**a) Structure of Income and Expenses (Continued)**

During 2013, the Bank collected a portion of a previously fully provided for loan in the amount of RSD 52,711 thousand, which relates to the annual repayment installment of the Republic of Serbia loan for deposited foreign currency savings, which, pursuant to Article 31 of the Law on Settlement of the Public debt of the Federal Republic of Yugoslavia, the Bank had paid from 1994 to 1999. During 2012, the Bank collected a portion of receivables due from Beobanka a.d., in Bankruptcy, based on the bankruptcy estate distribution in the amount of RSD 450,328 thousand. The Bank also collected a portion of the deposit held with Euroaxis Bank, Moscow in the amount of RSD 212,753 thousand, which previously fully impaired and provided for. Effects of the collected receivables and investments are stated within income(i.e. gains) from the reversal of impairment allowances.

Income(i.e. gains) from the reversal of impairment allowances of suspended interest totaling RSD 20,893 thousand refer to the collection of a portion of receivables due from Jugobanka a.d., in bankruptcy, from the bankruptcy estate distribution.

b) Structure of Impairment Allowances

	Year Ended December 31,	
	2013	2012
Allowance for impairment of:		
- cash and current accounts held with banks	719,234	742,293
- deposits held with banks	2,310,773	2,395,503
- securities held to maturity	3,897,120	665,430
- loans	665,430	4,032,151
- other assets	3,803,949	4,598,491
Total allowance for impairment	11,396,506	12,433,868

c) Movements on the Accounts of Impairment Allowances

	Cash and current accounts with banks (Note 12)	Deposits held with banks (Note 13)	Securities held to maturity (Note 17)	Loans (Note 18)	Other assets (Note 21)	Total
Balance at						
January 1, 2012	694,449	2,430,854	697,512	4,040,158	4,641,400	12,504,373
Charge for the year	-	-	-	7,665	170,979	178,644
Collected receivables	-	(212,753)	(32,082)	(159,794)	(569,873)	(974,502)
Foreign exchange gains	47,844	177,402	-	144,122	411,574	780,942
Write-offs	-	-	-	-	(55,589)	(55,589)
Balance at						
December 31, 2012	<u>742,293</u>	<u>2,395,503</u>	<u>665,430</u>	<u>4,032,151</u>	<u>4,598,491</u>	<u>12,433,868</u>
Charge for the year	-	-	-	4,255	89,149	93,404
Collected receivables	(1,734)	-	-	(56,670)	(88,584)	(146,988)
Foreign exchange gains	(21,325)	(84,730)	-	(82,271)	(762,017)	(950,343)
Write-offs	-	-	-	(345)	(1,940)	(2,285)
Other	-	-	-	-	(31,150)	(31,150)
Balance at						
December 31, 2013	<u>719,234</u>	<u>2,310,773</u>	<u>665,430</u>	<u>3,897,120</u>	<u>3,803,949</u>	<u>11,396,506</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

9. STAFF COSTS

	Year Ended December 31,	
	2013	2012
Salaries, salary taxes and contributions and benefits	4,393,149	4,015,154
Provisions for employee long-term benefits (Note 26)	276,527	76,427
Temporary and seasonal employees	38,818	20,021
Jubilee awards	42,318	30,979
Financial aid to employees	25,974	18,075
Retirement benefits	33,150	15,758
Remunerations to the Council members	12,006	10,234
Other staff costs	9,026	5,121
Total staff costs	4,830,968	4,191,769

10. DEPRECIATION AND AMORTIZATION

	Year Ended December 31,	
	2013	2012
Depreciation and amortization of:		
- intangible assets	277,081	300,681
- building properties	505,910	505,281
- equipment	965,018	1,058,835
- other assets	1,142	1,196
Total depreciation and amortization	1,749,151	1,865,993

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

11. OTHER OPERATING EXPENSES

	Year Ended December 31,	
	2013	2012
Cost of materials	1,869,054	1,960,315
Cost of production services:		
- transportation services	1,300	2,434
- telecommunication services	32,692	31,165
- automatic data transfer	111,694	110,893
- maintenance	211,307	261,750
- rental costs	9,555	9,854
- marketing and advertising	2,141	3,894
- official gazettes and magazines	8,252	10,816
- finishing costs - ZIN	94,418	100,497
- other services	15,690	23,222
Non-material expenses:		
- business travel expenses	48,320	62,092
- employee transportation costs	91,469	81,414
- fees to voluntary pension funds	99,316	90,358
- employee professional training costs	8,557	14,218
- intellectual services	67,543	89,897
- security services (for property and money)	26,681	36,451
- public utilities	13,470	13,527
- entertainment	33,901	35,642
- insurance premiums	44,532	56,179
- costs of insurance of cash in transport	115	161
- other non-material expenses	54,659	75,134
Tax expenses:		
- city development land usage fees	60,834	55,583
- value added tax payable	92,055	156,934
- other taxes payable	20,265	21,762
Contributions paid	5,074	6,135
Other costs	44,992	48,876
Losses on the sale, disposal and write-off of property, plant, equipment and intangible assets	2,360	1,425
Revaluation of housing loans	273	-
Decrease in the value of inventories	81,656	126,111
Expenses arising from swap transactions	212,019	454,837
Provisions for litigations (Note 26)	68,551	-
Other expenses	59,390	95,513
Total other operating expenses	3,492,135	4,037,089

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

12. CASH AND CURENT ACCOUNTS HELD WITH BANKS

	December 31, 2013	December 31, 2012
Cash on hand:		
- in local currency	16	13
- in foreign currencies	36,382,878	62,141,291
	36,382,894	62,141,304
Current accounts:		
- with domestic banks and NBS	8,029,250	14,209,530
- with foreign banks	59,732,917	112,103,102
	67,762,167	126,312,632
Other cash funds in foreign currencies	1,735	1,725
Total cash and current accounts held with banks	104,146,796	188,455,661
Less: Allowance for impairment	(719,234)	(742,293)
Total cash and current accounts held with banks	103,427,562	187,713,368

Special drawing right (SDR) holdings on the current account with the IMF in the amount of RSD 15,335,674 thousand (December 31, 2012: RSD 23,678,454 thousand) are presented in Note 19.

13. DEPOSITS HELD WITH BANKS

	December 31, 2013	December 31, 2012
Deposits:		
- time deposits	239,514,530	145,401,813
- other deposits	21,437	23,290
- interest accrued	14	14,252
	239,535,981	145,439,355
Less: Allowance for impairment		
- of time deposits	(2,310,773)	(2,395,503)
	(2,310,773)	(2,395,503)
Total deposits with banks	237,225,208	143,043,852

Time deposits include deposits placed with foreign banks for periods of one day up to 3 months at the annual interest rates that ranged from 0% to 1.04% in 2013, depending on the currency (2012: 0% to 1%) and call deposits that do not have specified maturities but are drawn or raised in accordance with the Bank's needs.

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***14. GOLD AND OTHER PRECIOUS METALS**

	December 31, 2013	December 31, 2012
Gold and standard tradable gold bullions	3,231,514	4,639,541
Gold and substandard gold bullions	48,938,037	65,797,198
Other precious metals	817,068	1,168,620
Total gold and other precious metals	52,986,619	71,605,359

15. FINANCIAL ASSETS CARRIED AT FAIR VALUE THROUGH PROFIT AND LOSS

	December 31, 2013	December 31, 2012
Coupon bonds	711,336,212	703,463,456
Discount securities	171,295,500	127,086,455
Total financial assets carried at fair value through profit and loss	882,631,712	830,549,911

Coupon securities relate to bonds issued by governments and central banks of OECD member countries and by international financial institutions, amounting to RSD 711,336,212 thousand (December 31, 2012: RSD 703,463,456 thousand). These bonds are denominated in EUR, USD, GBP and CAD.

Annual interest rates on coupon securities ranged between 0% and 5.37% for bonds denominated in EUR (2012: between 0.25% and 5.37%), between 0.25 % and 4.75% for bonds denominated in USD (2012: between 0.25% and 4.87%), between 0.87% and 8% for bonds denominated in GBP (2012: between 0.87% and 8%) and between 0.75% and 3.5% for bonds denominated in CAD (2012: between 0.75% and 5.25%).

Discount securities relate to the treasury bills issued by the Governments of Germany, USA, France, Belgium and the Netherlands totaling RSD 171,295,500 thousand (December 31, 2012: RSD 127,086,455 thousand), and represent short-term securities denominated in EUR bearing interest at the interest rates ranging from 0% to 0.27% annually (2012: from 0% to 0.3% annually) and securities denominated in USD at the interest rates ranging from 0.05% to 0.13% annually (2012: from 0.05% to 0.18%).

