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TRANSLATION

Independent Auditors' Report

TO THE COUNCIL OF THE GOVERNOR

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 2017, 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 auditing standards applicable in the Republic of Serbia. 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 accompanying financial statements give a true and fair view of the financial position of the National bank of Serbia as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Belgrade, 30 March 2018

KPMG d.o.o. Beograd

(L.S.)

Dušan Tomić
Certified Auditor

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Belgrade, 30 March 2018

KPMG d.o.o. Beograd




Dušan Tomić
Certified Auditor

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NATIONAL BANK OF SERBIA

**Financial Statements for the
Year Ended December 31, 2017**

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INCOME STATEMENT**Year Ended December 31, 2017****(Thousands of RSD)**

	Note	2017	2016
Interest income		8,701,151	9,706,927
Interest expenses		(4,760,001)	(4,661,111)
Net interest income	4, 3.1	3,941,150	5,045,816
Fee and commission income		4,508,232	4,302,793
Fee and commission expenses		(1,016,269)	(610,029)
Net fee and commission income	5, 3.1	3,491,963	3,692,764
Net losses on the financial assets held for trading	6, 3.3	(6,738,050)	(4,202,245)
Net gains from hedging		66	2,858
Net exchange rate (losses)/gains and from agreed currency clause	3.2	(84,769,775)	35,465,803
Other operating income	7	12,586,387	20,643,672
Net expenses from impairment of financial assets and credit risk-weighted off-balance sheet items	8, 3.3	(13,035)	(32,071)
Salaries, salary compensations and other personal expenses	9, 3.10	(4,383,083)	(4,492,047)
Depreciation costs	10, 3.7	(1,672,490)	(1,632,334)
Other expenses	11	(5,134,290)	(4,898,997)
PROFIT BEFORE TAX		(82,691,157)	49,593,219
Income taxes	26, 3.9	(454,479)	(408,113)
PROFIT AFTER TAX	29	(83,145,636)	49,185,106

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

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STATEMENT OF OTHER COMPREHENSIVE INCOME**Year Ended December 31, 2017****(Thousands of RSD)**

	<u>2017</u>	<u>2016</u>
PROFIT FOR THE PERIOD	(83,145,636)	49,185,106
Components of other comprehensive income which cannot be reclassified to profit and loss:		
Increase in revaluation reserves arising from intangible investments and fixed assets	134,127	-
Decrease in revaluation reserves arising from intangible investments and fixed assets	(1,882)	(5,020)
Actuarial losses	(66,224)	(43,334)
Components of other comprehensive income which may be reclassified to profit and loss:		
Positive effects of change in fair value of financial assets available for sale	<u>337,395</u>	<u>404,545</u>
Other comprehensive income for the period	<u>403,416</u>	<u>356,191</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><u>(82,742,220)</u></u>	<u><u>49,541,297</u></u>

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STATEMENT OF FINANCIAL POSITION

As of December 31, 2017

(Thousands of RSD)

	Note	December 31, 2017	December 31, 2016
ASSETS			
Cash and current accounts held with banks	12, 3.4	210,176,735	202,213,819
Gold and other precious metals	13, 3.5	80,767,776	82,555,050
Deposits	14, 3.3	163,435,360	206,672,592
Financial assets at fair value through profit and loss	15, 3.3	727,503,422	775,159,641
Financial assets available for sale	16, 3.3	9,931,739	10,735,222
Financial assets held to maturity	17, 3.3	3,026,769	2,877,822
Loans and placements	18, 3.3	1,145,859	1,261,628
IMF membership quota and SDR holdings	19	100,405,431	112,236,035
Intangible assets	20, 3.7	112,425	77,144
Property, plant and equipment	20, 3.7	20,233,103	21,413,972
Investment property	20, 3.7	467,609	467,609
Other assets	21	4,945,877	3,971,720
TOTAL ASSETS		1,322,152,105	1,419,642,254
LIABILITIES AND EQUITY			
Liabilities			
Financial liabilities at fair value through profit and loss		35,365	5,433
Deposits and other liabilities to banks and other financial organizations	22	484,339,613	496,486,485
Deposits and other liabilities to Government and other depositors	23	268,460,430	256,890,975
Liabilities to the IMF	24	100,437,147	112,038,645
Provisions	25	1,412,699	1,260,355
Current tax liabilities	26, 3.9	454,479	408,113
Dinars in circulation	27	163,944,539	159,227,574
Other liabilities	28	4,755,384	2,666,493
Total liabilities		1,023,839,656	1,028,984,073
Equity			
State-owned capital		171,128,873	157,945,159
Reserves		210,329,212	183,522,896
(Loss)/Profit		(83,145,636)	49,190,126
Total equity	29	298,312,449	390,658,181
TOTAL LIABILITIES AND EQUITY		1,322,152,105	1,419,642,254

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STATEMENT OF CHANGES IN EQUITY

Year Ended December 31, 2017

(Thousands of RSD)

	State-owned capital	Special reserves	Revaluation reserves	Reserves from financial assets available for sale	Actuarial gains – Provisions for employee benefits	Retained earnings	Total
Balance as at January 1, 2016							
Opening balance	146,512,991	138,555,643	15,538,509	5,995,641	178,246	34,330,834	341,111,864
Distribution of profit from previous year (Note 29)	11,432,168	22,898,666	-	-	-	(34,330,834)	-
Total positive other comprehensive income for the period	-	-	-	766,237	-	-	766,237
Total negative other comprehensive income for the period	-	-	-	(361,692)	(43,334)	-	(405,026)
Transfer from provisions due to provision reversal	-	-	(5,020)	-	-	5,020	-
Profit for the current year	-	-	-	-	-	49,185,106	49,185,106
Balance as at December 31, 2016	157,945,159	161,454,309	15,533,489	6,400,186	134,912	49,190,126	390,658,181
Balance as at January 1, 2017							
Opening balance	157,945,159	161,454,309	15,533,489	6,400,186	134,912	49,190,126	390,658,181
Distribution of profit from previous year (Note 29)	13,183,714	26,402,900	-	-	-	(49,190,126)	(9,603,512)
Total positive other comprehensive income for the period	-	-	134,127	531,675	-	-	665,802
Total negative other comprehensive income for the period	-	-	(1,882)	(194,280)	(66,224)	-	(262,386)
Transfer from provisions due to provision reversal	-	-	-	-	-	-	-
Profit for the current year	-	-	-	-	-	-	-
Loss for the current year	-	-	-	-	-	(83,145,636)	(83,145,636)
Balance as at December 31, 2017	171,128,873	187,857,209	15,665,734	6,737,581	68,688	(83,145,636)	298,312,449

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CASH FLOW STATEMENT**For the period January 1 - December 31, 2017****(Thousands of RSD)**

	Note	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES			
Interest receipts		11,714,457	11,882,822
Fee and commission receipts		3,260,886	3,225,067
Inflows from sales of products and services (Institute for Manufacturing Banknotes and Coins)		6,787,891	8,447,413
Inflows from other operating activities		6,147,352	13,830,050
Receipts from dividends and profit sharing		128,715	97,301
Cash inflow from operating activities		28,039,301	37,482,653
Interest payments		(6,398,084)	(5,408,564)
Fee and commission payments		(1,024,349)	(603,943)
Payments for operating expenses		(15,868,643)	(18,937,289)
Cash outflow from operating activities		(23,291,076)	(24,949,796)
Net decrease in deposits received		(10,367,867)	(30,071,956)
Net increase/(decrease) in loans and placements		54,445,890	(1,613,128)
Net increase in securities held for trading and other securities not intended for investment		48,857,231	72,371,999
Net increase in loans and increase in deposits received		92,935,254	40,686,915
Income tax paid		(408,113)	(348,354)
Payment of the distributed result - transfer to the budget of the Republic of Serbia		(9,603,512)	-
Net cash inflow from operating activities		87,671,854	52,871,418
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from the sale of intangible assets, property, plant and equipment		-	1,118
Purchases of intangible assets, property, plant and equipment		(794,735)	(575,150)
Net cash outflow from investing activities		(794,735)	(574,032)
CASH FLOW FROM FINANCING ACTIVITIES			
Net inflow from short-term borrowings		9,598,468	2,400,151
Net cash inflow from financing activity		9,598,468	2,400,151
Net increase in cash and cash equivalents		96,475,587	54,697,537
Cash and cash equivalents at the beginning of the period		211,316,825	128,938,720
Foreign exchange gains/(losses), net		(89,666,251)	27,680,568
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2 (e)	218,126,161	211,316,825

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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 FNRJ, 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 Bank shall be to achieve and maintain price stability. In addition to its primary objective, the Bank shall also strive towards maintaining financial system stability. Without prejudice to its primary objective, the Bank 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;
- 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;

1. BANK'S ESTABLISHMENT AND ACTIVITY (Continued)

- Protects the rights and interests of the beneficiaries of services rendered by banks, leasing companies, insurance companies and companies managing voluntary pension funds in accordance with the law;
- 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, the Governor and the Council of the Governor.

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 labour 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. 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, 2017. the Bank had 2.355 employees (December 31, 2016 2.357 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 revalued 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 3.11

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

The following standards, interpretations and amendments to the published standards have entered into force for the accounting period beginning on or after January 1, 2017 but have no effect on these financial statements:

- Amendments to IAS 7 "Cash Flow Statement" - Disclosure Initiation for annual periods beginning on or after January 1, 2017;
- Amendments to IAS 12 "Taxes on Profit" - recognition of deferred tax assets for unrealized losses, applying for annual periods beginning on or after January 1, 2017;
- Annual Improvements to IFRS 2014 - 2016 - Amendments to IFRS 12 "Disclosure of Participation in Other Entities", applied for annual periods beginning on or after January 1, 2017.

At the statement of financial position date, the following standards, revisions and interpretations had been issued, but not yet effective:

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

e) New Standards, Interpretations and Revisions to Issued Standards (Continued)

- IFRS 9 "Financial Instruments", which replaces the requirements of IAS 39 "Financial Instruments: Recognition and Measurement", relating to the classification and measurement of financial instruments. IFRS 9 applies for annual periods beginning on or after January 1, 2018, with early application permitted;
- Amendment to IFRS 9 - "Prepayment Features with Negative Compensation", to be applied for annual periods beginning on or after January 1, 2019, with early application permitted;
- IFRS 15 "Revenue from Contract with Customers", which defines the income recognition framework (when, how much and what revenue is recognized) in five steps: identification of the contract, identification of the contractual obligation, pricing, allocation of the price to individual contractual obligations and recognition of income in accordance with the fulfilment of contractual obligations. IFRS 15 replaces the requirements of IAS 18 "Revenues", IAS 11 "Construction Contracts", IFRIC 13 "Customer Loyalty Programs", IFRIC 15 "Real Estate Agreements" and IFRIC 18 "Transfer of Assets from Customers". IFRS 15 is applied for annual periods beginning on or after January 1, 2018, with early application permitted;
- Amendments to IFRS 15 - IFRS 15 "Revenue from Customer Contracts", applied for annual periods beginning on or after January 1, 2018, with early application permitted;
- Amendments to IFRS 2 "Payments to Shares" - Classification and Valuation of Payment Transactions with Shares, applied for annual periods beginning on or after January 1, 2018;
- The application of IFRS 9 "Financial Instruments" under IFRS 4 "Insurance Contracts", applied for annual periods beginning on or after January 1, 2018;
- Amendments to IAS 40 "Transfers of Investment Property", applied for annual periods beginning on or after January 1, 2018;
- IFRS 2014 Annual Improvement Cycle - 2016 - amendments to IFRS 1 "First-time Adoption of IFRSs" and IAS 28 "Investments in Associates and Joint Ventures", applied for annual periods beginning on or after January 1, 2018;
- IFRIC 22 interpretations - foreign exchange transactions and consideration of improvements, applied to annual periods beginning on or after January 1, 2018;
- IFRS 16 "Leasing", which eliminates the difference between operational and financial leasing, applied for annual periods beginning on or after January 1, 2019;
- IFRIC 23 interpretations - uncertainty regarding tax treatment, applied for annual periods beginning on or after January 1, 2019;

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

e) New Standards, Interpretations and Revisions to Issued Standards (Continued)

- Amendments to IAS 19 - Amendment, Restriction or Settlement Plan,, applied for annual periods beginning on or after January 1, 2019;
- Annual Improvement Letter IFRS 2015 - 2017 - amendments to IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Taxes on Profit" and IAS 23 "Borrowing Costs", applied for annual periods beginning on or after January 1, 2019;
- Amendments to IFRS 10 and IAS 28 - sale or contribution of investors' funds to associates or joint ventures, applied for annual periods beginning on or after January 1, 2019 and
- IFRS 17 "Insurance Contracts", applied for annual periods beginning on or after January 1, 2021.

The Bank's management is currently considering the impact of these standards and interpretations on the Bank's financial statements, as well as the date of their entry into force. These standards, interpretations and amendments to the published standards will not, according to the assessment, have a significant impact on the Bank's financial statements in the period after their application, except for the application of IFRS 9 "Financial Instruments", the application of which will not lead to significant changes in the valuation method, but will lead to changes in the classification of financial assets, which is explained in detail in the Note below 2f) IFRS 9 "Financial Instruments".

f) IFRS 9 "Financial Instruments"

In July 2014, the International Accounting Standards Board published the final version of IFRS 9 "Financial Instruments". IFRS 9 is applied on an annual basis starting from January 1, 2018, with early application permitted.

Based on the implementation of IFRS 9, which includes the training of employees, analysis of existing financial assets and liabilities and accompanying documentation and regulations, the preparation of a trial classification, assessment of the effects of the new classification on the financial position and the Bank's result, preparation of a proposal for changes to internal regulations in the classification section and valuation of financial instruments of the Bank and adjustment of appropriate business applications, the estimated amount of effects on an undistributed result based on the first application of IFRS 9 as of January 1, 2018 is approximately RSD 77,958 thousand, and the same refers to negative adjustments to equity (retained earnings) based on the changed method of calculating the impairment of financial assets.

The effect on the retained earnings on January 1, 2018, which arises as a result of changing the valuation method, does not exist, bearing in mind that there will be no change in the method of valuation of financial instruments. Financial instruments that have been measured at amortized cost or at fair value will continue to be measured at amortized cost, or at fair value, regardless of where the gains or losses arise from the change in fair value will be recognised, in equity or in the income statement.

