MIRABANK A.D., BEOGRAD

Financial Statements as at December 31, 2016

CONTENTS

INCOME STATEMENT
In the period 1 January to 31 December

(In thousands of RSD)

	Note	2016	2015*
Interest income	4.1.18; 7a	133,519	9,425
Interest expenses	4.1.18; 7b	(34,065)	(596)
Net interest income		**99,454**	**8,829**
Fee and commission income	4.1.19; 8a	15,557	1,400
Fee and commission expenses	4.1.19; 8b	(2,791)	(1,106)
Net fee and commission income		**12,766**	**294**
Net gains on financial assets held for trading	4.1.3; 9	124,698	-
Net income/(expense) on foreign exchange rate differences and effects of foreign currency clause	4.1.3; 10	(103,623)	5,870
Other operating income	11	6,811	-
Net expenses on impairment of financial assets and credit risk-weighted off-balance sheet items	4.1.10; 12	(11,628)	-
Net operating income		**128,478**	**14,993**
Salaries, salary compensations and other personal expenses	13	(230,741)	(134,577)
Depreciation expenses	4.1.6, 4.1.8; 14	(74,170)	(21,087)
Other expenses	15	(264,082)	(108,577)
LOSS BEFORE TAX		**(440,515)**	**(249,248)**
Deferred tax loss	4.1.12; 16	(2,799)	(11,910)
LOSS AFTER TAX		**(443,314)**	**(261,158)**

**In the period 5 February to 31 December 2015*

Notes presented in the following pages
are integral parts of this financial statement.

Signed for Mirabank a.d., Beograd:

Dragana Bojin
Head of Accounting Department

Ilinca Rosetti
President of the Executive Board

Saša Mićević
Member of the Executive Board

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STATEMENT ON OTHER COMPREHENSIVE INCOME
In the period 1 January to 31 December

(In thousands of RSD)

	2016	2015*
GAIN/(LOSS) FOR THE PERIOD	**(443,313)**	**(261,158)**
Other result for the period		
Components of other result which may not be reclassified to profit or loss:		
Increase/(Decrease) in revaluation reserves for intangible assets and non-current assets	-	-
Components of other result which may be reclassified to profit or loss:		
Positive effects of fair value changes on financial assets available for sale	6,662	-
Unrealized losses on securities available for sale	(653)	-
Total positive/(negative) other comprehensive income for the period	6,009	-
TOTAL POSITIVE/(NEGATIVE) RESULT FOR THE PERIOD	**(437,305)**	**(261,158)**

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BALANCE SHEET
As at December 31
(In thousands of RSD)

	Note	31 December 2016	31 December 2015
ASSETS			
Cash and balances with the central bank	4.1.2; 17	875,578	1,147,386
Financial assets at fair value through profit or loss held for trading	4.1.3; 18	124,698	-
Financial assets available for sale	4.1.3; 19	2,050,876	-
Loans and advances to banks and other financial institutions	4.1.3; 20	1,734,431	201,783
Loans and advances to customers	4.1.3; 21	2,509,710	510,161
Intangible assets	4.1.8; 22	238,937	217,825
Property, plant and equipment	4.1.6; 23	150,423	163,370
Other assets	24	13,233	8,202
Total assets		**7,697,886**	**2,248,727**
LIABILITIES			
Deposits and other liabilities to banks, other financial institutions and central bank	4.1.3.5; 4.1.3.6; 25	30,839	82
Deposits and other liabilities to customers	4.1.3.5; 4.1.3.6; 26	3,444,564	76,939
Subordinated liabilities	4.1.3; 27	1,235,022	608,130
Provisions	4.1.14; 4.1.15; 28	4,841	2,892
Deferred tax liabilities	4.1.12; 16	14,710	11,910
Other liabilities	29	35,173	19,232
Total liabilities		**4,765,149**	**719,185**
Equity			
Share capital	4.1.17; 30	3,631,200	1,790,700
Loss up to the amount of equity	4.1.17; 30	(704,472)	(261,158)
Reserves	4.1.17; 30	6,009	-
Total equity		**2,932,737**	**1,529,542**
Total liabilities and equity		**7,697,886**	**2,248,727**

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STATEMENT OF CHANGES IN EQUITY
In the period 1 January to 31 December
(In thousands of RSD)

