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TRANSLATION

Independent Auditors' Report

TO THE COUNCIL OF THE GOVERNOR
OF THE NATIONAL BANK OF SERBIA

We have audited the accompanying financial statements of the National bank of Serbia, which comprise the balance sheet as at 31 December 2015, the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the National bank of Serbia as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of the National bank of Serbia as at and for the year ended 31 December 2014 were audited by another auditor who expressed an unmodified opinion on those financial statements on 4 May 2015.

Belgrade, 23 May 2016

KPMG d.o.o. Beograd

(L.S.)

Dušan Tomić
Certified Auditor

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

Belgrade, 23 May 2016

KPMG d.o.o. Beograd




Dušan Tomić
Certified Auditor

NATIONAL BANK OF SERBIA

**Financial Statements for the
Year Ended December 31, 2015**

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NATIONAL BANK OF SERBIA
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INCOME STATEMENT
Year Ended December 31, 2015
(Thousands of RSD)

	Note	2015	2014
Interest income		12,338,198	12,683,818
Interest expenses		<u>(6,814,693)</u>	<u>(13,621,862)</u>
Net interest income/(expense)	4	5,523,505	(938,044)
Fee and commission income		4,029,867	3,817,914
Fee and commission expenses		<u>(893,905)</u>	<u>(399,998)</u>
Net fee and commission income	5	3,135,962	3,417,916
Net losses on the financial assets held for trading	6	(8,260,771)	(3,381,329)
Net gains from hedging	7	23,977	4
Net exchange rate gains and gains from agreed currency clause		37,042,629	83,154,135
Other operating income	8	5,980,850	6,950,598
Net income from release in impairment of financial assets and credit risk-weighted off-balance sheet items	9	1,658,100	1,297,585
Salaries, salary compensations and other personal expenses	10	(4,352,663)	(4,490,529)
Depreciation costs	11	(1,652,379)	(1,031,489)
Other expenses	12	<u>(4,491,936)</u>	<u>(4,003,539)</u>
PROFIT BEFORE TAX		<u>34,607,274</u>	<u>80,975,308</u>
Income taxes	27	<u>(281,322)</u>	<u>(274,398)</u>
PROFIT AFTER TAX	30	<u><u>34,325,952</u></u>	<u><u>80,700,910</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, PhD
Governor

Г.Р. 3578
23.5.2016.

STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2015
(Thousands of RSD)

	<u>2015</u>	<u>2014</u>
PROFIT FOR THE PERIOD	34,325,952	80,700,910
Components of other comprehensive income which cannot be reclassified to profit or loss:		
Increase in revaluation reserves arising from intangible investments, property, plant and equipment	6,535	7,716,015
Decrease in revaluation reserves arising from intangible investments, property, plant and equipment	(4,882)	(25,009)
Actuarial gains	6,789	171,457
Components of other comprehensive income which may be reclassified to profit or loss:		
(Negative)/Positive effects of change in fair value of financial assets available for sale	(40,035)	384,572
Other comprehensive income for the period	(31,593)	8,247,035
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>34,294,359</u>	<u>88,947,945</u>

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23.5.2016.

NATIONAL BANK OF SERBIA
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STATEMENT OF FINANCIAL POSITION

As of December 31, 2015

(Thousands of RSD)

	Note	December 31, 2015	December 31, 2014
ASSETS			
Cash and current accounts held with banks	13	127,120,152	48,277,580
Gold and other precious metals	14	69,629,745	68,082,719
Deposits	15	225,987,945	279,975,777
Financial assets at fair value through profit and loss	16	841,623,792	798,670,029
Financial assets available for sale	17	10,337,918	9,717,496
Loans	19	1,267,937	1,223,715
IMF membership quota and SDR holdings	20	73,934,754	73,770,910
Intangible assets	21	132,720	142,049
Property, plant and equipment	21	22,267,836	22,652,403
Investment property	21	467,609	899,730
Other assets	22	3,879,348	4,068,744
TOTAL ASSETS		1,376,649,756	1,307,481,152
LIABILITIES AND EQUITY			
Liabilities			
Financial liabilities at fair value through profit and loss	23	25,526	-
Deposits and other liabilities to banks and other financial organizations	23	541,416,135	482,818,801
Deposits and other liabilities to Government and other depositors	24	268,368,398	291,131,078
Liabilities to the IMF	25	82,642,213	93,987,065
Provisions	26	1,152,519	1,071,023
Current tax liabilities	27	281,322	180,649
Dinars in circulation	28	139,818,039	130,468,547
Other liabilities	29	1,833,740	1,011,365
Total liabilities		1,035,537,892	1,000,668,528
Equity			
State-owned capital		146,512,991	119,049,539
Reserves		160,268,039	105,290,256
Profit		34,330,834	82,472,829
Total equity	30	341,111,864	306,812,624
TOTAL LIABILITIES AND EQUITY		1,376,649,756	1,307,481,152

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

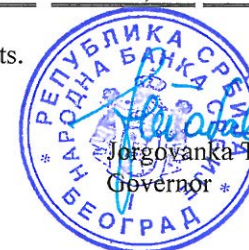
Гр. 3578
23.5.2016.

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2015
(Thousands of RSD)

	State-owned capital	Special reserves	Revaluatio n reserves	Reserves from financial assets available for sale	Actuarial gains – Provisions for employee benefits	Retained earnings/ (Accumulated losses)	Total
Balance as at January 1, 2014							
Opening balance	119,049,539	127,140,439	7,845,850	5,651,105	-	(41,840,485)	217,846,448
Coverage of loss from previous year (Note 30)	-	(43,594,173)	-	-	-	43,594,173	-
Total positive other comprehensive income for the period	-	-	7,709,237	384,572	171,457	-	8,265,266
Transfer from provisions due to provision reversal	-	-	(18,231)	-	-	18,231	-
Profit for the current year	-	-	-	-	-	80,700,910	80,700,910
Balance as at December 31, 2014	119,049,539	83,546,266	15,536,856	6,035,677	171,457	82,472,829	306,812,624
Balance as at January 1, 2015							
Opening balance	119,049,539	83,546,266	15,536,856	6,035,677	171,457	82,472,829	306,812,624
Distribution of profit from previous year (Note 30)	27,463,452	55,009,377	-	-	-	(82,472,829)	-
Total positive other comprehensive income for the period	-	-	6,535	-	6,789	-	13,324
Total negative other comprehensive income for the period	-	-	-	(40,036)	-	-	(40,036)
Transfer from provisions due to provision reversal	-	-	(4,882)	-	-	4,882	-
Profit for the current year	-	-	-	-	-	34,325,952	34,325,952
Balance as at December 31, 2015	146,512,991	138,555,643	15,538,509	5,995,641	178,246	34,330,834	341,111,864

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

Г.бр. 3578
23.5.2016.

**NATIONAL BANK OF SERBIA
TRANSLATION**

CASH FLOW STATEMENT

**For the period January 1 - December 31, 2015
(Thousands of RSD)**

	Note	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES			
Interest receipts		12,512,702	14,234,294
Fee and commission receipts		3,028,423	2,836,449
Receipts from other operating income		11,662,782	11,492,289
Receipts from dividends and profit sharing		99,324	82,266
Cash inflow from operating activities		27,303,231	28,645,298
Interest payments		(8,186,870)	(14,877,747)
Fee and commission payments		(900,116)	(403,329)
Payments for operating expenses		(16,276,577)	(18,052,527)
Cash outflow from operating activities		(25,363,563)	(33,333,603)
Increase/(decrease) in deposits received		6,766,428	(54,554,306)
Decrease/(increase) in loans and advances		50,170,151	(65,557,910)
(Increase)/decrease in securities held for trading and other securities not intended for investment		(43,410,070)	81,050,742
Decrease/(increase) in loans and increase/(decrease) in deposits received		13,526,509	(39,061,474)
Income tax paid		(180,649)	(196,020)
Net cash inflow/(outflow) from operating activities		15,285,528	(43,945,799)
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from the sale of intangible assets, property, plant and equipment		-	178
Purchases of intangible assets, property, plant and equipment		(813,088)	(1,029,918)
Net cash outflow from investing activities		(813,088)	(1,029,740)
CASH FLOW FROM FINANCING ACTIVITIES			
Net inflow/(outflow) from short-term borrowings		22,772,882	(102,292,354)
Net cash inflow/(outflow) from financing activity		22,772,882	(102,292,354)
Net increase/(decrease) in cash		37,245,322	(147,267,893)
Cash at the beginning of the year		54,650,769	118,763,236
Foreign exchange gains, net amount		37,042,629	83,155,426
CASH AT THE END OF THE PERIOD	2 (f)	128,938,720	54,650,769

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

Г.бр. 3578
23.5.2016.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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 the Kingdom of Serbia in 1884. In 1920 the Privileged National Bank of the Kingdom of Serbs, Croats and Slovenes was established, and in 1929 the Bank changed its official name to the National Bank of 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 FNRY, which was later renamed into the Socialist Federative Republic of Yugoslavia (hereinafter: the SFRY), until dissolution in 1991 and formation of the Federal Republic of Yugoslavia (hereinafter: the "FRY") in 1992. 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 (hereinafter: the "RS").

The position, organization, authority and functions of the National Bank of Serbia, as well as its relation to the authorities of the RS and international institutions, are defined 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, 106/2012 and 14/2015, hereinafter: the Law) and the Constitution of the RS (Official Gazette of RS, no 98/2006).

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 operating in accordance with the principles of market economy.

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 banknotes and coins and manages cash flows;
- Regulates, oversees and promotes uninterrupted functioning of internal and external payment operations, in accordance with Law;
- 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, 2015

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

1. BANK'S ESTABLISHMENT AND ACTIVITY (Continued)

- Issues and revokes licenses, i.e. authorization for carrying out the operations of payment services and issuance of electronic money, supervises such operations and performs other duties in line with the law governing payment services;
- 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;
- Determines whether the conditions for initiating the restructuring procedure in respect of banks and/or members of a banking group are met, to conduct the restructuring procedure, decides on the tools and measures to be applied and performs other activities relating to bank restructuring, in accordance with the law governing banks;
- Issues and revokes licenses to payment system operators, supervises such operations and performs other duties in line with the law governing payment services;
- Performs specific statutory operations for the Republic of Serbia without compromising its own autonomy and independence;
- Performs other tasks within its scope of authority, in accordance with Law.

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 (hereinafter: "Administration for Supervision") and Vice-Governors, determines monetary and foreign exchange policies and establishes measures and activities for the purpose of strengthening stability of the financial system.

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 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.

Among other matters, the Council of the Governor adopts the Statute at the recommendation of the Executive Board, enacts the financial plan of the Bank, 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

1. BANK'S ESTABLISHMENT AND ACTIVITY (Continued)

The Council of the Governor consists of five members including the Chairman, who are appointed by the National Assembly at the proposal of the National Assembly committee in charge of financial affairs. The Council members are elected for a five-year renewable term of office and are not employed with the Bank.