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

f) IFRS 9 “Financial Instruments” (Continued)

Financial assets classified according to IAS 39 in the category Financial assets at fair value through profit and loss held for trading (December 31, 2017: RSD 727,466,250 thousand), according to IFRS 9, will be reclassified to the category Financial assets at fair value values through the other comprehensive income.

Due to the reclassification of financial assets, the application of IFRS 9 will have an effect on the Bank's financial result for 2018, primarily as a result of the change in the method of recognition of gains and losses arise from the change in fair value of financial assets carried at fair value, bearing in mind that IFRS 9 allows for the change in the fair value of financial assets held within a business model whose primary objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are not recognised in the income statement, but within the equity as unrealized gains and losses until the moment of their realization, while the part of the change in the fair value related to credit risk is recorded in the income statement.

The assessment above preliminary, bearing in mind that all the implementation activities of IFRS 9 have not been completed. The final amount of the effects of the application of IFRS 9 may be changed due to the review and finalization of the model for the calculation of expected credit losses as well as due to the fact that the accounting policies, assumptions and assessment methods are subject to change until the Bank finalises the first financial statement which includes the effective date of the application of IFRS 9.

Classification - financial assets

IFRS 9 introduces a new concept of classification of financial assets that reflects the objectives of business models in which the financial assets are managed and of their cash flow characteristics.

IFRS 9 introduces three principal categories in which financial assets are classified:

- financial assets that are measured at amortized cost,
- financial assets that are measured at fair value through other comprehensive income,
- financial assets that are measured at fair value through profit and loss.

IFRS 9 eliminates existing IAS 39 categories, that is, financial assets held to maturity, loans and placements and financial assets held for sale.

According to IFRS 9, financial assets are classified in the category of financial assets that are valued at amortized cost if they meet the following two conditions:

- financial assets are held within the bussines model whose objective is to hold assets to collect contractual cash flows, and
- its contractual terms give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding .

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

f) IFRS 9 “Financial Instruments” (Continued)

Classification - financial assets (continued)

Financial assets are classified in the category of financial assets that are measured at fair value through other comprehensive income if they meet the following two conditions:

- financial assets are held within the business model whose objective is to hold assets to collect contractual cash flows and selling financial assets and
- its contractual terms give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets - other than those classified in the category of financial assets that are measured at amortized cost or fair value through the other comprehensive income - are measured at fair value through profit and loss.

Exceptionally, at initial recognition of financial assets, Bank may make an irrevocable election:

- that financial assets, even if they meet the criteria for classification and valuation at amortized cost or fair value through the other comprehensive income, are valued at fair value through profit and loss if it eliminates or substantially reduces the accounting mismatch that would otherwise exist in their valuation,
- that the change in the fair value of financial assets measured at fair value through profit and loss, which are the equity instruments within the scope of IFRS 9 and which are not held for trading (on an investment-by-investment basis), is disclosed through the other comprehensive income.

Business model estimation

The Bank determines the type of business model within which certain financial assets are held based on:

- policies and objectives related to certain financial assets (implementation of monetary and foreign exchange policies and other measures and activities within the Bank's competence, liquidity management, maintenance of maturity structure of financial assets and liabilities, earning interest income, earning income based on the changes in fair value of financial assets, etc.),
- the frequency, volume and moment of sale of financial assets in the previous period, the reasons for these sales and expectations in relation to future sales activities,
- how the performance of the financial assets are evaluated and reported to the Bank's key management personnel,
- the risks that affect the performance of the financial assets and the way in which those risks are managed, etc.

Estimation of cash flows arising in connection with a financial asset

For the purpose of estimating the cash flows arising from a financial asset:

- the principal represents the amount transferred by the Bank (paid) in the acquisition of that financial asset;
- interest on the principal amount outstanding, on a fixed date, represents consideration for the time value of money, credit risk, other basic lending risks, administrative costs and profit margin, including any real amount of the liquidity risk premium.

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

f) IFRS 9 “Financial Instruments” (Continued)

Estimation of cash flows arising in connection with a financial asset (continued)

The Bank analyzes the cash flow characteristics of the financial assets, i.e. the analysis of whether cash flows represent an inflow solely on the basis of principal and interest payments, is performed on the basis of contractual terms related to financial assets. The analysis involves reviewing contractual provisions that may lead to a change in the time or amount of contracted cash flows in the sense that they do not constitute inflows solely on the basis of principal and interest payments, due to these changes, and the contractual provisions relating to:

- the amount of interest, whether interest is compensation for the time value of money, credit risk, other basic lending risks, administrative costs and profit margin, including any real amount of liquidity risk premium,
- contracting variable interest rates,
- possibility of early repayment,
- possibility of sale (purchase from the other party) before maturity,
- the existence of an inflow based on a change in the fair value of a financial asset,
- other contractual conditions that create exposure to deviation from the contracted cash flow.

Analysis of the effects of classification and evaluation

Based on a preliminary analysis of the financial assets as at December 31, 2017, there are no effects on the retained earnings, i.e. effects on the opening balance, as a result of changing the valuation method, bearing in mind that there will be no change in the way in which the financial assets will be evaluated. Financial assets that have been measured at amortized cost or at fair value will continue to be measured at amortized cost, or at fair value, regardless of where the gains or losses on fair value change will be recognised, in equity or in the income statement.

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

f) IFRS 9 “Financial Instruments” (Continued)

Analysis of the effects of classification and evaluation

The following table summarizes the valuation method and reclassification of financial assets after the beginning of the application of IFRS 9, for the Bank's financial assets as at December 31, 2017:

		Thousands of RSD				
		Method of classification and valuation of financial assets - IFRS 9 as at January 1, 2018				
	Total Financial assets December 31, 2017 IAS 39	(Additional loss allowance) / reversal of loss allowance IFRS 9	Valued at amortized cost	Valued at fair value through profit and loss - mandatory	Valued at fair value through other comprehensive income - mandatory	Valued at fair value through other comprehensive income - designated
Cash and current accounts held with banks	210,176,735		210,176,735	-	-	-
Deposits	163,274,147	(5,206)	163,268,941	-	-	-
Financial assets at fair value through profit and loss	727,503,422	(23,637)	-	37,172	727,442,613	-
Financial assets available for sale	9,931,739		-	-	-	9,931,739
Financial assets held to maturity	3,026,769		3,026,769	-	-	-
Loans and placements	1,145,859	(133,943)	1,011,916	-	-	-
IMF membership quota and SDR holdings	100,376,672		100,376,672	-	-	-
Other assets	373,758	84,828	458,586	-	-	-
Total	1,215,809,101	(77,958)	478,319,619	37,172	727,442,613	9,931,739

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

f) IFRS 9 “Financial Instruments” (Continued)

Impairment of financial assets

IFRS 9 introduced a new approach of an expected credit loss for accounting for impairment, as opposed to an approach based on an incurred loss model in accordance with IAS 39. The new model focuses on the future, provides a better insight into the risks to which entities are exposed and provides better information on potential losses on financial assets.

The Bank will recognise a loss allowance (disclosure of a value adjustment) for the expected credit losses of financial assets that are measured at amortized cost and financial assets at fair value through other comprehensive income in accordance with the requirements of IFRS 9.

Expected credit loss is the amount of the present value of estimated credit losses, with the respective risks of a default occurring as the weights.

Financial assets are classified as impairment level 1, 2 or 3 based on an assessment of whether the credit risk has been significantly increased in relation to the risk that existed at the date of initial recognition of those financial assets.

Financial assets are classified within the impairment level 1 if they are determined to have low credit risk or if the credit risk has not been significantly increased since initial recognition of those financial assets. For these financial assets the loss allowance is measured at an amount equal to 12-month expected credit losses.

Financial assets are classified within the impairment level 2 if it is estimated that the credit risk has been significantly increased in relation to the risk that existed at the date of initial recognition and for these financial assets the loss allowance is measured at an amount equal to the life time expected credit losses.

Financial assets are classified within the impairment level 3 if it is estimated that the credit risk has been significantly increased, so that the value of these financial assets can be considered to be impaired, and for these financial assets the loss allowance is measured at an amount equal to the life time expected credit losses.

Financial assets whose credit value is impaired at initial recognition are required to be classified in impairment level 3 and remain at that level throughout the life cycle.

When defining the criteria for assessing the increase in credit risk that are considered significant, all financial assets for which the estimated credit losses are assessed are applied criteria that are in line with the criteria in use in the regular management of credit risks for the related financial assets, including the consideration of qualitative indicators, and in particular:

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

f) IFRS 9 “Financial Instruments” (Continued)

Impairment of financial assets (Continued)

- significant financial difficulties of the debtor,
- changes in the terms of a financial asset established (contracted, determined or otherwise established in accordance with the regulations), which would then differ significantly from market conditions,
- changes in the internal / external credit rating of the debtor,
- significant changes in the economic branch (in financial and / or economic conditions),
- changes in the operating result of the debtor,
- a significant increase in the credit risk of other financial assets of the same borrower,
- changes in the value of the collateral or third-party guarantees,
- past due information,
- other relevant indicators.

Regardless of the criteria used in the regular credit risk management for the related financial assets - if it is not proven otherwise, it is considered that there has been a significant increase in the credit risk of all financial assets that were due on the last day of the reporting period, and contractual payments are more than 30 days past due.

The value of the financial asset is impaired (credit - impaired assets) when one or more events that have a detrimental impact on the estimated future cash flow of that financial asset occur, and then the asset is classified within impairment level 3.

Evidence of the impairment of the value of all financial assets subject to the assessment of expected credit losses include, in particular, available information on the following events:

- significant financial difficulties of the debtor,
- breach of contract or other established conditions, such as default or past due event,
- debt restructuring for economic or legal reasons related to the financial difficulties of the debtor,
- the obvious possibility that bankruptcy proceedings or other forms of financial reorganization will be initiated against the debtor,
- the cessation of the existence of an active market for a financial asset due to the financial difficulties of the borrower,
- purchase or issue of a high-discount financial asset that reflects the incurred credit losses.

Regardless of the criteria used in the regular credit risk management for the related financial assets - if it is not proven otherwise, it is considered that the financial asset has become a defaulting status (impairment level 3 impairment) if it is due on the last day of the reporting period, and contractual payments are more than 90 days past due.

Expected credit losses of financial assets are estimated on an individual or collective basis for financial assets with the same characteristics, taking into account all relevant and available quantitative and qualitative information, related to past, present and future events.

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

f) IFRS 9 “Financial Instruments” (Continued)

Impairment of financial assets (Continued)

The ways in which it is determined whether the financial assets have a low credit risk and the procedures on the basis of which it is estimated whether the credit risk is significantly increased on the reporting date in relation to the date of initial recognition, as well as the procedures for assessing the amount of the impairment, the method and the techniques used to estimate the impairment, the models used to measure expected credit losses are set out in the methodologies for assessing the impairment on the basis of expected credit losses within the relevant organizational units of the Bank, and that:

- cash and current accounts with banks,
- foreign exchange reserves,
- financial assets obtained in the framework of activities related to the implementation of monetary policy and instruments envisaged by the Law and other laws,
- IMF membership quota and special drawing rights holdings,
- receivables under contract with customers and
- housing loans and other assets.

Analysis of the effects of the estimated expected credit loss

As a result of the new approach to the impairment of financial assets based on expected losses, according to preliminary calculations, through the adjustment of the opening retained earnings , on January 1, 2018, additional provisions for estimated credit losses will be made in the amount of RSD 77,958 thousand.

The amount of required provisions for estimated credit losses is preliminary calculated for the financial assets as at December 31, 2017, by using the impairment assessment methodology of expected credit losses of financial assets.

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

f) IFRS 9 “Financial Instruments” (Continued)

Analysis of the effects of the estimated expected credit loss (Continued)

The presentation of existing provisions made in accordance with IAS 39 and estimated provisioning amounts in accordance with IFRS 9 in relation to the Bank's financial assets is as follows:

	Thousands of RSD			
	Gross carrying amount December 31 2017	Amount of the provision made December 31 2017 IAS 39	Estimation of expected credit loss January 1 2018 IFRS 9	Difference (additional loss allowance) / reversal of loss allowance
Cash and current accounts held with banks	211,016,791	(840,057)	(840,057)	-
Deposits	165,932,022	(2,657,875)	(2,663,081)	(5,206)
Financial assets at fair value through profit and loss*	727,466,250	-	(23,637)	(23,637)
Financial assets held to maturity	3,690,975	(664,205)	(664,205)	-
Loans and placements	2,678,253	(1,532,394)	(1,666,337)	(133,943)
IMF membership quota and SDR holdings	100,376,672	-	-	-
Other assets	3,734,368	(3,360,610)	(3,275,782)	84,828
Total	1,214,895,331	(9,055,141)	(9,133,099)	(77,958)

* Reclassified and valued at fair value through other comprehensive income on January 1, 2018

Classification – financial liabilities

IFRS 9 largely retains the existing requirements regarding the classification of financial liabilities.

However, according to IAS 39, all changes in the fair value of financial liabilities that are measured at fair value through profit and loss are recognized in the income statement, while in accordance with IFRS 9, these fair value changes are presented as follows:

- the amount of the fair value change attributable to the change in the credit risk associated with liabilities is recorded in the other comprehensive income,
- the residual amount of the change in fair value is recorded in the income statement.

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

f) IFRS 9 "Financial Instruments" (Continued)

Classification - financial liabilities

The following table summarizes the valuation method of financial liabilities after the beginning of the application of IFRS 9, for the Banks's financial liabilities as at December 31, 2017:

	Thousands of RSD		
	Total financial liabilities December 31, 2017	Valued at amortized cost	Valued at fair value through profit and loss
Financial liabilities at fair value through profit and loss	35,365	-	35,365
Deposits and other liabilities to banks and other financial organizations	484,110,032	484,110,032	
Deposits and other liabilities to Government and other depositors	268,456,537	268,456,537	-
Liabilities to the IMF	100,427,584	100,427,584	-
Dinars in circulation	163,944,539	163,944,539	-
Other liabilities	4,107,549	4,107,549	-
Total	1,021,081,606	1,021,046,241	35,365

Based on the preliminary analysis of financial liabilities as at December 31, 2017, the effects on the retained earnings, i.e. effects on the opening balance as at January 1, 2018, arising from the application of IFRS 9, do not exist.

Application of IFRS 9

The Bank will apply IFRS 9 "Financial Instruments" as at January 1, 2018. Based on the permitted approach under IFRS 9, the Bank will not compile comparative data for the previous period (December 31, 2016) regarding changes in classification and valuation (including changes in impairment calculation method). All differences in the carrying amount of financial assets and financial liabilities arising from the application of IFRS 9 will generally be recognized in the retained earnings on January 1, 2018.