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

16. FINANCIAL ASSETS AVAILABLE FOR SALE

	December 31, 2013	December 31, 2012
Equity investments in RSD:		
- Recreatours d.o.o., Beograd	229,498	229,498
- Other	554	754
	<u>230,052</u>	<u>230,252</u>
Equity investments in foreign currencies:		
- Bank for International Settlements, Basel	8,058,613	9,180,109
- S.W.I.F.T. srl	326	375
	<u>8,058,939</u>	<u>9,180,484</u>
Total financial assets available for sale	<u><u>8,288,991</u></u>	<u><u>9,410,736</u></u>

17. SECURITIES HELD TO MATURITY

	December 31, 2013	December 31, 2012
Securities held to maturity		
- Treasury bills, bonds and bills of exchange issued by local banks in bankruptcy or liquidation	665,430	665,430
- Less: Allowance for impairment	<u>(665,430)</u>	<u>(665,430)</u>
Total securities held to maturity	<u><u>-</u></u>	<u><u>-</u></u>

18. LOANS

	December 31, 2013	December 31, 2012
Loans:		
- loans to banks in bankruptcy and liquidation	2,739,096	2,821,988
- loans to commercial banks	-	475,000
- loans to the Republic of Serbia	1,151,478	1,204,190
- housing and short-term loans approved to employees	868,157	899,298
- interest	-	7,679
	<u>4,758,731</u>	<u>5,408,155</u>
Less: Allowance for impairment of		
- loans to banks in bankruptcy and liquidation	(2,737,958)	(2,821,988)
- loans to the Republic of Serbia	(1,151,478)	(1,204,190)
- housing and short-term loans approved to employees	<u>(7,684)</u>	<u>(5,973)</u>
	<u><u>(3,897,120)</u></u>	<u><u>(4,032,151)</u></u>
Total loans	<u><u>861,611</u></u>	<u><u>1,376,004</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

19. IMF MEMBERSHIP QUOTA AND SDR HOLDINGS

	December 31, 2013	December 31, 2012
IMF membership quota	59,873,738	61,945,041
SDR holdings	15,335,674	23,678,454
Deferred expenses – commitment fee	-	44,295
Total	75,209,412	85,667,790

As at December 31, 2013 the quota of the Republic of Serbia in the International Monetary Fund amounted to RSD 59,873,738 thousand (December 31, 2012: RSD 61,945,041 thousand). The membership quota is denominated in special drawing rights in the amount of SDR 467,700 thousand (December 31, 2012: SDR 467,700 thousand) is collateralized with the bill of exchange issued by the Government of the Republic of Serbia.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

	Land	Buildings	Equipment	Other Fixed Assets	Investments in progress	Total	Investment Property	Intangible Assets
Cost/revalued amount								
Opening balance at January 1, 2012	20,019	25,275,564	8,654,778	126,325	18,843	34,095,529	772,750	1,833,036
Additions	-	34,469	190,463	1,861	100,409	327,202	71,945	15,330
Transfer from investment in progress	-	-	116,781	-	(116,781)	-	-	-
Sales, disposals and shortages	-	-	(139,570)	(1,519)	-	(141,089)	-	(17,094)
Balance at December 31, 2012	20,019	25,310,033	8,822,452	126,667	2,471	34,281,642	844,695	1,831,272
Additions	-	-	97,220	927	110,476	208,623	-	6,238
Transfer from investment in progress	-	-	100,032	-	(100,032)	-	-	-
Transfers from inventories	-	-	26,594	-	-	26,594	-	-
Sales, disposals and shortages	-	-	(130,239)	(1,163)	-	(131,402)	-	-
Revaluation effects (Note 3.9)	-	-	-	82,878	-	82,878	-	-
Surpluses	-	-	3,026	15,275	-	18,301	-	314
Other decreases	-	-	-	(282)	-	(282)	-	-
Balance at December 31, 2013	20,019	25,310,033	8,919,085	224,302	12,915	34,486,354	844,695	1,837,824
Accumulated depreciation and amortization								
Opening balance at January 1, 2012	-	13,324,464	3,893,047	20,518	-	17,238,029	-	1,186,675
Charge for the year	-	505,281	1,058,835	1,196	-	1,565,312	-	300,681
Sales, disposals and shortages	-	-	(135,836)	(1,507)	-	(137,343)	-	(17,094)
Other	-	-	9,350	-	-	9,350	-	-
Balance at December 31, 2012	-	13,829,745	4,825,396	20,207	-	18,675,348	-	1,470,262
Charge for the year	-	505,910	965,018	1,142	-	1,472,070	-	277,081
Transfers	-	-	26,430	-	-	26,430	-	-
Surpluses	-	-	1,344	-	-	1,344	-	198
Sales, disposals and shortages	-	-	(127,859)	(1,150)	-	(129,009)	-	-
Balance at December 31, 2013	-	14,335,655	5,690,329	20,199	-	20,046,183	-	1,747,541
Net book value at December 31, 2013	20,019	10,974,378	3,228,756	204,103	12,915	14,440,171	844,695	90,283
Net book value at December 31, 2012	20,019	11,480,288	3,997,056	106,460	2,471	15,606,294	844,695	361,010

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***20. PROPERTY, PLANT, EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS (Continued)**

As disclosed in Note 3.9, as at December 31, 2010, the Bank performed valuation of certain categories of building properties and recognized the revaluation effects as at the said date. Had the Bank continued to measure aforesaid building properties at cost, their net book value would have been by RSD 192,373 thousand lower and totaled RSD 10,782,006 thousand, and by RSD 260,837 thousand lower and totaled RSD 11,219,451 thousand as of December 31, 2013 and 2012, respectively.

As disclosed in Note 3.9, as at October 31, 2013, the Bank had an independent appraiser perform valuation of works of art – paintings owned by the Bank. Positive revaluation effects in the amount of RSD 82,878 thousand were credited to the other comprehensive income and accumulated on the account of revaluation reserves within equity.

Fair Value Hierarchy

The Bank measures the fair value of buildings, a portion of other fixed assets (works of art) and investment property using the fair value hierarchy to categorize inputs used to measure fair value according to their quality in the manner disclosed in Note 30.

The fair values of buildings carried at fair value per hierarchy level in accordance with IFRS 13 can be presented as follows:

	Level 1	Level 2	Level 3	Total
Buildings	-	-	14,335,655	14,335,655
Other fixed assets – works of art - paintings	-	-	102,182	102,182
Investment property	-	-	844,695	844,695
December 31, 2013	-	-	15,282,532	15,282,532

Overview of Valuation Techniques and Significant Unobservable Inputs

The following table presents valuation techniques and significant unobservable inputs used to measure fair value of buildings and investment property.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***20. PROPERTY, PLANT, EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS (Continued)***Overview of Valuation Techniques and Significant Unobservable Inputs (Continued)*

Valuation technique	Significant unobservable inputs	Inter-relationship between the key unobservable inputs and fair value
<p><i>Cost approach</i> – based on the substitution principle, i.e. replacement as the indicator of fair value. The starting point is the value arrived at using the replacement cost method. (calculation of the construction cost of a new building), wherefrom three forms of deterioration and obsolescence are deducted – physical, functional and economic.</p> <p><i>Market approach</i> – based on the method of comparable transactions, i.e. on comparison of assets measured to other comparative assets involved in sales/purchases in the market,</p> <p><i>Income approach</i> – based on the present value method, where the fair value measurement is aimed at determining the present value of the future cash flows over the asset's useful life using the capitalization rate that reflects the risk of attaining the projected cash flows and the time value of money.</p>	Cost of construction	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> - Cost of construction were to increase (decrease)
	Real estate prices in the local market	<ul style="list-style-type: none"> - Real estate prices in the local market were to increase (decrease) - Capitalization rate were to decrease (increase)
	Capitalization rate	<ul style="list-style-type: none"> - Rental price were to increase (decrease)
	Rental price	<ul style="list-style-type: none"> - Occupancy rate were to increase (decrease)
	Occupancy rate	

The fair value of the largest number of properties was estimated using the income and market approaches, whereby the final value was determined by weighting the results obtained using these two approaches.

For certain large area business premises, the estimated fair value was based exclusively on the income approach since large area business premises are rarely sold in entirety; more commonly they are leased.

The cost approach was used in determining the fair value of specific properties that had been tailored and constructed for the Bank's purposes, such as buildings in Belgrade, at no. 17, Nemanjina Street, at no. 12 Kralja Petra Street and facilities in Topčider.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***20. PROPERTY, PLANT, EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS (Continued)***Overview of Valuation Techniques and Significant Unobservable Inputs (Continued)*

Fair value assessment of the works of art owned by the Bank entails use of a significant number of unobservable inputs such as: artistic and historical importance of the specific piece and evaluation of its physical condition, i.e. of the necessary interventions and conservatory and restoration treatments, given the aforesaid specificities, the fair value of such assets was estimated by external appraisers with the required professional qualifications (curators and conservators from the National Museum in Belgrade).

21. OTHER ASSETS

	December 31, 2013	December 31, 2012
Advances paid	993,595	1,470,299
Fee and commission receivables	123,749	130,086
Receivables from the sales of finished products and services	184,765	790,694
Receivables from employees	2,982	1,652
Value added tax receivable	53,040	-
Other receivables from operations	900,806	1,141,528
Inventories	3,499,664	3,291,456
Deferred other expenses	1,514	1,381
Other assets	1,943,039	1,998,998
	<u>7,703,154</u>	<u>8,826,094</u>
<i>Less: Allowances for impairment of:</i>		
Advances paid	(965,217)	(1,387,066)
Fee and commission receivables	(27,290)	(30,695)
Receivables from the sales of finished products and services	(52,597)	(50,513)
Receivables from employees	(918)	(974)
Other receivables from operations	(855,184)	(1,133,492)
Inventories	(60,925)	(90,537)
Other assets	(1,841,818)	(1,905,214)
	<u>(3,803,949)</u>	<u>(4,598,491)</u>
Total other assets	<u><u>3,899,205</u></u>	<u><u>4,227,603</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***22. LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS**

	December 31, 2013	December 31, 2012
Transaction deposits in RSD:		
- obligatory reserves of the banks	154,338,500	145,277,818
- central deposits	8,029,250	14,209,530
- other transaction deposits in RSD	650,333	1,894,780
	<u>163,018,083</u>	<u>161,382,128</u>
Transaction deposits in foreign currencies:		
- obligatory reserves of the banks	278,448,786	317,453,713
- other transaction deposits in foreign currencies	379,913	355,012
	<u>278,828,699</u>	<u>317,808,725</u>
Total transaction deposits	441,846,782	479,190,853
Other deposits in RSD:		
- liquid asset surpluses	19,190,000	14,755,000
- cash in vaults and Treasury Department	26,350,949	25,557,422
	<u>45,540,949</u>	<u>40,312,422</u>
Other deposits in foreign currencies:		
- time deposits	18,342,736	-
- other deposits	46,685	41,948
	<u>18,389,421</u>	<u>41,948</u>
Total other deposits	63,930,370	40,354,370
Borrowings received in foreign currencies:		
China Export & Credit Insurance Corporation-SINOSURE	5,885,354	6,914,642
Liabilities arising from repurchase transactions	110,000,000	39,800,000
Other financial liabilities	131,188	135,552
	<u>116,016,542</u>	<u>46,850,194</u>
Total other liabilities	116,016,542	46,850,194
Total interest liabilities	20,845	21,249
Total deferred interest liabilities	209,296	263,995
Total liabilities to banks and other financial institutions	<u>622,023,835</u>	<u>566,680,661</u>

Transaction Deposits

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***22. LIABILITIES TO BANKS AND OTHER
FINANCIAL INSTITUTIONS (Continued)***Transaction Deposits (Continued)*

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

Mandatory foreign currency reserve 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 Banks and relevant bylaws.