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, the Administration for Supervision, the Institute for Manufacturing Banknotes and Coins - Topčider (hereinafter: "ZIN") and branch offices in Belgrade, Novi Sad, Niš, Kragujevac, and Užice.

As at December 31, 2015 the Bank had 2,374 employees (December 31, 2014: 2,343 employees).

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;
- Financial assets at fair value through profit and loss held for trading, which are stated at fair value;
- Financial assets available for sale, which are stated at fair value;
- Land and properties, which are stated at fair value;
- Investment properties, which are stated at fair value;
- Works of art and numismatic collection, 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 use certain estimates in the application of the accounting policies. Areas that are subject to estimates of greater significance to the financial statements of the Bank are presented in Note 3.13

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

d) Functional and Presentation Currency

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

e) New Standards, Interpretations and Revisions to Issued Standards

At the statement of financial position date, the following standards, revisions and interpretations had been issued, 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, 2018, 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);
- 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);

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

- Amendments to IAS 27 “Separate Financial Statements” – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 1 “Presentation of Financial Statements” – Disclosure Initiative (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” – Applying the Consolidation Exception (effective for annual periods beginning on or after January 1, 2016);
- Annual improvements for the period 2012 – 2014, as a result of IFRS Annual Improvements project (IFRS 1, IFRS 5, IFRS 7, IAS 19 and IAS 34) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after January 1, 2016).

The Bank’s management is currently discussing the impact of these standards and interpretations on the Bank’s financial statements, as well as their effective date.

The following standards, interpretations and revisions to issued standards became effective for accounting periods beginning on or after January 1, 2015:

- Annual improvements for the period 2010 – 2012, as a result of IFRS Annual Improvements project (IFRS 2, IFRS 3, IFRS 8, IFRS 9, IFRS 13, IAS 16, IAS 24, IAS 37, IAS 38 and IAS 39) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014).
- Annual improvements for the period 2011 – 2013, as a result of IFRS Annual Improvements project (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).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

f) Cash Flow Statement

Cash in the Cash Flow Statement is presented in the following table:

	Thousands of RSD	
	December 31, 2015	December 31, 2014
Cash in hand (note 13)	70,997,318	32,071,258
Current accounts held with banks (note 13)	56,122,834	16,206,322
SDR (Special Drawing Right) holdings (note 20)	1,818,568	6,373,189
Total	128,938,720	54,650,769

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.

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 Currency 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 Net exchange rate gains/losses and gains/losses from agreed currency clause.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 financial assets held to maturity. Classification depends on the intended purpose for which the financial assets were acquired. The Bank's management classifies financial assets and liabilities 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 item, while receivables are presented within "Other assets."

Financial Assets Held to Maturity

Financial assets 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 2015 and 2014 the Bank owned financial assets held to maturity. However, their value was fully impaired.

Financial Assets Available for Sale

Financial assets available for sale 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 and gains/losses from agreed currency clause. 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.

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Financial Instruments (Continued)

Financial Liabilities Carried at Amortized Cost

Financial liabilities from repurchase transactions are carried at amortized cost. The difference between cost and repurchase value is recognized in the income statement over the borrowing maturity period based on the effective interest method.

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 the organization of these auctions was to encourage the development of interbank foreign exchange swap trading and the development of hedging instruments against foreign exchange risk.

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

Recognition Date and Fair Value

Regular purchases and sales of investments are recognized as at the transaction date – the date when the Bank makes payments or collects funds based on the purchase or sale of assets. All investments, except for financial assets at fair value through profit and loss, are initially recognized at fair value increased by transaction costs.

Financial assets at fair value through profit and loss are initially recognized at fair value while costs of such transactions are included in the income statement. Assets 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

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, without 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; 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. When assessing whether there is any objective evidence of impairment of financial assets, the Bank's management takes into consideration debtor's financial position as well as net realizable value of possible collaterals.

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

For financial assets carried at amortized cost, the amount of impairment loss is recognized as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted by using the original effective interest rate of the respective financial asset.

The carrying amount of the financial asset is reduced by the impairment loss indirectly, through the use of an allowance account, for all financial assets except the financial assets at fair value and are stated within the expenses from impairment of the financial assets. 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 reduced through the correction of an allowance account and the correction amount is recognized in the income statement.

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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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 fair value as at the statement of financial position date.

Precious metals within foreign exchange reserves are estimated in the amount of gold and silver on the AM 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, AM 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 fair values of gold and other precious metals are credited or charged to the income statement.

The Bank estimated refinement costs as of December 31, 2015 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 fair value of gold and other precious metals is necessary. The estimated refinement costs of RSD 141,677 thousand as of December 31, 2015 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

Deposits include deposits placed with banks for the purpose of loan approval, and time deposits on accounts opened with foreign banks with adequate rating 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 assets carried at fair value through profit and loss mostly relate to first grade bonds issued by international financial institutions, most developed states and/or their federal units and financial institutions supported by those states, as well as the bonds issued on the basis of first-class collaterals. These securities are stated at fair value as officially published in the financial market as at the statement of financial position date.

The effects of changes in fair values, as well as gains and losses earned or incurred from selling these bonds are presented within net gains/(losses) on financial assets held for trading. While holding a 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.

3.8. Inventories

The Bank's inventories comprise materials, work in progress and finished products of ZIN 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

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 at fair value. As of December 31, 2014, the Bank had an independent appraiser perform appraisal of the 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. 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 previously recognized negative revaluation effects, in case when in the previous period particular assets had the negative revaluation effect recognized through profit and 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.

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:

Buildings	2%
Computers	5.26% - 50%
Furniture and other equipment	0.1% - 50%
Vehicles	0.92% - 20%
Intangible assets	12.48% - 50%

Repairs and maintenance of property, plant and equipment preserving the value in use are recognized as expenses 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 position 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.

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 employment termination, or in the amount of three average monthly salaries paid by the Bank in the month preceding the month of employment termination, 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, 2015.

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

- 1) Discount rate of 6.752% (yield on foreign long-term bonds, adjusted for the expected inflation rate);
- 2) Expected salary growth rate: 7.9% in 2016, 0% in 2017, 0% in 2018, and 4% from 2019;
- 3) Employee turnover rate: 0% for ZIN and 3% 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 2015;
- 5) Mortality rate tables are the most recent available tables as published by the Republic of Serbia Statistical Office 2010-2012. Separate probabilities were used for men and women.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Employee Benefits (Continued)

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.

The Bank's financial statements as at December 31, 2015 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."

Actuarial gains and losses of the rendered services are recognized through profit and loss when they occur, except that actuarial gains and losses on retirement benefits are recognized within other comprehensive income.

Payments for unused vacation days from the current year are short-term obligations of the Bank. The Bank's financial statements as at December 31, 2015 include provisions of funds for payment of compensation for the days of unused annual leave for 2015, which the employee did not use in 2015. The Bank's liability ceases if the employee does not use vacation until June 30 next year. The Bank is obligated to pay compensation for damages arising from unused annual leave only in cases of unused annual leave at termination of employment.

3.13. Summary of Key Accounting Estimates

The presentation of the financial statements requires the Bank's management to use 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 reporting 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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)

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

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

Impairment of Financial Assets

The Bank assesses the collectability of loans and receivables and thereupon, it forms an allowance for impairment of financial assets assessed as fully or partially irrecoverable. The Bank's assessment is based on the loan 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 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, plant, 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 an unfavorable event that is the result of a 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 the 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 litigation.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

4. NET INTEREST INCOME / (EXPENSES)

	Year ended December 31,	
	2015	2014
Interest income from:		
Securities:		
- carried at fair value through profit and loss	10,867,858	11,319,923
Deposits placed:		
- in dinars	167	168
- in foreign currencies	307,446	313,275
Loans approved:		
- in dinars	76,854	13,225
- in foreign currencies	1,081,553	968,249
Other investments:		
- in dinars	3,334	49,826
- in foreign currencies	986	19,152
	<u>12,338,198</u>	<u>12,683,818</u>
Interest expenses arising from:		
Deposits in dinars:		
- required special reserve of banks in dinars	(3,829,079)	(3,669,632)
- surplus liquid assets of banks	(1,715,843)	(1,004,275)
- transaction deposits	(1,159)	(3,257,871)
Deposits in foreign currencies:		
- time deposits	(66,552)	(52,467)
- demand deposits	(77)	(713)
- other	(1)	(161)
Repurchase transactions	(1,008,377)	(5,018,773)
Liabilities to IMF	(89,636)	(521,350)
Borrowings	(103,055)	(94,608)
Other	(914)	(2,012)
	<u>(6,814,693)</u>	<u>(13,621,862)</u>
Net interest income / (expenses)	<u>5,523,505</u>	<u>(938,044)</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

5. NET FEE AND COMMISSION INCOME

	Year ended December 31,	
	2015	2014
Fee and commission income in dinars:		
- fees for RTGS and clearing operations	1,052,154	1,062,854
- fees for enforced collection	1,014,557	922,589
- fees for supervision over insurance operations	305,050	275,440
- other fees in dinars	388,150	376,161
Fee and commission income in foreign currencies	1,269,956	1,180,870
	<u>4,029,867</u>	<u>3,817,914</u>
Fee and commission expenses in dinars:		
- commission based on the sales of bill of exchange forms	(15,505)	(15,138)
- other dinars fees and commissions	(1,832)	(1,978)
Fee and commission expenses in foreign currencies:		
- stand-by arrangement with IMF and commitment fee	(96,039)	-
- foreign account maintenance fees and foreign payment transactions	(67,181)	(64,154)
- other foreign currency fees	(713,348)	(318,728)
	<u>(893,905)</u>	<u>(399,998)</u>
Net fee and commission income	<u>3,135,962</u>	<u>3,417,916</u>

6. NET LOSSES ON THE FINANCIAL ASSETS HELD FOR TRADING

	Year ended December 31,	
	2015	2014
Net losses on the fair value adjustment of financial assets at fair value through profit and loss	(6,940,422)	(1,514,320)
Net losses on the financial assets at fair value through profit and loss	(1,344,910)	(1,867,009)
Net gains on swap transactions	24,561	-
Net loss	<u>(8,260,771)</u>	<u>(3,381,329)</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

7. NET GAINS FROM HEDGING

Net gains from hedging amount to RSD 23,977 thousand (2014: RSD 4 thousand) and represent income from exchange rate changes on contracts for housing loans (Note 19).

8. OTHER OPERATING INCOME

	Year ended December 31,	
	2015	2014
Income from operations - ZIN	5,237,355	4,563,711
Income from the sale of bill of exchange forms	155,055	151,398
Rental income	14,800	54,417
Increase in the value of inventories	115,682	117,369
Reversal of provisions for litigations (Note 26)	25,854	33,534
Dividend income	99,596	82,226
Subsequently registered property	85,494	102,731
Gains on the value adjustment of investment properties	-	253,901
Other income	247,014	1,591,311
Other operating income	5,980,850	6,950,598

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 products.