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

g) Cash flow statement

Cash and cash equivalents in the cash flow statement are presented in the following table:

	Thousands of RSD	
	December 31, 2017	December 31, 2016
Cash in hand (Note 12)	128,334,483	105,302,658
Current accounts with banks, net amount (Note 12)	81,842,252	96,911,161
Funds in SDR (Note 19)	7,949,426	9,103,006
Total	218,126,161	211,316,825

h) Comparative data

Accounting policies and estimates relating to the recognition and valuation of assets and liabilities used in the preparation of these financial statements are consistent with the accounting policies and estimates applied in the preparation of the Bank's financial statements for the year 2016. For the needs of a better presentation, the Bank adjusted the comparative data in certain segments.

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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Foreign Currency Translation (Continued)

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. The structure of monetary assets and liabilities is presented in the framework of the foreign currency risk analysis in Note 31.

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 at fair value through profit and loss

Financial assets at fair value through profit and loss comprise securities designated as securities at fair value through profit and loss on initial recognition and securities held for trading. Financial assets at fair value through profit and loss relate mainly to bonds issued by the most developed countries, international financial institutions, federal units of the most developed countries and financial institutions with the support of these countries, as well as bonds issued on the basis of first class collateral and are shown in the balance sheet at fair value on the balance sheet date, quoted on the financial market. The effects of changes in fair value, as well as gains and losses arising from the sale of bonds, are presented in the income and loss on the basis of financial assets held for trading. During the holding of securities, the Bank defines the interest rate and records the revenues from the collection of coupons within the position of interest income. In discount securities, interest income is recorded separately from net loss / gain on financial assets held for trading.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are valued at amortized cost less impairment charges. Loans are stated separately, while receivables are presented in other assets.

Financial assets held to maturity

Financial assets held to maturity are investments in debt securities where the Bank has a firm intention and the ability to hold these securities until maturity. These securities are valued at amortized cost less impairment costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Financial Instruments (Continued)

Deposits

Deposits include time deposits in accounts with foreign banks with adequate rating and other deposits, and are stated at amortized cost.

Financial assets available for sale

Available-for-sale financial assets are non-derivative assets that are either classified directly in this category or do not belong to any other category. Equity investments in international financial institutions are stated at fair value, denominated in foreign currency. The effects of changes in exchange rates are included in the income statement in the income and expense from exchange rate differences and the effects of the currency clause. Equity interests of legal entities in the country are stated at fair value if it is determinable or at cost less impairment based on impairment if fair value is not determinable.

Available-for-sale financial assets for which there is an active stock exchange market are adjusted at fair value at the end of each month. Changes in the fair value of equity and available-for-sale financial assets are recorded within equity as a reserve on the basis of available-for-sale financial assets. Gains and losses arising from the sale of these assets are recorded in the income statement.

Financial liabilities at amortized cost

Financial liabilities for repo transactions are valued at amortized cost. The difference between the cost and the redemption value is recognized in the income statement on the basis of the effective interest method.

Swap transactions

The Bank organizes a swap of auctions of the sale or purchase of foreign currency, which are a regular instrument for securing the foreign exchange, ie, dinar liquidity of the banking sector. The aim of their organization was to encourage the development of the interbank swap of foreign exchange trading and the development of the market of instruments for protection against the risk of changing the foreign exchange rate.

At the balance sheet date, the Bank values swaps at fair value. The positive fair value of swaps is recognized as an asset, negative as an obligation, and the effects of the change in fair value are recognized in the income statement.

Stake and liabilities to the International Monetary Fund

Assets and liabilities to the International Monetary Fund expressed in special drawing rights are estimated at the special drawing rights rate published by the International Monetary Fund - using the official middle exchange rate of the USD dinar that is valid on the appropriate date. Transactions in Special Drawing Rights are converted into Dinars using the official middle exchange rate of the National Bank of Serbia at the time of the transaction.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Financial Instruments (Continued)

Date of recognition and fair value

Regular purchases and sales of placements are recognized at the date of the transaction - the date on which the Bank pays for the purchase or receives funds from the sale of assets. All placements, except financial assets at fair value through profit and loss, are initially recognized at fair value plus transaction costs.

Financial assets at fair value through profit and loss are initially recognized at fair value, and transaction costs are recorded in the income statement. Assets are deducted when the rights on the basis of which investment inflows are acquired expire or are transferred and when the Bank essentially transfers all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently measured at fair value. Loans, receivables and investments held to maturity are valued at amortized cost using the effective interest rate method.

Gains and losses arising from the change in the fair value of financial assets at fair value through profit and loss, including interest income, are recorded in the income statement in the period in which they arise. Dividends on the basis of available-for-sale equity are recorded in the income statement at the time when the Bank's dividend right is exercised.

The fair value of financial assets quoted on the stock exchange is determined on the basis of fair values. In the case of instruments for which there is no active market (not quoted on the stock exchange), the Bank determines their fair value based on an estimate using information on recent transactions on the market, using the discounted cash flow method or using the option pricing model.

Impairment of financial assets

Financial assets, other than financial assets carried at fair value through profit and loss, are estimated for impairment indicators at each balance sheet date. The assessment of impairment of financial assets is carried out individually for each item of financial assets. The Bank does not assess impairment of financial assets on a group basis. Financial assets are depreciated where it is proved that, as a result of one or more events that occurred after the initial recognition of financial assets, the estimated future cash flows of the investment have changed.

Objective evidence of impairment may include: significant financial difficulties of the issuer or beneficiary, delay or failure to repay the interest or principal, or the possibility that the debtor will fall into bankruptcy, liquidation or financial reorganization. In assessing the existence of evidence of impairment of financial assets, the Bank's management, apart from the financial position of the debtor, also considers the net sales value of the collateral security.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Financial Instruments (Continued)

For non-listed companies that are classified as available-for-sale, a significant or prolonged decline in the fair value of a value below its cost is considered objective evidence of impairment.

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

The carrying amount of financial assets is decreased indirectly through the use of impairment for all financial assets, except for financial assets valued at fair value and recorded in the net expense position based on impairment of financial assets and credit risk off-balance sheet items. If, in the course of the next year, the amount of a recognized impairment loss arises as a result of an event occurring after a previously recognized impairment, the previously recognized impairment loss is reduced by adjusting the allowance account and the amount of the adjustment is recognized in the income statement.

In the case of equity instruments within available-for-sale financial assets, impairment losses previously recognized through the income statement are not reversed through the income statement, but are recognized directly in equity.

Derecognition

Financial assets cease to be recognized when the Bank loses control over the contractual rights over these instruments, which occurs when the rights to use the instruments are realized, expired, abandoned or transferred. The financial liability ceases to be recognized when the liability ceases to exist.

A financial asset or part of a financial asset is written off directly when the Bank loses control over the contractual right that represents that asset or part of a financial asset. The bank loses control when it realizes the right to use the asset, when it abandons that right or when that right expires.

3.4. Cash and current accounts with banks

Cash and cash equivalents include cash and balances on current accounts.

3.5. Gold and other precious metals

Gold and other precious metals are measured at fair value at the balance sheet date.

Precious metals, which are part of the foreign exchange reserves, were estimated at the price of gold and silver in the day-to-day fixing at the London Bullion Market Association, using the official US dollar average dinar exchange rate valid on the last day of the month, or on the basis of the price Platinum & Palladium Market Association, London fixing, using the official mid-dinar exchange rate for the US dollar that was valid on the last day of the month.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Gold and other precious metals (Continued)

The effects of changes in the fair value of gold and other precious metals that are part of the foreign exchange reserves are presented in the profit and loss account, as gain / loss on the basis of exchange differences and the effects of the contractual currency clause.

The Bank assessed the cost of affinity with the balance as of December 31, 2017, in order to examine the material significance of the estimated amounts to the total financial statements and to consider the potential need to adjust the fair value of gold and other precious metals. Estimated cost of affinity on December 31, 2017, in the amount of RSD 132,770 thousand (December 31, 2016: RSD 152,806 thousand), does not represent a materially significant amount in the sense of IAS 8 "Accounting Policies, Changes in Accounting Policies and Errors".

3.6. 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.

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

Plant, equipment and intangible assets are stated at cost less any allowance for impairment. The Bank applied the allowed alternative method of measuring real estate that it uses, a part of other fixed assets (works of art) and parts of equipment (period furniture) at the revalued value.

An increase in the revalued value of the land that is recorded in the Bank's bookkeeping records, ie the recording of the difference in the estimated value and present carrying amount is disclosed through the increase in revaluation reserves. Decrease in value based on revaluation is recorded by a proportional decrease in cost and accumulated amortization of fixed assets, and an increase in value based on revaluation - in proportion to the increase in cost and accumulated amortization of fixed assets. The amounts of accrued revaluations are recorded in favor of the total remaining results, for the positive effects of the estimation, and are accumulated on the accounts of revaluation reserves within the capital. The negative effects of the assessment are recognized as the expense of the profit and loss account, unless the revaluation reserve has been formed for the specific asset in the previous periods, in which case the negative effects are recognized in the balance of the total remaining results, to the level of previously formed revaluation reserves. Positive effects of the valuation are recognized in favor of the profit and loss account only up to the amount of previously recognized negative valuation effects in the event that individual items in previous periods had a negative impact on the appraisal recognized at the expense of the profit and loss account.

Investment property is valued at fair value. The effects of the change in fair value are disclosed at the expense or in favor of the profit and loss account. Revenues from the issuance of investment property leased are recorded in favor of the profit and loss account in other operating revenues, respecting the principle of time-based income accrual.

The basic assumptions for estimating the value of real estate used and investment property are explained in Note 20.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Property, plant, equipment, investment property and intangible assets (Continued)

Calculation of depreciation of property, plant and equipment and intangible assets begins when these assets are put into use. Depreciation is calculated equally on the cost of property, plant and equipment using the following annual rates, which were not changed during 2017, with a view to completely disposing of assets during their useful life:

Construction objects	2%
Computers	25%
Furniture and other equipment	3.34% - 20%
Motor vehicles	14.29% - 20%
Intangible assets	25% i.e. the deadline prescribed by the contract

The cost of repairs and maintenance of property, plant and equipment generated to preserve the asset's useful life is recognized as an expense at the time of formation. Capitalization of investment costs is permitted only if it increases or extends the use value of the assets.

The gains arising from the sale of property, plant and equipment are credited to other operating income. The losses incurred in the disposal and disposal of property, plant and equipment are recorded at the expense of other expenses. Revaluation reserve on disposal and write-offs of assets transferred to retained earnings.

The Law on Public Property prescribes that the Government of the Republic of Serbia decides on the disposal of immovable property used by the Bank and the establishment of a mortgage on such real estate.

3.8. Funds for operations on behalf of third parties

Funds for transactions in the name and for the account of third parties, which are managed by the Bank for remuneration, are not included in the balance sheet of the Bank, but are carried out within off-balance sheet items.

3.9. Corporate Income Tax

Current taxes

The Bank is a tax payer in accordance with the provisions of the Law on Corporate Income Tax of the Republic of Serbia and the Regulations on the Contents of the Tax Balance for Non-Profit Organizations - Taxpayers of Corporate Taxes, explained in more detail in Note 26.

Deferred taxes

Deferred income taxes are calculated according to the balance sheet on all temporary differences on the balance sheet date between the present value of assets and liabilities, in the financial statements, and their values for purposes of taxation. The Bank does not account for and does not disclose deferred taxes due to the absence of temporary differences.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. 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 a discounted amount of fees that are expected to be paid in exchange for the services provided by employees. The Bank implements a defined remuneration plan for employees in accordance with internal acts, according to which the employee is entitled to severance pay in the amount of three times the earnings he earned for the month preceding the month in which his employment is terminated or in the amount of three times the average monthly salary per employee paid in for the month preceding the month in which his employment is terminated, depending on which of these two amounts is more favorable. The last estimate of the present value of liabilities based on the established compensation plan was made as of December 31, 2017.

The Bank uses the best possible estimates of the variables when determining the total cost of provisioning for termination benefits. The basic assumptions of the assessment are explained in Note 25.

In the financial statements of the Bank as at December 31, 2017, provision was made on the basis of the estimated present value of retirement funds for retirement after fulfilled conditions, as well as the provision based on the estimated present value of jubilee awards. The Bank applied the actuarial method of lending to the projected unit for determining the present value of its liabilities and all actuarial assumptions, primarily demographic (mortality and disability), in accordance with IAS 19 – “Employee Benefits”.

Actuarial gains and losses and costs of previously performed services are recognized in the income statement when they occur, while actuarial gains and losses on retirement benefits are recognized in the statement of other comprehensive income.

Payments for unused annual holidays from the current year represent short-term liabilities of the Bank. In the financial statements of the Bank as at December 31, 2017, provision was made for funds for the payment of compensation for the days of unused annual leave for 2017, which employees did not use during 2017. The Bank's obligation shall cease if the employee does not use the holiday until June 30 of the following year. The bank is obliged to pay compensation for damage based on unused annual leave only in case of unused vacation in case of termination of employment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Summary of Key Accounting Estimates (Continued)

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.