Time Deposits

Foreign currency time deposits totaling RSD 18,342,736 thousand include foreign currency investments of domestic banks with the Bank pursuant to the agreements on opening and maintaining foreign currency accounts with the Bank maturing within 7 days. The Bank paid interest thereon at the annual rate of interest earned by investing such funds (in 2013 the average annual interest rate for time deposits denominated in EUR equaled 0.19%).

Borrowings in Foreign Currencies

Loan received from the Export-Import Bank of China, in the amount of USD 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 installments until January 2005. During 2009, another agreement was concluded to transfer all rights governing this loan to China Export & Credit Insurance Corporation-SINOSURE. During 2013 repayment of the loan was performed pursuant to unaltered terms, in semi-annual installments.

Liabilities Arising from Repurchase Transactions

Liabilities arising from repurchase transactions of RSD 110,000,000 thousand (December 31, 2012: RSD 39,800,000 thousand), refer to the Bank's liabilities to domestic banks based debts incurred through agreements on repurchase of treasury bills. These are short-term liabilities with fixed maturities. In the course of 2013, the Bank paid interest thereto at the rate ranging from 7.2% to 9.99% annually (2012: from 9.50% to 11.25%).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***23. LIABILITIES TO THE GOVERNMENT
AND OTHER DEPOSITORS**

	December 31, 2013	December 31, 2012
Transaction deposits in RSD:		
- deposits of the Ministry of Finance and Treasury Department	109,454,826	66,157,263
- other transaction deposits in RSD	1	3,846
	<u>109,454,827</u>	<u>66,161,109</u>
Transaction deposits in foreign currencies:		
- deposits of the Ministry of Finance and Treasury Department	92,756,600	38,202,332
- other transaction deposits in foreign currencies	7,517,752	5,663,424
	<u>100,274,352</u>	<u>43,865,756</u>
Total transaction deposits	209,729,179	110,026,865
Other deposits in RSD:		
- cash held with the Treasury Department	1,536,279	1,323,161
- other deposits in RSD	6,262	-
	<u>1,542,541</u>	<u>1,323,161</u>
Other deposits in foreign currencies:		
- deposits of the Revolving Loan Fund	192	18,287
- special-purpose deposit – Central Securities Depository and Clearing House, Belgrade	3,412,393	1,281,427
- earmarked deposits – grant accounts	3,483,339	2,705,215
- special-purpose deposits – Ministry of Finance and Treasury Department	8,214,839	3,000,911
- deposits of the Deposit Insurance Agency	16	3,890
- other earmarked deposits	808,426	684,721
- deposits related to the seized foreign currency cash	4,093,993	3,903,587
- time deposits	37,028,289	55,123,735
- other deposits in foreign currencies	455,184	575,211
	<u>57,496,671</u>	<u>67,296,984</u>
Total other deposits	59,039,212	68,620,145
Total interest liabilities	235,277	115,366
Total deferred interest liabilities	<u>2,366</u>	<u>4,818</u>
Total liabilities to the Government and other depositors	<u><u>269,006,034</u></u>	<u><u>178,767,194</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

24. LIABILITIES TO THE IMF

	December 31, 2013	December 31, 2012
Securities and other liabilities regulating the Bank's status with the IMF	59,747,798	61,856,295
Stand-by arrangement	79,923,903	157,922,770
Liabilities to the IMF in SDR	7,381,809	7,595,558
Interest accrued	166,362	288,229
Total liabilities to the IMF	147,219,872	227,662,852

As at December 31, 2013 and 2012, the total amount of drawn (used) assets from the stand-by arrangement amounted to SDR 1,367,742 thousand, which is 292.5% of the Republic of Serbia quota with the IMF, maturing by the end of April 2016. Thirteen tranches of the stand-by arrangement were repaid during 2013, so that the balance of debt due to the IMF amounted to SDR 624,321 thousand.

25. DINARS IN CIRCULATION

Dinars in circulation totaling RSD 122,439,771 thousand (December 31, 2012: RSD 110,548,870 thousand) represent the Bank's liability toward payment transaction participants. This amount includes neither money in circulation held in vaults of commercial banks presented within liabilities to banks and other financial institutions (Note 22) nor money in circulation held with the Treasury Department and presented within liabilities to the Government and other depositors (Note 23).

26. PROVISIONS

	December 31, 2013	December 31, 2012
Provisions for employee retirement benefits	515,645	403,393
Provisions for employee jubilee awards	420,127	275,955
Provisions for unused annual leaves (vacations)	159,466	139,363
Provisions for litigations	251,499	317,165
Total provisions	1,346,737	1,135,876

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

26. PROVISIONS (Continued)

Movements on Provisions

	Provisions for retirement benefits	Provisions for jubilee awards	Provisions for unused annual leaves	Provisions for litigations	Total
Balance at January 1, 2012	355,879	251,918	134,487	437,642	1,179,926
Charge for the year (Note 9)	47,514	24,037	4,876	-	76,427
Release of provisions during the year	-	-	-	(62,390)	(62,390)
Reversal of provisions (Note 7)	-	-	-	(58,087)	(58,087)
Balance at December 31, 2012	403,393	275,955	139,363	317,165	1,135,876
Charge for the year (Notes 9 and 11)	112,252	144,172	20,103	68,551	345,078
Release of provisions during the year	-	-	-	(73,130)	(73,130)
Reversal of provisions (Note 7)	-	-	-	(61,087)	(61,087)
Balance at December 31, 2013	515,645	420,127	159,466	251,499	1,346,737

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***26. PROVISIONS (Continued)****Provisions for Retirement Benefits and Jubilee Awards**

Provisions for retirement benefits and jubilee awards were formed based on the certified actuary's report and stated in the amount of the discounted present value of the future payments. The basic assumptions taken into account in the calculation of provisions for long-term employee benefits are presented in 3.12.

Provisions for Litigations

Long-term provisions for litigations as at December 31, 2013 totaling RSD 251,499 thousand (December 31, 2012: RSD 317,165 thousand) were formed based on the estimates of the legal suit outcomes made by the Bank's Legal Department and its attorney. The amount of provisions formed represents the best possible estimate of the Bank's management in respect of expected expenses arising from legal suits with outcomes estimated as unfavorable for the Bank.

27. OTHER LIABILITIES

	December 31, 2013	December 31, 2012
Trade payables:		
- domestic	120,516	107,478
- foreign	41,316	13,199
Advances received:		
- in RSD	30,583	110,960
- in foreign currencies	696	2
Liabilities for salaries	209,625	199,729
Foreign currency liabilities to domestic banks for replacement of foreign currency cash	-	445,851
Inheritance liabilities	38,806	40,163
Other accruals	27,469	31,719
Taxes and contributions payable	5,596	39,589
Other liabilities from operations	495,731	422,588
Total other liabilities	970,338	1,411,278

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***28. EQUITY**

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

	December 31, 2013	December 31, 2012
State-owned capital	119,049,539	100,803,340
Special reserves	127,140,439	90,594,522
Revaluation reserves	8,651,972	8,569,094
Reserves from securities available for sale	5,651,105	6,469,354
(Accumulated losses)/retained earnings	(43,594,173)	57,763,581
Total equity	216,898,882	264,199,891

The Republic of Serbia is the sole owner of the Bank's entire capital.

The Bank's equity comprises capital and reserves. Pursuant to the Law on the National Bank of Serbia, the minimum amount of the Bank's core capital shall amount to RSD 10 billion. The core capital of the Bank totaled RSD 119,049,539 thousand as of December 31, 2013 (December 31, 2012: RSD 100,803,340 thousand), which is above the prescribed threshold. Special reserves are used for loss absorption. Losses exceeding the minimum level of the core capital are covered from the reserves and core capital. If the funds therefrom are not sufficient to cover for the losses incurred, the losses are covered with the funds from the Republic of Serbia Budget or securities issued for this purpose by the Republic of Serbia. Should the Republic of Serbia fail to cover for the Bank's loss, such loss is subsequently absorbed from the earnings realized in the future periods.

a) Profit Allocation

Pursuant to the Law on the National Bank of Serbia, until the minimum amount of the core capital is achieved, the entire profit of the Bank is allocated to the core capital. Upon reaching the minimum amount of thereof, the entire profit of the Bank is allocated to special reserves of the Bank, until such reserves shall have reached the level of RSD 20 billion.

Upon reaching the minimum amount of the core capital and special reserve amount referred to in the paragraph above, the profit share originating from foreign exchange gains and revaluation reserves of the Bank is allocated to the core capital (33.3%) and to special reserves (66.7%), while the remaining profit which does not come from foreign exchange gains and revaluation reserves is allocated to the core capital (10%), special reserves (20%) and to the Budget of the Republic of Serbia (70%).