	Share capital	Issue premium	Reserves	Accumulated result	Total
Balance as at 5 February 2015	-	-	-	-	-
Share issue	1,790,700	-	-	-	**1,790,700**
Current year loss*	-	-	-	(261,158)	**(261,158)**
Balance as at 31 December 2015	**1,790,700**	**-**	**-**	**(261,158)**	**1,529,542**
Share issue	1,840,500	-	-	-	**1,840,500**
The positive effects of fair value changes on financial assets available for sale	-	-	6,662	-	**6,662**
Unrealized losses on securities available for sale	-	-	(653)	-	**(653)**
Current year loss	-	-	-	(443,314)	**(443,314)**
Balance as at 31 December 2016	**3,631,200**	**-**	**6,009**	**(704,472)**	**2,932,737**

**In the period 5 February to 31 December 2015*

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CASH FLOW STATEMENT
In the period 1 January to 31 December

(In thousands of RSD)

	2016	2015*
Cash flow from operating activities	**104,646**	**14,867**
Inflow from interest	87,643	9,425
Inflow from fees	16,484	5,442
Inflow from other operating activities	519	-
Cash outflow from operating activities	**(586,637)**	**(220,595)**
Outflow from interest	(5,244)	(363)
Outflow from fees	(7,104)	(1,026)
Outflow from gross salaries, salary compensations and other personal expenses	(235,751)	(134,519)
Outflow from taxes, contributions and other duties charged to income	(6,452)	(83)
Outflow from other operating expenses	(332,086)	(84,604)
Net cash outflow from operating activities before an increase or decrease in placements and deposits	**(481,991)**	**(205,728)**
Increase in loans and placements to banks, other financial institutions, central bank and customers	(3,619,713)	(581,546)
Increase in deposits and other liabilities from banks, other financial institutions, central bank and customers	3,215,506	76,707
Decrease in financial assets at fair value through profit or loss, financial assets held for trading and other securities that are not intended for investment	123,856	-
Net cash outflow from operating activities	**(762,342)**	**(710,567)**
Outflows from investments in investment securities	(1,995,421)	-
Outflow from purchase of intangible assets and non-current assets	(83,725)	(408,909)
Net cash outflow from investing activities	**(2,079,146)**	**(408,909)**
Inflow from capital increases	1,840,500	1,790,700
Inflow from subordinated liabilities	615,180	608,314
Net cash (outflow)/inflow from financing activities	**2,455,680**	**2,399,014**
Net increase/decrease in cash and cash equivalents	**(385,808)**	**1,279,538**
Cash and cash equivalents at year beginning	**1,279,286**	-
Positive/negative exchange rate differences, net	(17,545)	(252)
Cash and cash equivalents at year end	**875,933**	**1,279,286**

**In the period 5 February to 31 December 2015*

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Saša Mićević
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1. Establishment and Operations of the Bank

The founder of Mirabank a.d. Beograd (hereinafter: the Bank), Duingraaf Financial Investments B.V., Weena 327, Rotterdam, The Netherlands (hereinafter: the Founder), obtained the preliminary permit to incorporate the Bank with the Decision of the National Bank of Serbia No. IO NBS 32 dated August 18, 2014.

The National Bank of Serbia issued a Decision No. IO NBS 58 dated December 16, 2014, thus granting the operating license to the Bank.

Upon obtaining the approval from the National Bank of Serbia for the acts of the Founding Assembly of the Bank (the Decision on Appointment of the President and Members of the Board of Directors of the Bank, the Decision on Appointment of the President and Members of the Executive Board of the Bank, the Decision on the Adoption of the Articles of Association of the Bank, the Decision on the First Share Issue of the Bank, the Decision on the Adoption of the Strategy and Business Policy of the Bank), the Bank was registered with the Companies Registry based on the Decision of the Serbian Business Registers Agency BD 8779/2015 dated February 5, 2015.

The Founder of the Bank and the Bank are not members of the banking group. The initial capital of the Bank is EUR 15 million in RSD counter value; capital conversion was performed on April 6, 2015, upon opening of the Bank's account with the National Bank of Serbia, following which the Bank began conducting its operations through that account and payment transactions, and at the same time it initiated the reporting process to the National Bank of Serbia.

On May 11, 2016, with registration in the Central Securities Depository and Clearing House, the Bank's capital was increased through the II share issue in the amount of 1,840,500 ordinary shares with a nominal value of RSD 1,000 per share, after which the total share capital of the Bank (along with the initial issue in the amount of RSD 1,790,700 thousand) amounted to RSD 3,631,200 thousand. Pursuant to the Decision BD 39191/2016 of May 16, 2016, the Business Registers Agency completed registration of changes/increase in share capital.

