

**NATIONAL BANK OF SERBIA**

**Financial Statements  
Year Ended December 31, 2014 and  
Independent Auditors' Report**

## NATIONAL BANK OF SERBIA

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*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 78) of the National Bank of Serbia ("the Bank"), which comprise the statement of financial position as of December 31, 2014, and the related income statement, statement of other 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, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Belgrade, May 4, 2015

A circular purple stamp of Deloitte d.o.o. BEOGRAD IV is visible. Overlaid on the stamp is a handwritten signature in blue ink. To the right of the signature, the text "Nada Sudić" and "Certified Auditor" is printed.

Nada Sudić  
Certified Auditor

**INCOME STATEMENT**  
**Year Ended December 31, 2014**  
**(Thousands of RSD)**

	<u>Note</u>	<u>2014</u>	<u>2013</u>
			<i>Restated*</i>
Interest income		12.683.818	13.367.916
Interest expenses		(13.621.862)	(17.184.594)
<b>Net interest expenses</b>	5	(938.044)	(3.816.678)
Fee and commission income		3.817.914	3.867.901
Fee and commission expenses		(399.998)	(431.253)
<b>Net fee and commission income</b>	6	3.417.916	3.436.648
Net losses on the financial assets held for trading	7	(3.381.329)	(12.287.466)
Net gains on the hedges against risks		4	-
Net foreign exchange gains/(losses) and positive/(negative) currency clause effects		83.154.135	(25.662.464)
Other operating income	8	6.950.598	4.754.394
Net gains from reversal of impairment of financial assets and credit risk-weighted off-balance sheet assets	9	1.297.585	53.238
Staff costs	10	(4.490.529)	(4.823.007)
Depreciation and amortization charge	11	(1.031.489)	(1.749.151)
Other expenses	12	(4.003.539)	(3.499.687)
<b>PROFIT/(LOSS) BEFORE TAXES</b>		<b>80.975.308</b>	<b>(43.594.173)</b>
Income taxes	27	(274.398)	-
<b>PROFIT/(LOSS) FOR THE YEAR</b>	30	<b>80.700.910</b>	<b>(43.594.173)</b>

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

These financial statements were approved by the Governor:

  
Jorgovanka Tabaković, PhD  
Governor  
T. 3945  
12.6.2015

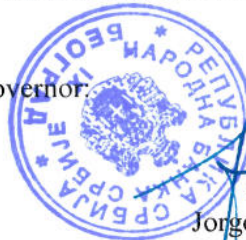
\* Certain amounts presented as comparative data for the previous period do not correspond to the amounts in the financial statements for 2013, with the differences between the two relating to the reclassifications and adjustments made to the comparative data as presented in Note 4.

**STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**Year Ended December 31, 2014**  
**(Thousands of RSD)**

	<u>2014</u>	<u>2013</u>
		<i>Restated</i>
<b>Profit/(loss) for the year</b>	80.700.910	(43.594.173)
<i>Components of other comprehensive income that cannot be reclassified to profit or loss:</i>		
Increase in revaluation reserves in respect of intangible assets, property, plant and equipment	7.716.015	82.878
Decrease in revaluation reserves in respect of intangible assets, property, plant and equipment	(25.009)	-
Actuarial gains	171.457	-
<i>Components of other comprehensive income that may be reclassified to profit or loss:</i>		
Positive effects of changes in fair value of financial assets available for sale / (unrealized losses on securities available for sale)	384.572	(818.249)
<b>Other comprehensive income for the year</b>	8.247.035	(735.371)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u><u>88.947.945</u></u>	<u><u>(44.329.544)</u></u>

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

These financial statements were approved by the Governor:



*Jorgovanka Tabaković*  
Jorgovanka Tabaković, PhD  
Governor

*Г. 67.3945*  
*18.6.2015*



**STATEMENT OF FINANCIAL POSITION**  
**As of December 31, 2014**  
**(Thousands of RSD)**

	Note	December 31, 2014	December 31, 2013	January 1, 2013
<b>ASSETS</b>			<i>Restated</i>	<i>Restated</i>
Cash and current accounts held with banks	13	48.277.580	103.427.562	187.713.368
Gold and other precious metals	14	68.082.719	52.986.619	71.605.359
Deposits held with banks	15	279.975.777	237.246.725	143.048.191
Financial assets at fair value through profit and loss, held for trading	16	798.670.029	882.631.712	830.549.911
Financial assets available for sale	17	9.717.496	8.288.991	9.410.736
Loans	19	1.223.715	755.484	1.268.115
IMF membership quota and SDR holdings	20	73.770.910	75.209.412	85.667.790
Intangible assets	21	142.049	90.283	361.010
Property, plant and equipment	21	22.652.403	15.387.737	16.553.860
Investment property	21	899.730	844.695	844.695
Other assets	22	4.068.744	3.983.815	4.331.153
<b>TOTAL ASSETS</b>		<b>1.307.481.152</b>	<b>1.380.853.035</b>	<b>1.351.354.188</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Liabilities to banks and other financial institutions	23	482.818.801	619.273.006	554.163.653
Liabilities to the Government and other depositors	24	291.131.078	271.757.475	191.285.269
Liabilities to the IMF	25	93.987.065	147.219.872	227.662.852
Provisions	26	1.071.023	1.346.737	1.135.876
Current tax liabilities	27	180.649	-	-
Dinars in circulation	28	130.468.547	122.439.771	110.548.870
Other liabilities	29	1.011.365	969.726	1.410.211
<b>Total liabilities</b>		<b>1.000.668.528</b>	<b>1.163.006.587</b>	<b>1.086.206.731</b>
<b>Equity</b>				
State-owned capital		119.049.539	119.049.539	100.803.340
Reserves		105.290.256	140.637.394	104.826.848
Profit		82.472.829	1.753.688	59.517.269
Loss		-	(43.594.173)	-
<b>Total equity</b>	30	<b>306.812.624</b>	<b>217.846.448</b>	<b>265.147.457</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1.307.481.152</b>	<b>1.380.853.035</b>	<b>1.351.354.188</b>

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

These financial statements were approved by the Governor:



*Jorgovanka Tabaković, PhD*  
Governor

*T. Sp. 3945*  
*18.6.2015*

**STATEMENT OF CHANGES IN EQUITY**  
**Year Ended December 31, 2014**  
**(Thousands of RSD)**

	State-Owned Capital	Special Reserves	Revaluation Reserves	Reserves from Securities Available for Sale	Actuarial Gains- (Provisions for Employee Benefits)	Retained Earnings/ (Accumulated Losses)	Total
<b>Balance at January 1, 2013</b>							
Opening balance	100.803.340	90.594.522	8.569.094	6.469.354	-	57.763.581	264.199.891
Opening balance adjustments	-	-	(806.122)	-	-	1.753.688	947.566
<b>Opening balance, restated</b>	<b>100.803.340</b>	<b>90.594.522</b>	<b>7.762.972</b>	<b>6.469.354</b>	-	<b>59.517.269</b>	<b>265.147.457</b>
Previous year profit allocation (Note 30)	18.246.199	36.545.917	-	-	-	(54.792.116)	-
Transfer to the Republic of Serbia Budget	-	-	-	-	-	(2.971.465)	(2.971.465)
Total negative other comprehensive income for the year	-	-	82.878	(818.249)	-	-	(735.371)
Loss for the year	-	-	-	-	-	(43.594.173)	(43.594.173)
<b>Balance at December 31, 2013</b>	<b>119.049.539</b>	<b>127.140.439</b>	<b>7.845.850</b>	<b>5.651.105</b>	-	<b>(41.840.485)</b>	<b>217.846.448</b>
<b>Balance at January 1, 2014</b>							
Opening balance	119.049.539	127.140.439	7.845.850	5.651.105	-	(41.840.485)	217.846.448
Previous year's loss absorption (Note 30)	-	(43.594.173)	-	-	-	43.594.173	-
Total positive other comprehensive income for the year	-	-	7.691.006	384.572	171.457	-	8.247.035
Transfer from reserves due to reversal of reserves	-	-	-	-	-	18.231	18.231
Profit for the year	-	-	-	-	-	80.700.910	80.700.910
<b>Balance at December 31, 2014</b>	<b>119.049.539</b>	<b>83.546.266</b>	<b>15.536.856</b>	<b>6.035.677</b>	<b>171.457</b>	<b>82.472.829</b>	<b>306.812.624</b>

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These financial statements were approved by the Governor:


  
Jorgovanka Tabaković, PhD  
Governor  
1.8.3945  
18.6.2015

**STATEMENT OF CASH FLOWS**  
**Year Ended December 31, 2014**  
**(Thousands of RSD)**

	Note	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest receipts		14.234.294	16.596.238
Fee and commission receipts		2.836.449	3.060.561
Receipts of other operating income		11.492.289	11.251.368
Receipts from dividends and profit sharing		82.266	121.361
<i>Cash generated by operating activities</i>		<u>28.645.298</u>	<u>31.029.528</u>
Interest payments		(14.877.747)	(19.071.935)
Fee and commission payments		(403.329)	(435.439)
Payments for operating expenses		(18.052.527)	(14.591.529)
<i>Cash used in operating activities</i>		<u>(33.333.603)</u>	<u>(34.098.903)</u>
Decrease in deposits received		(54.554.306)	(2.609.242)
Increase in loans and advances		(65.557.910)	(72.614.098)
Decrease /(increase) in securities held for trading and other securities not held for investment		81.050.742	(54.709.993)
Increase in loans and decrease in deposits received		(39.061.474)	(129.933.333)
Transfer to the Republic of Serbia Budget		-	(2.971.465)
Income tax paid		(196.020)	-
<b>Net cash used in operating activities</b>		<b>(43.945.799)</b>	<b>(135.974.173)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from the sale of intangible assets, property and equipment		178	313
Purchases of intangible assets, property and equipment		(1.029.918)	(139.470)
<b>Net cash used in investing activities</b>		<b>(1.029.740)</b>	<b>(139.157)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net (outflows)/inflows from short-term borrowings		(102.292.354)	69.145.522
<b>Net cash (used in)/generated by financing activities</b>		<b>(102.292.354)</b>	<b>69.145.522</b>
<b>Net decrease in cash</b>		<b>(147.267.893)</b>	<b>(66.967.808)</b>
<b>Cash at the beginning of year</b>		<b>118.763.236</b>	<b>211.391.822</b>
Foreign exchange gains/(losses), net		83.155.426	(25.660.778)
<b>CASH AT THE END OF YEAR</b>	2 (i)	<u><b>54.650.769</b></u>	<u><b>118.763.236</b></u>

Notes on the following pages  
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These financial statements were approved by the Governor:

  
Jorgovanka Tabaković, PhD  
Governor  
T. 07.3945  
18.6.2015



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*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, which defined the position, organization, authority and functions of the National Bank of Serbia.

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 and foreign exchange policies;
- 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, 2014

*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 (the "Executive Board"), the Governor of the National Bank of Serbia (the "Governor") and the Council of the Governor of the National Bank of Serbia (the "Council").

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

The Governor represents and acts 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, enacts regulations, general and individual acts falling within the scope of authority of the National Bank of Serbia, which are not assigned by the Law to the authority of the Executive Board and the Council, regulates 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 and performs other tasks defined by the Law and other legislation. 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 two and four 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, 2014 the Bank had 2.343 employees (December 31, 2013: 2.280 employees).

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*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 held for trading, 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, which are stated 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). Dinar is the Bank's functional currency and the official presentation currency in the Republic of Serbia.

**e) Standards and Interpretations Effective in the Current Period**

At the approval date of these financial statements, the following new standards, revisions and interpretations had been issued and adopted by the Bank in the current period:

- Amendments to IFRS 10 "Consolidated Financial Statements," IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements" – *Exemption from Consolidation of Subsidiaries under IFRS 10* (effective for annual periods beginning on or after January 1, 2014);

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

- 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 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); and
- IFRIC 21 “Levies” (effective for annual periods beginning on or after January 1, 2014).

Adoption and application of these amendments and revisions to the existing standards has not led to changes in the Bank’s accounting policies.

**(f) Standards and Interpretations in Issue not yet in Effect**

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

- IFRS 9 “Financial Instruments” and subsequent amendments supplanting the requirements of IAS 39 “Financial Instruments: Recognition and Measurement” in respect of classification and measurement of financial assets. This standard eliminates the following categories existing under IAS 39: assets held to maturity, assets available for sale and loans and receivables. IFRS 9 shall be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted;
- IFRS 15 “Revenue from Contracts with Customers,” defining the framework for revenue recognition. IFRS 15 supplants IAS 18 “Revenue,” IAS 11 “Construction Contracts,” IFRIC 13 “Customer Loyalty Programs,” IFRIC 15 “Agreements for the Construction of Real Estate” and IFRIC 18 “Transfers of Assets from Customers.” IFRS 15 shall be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted;
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective for annual periods beginning on or after January 1, 2016 );
- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisition of an Interest in a Joint Operation (effective for annual periods beginning on or after January 1, 2016);



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)****(f) Standards and Interpretations in Issue not yet in Effect (Continued)**

- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” – *Clarification of Acceptable Methods of Depreciation and Amortization* (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” – *Agriculture: Bearer Plants* (effective for annual periods beginning on or after January 1, 2016);
- IAS 27 “Separate Financial Statements” – *Equity Method in Separate Financial Statements* (effective for annual periods beginning on or after January 1, 2016);
- 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);
- 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); and
- Amendments to IAS 19 “Employee Benefits” – *Defined Benefit Plans: Employee Contributions* (effective for annual periods beginning on or after January 1, 2014).