In 2013 the National Bank of Serbia incurred a loss of RSD 43,594,173 thousand. The loss will be absorbed after the Council of the Governor enacts Decision on the adoption of the financial statements in accordance with the Law on the National Bank of Serbia.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

28. EQUITY (Continued)

a) Profit Allocation (Continued)

The following table presents the loss incurred in 2013 and the allocation of profit of the Bank from the year 2012:

	December 31, 2013	December 31, 2012
(Loss)/profit originating from foreign exchange (losses)/gains	(25,667,355)	53,518,631
(Loss)/profit originating from revaluation reserves	-	-
1. Total (loss)/profit from exchange rates (losses)/gains and revaluation reserves	(25,667,355)	53,518,631
2. Remaining (loss)/profit not originating from exchange rates (losses)/gains and revaluation reserves	(17,926,818)	4,244,950
(Accumulated losses) / retained earnings (1+2)	(43,594,173)	57,763,581
Allocation of profit from foreign exchange gains and revaluation reserves (1):		
1.1) core capital increase 33.3%	-	17,821,704
1.2) special reserve increase 66.7%	-	35,696,927
		53,518,631
Allocation of profit not originating from foreign exchange gains and revaluation reserves (2):		
2.1) transfer the RS Budget 70%	-	2,971,465
2.2) core capital increase 10%	-	424,495
2.3) special reserve increase 20%	-	848,990
		4,244,950
Total core capital increase (1.1+2.2)	-	18,246,199
Total special reserve increase (1.2+2.3)	-	36,545,917
Transfer to the Budget of the Republic of Serbia (2.1)	-	2,971,465
(Accumulated losses) / retained earnings	(43,594,173)	57,763,581

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

29. OFF-BALANCE SHEET ITEMS

	December 31, 2013	December 31, 2012
a) Funds managed on behalf of third parties		
- in RSD	1,212,886	1,185,166
- in foreign currencies	1,506,128,048	1,334,906,976
	1,507,340,934	1,336,092,142
b) Guarantees, sureties, collaterals to secure liability settlement and irrevocable commitments		
Guarantees and other sureties issued in RSD	-	159
Guarantees and other sureties issued in foreign currencies	69	279
Securities and other assets received under pledge	1,887,372	15,172,395
Other irrevocable commitments:		
- in RSD	20,009	20,009
- in foreign currencies	8,479,703	613,348
	10,387,153	15,806,190
c) Other off-balance sheet items		
Receivables for suspended interest	4,829,077	4,691,429
Other off-balance sheet items	512,827,137	513,153,668
	517,656,214	517,845,097
d) Dinars in circulation and out of circulation		
Cash in circulation	150,326,999	137,429,453
Inventories of banknotes	190,920,916	190,631,871
Inventories of coins	512,810	333,804
Other	174	1,914,745
	341,760,899	330,309,873
Total off-balance sheet items	2,377,145,200	2,200,053,302

a) Out of the total amount of funds managed on behalf of third parties, the portion of RSD 181,814,033 thousand (December 31, 2012: RSD 212,322,895 thousand) refers to the transactions performed on behalf and for the account of the Republic of Serbia in respect of settlement of FRY public debt arising from retail customer foreign currency savings and settlement of FRY public debt per retail customer foreign currency term deposits placed with Dafiment banka a.d. Beograd in Liquidation as well as per retail customer foreign currency funds placed with Banka Crne Gore d.d., Podgorica. The Bank acts as an agent in these operations.

b) Out of the total amount of securities under pledge and other collaterals received, RSD 1,050,000 thousand (December 31, 2012: RSD 14,059,300 thousand) relates to securities received as pledge to securitize loans approved to banks, whereas the remaining portion relates to the mortgages received to secure repayment of housing loans extended to employees and guarantees received from regular business operations. Out of the total amount of other irrevocable commitments in foreign currency, a portion of RSD 8,024,947 thousand comprise deal tickets for spot currency sales at the interbank foreign exchange market meetings.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***29. OFF-BALANCE SHEET ITEMS (Continued)**

- c) Out of the total amount of other off-balance sheet items, an amount of RSD 500,000,000 thousand refers to treasury bills intended for repurchase transactions.
- d) Out of the total amount of dinars in circulation and out of circulation, the amount of RSD 150,326,996 thousand relates to cash in circulation representing funds covered by the money of transaction participants. Inventories of banknotes of RSD 190,920,916 thousand and inventories of coins of RSD 512,810 thousand pertain to the money which is not covered by the money of transaction participants and which is located in the Bank's vaults.

30. RISK MANAGEMENT POLICIES

Basic financial risks to which the Bank 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 Bank 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.

Management of foreign exchange reserves is based on Strategic Guidelines for Managing the Bank's Foreign Exchange Reserves, which are determined by the Executive Board. The Guidelines define the criteria for foreign exchange reserve placement, aims of using the reserves, global investment framework and other. On the basis of these guidelines, the Bank's Investment Committee, prepares a draft of Tactical Guidelines for management of foreign exchange reserves and then submits them to the Executive Board for approval. The Tactical Guidelines for managing foreign exchanges reserves are carried out by the Department for Management of Foreign Exchange Reserves within the Bank's Foreign Affairs Sector. Within the same sector operates the Department for Risk Control and Risk Management. Their duties are to create and maintain a framework for managing the Bank's financial risks. This department monitors risks on daily basis. On a monthly basis they have to report to the Executive Board regarding the analysis of the risk. All of the organizational units within the Bank are subject to periodical internal audit.

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

Credit Risk

The basic exposure of the Bank to credit risk is principally inherent to managing foreign exchange reserves. When investing foreign currency reserves, the Bank relies on the principles of liquidity and safety. The Bank strives to invest foreign exchange reserves in such a manner that it realizes as high return on investment as possible without jeopardizing liquidity and safety.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***30. RISK MANAGEMENT POLICIES (Continued)****Credit Risk (Continued)**

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

Securities invested into must be at least rated as Aa3 for state-issued bonds and Aa2 for public sector bonds and bonds securitized with collaterals according to *Moody's Investor Service*, i.e. AA- for state-issued bonds and AA for public sector bonds and bonds securitized with collaterals according to *Standard&Poor's*.

Banks maintaining deposits placed by the NBS, unless collateralized, must have minimum long-term credit rating of AA-. For each bank, individual credit limit is determined based on the bank's credit rating, prior experience in operations with that bank and by analyzing data on its business performance. Individual credit limits are determined in the List of Authorized Issuers and Banks, in which it is permissible to place deposits, which is approved by Executive Board.

Banks maintaining 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 A according to *Standard & Poor's*;
- collateral of adequate quality i.e. the collateral must comprise securities included in the NBS Global Investment Guidelines.

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

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

30. RISK MANAGEMENT POLICIES (Continued)

Credit Risk (Continued)

Financial Instruments (Assets and Liabilities)

The following table presents the net exposure of the Bank inherent in financial assets and liabilities as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Financial assets		
Cash and current accounts held with banks	103,427,562	187,713,368
Deposits held with banks	237,225,208	143,043,852
Financial assets carried at fair value through profit and loss	882,631,712	830,549,911
Financial assets available for sale	8,288,991	9,410,736
Loans	861,611	1,376,004
IMF membership quota and SDR holdings	75,209,412	85,667,790
Other assets	432,088	943,451
	<u>1,308,076,584</u>	<u>1,258,705,112</u>
Financial liabilities		
Liabilities to other banks and financial institutions	622,023,835	566,680,661
Liabilities to the Government and other depositors	269,006,034	178,767,194
Liabilities to the IMF	147,219,872	227,662,852
Dinars in circulation	122,439,771	110,548,870
Other liabilities	939,059	1,300,316
	<u>1,161,628,571</u>	<u>1,084,959,893</u>

Maximum Exposure to Credit Risk

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

	December 31, 2013	December 31, 2012
Financial assets		
Cash and current accounts held with banks	103,427,562	187,713,368
Deposits held with banks	237,225,208	143,043,852
Financial assets carried at fair value through profit and loss	882,631,712	830,549,911
Financial assets available for sale	8,288,991	9,410,736
Loans	861,611	1,376,004
Other assets	432,088	943,451
	<u>1,232,867,172</u>	<u>1,173,037,322</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

30. RISK MANAGEMENT POLICIES (Continued)

Credit Risk (Continued)

Maximum Exposure to Credit Risk (Continued)

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

	Not Matured and not Impaired Assets	Matured but not Impaired Assets	Impaired Assets	Total, gross	Allowance for impairment	Total, net
Cash and current accounts held with banks	103,427,562	-	719,234	104,146,796	(719,234)	103,427,562
Deposits held with banks	237,225,208	-	2,310,773	239,535,981	(2,310,773)	237,225,208
Financial assets carried at fair value through profit and loss	882,631,712	-	-	882,631,712	-	882,631,712
Financial assets available for sale	8,288,991	-	-	8,288,991	-	8,288,991
Securities held to maturity	-	-	665,430	665,430	(665,430)	-
Loans	861,611	-	3,897,120	4,758,731	(3,897,120)	861,611
Other assets	395,329	36,759	2,777,807	3,209,895	(2,777,807)	432,088
December 31, 2013	1,232,830,413	36,759	10,370,364	1,243,237,536	(10,370,364)	1,232,867,172
Cash and current accounts held with banks	187,713,368	-	742,293	188,455,661	(742,293)	187,713,368
Deposits held with banks	143,043,852	-	2,395,503	145,439,355	(2,395,503)	143,043,852
Financial assets carried at fair value through profit and loss	830,549,911	-	-	830,549,911	-	830,549,911
Financial assets available for sale	9,410,736	-	-	9,410,736	-	9,410,736
Securities held to maturity	-	-	665,430	665,430	(665,430)	-
Loans	1,376,004	-	4,032,151	5,408,155	(4,032,151)	1,376,004
Other assets	840,031	103,420	3,120,888	4,064,339	(3,120,888)	943,451
December 31, 2012	1,172,933,902	103,420	10,956,265	1,183,993,587	(10,956,265)	1,173,037,322