4. NET INTEREST INCOME

	Thousands of RSD	
	Year ended	
	2017	December 31, 2016
Interest income from:		
Debt securities:		
- in dinars	29,426	-
- in foreign currency	7,458,945	8,730,568
Deposits placed:		
- in dinars	148	154
- in foreign currencies	1,136,934	598,742
Loans approved:		
- in dinars	62,637	374,971
- in foreign currencies	12,328	-
Other investments:		
- in dinars	677	395
- in foreign currencies	56	2,097
	<u>8,701,151</u>	<u>9,706,927</u>
Interest expenses arising from:		
Deposits in dinars:		
- required special reserve of banks in dinars	(2,671,452)	(2,512,686)
- surplus liquid assets of banks	(351,283)	(707,774)
- transaction deposits	(614)	(938)
Deposits in foreign currencies:		
- time deposits	(95,718)	(24,079)
- demand deposits	(6,610)	(1,677)
Repurchase transactions	(1,485,515)	(1,288,753)
Liabilities to IMF	(43,972)	(10,299)
Borrowings	(104,388)	(113,056)
Other	(449)	(1,849)
	<u>(4,760,001)</u>	<u>(4,661,111)</u>
Net interest income	<u>3,941,150</u>	<u>5,045,816</u>

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5. NET FEE AND COMMISSION INCOME

	Thousands of RSD	
	Year ended	
	December 31,	
	2017	2016
Fee and commission income in dinars:		
- fees for RTGS and clearing operations	1,185,902	1,091,183
- fees for enforced collection	1,249,097	1,209,818
- fees for supervision over insurance operations	390,737	392,024
- other fees in dinars	321,502	403,160
Fee and commission income in foreign currencies		
- positive effects of arbitration	245,149	221,574
- fees for foreign exchange and currency transactions	889,002	691,024
- operating fees in the name and on behalf of third parties	178,156	227,335
- other fees in foreign currency	48,687	66,675
	4,508,232	4,302,793
Fee and commission expenses in dinars:		
- commission based on the sales of bill of exchange forms	(17,856)	(17,074)
- other dinars fees and commissions	(2,188)	(1,956)
Fee and commission expenses in foreign currencies:		
- stand-by arrangement with IMF and commitment fee	(200,434)	(152,708)
- foreign account maintenance fees and foreign payment transactions	(60,290)	(65,582)
- negative effects of arbitration	(561,170)	(214,483)
- fee for foreign exchange and currency transactions	(174,051)	(157,965)
- other fees in foreign currency	(280)	(261)
	(1,016,269)	(610,029)
Net fee and commission income	3,491,963	3,692,764

6. NET LOSSES ON THE FINANCIAL ASSETS HELD FOR TRADING

	Thousands of RSD	
	Year ended	
	December 31,	
	2017	2016
Net losses on the fair value adjustment of financial assets at fair value through profit and loss	(5,402,194)	(2,755,865)
Net losses on the sale of financial assets at fair value through profit and loss	(1,344,375)	(1,457,192)
Net gains on swap transactions	8,519	10,812
Net loss	(6,738,050)	(4,202,245)

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7. OTHER OPERATING INCOME

	Thousands of RSD	
	Year ended	
	December 31,	
	2017	2016
Income from operations – ZIN	6,385,073	6,196,319
Income from the sale of bill of exchange forms	178,592	170,745
Rental income	16,153	14,395
Increase in the value of inventories	628,266	116,117
Reversal of provisions for litigations (Note 25)	19,386	14,012
Dividend income	133,011	97,301
Subsequently registered property	4,988	135
Other income	5,220,918	14,034,648
Other operating income	12,586,387	20,643,672

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 16,153 thousand earned during 2017 (2016: RSD 14,395) includes income from the lease of investment property in the amount of RSD 12,342 thousand (2016: RSD 11,597 thousand). Expenses incurred in respect of the lease of investment property in 2017 amounted to RSD 6,144 thousand (2016: RSD 5,424 thousand) and are presented in the other expenses.

Dividend income of RSD 133,011 thousand (2016: RSD 97,301 thousand) was realized based on equity investment in the Bank for International Settlements, Basel.

Out of total amount of other income in 2017, RSD 3,010,846 thousand (2016: RSD 13,711,372) refers to income from liquidation estate of legal entities under the authority of the Deposit Insurance Agency.

8. NET EXPENSES FROM IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE SHEET ITEMS

a) Breakdown of Income and Expenses

	Thousands of RSD	
	Year ended	
	December 31,	
	2017	2016
Income from release of impairment allowances per balance sheet items	54,775	252,551
Collected receivables previously written off	1	25
	54,776	252,576
Expenses from impairment allowances and provisions per balance sheet items	(67,811)	(284,647)
Net expense	(13,035)	(32,071)

b) Breakdown of Impairment Allowances

	Thousands of RSD	
	Year ended	
	December 31	
	2017	2016
Allowance for impairment of:		
- cash and current accounts held with banks	840,057	976,647
- deposits	2,657,875	3,141,093
- financial assets available for sale	230,011	229,998
- financial assets held to maturity	664,205	664,205
- loans and placements	1,532,394	1,538,797
- other assets	3,427,071	3,851,467
Total allowance for impairment	9,351,613	10,402,207

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8. NET EXPENSES FROM IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE SHEET ITEMS
(Continued)

c) Movements on the Accounts of Impairment Allowances

Thousands of RSD

	Cash and current accounts held with banks (Note 12)	Deposits held with banks (Note 14)	Financial assets available for sale (Note 16)	Financial assets held to maturity (Note 17)	Loans and placements (Note 18)	Other assets (Note 21)	Total
Balance as at January 1, 2016	931,408	3,025,657	500	665,430	1,523,603	4,797,742	10,944,340
Change for the period	454	2,016	229,498	-	6,171	49,330	287,469
Collected receivables	-	(44,113)	-	(1,225)	(164,954)	(42,259)	(252,551)
Foreign exchange effects	44,785	157,533	-	-	884	541,547	744,749
Write-offs	-	-	-	-	(6,979)	(1,444,181)	(1,451,160)
Other	-	-	-	-	180,072	(50,712)	129,360
Balance as at December 31, 2016	976,647	3,141,093	229,998	664,205	1,538,797	3,851,467	10,402,207
Change for the period	-	-	13	-	3,187	70,195	73,395
Collected receivables	-	-	-	-	(9,533)	(45,242)	(54,775)
Foreign exchange effects	(136,590)	(483,218)	-	-	-	(437,834)	(1,057,642)
Write-offs	-	-	-	-	(57)	(11,348)	(11,405)
Other	-	-	-	-	-	(167)	(167)
Balance as at December 31, 2017	840,057	2,657,875	230,011	664,205	1,532,394	3,427,071	9,351,613

New value adjustments include, in addition to expenditures based on the impairment of financial assets, inventory write-off expenses in the amount of RSD 5,584 thousand (in 2016: RSD 2,822 thousand).

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9. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

	Thousands of RSD	
	Year ended	
	December 31,	
	2017	2016
Salaries, salary compensations, taxes and contributions	4,162,540	4,281,247
Losses of provisions for retirement and other employee benefits	54,861	80,435
Temporary and seasonal employees	48,420	24,204
Jubilee awards	60,412	51,681
Financial aid to employees	20,767	24,920
Retirement benefits	27,093	20,297
Remunerations to the Council members	8,990	9,231
Other personal expenses	-	32
Total salaries, salary compensations and other personal expenses	4,383,083	4,492,047

10. DEPRECIATION COSTS

	Thousands of RSD	
	Year ended	
	December 31,	
	2017	2016
Depreciation and amortization of:		
- intangible assets	43,151	58,053
- building properties	1,104,354	1,101,502
- equipment	524,068	471,642
- other assets	917	1,137
Total depreciation costs	1,672,490	1,632,334

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11. OTHER EXPENSES

	Thousands of RSD	
	Year ended	
	December 31,	
	2017	2016
Cost of materials	2,592,808	2,691,471
Cost of production services:		
- transportation services	3,869	5,216
- telecommunication services	47,899	45,611
- automatic data transfer	129,460	130,396
- maintenance	243,415	209,140
- rental costs	6,794	7,194
- marketing and advertising	1,167	1,118
- official gazettes and magazines	4,565	6,165
- finishing costs – ZIN	12,687	59,544
- other services	68,617	23,023
Non-material expenses:		
- business travel expenses	30,679	26,460
- employee commuting allowance	84,650	85,109
- fees to voluntary pension funds	102,281	101,527
- employee professional training costs	10,724	10,355
- intellectual services	125,257	192,701
- security services (for property and money)	30,019	28,022
- public utilities	16,403	15,223
- entertainment	8,175	8,047
- insurance premiums	54,268	48,506
- other non-material expenses	45,559	51,261
Tax expenses:		
- property tax	63,335	66,869
- value added tax payable	102,768	86,905
- other taxes payable	19,011	17,348
Contributions paid	6,622	5,652
Expenses on negative interest	666,023	402,095
Other costs	457,798	430,140
Losses on the sale, disposal and write-off of property, plant, equipment and intangible assets	177	101
Losses incurred in the transfers among investment properties and property, plant and equipment	187	12,077
Expenses upon revaluation of property and other fixed assets	66	-
Decrease in the value of inventories	76,664	650
Provisions for litigations (Note 25)	70,262	26,512
Other expenses	52,081	104,559
Total other expenses	5,134,290	4,898,997

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12. CASH AND CURRENT ACCOUNTS HELD WITH BANKS

	Thousands of RSD	
	December 31, 2017	December 31, 2016
Cash on hand:		
- in local currency	30	23
- in foreign currency	128,334,453	105,302,635
	128,334,483	105,302,658
Current accounts:		
- with domestic banks and Bank	8,613,453	14,671,588
- with foreign banks	74,068,856	83,216,220
	82,682,309	97,887,808
Total cash and current accounts held with banks	211,016,792	203,190,466
<i>Allowance for impairment</i>	(840,057)	(976,647)
Total cash and current accounts held with banks	210,176,735	202,213,819

SDR holdings at the IMF's current account, amounted to RSD 7,949,426 thousand (December 31, 2016: RSD 9,103,006 thousand) are presented in Note 19.

13. GOLD AND OTHER PRECIOUS METALS

	Thousands of RSD	
	December 31, 2017	December 31, 2016
Gold and standard tradable gold bullions	4,157,650	4,392,811
Gold and substandard gold bullions	75,819,807	77,261,041
Other precious metals	790,319	901,198
Total gold and other precious metals	80,767,776	82,555,050

14. DEPOSITS

	Thousands of RSD	
	December 31, 2017	December 31, 2016
Deposits:		
- time deposits	166,074,326	209,793,945
- other deposits	18,909	19,740
	166,093,235	209,813,685
<i>Allowance for impairment of time deposits</i>	(2,657,875)	(3,141,093)
Total deposits	163,435,360	206,672,592

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14. 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.

The management of deposits in deposits with banks abroad is done on the basis of the Strategic Guidelines for Managing the Foreign Exchange Reserves of the Bank, as explained in Note 31.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	Thousands of RSD	
	December 31, 2017	December 31, 2016
Coupon bonds	701,777,120	745,934,613
Discount securities	25,689,130	29,217,982
Currency swaps	37,172	7,046
Total financial assets at fair value through profit and loss	727,503,422	775,159,641

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 701,777,120 thousand (December 31, 2016: RSD 745,934,613 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 25,689,130 thousand (December 31, 2016: RSD 29,217,982 thousand) and represent short-term securities denominated in 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 31.

16. FINANCIAL ASSETS AVAILABLE FOR SALE

	Thousands of RSD	
	December 31, 2017	December 31, 2016
Equity investments in dinars:		
- Recreatours d.o.o., Beograd	229,498	229,498
- Other	513	513
	<u>230,011</u>	<u>230,011</u>
Equity investments in foreign currencies:		
- Bank for International Settlements, Basel	9,931,186	10,734,678
- S.W.I.F.T. srl	553	531
	<u>9,931,739</u>	<u>10,735,209</u>
Allowance for impairment of other equity investments in dinars:	<u>(230,011)</u>	<u>(229,998)</u>
Total financial assets available for sale	<u>9,931,739</u>	<u>10,735,222</u>

17. FINANCIAL ASSETS HELD TO MATURITY

	Thousands of RSD	
	December 31, 2017	December 31, 2016
Financial assets held to maturity:		
- Treasury bills, bonds and bills of exchange issued by local banks in bankruptcy or liquidation	664,205	664,205
- Treasury bills and bonds in dinars	2,799,867	2,611,620
- Treasury bills and bonds in foreign currency	226,902	266,202
	<u>3,690,974</u>	<u>3,542,027</u>
- Allowance for impairment	<u>(664,205)</u>	<u>(664,205)</u>
Total financial assets held to maturity	<u>3,026,769</u>	<u>2,877,822</u>

Bonds in RSD in the amount of RSD 2,799,867 thousand (December 31, 2016: RSD 2,611,620 thousand) and bonds in foreign currency in the amount of 226,902 thousand dinars (December 31, 2016: 266,202 thousand dinars) relate to securities issued by the Republic of Serbia, which the Bank has acquired by charging, but not through direct purchase (Note 7). The maturities of these securities are disclosed in Note 31 - Liquidity risk.

18. LOANS AND PLACEMENTS

	Thousands of RSD	
	December 31, 2017	December 31, 2016
Loans and placements:		
- loans to banks in bankruptcy and liquidation	434,813	438,053
- loans to commercial banks	499,609	590,441
- loans to the Republic of Serbia	956,639	956,639
- housing loans approved to employees	652,352	685,711
- other placements	134,840	129,581
	<u>2,678,253</u>	<u>2,800,425</u>
Allowance for impairment of loans and placements		
- loans to banks in bankruptcy and liquidation	(434,813)	(438,053)
- loans to the Republic of Serbia	(956,639)	(956,639)
- housing loans approved to employees	(12,904)	(14,524)
- other placements	(128,038)	(129,581)
	<u>(1,532,394)</u>	<u>(1,538,797)</u>
Total loans and placements	<u>1,145,859</u>	<u>1,261,628</u>

19. IMF MEMBERSHIP QUOTA AND SDR HOLDINGS

	Thousands of RSD	
	December 31, 2017	December 31, 2016
IMF membership quota	92,427,246	103,110,374
SDR holdings	7,949,426	9,103,006
Accrued expenses on behalf of committing funds at the IMF (commitment fee)	<u>28,759</u>	<u>22,655</u>
Total	<u>100,405,431</u>	<u>112,236,035</u>

As at December 31, 2017, the Republic of Serbia's quota in the International Monetary Fund amounted to RSD 92,427,246 thousand (December 31, 2016: RSD 103,110,374 thousand).

The membership quota, stated as a placement denominated in special drawing rights (SDR) amounts to SDR 654,800 thousand (December 31, 2016: SDR 654,800 thousand) is secured with a bill issued by the Government of the Republic of Serbia. Of total increase in the quota 2016, which amounts to SDR 187,100, 75% of the increase is provided by the bill, while 25% is effectively paid to the IMF in euros. The part of the quota increase of 25% and the amount of SDR 46,775 represents a reserve tranche with the IMF.