**g) 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 2013. In addition, for the adjustment of errors occurring in prior years in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors,” the bank made certain adjustments to the data presented in the financial statements as of and for the year ended December 31, 2013 (overview of the aforesaid adjustments is presented in Note 5 to these financial statements). In accordance with the aforesaid Standard, materially significant errors from the previous period were adjusted by restating the comparative figures from prior periods in which the errors occurred, or, in instances of errors occurring before the earliest period presented, opening balances of assets, liabilities and equity were restated for the earliest prior period presented.

**h) Statement of Cash Flows**

Cash presented in the statement of cash flows includes cash and balances on the current accounts held with banks (Note 13) and SDR (special drawing right) holdings (Note 20).

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

**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."

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.3. Financial Instruments (Continued)***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 2014 and 2013 the Bank owned securities held to maturity. However, their value was fully impaired.

*Financial Assets Available for Sale*

Available-for-sale financial assets are non-derivative financial assets that are either initially designated as available for sale or are not classified into any other category. Equity investments in international financial institutions are stated at fair value 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.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*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*

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.

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.



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*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)*

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.

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.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****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 as of and for the year ended December 31, 2013.

The Bank estimated refinement costs as of December 31, 2014 in order to consider material significance of the estimated amounts to the financial statements on the whole and to consider whether any adjustment of the market value of gold and other precious metals is necessary. The estimated refinement costs of RSD 123,5 million as of December 31, 2014 do not represent a materially significant amount within the meaning of IAS 8 "Accounting Policies, Changes in the Accounting Estimates and Errors."

**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 32) 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 most developed states, high-quality financial institutions supported by those states and international financial institutions with adequate rating; 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 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 fair value adjustment of securities.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****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. As of December 31, 2014, the Bank had an independent appraiser perform appraisal of the properties used by the Bank, i.e., assess the fair value of properties used by the Bank.

Increase in the fair value of land stated in the Bank's accounting records, i.e. recorded difference between the assessed fair value of land and its net book value was presented as increase in revaluation reserves. For subsequently identified land over which the Bank has usage rights, and which was not recorded in the Bank's books of account, for the purposes of preparing regular annual financial statements for 2014, the Bank adjusted the opening balance of land as of January 1, 2013 in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors."

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.

Negative revaluation effects are charged to expenses within the income statement 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 previously formed revaluation reserve balances.

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.

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, 2014

*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)**

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 the current and previous periods are as follows:

	<b>Up to October 31, 2013</b>	<b>From November 1, 2013 and in 2014</b>
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%

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.

**3.11. Income Taxes**

The Bank is subject to income taxation in accordance with the Corporate Income tax Law of the Republic of Serbia and the Rules on the Contents of the Tax Balance for Non-Profit Organizations – Corporate Income Tax Payers, which is disclosed in more detail in Note 27.



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****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 within expenses 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 of benefit payment, or in the amount of three average monthly salaries paid by the Bank in the month preceding the month in which retirement benefits are paid out, whichever 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 5,974% ((yield on foreign long-term bonds allowing for the expected inflation rate);
- 2) Expected salary growth rate: 5% in 2015, 0% in 2016, 0% in 2017, and 4% from 2018;
- 3) Employee turnover rate: -0,3% for ZIN and 1,9% for the headquarters and branch offices;
- 4) Disability rate: average rate of 0,14% for ZIN and 0,13% for the headquarters and branch offices based on the available data on the number of employees that were entitled to disability retirement from 2006 to 2014;
- 5) Mortality rate 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 consecutive years of service by employees.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*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, 2014 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.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*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)***Fair Value of Assets (Continued)*

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.

*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, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***4. RECLASSIFICATIONS AND ADJUSTMENTS MADE TO THE 2013 FINANCIAL STATEMENTS**

The Bank made certain reclassifications and adjustments to the previously reported statement of financial position as of December 31, 2013 and January 1, 2013 and the income statement for the financial year 2013, as follows:

- a) reclassifications for the purpose of alignment with the presentation of the statement of financial position data as of December 31, 2014 and the income statement for the financial year 2014, prepared in accordance with the Decision on the Content and Form of the Financial Statement Forms for the National Bank of Serbia (Official Gazette of RS, nos. 71/2014 and 135/2014) Decision on the Chart of Accounts and Contents of Accounts within the Chart of Accounts for the National Bank of Serbia (Official Gazette of RS, nos. 71/2014 and 135/2014); and
- b) adjustments made to errors occurred in prior years in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors."

**(a) Effects of Adjustments made on Retained Earnings as of January 1, 2013:**

	<u>January 1, 2013.</u>
<i>Adjustment to the opening balance of retained earnings as of January 1, 2013:</i>	
- adjustment based on land registration	947.566
- adjustment for recognized gains on the fair value changes of investment property	216.515
- adjustment to the balance of revaluation reserves formed from revaluations of properties made from 2004 to 2010	<u>589.607</u>
	<u><u>1.753.688</u></u>

Adjustment to retained earnings as of January 1, 2013 based on land registration amounting to RSD 947.566 thousand relates to the fair value of six land lots that had not been recorded in the Bank's books of account and over which the Bank had usage rights originating from the period prior to January 1, 2013. The Bank made an adjustment for the same amount to the opening balance of land as of January 1, 2013 (Note 21).

Adjustment to retained earnings as of January 1, 2013 based on recognized gains on the fair value changes of investment property of RSD 216.515 thousand relates to the adjustment to the manner of recognizing effects of the changes in the fair value of investment properties that had previously, according to the appraisals made from 2004 to 2010, been recognized as increase in revaluation reserves rather than gains in the income statement of the period in which they arose. The Bank made an adjustment for the same amount to the opening balance of revaluation reserves as of January 1, 2013 and credited it to retained earnings.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***4. RECLASSIFICATIONS AND ADJUSTMENTS MADE TO THE 2013 FINANCIAL STATEMENTS (Continued)**

Adjustment to retained earnings as of January 1, 2013 amounting to RSD 589.607 thousand was made in order to correct the misstated balance of revaluation reserves arising from the appraisals of properties made from 2004 to 2010. The Bank made an adjustment for the same amount to the opening balance of revaluation reserves as of January 1, 2013.

**(b) Effects of the Reclassifications Made on the Income Statement for 2013:**

	<b>2013</b>	<b>Reclassification</b>	<b>2013 Reclassified</b>
Interest income	13.367.916	-	13.367.916
Interest expenses	(17.184.594)	-	(17.184.594)
<b>Net interest expenses</b>	<b>(3.816.678)</b>	<b>-</b>	<b>(3.816.678)</b>
Fee and commission income	3.867.901	-	3.867.901
Fee and commission expenses	(431.253)	-	(431.253)
<b>Net fee and commission income</b>	<b>3.436.648</b>	<b>-</b>	<b>3.436.648</b>
Net losses on the financial assets held for trading	(12.287.466)	-	(12.287.466)
Net foreign exchange losses and negative currency clause effects	(25.667.355)	4.891	(25.662.464)
Other operating income	4.738.665	15.729	4.754.394
Net gains from reversal of impairment of financial assets and credit risk-weighted off-balance sheet assets	74.267	(21.029)	53.238
Staff costs	(4.830.968)	7.961	(4.823.007)
Depreciation and amortization charge	(1.749.151)	-	(1.749.151)
Other expenses	(3.492.135)	(7.552)	(3.499.687)
<b>PROFIT/(LOSS) BEFORE TAXES</b>	<b>(43.594.173)</b>	<b>-</b>	<b>(43.594.173)</b>
Income taxes	-	-	-
<b>PROFIT/(LOSS) FOR THE YEAR</b>	<b>(43.594.173)</b>	<b>-</b>	<b>(43.594.173)</b>



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 4. RECLASSIFICATIONS AND ADJUSTMENTS MADE TO THE 2013 FINANCIAL STATEMENTS (Continued)

## (c) Effects of the Reclassifications and Adjustments Made on the Statement of Financial Position as of January 1, 2013:

	January 1, 2013	Reclassification	Reclassification January 1, 2013	Opening Balance Adjustment	January 1, 2013, Restated
<b>ASSETS</b>					
Cash and current accounts held with banks	187.713.368	-	187.713.368	-	187.713.368
Gold and other precious metals	71.605.359	-	71.605.359	-	71.605.359
Deposits held with banks	143.043.852	4.339	143.048.191	-	143.048.191
Financial assets at fair value through profit and loss, held for trading	830.549.911	-	830.549.911	-	830.549.911
Financial assets available for sale	9.410.736	-	9.410.736	-	9.410.736
Financial assets held to maturity				-	
Loans	1.376.004	(107.889)	1.268.115		1.268.115
IMF membership quota and SDR holdings	85.667.790	-	85.667.790	-	85.667.790
Intangible assets	361.010	-	361.010	-	361.010
Property, plant and equipment	15.606.294	-	15.606.294	947.566	16.553.860
Investment property	844.695	-	844.695	-	844.695
Other assets	4.227.603	103.550	4.331.153	-	4.331.153
<b>TOTAL ASSETS</b>	<b>1.350.406.622</b>	<b>-</b>	<b>1.350.406.622</b>	<b>947.566</b>	<b>1.351.354.188</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Liabilities</b>					
Liabilities to banks and other financial institutions	566.680.661	(12.517.008)	554.163.653	-	554.163.653
Liabilities to the Government and other depositors	178.767.194	12.518.075	191.285.269	-	191.285.269
Liabilities to the IMF	227.662.852	-	227.662.852	-	227.662.852
Provisions	1.135.876	-	1.135.876	-	1.135.876
Dinars in circulation	110.548.870	-	110.548.870	-	110.548.870
Other liabilities	1.411.278	(1.067)	1.410.211	-	1.410.211
<b>Total liabilities</b>	<b>1.086.206.731</b>	<b>-</b>	<b>1.086.206.731</b>	<b>-</b>	<b>1.086.206.731</b>
<b>Equity</b>					
State-owned capital	100.803.340	-	100.803.340	-	100.803.340
Reserves	105.632.970	-	105.632.970	(806.122)	104.826.848
	-	-	-	-	-
Retained earnings - adjustments	-	-	-	1.753.688	1.753.688
Profit	57.763.581	-	57.763.581	-	57.763.581
<b>Total equity</b>	<b>264.199.891</b>	<b>-</b>	<b>264.199.891</b>	<b>947.566</b>	<b>265.147.457</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1.350.406.622</b>	<b>-</b>	<b>1.350.406.622</b>	<b>947.566</b>	<b>1.351.354.188</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 4. RECLASSIFICATIONS AND ADJUSTMENTS MADE TO THE 2013 FINANCIAL STATEMENTS (Continued)

## (d) Effects of the Reclassifications and Adjustments Made on the Statement of Financial Position as of December 31, 2013:

	December 31, 2013	Reclassification	Reclassification December 31, 2013	Opening Balance Adjustment	December 31, 2013 Restated
<b>ASSETS</b>					
Cash and current accounts held with banks	103.427.562	-	103.427.562	-	103.427.562
Gold and other precious metals	52.986.619	-	52.986.619	-	52.986.619
Deposits held with banks	237.225.208	21.517	237.246.725	-	237.246.725
Financial assets at fair value through profit and loss, held for trading	882.631.712	-	882.631.712	-	882.631.712
Financial assets available for sale	8.288.991	-	8.288.991	-	8.288.991
Financial assets held to maturity					
Loans	861.611	(106.127)	755.484	-	755.484
IMF membership quota and SDR holdings	75.209.412	-	75.209.412	-	75.209.412
Intangible assets	90.283	-	90.283	-	90.283
Property, plant and equipment	14.440.171	-	14.440.171	947.566	15.387.737
Investment property	844.695	-	844.695	-	844.695
Other assets	3.899.205	84.610	3.983.815	-	3.983.815
<b>TOTAL ASSETS</b>	<b>1.379.905.469</b>	<b>-</b>	<b>1.379.905.469</b>	<b>947.566</b>	<b>1.380.853.035</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Liabilities</b>					
Liabilities to banks and other financial institutions	622.023.835	(2.750.829)	619.273.006	-	619.273.006
Liabilities to the Government and other depositors	269.006.034	2.751.441	271.757.475	-	271.757.475
Liabilities to the IMF	147.219.872	-	147.219.872	-	147.219.872
Provisions	1.346.737	-	1.346.737	-	1.346.737
Dinars in circulation	122.439.771	-	122.439.771	-	122.439.771
Other liabilities	970.338	(612)	969.726	-	969.726
<b>Total liabilities</b>	<b>1.163.006.587</b>	<b>-</b>	<b>1.163.006.587</b>	<b>-</b>	<b>1.163.006.587</b>
<b>Equity</b>					
State-owned capital	119.049.539	-	119.049.539	-	119.049.539
Reserves	141.443.516	-	141.443.516	(806.122)	140.637.394
Retained earnings - adjustments	-	-	-	1.753.688	1.753.688
Profit	(43.594.173)	-	(43.594.173)	-	(43.594.173)
<b>Total equity</b>	<b>216.898.882</b>	<b>-</b>	<b>216.898.882</b>	<b>947.566</b>	<b>217.846.448</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1.379.905.469</b>	<b>-</b>	<b>1.379.905.469</b>	<b>947.566</b>	<b>1.380.853.035</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 5. NET INTEREST EXPENSES