The Bank did not reschedule its receivables during 2013 and 2012.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***30. RISK MANAGEMENT POLICIES (Continued)****Credit Risk (Continued)***Maximum Exposure to Credit Risk (Continued)*

The aging analysis of matured but not impaired assets as of December 31, 2013 and 2012 was as follows:

	December 31, 2013	December 31, 2012
From 0 to 15 days	23,642	78,073
From 15 to 30 days	11,498	16,685
From 30 to 45 days	1,619	8,662
Total	36,759	103,420

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

30. RISK MANAGEMENT POLICIES (Continued)

Credit Risk (Continued)

*Concentration of Credit Risk in Financial Assets**a) Concentration per Region*

	Serbia	European Union	USA and Canada	Other	Total
FINANCIAL ASSETS					
Cash and current accounts held with banks	44,413,878	43,019,363	15,604,214	390,107	103,427,562
Deposits held with banks	21,450	90,158,701	94,101,122	52,943,935	237,225,208
Financial assets carried at fair value through profit and loss	-	723,117,679	159,514,033	-	882,631,712
Financial assets available for sale	230,052	326	-	8,058,613	8,288,991
Loans	861,611	-	-	-	861,611
Other assets	380,094	3,597	28,863	19,534	432,088
Total as at December 31, 2013	45,907,085	856,299,666	269,248,232	61,412,189	1,232,867,172
Total as at December 31, 2012	78,930,915	829,864,242	222,946,766	41,295,399	1,173,037,322

b) Concentration per Industry

	Banks	Public sector (Government and public companies)	Other financial institutions	Sector of other enterprises	Retail customers	Total
FINANCIAL ASSETS						
Cash and current accounts held with banks	103,427,562	-	-	-	-	103,427,562
Deposits held with banks	237,225,208	-	-	-	-	237,225,208
Financial assets carried at fair value through profit and loss	130,666,420	-	751,965,292	-	-	882,631,712
Financial assets available for sale	-	-	8,058,939	230,052	-	8,288,991
Loans	1,138	-	-	-	860,473	861,611
Other assets	193,254	146,658	16,260	70,466	5,450	432,088
Total as at December 31, 2013	471,513,582	146,658	760,040,491	300,518	865,923	1,232,867,172
Total as at December 31, 2012	486,155,784	738,117	684,991,441	257,340	894,640	1,173,037,322

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

30. RISK MANAGEMENT POLICIES (Continued)

Credit Risk (Continued)

Concentration of Credit Risk in Financial Assets

c) Concentration per Credit Rating

	December 31, 2013	December 31, 2012
Coupon bonds:		
AAA	358,261,126	439,035,469
AA+	208,644,738	256,587,770
AA	128,955,668	7,840,217
AA-	15,474,680	-
Total	711,336,212	703,463,456
Discount securities:		
AAA	15,786,049	23,176,860
AA+	57,150,221	103,909,595
AA	85,001,803	-
AA-	13,357,427	-
Total	171,295,500	127,086,455
Time deposits:		
No rating (no risk)*	24,938,868	9,289,815
AAA	71,468,081	31,619,423
AA+	94,101,122	99,412,980
AA	9,837,615	2,272,286
AA-	36,637,874	-
A+**	220,197	165,310
A**	-	246,496
Total	237,203,757	143,006,310
Other financial assets subject to credit risk analysis – no rating:	113,031,703	199,481,101
Total	1,232,867,172	1,173,037,322

* Deposits with FED and BIS Basel are not subject to credit rating and are treated as zero risk investments

** Funds placed are held on the call account.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***30. RISK MANAGEMENT POLICIES (Continued)****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 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 etc.). 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.

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 foreign exchange 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

30. RISK MANAGEMENT POLICIES (Continued)

Liquidity Risk (Continued)

	Up to a 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 held							
with banks	103,427,562	-	-	-	-	-	103,427,562
Deposits held with banks	177,129,746	34,635,508	24,938,460	-	21,436	500,058	237,225,208
Financial assets carried at fair value							
through profit and loss	39,695,227	57,086,289	232,200,244	551,072,978	2,576,974	-	882,631,712
Financial assets available for sale	-	-	-	-	-	8,288,991	8,288,991
Loans	-	-	106,163	25,692	729,756	-	861,611
IMF membership quota and SDR holdings	15,335,674	-	-	-	-	59,873,738	75,209,412
Other assets	374,420	53,804	-	161	3,703	-	432,088
	<u>335,962,629</u>	<u>91,775,601</u>	<u>257,244,867</u>	<u>551,098,831</u>	<u>3,331,869</u>	<u>68,662,787</u>	<u>1,308,076,584</u>
Liabilities to other banks and financial institutions	289,873,509	-	-	-	6,067,648	326,082,678	622,023,835
Liabilities to the Government and other depositors	211,506,996	-	37,028,289	-	-	20,470,749	269,006,034
Liabilities to the IMF	-	166,362	42,772,120	36,895,874	-	67,385,516	147,219,872
Dinars in circulation	-	-	-	-	-	122,439,771	122,439,771
Other liabilities	252,965	685,127	-	-	967	-	939,059
	<u>501,633,470</u>	<u>851,489</u>	<u>79,800,409</u>	<u>36,895,874</u>	<u>6,068,615</u>	<u>536,378,714</u>	<u>1,161,628,571</u>
Liquidity gap as at December 31, 2013	<u>(165,670,841)</u>	<u>90,924,112</u>	<u>177,444,458</u>	<u>514,202,957</u>	<u>(2,736,746)</u>	<u>(467,715,927)</u>	<u>146,448,013</u>
Liquidity gap as at December 31, 2012	<u>111,062,807</u>	<u>(9,696,428)</u>	<u>232,203,682</u>	<u>264,079,616</u>	<u>29,248,289</u>	<u>(453,152,747)</u>	<u>173,745,219</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

30. RISK MANAGEMENT POLICIES (Continued)

Fair Value Information

The following table presents a comparison of the carrying values (as adjusted for impairment) to the fair values of all financial assets and liabilities items of the Bank as at December 31, 2013 and 2012:

	Carrying Value		Fair Value	
	2013	2012	2013	2012
Financial assets				
Cash and current accounts held with banks	103,427,562	187,713,368	103,427,562	187,713,368
Deposits held with banks	237,225,208	143,043,852	237,225,208	143,043,852
Financial assets carried at fair value through profit and loss	882,631,712	830,549,911	882,631,712	830,549,911
Financial assets available for sale	8,288,991	9,410,736	8,288,991	9,410,736
Loans	861,611	1,376,004	861,611	1,376,004
IMF membership quota and SDR holdings	75,209,412	85,667,790	75,209,412	85,667,790
Other assets	432,088	943,451	432,088	943,451
Total	1,308,076,584	1,258,705,112	1,308,076,584	1,258,705,112
Financial liabilities				
Liabilities to other banks and financial institutions	622,023,835	566,680,661	622,023,835	566,680,661
Liabilities to the Government and other depositors	269,006,034	178,767,194	269,006,034	178,767,194
Liabilities to the IMF	147,219,872	227,662,852	147,219,872	227,662,852
Dinars in circulation	122,439,771	110,548,870	122,439,771	110,548,870
Other liabilities	939,059	1,300,316	939,059	1,300,316
Total	1,161,628,571	1,084,959,893	1,161,628,571	1,084,959,893

Fair Value Hierarchy

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

- Level 1: Quoted market price (unadjusted) in an active market for 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

30. RISK MANAGEMENT POLICIES (Continued)

Fair Value Information (Continued)

Fair Value Hierarchy (Continued)

- 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 differences between the instruments.

Fair Value Hierarchy of Financial Assets and Liabilities Measured at fair Value

Fair values of financial assets and liabilities measured at fair value categorized per fair value hierarchy levels in accordance with IFRS 13 are provided below:

As of December 31, 2013	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit and loss	882,631,712	-	-	882,631,712
Financial assets available for sale	-	8,058,613	230,378	8,288,991
Other assets	10,889	-	-	10,889
	882,642,601	8,058,613	230,378	890,931,592
Financial liabilities				
Other liabilities	10,540	-	-	10,540
	10,540	-	-	10,540
As of December 31, 2012	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit and loss	830,549,911	-	-	830,549,911
Financial assets available for sale	-	9,180,109	230,627	9,410,736
Other assets	37,655	-	-	37,655
	830,587,566	9,180,109	230,627	839,998,302
Financial liabilities				
Other liabilities	35,811	-	-	35,811
	35,811	-	-	35,811

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***30. RISK MANAGEMENT POLICIES (Continued)****Fair Value Information (Continued)*****Fair Value Hierarchy (Continued)******Fair Value Hierarchy of Financial Assets and Liabilities Measured at fair Value (Continued)******a) Financial Assets Carried at Fair Value through Profit and Loss***

Assets held for sale are mostly 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 quoted on financial markets.

b) Securities Available for Sale – Level 2

Securities available for sale totaling RSD 8,058,939 thousand as of December 31, 2013 are classified into fair value hierarchy Level 2 and mostly, in the amount of RSD 8,058,613 thousand, relate to the equity investments in the Bank for International Settlements, Basel. The Bank is in possession of 2,290 shares the fair value of which is determined in proportion to the Bank's share in the net assets of the Bank for International Settlements, Basel as at the measurement date, decreased by 30%.

c) Securities Available for Sale – Level 3

Available-for-sale financial assets totaling RSD 230,378 thousand as of December 31, 2013 are classified into fair value hierarchy Level 3 and for the most part, in the amount of RSD 229,498 thousand, relate to the Bank's equity investment held in the company Recreatours a.d., Beograd. As there is no active market where the aforesaid instrument is quoted and there are no appropriate comparative data for the fair value to be derived from, the fair value of the investment was determined in proportion to the Bank's interest in the company's core capital, which the Bank's management deems a reasonable fair value estimate .