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

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

	Thousands of RSD							
	Land	Buildings	Equipment	Other Fixed Assets	Investments in progress	Total	Investment Property	Intangible Assets
Cost/revalued amount								
Opening balance as at January 1, 2016	2,825,701	55,083,187	10,309,425	259,403	11,078	68,488,794	467,609	2,025,839
Additions	-	-	-	-	731,958	731,958	-	2,477
Transfer from investment in progress	-	39,752	655,425	3,358	(698,535)	-	-	-
Sales, transfers, disposals and shortages	-	(13,762)	(106,772)	(372)	-	(120,906)	-	(627)
Surpluses and subsequently registered assets	-	-	735	-	-	735	-	-
Other	-	16	-	-	(112)	(96)	-	-
Balance as at December 31, 2016	2,825,701	55,109,193	10,858,813	262,389	44,389	69,100,485	467,609	2,027,689
Additions	-	-	-	-	329,699	329,699	-	69,297
Transfer from investment in progress	-	33,423	311,076	858	(345,357)	-	-	-
Sales, transfers, disposals and shortages	-	-	(132,203)	(911)	-	(133,114)	-	(15,027)
Surpluses and subsequently registered assets	-	-	4,950	58	-	5,008	-	-
Other	-	234,189	563	1,239	(19,090)	216,901	-	9,136
Balance as at December 31, 2017	2,825,701	55,376,805	11,043,199	263,633	9,641	69,518,979	467,609	2,091,095
Accumulated Depreciation/Amortization								
Opening balance as at January 1, 2016	-	40,021,356	6,178,221	21,381	-	46,220,958	-	1,893,119
Change for the period	-	1,101,502	471,642	1,137	-	1,574,281	-	58,053
Sales, transfers, disposals and shortages	-	(3,601)	(104,753)	(372)	-	(108,726)	-	(627)
Other	-	-	-	-	-	-	-	-
Balance as at December 31, 2016	-	41,119,257	6,545,110	22,146	-	47,686,513	-	1,950,545
Change for the period	-	1,104,354	524,068	917	-	1,629,339	-	43,151
Sales, transfers, disposals and shortages	-	-	(132,065)	(694)	-	(132,759)	-	(15,026)
Other	-	102,686	97	-	-	102,783	-	-
Balance as at December 31, 2017	-	42,326,297	6,937,210	22,369	-	49,285,876	-	1,978,670
Current value as at December 31, 2017	2,825,701	13,050,508	4,105,989	241,264	9,641	20,233,103	467,609	112,425
Current value as at December 31, 2016	2,825,701	13,989,936	4,313,703	240,243	44,389	21,413,972	467,609	77,144

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20. INTANGIBLE ASSETS, PROPERTY, PLANT, EQUIPMENT AND INVESTMENT
PROPERTY (Continued)

- There are no established burdens on the assets of the Bank based on securing loans or other obligations.

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 31.

The fair values of assets as at 31 December 2017 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	-	-	13,050,508	13,050,508
Other fixed assets – works of art	-	-	155,522	155,522
Equipment – period furniture	-	-	196,731	196,731
Investment property	-	-	467,609	467,609
December 31, 2017	-	-	16,696,071	16,696,071

Overview of Valuation Techniques and Significant Unobservable Inputs

On February 28 and October 8, 2017, the Bank assessed the status and value of works of art by engaging the Museum of Applied Arts in Belgrade.

The assessment of the land (15 land parcels), real estate (71 buildings) and investment property (12 buildings) with the status as at December 31, 2014 was done by the Economic Institute a.d. Belgrade. The estimation of the land was made using land prices in euros per acre, while for the assessment of real estate and investment property the cost method (costs of construction of a new construction object, of which three possible forms of obsolescence are rejected: physical, functional and economic), market (comparable prices real estate that is the subject of purchase / sale on the local market, with corrections relating to the physical condition of a particular real estate) and the yield method (by determining the present value of future cash flows during the economic a means of applying a capitalization rate that reflects the risk of achieving the projected cash flows and the time value of money) were used.

The Bank did not identify that there are indicators that would point to a material impairment of the carrying amount of assets covered by these estimates that would have been made using fair value at December 31, 2017.

21. OTHER ASSETS

	Thousands of RSD	
	December 31, 2017	December 31, 2016
Advances paid	479,775	55,086
Fee and commission receivables	162,563	186,000
Receivables from the sales of finished products and services	184,826	253,038
Receivables from employees	98,724	102,143
Other receivables from operations	1,156,405	1,135,257
Inventories		
- Finished products	951,884	379,023
- Work in progress	230,535	305,820
- Semi-finished products	245,677	188,674
- Material	1,465,155	1,420,553
- Spare parts	208,424	215,769
- Commemorative coins and commercial packages of cash	162,729	163,976
- Gold and silver, which is not cashable	587,108	587,108
- Other	252,092	245,491
	4,103,604	3,506,414
Deferred other expenses	30,486	25,118
Other assets	2,156,565	2,560,131
	8,372,948	7,823,187
<i>Allowances for impairment of:</i>		
Fee and commission receivables	(76,073)	(81,409)
Receivables from the sales of finished products and services	(114,080)	(118,788)
Receivables from employees	(1,191)	(1,961)
Other receivables from operations	(1,087,833)	(1,119,821)
Inventories	(66,461)	(64,782)
Other assets	(2,081,433)	(2,464,706)
	(3,427,071)	(3,851,467)
Total other assets	4,945,877	3,971,720

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

	Thousands of RSD	
	December 31, 2017	December 31, 2016
Transaction deposits in dinars:		
- obligatory reserves of the banks	190,220,205	179,863,586
- central deposits	8,613,453	14,671,588
- other transaction deposits in dinars	120	545
	<u>198,833,778</u>	<u>194,535,719</u>
Transaction deposits in foreign currencies:		
- obligatory reserves of the banks	190,714,687	212,159,453
- other transaction deposits in foreign currencies	3,806,714	9,129,541
	<u>194,521,401</u>	<u>221,288,994</u>
Total transaction deposits	<u>393,355,179</u>	<u>415,824,713</u>
Other deposits in dinars:		
- liquid asset surpluses	6,408,368	6,912,870
- cash in vaults of commercial banks	35,237,216	34,003,197
	<u>41,645,584</u>	<u>40,916,067</u>
Other deposits in foreign currencies:		
- time deposits	160,825	92,353
- other deposits	246,797	224,306
	<u>407,622</u>	<u>316,659</u>
Total other deposits	42,053,206	41,232,726
Borrowings received in foreign currencies:		
- China Export & Credit Insurance Corporation-SINOSURE	3,315,530	5,027,786
Liabilities arising from repurchase transactions	45,116,089	33,810,819
Other financial liabilities	499,609	590,441
	<u>48,931,228</u>	<u>39,429,046</u>
Total other liabilities	<u>48,931,228</u>	<u>39,429,046</u>
Total deposits and other liabilities to banks and other financial organizations	<u>484,339,613</u>	<u>496,486,485</u>

Transaction Deposits

Transaction deposits of banks and other financial institutions in dinars represent current accounts of banks and other financial institutions with the Bank. Obligatory reserves in dinars are held on the current accounts of commercial banks with the Bank, where banks are under obligation to maintain the average daily balance of their obligatory reserves in the reporting period at or above the level of calculated obligatory reserves.

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

Transaction Deposits (Continued)

In the amount of the realized average daily balance of the allocated dinar reserve requirement in the accounting period that does not exceed the amount of the calculated required reserve in dinars, in 2017 the Bank paid interest at the same interest rate as in 2016, in the amount of 1.75% annually.

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 and relevant bylaws.

Borrowings in Foreign Currencies

The Agreement on Debt Restructuring between the National Bank of Serbia and Export-Import Bank of China, signed on February 20, 2009, regulates the obligations of the National Bank for the financial loan approved on December 23, 1999 in the amount of USD 100 million. Since July 2009, all rights and obligations under this loan have been transferred to China Export & Credit Insurance Corporation - SINOSURE. The loan is still repaid in accordance with the unchanged terms of the Agreement, in half-year installments.

Liabilities Arising from Repurchase Transactions

Liabilities for repurchase transactions in the amount of RSD 45,116,089 thousand (December 31, 2016: RSD 33,810,819 thousand) relate to the Bank's liabilities to domestic banks under the repurchase agreement for a call price of treasury bills in the amount of RSD 45,100,000 thousand (December 31, 2016: RSD 33,800,000 thousand). These obligations are short-term, with a fixed maturity, and in the course of 2017 the Bank paid interest rates ranging from 2.82% to 2.94% annually (2016: from 2.52% to 3.02%).

23. DEPOSITS AND OTHER LIABILITIES TO GOVERNMENT AND OTHER DEPOSITORS

	Thousands of RSD	
	December 31, 2017	December 31, 2016
Transaction deposits in dinars:		
- deposits of the Ministry of Finance and Treasury Department	162,026,948	132,772,369
- other transaction deposits in dinars	1,825,903	938,635
	<u>163,852,851</u>	<u>133,711,004</u>
Transaction deposits in foreign currencies:		
- deposits of the Ministry of Finance and Treasury Department	26,356,637	26,581,918
- other transaction deposits in foreign currencies	49,695	8,213,614
	<u>26,406,332</u>	<u>34,795,532</u>
Total transaction deposits	190,259,183	168,506,536
Other deposits in dinars:		
- cash held with the Treasury Department	1,438,618	1,155,666
- other deposits in dinars	466	11,366
	<u>1,439,084</u>	<u>1,167,032</u>
Other deposits in foreign currencies:		
- deposits of the Revolving Loan Fund	296,740	58,634
- special-purpose deposits – grant accounts	5,600,884	5,638,618
- special-purpose deposits – Ministry of Finance and Treasury Department	28,299,330	23,501,745
- other special-purpose deposits	3,833,414	6,215,693
- deposits related to the seized foreign currency	3,224,152	4,267,555
- time deposits	25,180,208	43,476,271
- other deposits in foreign currencies	10,172,605	3,877,353
- other financial liabilities – to banks in bankruptcy	154,830	181,538
	<u>76,762,163</u>	<u>87,217,407</u>
Total other deposits	78,201,247	88,384,439
Total deposits and other liabilities to Government and other depositors	268,460,430	256,890,975

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24. LIABILITIES TO THE IMF

	Thousands of RSD	
	December 31, 2017	December 31, 2016
Securities and other liabilities regulating the Bank's status with the IMF	85,826,707	95,746,944
Liabilities to the IMF based on reserve tranche	6,602,450	7,365,589
Liabilities to the IMF in SDR	7,998,426	8,922,920
Interest accrued	9,564	3,192
Total liabilities to the IMF	100,437,147	112,038,645

25. PROVISIONS

	Thousands of RSD	
	December 31, 2017	December 31, 2016
Provisions for employee retirement benefits	533,751	444,318
Provisions for employee jubilee awards	525,206	495,789
Provisions for unused vacations	171,260	169,025
Provisions for litigations	182,482	151,223
Total provisions	1,412,699	1,260,355

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25. PROVISIONS (Continued)

Movements on Provisions

Thousands of RSD

	Provisions for retirement benefits	Provisions for jubilee awards	Provisions for unused vacations	Provisions for litigations	Total
Balance as at January 1, 2016	373,294	451,606	160,464	167,155	1,152,519
Change for the period (Note 9, 11 and 29)	71,024	44,183	10,548	26,512	152,267
Release of provisions during the period	-	-	-	(28,432)	(28,432)
Reversal of provisions (Note 7)	-	-	(1,987)	(14,012)	(15,999)
Balance as at December 31, 2016	444,318	495,789	169,025	151,223	1,260,355
Change for the period (Note 9, 11 and 29)	89,433	29,417	2,235	70,262	191,347
Release of provisions during the period	-	-	-	(19,617)	(19,617)
Reversal of provisions (Note 7)	-	-	-	(19,386)	(19,386)
Balance as at December 31, 2017	533,751	525,206	171,260	182,482	1,412,699

Provisions for Retirement Benefits and Jubilee Awards

Provisions for retirement benefits and jubilee awards were established on the basis of the report of the certified actuary and are presented in the amount of discounted present value of future payments.

The basic assumptions on which the assessment relies include the following:

- 1) Discount rate of 4.063% (rate of return on foreign long-term bonds corrected for inflation rate);
- 2) Expected annual salary growth rate: 4.9%;
- 3) Employee fluctuation rate: 0.34% for ZIN and 1.01% for the Bank's headquarters and branches;
- 4) Disability rate: average rate of 0.21% for ZIN and 0.20% for headquarters and branch offices, based on the available data on the number of employees who went to disability pension in the period from 2013 to 2017;
- 5) Mortality tables are the latest available, or published by the Republic Institute for Statistics 2010-2012. Separate probabilities for female and male gender were used.

On the basis of the same assumptions, the Bank made a provision based on jubilee awards paid by the Bank in accordance with internal acts after fulfilling a certain number of years of service.

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25. PROVISIONS (Continued)

Provisions for Litigations

Long-term provisions for litigations totaling RSD 182,482 thousand as at December 31, 2017 (December 31, 2016: RSD 151,223 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

26. 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 Bank, 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.

The amount of taxable profit is calculated on the basis of revenues generated on the market, i.e. income from the sale of products and services, for expenses related to revenues realized on the market: costs of salaries, compensation of salaries and other personal expenses, depreciation costs and other operating expenses. Expenses incurred in connection with revenues generated on the market are accounted for and presented in proportion to the share of revenues generated on the market in the total income of the taxpayer.

The current income tax expense for 2017 as per the final calculation is amounted to RSD 454,479 thousand (December 31, 2016: RSD 408,113 thousand).

Tax balance for the National Bank of Serbia

	Thousands of RSD	
	Year ended	
	December 31,	
	2017	2016
Income earned in the market		
- revenues from the sale of products and services	6,673,765	6,196,245
Expenses arising in relation to the income earned in the market		
- Salaries, salary compensations and other personal expenses	736,146	593,458
- Depreciation costs	588,423	547,735
- Other operating expenses	2,319,334	2,334,298
Tax base	3,029,862	2,720,754
Statutory income tax rate (effective tax rate)	15%	15%
Income tax expense	454,479	408,113

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27. DINARS IN CIRCULATION

Cash in circulation totaling RSD 163,944,539 thousand (December 31, 2016: RSD 159,227,574 thousand) represent the Bank's liability toward payment transaction participants. This amount includes neither money in circulation held in vaults of commercial banks presented within liabilities to banks and other financial institutions (Note 22) nor money in circulation held with the Treasury Department and presented within liabilities to the Government and other depositors (Note 23).