Rental income of RSD 14,800 thousand earned during 2015 includes income from the lease of investment property in the amount of RSD 11,228 thousand (2014: RSD 50,996 thousand). Expenses incurred in respect of the lease of investment property in 2015 amounted to RSD 6,951 thousand (2014: RSD 19,970 thousand).

Dividend income of RSD 99,596 thousand (2014: RSD 82,226 thousand) was realized based on equity investment in the Bank for International Settlements, Basel.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

9. NET INCOME FROM RELEASE IN IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE SHEET ITEMS

a) Breakdown of Income and Expenses

	Year ended December 31,	
	2015	2014
Income from release of impairment allowances per balance sheet items	1,725,795	1,496,939
Collected receivables previously written off	3,311	2,600
	1,729,106	1,499,539
Expenses from impairment allowances and provisions per balance sheet items	(70,867)	(201,768)
Write-off of irrecoverable receivables	(139)	(186)
	(71,006)	(201,954)
Net income from release in impairment of financial assets and credit risk-weighted off-balance sheet items	1,658,100	1,297,585

Income from release of impairment allowances per balance sheet items in the amount of RSD 1,504,224 relates to the release of impairment for collected a portion of a loan.

b) Breakdown of Impairment Allowances

	Year ended December 31,	
	2015	2014
Allowance for impairment of:		
- cash and current accounts held with banks	931,408	844,576
- deposits	3,025,657	2,764,873
- financial assets available for sale	500	-
- financial assets held to maturity	665,430	665,430
- loans	1,523,603	2,938,743
- other assets	4,797,742	4,580,363
Total allowance for impairment	10,944,340	11,793,985

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

10. NET INCOME FROM RELEASE IN IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE SHEET ITEMS (continued)

c) Movements on the Accounts of Impairment Allowances

	Cash and current accounts held with banks (Note 13)	Deposits held with banks (Note 15)	Financial assets available for sale (Note 17)	Financial assets held to maturity (Note 18)	Loans (Note 19)	Other assets (Note 22)	Total
Balance as at							
January 1, 2014	719,234	2,310,773	-	665,430	3,897,026	3,804,043	11,396,506
Change for the period	-	-	-	-	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)
Balance as at							
December 31, 2014	844,576	2,764,873	-	665,430	2,938,743	4,580,363	11,793,985
Change for the period	-	-	500	-	2,200	73,377	76,077
Collected receivables	-	(65,110)	-	-	(1,574,516)	(86,169)	(1,725,795)
Foreign exchange effects	86,832	325,894	-	-	161,508	232,199	806,433
Write-offs	-	-	-	-	-	(1,983)	(1,983)
Other	-	-	-	-	(4,332)	(45)	(4,377)
Balance as at							
December 31, 2015	931,408	3,025,657	500	665,430	1,523,603	4,797,742	10,944,340

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

11. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

	Year ended December 31, 2015	2014
Salaries, salary compensations, taxes and contributions	4,124,834	4,392,074
(Gains)/losses on reversal of provisions for retirement and other employee benefits	107,395	(39,025)
Temporary and seasonal employees	14,609	32,659
Jubilee awards	54,375	28,315
Financial aid to employees	20,430	25,544
Retirement benefits	18,385	37,085
Remunerations to the Council members	9,968	11,013
Other personal expenses	2,667	2,864
Total salaries, salary compensations and other personal expenses	4,352,663	4,490,529

12. DEPRECIATION COSTS

	Year ended December 31, 2015	2014
Depreciation and amortization of:		
- intangible assets	60,424	85,340
- building properties	1,100,982	498,051
- equipment	489,951	447,093
- other assets	1,022	1,005
Total depreciation costs	1,652,379	1,031,489

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

13. OTHER EXPENSES

	Year ended December 31,	
	2015	2014
Cost of materials	2,101,237	1,700,657
Cost of production services:		
- transportation services	9,218	4,203
- telecommunication services	43,599	46,019
- automatic data transfer	122,816	123,131
- maintenance	198,261	251,953
- rental costs	7,410	8,341
- marketing and advertising	565	883
- official gazettes and magazines	5,417	8,195
- finishing costs - ZIN	104,633	84,399
- other services	58,062	35,278
Non-material expenses:		
- business travel expenses	43,782	59,268
- employee commuting allowance	89,198	87,924
- fees to voluntary pension funds	102,054	100,845
- employee professional training costs	17,081	8,832
- intellectual services	120,079	86,141
- security services (for property and money)	24,686	25,092
- public utilities	14,879	14,598
- entertainment	32,485	36,077
- insurance premiums	27,070	21,004
- other non-material expenses	51,801	53,413
Tax expenses:		
- property tax	72,320	48,357
- value added tax payable	97,519	100,462
- other taxes payable	17,715	19,517
Contributions paid	5,500	5,317
Expenses on negative interest	92,939	5,228
Other costs	415,363	152,886
Losses on the sale, disposal and write-off of property, plant, equipment and intangible assets	113	3,619
Losses incurred in the transfers among investment properties and property, plant and equipment	517,578	276,759
Expenses upon revaluation of property and other fixed assets	740	39,799
Decrease in the value of inventories	32,636	298,050
Provisions for litigations (Note 26)	29,898	9,196
Other expenses	35,282	288,096
Total other expenses	4,491,936	4,003,539

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

14. CASH AND CURRENT ACCOUNTS HELD WITH BANKS

	December 31, 2015	December 31, 2014
Cash on hand:		
- in local currency	46	32
- in foreign currency	70,997,272	32,071,226
	<u>70,997,318</u>	<u>32,071,258</u>
Current accounts:		
- with domestic banks and NBS	3,061,116	2,115,185
- with foreign banks	53,993,126	14,935,713
	<u>57,054,242</u>	<u>17,050,898</u>
Total cash and current accounts held with banks	128,051,560	49,122,156
<i>Allowance for impairment</i>	<u>(931,408)</u>	<u>(844,576)</u>
Total cash and current accounts held with banks	<u>127,120,152</u>	<u>48,277,580</u>

Special drawing right (SDR) holdings on the current account with the IMF in the amount of RSD 1,818,568 thousand (December 31, 2014: RSD 6,373,189 thousand) are presented in Note 20.

15. GOLD AND OTHER PRECIOUS METALS

	December 31, 2015	December 31, 2014
Gold and standard tradable gold bullions	3,823,385	3,859,312
Gold and substandard gold bullions	65,053,521	63,402,790
Other precious metals	752,839	820,617
Total gold and other precious metals	<u>69,629,745</u>	<u>68,082,719</u>

16. DEPOSITS

	December 31, 2015.	December 31, 2014.
Deposits:		
- time deposits	228,993,166	282,719,200
- other deposits	20,436	21,450
	<u>229,013,602</u>	<u>282,740,650</u>
<i>Allowance for impairment of time deposits</i>	<u>(3,025,657)</u>	<u>(2,764,873)</u>
Total deposits	<u>225,987,945</u>	<u>279,975,777</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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15. DEPOSITS (Continued)

Time deposits include short-term deposits placed with foreign banks 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

	December 31, 2015	December 31, 2014
Coupon bonds	767,065,194	715,578,217
Discount securities	74,526,781	83,091,812
Currency swaps	31,817	-
Total financial assets at fair value through profit and loss	<u>841,623,792</u>	<u>798,670,029</u>

Coupon bonds relate to bonds issued by states with the highest-quality rating, financial institutions supported by those states and international financial institutions, as well as the bonds issued on the basis of first-class collaterals, totaling RSD 767,065,194 thousand (December 31, 2014: RSD 715,578,217 thousand). These bonds are denominated in EUR, USD, GBP and CAD.

Discount securities relate to the treasury bills issued by states with the highest-quality rating totaling RSD 74,526,781 thousand (December 31, 2014: RSD 83,091,812 thousand) and represent short-term securities denominated in EUR and USD.

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, 2015

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17. FINANCIAL ASSETS AVAILABLE FOR SALE

	December 31, 2015	December 31, 2014
Equity investments in dinars:		
- 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	10,107,924	9,487,028
- S.W.I.F.T. srl	442	416
	<u>10,108,366</u>	<u>9,487,444</u>
<i>Allowance for impairment of other equity investments in dinars:</i>	<u>(500)</u>	<u>-</u>
Total financial assets available for sale	<u>10,337,918</u>	<u>9,717,496</u>

18. FINANCIAL ASSETS HELD TO MATURITY

	December 31, 2015	December 31, 2014
Financial assets held to maturity:		
- Treasury bills, bonds and bills of exchange issued by local banks in bankruptcy or liquidation	665,430	665,430
- <i>Allowance for impairment</i>	<u>(665,430)</u>	<u>(665,430)</u>
Total financial assets held to maturity	<u>-</u>	<u>-</u>

19. LOANS

	December 31, 2015	December 31, 2014
Loans:		
- loans to banks in bankruptcy and liquidation	486,016	1,835,884
- loans to commercial banks	560,759	501,366
- loans to the Republic of Serbia	1,026,798	1,093,496
- housing loans approved to employees	717,967	731,712
	<u>2,791,540</u>	<u>4,162,458</u>
<i>Allowance for impairment of</i>		
- loans to banks in bankruptcy and liquidation	(486,016)	(1,835,884)
- loans to the Republic of Serbia	(1,026,798)	(1,093,496)
- housing loans approved to employees	(10,789)	(9,363)
	<u>(1,523,603)</u>	<u>(2,938,743)</u>
Total loans	<u>1,267,937</u>	<u>1,223,715</u>

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20. IMF MEMBERSHIP QUOTA AND SDR HOLDINGS

	December 31, 2015	December 31, 2014
IMF membership quota	72,099,697	67,397,721
SDR holdings	1,818,568	6,373,189
Accrued expenses on behalf of committing funds at the IMF (commitment fee)	16,489	-
Total	73,934,754	73,770,910

As at December 31, 2015 the quota of the Republic of Serbia in the International Monetary Fund amounted to RSD 79,099,697 thousand (December 31, 2014: RSD 67,397,721 thousand). The membership quota is denominated in special drawing rights in the amount of SDR 467,700 thousand (December 31, 2014: SDR 467,700 thousand). It is collateralized with the bill of exchange issued by the Government of the Republic of Serbia.