	Year Ended December 31,	
	2014	2013
Interest income from:		
Securities:		
- carried at fair value through profit and loss	11.319.923	13.004.654
Deposits placed:		
- in RSD	168	72.947
- in foreign currencies	313.275	281.620
Loans approved:		
- in RSD	13.225	8.210
- in foreign currencies	968.249	-
Other investments:		
- in RSD	49.826	485
- in foreign currencies	19.152	-
	<u>12.683.818</u>	<u>13.367.916</u>
Interest expenses arising from:		
Deposits in RSD:		
- required special reserve of banks in RSD	(3.669.632)	(3.606.907)
- surplus liquid assets of banks	(1.004.275)	(3.063.747)
- transaction deposits	(3.257.871)	(1.832.139)
Deposits in foreign currencies:		
- time deposits	(52.467)	(21.891)
- demand deposits	(713)	(116)
- other	(161)	(1.938)
Repurchase transactions	(5.018.773)	(7.226.628)
Liabilities to IMF	(521.350)	(1.315.938)
Borrowings	(94.608)	(112.104)
Other	(2.012)	(3.186)
	<u>(13.621.862)</u>	<u>(17.184.594)</u>
<b>Net interest expenses</b>	<b><u>(938.044)</u></b>	<b><u>(3.816.678)</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 6. NET FEE AND COMMISSION INCOME

	Year Ended December 31,	
	2014	2013
Fee and commission income in RSD:		
- fees for RTGS and clearing operations	1.062.854	1.125.108
- fees for enforced collection	922.589	962.289
- fees for supervision over insurance operations	275.440	277.027
- other fees in RSD	376.161	372.393
Fee and commission income in foreign currencies	1.180.870	1.131.084
	<u>3.817.914</u>	<u>3.867.901</u>
Fee and commission expenses in RSD:		
- commission based on the sales of bill of exchange forms	(15.138)	(14.355)
- other RSD fees and commissions	(1.978)	(2.122)
Fee and commission expenses in foreign currencies:		
- stand-by arrangement with IMF and commitment fee	-	(43.028)
- foreign account maintenance fees and foreign payment transactions	(64.154)	(58.779)
- other foreign currency fees	(318.728)	(312.969)
	<u>(399.998)</u>	<u>(431.253)</u>
<b>Net fee and commission income</b>	<b><u>3.417.916</u></b>	<b><u>3.436.648</u></b>

## 7. NET LOSSES ON THE FINANCIAL ASSETS HELD FOR TRADING

	Year Ended December 31,	
	2014	2013
Net losses on the fair value adjustment of securities at fair value through profit and loss	(1.514.320)	(9.355.778)
Net losses on the sale of securities at fair value through profit and loss	<u>(1.867.009)</u>	<u>(2.931.688)</u>
<b>Net loss</b>	<b><u>(3.381.329)</u></b>	<b><u>(12.287.466)</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 8. OTHER OPERATING INCOME

	Year Ended December 31,	
	2014	2013
Income from operations - ZIN	4.563.711	3.649.744
Income from swap transactions	153.491	220.008
Income from the sale of bill of exchange forms	151.398	143.654
Rental income	54.417	79.046
Increase in the value of inventories	117.369	161.342
Reversal of provisions for litigations (Note 26)	33.534	61.087
Dividend income	82.226	118.639
Subsequently recognized/registered land and	102.731	15.977
Gains on the value adjustment of investment properties	253.901	
Other	1.437.820	304.897
<b>Other operating income</b>	<b>6.950.598</b>	<b>4.754.394</b>

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 54.417 thousand earned during 2014 includes income from the lease of investment property in the amount of RSD 50.996 thousand (2013: RSD 72.414 thousand). Expenses incurred in respect of the lease of investment property in 2014 amounted to RSD 19.070 thousand (2013: RSD 18.566 thousand).

Dividend income of RSD 82.226 thousand (2013: RSD 118.639 thousand) was realized based on equity investment in the Bank for International Settlements, Basel.

Other income realized during 2014 in the amount of RSD 1.437.820 thousand mainly relates to income from unblocked foreign currency assets held with Credit Agricole CIB Paris in the amount of RSD 1.164.707 thousand (EUR 10.1 million).

## 9. NET GAINS FROM REVERSAL OF IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE SHEET ASSETS

## a) Breakdown of Gains and Losses

	Year Ended December 31,	
	2014	2013
Gains on the reversal of impairment allowances per balance sheet assets	1.496.939	146.988
Collected receivables previously written off	2.600	-
	1.499.539	146.988
Impairment losses per balance sheet assets	(201.768)	(93.750)
Write-off of irrecoverable receivables	(186)	-
	(201.954)	(93.750)
<b>Net gains from reversal of impairment of financial assets and credit risk-weighted off-balance sheet assets</b>	<b>1.297.585</b>	<b>53.238</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***9. NET GAINS FROM REVERSAL OF IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE SHEET ASSETS (Continued)****a) Breakdown of Gains and Losses (Continued)**

During 2014 the Bank collected a portion of a loan previously fully provided for in the amount of RSD 1.346.641 thousand, related to the collection of the loan portion which, under the Law on Assumption of the Liabilities of the Company AIR SERBIA, Belgrade to Legal Entities and Individuals for Services Rendered and Goods Delivered and Conversion thereof into Republic of Serbia Public Debt (Official Gazette of RS, no. 142/14 dated September 25, 2014) was converted into public debt. Pursuant to the aforementioned law, the Republic of Serbia settled a portion (half) of the loan in the amount of RSD 1.346.641 thousand (USD 13,5 million), while the repayment of the remaining portion of the loan is due on March 31, 2015. Effects of this loan collection were stated within gains from reversal of impairment of financial assets.

**b) Breakdown of Impairment Allowances**

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Allowance for impairment of:		
- cash and current accounts held with banks	844.576	719.234
- deposits held with banks	2.764.873	2.310.773
- financial assets held to maturity	665.430	665.430
- loans	2.938.743	3.897.026
- other assets	4.580.363	3.804.043
<b>Total allowance for impairment</b>	<b>11.793.985</b>	<b>11.396.506</b>

**c) Movements on the Accounts of Impairment Allowances**

	<b>Cash and current accounts held with banks (Note 13)</b>	<b>Deposits held with banks (Note 15)</b>	<b>Financial assets held to maturity (Note 18)</b>	<b>Loans (Note 19)</b>	<b>Other assets (Note 22)</b>	<b>Total</b>
<b>Balance at</b>						
<b>January 1, 2013</b>	<b>742.293</b>	<b>2.395.503</b>	<b>665.430</b>	<b>4.031.926</b>	<b>4.598.716</b>	<b>12.433.868</b>
Charge for the year	-	-	-	4.060	89.344	93.404
Collected receivables	(1.734)	-	-	(56.655)	(88.599)	(146.988)
Foreign exchange effects	(21.325)	(84.730)	-	(82.271)	(762.017)	(950.343)
Write-offs	-	-	-	(34)	(2.251)	(2.285)
Other	-	-	-	-	(31.150)	(31.150)
<b>Balance at</b>						
<b>December 31, 2013</b>	<b>719.234</b>	<b>2.310.773</b>	<b>665.430</b>	<b>3.897.026</b>	<b>3.804.043</b>	<b>11.396.506</b>
Charge for the year	-	-	-	2.544	199.224	201.768
Collected receivables	-	-	-	(1.406.157)	(90.782)	(1.496.939)
Foreign exchange effects	125.342	454.100	-	445.416	672.654	1.697.512
Write-offs	-	-	-	-	(3.999)	(3.999)
Other	-	-	-	(86)	(777)	(863)
<b>Balance at</b>						
<b>December 31, 2014</b>	<b>844.576</b>	<b>2.764.873</b>	<b>665.430</b>	<b>2.938.743</b>	<b>4.580.363</b>	<b>11.793.985</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 10. STAFF COSTS

	Year Ended December 31,	
	2014	2013
Salaries, payroll taxes and contributions and benefits	4.392.074	4.393.149
(Gains)/losses on reversal of provisions for retirement and other employee benefits	(39.025)	276.527
Temporary and seasonal employees	32.659	34.132
Jubilee awards	28.315	42.318
Financial aid to employees	25.544	25.974
Retirement benefits	37.085	33.150
Remunerations to the Council members	11.013	12.006
Other staff costs	2.864	5.751
<b>Total staff costs</b>	<b>4.490.529</b>	<b>4.823.007</b>

## 11. DEPRECIATION AND AMORTIZATION

	Year Ended December 31,	
	2014	2013
Depreciation and amortization of:		
- intangible assets	85.340	277.081
- building properties	498.051	505.910
- equipment	447.093	965.018
- other assets	1.005	1.142
<b>Total depreciation and amortization charge</b>	<b>1.031.489</b>	<b>1.749.151</b>



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 12. OTHER EXPENSES

	Year Ended December 31,	
	2014	2013
Cost of materials	1.700.657	1.869.054
Cost of production services:		
- transportation services	4.203	1.300
- telecommunication services	46.019	32.692
- automatic data transfer	123.131	111.694
- maintenance	251.953	211.307
- rental costs	8.341	9.555
- marketing and advertising	883	2.141
- official gazettes and magazines	8.195	8.252
- finishing costs - ZIN	84.399	94.418
- other services	35.278	15.690
Non-material expenses:		
- business travel expenses	59.268	48.320
- employee commuting allowance	87.924	91.469
- fees to voluntary pension funds	100.845	99.316
- employee professional training costs	8.832	8.557
- intellectual services	86.141	67.543
- security services (for property and money)	25.092	26.681
- public utilities	14.598	13.470
- entertainment	26.404	33.901
- insurance premiums	20.910	44.532
- other non-material expenses	63.180	67.089
Tax expenses:		
- city development land usage fees	110	60.834
- property tax	48.357	-
- value added tax payable	100.462	92.055
- other taxes payable	19.407	20.265
Contributions paid	5.317	5.074
Other costs	158.114	40.638
Losses on the sale, disposal and write-off of property, plant, equipment and intangible assets	3.619	2.360
Losses incurred in the transfers among investment properties and property, plant and equipment	276.759	733
Decrease upon revaluation of properties	39.799	-
Decrease in the value of inventories	298.050	81.656
Expenses arising from swap transactions	144.311	212.019
Provisions for litigations (Note 26)	9.196	68.551
Other expenses	143.785	58.521
<b>Total other expenses</b>	<b>4.003.539</b>	<b>3.499.687</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***13. CASH AND CURRENT ACCOUNTS  
HELD WITH BANKS**

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Cash on hand:		
- in local currency	32	16
- in foreign currencies	32.071.226	36.382.878
	<u>32.071.258</u>	<u>36.382.894</u>
Current accounts:		
- with domestic banks and NBS	2.115.185	8.029.250
- with foreign banks	14.935.713	59.732.917
	<u>17.050.898</u>	<u>67.762.167</u>
Other cash funds in foreign currencies	-	1.735
Total cash and current accounts held with banks	<u>49.122.156</u>	<u>104.146.796</u>
<i>Less: Allowance for impairment</i>	<u>(844.576)</u>	<u>(719.234)</u>
<b>Total cash and current accounts held with banks</b>	<b><u>48.277.580</u></b>	<b><u>103.427.562</u></b>

Special drawing right (SDR) holdings on the current account with the IMF in the amount of RSD 6.373.189 thousand (December 31, 2013: RSD 15.335.674 thousand) are presented in Note 20.