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

30. RISK MANAGEMENT POLICIES (Continued)

Fair Value Information (Continued)

Fair Value Hierarchy (Continued)

Fair Value Hierarchy of Financial Assets and Liabilities not Measured at fair Value

The estimated fair values of financial assets and liabilities that are not measured at fair value per fair value hierarchy levels in accordance with IFRS 13 are presented below:

As of December 31, 2013	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
Financial assets					
Cash and current accounts held with banks	-	103,427,562	-	103,427,562	103,427,562
Deposits held with banks	-	-	237,225,208	237,225,208	237,225,208
Cash and current accounts held with banks	-	-	861,611	861,611	861,611
IMF membership quota and SDR holdings	-	-	75,209,412	75,209,412	75,209,412
Other assets	-	-	421,199	421,199	421,199
	-	103,427,562	313,717,430	417,144,992	417,144,992
Financial liabilities					
Liabilities to other banks and financial institutions	-	-	622,023,835	622,023,835	622,023,835
Liabilities to the Government and other depositors	-	-	269,006,034	269,006,034	269,006,034
Liabilities to the IMF	-	-	147,219,872	147,219,872	147,219,872
Dinars in circulation	-	-	122,439,771	122,439,771	122,439,771
Other liabilities	-	-	928,519	928,519	928,519
	-	-	1,161,618,031	1,161,618,031	1,161,618,031
As of December 31, 2012	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
Financial assets					
Cash and current accounts held with banks	-	187,713,368	-	187,713,368	187,713,368
Deposits held with banks	-	-	143,043,852	143,043,852	143,043,852
Cash and current accounts held with banks	-	-	1,376,004	1,376,004	1,376,004
IMF membership quota and SDR holdings	-	-	85,667,790	85,667,790	85,667,790
Other assets	-	-	905,796	905,796	905,796
	-	187,713,368	230,993,442	418,706,810	418,706,810
Financial liabilities					
Liabilities to other banks and financial institutions	-	-	566,680,661	566,680,661	566,680,661
Liabilities to the Government and other depositors	-	-	178,767,194	178,767,194	178,767,194
Liabilities to the IMF	-	-	227,662,852	227,662,852	227,662,852
Dinars in circulation	-	-	110,548,870	110,548,870	110,548,870
Other liabilities	-	-	1,264,505	1,264,505	1,264,505
	-	-	1,084,924,082	1,084,924,082	1,084,924,082

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***30. RISK MANAGEMENT POLICIES (Continued)****Fair Value Information (Continued)*****Fair Value Hierarchy (Continued)******Fair Value Hierarchy of Financial Assets and Liabilities not Measured at fair Value (Continued)***

For financial assets and liabilities that are not measured at fair value, the fair values are calculated only for the purpose of disclosing information on the estimated fair values of such instruments. The Bank's management holds that there are no materially significant differences between the carrying values and respective fair values of certain items of financial assets and liabilities given the Bank's specific role of a central bank

The main methods and assumptions used in estimating the fair values of the financial instruments presented in the table above are provided below:

- The carrying value represents the reasonably estimated fair value for the following financial assets and liabilities, mostly current: :
 - o Cash and current accounts held with banks in the amount of RSD 103,427,562 thousand;
 - o Deposits held with banks in the amount of RSD 236,703,714 thousand;
 - o Loans amounting to RSD 106,163 thousand;
 - o IMF membership quota and SDR holdings amounting to RSD 15,335,674 thousand;
 - o Other assets in the amount of RSD 417,335 thousand;
 - o Liabilities to banks and financial institutions amounting to RSD 289,873,509 thousand;
 - o Liabilities to the Government and other depositors in the amount of RSD 248,535,285 thousand;
 - o Liabilities to the IMF amounting to RSD 42,938,482 thousand;
 - o Other liabilities in the amount of RSD 927,552 thousand.
- The estimated fair values for the following financial assets and liabilities, mostly non-current in character:
 - o Deposits held with banks in the amount of RSD 521,494 thousand;
 - o Loans amounting to RSD 755,448 thousand;
 - o IMF membership quota and SDR holdings amounting to RSD 59,873,738 thousand;
 - o Liabilities to banks and financial institutions amounting to RSD 332,150,326 thousand;
 - o Liabilities to the Government and other depositors in the amount of RSD 20,470,749 thousand;
 - o Liabilities to the IMF amounting to RSD 104,281,390 thousand;
 - o Other liabilities in the amount of RSD 32,245 thousand

were determined by discounting the future cash flows using the average market rates for the respective financial instruments and, in the opinion of the Bank's management, do not depart significantly from the carrying values of these financial assets and liabilities stated in the Bank's financial statements.

In 2013 and 2012 there were no transfers of financial assets and liabilities that are not measured at fair value among the fair value hierarchy levels.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***30. RISK MANAGEMENT POLICIES (Continued)****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 rate risk in the following manner:

- by determining interest rates, which further monitors and adjusts for the purpose of achieving objectives of the adopted monetary policy (mandatory reserve in dinars and foreign currency, repurchase transactions);
- by holding deposits placed by the state and its institutions, by maintaining funds on current accounts and by deposits placed with foreign banks as well as by investing into highly liquid bonds of governments and central banks of OECD member states.

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

December 31, 2013	<u>RSD (%)</u>	<u>EUR (%)</u>	<u>USD (%)</u>	<u>SDR (%)</u>
Financial assets				
Cash and current accounts held				
with banks	-	0.06-0.45	-	-
Deposits held with foreign banks	-	0.01-0.36	0.08-0.98	-
Financial assets carried at fair value through profit and loss	-	0.00-5.38	0.05-4.75	-
Financial assets available for sale	-	-	-	-
Financial liabilities				
Obligatory dinar reserves of banks	2.5	-	-	-
Time deposits	-	0.03-0.20	0.04-0.19	-
Borrowings	-	0.35-1.00	1.69-2.03	-
Liabilities arising from repurchase transactions	7.20-9.99	-	-	-
Liabilities to the IMF	-	-	-	0.07-1.09
December 31, 2012	<u>RSD (%)</u>	<u>EUR (%)</u>	<u>USD (%)</u>	<u>SDR (%)</u>
Financial assets				
Cash and current accounts held				
with banks	-	0.11-0.80	-	-
Deposits held with foreign banks	-	0.00-0.31	0.01-0.96	-
Financial assets carried at fair value through profit and loss	-	0.00-5.37	0.05-4.87	-
Financial assets available for sale				
Financial liabilities				
Obligatory dinar reserves of banks	2.5	-	-	-
Time deposits	-	0.00-1.01	0.06-0.48	-
Borrowings	-	-	1.72-2.09	-
Liabilities arising from repurchase transactions	9.50-11.25	-	-	-
Liabilities to the IMF	-	-	-	0.08-1.16

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

30. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk (Continued)

The change of 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) equity and net profit of the Bank in the amounts presented in the following table. This analysis presumes that all other variables, particularly exchange rates, remained unchanged. The same analysis was prepared for 2012.

	December 31, 2013			
	Equity		Net profit	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets				
Cash and current accounts				
held with banks	528,327	(528,327)	528,327	(528,327)
Deposits held with banks	2,372,252	(2,372,252)	2,372,252	(2,372,252)
Loans	7,538	(7,538)	7,538	(7,538)
IMF membership quota and SDR holdings	153,357	(153,357)	153,357	(153,357)
	3,061,474	(3,061,474)	3,061,474	(3,061,474)
Financial liabilities				
Liabilities to other banks and financial institutions	(2,897,938)	2,897,938	(2,897,938)	2,897,938
Liabilities to the Government and other depositors	(1,531,749)	1,531,749	(1,531,749)	1,531,749
Liabilities to the IMF	(871,548)	871,548	(871,548)	871,548
	(5,301,235)	5,301,235	(5,301,235)	5,301,235
Net effect	(2,239,761)	2,239,761	(2,239,761)	2,239,761

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

30. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk (Continued)

	December 31, 2012			
	Equity		Net profit	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets				
Cash and current accounts held with banks	1,081,860	(1,081,860)	1,081,860	(1,081,860)
Deposits held with banks	1,424,612	(1,424,612)	1,424,612	(1,424,612)
Loans	11,104	(11,104)	11,104	(11,104)
IMF membership quota and SDR holdings	236,785	(236,785)	236,785	(236,785)
	<u>2,754,361</u>	<u>(2,754,361)</u>	<u>2,754,361</u>	<u>(2,754,361)</u>
Financial liabilities				
Liabilities to other banks and financial institutions	(2,071,025)	2,071,025	(2,071,025)	2,071,025
Liabilities to the Government and other depositors	(1,254,867)	1,254,867	(1,254,867)	1,254,867
Liabilities to the IMF	(1,653,630)	1,653,630	(1,653,630)	1,653,630
	<u>(4,979,522)</u>	<u>4,979,522</u>	<u>(4,979,522)</u>	<u>4,979,522</u>
Net effect	<u>(2,225,161)</u>	<u>2,225,161</u>	<u>(2,225,161)</u>	<u>2,225,161</u>

The exposure to interest rate risk as at December 31, 2013 is presented in following table:

	Interest- bearing items	Non-interest bearing items	Total
Financial assets			
Cash and current accounts held with banks	52,832,729	50,594,833	103,427,562
Deposits held with banks	237,225,194	14	237,225,208
Financial assets carried at fair value through profit and loss	882,631,712	-	882,631,712
Financial assets available for sale	-	8,288,991	8,288,991
Loans	753,800	107,811	861,611
IMF membership quota and SDR holdings	15,335,674	59,873,738	75,209,412
Other assets	-	432,088	432,088
	<u>1,188,779,109</u>	<u>119,297,475</u>	<u>1,308,076,584</u>
Financial liabilities			
Liabilities to other banks and financial institutions	289,793,767	332,230,068	622,023,835
Liabilities to the Government and other depositors	153,174,932	115,831,102	269,006,034
Liabilities to the IMF	87,154,756	60,065,116	147,219,872
Dinars in circulation	-	122,439,771	122,439,771
Other liabilities	-	939,059	939,059
	<u>530,123,455</u>	<u>631,505,116</u>	<u>1,161,628,571</u>
Net exposure as at December 31, 2013	<u>658,655,654</u>	<u>(512,207,641)</u>	<u>146,448,013</u>
December 31, 2012	<u>608,033,791</u>	<u>(434,288,572)</u>	<u>173,745,219</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***30. RISK MANAGEMENT POLICIES (Continued)****Sensitivity to Market Risk in Respect of Financial Assets at Fair Value through Profit and Loss**

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

VaR

VaR is the method that predicts with high probability (95% or 99%) total loss which, in the given time interval, will not be exceeded.