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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
Cost/revalued amount								
Opening balance as at January 1, 2014	967,585	25,310,033	8,919,085	224,302	12,915	35,433,920	844,695	1,837,824
Additions	-	-	-	-	514,334	514,334	-	137,106
Transfer from investment in progress	-	2,124	512,196	1,032	(515,352)	-	-	-
Transfer to investment property	-	(220,398)	-	-	-	(220,398)	88,073	-
Revaluation – positive effects	1,858,116	29,999,730	117,781	-	-	31,975,627	253,901	-
Revaluation – negative effects	-	(32,194)	-	-	-	(32,194)	(28,152)	-
Sales, transfers, disposals and shortages	-	(36,976)	(343,874)	(875)	-	(381,725)	(258,787)	-
Surpluses	-	5,339	73,819	26,127	-	105,285	-	-
Other	-	524	(7,630)	(25)	(819)	(7,950)	-	-
Balance as at December 31, 2014	2,825,701	55,028,182	9,271,377	250,561	11,078	67,386,899	899,730	1,974,930
Additions	-	-	-	-	1,189,372	1,189,372	4,937	44,369
Transfer from investment in progress	-	55,814	1,135,651	1,518	(1,192,983)	-	-	6,738
Revaluation – positive effects	-	-	-	6,224	-	6,224	-	-
Revaluation – negative effects	-	-	-	(430)	-	(430)	-	-
Sales, transfers, disposals and shortages	-	(7,856)	(102,108)	(215)	-	(110,179)	(512,962)	(198)
Surpluses and subsequently registered assets	-	10,418	858	2,045	-	13,321	72,456	-
Other	-	(3,371)	3,647	(300)	3,611	3,587	3,448	-
Balance as at December 31, 2015	2,825,701	55,083,187	10,309,425	259,403	11,078	68,488,794	467,609	2,025,839
Accumulated Depreciation/Amortization								
Opening balance as at January 1, 2014	-	14,335,655	5,690,329	20,199	-	20,046,183	-	1,747,541
Change for the period	-	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, transfers, disposals and shortages	-	(19,007)	(340,077)	(629)	-	(359,713)	-	-
Other	-	-	(8,260)	-	-	(8,260)	-	-
Balance as at December 31, 2014	-	38,924,836	5,789,085	20,575	-	44,734,496	-	1,832,881
Change for the period	-	1,100,982	489,951	1,022	-	1,591,955	-	60,424
Transfer to investment property	-	-	-	-	-	-	-	-
Sales, transfers, disposals and shortages	-	(3,276)	(102,001)	(216)	-	(105,493)	-	(186)
Other	-	(1,186)	1,186	-	-	-	-	-
Balance as at December 31, 2015	-	40,021,356	6,178,221	21,381	-	46,220,958	-	1,893,119
Net Book Value as at December 31, 2015	2,825,701	15,061,831	4,131,204	238,022	11,078	22,267,836	467,609	132,720
Net Book Value as at December 31, 2014	2,825,701	16,103,346	3,482,292	229,986	11,078	22,652,403	899,730	142,049

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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 assets 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	-	-	15,061,831	15,061,831
Other fixed assets – works of art	-	-	154,349	154,349
Equipment – period furniture	-	-	191,801	191,801
Investment property	-	-	467,609	467,609
December 31, 2015	-	-	18,801,291	18,801,291

Overview of Valuation Techniques and Significant Unobservable Inputs

As at 28 February and 8 October 2015, the Bank had the condition and value of its works of art appraised. The appraisal was performed at the premises of the Bank's branches in Belgrade, Novi Sad, Kragujevac, Užice and Niš, by the Museum of Applied Arts from Belgrade. The appraisal effect resulting from the valuation of the aforesaid assets of RSD 6,224 thousand was credited to revaluation reserves, while the negative effects of the appraisal amount to RSD 430 thousand.

In addition to the appraisal the Bank performed during 2015, 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 which the Bank uses as of December 31, 2014. The valuation was performed by the Economics Institute from Belgrade (at no. 16, Kralja Milana Street, Belgrade).

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). In 2015 the Bank has not identified any impairment indicators for assets included in this valuation.

Valuation of land as of December 31, 2014 include 15 land parcels recorded in books with the total fair value of RSD 2,825,643 thousand (December 31, 2015: RSD 2,825,643 thousand). In assessing the value of land the appraiser used price of land expressed in EUR per are.

NOTES TO THE FINANCIAL STATEMENTS

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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 buildings as at December 31, 2014 which included 71 buildings with the total fair value of RSD 15,701,629 thousand (December 31, 2015: RSD 14,690,230 thousand) was performed using the following valuation methods: cost approach – 100%; combination of market and income approaches with a 50% to 50% ratio; and combination of market and income approaches with a 30% to 70% ratio. For the fair value assessment of the building properties the appraiser primarily used the 100% cost approach (for 22 buildings) and determined the amount of RSD 10,397,656 thousand (December 31, 2015: RSD 9,970,085 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 (December 31, 2015: RSD 1,690,765 thousand). Fair value of all buildings within ZIN of RSD 3,559,856 thousand (December 31, 2015: RSD 3,029,380 thousand) was determined using the cost (asset) valuation approach.

The estimated fair value of 12 building properties, classified as investment properties as at 31 December 2014 amounted to RSD 897,219 thousand (December 31, 2015: RSD 392,642 thousand). This significant decrease in value is the consequence of derecognition of one of the assets, and not of a drop in market value. The following valuation methods were used: income approach 100%, combination of market and income approaches in the 50% to 50% ratio, as well as the cost approach.

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22. OTHER ASSETS

	December 31, 2015	December 31, 2014
Advances paid	1,201,889	1,618,496
Fee and commission receivables	174,769	170,719
Receivables from the sales of finished products and services	237,871	217,068
Receivables from employees	106,176	109,178
Other receivables from operations	1,075,166	1,091,885
Inventories		
- Finished products	330,599	285,699
- Work in progress	289,398	322,033
- Semi-finished products	131,226	76,146
- Material	1,484,547	1,383,072
- Spare parts	177,172	177,299
- Commemorative coins and commercial packages of cash	166,193	168,301
- Gold and silver, which is not cashable	587,108	586,906
- Other	293,730	307,599
	<u>3,459,973</u>	<u>3,307,055</u>
Deferred other expenses	27,358	1,968
Other assets	<u>2,393,888</u>	<u>2,132,738</u>
	8,677,090	8,649,107
<i>Allowances for impairment of:</i>		
Advances paid	(1,141,870)	(1,152,376)
Fee and commission receivables	(78,953)	(78,106)
Receivables from the sales of finished products and services	(115,465)	(133,419)
Receivables from employees	(3,465)	(2,534)
Other receivables from operations	(1,054,010)	(1,060,548)
Inventories	(63,458)	(60,126)
Other assets	<u>(2,340,521)</u>	<u>(2,093,254)</u>
	(4,797,742)	(4,580,363)
Total other assets	<u>3,879,348</u>	<u>4,068,744</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

23. DEPOSITS AND OTHER LIABILITIES TO BANKS AND OTHER FINANCIAL ORGANIZATIONS

	December 31, 2015	December 31, 2014
Transaction deposits in dinars:		
- obligatory reserves of the banks	152,745,972	181,744,181
- central deposits	3,061,116	2,115,185
- other transaction deposits in dinars	341,750	11,389
	<u>156,148,838</u>	<u>183,870,755</u>
Transaction deposits in foreign currencies:		
- obligatory reserves of the banks	225,293,255	234,642,251
- other transaction deposits in foreign currencies	2,841,522	1,138,300
	<u>228,134,777</u>	<u>235,780,551</u>
Total transaction deposits	384,283,615	419,651,306
Other deposits in dinars:		
- liquid asset surpluses	64,234,340	2,019,508
- cash in vaults	31,614,223	28,016,490
	<u>95,848,563</u>	<u>30,035,998</u>
Other deposits in foreign currencies:		
- time deposits	17,836,923	2,419,170
- other deposits	6,460,081	16,561,718
	<u>24,297,004</u>	<u>18,980,888</u>
Total other deposits	120,145,567	49,016,886
Borrowings received in foreign currencies:		
China Export & Credit Insurance Corporation-SINOSURE	5,821,845	6,147,952
Liabilities arising from repurchase transactions	30,604,349	7,501,291
Other financial liabilities	560,759	501,366
	<u>36,986,953</u>	<u>14,150,609</u>
Total other liabilities	36,986,953	14,150,609
Total deposits and other liabilities to banks and other financial organizations	<u>541,416,135</u>	<u>482,818,801</u>

Transaction Deposits

Transaction deposits in dinars 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 current accounts in dinars at or above the level of calculated obligatory reserves in dinars.

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23. DEPOSITS AND OTHER LIABILITIES TO BANKS AND OTHER FINANCIAL ORGANIZATIONS (Continued)

Transaction Deposits (Continued)

The Bank pays interest of 1.75% p.a. on the realized average daily balance of calculated obligatory reserves in dinars if it does not exceed the balance of the required obligatory RSD reserves. The abovementioned interest rate was changed twice during 2015, from 2.5% to 2% p.a. in October and from 2% to 1.75% p.a. in November. Interest is calculated on a monthly basis.

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

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. In February 2009, another agreement was concluded to transfer all rights governing this loan to China Export & Credit Insurance Corporation-SINOSURE. In 2015 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 30,604,349 thousand (December 31, 2014: RSD 7,501,291 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 2015 the Bank paid interest thereto at the rate ranging from 2.51% to 6.07% annually (2014: from 5.93% to 7.59%).

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24. DEPOSITS AND OTHER LIABILITIES TO GOVERNMENT AND OTHER DEPOSITORS

	December 31, 2015	December 31, 2014
Transaction deposits in dinars:		
- deposits of the Ministry of Finance and Treasury Department	157,074,995	130,452,683
- other transaction deposits in dinars	<u>2,627,000</u>	<u>2,741,270</u>
	159,701,995	133,193,953
Transaction deposits in foreign currencies:		
- deposits of the Ministry of Finance and Treasury Department	23,287,326	70,019,673
- other transaction deposits in foreign currencies	<u>9,447,578</u>	<u>8,004,092</u>
	32,734,904	78,023,765
Total transaction deposits	192,436,899	211,217,718
Other deposits in dinars:		
- cash held with the Treasury Department	1,082,653	1,356,450
- other deposits in dinars	<u>2,525</u>	<u>1,051</u>
	1,085,178	1,357,501
Other deposits in foreign currencies:		
- deposits of the Revolving Loan Fund	22,859	29,326
- special-purpose deposits – grant accounts	11,747,728	2,989,286
- special-purpose deposits – Ministry of Finance and Treasury Department	20,071,078	8,132,179
- other special-purpose deposits	140,111	120,130
- deposits related to the seized foreign currency cash	4,049,332	4,049,712
- time deposits	35,013,882	62,676,684
- other deposits in foreign currencies	3,628,539	402,987
- other financial liabilities – to banks in bankruptcy	<u>172,792</u>	<u>155,555</u>
	74,846,321	78,555,859
Total other deposits	<u>75,931,499</u>	<u>79,913,360</u>
Total deposits and other liabilities to Government and other depositors	<u>268,368,398</u>	<u>291,131,078</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

25. LIABILITIES TO THE IMF

	December 31, 2015	December 31, 2014
Securities and other liabilities regulating the Bank's status with the IMF	71,919,460	67,229,216
Stand-by arrangement	1,799,795	18,375,048
Liabilities to the IMF in SDR	8,917,698	8,336,129
Interest accrued	5,260	46,672
Total liabilities to the IMF	82,642,213	93,987,065

As at December 31, 2015 and 2014, 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 2015 the amount of SDR 115,837 thousand (2014: SDR 496,809 thousand, 2013: SDR 568,034 and 2012: SDR 175,387 thousand) was repaid, so that the balance of debt due to the IMF amounted to SDR 11,675 thousand at the end of 2015

26. PROVISIONS

	December 31, 2015	December 31, 2014
Provisions for employee retirement benefits	373,294	358,123
Provisions for employee jubilee awards	451,606	384,404
Provisions for unused vacations	160,464	142,231
Provisions for litigations	167,155	186,265
Total provisions	1,152,519	1,071,023

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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 vacations	Provisions for litigations	Total
Balance as at January 1, 2014	515,645	420,127	159,466	251,499	1,346,737
Change for the period (Note 12)	-	-	-	9,196	9,196
Release of provisions during the period	-	-	-	(40,896)	(40,896)
Reversal of provisions (Note 8, 10 and 30)	(157,522)	(35,723)	(17,235)	(33,534)	(244,014)
Balance as at December 31, 2014	358,123	384,404	142,231	186,265	1,071,023
Change for the period (Note 10, 12 and 30)	15,171	67,202	18,233	29,898	130,504
Release of provisions during the period	-	-	-	(23,154)	(23,154)
Reversal of provisions (Note 8)	-	-	-	(25,854)	(25,854)
Balance as at December 31, 2015	373,294	451,606	160,464	167,155	1,152,519

NOTES TO THE FINANCIAL STATEMENTS

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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 within Note 3.12.