28. OTHER LIABILITIES

	Thousands of RSD	
	December 31, 2017	December 31, 2016
Trade payables:		
- domestic	189,328	218,386
- foreign	108,402	53,033
Advances received:		
- in dinars	104,081	695,780
- in foreign currencies	338,630	451,797
Liabilities for employee salaries	184,218	192,317
Foreign currency liabilities to domestic banks for replacement of foreign currency cash	55,671	81,161
Inheritance liabilities	42,058	52,672
Other accruals	205,124	24,000
Taxes and contributions payable	63,207	140,661
Other liabilities from operations	3,464,665	756,686
Total other liabilities	4,755,384	2,666,493

29. EQUITY

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

	Thousands of RSD	
	December 31, 2017	December 31, 2016
State-owned capital	171,128,873	157,945,159
Reserves:		
- Special reserves	187,857,209	161,454,309
- Revaluation reserves	15,665,734	15,533,489
- Reserves from financial assets available for sale	6,737,581	6,400,186
- Actuarial gains – provisions for retirement benefits	68,688	134,912
Retained earnings	(83,145,636)	49,190,126
Total equity	298,312,449	390,658,181

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

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29. EQUITY (Continued)

The Bank's equity comprises state-owned capital and reserves. Pursuant to the Law, the minimum amount of the Bank's core capital shall amount to RSD 10 billion. The core capital of the Bank totaled RSD 171,128,873 thousand as at December 31, 2017 (2016: RSD 157,945,159 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 Bank. 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, 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 2017, the Bank realized a loss in the amount of RSD 83,145,636 thousand, out of which the loss derived from exchange differences amounted to RSD 84,769,775 thousand, and the profit that did not arise from the exchange differences is RSD 1,624,139 thousand (2016 profit: RSD 49,190,126 thousand, consists of the profit that resulted from the exchange rate of RSD 35,465,803 thousand, the profit that did not originate from the exchange differences of RSD 13,719,303, which makes the profit recorded in the income statement of RSD 49,185,106 thousand, while the profit originated from the revaluation reserve amounted to RSD 5,020 thousand).

29. EQUITY (Continued)

The following table presents the allocation of profit of the Bank for 2016, reconciled with the Decision on the Adoption of the Financial Statements of the National Bank of Serbia for 2016 and profit for 2017, which will be allocated in accordance with the Decision on the Adoption of the Financial Statements for 2017 which will be subject to adoption by the Council of the Governor of the National Bank of Serbia.

	Thousands of RSD	
	December 31, 2017	December 31, 2016
Profit arising from exchange rate gains and gains from agreed currency clause	(84,769,775)	35,465,803
Profit arising from revaluation reserves	-	5,020
1. Total profit arising from exchange rate gains, gains from agreed currency clause and revaluation reserves	(84,769,775)	35,470,823
2. Loss not originating from exchange rate gains/(losses), gains/(losses) from agreed currency clause and revaluation reserves	1,624,139	13,719,303
Profit/(Loss) (1+2)	(83,145,636)	49,190,126
Allocation of profit arising from exchange rate gains, gains from agreed currency clause and revaluation reserves (1)		
1.1) core capital increase 33.3%	-	11,811,784
1.2) special reserve increase 66.7%	-	23,659,039
		35,470,823
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%	-	9,603,512
2.2) core capital increase 10%	-	1,371,930
2.3) special reserve increase 20%	-	2,743,861
		13,719,303
Total core capital increase (1.1+2.2)	-	13,183,714
Total special reserve increase (1.2+2.3)	(83,145,636)	26,402,900
Transfer to the Budget of the Republic of Serbia (2.1)	-	9,603,512
Profit/(Loss)	(83,145,636)	49,190,126

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30. OFF-BALANCE SHEET ITEMS

	Thousands of RSD	
	December 31, 2017	December 31, 2016
a) Funds managed on behalf of third parties:		
- in dinars	1,434,682	1,492,395
- in foreign currencies	1,655,225,423	1,916,105,226
	1,656,660,105	1,917,597,621
b) Guarantees, sureties, collaterals to secure liability settlement and irrevocable commitments:		
Guarantees issued in dinars	-	57,465
Guarantees issued in foreign currencies	-	7,423
Sureties received in dinars	286,851	295,845
Sureties received in foreign currencies	947,619	558,302
Securities and other assets received under pledge	6,300,002	5,518,902
Other irrevocable commitments in foreign currencies	41,663,698	16,730,047
	49,198,170	23,167,984
c) Swap transactions:		
Swap currency purchases/sales	14,558,535	8,946,681
d) Other off-balance sheet items	517,304,198	1,018,791,957
e) Dinars in circulation and out of circulation:		
Cash in circulation	200,620,373	194,386,437
Inventories of banknotes	197,060,081	236,446,878
Inventories of coins	259,377	457,431
Other	192	189
	397,940,023	431,290,935
Total off-balance sheet items	2,635,661,031	3,399,795,178

Off-balance sheet items do not carry credit risk for the Bank but fully represent unrisky items.

- a) Transactions on behalf and for the account of third parties in foreign currency in the total amount of RSD 1,655,225,423 thousand (December 31, 2016: RSD 1,916,105,226 thousand) mostly relate to operations on behalf of and for the account of the Republic of Serbia on the basis of regulation public debt of the Republic of Serbia, old foreign currency savings and a loan for economic development in the total amount of RSD 1,608,552,111 thousand (December 31, 2016: RSD 1,849,544,651 thousand). In these matters, the Bank appears as an agent.
- b) Of the total amount of Guarantees, sureties, collaterals to secure liability settlement and irrevocable commitments, RSD 6,300,000 thousand (December 31, 2016: 5,518,902 thousand dinars) refers to securities received in the pledge on loans granted to banks. Of the total amount of other irrevocable liabilities in foreign currency, the share of RSD 5,331,272 thousand (December 31, 2016: RSD 7,408,338 thousand) consists of ticketing on spot sale (purchase) of foreign currency at a meeting of the interbank foreign exchange market, a part of RSD 41,949 thousands (December 31, 2016: RSD 12,898 thousand) refers to the affairs of arbitral tribunals, and a part of RSD 36,290,477 thousand (December 31, 2016: RSD 9,308,811 thousand) relates to letters of credit.

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30. OFF-BALANCE SHEET ITEMS (Continued)

- c) The swap of transactions presented in the total amount of RSD 14,558,535 thousand (December 31, 2016: RSD 8,946,681 thousand) relate to the swap sale of foreign currency and that spot part of RSD 1,184,727 thousand and term portion of RSD 6,093,562 thousand (December 31, 2016: term part RSD 4.472.529 thousand) and swap purchase of foreign currencies, which is part of RSD 1,184,727 thousand and the forward part of RSD 6,095,519 thousand (December 31, 2016: term portion RSD 4.474.152 thousand), and they are stated according to the spot, i.e. the forward rate at which the Bank should buy or sell foreign currency.
- d) Of the total amount of other off-balance sheet items, RSD 500,000,000 (December 31, 2016: RSD 1,000,000,000) refers to cash registers intended for repurchase (including already sold treasury bills).
- e) Of the total amount of circulation and non-cash money, the amount of RSD 200,620,373 thousand (December 31, 2016: RSD 194,386,437 thousand) refers to cash in circulation, which represents funds paid by the transactor's money. Inventories of banknotes in the amount of RSD 197,060,081 thousand (December 31, 2016: RSD 236,446,878 thousand) and stocks of coins in the amount of RSD 259,377 thousand (December 31, 2016: RSD 457,431 thousand) refer to money that is not covered by the transactional currency of the transactor and located in the Bank's vault.

31. 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 arise from the management of foreign currency reserves and financial market operations.

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

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.

31. RISK MANAGEMENT POLICIES (CONTINUED)

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 in 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 Bank, 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 Bank that are collateralized (REPO deposits) must have:

- 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 Bank 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.

31. RISK MANAGEMENT POLICIES (Continued)

Credit Risk (Continued)

Financial Instruments (Assets and Liabilities)

The following table presents the net exposure of the Bank inherent in financial assets and liabilities as at December 31, 2017 and 2016:

	Thousands of RSD	
	December 31, 2017	December 31, 2016
Financial assets		
Cash and current accounts held with banks	210,176,735	202,213,819
Deposits	163,274,147	206,577,008
Financial assets at fair value through profit and loss	727,503,422	775,159,641
Financial assets available for sale	9,931,739	10,735,222
Financial assets held to maturity	3,026,769	2,877,822
Loans and placements	1,145,859	1,261,628
IMF membership quota and SDR holdings	100,376,672	112,213,380
Other assets	373,758	402,605
	1,215,809,101	1,311,441,125
Financial liabilities		
Financial liabilities at fair value through profit and loss	35,365	5,433
Deposits and other liabilities to banks and other financial organizations	484,110,032	496,283,036
Deposits and other liabilities to Government and other depositors	268,456,537	256,832,461
Liabilities to the IMF	100,427,584	112,035,453
Dinars in circulation	163,944,539	159,227,574
Other liabilities	4,107,549	1,494,916
	1,021,081,606	1,025,878,873

Maximum Credit Risk Exposure

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

	Thousands of RSD	
	December 31, 2017	December 31, 2016
Financial assets		
Cash and current accounts held with banks	81,842,252	96,911,161
Deposits	163,274,147	206,577,008
Financial assets at fair value through profit and loss	727,503,422	775,159,641
Financial assets held to maturity	3,026,769	2,877,822
Loans and placements	1,145,859	1,261,628
IMF membership quota and SDR Holdings	7,949,426	9,103,006
Other assets	373,758	402,605
	985,115,633	1,092,292,871

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31. 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:

	Thousands of RSD					
	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	81,842,252	-	840,057	82,682,309	(840,057)	81,842,252
Deposits	163,274,147	-	2,657,875	165,932,022	(2,657,875)	163,274,147
Financial assets at fair value through profit and loss	727,503,422	-	-	727,503,422	-	727,503,422
Financial assets held to maturity	3,026,769	-	664,205	3,690,974	(664,205)	3,026,769
Loans and placements	1,145,859	-	1,532,394	2,678,253	(1,532,394)	1,145,859
IMF membership quota and SDR holdings	7,949,426	-	-	7,949,426	-	7,949,426
Other assets	357,878	15,880	3,360,610	3,734,368	(3,360,610)	373,758
December 31, 2017	985,099,753	15,880	9,055,141	994,170,774	(9,055,141)	985,115,633
Cash and current accounts held with banks	96,911,161	-	976,647	97,887,808	(976,647)	96,911,161
Deposits	206,577,008	-	3,141,093	209,718,101	(3,141,093)	206,577,008
Financial assets at fair value through profit and loss	775,159,641	-	-	775,159,641	-	775,159,641
Financial assets held to maturity	2,877,822	-	664,205	3,542,027	(664,205)	2,877,822
Loans and placements	1,261,628	-	1,538,797	2,800,425	(1,538,797)	1,261,628
IMF membership quota and SDR holdings	9,103,006	-	-	9,103,006	-	9,103,006
Other assets	341,781	60,824	3,780,215	4,182,820	(3,780,215)	402,605
December 31, 2016	1,092,232,047	60,824	10,100,957	1,102,393,828	(10,100,957)	1,092,292,871

Other non-credit risk assets include inventories, advances and deferred fees and charges in the total amount as at 31 December 2017 of RSD 4,572,119 thousand (December 31, 2016: RSD 3,569,115 thousand).

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31. 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, 2017 and 2016 was as follows:

	Thousands of RSD	
	December 31, 2017	December 31, 2016
From 0 to 14 days	6,722	55,484
From 15 to 29 days	2,636	3,580
From 30 to 45 days	6,522	1,760
Total	15,880	60,824

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TRANSLATION
NOTES TO THE FINANCIAL STATEMENTS
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NATIONAL BANK OF SERBIA

31. RISK MANAGEMENT POLICIES (Continued)

Credit Risk (Continued)

Concentration of Credit Risk in Financial Assets

a) Concentration per Region

Thousands of RSD	Serbia	European Union	USA and Canada	Other	Total
Financial assets					
Cash and current accounts held with banks	8,613,453	72,953,043	99,577	176,179	81,842,252
Deposits	18,908	43,904,785	19,287,876	100,062,578	163,274,147
Financial assets at fair value through profit and loss	37,172	473,614,010	217,742,925	36,109,315	727,503,422
Financial assets held to maturity	3,026,769	-	-	-	3,026,769
Loans and placements	1,145,859	-	-	-	1,145,859
IMF membership quota and SDR holdings	-	-	7,949,426	-	7,949,426
Other assets	372,862	782	6	108	373,758
Total as at December 31, 2017	13,215,023	590,472,620	245,079,810	136,348,180	985,115,633
Total as at December 31, 2016	19,217,237	692,082,834	276,330,844	104,661,956	1,092,292,871

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	81,842,252	-	-	-	-	81,842,252
Deposits	163,274,147	-	-	-	-	163,274,147
Financial assets at fair value through profit and loss	164,947,738	-	2,628,182	559,927,502	-	727,503,422
Financial assets held to maturity	-	3,026,769	-	-	-	3,026,769
Loans and placements	506,411	-	-	-	639,448	1,145,859
IMF membership quota and SDR holdings	-	-	7,949,426	-	-	7,949,426
Other assets	152,334	114,967	856	2,591	103,010	373,758
Total as at December 31, 2017	410,722,882	3,141,736	10,578,464	559,930,093	742,458	985,115,633
Total as at December 31, 2016	507,911,060	3,052,076	11,058,760	569,495,063	775,912	1,092,292,871

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31. RISK MANAGEMENT POLICIES (Continued)

Credit Risk (Continued)

Concentration of Credit Risk in Financial Assets (Continued)

c) Concentration per Credit Rating

	December 31, 2017	Thousands of RSD December 31, 2016
Coupon bonds:		
AAA	498,544,563	407,467,647
AA+	31,981,883	217,673,830
AA	112,466,621	104,934,864
AA-	17,886,468	15,858,272
A+	40,897,585	-
Total	701,777,120	745,934,613
Discount securities:		
AAA	17,796,240	-
AA+	7,892,890	29,217,982
Total	25,689,130	29,217,982
Time deposits:		
No rating (risk-free)*	2,903,449	7,486,163
AAA	98,606,217	108,437,327
AA+	-	17,242,316
AA	50,842,725	41,934,437
AA-	10,902,848	31,457,025
Total	163,255,239	206,557,268
Other financial assets exposed to credit risk**	94,394,144	110,583,008
Total	985,115,633	1,092,292,871

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

** Assets not subject to the Bank's investment in accordance with the guidelines for management of foreign exchange reserves and internal instructions:

- funds in current accounts with foreign banks in the amount of RSD 73.228.799 thousand (2016: RSD 82.239.572 thousand) are used for international payment operations. Of this, RSD 11,000 thousand is in international financial institutions (without rating), RSD 20,670,367 thousand with banks with AAA rating, and RSD 52,341,720 thousand with AA+ rating banks. The remaining amount of RSD 56,041 thousand is in banks rated AA, AA-, A+ and A. The amount of RSD 149,671 thousand is in banks with BBB+ and BB+ ratings.