Monthly VaR (parametric method) for total portfolio recalculated in EUR on December 31, 2013 indicates that in normal market conditions in only 5% of the cases the Bank can expect loss greater than 1.43% or RSD 13,757 million (EUR 120,00 million).

Monthly VaR (parametric method) for total portfolio recalculated in EUR on December 31, 2012 indicates that in normal market conditions in only 5% of the cases the Bank can expect loss greater than 1.53% or RSD 16,497 million (EUR 145,07 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 increased by 100 basis points, i.e. by 1% under the assumption that other variables remained unchanged. The EUR-denominated portfolio as at December 31, 2013 would register a loss of RSD 10,904 million (EUR 95.11 million), portion of the USD-denominated portfolio would register a loss of RSD 3,316 million (USD 39.89 million), portion of the portfolio denominated in GBP would register a loss of RSD 523 million (GBP 3.82 million), and portion of the portfolio denominated in CAD would register a loss of RSD 163 million (CAD 2.09 million). The total effect of interest rate increase by 100 basis points on the portfolio as at December 31, 2013 would amount to RSD 14,906 million.

The EUR-denominated portfolio as at December 31, 2012 would register a loss of RSD 10,317 million (EUR 90.72 million), portion of the USD-denominated portfolio would register a loss of RSD 2,695 million (USD 31.27 million), portion of the portfolio denominated in GBP would register a loss of RSD 579 million (GBP 4.16 million), and portion of the portfolio denominated in CAD would register a loss of RSD 177 million (CAD 2.04 million). The total effect of interest rate increase by 100 basis points on the portfolio as at December 31, 2012 would amount RSD 13,768 million.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***30. RISK MANAGEMENT POLICIES (Continued)****Currency Risk**

The Bank is exposed to currency risk through transactions performed in foreign currencies. 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 against the following currencies as at December 31, 2013 would decrease/increase equity and net profit of the Bank in the amounts presented in the table below. This analysis assumes that all other variables, in particular interest rates, remained unchanged. The analysis for the year 2012 is prepared in the same manner. In addition, this analysis excludes the effect of currency risk on financial instruments carried at fair value through profit and loss.

	<u>Equity</u>	<u>Net profit</u>
December 31, 2013		
EUR	(16,171,960)	(16,171,960)
USD	1,984,059	1,984,059
CHF	288,994	288,994
SDR	8,310,148	8,310,148
December 31, 2012		
EUR	(14,891,950)	(14,891,950)
USD	1,473,973	1,473,973
CHF	209,885	209,885
SDR	9,455,962	9,455,962

Strengthening of the dinar by 10% as compared to the currencies at issue would have the exact opposite effect on the amounts presented in the table, under the assumption that all other variables remained unchanged.

The analysis of financial assets and liabilities exposure to currency risk per currency as at December 31, 2013 was as follows:

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

30. RISK MANAGEMENT POLICIES (Continued)

Currency Risk (Continued)

	EUR	USD	SDR	Other currencies	Total foreign currency balance	RSD	Total
Financial assets							
Cash and current accounts held with banks	88,521,360	3,355,222	-	3,521,713	95,398,295	8,029,267	103,427,562
Deposits held with banks	89,609,813	137,327,786	-	10,266,158	237,203,757	21,451	237,225,208
Financial assets carried at fair value through profit and loss	637,253,821	207,343,305	-	38,034,586	882,631,712	-	882,631,712
Financial assets available for sale	326	-	8,058,613	-	8,058,939	230,052	8,288,991
Loans	-	1,138	-	-	1,138	860,473	861,611
IMF membership quota and SDR holdings	-	-	75,209,412	-	75,209,412	-	75,209,412
Other assets	46,519	6,943	-	8,331	61,793	370,295	432,088
	815,431,839	348,034,394	83,268,025	51,830,788	1,298,565,046	9,511,538	1,308,076,584
Financial liabilities							
Liabilities to other banks and financial institutions	289,931,661	13,363,626	-	1,882	303,297,169	318,726,666	622,023,835
Liabilities to the Government and other depositors	49,617,159	107,478,709	-	677,552	157,773,420	111,232,614	269,006,034
Liabilities to the IMF	-	-	-	166,362	166,362	147,053,510	147,219,872
Dinars in circulation	-	-	-	-	-	122,439,771	122,439,771
Other liabilities	347,425	8,166	-	32,476	388,067	550,992	939,059
	339,896,245	120,850,501	-	878,272	461,625,018	700,003,553	1,161,628,571
Net exposure as at December 31, 2013	<u>475,535,594</u>	<u>227,183,893</u>	<u>83,268,025</u>	<u>50,952,516</u>	<u>836,940,028</u>	<u>(690,492,015)</u>	<u>146,448,013</u>
Net exposure as at December 31, 2012	<u>785,017,596</u>	<u>199,074,255</u>	<u>71,436,577</u>	<u>(119,561,492)</u>	<u>935,966,936</u>	<u>(762,221,717)</u>	<u>173,745,219</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

31. ANALYSIS OF THE MATURITIES OF ASSETS AND LIABILITIES

The following tables provide classification of assets and liabilities in accordance with the expected period of their realization (current/non-current items) as of December 31, 2013 and 2012:

	December 31, 2013		
	Current items (within 12 months)	Non-current items (over 12 months)	Total
ASSETS			
Cash and current accounts held			
with banks	103,427,562	-	103,427,562
Deposits held with banks	236,703,714	521,494	237,225,208
Gold and other precious metals	52,986,619	-	52,986,619
Financial assets carried at fair value through profit and loss	328,981,760	553,649,952	882,631,712
Financial assets available for sale	-	8,288,991	8,288,991
Loans	106,163	755,448	861,611
IMF membership quota and SDR holdings	15,335,674	59,873,738	75,209,412
Property, plant and equipment	-	14,440,171	14,440,171
Investment property	-	844,695	844,695
Intangible assets	-	90,283	90,283
Other assets	428,224	3,470,981	3,899,205
TOTAL ASSETS	737,969,716	641,935,753	1,379,905,469
LIABILITIES			
Liabilities to other banks and financial institutions	289,873,509	332,150,326	622,023,835
Liabilities to the Government and other depositors	248,535,285	20,470,749	269,006,034
Liabilities to the IMF	42,938,482	104,281,390	147,219,872
Dinars in circulation	-	122,439,771	122,439,771
Provisions	159,466	1,187,271	1,346,737
Other liabilities	938,093	32,245	970,338
TOTAL LIABILITIES	582,444,835	580,561,752	1,163,006,587
ASSETS, NET	155,524,881	61,374,001	216,898,882

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

31. ANALYSIS OF THE MATURITIES OF ASSETS AND LIABILITIES (Continued)

	December 31, 2012		
	Current items (within 12 months)	Non-current items (over 12 months)	Total
ASSETS			
Cash and current accounts held with banks	187,713,368	-	187,713,368
Deposits held with banks	143,020,562	23,290	143,043,852
Gold and other precious metals	71,605,359	-	71,605,359
Financial assets carried at fair value through profit and loss	319,292,500	511,257,411	830,549,911
Financial assets available for sale	-	9,410,736	9,410,736
Loans	440,638	935,366	1,376,004
IMF membership quota and SDR holdings	23,722,749	61,945,041	85,667,790
Property, plant and equipment	-	15,606,294	15,606,294
Investment property	-	844,695	844,695
Intangible assets	-	361,010	361,010
Other assets	3,647,938	579,665	4,227,603
TOTAL ASSETS	749,443,114	600,963,508	1,350,406,622
LIABILITIES			
Liabilities to other banks and financial institutions	560,902,196	5,778,465	566,680,661
Liabilities to the Government and other depositors	178,767,194	-	178,767,194
Liabilities to the IMF	15,873,417	211,789,435	227,662,852
Dinars in circulation	-	110,548,870	110,548,870
Provisions	139,363	996,513	1,135,876
Other liabilities	1,411,278	-	1,411,278
TOTAL LIABILITIES	757,093,448	329,113,283	1,086,206,731
ASSETS, NET	(7,650,334)	271,850,225	264,199,891

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***32. LITIGATION**

As at December 31, 2013, the Bank was involved as a defendant in legal suits in the total estimated amount of RSD 74,725,574 thousand. The estimated amount of the legal suits filed against the Bank includes both the court expenses and the estimated amount of contingent penalties for those lawsuits with estimated outcome unfavorable to the Bank.