Provisions for Litigations

Long-term provisions for litigations totaling RSD 167,155 thousand as at December 31, 2015 (December 31, 2014: RSD 186,265 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 Human 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. 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 salaries, salary compensations and other personal expenses, depreciation costs 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 2015 as per the final calculation amounted to RSD 281,322 thousand, which is also the amount of current tax liability (the final calculation for 2014 amounted to RSD 274,398 thousand for the current income tax and RSD 180,649 thousand for the current tax liability).

NOTES TO THE FINANCIAL STATEMENTS

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

27. CURRENT TAX LIABILITIES (Continued)

Tax balance for the National Bank of Serbia	Year ended December 31, 2015	2014
Income earned in the market		
- revenues from the sale of products and services	3,618,152	4,566,594
Expenses arising in relation to the income earned in the market		
- Salaries, salary compensations and other personal expenses	330,989	653,311
- Depreciation costs	316,861	345,352
- Other operating expenses	1,094,825	1,738,612
Tax base	1,875,477	1,829,319
Statutory income tax rate	15%	15%
Income tax expense	281,322	274,398

28. CASH IN CIRCULATION

Cash in circulation totaling RSD 139,818,039 thousand (December 31, 2014: RSD 130,468,547 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

	December 31, 2015	December 31, 2014
Trade payables:		
- domestic	165,606	103,412
- foreign	86,075	72,845
Advances received:		
- in dinars	83,817	56,092
- in foreign currencies	28,438	981
Liabilities for employee salaries	204,561	222,797
Foreign currency liabilities to domestic banks for replacement of foreign currency cash	360,927	2,434
Inheritance liabilities	42,322	40,907
Other accruals	18,251	24,297
Taxes and contributions payable	68,230	16,797
Other liabilities from operations	775,513	470,803
Total other liabilities	1,833,740	1,011,365

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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30. EQUITY

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

	December 31, 2015	December 31, 2014
State-owned capital	146,512,991	119,049,539
Reserves:		
- Special reserves	138,555,642	83,546,266
- Revaluation reserves	15,538,509	15,536,856
- Reserves from financial assets available for sale	5,995,642	6,035,677
- Actuarial gains – provisions for retirement benefits	178,246	171,457
Retained earnings	34,330,834	82,472,829
Total equity	341,111,864	306,812,624

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 146,512,991 thousand as at December 31, 2015 (2014: RSD 119,049,539 thousand), which is above the prescribed threshold. Special reserves are used for loss absorption. Losses exceeding the minimum level of the core capital are covered from the reserves and core capital. If the funds therefrom are not sufficient to cover for the losses incurred, the losses are covered with the funds from the Republic of Serbia Budget or securities issued for this purpose by the Republic of Serbia 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.

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, gains from agreed currency clause 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, gains from agreed currency clause and revaluation reserves is allocated to the core capital (10%), special reserves (20%) and to the Budget of the Republic of Serbia (70%).

In 2015 the National Bank of Serbia realized profit of RSD 34,330,834 thousand.

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30. EQUITY (Continued)

Profit Allocation (Continued)

The following table presents the allocation of profit of the Bank for 2015 and 2014, with comparative figures for the previous year are reconciled with the Decision on the Adoption of the Financial Statements of the National Bank of Serbia for 2014, which has covered the amount of retained earnings from the previous period derived from the adjustment of the opening balance of retained earnings as at 1 January 2013.

	December 31, 2015	December 31, 2014
Profit arising from exchange rate gains and gains from agreed currency clause	37,042,629	83,154,135
Profit arising from revaluation reserves	4,882	1,771,919
1. Total profit arising from exchange rate gains, gains from agreed currency clause and revaluation reserves	37,047,511	84,926,054
2. Loss not originating from exchange rate gains/(losses), gains/(losses) from agreed currency clause and revaluation reserves	(2,716,677)	(2,453,225)
Profit (1+2)	34,330,834	82,472,829
Allocation of profit arising from exchange rate gains, gains from agreed currency clause and revaluation reserves (1)		
1.1) core capital increase 33.3%	11,432,168	27,463,452
1.2) special reserve increase 66.7%	22,898,666	55,009,377
	34,330,834	82,472,829
Allocation of profit not originating from exchange rate gains, gains from agreed currency clause 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)	11,432,168	27,463,452
Total special reserve increase (1.2+2.3)	22,898,666	55,009,377
Transfer to the Budget of the Republic of Serbia (2.1)	-	-
Profit	34,330,834	82,472,829

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31. OFF-BALANCE SHEET ITEMS

	December 31, 2015	December 31, 2014
a) Funds managed on behalf of third parties		
- in dinars	1,481,552	1,260,829
- in foreign currencies	<u>1,900,569,475</u>	<u>1,759,440,186</u>
	1,902,051,027	1,760,701,015
b) Guarantees, sureties, collaterals to secure liability settlement and irrevocable commitments		
Guarantees issued in dinars	34,302	11,595
Guarantees issued in foreign currencies	7,312	7,344
Sureties received in dinars	281,655	256,140
Sureties received in foreign currencies	518,933	733,058
Securities and other assets received under pledge	3,200,003	10,717,393
Other irrevocable commitments:		
- in dinars	1,676	1,691
- in foreign currencies	<u>23,616,360</u>	<u>19,411,312</u>
	27,660,241	31,138,533
c) Swap transactions		
Swap currency purchases/sales	13,922,562	-
d) Other off-balance sheet items	518,598,429	518,520,776
e) Dinars in circulation and out of circulation:		
Cash in circulation	172,514,915	159,841,487
Inventories of banknotes	216,352,858	197,179,750
Inventories of coins	425,768	407,722
Other	<u>60,155</u>	<u>980,177</u>
	389,353,696	358,409,136
Total off-balance sheet items	<u>2,851,585,955</u>	<u>2,668,769,460</u>

- a) Out of the total amount of foreign currency funds managed on behalf of third parties of RSD 1,900,569,475 thousand (December 31, 2014: RSD 1,759,440,186 thousand), the major portion of RSD 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 1,826,558,837 thousand (December 31, 2014: RSD 1,690,598,989 thousand) pertains to the settlement of public debt arising from citizens' old foreign currency savings and a loan for economic development. The Bank acts as an agent in these operations.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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31. OFF-BALANCE SHEET ITEMS (Continued)

- b) Out of the total amount of Guarantees, sureties, collaterals to secure liability settlement and irrevocable commitments, RSD 3,200,003 thousand (December 31, 2014: RSD 10,717,393 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 2,432,522 thousand (December 31, 2014: RSD 9,071,873 thousand) comprise deal tickets for spot currency sales/purchases at the interbank foreign exchange market meetings, a portion of RSD 4,515,262 thousand (December 31, 2014: 3,978,564 thousand) pertains to arbitration, while the remaining RSD 16,668,576 thousand (December 31, 2014: 6,360,876 thousand) refers to letters of credit.
- c) Swap transactions amounted to RSD 13,922,562 thousand refer to the forward portion of the swap currency sale RSD 6,958,110 thousand and forward portion of the swap currency purchase RSD 6,964,452 thousand, that are stated at the forward exchange rate at which the Bank is supposed to purchase/sell foreign currency
- d) Out of the total amount of other off-balance sheet items, the amount of RSD 500,000,000 thousand (December 31, 2014: RSD 500,000,000 thousand) refers to treasury bills intended for repurchase transactions (including already sold treasury bills).
- e) Out of the total amount of dinars in circulation and out of circulation, the amount of RSD 172,514,915 thousand (December 31, 2014: RSD 159,841,487 thousand) relates to cash in circulation representing funds covered by the money of transaction participants. Inventories of banknotes of RSD 216,352,858 thousand (December 31, 2014: RSD 197,179,750 thousand) and inventories of coins of RSD 425,768 thousand (December 31, 2014: 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 arises from the management of foreign currency reserves and financial market operations.

NOTES TO THE FINANCIAL STATEMENTS

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32. RISK MANAGEMENT POLICIES (Continued)

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.

As with the majority of central banks, the very nature of the Bank's business operations and its functions exposes it 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.

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 a minimum long-term credit rating of AA-. For each bank, the 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:

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32. RISK MANAGEMENT POLICIES (Continued)

Credit Risk (Continued)

- minimum long-term credit rating of A3 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, Bank for International Settlements 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.