**14. GOLD AND OTHER PRECIOUS METALS**

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Gold and standard tradable gold bullions	3.859.312	3.231.514
Gold and substandard gold bullions	63.402.790	48.938.037
Other precious metals	<u>820.617</u>	<u>817.068</u>
<b>Total gold and other precious metals</b>	<b><u>68.082.719</u></b>	<b><u>52.986.619</u></b>

**15. DEPOSITS HELD WITH BANKS**

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Deposits:		
- time deposits	282.719.200	239.536.048
- other deposits	21.450	21.450
	<u>282.740.650</u>	<u>239.557.498</u>
<i>Less: Allowance for impairment of time deposits</i>	<u>(2.764.873)</u>	<u>(2.310.773)</u>
<b>Total deposits</b>	<b><u>279.975.777</u></b>	<b><u>237.246.725</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***15. DEPOSITS HELD WITH BANKS (Continued)**

Time deposits include short-term deposits placed with foreign banks at the annual interest rates that ranged from 0% to 1,09% in 2014 (2013: from 0% to 1,04%) 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 Strategic Guidelines for Managing Foreign Exchange Reserves, as explained in Note 32.

**16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS, HELD FOR TRADING**

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Coupon bonds	715.578.217	711.336.212
Discount securities	83.091.812	171.295.500
<b>Total financial assets carried at fair value through profit and loss, held for trading</b>	<b><u>798.670.029</u></b>	<b><u>882.631.712</u></b>

Coupon securities relate to bonds issued by states with the highest-quality rating, financial institutions supported by those states and international financial institutions, totaling RSD 715.578.217 thousand (December 31, 2013: RSD 711.336.212 thousand). These bonds are denominated in EUR, USD, GBP and CAD.

Annual interest rates on coupon securities ranged between 0% and 5,5% for bonds denominated in EUR (2013: between 0% and 5,37%); between 0,25% and 4,75% % for bonds denominated in USD (2013: between 0,25% and 4,75%); between 0,875% and 5% for bonds denominated in GBP (2013: between 0,87% and 8%); and between 0,75% and 3,75% for bonds denominated in CAD (2013: between 0,75% and 3,5%).

Discount securities relate to the treasury bills issued by states with the highest-quality rating totaling RSD 83.091.812 thousand (December 31, 2013: RSD 171.295.500 thousand) and represent short-term securities denominated in EUR bearing interest at the interest rates ranging from 0% to 0,1867% annually (2013: from 0% to 0,27%) as well as securities denominated in USD at the interest rates ranging from 0,027% to 0,2325% annually (2013: from 0,05% to 0,13%).

Managing of financial assets at fair value through profit and loss is based on the Strategic Guidelines for Managing Foreign Exchange Reserves as explained in Note 32.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 17. FINANCIAL ASSETS AVAILABLE FOR SALE

	December 31, 2014	December 31, 2013
Equity investments in RSD:		
- Recreatours d.o.o., Beograd	229.498	229.498
- Other	554	554
	<u>230.052</u>	<u>230.052</u>
Equity investments in foreign currencies:		
- Bank for International Settlements, Basel	9.487.028	8.058.613
- S.W.I.F.T. srl	416	326
	<u>9.487.444</u>	<u>8.058.939</u>
<b>Total financial assets available for sale</b>	<b><u>9.717.496</u></b>	<b><u>8.288.991</u></b>

## 18. FINANCIAL ASSETS HELD TO MATURITY

	December 31, 2014	December 31, 2013
Financial assets 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>
<b>Total financial assets held to maturity</b>	<b><u>-</u></b>	<b><u>-</u></b>

## 19. LOANS

	December 31, 2014	December 31, 2013
Loans:		
- loans to banks in bankruptcy and liquidation	1.835.884	2.739.096
- loans to commercial banks	501.366	-
- loans to the Republic of Serbia	1.093.496	1.151.478
- housing loans approved to employees	731.712	761.936
	<u>4.162.458</u>	<u>4.652.510</u>
Less: Allowance for impairment of		
- loans to banks in bankruptcy and liquidation	(1.835.884)	(2.737.958)
- loans to the Republic of Serbia	(1.093.496)	(1.151.478)
- housing loans approved to employees	(9.363)	(7.590)
	<u>(2.938.743)</u>	<u>(3.897.026)</u>
<b>Total loans</b>	<b><u>1.223.715</u></b>	<b><u>755.484</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 20. IMF MEMBERSHIP QUOTA AND SDR HOLDINGS

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
IMF membership quota	67.397.721	59.873.738
SDR holdings	6.373.189	15.335.674
<b>Total</b>	<b><u>73.770.910</u></b>	<b><u>75.209.412</u></b>

As at December 31, 2014 the quota of the Republic of Serbia in the International Monetary Fund amounted to RSD 67.397.721 thousand (December 31, 2013: RSD 59.873.738 thousand). The membership quota is denominated in special drawing rights in the amount of SDR 467.700 thousand (December 31, 2013: 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, 2014

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

## 21. INTANGIBLE ASSETS, PROPERTY, PLANT, EQUIPMENT AND INVESTMENT PROPERTY

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
<b>Cost/revalued amount</b>								
<b>Opening balance at January 1, 2013</b>	<b>20.019</b>	<b>25.310.033</b>	<b>8.822.452</b>	<b>126.667</b>	<b>2.471</b>	<b>34.281.642</b>	<b>844.695</b>	<b>1.831.272</b>
Opening balance adjustment	947.566	-	-	-	-	947.566	-	-
<b>Opening balance at January 1, 2013, restated</b>	<b>967.585</b>	<b>25.310.033</b>	<b>8.822.452</b>	<b>126.667</b>	<b>2.471</b>	<b>35.229.208</b>	<b>844.695</b>	<b>1.831.272</b>
Additions	-	-	97.220	927	110.476	208.623	-	6.238
Transfer from investment in progress	-	-	100.032	-	(100.032)	-	-	-
Revaluation effects	-	-	-	82.878	-	82.878	-	-
Transfers	-	-	26.594	-	-	26.594	-	-
Surpluses	-	-	3.026	15.275	-	18.301	-	314
Sales, disposals and shortages	-	-	(130.239)	(1.445)	-	(131.684)	-	-
<b>Balance at December 31, 2013</b>	<b>967.585</b>	<b>25.310.033</b>	<b>8.919.085</b>	<b>224.302</b>	<b>12.915</b>	<b>35.433.920</b>	<b>844.695</b>	<b>1.837.824</b>
Additions	-	-	-	-	514.334	514.334	-	137.106
Transfer from investment in progress	-	2.124	512.196	1.032	(515.352)	-	-	-
Transfer to investment in progress	-	(220.398)	-	-	-	(220.398)	88.073	-
Revaluation - positive effects	1.858.116	29.999.730	117.781	-	-	31.957.627	253.901	-
Revaluation - negative effects	-	(32.194)	-	-	-	(32.194)	(28.152)	-
Sales, disposals and shortages	-	(36.976)	(343.874)	(875)	-	(381.725)	(258.787)	-
Surpluses	-	5.339	73.819	26.127	-	105.285	-	-
Other	-	525	(7.631)	(26)	(819)	(7.951)	-	-
<b>Balance at December 31, 2014</b>	<b>2.825.701</b>	<b>55.028.183</b>	<b>9.271.376</b>	<b>250.560</b>	<b>11.078</b>	<b>67.386.898</b>	<b>899.730</b>	<b>1.974.930</b>
<b>Accumulated Depreciation/Amortization</b>								
<b>Opening balance at January 1, 2013</b>	-	<b>13.829.745</b>	<b>4.825.396</b>	<b>20.207</b>	-	<b>18.675.348</b>	-	<b>1.470.262</b>
Charge for the year	-	505.910	965.018	1.142	-	1.472.070	-	277.081
Sales, disposals and shortages	-	-	(127.859)	(1.150)	-	(129.009)	-	-
Other	-	-	27.774	-	-	27.774	-	198
<b>Balance at December 31, 2013</b>	-	<b>14.335.655</b>	<b>5.690.329</b>	<b>20.199</b>	-	<b>20.046.183</b>	-	<b>1.747.541</b>
Charge for the year	-	498.051	447.093	1.005	-	946.149	-	85.340
Transfer to investment in progress	-	(132.325)	-	-	-	(132.325)	-	-
Revaluation - positive effects	-	24.256.231	-	-	-	24.256.231	-	-
Revaluation - negative effects	-	(13.769)	-	-	-	(13.769)	-	-
Sales, disposals and shortages	-	(19.004)	(340.078)	(632)	-	(359.714)	-	-
Other	-	-	(8.260)	-	-	(8.260)	-	-
<b>Balance at December 31, 2014</b>	-	<b>38.924.839</b>	<b>5.789.084</b>	<b>20.572</b>	-	<b>44.734.495</b>	-	<b>1.832.881</b>
<b>Net Book Value as at December 31, 2014</b>	<b>2.825.701</b>	<b>16.103.344</b>	<b>3.482.292</b>	<b>229.988</b>	<b>11.078</b>	<b>22.652.403</b>	<b>899.730</b>	<b>142.049</b>
<b>Net Book Value as at December 31, 2013</b>	<b>967.585</b>	<b>10.974.378</b>	<b>3.228.756</b>	<b>204.103</b>	<b>12.915</b>	<b>15.387.737</b>	<b>844.695</b>	<b>90.283</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

**21. INTANGIBLE ASSETS, PROPERTY, PLANT, EQUIPMENT AND INVESTMENT PROPERTY (Continued)***Fair Value Hierarchy*

The Bank measures the fair value of land, buildings, a portion of other fixed assets (works of art), a portion of equipment (period furniture) 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 32.

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

	Level 1	Level 2	Level 3	Total
Land	-	-	2.825.701	2.825.701
Buildings	-	-	16.103.345	16.103.345
Other fixed assets – works of art	-	-	146.809	146.809
Equipment – period furniture	-	-	191.201	191.201
Investment property	-	-	899.730	899.730
<b>December 31, 2014</b>	-	-	<b>20.166.786</b>	<b>20.166.786</b>

*Overview of Valuation Techniques and Significant Unobservable Inputs*

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

Valuation technique	Significant unobservable inputs	Inter-relationship between the key unobservable inputs and fair value
<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.	Cost of construction	The estimated fair value would increase (decrease) if:
	Cost of land	- Cost of construction were to increase (decrease)
		- Cost of land were to increase (decrease)
<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	Real estate prices in the local market	- Real estate prices in the local market were to increase (decrease)
		- Capitalization rate were to decrease (increase)
<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.	Capitalization rate	- Rental price were to increase (decrease)
	Rental price	- Occupancy rate were to increase (decrease)
	Occupancy rate	



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***21. INTANGIBLE ASSETS, PROPERTY, PLANT, EQUIPMENT AND INVESTMENT PROPERTY (Continued)***Overview of Valuation Techniques and Significant Unobservable Inputs (Continued)*

As of December 31, 2014 the Bank had the condition and value of its works of art and exhibits - applied arts pieces (antique and period furniture and equipment) used for own purposes appraised. The appraisal was performed at the premises at no. 12, Kralja Petra Street and at no. 17, Nemanjina Street in Belgrade by the Museum of Applied Arts from Belgrade. The appraisal effect resulting from the value assessment of the aforesaid period furniture of RSD 117.781 thousand was credited to revaluation reserves. In addition, the appraiser performed the assessment of the value of exhibits without inventory numbers recorded in the Bank's books of account and credited the effects thereof to income in the amount of RSD 73.390 thousand.

In addition to the appraisal the Bank performed during 2014, valuation of properties used by the Bank was conducted as well, i.e., the Bank hired an independent appraiser to perform valuation of properties carried at fair value the Bank uses as of December 31, 2014. The valuation was performed under the Agreement for the Providing Services of Valuation of Property at Fair Value Used by the National Bank of Serbia entered into by and between the Economics Institute from Belgrade (at no. 16, Kralja Milana Street, Belgrade) and the Bank as of December 3, 2014. In February 2015, the Economics Institute delivered its Report on the Valuation of Properties at Fair Value Used by the National Bank of Serbia as of December 31, 2014.

Valuation of properties at fair value was performed in accordance with the effective accounting and auditing regulations of the Republic of Serbia and accounting policies of the National Bank of Serbia observing the relevant International Financial Reporting Standards (IAS/IFRS) and International Valuation Standards (IVS).

Valuation of land as of December 31, 2014 encompassed 21 items of land with the total fair value of RSD 2.929.482 thousand. Out of the aforesaid 21 land lots 9 lots were recorded in the Bank's books within account 340000 – Land. In assessing the value of land the appraiser used price of land expressed in EUR per are. As of December 31, 2014 the appraised value of the aforesaid land lots previously recorded in the Bank's books amounted to RSD 1.878.077 thousand and relates to the land lots in Belgrade and ZIN in the amount of RSD 340.755 thousand and RSD 1.537.322 thousand, respectively. Increase in the fair value of land, i.e. the difference between the appraised value and the net book value of land, was recorded as increase in revaluation reserves.