- funds in special drawing rights, the amount of RSD 7,949,426 thousand (2016: RSD 9,103,006 thousand) refers to regular disposable accounts with the IMF (without rating).

- current account balances with domestic banks and Bank in the amount of RSD 8,613,453 thousand (2016: RSD 14,671,588 thousand), without a rating.

- assets held to maturity in the amount of RSD 3,026,769 thousand (2016: RSD 2,877,822 thousand) refer to government bonds of the Republic of Serbia. The issuer credit rating is BB / stable outlook.

- other assets with no rating, in the amount of RSD 1,575,697 thousand (2016: RSD 1,691,020 thousand).

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31. 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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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NATIONAL BANK OF SERBIA

31. RISK MANAGEMENT POLICIES (Continued)

Liquidity Risk (Continued)

	Thousands of RSD						
	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	210,176,735	-	-	-	-	-	210,176,735
Deposits	75,557,374	42,797,011	43,776,528	-	18,908	1,124,326	163,274,147
Financial assets at fair value through profit and loss	8,008,331	43,579,267	218,318,981	457,559,671	-	37,172	727,503,422
Financial assets available for sale	-	-	-	-	-	9,931,739	9,931,739
Financial assets held to maturity	-	2,596,632	430,137	-	-	-	3,026,769
Loans and placements	10,543	-	63	4,210	631,434	499,609	1,145,859
IMF membership quota and SDR holdings	7,949,426	-	-	-	-	92,427,246	100,376,672
Other assets	305,113	-	-	-	-	68,645	373,758
	302,007,522	88,972,910	262,525,709	457,563,881	650,342	104,088,737	1,215,809,101
Financial liabilities at fair value through profit and loss	-	-	-	-	-	35,365	35,365
Deposits and other liabilities to banks and other financial organizations	289,388,113	-	-	3,274,708	-	191,447,211	484,110,032
Deposits and other liabilities to the Government and other depositors	191,910,905	-	25,240,170	-	-	51,305,462	268,456,537
Liabilities to the IMF	-	-	-	-	-	100,427,584	100,427,584
Dinars in circulation	-	-	-	-	-	163,944,539	163,944,539
Other liabilities	3,762,474	-	-	-	-	345,075	4,107,549
	485,061,492	-	25,240,170	3,274,708	-	507,505,236	1,021,081,606
Liquidity gap as at December 31, 2017	(183,053,970)	88,972,910	237,285,539	454,289,173	650,342	(403,416,499)	194,727,495
Cumulative gap as at December 31, 2017	(183,053,970)	(94,081,060)	143,204,479	597,493,652	598,143,994	194,727,495	-
Liquidity gap as at December 31, 2016	(258,877,607)	143,407,163	199,659,662	514,574,546	3,197,633	(316,399,146)	285,562,251
Cumulative gap as at December 31, 2016	(258,877,607)	(115,470,444)	84,189,218	598,763,764	601,961,397	285,562,251	-

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31. RISK MANAGEMENT POLICIES (Continued)

Liquidity Risk (Continued)

The maturity structure of assets and liabilities as at December 31, 2017 points to the existence of a maturity mismatch between the assets and liabilities of the remaining maturity period of up to 1 month and from 1 to 3 months, primarily due to the significant share of transaction deposits in dinars of the remaining maturity period of up to 1 month. These liabilities in the total amount of RSD 485,061,492 thousand relate to the mandatory reserve of banks in dinars in the amount of RSD 190,114,201 thousand, transaction deposits of the Ministry of Finance and the Treasury Department in the amount of RSD 162,026,948 thousand, money in banks' vaults and Treasury Department in the amount of RSD 36,675,834 thousand, liabilities based on repo transactions in the amount of RSD 45,100,000 thousand, central deposits in dinars in the amount of RSD 8,613,453 thousand, surpluses liquid assets in the amount of RSD 6,408,368 thousand, other transactions deposits in dinars in the amount of RSD 1,826,023 thousand or in foreign currency RSD 3,848,993 thousand, other liabilities in the amount of RSD 3,762,474 thousand and the rest in the amount of RSD 308,612 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.

31. 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, 2017 and 2016:

	Thousands of RSD			
	Carrying Value		Fair Value	
	2017	2016	2017	2016
Financial assets				
Cash and current accounts held with banks	210,176,735	202,213,819	210,176,735	202,213,819
Deposits	163,274,147	206,577,008	163,274,147	206,577,008
Financial assets at fair value through profit and loss	727,503,422	775,159,641	727,503,422	775,159,641
Financial assets available for sale	9,931,739	10,735,222	9,931,739	10,735,222
Financial assets held to maturity	3,026,769	2,877,822	3,026,769	2,877,822
Loans and placements	1,145,859	1,261,628	1,145,859	1,261,628
IMF membership quota and SDR holdings	100,376,672	112,213,380	100,376,672	112,213,380
Other assets	373,758	402,605	373,758	402,605
Total	1,215,809,101	1,311,441,125	1,215,809,101	1,311,441,125
Financial liabilities				
Financial liabilities at fair value through profit and loss	35,365	5,433	35,365	5,433
Deposits and other liabilities to banks and other financial organizations	484,110,032	496,283,036	484,110,032	496,283,036
Deposits and other liabilities to the Government and other depositors	268,456,537	256,832,461	268,456,537	256,832,461
Liabilities to the IMF	100,427,584	112,035,453	100,427,584	112,035,453
Dinars in circulation	163,944,539	159,227,574	163,944,539	159,227,574
Other liabilities	4,107,549	1,494,916	4,107,549	1,494,916
Total	1,021,081,606	1,025,878,873	1,021,081,606	1,025,878,873

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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31. 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:

	Thousands of RSD			
As at December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit and loss	727,503,422	-	-	727,503,422
Financial assets available for sale	-	-	9,931,739	9,931,739
Total:	727,503,422	-	9,931,739	737,435,161
Financial liabilities				
Financial liabilities at fair value through profit and loss	35,365	-	-	35,365
Total:	35,365	-	-	35,365
As at December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit and loss	775,159,641	-	-	775,159,641
Financial assets available for sale	-	-	10,735,222	10,735,222
Total:	775,159,641	-	10,735,222	785,894,863
Financial liabilities				
Financial liabilities at fair value through profit and loss	5,433	-	-	5,433
Total:	5,433	-	-	5,433

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31. 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 at Fair Value through Profit and Loss

Financial assets carried at fair value through profit and loss held for trading amounted to RSD 727,466,250 thousand as at December 31, 2017 (December 31, 2016: RSD 775,152,595 thousand), were classified into fair value hierarchy Level 1, and 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 37,172 thousand (December 31, 2016: RSD 7,046 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 to RSD 35,365 thousand (December 31, 2016: RSD 5,433 thousand) refer to the negative fair value of derivatives and are stated as liabilities.

b) Financial Assets Available for Sale

Financial assets available for sale totaling RSD 9,931,739 thousand as at December 31, 2017 (RSD 10,735,222 thousand as at 31 December 2016) are classified into fair value hierarchy Level 3.

Of this, the largest part, in the amount of RSD 9,931,186 thousand as at December 31, 2017 (RSD 10,734,678 thousand as of December 31, 2016), refers to the participation in the capital at the Bank for International Settlement Basel hereinafter: BIS Basel), where the Bank owns 2,920 shares. The Bank holds these shares at fair value, based on the net present value of BIS Basel shares, discounted by 30%, in accordance with the notice of BIS Basel submitted to the Bank in 2009.

This fair value method has been established by the Decision of the International Court in Hague, which refers to BIS Basel share repurchase in 2001, and to ascertaining BIS Basel share value based on it's net asset, reduced by 30%, as foundation for recording all of the future share transactions, which, as the established practice of central banks, was additionally confirmed by the notification of BIS Basel submitted to the Bank in July 2017.

31. 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)

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, 2017	Level 1	Level 2	Level 3	Total Fair Value	Thousands of RSD Carrying Value
Financial assets					
Cash and current accounts held with banks	-	210,176,735	-	210,176,735	210,176,735
Deposits	-	-	163,274,147	163,274,147	163,274,147
Financial assets held to maturity	-	3,026,769	-	3,026,769	3,026,769
Loans and placements	-	-	1,145,859	1,145,859	1,145,859
IMF membership quota and SDR holdings	-	7,949,426	92,427,246	100,376,672	100,376,672
Other assets	-	-	373,758	373,758	373,758
Total	-	221,152,930	257,221,010	478,373,940	478,373,940
Financial liabilities					
Deposits and other liabilities to banks and other financial organizations	-	-	484,110,032	484,110,032	484,110,032
Deposits and other liabilities to the Government and other depositors	-	-	268,456,537	268,456,537	268,456,537
Liabilities to the IMF	-	-	100,427,584	100,427,584	100,427,584
Dinars in circulation	-	-	163,944,539	163,944,539	163,944,539
Other liabilities	-	-	4,107,549	4,107,549	4,107,549
Total:	-	-	1,021,046,241	1,021,046,241	1,021,046,241

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31. 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)

As at December 31, 2016	Level 1	Level 2	Level 3	Fair Value Total	Thousands of RSD Carrying Value
Financial assets					
Cash and current accounts held with banks	-	202,213,819	-	202,213,819	202,213,819
Deposits	-	-	206,577,008	206,577,008	206,577,008
Financial assets held to maturity	-	2,877,822	-	2,877,822	2,877,822
Loans and placements	-	-	1,261,628	1,261,628	1,261,628
IMF membership quota and SDR holdings	-	9,103,006	103,110,374	112,213,380	112,213,380
Other assets	-	-	402,605	402,605	402,605
Total	-	214,194,647	311,351,615	525,546,262	525,546,262
Financial liabilities					
Deposits and other liabilities to banks and other financial organizations	-	-	496,283,036	496,283,036	496,283,036
Deposits and other liabilities to the Government and other depositors	-	-	256,832,461	256,832,461	256,832,461
Liabilities to the IMF	-	-	112,035,453	112,035,453	112,035,453
Dinars in circulation	-	-	159,227,574	159,227,574	159,227,574
Other liabilities	-	-	1,494,916	1,494,916	1,494,916
Total:	-	-	1,025,873,440	1,025,873,440	1,025,873,440

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, 2017):
 - Cash and current accounts held with banks in the amount of RSD 210,176,735 thousand;
 - Deposits held with banks in the amount of RSD 162,130,913 thousand;
 - Financial assets held to maturity amounting to RSD 3,026,769 thousand
 - Loans and placements amounting to 10,606 thousand
 - Assets to the IMF amounting to RSD 7,949,426 thousand
 - Other assets in the amount of RSD 305,113 thousand;
 - Deposits and other liabilities to banks and other financial organizations amounting to RSD 289,388,113 thousand;
 - Liabilities to the Government and other depositors in the amount of RSD 217.151.075 thousand;
 - Other liabilities amounting to RSD 3,762,474 thousand.

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31. RISK MANAGEMENT POLICIES (Continued)

Fair Value Information (Continued)

Fair Value Hierarchy (Continued)

- The estimated fair values for the following financial assets and liabilities, mostly non-current (more than 1 year from December 31, 2017):
 - Long-term deposits with banks in the amount of RSD 1,143,234 thousand, comprise call deposits in the amount of RSD 1,124,326 thousand and dedicated deposits for housing needs, which do not have a specified maturity
 - Loans and placements in the amount of RSD 1,135,253 thousand, partly (RSD 635,644 thousand) consist of loans and placements whose amounts are regularly revalued using the rate of growth of the consumer price index in the RS and up to the growth rate of average net salary in the economy of the RS, as well as harmonization with the movement of the average contracted price of the construction of a square meter or the change in the exchange rate of the dinar against the euro, and in part (RSD 499,609 thousand) the loan amount fully secured by the deposit
 - IMF membership quota in the amount of RSD 92,427,246 thousand, funds that do not have a maturity
 - Other assets in the amount of RSD 68,645 thousand
 - Deposits and other liabilities to banks and other financial organizations, in the amount of RSD 194,721,919 thousand, which mostly (98%) make liabilities without maturity
 - Liabilities to the Government and other depositors in the amount of RSD 51,305,462 thousand of liabilities without maturity
 - Liabilities to the IMF, in the amount of RSD 100,427,584 thousand, liabilities that do not have maturity
 - Dinars in circulation in the amount of RSD 163,944,539 thousand, liabilities that do not have maturity
 - Other liabilities, in the amount of RSD 345,075 thousand.

In the opinion of the Bank's management fair value does not deviate significantly from the carrying value stated in the Bank's financial statements, considering the fact that it refers to financial assets and liabilities arising from the Bank's performance as the Central Bank and that their amounts and maturity dates primarily depend on objectives and measures of monetary policy, ie on December 31, 2017, 99.31% of the amount of assets that are predominantly long-term are without maturity (December 31, 2016: 99.20%), and 99.36% of liabilities that are mostly long-term are without maturity date (December 31, 2016: 98.45%). Fair value hierarchy, of mostly long term financial assets and liabilities not recognized at fair value, is of level 3 in the fair value hierarchy.

In 2017 and 2016 there were no transfers of financial assets and liabilities that are not measured at fair value among the fair value hierarchy levels.

31. 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 it 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 2016.