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, 2015 and 2014:

	December 31, 2015	December 31, 2014
Financial assets		
Cash and current accounts held with banks	127,120,152	48,277,580
Deposits	225,987,945	279,975,777
Financial assets at fair value through profit and loss, held for trading	841,623,792	798,670,029
Financial assets available for sale	10,337,918	9,717,496
Loans	1,267,937	1,223,715
IMF membership quota and SDR holdings	73,934,754	73,770,910
Other assets	422,814	355,695
	1,280,695,312	1,211,991,202
Financial liabilities		
Financial liabilities at fair value through profit and loss, held for trading	25,526	-
Deposits and other liabilities to banks and other financial organizations	541,416,135	482,818,801
Deposits and other liabilities to Government and other depositors	268,368,398	291,131,078
Liabilities to the IMF	82,642,213	93,987,065
Dinars in circulation	139,818,039	130,468,547
Other liabilities	1,721,485	954,292
	1,033,991,796	999,359,783

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32. RISK MANAGEMENT POLICIES (Continued)

Credit Risk (Continued)

Maximum Credit Risk Exposure

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

	December 31, 2015	December 31, 2014
Financial assets		
Cash and current accounts held with banks	127,120,152	48,277,580
Deposits	225,987,945	279,975,777
Financial assets at fair value through profit and loss, held for trading	841,623,792	798,670,029
Financial assets available for sale	10,337,918	9,717,496
Loans	1,267,937	1,223,715
Other assets	422,814	355,695
	<u>1,206,760,558</u>	<u>1,138,220,292</u>

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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:

	Neither in arrears nor impaired	Matured but not impaired	Impaired assets	Total, gross	Allowance for impairment	Total, net
Cash and current accounts held with banks	127,120,152	-	931,408	128,051,560	(931,408)	127,120,152
Deposits	225,987,945	-	3,025,657	229,013,602	(3,025,657)	225,987,945
Financial assets carried at fair value through profit and loss, held for trading	841,623,792	-	-	841,623,792	-	841,623,792
Financial assets available for sale	10,337,918	-	500	10,338,418	(500)	10,337,918
Financial assets held to maturity	-	-	665,430	665,430	(665,430)	-
Loans*	1,267,937	-	1,523,603	2,791,540	(1,523,603)	1,267,937
Other assets	407,819	14,995	3,592,414	4,015,228	(3,592,414)	422,814
December 31, 2015	1,206,745,563	14,995	9,739,012	1,216,499,570	(9,739,012)	1,206,760,558
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
Financial assets 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
December 31, 2014	1,138,197,772	22,520	10,581,483	1,148,801,775	(10,581,483)	1,138,220,292

* In 2015 the Bank rescheduled twice a portion of housing loans, with repayment due date in 2018.

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32. RISK MANAGEMENT POLICIES (Continued)

Credit Risk (Continued)

Maximum Credit Risk Exposure (Continued)

The aging analysis of matured but not impaired assets as at December 31, 2015 and 2014 was as follows:

	December 31, 2015	December 31, 2014
From 0 to 14 days	7,449	12,422
From 15 to 29 days	3,305	5,304
From 30 to 45 days	4,241	4,794
Total	14,995	22,520

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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
FINANCIAL ASSETS					
Cash and current accounts held with banks	74,058,434	50,942,772	1,699,191	419,755	127,120,152
Deposits held with banks	20,436	81,576,827	32,817,806	111,572,876	225,987,945
Financial assets carried at fair value through profit and loss, held for trading	31,817	570,343,032	263,896,595	7,352,348	841,623,792
Financial assets available for sale	229,552	441	-	10,107,925	10,337,918
Loans	1,267,937	-	-	-	1,267,937
Other assets	421,634	218	7	955	422,814
Total as at December 31, 2015	76,029,810	702,863,290	298,413,599	129,453,859	1,206,760,558
Total as at December 31, 2014	36,043,058	786,486,069	245,304,955	70,386,210	1,138,220,292

b) Concentration per Industry

	Banks	Public sector (Government and public companies)	Other financial organizations	Other corporate consumers	Retail customers	Total
FINANCIAL ASSETS						
Cash and current accounts held with banks	127,120,152	-	-	-	-	127,120,152
Deposits held with banks	225,987,945	-	-	-	-	225,987,945
Financial assets carried at fair value through profit and loss, held for trading	203,465,845	-	626,125,945	12,032,002	-	841,623,792
Financial assets available for sale	10,107,924	-	442	229,552	-	10,337,918
Loans	560,760	-	-	-	707,177	1,267,937
Other assets	154,548	138,325	994	11,976	116,971	422,814
Total as at December 31, 2015	567,397,174	138,325	626,127,381	12,273,530	824,148	1,206,760,558
Total as at December 31, 2014	422,223,916	270,564	714,631,254	244,580	849,978	1,138,220,292

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32. RISK MANAGEMENT POLICIES (Continued)

Credit Risk (Continued)

Concentration of Credit Risk in Financial Assets (Continued)

c) Concentration per Credit Rating

	December 31, 2015	December 31, 2014
Coupon bonds:		
AAA	427,388,630	351,410,199
AA+	212,885,679	209,923,455
AA	104,761,580	141,307,922
AA-	22,029,305	12,936,641
Total	767,065,194	715,578,217
Discount securities:		
AA+	58,695,746	40,751,980
AA	10,955,077	29,045,125
AA-	4,875,959	13,294,707
Total	74,526,782	83,091,812
Time deposits:		
No rating (risk-free)*	35,217,278	51,189,638
AAA	90,992,729	57,863,186
AA+	32,817,806	80,555,975
AA	28,367,934	38,832,803
AA-	38,525,868	51,302,550
A+	-	176,150
Total	225,921,615	279,920,302
Other financial assets subject to credit risk analysis – no rating:	139,246,967	59,629,961
Total	1,206,760,558	1,138,220,292

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

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32. RISK MANAGEMENT POLICIES (Continued)

Liquidity Risk

Liquidity risk relates both to the risk of the 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's daily activities are focused on ensuring the necessary liquidity, i.e. settlement of all liabilities when due. 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 issued by international financial institutions, most developed states and/or their federal units and financial institutions supported by those states, as well as the bonds issued on the basis of first-class collaterals, 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.

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32. RISK MANAGEMENT POLICIES (Continued)

Liquidity Risk (Continued)

	Up to one 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	127,120,152	-	-	-	-	-	127,120,152
Deposits	89,873,430	105,438,220	30,655,859	-	20,436	-	225,987,945
Financial assets carried at fair value through profit and loss, held for trading	20,268,070	42,089,171	239,678,941	527,161,139	12,394,654	31,817	841,623,792
Financial assets available for sale	-	-	-	-	-	10,337,918	10,337,918
Loans	560,995	-	26	3,517	703,399	-	1,267,937
IMF membership quota and SDR holdings	1,818,568	-	16,489	-	-	72,099,697	73,934,754
Other assets	421,690	-	-	-	-	1,124	422,814
	<u>240,062,905</u>	<u>147,527,391</u>	<u>270,351,315</u>	<u>527,164,656</u>	<u>13,118,489</u>	<u>82,470,556</u>	<u>1,280,695,312</u>
Financial liabilities carried at fair value through profit and loss, held for trading	-	-	-	-	-	25,526	25,526
Deposits and other liabilities to banks and other financial organizations	255,437,051	5,655,614	11,195,683	-	5,775,813	263,351,974	541,416,135
Deposits and other liabilities to the Government and other depositors	192,675,433	35,009,367	-	88,269	2,783,062	37,812,267	268,368,398
Liabilities to the IMF	5,261	899,897	899,897	-	-	80,837,158	82,642,213
Dinars in circulation	-	-	-	-	-	139,818,039	139,818,039
Other liabilities	1,182,034	-	-	-	-	539,451	1,721,485
	<u>449,299,779</u>	<u>41,564,878</u>	<u>12,095,580</u>	<u>88,269</u>	<u>8,558,875</u>	<u>522,384,415</u>	<u>1,033,991,796</u>
Liquidity gap as at December 31, 2015	<u>(209,236,874)</u>	<u>105,962,513</u>	<u>258,255,735</u>	<u>527,076,387</u>	<u>4,559,613</u>	<u>(439,913,859)</u>	<u>246,703,516</u>
Cumulative gap as at December 31, 2015	<u>(209,236,874)</u>	<u>(103,274,361)</u>	<u>154,981,374</u>	<u>682,057,761</u>	<u>686,617,375</u>	<u>246,703,516</u>	<u>-</u>
Liquidity gap as at December 31, 2014	<u>(213,207,014)</u>	<u>94,365,643</u>	<u>184,959,982</u>	<u>575,738,949</u>	<u>(6,117,792)</u>	<u>(423,108,349)</u>	<u>212,631,419</u>
Cumulative gap as at December 31, 2014	<u>(213,207,014)</u>	<u>(118,841,371)</u>	<u>66,118,611</u>	<u>641,857,560</u>	<u>635,739,768</u>	<u>212,631,419</u>	<u>-</u>

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December 31, 2015

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32. RISK MANAGEMENT POLICIES (Continued)

Liquidity Risk (Continued)

The maturity structure of assets and liabilities as at December 31, 2015 indicates existence of the maturity gap of assets and liabilities with remaining maturity period up to 1 month and from 1 to 3 months, primarily due to the significant share of transaction deposits in dinars with remaining maturity period up to 1 month. These liabilities amount to a total of 449,299,779 thousand relate to required reserves of banks in dinars in the amount of 152,745,972 thousand, transaction deposits of the Ministry of Finance and the Treasury in the amount of 157,074,995 thousand, deposits of surplus liquidity of banks in the amount of 64,234,340 thousand, liabilities arising from repurchase transactions amounting to 30,604,349 thousand and other liabilities in the amount of 44,640,123 thousand.

The negative liquidity gap arises from the specificity of the Bank as a central bank, its role as the main monetary institution and regulator of the banking system and to its functions autonomously and independently and determine and implement monetary and foreign exchange policies. Dinar liquidity flows in the banking sector depend on the implementation of the monetary policy of the Bank and the activities of the state and in this respect these obligations, in terms of the Bank, cannot be viewed as short-term liabilities in the classic sense, but rather as specific obligations whose amounts and maturities are aligned with the goals and monetary policy measures.

The maturity of most of the Bank's liabilities depends on the nature of monetary policy instruments. Changes related to reserve requirements, repo-transactions and deposit of surplus liquid assets in dinars, as well as government deposits in dinars, do not automatically decrease or increase liquid liability of the Bank, but relate to the most common change in the structure of liabilities of the Bank, given the consequent spilling over of funds between banks, between banks and the state, and the change of certain types of claims on the Bank, and consequently the obligations of the Bank (decrease in placements through repo operations leading to an increase in balances on current accounts of banks and / or deposit account surplus, but the overall balance of the Bank's liability can stay at the same level).

On the other hand, the foreign currency obligations of the Bank, including potential liabilities arising from foreign exchange interventions on the foreign exchange market, are provided by highly liquid foreign assets managed by the Bank in accordance with the Strategic Guidelines for the Management of Foreign Exchange Reserves.

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32. RISK MANAGEMENT POLICIES (Continued)

Fair Value Information

The following table presents a comparison of the carrying amounts (as adjusted for impairment) to the fair values of all financial assets and liabilities of the Bank as at December 31, 2015 and 2014:

	Carrying Value		Fair Value	
	2015	2014	2015	2014
Financial assets				
Cash and current accounts held with banks	127,120,152	48,277,580	127,120,152	48,277,580
Deposits held with banks	225,987,945	279,975,777	225,987,945	279,975,777
Financial assets carried at fair value through profit and loss, held for trading	841,623,792	798,670,029	841,623,792	798,670,029
Financial assets available for sale	10,337,918	9,717,496	10,337,918	9,717,496
Loans	1,267,937	1,223,715	1,267,937	1,223,715
IMF membership quota and SDR holdings	73,934,754	73,770,910	73,934,754	73,770,910
Other assets	422,814	355,695	422,814	355,695
Total	1,280,695,312	1,211,991,202	1,280,695,312	1,211,991,202
Financial liabilities				
Financial liabilities carried at fair value through profit and loss, held for trading	25,526	-	25,526	-
Deposits and other liabilities to banks and other financial organizations	541,416,135	482,818,801	541,416,135	482,818,801
Deposits and other liabilities to the Government and other depositors	268,368,398	291,131,078	268,368,398	291,131,078
Liabilities to the IMF	82,642,213	93,987,065	82,642,213	93,987,065
Dinars in circulation	139,818,039	130,468,547	139,818,039	130,468,547
Other liabilities	1,721,485	954,292	1,721,485	954,292
Total	1,033,991,796	999,359,783	1,033,991,796	999,359,783

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 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.