Moreover, based on the information on the fair value of six land lots that were not previously recorded in its books of account, the Bank adjusted the opening balance of land as of January 1, 2013 by the amount of RSD 947.566 thousand in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors."

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***21. INTANGIBLE ASSETS, PROPERTY, PLANT, EQUIPMENT AND INVESTMENT PROPERTY (Continued)***Overview of Valuation Techniques and Significant Unobservable Inputs (Continued)*

Assessment of the fair value of building properties as of December 31, 2014 in the respective amounts of RSD 12.136.434 thousand and RSD 3.559.856 thousand for the Bank's buildings in Belgrade and ZIN was performed using the following valuation methods: cost approach – 100%; combination of market and income approaches in the 50% to 50% ratio; and combination of market and income approaches in the 30% to 70% ratio.

For the fair value assessment of the building properties in Belgrade the appraiser primarily used the 100% cost approach (for 22 buildings) and determined the amount of RSD 10.392.317 thousand as the fair value of building properties, among which were 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.

Combined market and income approaches in 50% to 50% and 30% to 70% ratios were used for the assessment of the fair value of the remaining 17 buildings in Belgrade, totaling RSD 1.744.117 thousand.

Fair value of all buildings within ZIN of RSD 3.559.856 thousand was determined using the cost (asset) valuation approach as it was not possible to find appropriate comparative assets for comparison and application of other valuation approaches.

The estimated fair value of investment properties included in the Bank's accounting records (12 items of business premises) amounted to RSD 897.219 thousand. For the building at no. 64, Bulevar dr Zorana Đinđića St. in Belgrade the highest fair value of RSD 508.025 was determined using the 100% income approach. Other investment properties were appraised using the combination of the market and income approach (50% to 50%). The cost approach was used in valuation of one item of investment property which was recorded subsequently, as surplus according to the 2014 annual count and included in building properties, with the fair value of RSD 5.339 thousand.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 22. OTHER ASSETS

	December 31, 2014	December 31, 2013
Advances paid	1.618.496	993.595
Fee and commission receivables	170.719	123.549
Receivables from the sales of finished products and services	217.068	184.765
Receivables from employees	109.178	2.982
Value added tax receivable	-	53.040
Other receivables from operations	1.091.885	900.806
Inventories	3.307.055	3.499.664
Deferred other expenses	1.968	1.514
Other assets	2.132.738	2.027.943
	<u>8.649.107</u>	<u>7.787.858</u>
<i>Less: Allowances for impairment of:</i>		
Advances paid	(1.152.376)	(965.217)
Fee and commission receivables	(78.106)	(77.089)
Receivables from the sales of finished products and services	(133.419)	(52.597)
Receivables from employees	(2.534)	(918)
Other receivables from operations	(1.060.548)	(855.184)
Inventories	(60.126)	(60.925)
Other assets	(2.093.254)	(1.792.113)
	<u>(4.580.363)</u>	<u>(3.804.043)</u>
<b>Total other assets</b>	<b><u>4.068.744</u></b>	<b><u>3.983.815</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***23. LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Transaction deposits in RSD:		
- obligatory reserves of the banks	181.744.181	152.879.047
- central deposits	2.115.185	8.029.250
- other transaction deposits in RSD	11.389	59
	<u>183.870.755</u>	<u>160.908.356</u>
Transaction deposits in foreign currencies:		
- obligatory reserves of the banks	234.642.251	274.998.677
- other transaction deposits in foreign currencies	1.138.300	381.546
	<u>235.780.551</u>	<u>275.380.223</u>
<b>Total transaction deposits</b>	419.651.306	436.288.579
Other deposits in RSD:		
- liquid asset surpluses	2.019.508	19.193.731
- cash in vaults and Treasury Department	28.016.490	26.007.012
	<u>30.035.998</u>	<u>45.200.743</u>
Other deposits in foreign currencies:		
- time deposits	2.419.170	18.342.895
- other deposits	16.561.718	3.487.126
	<u>18.980.888</u>	<u>21.830.021</u>
<b>Total other deposits</b>	49.016.886	67.030.764
Borrowings received in foreign currencies:		
China Export & Credit Insurance Corporation-SINOSURE	6.147.952	5.930.588
Liabilities arising from repurchase transactions	7.501.291	110.023.075
Other financial liabilities	501.366	-
	<u>14.150.609</u>	<u>115.953.663</u>
<b>Total other liabilities</b>		
<b>Total liabilities to banks and other financial institutions</b>	<u><b>482.818.801</b></u>	<u><b>619.273.006</b></u>

*Transaction Deposits*

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

The Bank pays interest of 2,5% p.a. on the realized average daily balance of calculated obligatory RSD reserves if it does not exceed the balance of the required obligatory RSD reserves. Interest is calculated on a monthly basis.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***23. LIABILITIES TO BANKS AND OTHER  
FINANCIAL INSTITUTIONS (Continued)***Transaction Deposits (Continued)*

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 2.419.170 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 2014 the average annual interest rate for time deposits denominated in EUR equaled 0,09%).

*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. In 2014 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 7.501.291 thousand (December 31, 2013: RSD 110.023.075 thousand), refer to the Bank's liabilities to domestic banks based on debts incurred through agreements on repurchase of treasury bills. These are short-term liabilities with fixed maturities. In the course of 2014 the Bank paid interest thereto at the rate ranging from 5,93% to 7,59% annually (2013: from 7,20% to 9,99%).

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***24. LIABILITIES TO THE GOVERNMENT  
AND OTHER DEPOSITORS**

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Transaction deposits in RSD:		
- deposits of the Ministry of Finance and Treasury Department	130.452.683	109.690.063
- other transaction deposits in RSD	2.741.270	2.250.566
	<u>133.193.953</u>	<u>111.940.629</u>
Transaction deposits in foreign currencies:		
- deposits of the Ministry of Finance and Treasury Department	70.019.673	92.756.600
- other transaction deposits in foreign currencies	8.004.092	10.983.373
	<u>78.023.765</u>	<u>103.739.973</u>
<b>Total transaction deposits</b>	211.217.718	215.680.602
Other deposits in RSD:		
- cash held with the Treasury Department	1.356.450	1.536.279
- other deposits in RSD	1.051	6.262
- cash held in the vaults of banks in bankruptcy	-	343.937
	<u>1.357.501</u>	<u>1.886.478</u>
Other deposits in foreign currencies:		
- deposits of the Revolving Loan Fund	29.326	192
- earmarked deposits – grant accounts	2.989.286	3.483.338
- special-purpose deposits – Ministry of Finance and Treasury Department	8.132.179	8.215.440
- other earmarked deposits	120.130	774.132
- deposits related to the seized foreign currency cash	4.049.712	4.093.993
- time deposits	62.676.684	37.030.656
- other deposits in foreign currencies	402.987	461.456
- other financial liabilities – to banks in bankruptcy	155.555	131.188
	<u>78.555.859</u>	<u>54.190.395</u>
<b>Total other deposits</b>	<u>79.913.360</u>	<u>56.076.873</u>
<b>Total liabilities to the Government and other depositors</b>	<u><b>291.131.078</b></u>	<u><b>271.757.475</b></u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 25. LIABILITIES TO THE IMF

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Securities and other liabilities regulating the Bank's status with the IMF	67.229.216	59.724.085
Stand-by arrangement	18.375.048	79.923.903
Liabilities to the IMF in SDR	8.336.129	7.405.522
Interest accrued	46.672	166.362
<b>Total liabilities to the IMF</b>	<b><u>93.987.065</u></b>	<b><u>147.219.872</u></b>

As at December 31, 2014 and 2013, 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. During 2014 the amount of SDR 496.809 thousand (2013: SDR 568.034 thousand and 2012: SDR 175.387 thousand) was repaid, so that the balance of debt due to the IMF amounted to SDR 127.512 thousand at the end of 2014.

## 26. PROVISIONS

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Provisions for employee retirement benefits	358.123	515.645
Provisions for employee jubilee awards	384.404	420.127
Provisions for unused annual leaves (vacations)	142.231	159.466
Provisions for litigations	186.265	251.499
<b>Total provisions</b>	<b><u>1.071.023</u></b>	<b><u>1.346.737</u></b>



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*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, 2013	403.393	275.955	139.363	317.165	1.135.876
Charge for the year (Notes 10 and 12)	112.252	144.172	20.103	68.551	345.078
Release of provisions during the year	-	-	-	(73.130)	(73.130)
Reversal of provisions (Note 8)	-	-	-	(61.087)	(61.087)
<b>Balance at December 31, 2013</b>	<b>515.645</b>	<b>420.127</b>	<b>159.466</b>	<b>251.499</b>	<b>1.346.737</b>
Charge for the year (Note 12)	-	-	-	9.196	9.196
Release of provisions during the year	-	-	-	(40.896)	(40.896)
Reversal of provisions (Notes 8 and 10)	(157.522)	(35.723)	(17.235)	(33.534)	(244.014)
<b>Balance at December 31, 2014</b>	<b>358.123</b>	<b>384.404</b>	<b>142.231</b>	<b>186.265</b>	<b>1.071.023</b>

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2014***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 totaling RSD 186.265 thousand as at December 31, 2014 (December 31, 2013: RSD 251.499 thousand) were formed based on the estimates of the outcomes made by the Bank's Legal Department in respect of the lawsuits related to the Bank's functions, estimates made by the Humana Resources Department in respect of the labor lawsuits and those made by the Bank's 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. CURRENT TAX LIABILITIES**

The Bank calculates and pays income taxes in accordance with the Corporate Income Tax Law of the Republic of Serbia and Rules on the Contents of the Tax Balance for Non-Profit Organizations –Corporate Income Tax Payers. During the current year the Bank pays income taxes in the form of monthly advance payments the amount of which is determined based on the income tax return for the previous year. The ultimate tax base to which the statutory corporate income tax rate of 15% is applied is determined by the tax balance for non-profit organizations applying the chart of accounts effective for NBS, which is submitted within 180 days from the expiry date of the period for which the tax liability is determined. Payment of the income tax is made up to the income tax return submission date.

Income realized in the market, i.e. revenues from the sales of products and services are decreased by the expenses related to the income realized in the market in order to arrive at the amount of the taxable income, i.e. tax base. Such expenses include staff costs, depreciation and amortization charge and other operating expenses and are calculated and stated in proportion to the share of income realized in the market in the total income realized by the taxpayer.

The current income tax expense for 2014 as per the final calculation amounted to RSD 274.398 thousand, which, decreased by the advance tax payments made during 2014, resulted in the current tax liability of RSD 180.649 thousand.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 27. CURRENT TAX LIABILITIES (Continued)

**Tax Balance for Non-Profit Organizations Applying the Chart of Accounts for NBS for the year Ended December 31, 2014**

	<b>December 31, 2014</b>
Income earned in the market	4.566.594
- revenues from the sale of products and services	
Expenses arising in relation to the income earned in the market	
- staff costs	653.311
- depreciation/amortization charge	345.352
- other operating expenses	1.738.612
Tax base	1.829.319
Statutory income tax rate	15%
Current income tax expense for 2014	274.398

## 28. DINARS IN CIRCULATION

Dinars in circulation totaling RSD 130.468.547 thousand (December 31, 2013: RSD 122.439.771 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 23) nor money in circulation held with the Treasury Department and presented within liabilities to the Government and other depositors (Note 24).