As disclosed in Note 26 to the accompanying financial statements, as at December 31, 2013, the Bank formed provisions for potential losses arising from the aforesaid legal suits amounting to RSD 251,499 thousand (December 31, 2012: RSD 317,165 thousand). The provisions were formed based on the estimates made by the Bank's legal representatives in respect of the status of the legal suits involving the Bank as a defendant in the amount corresponding to the best estimate of the costs to be incurred in the instance of a negative outcome. Management is of an opinion that the ultimate outcome of the ongoing legal suits cannot be anticipated with certainty and precision, but estimates that the Bank will not incur materially significant losses from the ongoing legal suits in excess of the provisions formed.

Acting in the matter of the lawsuit filed by the plaintiffs Autokomerc d.o.o., Beograd and Ms. Branka Đurđević from Belgrade, claiming damages for lost profits due to the revoked operating permit of the insurance company Autokomerc osiguranje d.o.o., Beograd, the Commercial Court of Belgrade adjudicated against the Bank on November 15, 2013 (the adjudication is not yet legally binding and enforceable) ordering the Bank to pay the plaintiffs the amount of RSD 486,315 thousand as damages and the interest accrued thereon from March 27, 2013 up to the payment as well as the court expenses of RSD 1,393 thousand. The Bank filed an appeal to the adjudication in a timely manner.

Legal representatives of the Bank find the adjudication contrary to the law and the standing of the Commercial Appellate Court, which on March 30, 2011 annulled the interim adjudication dated November 24, 2010 (which determined that the plaintiffs' claims against the Bank had merit) and referred the case to the first instance court for redeliberation, at the same time declaring in the Decision the legal standpoint whereby the Bank had no responsibility in this matter.

Until these financial statements issuance date, it was not possible to predict the duration of the aforescribed legal suit with any precision; in the opinion of the Bank's Legal Department, it is almost certain the proceedings will not be ended until the end of 2014. The Bank formed no provisions for this legal suit given the fact that the management expects no future outflow of resources in this respect.

33. RELATED PARTY TRANSACTIONS**Transactions with the State, Government Institutions and State-Owned Companies**

Pursuant to the Law on the National Bank of Serbia, the Republic of Serbia is the sole owner of the entire Bank's capital. Given the aforesaid, transactions performed within the Bank's regular operations with the Government, i.e. the state institutions and agencies as well as the state-owned companies, represent related party transactions.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***33. RELATED PARTY TRANSACTIONS (Continued)****Transactions with the State, Government Institutions and State-Owned Companies (Continued)**

The Bank is independent in performing its legally defined functions and the government and state bodies and institutions cannot compromise the Bank's independence or exercise influence on the Bank, its bodies and members thereof in performing their respective functions. Without prejudice to its objectives and upon the Governments' consent, the Bank may represent the Republic of Serbia in the international financial organizations and institutions and other forms of international cooperation.

In addition to the aforesaid, the Bank performs the following operations on behalf of and for the account of the Republic of Serbia:

- Maintains the system of consolidated Treasury account for assets denominated in dinars and foreign currencies, as well as other accounts prescribed by the law or stipulated by the relevant agreement executed;
- Performs fiscal agent operations on behalf of and for the account of the Republic of Serbia in respect of foreign borrowings of the Republic of Serbia, i.e. operations concerning the withdrawal of borrowed funds and repayment of foreign obligations/liabilities;
- Issues long-term securities related to the Republic of Serbia's membership in the International Monetary Fund (IMF);
- Approves credits, loans and overdraft facilities as well as other forms of credit facilities to the Republic of Serbia in respect of the settlement of liabilities toward the IMF;
- Performs other operations for the Republic of Serbia, Government institutions and bodies pursuant to the law or relevant agreement executed.

The Bank calculates and pays interest accrued on the deposits placed by the Government and state institutions in accordance with the relevant agreement executed with the depositor. For the operations and services rendered to the Government and state institutions the Bank charges fees according to the unique tariff list or based on the relevant agreement executed.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

33. RELATED PARTY TRANSACTIONS (Continued)

Transactions with the State, Government Institutions and State-Owned Companies (Continued)

Materially significant balances of receivables and payables arising from transactions with the state, Government institutions and bodies as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012
Loans approved and receivables		
Fee and commission receivables	13,032	20,602
Trade receivables from sales	24,632	16,583
Other receivables from operations	12,402	7,663
Loans	1,151,478	1,204,190
	<u>1,201,544</u>	<u>1,249,038</u>
<i>Less: Allowance for impairment of</i>		
- trade receivables from sales	(4,012)	(54)
- other receivables from operations	-	(51)
- loans	(1,151,478)	(1,204,190)
	<u>(1,155,490)</u>	<u>(1,204,295)</u>
Total loans approved and receivables, net	<u>46,054</u>	<u>44,743</u>
Liabilities		
RSD deposits	110,991,105	67,480,424
Foreign currency deposits	139,119,563	98,630,170
Interest payable	235,237	120,183
Other liabilities	59,018	62,306
Total liabilities	<u>250,404,923</u>	<u>166,293,083</u>
Liabilities, net	<u>(250,358,869)</u>	<u>(166,248,340)</u>

The disclosed receivables and liabilities relate exclusively to the Republic of Serbia, Republic Ministries and local self-government bodies. Receivables and payables from transactions with other state institutions, agencies and other entities under state control are immaterial for the Bank's financial statements taken on the whole.

Materially significant expenses for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Interest accrued on RSD deposits	1,832,139	1,295,023
Interest accrued on foreign currency deposits	21,891	197,343
	<u>1,854,030</u>	<u>1,492,366</u>

In the course of 2013 and 2012, the Bank calculated and paid interest accrued on the RSD deposits at the rate of 2.5% annually, whereas the annual interest rates applied to the foreign currency deposits ranged from 0.03% to 0.82% for EUR deposits and between 0.04% and 0.19% for USD deposits.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***33. RELATED PARTY TRANSACTIONS (Continued)****Transactions with the State, Government Institutions and State-Owned Companies (Continued)****Profit Allocation**

Pursuant to the Law on the National Bank of Serbia, the Bank allocates 70% of the earnings not originating from foreign exchange gains and revaluation reserves to the Republic of Serbia (Note 28).

Transactions on Behalf of and for the Account of the Government

Transactions on behalf of and for the account of the Government of the Republic of Serbia refer to the following:

	December 31, 2013	December 31, 2012
Old foreign currency savings	192,724,776	224,085,010
Loan for economic development	2,264,139	2,257,039
Public debt of the Republic of Serbia	1,240,340,543	1,049,731,068
Other	72,011,476	60,019,025
	<u>1,507,340,934</u>	<u>1,336,092,142</u>

Transactions on behalf of and for the account of the Government of the Republic of Serbia are stated within the Bank's off-balance sheet items given the fact that the Bank acts as an agent in such transactions or merely maintains records of the public debt.

Transactions with the Key Management

According to the Bank, key management refers to: the Chairman and members of the Council, Governor, Vice Governors, Secretary General, Director of the Administration for Supervision of Financial Institutions, directors and deputy directors of 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 of the 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 compensates their work in shares or equity.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***33. RELATED PARTY TRANSACTIONS (Continued)**

The compensations paid to management are associated with short-term benefits in the gross amount of RSD 501,864 thousand (2012: RSD 485,715 thousand). These benefits are included within staff costs.

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

Position	Gross remunerations disbursed in 2013	Net remunerations disbursed in 2013	Gross remunerations disbursed in 2012	Net remunerations disbursed in 2012
Governor	9,917	8,067	9,441	7,686
Director of Administration for Supervision of Financial Institutions	9,201	7,480	1,169	946
Vice Governors	25,485	20,526	28,903	23,161
Secretary General	6,352	4,964	6,385	5,168
Directors General, Directors of organizational units within the headquarters, Directors of branch offices and Managing Director of ZIN	123,949	90,960	116,252	87,021
Deputies and assistants to Directors General and Directors General of organizational units	90,740	65,558	72,994	53,725
Department Heads	219,155	156,121	233,877	166,713
Chairman and members of the Council of the Governor	17,065	11,154	16,694	11,085
Total for the year	501,864	364,830	485,715	355,505

34. RECONCILIATION OF RECEIVABLES AND LIABILITIES

Pursuant to Article 18 of the Law on Accounting, the Bank reconciled balances of receivables and payables with creditors and debtors. The balances of RSD-denominated receivables were reconciled as of October 31, 2013, while the balances of receivables denominated in foreign currencies were reconciled as of December 31, 2013.

Out of the total amount of receivables of RSD 1,219,362,596 thousand, including suspended interest and receivables from swap transactions, for which the Bank delivered outstanding item statement forms for balance confirmation/reconciliation, receivables in the amount of RSD 24,292,985 thousand, remained unreconciled, while 98.01% of receivables were reconciled. The major portion of unreconciled receivables amounting to RSD 24,106,640 thousand pertains to receivables for which no response was received to the outstanding item statement forms for balance confirmation/reconciliation sent. The Bank does not perform balance reconciliation of receivables due from its employees and legal entities in bankruptcy or subject to liquidation procedure.

The Bank received outstanding item statement forms for balance reconciliation from legal entities in the total amount of RSD 419,898,793 thousand, out of which the amount of RSD 494 thousand remained unreconciled.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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


35. EVENTS AFTER THE REPORTING PERIOD

Until the date of issuance of the accompanying financial statements, no events have occurred that would require adjustments to the financial statements.


36. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of statement of financial position components denominated in foreign currencies into dinars as at December 31, 2013 and 2012 were as follows:

	December 31, 2013	In RSD December 31, 2012
USD	83.1282	86.1763
EUR	114.6421	113.7183
GBP	136.9679	139.1901
CHF	93.5472	94.1922


 Dragana Milović
 Preparer of the Financial
 Statements




 Jorgovanka Tabaković, PhD
 Governor

Г.бр. 3449
 3.6.2014.