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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:

As at December 31, 2015	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit and loss, held for trading	841,623,792	-	-	841,623,792
Financial assets available for sale	-	-	10,337,918	10,337,918
Total:	841,623,792	-	10,337,918	851,961,710
Financial liabilities				
Financial liabilities at fair value through profit and loss, held for trading	25,526	-	-	25,526
Total:	25,526	-	-	25,526
As at December 31, 2014	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets 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
Other assets	1,433	-	-	1,433
Total:	798,671,462	-	9,717,496	808,388,958
Financial liabilities				
Other liabilities	-	-	-	-
Total:	-	-	-	-

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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 and Liabilities Carried at Fair Value through Profit and Loss, Held for Trading

Financial assets carried at fair value through profit and loss held for trading amounted RSD 841,591,975 thousand as at December 31, 2015 (December 31, 2014: RSD 798,670,029 thousand), classified into fair value hierarchy Level 1, mostly relate to first grade bonds issued by most developed states, high-quality financial institutions supported by those states and international financial institutions and are measured at fair value based on the market prices quoted on financial markets, while the amount of RSD 31,817 thousand (December 31, 2014: RSD 1,433 thousand) refers to the fair value of derivatives, stated as asset.

Financial liabilities carried at fair value through profit and loss held for trading, amounted RSD 25,526 thousand, refer to the negative fair value of derivatives and are stated as liability.

b) Financial Assets Available for Sale

Financial assets available for sale totaling RSD 10,337,918 thousand as at December 31, 2015 (RSD 9,717,496 thousand as at 31 December 2014) are classified into fair value hierarchy Level 3.

Out of that amount the amount of RSD 10,108,366 thousand as at 31 December 2015 (RSD 9,487,028 as at 31 December 2014) relates to the equity investments in the Bank for International Settlements, Basel, . The Bank is in possession of 2,290 shares, whose fair value 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%. Available-for-sale financial assets totaling RSD 229,552 thousand as at December 31, 2015 (RSD 230,468 thousand as at 31 December 2014) relate to the Bank's equity investment held in the company Recreatours a.d., Beograd, while the fair value of the investment was determined in proportion to the Bank's interest in the company's core capital.

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32. RISK MANAGEMENT POLICIES (Continued)

Fair Value Information (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 at December 31, 2015	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
Financial assets					
Cash and current accounts held with banks	-	127,120,152	-	127,120,152	127,120,152
Deposits held with banks	-	-	225,987,945	225,987,945	225,987,945
Loans	-	-	1,267,937	1,267,937	1,267,937
IMF membership quota and SDR holdings	-	-	73,934,754	73,934,754	73,934,754
Other assets	-	-	422,814	422,814	422,814
Total	-	127,120,152	301,613,450	428,733,602	428,733,602
Financial liabilities					
Deposits and other liabilities to banks and other financial organizations	-	-	541,416,135	541,416,135	541,416,135
Deposits and other liabilities to the Government and other depositors	-	-	268,368,398	268,368,398	268,368,398
Liabilities to the IMF	-	-	82,642,213	82,642,213	82,642,213
Dinars in circulation	-	-	139,818,039	139,818,039	139,818,039
Other liabilities	-	-	1,721,485	1,721,485	1,721,485
Total:	-	-	1,033,966,270	1,033,966,270	1,033,966,270
As at December 31, 2014					
Financial assets					
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
Total	-	48,277,580	355,324,664	403,602,244	403,602,244
Financial liabilities					
Deposits and other liabilities to banks and other financial organizations	-	-	482,818,801	482,818,801	482,818,801
Deposits and other 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
Total:	-	-	999,359,783	999,359,783	999,359,783

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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, fair values are calculated only for the purpose of disclosing information on the estimated fair values of such instruments. The Bank's management considers 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 (up to 1 year from December 31, 2015):
 - o Cash and current accounts held with banks in the amount of RSD 127,120,152 thousand;
 - o Deposits held with banks in the amount of RSD 225,967,509 thousand;
 - o Loans amounting to RSD 561,021 thousand;
 - o IMF membership quota and SDR holdings amounting to RSD 1.835.057 thousand;
 - o Other assets in the amount of RSD 421,690 thousand;
 - o Deposits and other liabilities to banks and other financial organizations amounting to RSD 272,288,348 thousand;
 - o Liabilities to the Government and other depositors in the amount of RSD 227,684,800 thousand;
 - o Liabilities to the IMF amounting to RSD 1,805,055 thousand; and
 - o Other liabilities in the amount of RSD 1,182,034 thousand.
- The estimated fair values for the following financial assets and liabilities, mostly non-current (more than 1 year from December 31, 2014):
 - o Deposits held with banks in the amount of RSD 20,436 thousand;
 - o Loans amounting to RSD 706,916 thousand;
 - o IMF membership quota and SDR holdings amounting to RSD 72,099,697 thousand;
 - o Other assets in the amount of RSD 1,124 thousand
 - o Deposits and other liabilities to banks and other financial organizations amounting to RSD 269,127,787 thousand;
 - o Liabilities to the Government and other depositors in the amount of RSD 40,683,598 thousand;
 - o Liabilities to the IMF amounting to RSD 80,837,158 thousand; and
 - o Other liabilities in the amount of RSD 539,451 thousand,

in the opinion of the Bank's management, do not deviate significantly from the carrying amounts of these financial assets and liabilities stated in the Bank's financial statements, considering the fact that they are mostly related to non-interest-bearing financial assets and liabilities without defined maturity.

In 2015 and 2014 there were no transfers of financial assets and liabilities that are not measured at fair value among the fair value hierarchy levels.

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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. 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 change of 100 base points in the presented interest rates, exclusive of the effect of changes in interest rates on financial assets 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 2014.

	December 31, 2015			
	Equity		Net profit	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets				
Cash and current accounts				
held with banks	415,253	(415,253)	415,253	(415,253)
Deposits held with banks	2,259,420	(2,259,420)	2,259,420	(2,259,420)
Loans	7,071	(7,071)	7,071	(7,071)
IMF membership quota and SDR holdings	18,186	(18,186)	18,186	(18,186)
	<u>2,699,930</u>	<u>(2,699,930)</u>	<u>2,699,930</u>	<u>(2,699,930)</u>
Financial liabilities				
Deposits and other liabilities to banks and other				
financial institutions	(2,569,966)	2,569,966	(2,569,966)	2,569,966
Deposits and other liabilities to the Government and other depositors	(600,337)	600,337	(600,337)	600,337
Liabilities to the IMF	(103,377)	103,377	(103,377)	103,377
	<u>(3,273,680)</u>	<u>3,273,680</u>	<u>(3,273,680)</u>	<u>3,273,680</u>
Net effect	<u>(573,750)</u>	<u>573,750</u>	<u>(573,750)</u>	<u>573,750</u>

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

32. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk (Continued)

	December 31, 2014			
	Equity		Net profit	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets				
Cash and current accounts held with banks	89,595	(89,595)	89,595	(89,595)
Deposits held with banks	2,799,413	(2,799,413)	2,799,413	(2,799,413)
Loans	7,223	(7,223)	7,223	(7,223)
IMF membership quota and SDR holdings	63,732	(63,732)	63,732	(63,732)
	<u>2,959,963</u>	<u>(2,959,963)</u>	<u>2,959,963</u>	<u>(2,959,963)</u>
Financial liabilities				
Deposits and other liabilities to banks and other financial organizations	(1,930,059)	1,930,059	(1,930,059)	1,930,059
Deposits and other liabilities to the Government and other depositors	(2,073,946)	2,073,946	(2,073,946)	2,073,946
Liabilities to the IMF	(257,092)	257,092	(257,092)	257,092
	<u>(4,261,097)</u>	<u>4,261,097</u>	<u>(4,261,097)</u>	<u>4,261,097</u>
Net effect	<u>(1,301,134)</u>	<u>1,301,134</u>	<u>(1,301,134)</u>	<u>1,301,134</u>

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32. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk (Continued)

The exposure to interest rate risk as at December 31, 2015 is presented in the following table:

	Interest- bearing items	Non-interest bearing items	Total
Financial assets			
Cash and current accounts held with banks	41,525,252	85,594,900	127,120,152
Deposits held with banks	225,942,037	45,908	225,987,945
Financial assets carried at fair value through profit and loss, held for trading	841,591,975	31,817	841,623,792
Financial assets available for sale	-	10,337,918	10,337,918
Loans	707,077	560,860	1,267,937
IMF membership quota and SDR holdings	1,818,568	72,116,186	73,934,754
Other assets	-	422,814	422,814
Total	1,111,584,909	169,110,403	1,280,695,312
 Financial liabilities			
Financial liabilities carried at fair value through profit and loss, held for trading		25,526	25,526
Deposits and other liabilities to banks and other financial organizations	256,996,643	284,419,492	541,416,135
Deposits and other liabilities to the Government and other depositors	60,033,666	208,334,732	268,368,398
Liabilities to the IMF	10,337,687	72,304,526	82,642,213
Dinars in circulation	-	139,818,039	139,818,039
Other liabilities	-	1,721,485	1,721,485
	327,367,996	706,623,800	1,033,991,796
Net exposure as at			
December 31, 2015	784,216,913	(537,513,397)	246,703,516
December 31, 2014	668,556,622	(455,925,203)	212,631,419

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.

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32. RISK MANAGEMENT POLICIES (Continued)

VaR (Continued)

Monthly VaR (95%) for total portfolio recalculated in EUR as at December 31, 2015 indicates that under normal market conditions in only 5% of the cases can the Bank expect a loss greater than 1.68% or RSD 17,222 million (EUR 141.60 million).

Monthly VaR for total portfolio recalculated in EUR as of December 31, 2014 indicated that under normal market conditions in only 5% of the cases could the Bank expect a loss greater than 1.61% or RSD 14,715 million (EUR 121.65 million).