Pursuant to the Law on Banks, Decision on Incorporation and Articles of Association of the Bank, the Bank was registered to perform the following operations:

- Deposit activities, i.e., accepting and placing all types of cash deposits,
- Lending activities, i.e., granting and taking all types of loans,
- Foreign exchange, foreign currency operations and exchange transactions,
- Payment transactions,
- Payment cards' issuing,
- Activities regarding securities,
- Issuing sureties, guarantees, sureties on promissory notes and other types of warranties
- Purchase, sale and collection of receivables (factoring, forfeiting, etc.),
- Activities for which it is authorized in compliance with the Law,
- Providing other financial services.

Members of the Executive Board of the Bank as at 31 December 2016 are:

Ilinca Rosetti, Chairperson,
Mirjana Garapic Zakanyi, Member,
Saša Mićević, Member.

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Members of the Board of Directors of the Bank as at 31 December 2016 are:

Hamad Abdulla Rashed Obaid Alshamsi, Chairperson
Majed Fuad Mohammad Odeh
Mahmood Ebraheem Mahmood Mohamed Al Mahmood
Kheriba Mustafa Ghazim
Dejan Nikolic
Vladimir Radic

The headquarter of the Bank is in Belgrade, 1 Španskih boraca Street in Novi Beograd, and its operations are conducted in 1 branch office in the territory of the Republic of Serbia at the same address. As at 31 December, 2016, the Bank had 42 employees (as at 31 December 2015 had 38 employees).

The Bank's Company registration number is 21080608. The Tax Identification Number assigned to the Bank is 108851504.

2. Basis for Preparation and Presentation of Financial Statements and Accounting Policy

The basis for preparation and basic accounting policies applied in preparation of individual financial statements are presented below.

The accounting policies were applied consistently to all the presented years, unless specified otherwise.

Compliance Statement

These financial statements (hereinafter: financial statements) of the Bank for the period from 1 January to 31 December 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The financial statements of the Bank have been prepared on the going concern basis, which implies that the Bank will continue to operate into the foreseeable future as a going concern.

2.1. Basis for Preparation and Presentation of Financial Statements

Legal entities and entrepreneurs in the Republic of Serbia are legally obliged to keep books of account, recognize and evaluate their assets and liabilities, revenues and expenditure, prepare, present, submit and disclose their financial statements in compliance with the Law on Accounting (hereinafter: the Law, published in the Official Gazette of the Republic of Serbia, No. 62/2013).

The Bank, as a large legal entity, is obliged to apply the International Financial Reporting Standards ("IFRS"), which, within the meaning of the said Law, include the following: Chart of Accounts for preparation and presentation of financial statements ("Chart") and the International Accounting Standards ("IAS"), The International Financial Reporting Standards ("IFRS") and relevant interpretations issued by the International Financial Reporting Interpretation Committee ("IFRIC"), subsequent amendments to these standards and the related interpretations, as approved by the International Accounting Standards Board ("the Board"), the translation of which was determined and published by the Ministry in charge of finances. In addition, in accordance with the amendments to the Banking Act ("Off. Gazette of RS", no. 14/2015), the banks in the Republic of Serbia are obliged to in the preparation of annual financial statements apply IFRS, as well as subsequent amendments to standards and their related interpretation of the date of their issuance by the competent body.

Financial statements were prepared on the historical costs basis, unless specifically stated otherwise in the accounting policies presented below.
For preparation of the present financial statements, the accounting policies described in the Note 4 were applied by the Bank.

2.2. Standards and interpretations applied for the first time in the current period

In the current year, the Bank applied the amendments to IFRS issued by the International Accounting Standards Board, whose application is mandatory for accounting periods beginning on or after January 1, 2016. The following standards and interpretations came into effect in the current accounting period:

- IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 11 Joint Arrangements - Accounting for acquisitions of interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible assets - Clarification of the acceptable methods of depreciation and amortization (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of interests in other entities and IAS 28 Investments in Associates and Joint Ventures – applying the consolidation exemption (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 27 – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016).
- Amendment to IAS 1 Presentation of Financial Statements - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016).
- The cycle of annual improvements to IFRSs 2012 - 2014 (effective for annual periods beginning on or after 1 January 2016).