## 29. OTHER LIABILITIES

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Trade payables:		
- domestic	103.412	120.516
- foreign	72.845	41.316
Advances received:		
- in RSD	56.092	30.583
- in foreign currencies	981	696
Liabilities for employee salaries	222.797	209.625
Foreign currency liabilities to domestic banks for replacement of foreign currency cash	2.434	-
Inheritance liabilities	40.907	38.806
Other accruals	24.297	26.857
Taxes and contributions payable	16.797	5.596
Other liabilities from operations	470.803	495.731
<b>Total other liabilities</b>	<b>1.011.365</b>	<b>969.726</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***30. EQUITY**

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

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
State-owned capital	119.049.539	119.049.539
Reserves:		
- Special reserves	83.546.266	127.140.439
- Revaluation reserves	15.536.856	7.845.850
- Reserves from securities available for sale	6.035.677	5.651.105
- Actuarial gains – provisions for retirement benefits	171.457	-
Retained earnings	82.472.829	1.753.688
(Accumulated losses)	-	(43.594.173)
<b>Total equity</b>	<b>306.812.624</b>	<b>217.846.448</b>

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

The Bank's equity comprises state-owned 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, 2014 as well as December 31, 2013, 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 and transferred to NBS. 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 2014 the National Bank of Serbia realized profit of RSD 80.700.910 thousand.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 30. EQUITY (Continued)

## a) Profit Allocation (Continued)

The following table presents the allocation of profit of the Bank for 2014 and the loss incurred in 2013:

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Profit/(loss) arising from foreign exchange gains/(losses)	83.154.135	(25.667.355)
Profit/(loss) arising from revaluation reserves	18.231	-
1. Total profit/(loss) from foreign exchange gains/(losses) and revaluation reserves	83.172.366	(25.667.355)
2. Remaining loss not originating from foreign exchange gains/(losses) and revaluation reserves	(2.471.456)	(17.926.818)
<b>Profit/(Loss) (1+2)</b>	<b>80.700.910</b>	<b>(43.594.173)</b>
Allocation of profit from foreign exchange gains and revaluation reserves (1):		
1.1) core capital increase 33,3%	26.873.403	-
1.2) special reserve increase 66,7%	53.827.507	-
	<b>80.700.910</b>	-
Allocation of profit not originating from foreign exchange gains and revaluation reserves (2):		
2.1) transfer the RS Budget 70%	-	-
2.2) core capital increase 10%	-	-
2.3) special reserve increase 20%	-	-
	-	-
Total core capital increase (1.1+2.2)	26.873.403	-
Total special reserve increase (1.2+2.3)	53.827.507	-
Transfer to the Budget of the Republic of Serbia (2.1)	-	-
<b>Profit/(Loss)</b>	<b>80.700.910</b>	<b>(43.594.173)</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 31. OFF-BALANCE SHEET ITEMS

	December 31, 2014	December 31, 2013
a) Funds managed on behalf of third parties		
- in RSD	1.260.829	1.212.886
- in foreign currencies	1.759.440.186	1.506.128.048
	1.760.701.015	1.507.340.934
b) Guarantees, sureties, collaterals to secure liability settlement and irrevocable commitments		
Guarantees issued in RSD	11.595	-
Guarantees issued in foreign currencies	7.344	69
Sureties received in RSD	256.140	414.816
Sureties received in foreign currencies	733.058	422.554
Securities and other assets received under pledge	10.717.393	1.050.003
Other irrevocable commitments:		
- in RSD	1.691	1.788
- in foreign currencies	19.411.312	8.479.703
	31.138.533	10.368.933
c) Other off-balance sheet items	518.520.776	517.674.435
d) Dinars in circulation and out of circulation		
Cash in circulation	159.841.487	150.326.999
Inventories of banknotes	197.179.750	190.920.916
Inventories of coins	407.722	512.810
Other	980.177	173
	358.409.136	341.760.898
<b>Total off-balance sheet items</b>	<b>2.668.769.460</b>	<b>2.377.145.200</b>

a) Out of the total amount of funds managed on behalf of third parties of RSD 1.759.440.186 thousand (December 31, 2013: RSD 1.506.128.048 thousand), the major portion of RSD 1.759.440.186 thousand (December 31, 2013: RSD 1.506.128.048 thousand) refers to the transactions performed on behalf and for the account of the Republic of Serbia in respect of settlement of the Republic of Serbia public debt, and the amount of RSD 1.690.598.989 thousand (December 31, 2013: RSD 1.435.327.499 thousand) pertains to the settlement of public debt arising from citizens' old foreign currency savings and loan for the economic development. The Bank acts as an agent in these operations.

b) Out of the total amount of Guarantees, sureties, collaterals to secure liability settlement and irrevocable commitments, RSD 10.717.393 thousand (December 31, 2013: RSD 1.050.003 thousand) relates to securities received as pledge to securitize loans approved to banks. Out of the total amount of other irrevocable commitments in foreign currency, a portion of RSD 9.071.873 thousand (December 31, 2013: RSD 8.024.947 thousand) comprise deal tickets for spot currency sales at the interbank foreign exchange market meetings, a portion of RSD 3.978.564 thousand pertains to arbitration, while the remaining RSD 6.360.876 thousand (December 31, 2013: RSD 454.756 thousand) refers to letters of credit.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***31. 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 159,841,487 thousand relates to cash in circulation representing funds covered by the money of transaction participants. Inventories of banknotes of RSD 197,179,750 thousand and inventories of coins of RSD 407,722 thousand pertain to the money which is not covered by the money of transaction participants and which is located in the Bank's vaults.

**32. 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 make 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, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***32. 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, 2014

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

## 32. 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, 2014 and 2013:

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
<b>Financial assets</b>		
Cash and current accounts held with banks	48.277.580	103.427.562
Deposits held with banks	279.975.777	237.246.725
Financial assets at fair value through profit and loss, held for trading	798.670.029	882.631.712
Financial assets available for sale	9.717.496	8.288.991
Loans	1.223.715	755.484
IMF membership quota and SDR holdings	73.770.910	75.209.412
Other assets	355.695	516.698
	<u>1.211.991.202</u>	<u>1.308.076.584</u>
<b>Financial liabilities</b>		
Liabilities to banks and other financial institutions	482.818.801	619.273.006
Liabilities to the Government and other depositors	291.131.078	271.757.475
Liabilities to the IMF	93.987.065	147.219.872
Dinars in circulation	130.468.547	122.439.771
Other liabilities	954.292	938.447
	<u>999.359.783</u>	<u>1.161.628.571</u>

*Maximum Credit Risk Exposure*

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

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
<b>Financial assets</b>		
Cash and current accounts held with banks	48.277.580	103.427.562
Deposits held with banks	279.975.777	237.246.725
Financial assets at fair value through profit and loss, held for trading	798.670.029	882.631.712
Financial assets available for sale	9.717.496	8.288.991
Loans	1.223.715	755.484
IMF membership quota and SDR holdings	355.695	516.698
	<u>1.138.220.292</u>	<u>1.232.867.172</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 32. RISK MANAGEMENT POLICIES (Continued)

## Credit Risk (Continued)

## Maximum Credit Risk Exposure (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	48.277.580	-	844.576	49.122.156	(844.576)	48.277.580
Deposits held with banks	279.975.777	-	2.764.873	282.740.650	(2.764.873)	279.975.777
Financial assets carried at fair value through profit and loss, held for trading	798.670.029	-	-	798.670.029	-	798.670.029
Financial assets available for sale	9.717.496	-	-	9.717.496	-	9.717.496
Securities held to maturity	-	-	665.430	665.430	(665.430)	-
Loans	1.223.715	-	2.938.743	4.162.458	(2.938.743)	1.223.715
Other assets	333.175	22.520	3.367.861	3.723.556	(3.367.861)	355.695
<b>December 31, 2014</b>	<b>1.138.197.772</b>	<b>22.520</b>	<b>10.581.483</b>	<b>1.148.801.775</b>	<b>(10.581.483)</b>	<b>1.138.220.292</b>
Cash and current accounts held with banks	103.427.562	-	719.234	104.146.796	(719.234)	103.427.562
Deposits held with banks	237.246.725	-	2.310.773	239.557.498	(2.310.773)	237.246.725
Financial assets carried at fair value through profit and loss, held for trading	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	755.484	-	3.897.026	4.652.510	(3.897.026)	755.484
Other assets	494.020	22.679	2.777.901	3.294.600	(2.777.902)	516.698
<b>December 31, 2013</b>	<b>1.232.844.494</b>	<b>22.679</b>	<b>10.370.364</b>	<b>1.243.237.537</b>	<b>(10.370.365)</b>	<b>1.232.867.172</b>

\* The Bank did not reschedule its receivables during 2013. In 2014 the Bank rescheduled a portion of the housing loan approved to a former employee (repayment due date is March 31, 2016).

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***32. RISK MANAGEMENT POLICIES (Continued)****Credit Risk (Continued)*****Maximum Credit Risk Exposure (Continued)***

The aging analysis of matured but not impaired assets as of December 31, 2014 and 2013 was as follows:

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
From 0 to 15 days	12.422	11.072
From 15 to 30 days	5.304	10.370
From 30 to 45 days	4.794	1.237
<b>Total</b>	<b>22.520</b>	<b>22.679</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 32. 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
<b>FINANCIAL ASSETS</b>					
Cash and current accounts held with banks	34.186.442	13.665.283	359.838	66.017	48.277.580
Deposits held with banks	55.476	138.534.000	80.555.975	60.830.326	279.975.777
Financial assets carried at fair value through profit and loss, held for trading	-	634.280.898	164.389.131	-	798.670.029
Financial assets available for sale	230.052	416	-	9.487.028	9.717.496
Loans	1.223.715	-	-	-	1.223.715
Other assets	347.373	5.472	11	2.839	355.695
<b>Total as at December 31, 2014</b>	<b>36.043.058</b>	<b>786.486.069</b>	<b>245.304.955</b>	<b>70.386.210</b>	<b>1.138.220.292</b>
<b>Total as at December 31, 2013</b>	<b>45.907.085</b>	<b>856.299.666</b>	<b>269.248.232</b>	<b>61.412.189</b>	<b>1.232.867.172</b>

## b) Concentration per Industry

	Banks	Public sector (Government and public companies)	Other financial institutions	Other corporate customers	Retail customers	Total
<b>FINANCIAL ASSETS</b>						
Cash and current accounts held with banks	48.277.580	-	-	-	-	48.277.580
Deposits held with banks	279.975.777	-	-	-	-	279.975.777
Financial assets carried at fair value through profit and loss, held for trading	93.530.329	-	705.139.700	-	-	798.670.029
Financial assets available for sale	-	-	9.487.444	230.052	-	9.717.496
Loans	293.317	198.708	-	-	731.690	1.223.715
Other assets	146.913	71.856	4.110	14.528	118.288	355.695
<b>Total as at December 31, 2014</b>	<b>422.223.916</b>	<b>270.564</b>	<b>714.631.254</b>	<b>244.580</b>	<b>849.978</b>	<b>1.138.220.292</b>
<b>Total as at December 31, 2013</b>	<b>471.513.582</b>	<b>146.658</b>	<b>760.040.491</b>	<b>300.518</b>	<b>865.923</b>	<b>1.232.867.172</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 32. RISK MANAGEMENT POLICIES (Continued)

## Credit Risk (Continued)

*Concentration of Credit Risk in Financial Assets (Continued)**c) Concentration per Credit Rating*

	December 31, 2014	December 31, 2013
Coupon bonds:		
AAA	351.410.199	358.261.126
AA+	209.923.455	208.644.738
AA	141.307.922	128.955.668
AA-	12.936.641	15.474.680
Total	715.578.217	711.336.212
Discount securities:		
AAA	-	15.786.049
AA+	40.751.980	57.150.221
AA	29.045.125	85.001.803
AA-	13.294.707	13.357.426
Total	83.091.812	171.295.499
Time deposits:		
No rating (risk-free)*	51.189.638	24.938.868
AAA	57.863.186	71.468.081
AA+	80.555.975	94.101.122
AA	38.832.803	9.837.615
AA-	51.302.550	36.637.874
A+**	176.150	220.197
Total	279.920.302	237.203.757
Other financial assets subject to credit risk analysis – no rating:	59.629.961	113.031.704
<b>Total</b>	<b>1.138.220.292</b>	<b>1.232.867.172</b>

\* 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, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***32. 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, 2014

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

## 32. 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	48.277.580	-	-	-	-	-	48.277.580
Deposits held with banks	137.218.225	123.758.157	18.977.959	-	21.436	-	279.975.777
Financial assets carried at fair value through profit and loss, held for trading	7.023.813	22.909.841	189.432.212	577.418.819	1.885.344	-	798.670.029
Financial assets available for sale	-	-	-	-	-	9.717.496	9.717.496
Loans	503.681	-	432	2.409	717.193	-	1.223.715
IMF membership quota and SDR holdings	6.373.188	-	-	-	-	67.397.722	73.770.910
Other assets	355.553	-	-	142	-	-	355.695
	<u>199.752.040</u>	<u>146.667.998</u>	<u>208.410.603</u>	<u>577.421.370</u>	<u>2.623.973</u>	<u>77.115.218</u>	<u>1.211.991.202</u>
Liabilities to other banks and financial institutions	196.993.997	-	-	-	6.102.990	279.721.814	482.818.801
Liabilities to the Government and other depositors	211.232.311	49.732.051	13.001.281	-	2.638.775	14.526.660	291.131.078
Liabilities to the IMF	3.719.655	2.570.304	10.449.340	1.682.421	-	75.565.345	93.987.065
Dinars in circulation	-	-	-	-	-	130.468.547	130.468.547
Other liabilities	452.332	-	-	-	-	501.960	954.292
	<u>412.398.295</u>	<u>52.302.355</u>	<u>23.450.621</u>	<u>1.682.421</u>	<u>8.741.765</u>	<u>500.784.326</u>	<u>993.359.783</u>
<b>Liquidity gap as at December 31, 2014</b>	<u>(212.646.255)</u>	<u>94.365.643</u>	<u>184.959.982</u>	<u>575.738.949</u>	<u>(6.117.792)</u>	<u>(423.669.108)</u>	<u>212.631.419</u>
<b>Liquidity gap as at December 31, 2013</b>	<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>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 32. 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 of the Bank as at December 31, 2014 and 2013:

	Carrying Value		Fair Value	
	2014	2013	2014	2013
<b>Financial assets</b>				
Cash and current accounts held with banks	48.277.580	103.427.562	48.277.580	103.427.562
Deposits held with banks	279.975.777	237.246.725	279.975.777	237.246.725
Financial assets carried at fair value through profit and loss, held for trading	798.670.029	882.631.712	798.670.029	882.631.712
Financial assets available for sale	9.717.496	8.288.991	9.717.496	8.288.991
Loans	1.223.715	755.484	1.223.715	755.484
IMF membership quota and SDR holdings	73.770.910	75.209.412	73.770.910	75.209.412
Other assets	355.695	516.698	355.695	516.698
<b>Total</b>	<b>1.211.991.202</b>	<b>1.308.076.584</b>	<b>1.211.991.202</b>	<b>1.308.076.584</b>
<b>Financial liabilities</b>				
Liabilities to other banks and financial institutions	482.818.801	619.273.006	482.818.801	619.273.006
Liabilities to the Government and other depositors	291.131.078	271.757.475	291.131.078	271.757.475
Liabilities to the IMF	93.987.065	147.219.872	93.987.065	147.219.872
Dinars in circulation	130.468.547	122.439.771	130.468.547	122.439.771
Other liabilities	954.292	938.447	954.292	938.447
<b>Total</b>	<b>999.359.783</b>	<b>1.161.628.571</b>	<b>999.359.783</b>	<b>1.161.628.571</b>

## Fair Value Hierarchy

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

- 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, 2014

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

## 32. 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 among 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:

<b>As of December 31, 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Financial assets at fair value through profit and loss, held for trading	798.670.029	-	-	798.670.029
Financial assets available for sale	-	9.487.028	230.468	9.717.496
Other assets	1.433	-	-	1.433
	<b>798.671.462</b>	<b>9.487.028</b>	<b>230.468</b>	<b>808.388.958</b>
<b>Financial liabilities</b>				
Other liabilities	-	-	-	-
	-	-	-	-
<b>As of December 31, 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Financial assets at fair value through profit and loss, held for trading	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
	<b>882.642.601</b>	<b>8.058.613</b>	<b>230.378</b>	<b>890.931.592</b>
<b>Financial liabilities</b>				
Other liabilities	10.540	-	-	10.540
	<b>10.540</b>	-	-	<b>10.540</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***32. 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, Held for Trading***

Financial assets held for trading mostly relate to first grade bonds issued by most developed states, high-quality financial institutions supported by those states and international financial institutions with adequate rating 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 9.487.028 thousand as of December 31, 2014 classified into fair value hierarchy Level 2 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 230.468 thousand as of December 31, 2014 classified into fair value hierarchy Level 3 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.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 32. 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, 2014	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
<b>Financial assets</b>					
Cash and current accounts held					
with banks	-	48.277.580	-	48.277.580	48.277.580
Deposits held with banks	-	-	279.975.777	279.975.777	279.975.777
Loans	-	-	1.223.715	1.223.715	1.223.715
IMF membership quota and SDR holdings	-	-	73.770.910	73.770.910	73.770.910
Other assets	-	-	354.262	354.262	354.262
	-	48.277.580	355.324.664	403.602.244	403.602.244
<b>Financial liabilities</b>					
Liabilities to other banks and financial institutions	-	-	482.818.801	482.818.801	482.818.801
Liabilities to the Government and other depositors	-	-	291.131.078	291.131.078	291.131.078
Liabilities to the IMF	-	-	93.987.065	93.987.065	93.987.065
Dinars in circulation	-	-	130.468.547	130.468.547	130.468.547
Other liabilities	-	-	954.292	954.292	954.292
	-	-	999.359.783	999.359.783	999.359.783
<b>As of December 31, 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>	<b>Carrying Value</b>
<b>Financial assets</b>					
Cash and current accounts held					
with banks	-	103.427.562	-	103.427.562	103.427.562
Deposits held with banks	-	-	237.246.725	237.246.725	237.246.725
Loans	-	-	755.484	755.484	755.484
IMF membership quota and SDR holdings	-	-	75.209.412	75.209.412	75.209.412
Other assets	-	-	505.809	505.809	505.809
	-	103.427.562	313.717.430	417.144.992	417.144.992
<b>Financial liabilities</b>					
Liabilities to other banks and financial institutions	-	-	619.273.006	619.273.006	619.273.006
Liabilities to the Government and other depositors	-	-	271.757.475	271.757.475	271.757.475
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	-	-	927.907	927.907	927.907
	-	-	1.161.618.031	1.161.618.031	1.161.618.031

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December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***32. 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 48.277.580 thousand;
  - o Deposits held with banks in the amount of RSD 279.954.341 thousand;
  - o Loans amounting to RSD 504.113 thousand;
  - o IMF membership quota and SDR holdings amounting to RSD 6.373.188 thousand;
  - o Other assets in the amount of RSD 355.695 thousand;
  - o Liabilities to banks and financial institutions amounting to RSD 196.993.997 thousand;
  - o Liabilities to the Government and other depositors in the amount of RSD 273.965.643 thousand;
  - o Liabilities to the IMF amounting to RSD 16.739.299 thousand; and
  - o Other liabilities in the amount of RSD 452.332 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 21.436 thousand;
  - o Loans amounting to RSD 719.602 thousand;
  - o IMF membership quota and SDR holdings amounting to RSD 67.397.722 thousand;
  - o Liabilities to banks and financial institutions amounting to RSD 285.824.804 thousand;
  - o Liabilities to the Government and other depositors in the amount of RSD 17.165.435 thousand;
  - o Liabilities to the IMF amounting to RSD 77.247.766 thousand; and
  - o Other liabilities in the amount of RSD 501.960 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 2014 and 2013 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, 2014

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

## 32. 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 time deposits placed with foreign banks as well as by investing into coupon securities, i.e. highly liquid bonds of governments and central banks issued by most developed states, high-quality financial institutions supported by those states and international financial institutions with adequate rating, and discount securities pertaining to treasury bills issued by most developed 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:

<b>December 31, 2014</b>	<b>RSD (%)</b>	<b>EUR (%)</b>	<b>USD (%)</b>	<b>SDR (%)</b>
<b>Financial assets</b>				
Current accounts held with foreign banks	-	(0.20)-0.75	-	-
Deposits held with foreign banks	-	0.00-0.30	0.10-0.83	-
Financial assets carried at fair value through profit and loss, held for trading	-	0.00-5.5	0.25-4.75	-
Financial assets available for sale	-	-	-	-
<b>Financial liabilities</b>				
Obligatory RSD reserves of banks	2.5	-	-	-
Time deposits	-	0.00-0.23	0.00-0.09	-
Borrowings	-	0.35-1.00	1.63-1.70	-
Liabilities arising from repurchase transactions	5.93-7.59	-	-	-
Liabilities to the IMF	-	-	-	0.05-1.12
<b>December 31, 2013</b>	<b>RSD (%)</b>	<b>EUR (%)</b>	<b>USD (%)</b>	<b>SDR (%)</b>
<b>Financial assets</b>				
Current accounts held with foreign 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, held for trading	-	0.00-5.38	0.05-4.75	-
Financial assets available for sale	-	-	-	-
<b>Financial liabilities</b>				
Obligatory RSD reserves of banks	2.5	-	-	-
Time deposits	-	0.03-0.20	0.04-0.19	-
Borrowings	-	0.03-0.20	1.69-2.03	-
Liabilities arising from repurchase transactions	7.20-9.99	-	-	-
Liabilities to the IMF	-	-	-	0.07-1.09

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 32. 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 2013.

	December 31, 2014			
	Equity		Net profit	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
<b>Financial assets</b>				
Cash and current accounts held with banks	89.595	(89.595)	89.595	(89.595)
Deposits held with banks	2.799.417	(2.799.417)	2.799.417	(2.799.417)
Loans	7.223	(7.223)	7.223	(7.223)
IMF membership quota and SDR holdings	63.732	(63.732)	63.732	(63.732)
	<u>2.959.967</u>	<u>(2.959.967)</u>	<u>2.959.967</u>	<u>(2.959.967)</u>
<b>Financial liabilities</b>				
Liabilities to other banks and financial institutions	(1.908.567)	1.908.567	(1.908.567)	1.908.567
Liabilities to the Government and other depositors	(2.121.688)	2.121.688	(2.121.688)	2.121.688
Liabilities to the IMF	(238.380)	238.380	(238.380)	238.380
	<u>(4.268.635)</u>	<u>4.268.635</u>	<u>(4.268.635)</u>	<u>4.268.635</u>
<b>Net effect</b>	<u>(1.308.668)</u>	<u>1.308.668</u>	<u>(1.308.668)</u>	<u>1.308.668</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 32. RISK MANAGEMENT POLICIES (Continued)

## Interest Rate Risk (Continued)

	December 31, 2013			
	Equity		Net profit	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
<b>Financial assets</b>				
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)
	<u>3.061.474</u>	<u>(3.061.474)</u>	<u>3.061.474</u>	<u>(3.061.474)</u>
<b>Financial liabilities</b>				
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
	<u>(5.301.235)</u>	<u>5.301.235</u>	<u>(5.301.235)</u>	<u>5.301.235</u>
<b>Net effect</b>	<u>(2.239.761)</u>	<u>2.239.761</u>	<u>(2.239.761)</u>	<u>2.239.761</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 32. RISK MANAGEMENT POLICIES (Continued)

## Interest Rate Risk (Continued)

The exposure to interest rate risk as at December 31, 2014 is presented in following table:

	Interest-bearing items	Non-interest bearing items	Total
<b>Financial assets</b>			
Cash and current accounts held with banks	8.959.451	39.318.129	48.277.580
Deposits held with banks	279.941.738	34.039	279.975.777
Financial assets carried at fair value through profit and loss, held for trading	798.670.029	-	798.670.029
Financial assets available for sale	-	9.717.496	9.717.496
Loans	722.326	501.389	1.223.715
IMF membership quota and SDR holdings	6.373.188	67.397.722	73.770.910
Other assets	-	355.695	355.695
	<u>1.094.666.732</u>	<u>117.324.470</u>	<u>1.211.991.202</u>
<b>Financial liabilities</b>			
Liabilities to other banks and financial institutions	190.856.734	291.962.067	482.818.801
Liabilities to the Government and other depositors	212.168.777	78.962.301	291.131.078
Liabilities to the IMF	23.838.000	70.149.065	93.987.065
Dinars in circulation	-	130.468.547	130.468.547
Other liabilities	-	954.292	954.292
	<u>426.863.511</u>	<u>572.496.272</u>	<u>999.359.783</u>
<b>Net exposure as at</b>			
<b>December 31, 2014</b>	<u>667.803.221</u>	<u>(455.171.803)</u>	<u>212.631.419</u>
<b>December 31, 2013</b>	<u>658.655.653</u>	<u>(512.207.641)</u>	<u>146.448.013</u>

### 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 for total portfolio recalculated in EUR as of December 31, 2014 indicates that under normal market conditions in only 5% of the cases can the Bank expect a loss greater than 1,61% or RSD 14.715 million (EUR 121,65 million).

Monthly VaR for total portfolio recalculated in EUR as of December 31, 2013 indicated that under normal market conditions in only 5% of the cases could the Bank expect a loss greater than 1,43% or RSD 13.757 million (EUR 120 million).



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***32. RISK MANAGEMENT POLICIES (Continued)****Interest Rate Risk (Continued)****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 (drop in prices), 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, 2014 would record a loss of RSD 10.291 million (EUR 85,08 million), portion of the USD-denominated portfolio would record a loss of RSD 3.998 million (USD 40,20 million), portion of the portfolio denominated in GBP would record a loss of RSD 413 million (GBP 2,67 million), and portion of the portfolio denominated in CAD would record a loss of RSD 224 million (CAD 2,61 million). The total effect of interest rate increase by 100 basis points on the portfolio as at December 31, 2014 would amount to RSD 14.926 million.

As of December 31, 2013, the EUR-denominated portfolio would suffer a loss of RSD 10.904 million (EUR 95,11 million), portion of the USD-denominated portfolio a loss of RSD 3.316 million (USD 39,89 million), portion of the portfolio denominated in GBP a loss of RSD 523 million (GBP 3,82 million), and portion of the portfolio denominated in CAD 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.