	Thousands of RSD			
	December 31, 2017			
	Equity		Net profit	
	100 bp increase	100 bp increase	100 bp increase	100 bp increase
Financial assets				
Cash and current accounts held with banks	731,318	(731,318)	731,318	(731,318)
Deposits	1,632,741	(1,632,741)	1,632,741	(1,632,741)
Loans and placements	6,357	(6,357)	6,357	(6,357)
Financial assets held to maturity	28,496	(28,496)	28,496	(28,496)
IMF membership quota and SDR holdings	79,494	(79,494)	79,494	(79,494)
	2,478,406	(2,478,406)	2,478,406	(2,478,406)
Financial liabilities				
Deposits and other liabilities to banks and other financial organizations	(2,487,971)	2,487,971	(2,487,971)	2,487,971
Deposits and other liabilities to the Government and other depositors	(294,579)	294,579	(294,579)	294,579
Liabilities to the IMF	(87,548)	87,548	(87,548)	87,548
	(2,870,098)	2,870,098	(2,870,098)	2,870,098
Net effect	(391,692)	391,692	(391,692)	391,692

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31. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk (Continued)

	Thousands of RSD			
	December 31, 2016			
	Equity		Net profit	
	100 bp increase	100 bp increase	100 bp increase	100 bp increase
Financial assets				
Cash and current accounts held with banks	820,198	(820,198)	820,198	(820,198)
Deposits	2,065,770	(2,065,770)	2,065,770	(2,065,770)
Loans and placements	6,710	(6,710)	6,710	(6,710)
Financial assets held to maturity	13,937	(13,937)	13,937	(13,937)
IMF membership quota and SDR holdings	91,030	(91,030)	91,030	(91,030)
	2,997,645	(2,997,645)	2,997,645	(2,997,645)
Financial liabilities				
Deposits and other liabilities to banks and other financial organizations	(2,345,788)	2,345,788	(2,345,788)	2,345,788
Deposits and other liabilities to the Government and other depositors	(454,371)	454,371	(454,371)	454,371
Liabilities to the IMF	(86,362)	86,362	(86,362)	86,362
	(2,886,521)	2,886,521	(2,886,521)	2,886,521
Net effect	111,124	(111,124)	111,124	(111,124)

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31. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk (Continued)

The exposure to interest rate risk as at December 31, 2017 is presented in the following table:

	Thousands of RSD		
	Interest-bearing items	Non-interest bearing items	Total
Financial assets			
Cash and current accounts held with banks	73,131,765	137,044,970	210,176,735
Deposits	163,274,135	12	163,274,147
Financial assets at fair value through profit and loss	727,466,250	37,172	727,503,422
Financial assets available for sale	-	9,931,739	9,931,739
Financial assets held to maturity	2,849,583	177,186	3,026,769
Loans and placements	635,689	510,170	1,145,859
IMF membership quota and SDR holdings	7,949,426	92,427,246	100,376,672
Other assets	-	373,758	373,758
Total	975,306,848	240,502,253	1,215,809,101
Financial liabilities			
Financial liabilities at fair value through profit and loss	-	35,365	35,365
Deposits and other liabilities to banks and other financial organizations	248,797,082	235,312,950	484,110,032
Deposits and other liabilities to the Government and other depositors	190,241,465	78,215,072	268,456,537
Liabilities to the IMF	8,754,808	91,672,776	100,427,584
Dinars in circulation	-	163,944,539	163,944,539
Other liabilities	-	4,107,549	4,107,549
	<u>447,793,355</u>	<u>573,288,251</u>	<u>1,021,081,606</u>
Net exposure as at			
December 31, 2017	<u>527,513,493</u>	<u>(332,785,998)</u>	<u>194,727,495</u>
December 31, 2016	<u>786,264,926</u>	<u>(500,801,193)</u>	<u>285,463,733</u>

Sensitivity to Market Risk in Respect of Financial Assets at Fair Value through Profit and loss

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

VaR

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

Monthly VaR (95%) for total portfolio recalculated in EUR as at December 31, 2017 indicates that under normal market conditions in only 5% of the cases can the Bank expect a loss greater than 1.42% or RSD 13,835 million (EUR 116,78 million).

31. RISK MANAGEMENT POLICIES (Continued)

VaR (Continued)

Monthly VaR for total portfolio recalculated in EUR as of December 31, 2016 indicated that under normal market conditions in only 5% of the cases could the Bank expect a loss greater than 1.50% or RSD 15,102 million (EUR 122,31 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 portfolio as of 31 December 2017 denominated in EUR as the original currency would in that case lose RSD 6,323 million (EUR 53.37 million), a portion of the portfolio denominated in USD would lose RSD 3,347 million (USD 33.77 million), a part of the GBP denominated portfolio would have lost RSD 204 million (GBP 1.53 million), and a part of the portfolio denominated in CAD would lose RSD 203 million (CAD 2.57 million). The total effect of the increase in interest rates by 100 basis points on the portfolio as of December 31, 2017 would amount to RSD 10,077 million.

Observed on December 31, 2016, part of the portfolio denominated in EUR as the original currency would in that case lose RSD 8,243 million (EUR 66.76 million), part of the portfolio denominated in USD would lose RSD 4,217 million (USD 36 million), a portion of the GBP denominated portfolio would have lost RSD 244 million (GBP 1.70 million), and a portion of the CAD-denominated portfolio would lose RSD 257 million (CAD \$ 2.96 million). The total effect of the increase in interest rates by 100 basis points on the portfolio as of December 31, 2016 would amount to RSD 12,961 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.

31. RISK MANAGEMENT POLICIES (Continued)

Currency Risk (Continued)

The 10% depreciation of RSD value against the following currencies as at December 31, 2017 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 2016 is prepared in the same manner.

	Thousands of RSD	
	Equity	Net profit
December 31, 2017		
EUR	(37,012,306)	(37,012,306)
USD	37,246,298	37,246,298
CHF	593,913	593,913
SDR	987,969	987,969
December 31, 2016		
EUR	(40,471,707)	(40,471,707)
USD	37,004,748	37,004,748
CHF	680,887	680,887
SDR	1,095,101	1,095,101

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, 2017 was as follows:

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NATIONAL BANK OF SERBIA

31. RISK MANAGEMENT POLICIES (Continued)

Currency Risk (Continued)

	Thousands of RSD						
	EUR	USD	SDR	Other currencies	Total foreign currency balance	RSD	Total
Financial assets							
Cash and current accounts held with banks	189,726,183	5,244,806	-	6,592,263	201,563,252	8,613,483	210,176,735
Deposits	77,836,564	80,035,766	-	5,382,908	163,255,238	18,909	163,274,147
Financial assets at fair value through profit and loss	400,197,782	293,301,810	-	33,966,658	727,466,250	37,172	727,503,422
Financial assets available for sale	553	-	9,931,186	-	9,931,739	-	9,931,739
Financial assets held to maturity	226,902	-	-	-	226,902	2,799,867	3,026,769
Loans and placements	-	499,609	-	-	499,609	646,250	1,145,859
IMF membership quota and SDR holdings	-	-	100,376,672	-	100,376,672	-	100,376,672
Other assets	11,256	115	-	999	12,370	361,388	373,758
	667,999,240	379,082,106	110,307,858	45,942,828	1,203,332,032	12,477,069	1,215,809,101
Financial liabilities							
Financial liabilities at fair value through profit and loss	-	-	-	-	-	35,365	35,365
Deposits and other liabilities to banks and other financial organizations	194,453,846	4,182,719	-	109	198,636,674	285,473,358	484,110,032
Deposits and other liabilities to the Government and other depositors	100,215,771	2,428,772	273	519,787	103,164,603	165,291,934	268,456,537
Liabilities to the IMF	-	-	100,427,584	-	100,427,584	-	100,427,584
Dinars in circulation	-	-	-	-	-	163,944,539	163,944,539
Other liabilities	3,222,223	7,640	-	148,737	3,378,600	728,949	4,107,549
	297,891,840	6,619,131	100,427,857	668,633	405,607,461	615,474,145	1,021,081,606
Net exposure as at December 31, 2017	370,107,400	372,462,975	9,880,001	45,274,195	797,724,571	(602,997,076)	194,727,495
Net exposure as at December 31, 2016	404,713,815	370,035,070	10,912,084	45,593,619	831,254,588	(545,692,337)	285,562,251

The currency mismatch of assets and liabilities stems from the specific nature of the Bank as a central bank, its roles as the main monetary institutions and regulator of the banking system, as well as its function to autonomously and independently determine and implement monetary and foreign exchange policies and, in the framework of this, to manage foreign exchange reserves in such a way that contributes to the unimpeded fulfillment of the obligations of the Republic of Serbia abroad.

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32. 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, 2017 and 2016:

	December 31, 2017		
	Thousands of RSD		
	Current items (within 12 months)	Non-current items (over 12 months)	Total
ASSETS			
Cash and current accounts held with banks	210,176,735	-	210,176,735
Deposits	80,767,776	-	80,767,776
Gold and other precious metals	162,292,126	1,143,234	163,435,360
Financial assets at fair value through profit and loss	269,906,579	457,596,843	727,503,422
Financial assets available for sale	-	9,931,739	9,931,739
Financial assets held to maturity	3,026,769	-	3,026,769
Loans and placements	10,606	1,135,253	1,145,859
IMF membership quota and SDR holdings	7,978,185	92,427,246	100,405,431
Intangible assets	-	112,425	112,425
Property, plant and equipment	-	20,233,103	20,233,103
Investment property	-	467,609	467,609
Other assets	4,877,231	68,646	4,945,877
TOTAL ASSETS	739,036,007	583,116,098	1,322,152,105
LIABILITIES			
Financial liabilities at fair value through profit and loss	-	35,365	35,365
Deposits and other liabilities to banks and other financial organizations	289,617,694	194,721,919	484,339,613
Deposits and other liabilities to the Government and other depositors	217,154,968	51,305,462	268,460,430
Liabilities to the IMF	9,564	100,427,583	100,437,147
Provisions	1,230,217	182,482	1,412,699
Current tax liabilities	454,479	-	454,479
Dinars in circulation	-	163,944,539	163,944,539
Other liabilities	4,410,309	345,075	4,755,384
TOTAL LIABILITIES	512,877,231	510,962,425	1,023,839,656
ASSETS, NET	226,158,776	72,153,673	298,312,449

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

	December 31, 2016		Thousands of RSD
	Current items (within 12 months)	Non-current items (over 12 months)	
			Total
ASSETS			
Cash and current accounts held with banks	202,213,819	-	202,213,819
Deposits	205,023,453	1,649,139	206,672,592
Gold and other precious metals	82,555,050	-	82,555,050
Financial assets at fair value through profit and loss	250,023,625	525,136,016	775,159,641
Financial assets available for sale	-	10,735,222	10,735,222
Financial assets held to maturity	2,644,117	233,705	2,877,822
Loans and placements	505	1,261,123	1,261,628
IMF membership quota and SDR holdings	22,655	112,213,380	112,236,035
Intangible assets	-	77,144	77,144
Property, plant and equipment	-	21,413,972	21,413,972
Investment property	-	467,609	467,609
Other assets	3,902,815	68,905	3,971,720
TOTAL ASSETS	746,386,039	673,256,215	1,419,642,254
LIABILITIES			
Financial liabilities at fair value through profit and loss	-	5,433	5,433
Deposits and other liabilities to banks and other financial organizations	278,552,886	217,933,599	496,486,485
Deposits and other liabilities to the Government and other depositors	213,382,148	43,508,827	256,890,975
Liabilities to the IMF	3,192	112,035,453	112,038,645
Provisions	664,814	595,541	1,260,355
Current tax liabilities	408,113		408,113
Dinars in circulation		159,227,574	159,227,574
Other liabilities	2,183,442	483,051	2,666,493
TOTAL LIABILITIES	495,194,595	533,789,478	1,028,984,073
ASSETS, NET	251,191,444	139,466,737	390,658,181

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33. LITIGATIONS

As at 31 December 2017, the Bank manages litigation in the total estimated amount of RSD 11,423,033 thousand, of which RSD 182,482 thousand are related to disputes in which a negative outcome was assessed for the Bank, and this amount includes court costs and the estimated amount of possible default interest, while the amount of RSD 11,240,551 thousand refers to disputes in which the positive outcome for the Bank was assessed.

As disclosed in Note 25 to the financial statements, as at 31 December 2017, the Bank formed provisions for potential losses that may arise from the litigation in the amount of RSD 182,482 thousand (December 31, 2016, in the amount of RSD 151,223 thousand). Reservation is based on the assessment of legal representatives of the Bank regarding the status of disputes in progress, in the amount that corresponds to the best estimate in terms of expenditure incurred in case of a negative outcome. The Bank's management believes that it is not possible to anticipate the outcome of court cases that are ongoing with a high degree of precision, but estimates that there will be no materially significant losses due to litigation in progress, above the amount for which the provision was made.

34. 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.

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.

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34. RELATED PARTY TRANSACTIONS (Continued)

Transactions with the State and Government Institutions (Continued)

In accordance with the 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.

Based on those provisions of the Law, Republic of Serbia, its ministries and state-owned companies are not regarded as related party to the Bank.

Cover the loss/profit allocation

Pursuant to the Law, 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.

The realized loss of the Bank (paragraph 1 Article 78) is covered by special reserves and basic capital above the minimum basic capital level, and if the said funds are insufficient - from the budget of the Republic of Serbia or from securities for this purpose, under market conditions, issued by the Republic of Serbia and transferred to the Bank (Note 29).

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.

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

34. 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	Thousands of RSD			
	Gross remunerations disbursed in 2017	Net remunerations disbursed in 2017	Gross remunerations disbursed in 2016	Net remunerations disbursed in 2016
Governor	7,836	6,630	7,889	6,711
Director of Administration for Supervision of Financial Institutions	5,582	4,570	6,560	5,391
Vice Governors	13,566	11,047	20,686	17,062
Secretary General	3,515	2,535	3,551	2,596
Directors General, Directors of organizational units within the headquarters, Directors of branch offices and Managing Director of ZIN	108,307	79,034	110,401	80,612
Deputies and assistants to Directors General and Directors General of organizational units, Directors of branch offices and Managing Director of ZIN	82,374	59,005	80,231	57,535
Department Heads	190,253	135,011	191,981	136,470
Chairman and members of the Council of the Governor				
Governor	14,225	10,124	15,738	10,363
Total for the period	425,658	307,956	437,037	316,740

35. 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, 2017, while the balances of receivables denominated in foreign currencies were reconciled as at December 31, 2017.

Out of the total amount of receivables of RSD 1,195,438,194 thousand, for which the Bank delivered outstanding item statement forms for balance confirmation/reconciliation, receivables in the amount of RSD 1,187,721,548 thousand or 99.35% of the total receivables were reconciled, while the amount of RSD 7,716,646 thousand remained unreconciled, but the outstanding item statement (OIS) forms include the note that, in the event the form with the response is not returned within 10 days from the receipt, the Bank shall deem the balance stated to be reconciled. The Bank does not perform balance reconciliation of receivables due from its employees and legal entities in bankruptcy or those subject to liquidation procedure.

The Bank received the settlement forms from legal entities in the total amount of RSD 2,993,991,926 thousand, while the amount of RSD 562,208 thousand or 0.02% was not confirmed.

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36. SUBSEQUENT EVENTS

Up to the issue date of these financial statements, there have been no materially significant events subsequent to the balance sheet date, which would require correction of the accompanying financial statements, nor have there been any non-adjusting event.

37. 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, 2017 and 2016 were as follows:

	December 31, 2017	In dinars December 31, 2016
USD	99.1155	117.1353
EUR	118.4727	123.4723
GBP	133.4302	143.8065
CAD	78.9397	86.8911
CHF	101.2847	114.8473
SDR	141.1534	157.4685

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