Stress Test

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

For the Bank, potential drastic increase in interest rates (drop in prices) is of the highest significance, which is why the Bank needs to calculate what would happen with the portfolio if interest rates increased by 100 base points, i.e. by 1% under the assumption that other variables remained unchanged. The EUR-denominated portfolio as at December 31, 2015 would record a loss of RSD 10,013 million (EUR 82.33 million), portion of the USD-denominated portfolio would record a loss of RSD 4,908 million (USD 44.12 million), portion of the portfolio denominated in GBP would record a loss of RSD 363 million (GBP 2.20 million), and portion of the portfolio denominated in CAD would record a loss of RSD 262 million (CAD 3.27 million). The total effect of interest rate increase by 100 base points on the portfolio as at December 31, 2015 would amount to RSD 15,546 million.

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 base points on the portfolio as at December 31, 2014 would amount to RSD 14,926 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.

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32. RISK MANAGEMENT POLICIES (Continued)

Currency Risk (Continued)

The 10% depreciation of RSD value against the following currencies as at December 31, 2015 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 2014 is prepared in the same manner. In addition, this analysis excludes the effect of currency risk on financial instruments carried at fair value through profit and loss.

	<u>Equity</u>	<u>Net profit</u>
December 31, 2015		
EUR	(10,287,182)	(10,287,182)
USD	7,195,386	7,195,386
CHF	664,413	664,413
SDR	140,000	140,000
December 31, 2014		
EUR	(16,861,000)	(16,861,000)
USD	6,602,320	6,602,320
CHF	378,234	378,234
SDR	(1,072,946)	(1,072,946)

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, 2015 was as follows:

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32. RISK MANAGEMENT POLICIES (Continued)

Currency Risk (Continued)

	EUR	USD	SDR	Other currencies	Total foreign currency balance	RSD	Total
Financial assets							
Cash and current accounts held with banks	107,822,186	6,807,192	-	9,429,612	124,058,990	3,061,162	127,120,152
Deposits held with banks	95,300,131	125,161,940	-	5,505,439	225,967,510	20,435	225,987,945
Financial assets carried at fair value through profit and loss, held for trading	505,371,131	300,916,508	-	35,304,336	841,591,975	31,817	841,623,792
Financial assets available for sale	442	-	10,107,924	-	10,108,366	229,552	10,337,918
Loans	-	560,759	-	-	560,759	707,178	1,267,937
IMF membership quota and SDR holdings	-	-	73,934,754	-	73,934,754	-	73,934,754
Other assets	12,308	141	-	406	12,855	409,959	422,814
	<u>708,506,198</u>	<u>433,446,540</u>	<u>84,042,678</u>	<u>50,239,793</u>	<u>1,276,235,209</u>	<u>4,460,103</u>	<u>1,280,695,312</u>
Financial liabilities							
Financial liabilities carried at fair value through profit and loss, held for trading	-	-	-	-	-	25,526	25,526
Deposits and other liabilities to banks and other financial organizations	250,614,014	8,194,841	-	5,528	258,814,383	282,601,752	541,416,135
Deposits and other liabilities to the Government and other depositors	54,570,165	52,364,029	468	646,564	107,581,226	160,787,172	268,368,398
Liabilities to the IMF	-	-	82,642,213	--	82,642,213	-	82,642,213
Dinars in circulation	-	-	-	-	-	139,818,039	139,818,039
Other liabilities	822,844	17,014	-	197,640	1,037,498	683,987	1,721,485
	<u>306,007,023</u>	<u>60,575,884</u>	<u>82,642,681</u>	<u>849,732</u>	<u>450,075,320</u>	<u>583,916,476</u>	<u>1,033,991,796</u>
Net exposure as at December 31, 2015	<u>402,499,175</u>	<u>372,870,656</u>	<u>1,399,997</u>	<u>49,390,061</u>	<u>826,159,889</u>	<u>(579,456,373)</u>	<u>246,703,516</u>
Net exposure as at December 31, 2014	<u>371,035,287</u>	<u>286,907,682</u>	<u>(10,729,458)</u>	<u>48,951,494</u>	<u>696,165,005</u>	<u>(483,533,586)</u>	<u>212,631,419</u>

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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 at December 31, 2015 and 2014:

	December 31, 2015		
	Current items (within 12 months)	Non-current items (over 12 months)	Total
ASSETS			
Cash and current accounts held with banks	127,120,152	-	127,120,152
Deposits	225,967,509	20,436	225,987,945
Gold and other precious metals	69,629,745	-	69,629,745
Financial assets carried at fair value through profit and loss, held for trading	302,036,182	539,587,610	841,623,792
Financial assets available for sale	-	10,337,918	10,337,918
Loans	561,021	706,916	1,267,937
IMF membership quota and SDR holdings	1,835,057	72,099,697	73,934,754
Property, plant and equipment		22,267,836	22,267,836
Investment property		467,609	467,609
Intangible assets		132,720	132,720
Other assets	3,839,336	40,012	3,879,348
TOTAL ASSETS	730,989,002	645,660,754	1,376,649,756
LIABILITIES			
Financial liabilities carried at fair value through profit and loss, held for trading	-	25,526	25,526
Deposits and other liabilities to banks and other financial organizations	272,288,348	269,127,787	541,416,135
Deposits and other liabilities to the Government and other depositors	227,684,800	40,683,598	268,368,398
Liabilities to the IMF	1,805,055	80,837,158	82,642,213
Current tax liabilities	281,322		281,322
Dinars in circulation		139,818,039	139,818,039
Provisions	160,464	992,055	1,152,519
Other liabilities	1,294,289	539,451	1,833,740
TOTAL LIABILITIES	503,514,278	532,023,614	1,035,537,892
ASSETS, NET	227,474,724	113,637,140	341,111,864

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

	December 31, 2014		
	Current items (within 12 months)	Non-current items (over 12 months)	Total
ASSETS			
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
Loans and placements	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
TOTAL ASSETS	622,913,360	684,567,792	1,307,481,152
LIABILITIES			
Liabilities to banks and other financial organizations	197,554,756	285,264,045	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
TOTAL LIABILITIES	489,034,911	511,633,617	1,000,668,528
ASSETS, NET	133,878,449	172,934,175	306,812,624

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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

34. LITIGATIONS

As at December 31, 2015, the Bank was involved as a defendant in legal suits with claims in the total estimated amount of RSD 84,332,555 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, 2015, the Bank formed provisions for potential losses arising from the aforesaid legal suits amounting to RSD 167,155 thousand (December 31, 2014: RSD 186,265 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 and Government Institutions

Pursuant to the Law on the National Bank of Serbia, the Bank is the central bank of the RS and operates in line with the abovementioned and other laws. The Republic of Serbia is the sole owner of the entire Bank's equity.

In carrying out their tasks, the National Bank of Serbia, the bodies of the National Bank of Serbia and the members of those bodies shall neither seek nor take instructions from government bodies and institutions, or other persons. Government bodies and institutions, and other persons may not threaten the autonomy and independence of the National Bank of Serbia nor seek to influence the National Bank of Serbia, the bodies of the National Bank of Serbia, or the members of these bodies in carrying out their tasks. Without prejudice to achieving its objectives, the National Bank of Serbia may act for and on behalf of the Republic of Serbia in international financial organizations and institutions and other forms of international cooperation with the consent of the Government.

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

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

35. RELATED PARTY TRANSACTIONS (continued)

Transactions with the State and Government Institutions (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.

In accordance with the abovementioned law, the Bank may not approve loans, borrowings, overdrafts and other credit facilities to the Republic of Serbia, autonomous province or local government unit, state-owned companies and other legal entities founded by the Republic of Serbia, autonomous province or local government unit (i.e. entities with the controlling participation of RS, autonomous province or local government unit), nor may issue guarantees for settling the obligations of these entities or provide their settlement in any other way.

The Bank cannot directly purchase securities issued by the aforementioned entities.

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 payment of old foreign currency savings, loan for economic development, records of public debt of RS and other operations.

These transactions 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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35. RELATED PARTY TRANSACTIONS (Continued)

Transactions with the Key Management Personnel (Continued)

The summary of remuneration paid to key management of the Bank is provided in the following table:

Position	Gross remunerations disbursed in 2015	Net remunerations disbursed in 2015	Gross remunerations disbursed in 2014	Net remunerations disbursed in 2014
Governor	7,889	6,696	9,890	8,180
Director of Administration for Supervision of Financial Institutions	6,480	5,336	8,343	6,794
Vice Governors	17,314	13,901	24,097	19,543
Secretary General	3,541	2,604	4,996	3,963
Directors General, Directors of organizational units within the headquarters, Directors of branch offices and Managing Director of ZIN	109,056	79,888	115,680	86,285
Deputies and assistants to Directors General and Directors General of organizational units, Directors of branch offices and Managing Director of ZIN	84,979	60,988	90,240	66,020
Department Heads	185,637	131,611	198,862	142,725
Chairman and members of the Council of the Governor	15,279	9,669	17,193	11,227
Total for the period	430,175	310,693	469,301	344,737

36. RECONCILIATION OF RECEIVABLES AND PAYABLES

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 at October 31, 2015, while the balances of receivables denominated in foreign currencies were reconciled as at December 31, 2015

Out of the total amount of receivables of RSD 1,290,871,955 thousand, for which the Bank delivered outstanding item statement forms for balance confirmation/reconciliation, receivables in the amount of RSD 1,290,287,521 thousand or 99.95% of the total receivables were reconciled, while the amount of RSD 584,434 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

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36. RECONCILIATION OF RECEIVABLES AND PAYABLES (Continued)

The Bank received outstanding item statement forms for balance reconciliation from legal entities totaling RSD 459,447,768 thousand, out of which the amount of RSD 200,849 thousand, or 0.04% remained unreconciled.

37. SUBSEQUENT EVENTS

Up to the issue date of these financial statements, there have been no significant events subsequent to the balance sheet date, which would require correction of the accompanying financial statements.

Until the date of publication of these financial statements there was one non-adjusting event after the balance sheet date.

International Monetary Fund (IMF) has informed the member states that on January 26, 2016 the reform of quotas and management from 2010 provided by the Resolution of the 14th general audit of quotas and by IMF Executive Directors Board reform, has entered into force.

On that basis Serbian quota has increased for 40% (187.1 million SDR or about 235 million EUR) or from 467.7 to 654.8 million SDR except that participation in total IMF quotas is decreased from 0.219% to 0.137%.

National Bank of Serbia in accordance with the role of the depositary and the fiscal agent in dealings with the IMF, on February 10, 2016 settled liabilities arising from an increase in the quota of the country in the amount of SDR 187.1 million, as follows: 25% increase in the amount of quota of 46.8 million SDRs with funds from the foreign exchange reserves (in the amount of 58.8 million euros), a 75% in the amount of SDR 140.3 million SDRs in dinars (RSD 21.3 billion) at the expense of the existing non-transferable and non-interest bearing bonds.

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, 2015 and 2014 were as follows:

	December 31, 2015	December 31, 2014
USD	111.2468	99.4641
EUR	121.6261	120.9583
GBP	164.9391	154.8365
CAD	80.1860	85.7495
CHF	112.5230	100.5472
SDR	154.1580	144.1046



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Governor

Г.Бр. 3578
23.5.2016.