**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.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***32. RISK MANAGEMENT POLICIES (Continued)****Currency Risk (Continued)**

The 10% depreciation of RSD value against the following currencies as at December 31, 2014 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 2013 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>
<b>December 31, 2014</b>		
EUR	(16.861.000)	(16.861.000)
USD	6.602.320	6.602.320
CHF	378.234	378.234
SDR	8.321.094	8.321.094
<b>December 31, 2013</b>		
EUR	(16.171.812)	(16.171.812)
USD	1.988.755	1.988.755
CHF	288.994	288.994
SDR	8.310.148	8.310.148

RSD appreciation of 10% against the currencies in the table above 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, 2014 was as follows:

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 32. RISK MANAGEMENT POLICIES (Continued)

## Currency Risk (Continued)

	EUR	USD	SDR	Other currencies	Total foreign currency balance	RSD	Total
<b>Financial assets</b>							
Cash and current accounts held with banks	36.482.527	4.909.397	-	4.770.440	46.162.364	2.115.216	48.277.580
Deposits held with banks	106.100.172	166.582.375	-	7.271.779	279.954.326	21.451	279.975.777
Financial assets carried at fair value through profit and loss, held for trading	539.902.938	220.949.865	-	37.817.226	798.670.029	-	798.670.029
Financial assets available for sale	415	-	9.487.028	-	9.487.443	230.053	9.717.496
Loans	-	501.366	-	-	501.366	722.349	1.223.715
IMF membership quota and SDR holdings	-	-	73.770.910	-	73.770.910	-	73.770.910
Other assets	17.221	36	-	905	18.162	337.533	355.695
	682.503.273	392.943.039	83.257.938	49.860.350	1.208.564.600	3.426.602	1.211.991.202
<b>Financial liabilities</b>							
Liabilities to other banks and financial institutions	253.359.364	8.048.258	-	3.134	261.410.756	221.408.045	482.818.801
Liabilities to the Government and other depositors	57.863.120	97.862.578	330	853.596	156.579.624	134.551.454	291.131.078
Liabilities to the IMF	-	-	46.672	-	46.672	93.940.393	93.987.065
Dinars in circulation	1.947	6.419	-	11.481	19.847	130.448.700	130.468.547
Other liabilities	243.555	118.102	-	40.645	402.302	551.990	954.292
	311.467.986	106.035.357	47.002	908.856	418.459.201	580.900.582	999.359.783
<b>Net exposure as at December 31, 2014</b>	371.035.287	286.907.682	83.210.936	48.951.494	790.105.399	(577.473.980)	212.631.419
<b>Net exposure as at December 31, 2013</b>	475.535.594	227.183.893	83.268.025	50.952.516	836.940.028	(690.492.015)	146.448.013

## NOTES TO THE FINANCIAL STATEMENTS

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

## 33. 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, 2014 and 2013:

	December 31, 2014		
	Current items (within 12 months)	Non-current items (over 12 months)	Total
<b>ASSETS</b>			
Cash and current accounts held with banks	48.277.580	-	48.277.580
Deposits held with banks	279.954.341	21.436	279.975.777
Gold and other precious metals	68.082.719	-	68.082.719
Financial assets carried at fair value through profit and loss, held for trading	219.365.866	579.304.163	798.670.029
Financial assets available for sale	-	9.717.496	9.717.496
Financial assets held to maturity	-	-	-
Loans	504.113	719.602	1.223.715
IMF membership quota and SDR holdings	6.373.188	67.397.722	73.770.910
Property, plant and equipment	-	22.652.403	22.652.403
Investment property	-	899.730	899.730
Intangible assets	-	142.049	142.049
Other assets	355.553	3.713.191	4.068.744
<b>TOTAL ASSETS</b>	622.913.360	684.567.792	1.307.481.152
<b>LIABILITIES</b>			
Liabilities to other banks and financial institutions	196.993.997	285.824.804	482.818.801
Liabilities to the Government and other depositors	273.965.643	17.165.435	291.131.078
Liabilities to the IMF	16.739.299	77.247.766	93.987.065
Current tax liabilities	180.649		180.649
Dinars in circulation	-	130.468.547	130.468.547
Provisions	142.231	928.792	1.071.023
Other liabilities	452.333	559.032	1.011.365
<b>TOTAL LIABILITIES</b>	488.474.152	512.194.376	1.000.668.528
<b>ASSETS, NET</b>	134.439.208	172.369.416	306.808.624

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 33. ANALYSIS OF THE MATURITIES OF ASSETS AND LIABILITIES (Continued)

	December 31, 2013		
	Current items (within 12 months)	Non-current items (over 12 months)	Total
<b>ASSETS</b>			
Cash and current accounts held with banks	103.427.562	-	103.427.562
Deposits held with banks	237.225.289	21.436	237.246.725
Gold and other precious metals	52.986.619	-	52.986.619
Financial assets carried at fair value through profit and loss, held for trading	328.981.760	553.649.952	882.631.712
Financial assets available for sale	-	8.288.991	8.288.991
Financial assets held to maturity	-	-	-
Loans	35	755.449	755.484
IMF membership quota and SDR holdings	15.335.674	59.873.738	75.209.412
Property, plant and equipment	-	15.387.737	15.387.737
Investment property	-	844.695	844.695
Intangible assets	-	90.283	90.283
Other assets	512.836	3.470.979	3.983.815
<b>TOTAL ASSETS</b>	<b>738.469.775</b>	<b>642.383.260</b>	<b>1.380.853.035</b>
<b>LIABILITIES</b>			
Liabilities to other banks and financial institutions	287.122.679	332.150.327	619.273.006
Liabilities to the Government and other depositors	251.286.727	20.470.748	271.757.475
Liabilities to the IMF	42.938.482	104.281.390	147.219.872
Dinars in circulation	-	122.439.771	122.439.771
Provisions	159.464	1.187.273	1.346.737
Other liabilities	937.479	32.247	969.726
<b>TOTAL LIABILITIES</b>	<b>582.444.831</b>	<b>580.561.756</b>	<b>1.163.006.587</b>
<b>ASSETS, NET</b>	<b>156.024.944</b>	<b>61.821.504</b>	<b>217.846.448</b>

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December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***34. LITIGATION**

As at December 31, 2014, the Bank was involved as a defendant in legal suits with claims in the total estimated amount of RSD 78.898.276 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, 2014, the Bank formed provisions for potential losses arising from the aforesaid legal suits amounting to RSD 186.265 thousand (December 31, 2013: RSD 251.499 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 case 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.

**35. 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 equity. 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.

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);
- Settles the liabilities of the Republic of Serbia arising from its membership in the IMF;
- Performs other operations for the Republic of Serbia, Government institutions and bodies pursuant to the law or relevant agreement executed.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

## 35. RELATED PARTY TRANSACTIONS (Continued)

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

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.

Materially significant balances of receivables and payables arising from transactions with the state, Government institutions and bodies as of December 31, 2014 and 2013 were as follows:

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
<b>Loans and other assets</b>		
Loans	1.093.496	1.151.478
Other assets*	129.431	50.066
	<u>1.222.927</u>	<u>1.201.544</u>
<b>Less: Allowance for impairment of:</b>		
- loans	(1.093.496)	(1.151.478)
- other assets	(93.778)	(4.012)
	<u>(1.187.274)</u>	<u>(1.155.490)</u>
<b>Total loans and other assets, net</b>	<u>35.653</u>	<u>46.054</u>
<b>Liabilities</b>		
RSD deposits**	131.831.565	111.226.342
Foreign currency deposits	142.911.968	139.119.563
Other liabilities	95.416	61.615
<b>Total liabilities</b>	<u>274.838.949</u>	<u>250.407.520</u>
<b>Liabilities, net</b>	<u>(274.803.296)</u>	<u>(250.361.466)</u>

\* Other assets totaling RSD 129.431 thousand as of December 31, 2014 (December 31, 2013: RSD 50.066 thousand) relate to fee receivables in the amount of RSD 13.545 thousand (December 31, 2013: RSD 13.032 thousand), trade receivables in the amount of RSD 102.218 thousand (December 31, 2013: RSD 24.632 thousand) and other receivables from operations of RSD 13.668 thousand (December 31, 2013: RSD 12.402 thousand).

\*\* RSD deposits totaling RSD 131.831.565 thousand as of December 31, 2014 (December 31, 2013: RSD 111.226.342 thousand) relate to RSD deposits of RSD 131.536.097 thousand (December 31, 2013: RSD 110.991.105 thousand) and interest payable of RSD 295.468 thousand (December 31, 2013: RSD: 235.237 thousand).

Disclosed balances of receivables and liabilities relate exclusively to the Republic of Serbia, ministries of the Republic of Serbia and local self-governance bodies. Receivables and liabilities arising from transactions with the other state bodies, agencies, institutions and other entities under state control are immaterial to the Bank's financial statements on the whole.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***35. RELATED PARTY TRANSACTIONS (Continued)**

Materially significant expenses for the years ended December 31, 2014 and 2013 were as follows:

	<b>2014</b>	<b>2013</b>
Interest payable on RSD deposits	3.248.831	1.831.864
Interest payable on foreign currency deposits	31.757	21.643
	<u>3.280.588</u>	<u>1.853.507</u>

In the course of 2014 and 2013, 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 0,02% to 0,06% for EUR deposits and from 0,08% to 0,09% for USD deposits.

**Profit Allocation**

Pursuant to the Law on the National Bank of Serbia, after attaining the minimum prescribed amount of the core capital, (Article 77, paragraph 3) and the prescribed amount of the special reserves (Article 77, paragraph 4), profit not resulting from foreign exchange gains and revaluation reserves, the Bank allocates 70% to the Republic of Serbia Budget (Note 30).

**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:

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Old foreign currency savings	165.802.339	192.724.776
Loan for economic development	2.388.313	2.264.139
Public debt of the Republic of Serbia	1.522.410.162	1.240.340.543
Other	70.100.202	72.011.476
	<u>1.760.701.016</u>	<u>1.507.340.934</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 Personnel**

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.



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***35. RELATED PARTY TRANSACTIONS (Continued)****Transactions with the Key Management Personnel (Continued)**

The Bank's management members 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 interests.

The compensations paid to management are associated with short-term benefits in the gross amount of RSD 469.301 thousand (2013: RSD 501.864 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:

<b>Position</b>	<b>Gross remunerations disbursed in 2014</b>	<b>Net remunerations disbursed in 2014</b>	<b>Gross remunerations disbursed in 2013</b>	<b>Net remunerations disbursed in 2013</b>
Governor	9.890	8.180	9.917	8.067
Director of Administration for Supervision of Financial Institutions	8.343	6.794	9.201	7.480
Vice Governors	24.097	19.543	25.485	20.526
Secretary General	4.996	3.963	6.352	4.964
Directors General, Directors of organizational units within the headquarters, Directors of branch offices and Managing Director of ZIN	115.680	86.285	123.949	90.960
Deputies and assistants to Directors General and Directors General of organizational units	90.240	66.020	90.740	65.558
Department Heads	198.862	142.725	219.155	156.121
Chairman and members of the Council of the Governor	17.193	11.227	17.065	11.154
<b>Total for the year</b>	<b>469.301</b>	<b>344.737</b>	<b>501.864</b>	<b>364.830</b>

**36. 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, 2014, while the balances of receivables denominated in foreign currencies were reconciled as of December 31, 2014.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

*All amounts expressed in thousands of RSD, unless otherwise stated.***36. RECONCILIATION OF RECEIVABLES AND LIABILITIES (Continued)**

Out of the total amount of receivables of RSD 1.171.922.126 thousand, including liabilities per swap transactions, for which the Bank delivered outstanding item statement forms for balance confirmation/reconciliation, receivables in the amount of RSD 1.168.480.538 thousand or 99,71% of the total receivables were reconciled, while the amount of RSD 3.441.588 thousand remained unreconciled, but the outstanding item statement (OIS) forms include the note that, in the event the form with the response is not returned within 10 days from the receipt, the Bank shall deem the balance stated to be reconciled. The Bank does not perform balance reconciliation of receivables due from its employees and legal entities in bankruptcy or those subject to liquidation procedure.

The Bank received outstanding item statement forms for balance reconciliation from legal entities totaling RSD 402.313.752 thousand, out of which the amount of RSD 131.779 thousand, or 0,03% remained unreconciled.

**37. EVENTS AFTER THE REPORTING PERIOD**

Up to the issue date of these financial statements a non-adjusting subsequent event has occurred – the National Assembly of the Republic of Serbia enacted the Law on Amendments and Supplements to the Law on the National Bank of Serbia (Official Gazette of RS, no. 14/2015), which became effective as of February 12, 2015. Article 78a of the Law reads: "The National Bank of Serbia shall not be subject to corporate income tax or any other direct taxes and court and other fees and duties from which state authorities and organizations are exempt."

In 2013 and 2014 the Bank was a corporate income taxpayer in accordance with the provisions of the Corporate Income Tax Law of the Republic of Serbia and the Rules on the Contents of the Tax Balance for Non-Profit Organizations – Corporate Income Tax Payers; this obligation will be cancelled as from the Law effective date.

**38. 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, 2014 and 2013 were as follows:

	December 31, 2014	In RSD December 31, 2013
USD	99,4641	83,1282
EUR	120,9583	114,6421
GBP	154,8365	136,9679
CAD	85,7495	78,0888
CHF	100,5472	93,5472



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Governor

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