2.3. Standards and interpretations in issue not yet effective

As at the date of these Financial Statements, the following standards, amendments and interpretations thereto were published, but not yet effective for the financial year ended 31 December 2016:

- IFRS 9 - "Financial Instruments" and subsequent amendments, which replaces the requirements of IAS 39 "Financial Instruments: Recognition and Measurement", relating to the classification and measurement of financial assets. The standard eliminates the existing categories of IAS 39 - Assets held to maturity, available for sale and loans and advances. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted;
- Amendments to IAS 7 – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12 Income Taxes (effective for annual periods beginning on or after 1 January 2017);
- The cycle of annual improvements to IFRSs 2014 - 2016 - Amendments to IFRS 12 Disclosure of interests in other entities (effective for annual periods beginning on or after 1 January 2017).
- IFRS 15 Revenues from contracts with customers (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 2 Share-based Payment (effective for annual periods beginning on or after 1 January 2018);
- The application of IFRS 9 Financial Instruments with IFRS 4 Insurance contracts (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IAS 40 Investment Property - Investment property transfer (effective for annual periods beginning on or after January 1, 2018.)
- The cycle of annual improvements to IFRS 2014- 2016 - Amendments to IFRS 1 First-time Adoption of IFRS and IAS 28 Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2018);
- IFRIC 22 Interpretation – Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018);
- IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019).

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2.3.1. Assessment of impact of the above changes of Bank's management

- IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

- The key requirements of IFRS 9 are:
  - All recognized financial assets that are within the scope of IAS 39 ''Financial Instruments: Recognition and Measurement'' are required to be subsequently measured at amortized cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting period. Debt instruments that are held within and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election upon initial recognition to measure an equity investment (that is not held for trading) at fair value through other comprehensive income, with only dividend income generally recognized in profit or loss.
  - With regard to the measurement of financial liabilities designated as at fair value thought profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effect of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
  - In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date reflect changes in credit risk since initial recognition. In other words it is no longer necessary for a credit event to have occurred before credit losses are recognized.
  - The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness in also no longer required.

The Bank's management is currently assessing the impact of application of standards on the financial statements of the Bank. The Bank will make a detailed assessments and development plan for the implementation of IFRS 9, in accordance with the nature of the Bank's business. The intention of management is to implement IFRS 9 in full, by the day of its application, in terms of calculating the effects of impairment in accordance with requirements of the new standard.

In accordance with the fact that the Bank stared its lending activity at the end of 2015 and that the average maturity of the Bank's investments is relatively short, the assessment of the Banks's management is that there will be no significant impact on the financial statements of the Bank, in terms of transition to a new concept of impairment based on expected credit losses.

For AFS securities, the Bank's management estimation is that during the implementation of IFRS 9, there will be no changes in measurement and therefore in the effects on the financial position of the Bank.

- Amendments to **IAS 16** "Property, Plant and Equipment" and **IAS 38** "Intangible Assets" will not have a material effect on the financial statements, because management believes that the linear method of calculating depreciation for the Bank is the most suitable.

- Amendments to **IFRS 10** "Consolidated Financial Statements", **IFRS 12** "Disclosure of interests in other entities" and IAS 28 "Investments in Associates and Joint Ventures" will not have a material effect on the financial statements, because the same no holding company, subject, or Associated face, not a joint venture that would represent an investment firm.

- For other standards and interpretations that have been issued but not yet effective, the Management of the Bank believes that it will have a material effect on the financial statements of the Bank.

3. Official Reporting Currency

The Financial Statements of the Bank are presented in RSD thousands. Serbian Dinar is the official reporting currency in the Republic of Serbia.

4. Summary of Significant Accounting Policies and Estimates

4.1 Accounting Policies

4.1.1 Transactions in Foreign Currency

The Financial Statements are presented in Serbian Dinar (RSD), which is the functional currency of the Bank and the currency of the Bank's country of incorporation. Transactions in foreign currencies are translated into the functional currency at the middle exchange rate at the date of the transaction.

Foreign exchange rates determined on the Interbank Foreign Exchange Market used in the translation of balance sheet items in currencies at 31 December 2016 for major currencies are:

	31 December 2016	**31 December 2015**
USD	117.1353	111.2468
EUR	123.4723	121.6261

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the functional currency at the middle exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the middle exchange rate at the date of initial recognition, except for non-monetary items denominated in foreign currencies that are measured at fair value. The exchange differences relating to these items are part of the change in fair value and they are recognized in the income statement or recorded directly in equity depending on the classification of the non-monetary item.

Foreign exchange differences arising on translation are recognized in the income statement.

4.1.2 Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents consists of:
1) Cash on hand,
2) Non-restricted placements with the National Bank of Serbia,
3) Non-restricted placements on nostro accounts with other banks.

Below is an overview of the differences between cash and cash equivalents in the cash flow statement and Cash and balances with the Central Bank in the Balance Sheet:

In thousands of RSD	**Balance sheet**	**Cash flows**	**Difference**
In RSD			-
Gyro account	292,250	292,250	
Cash on hand	7,307	7,307	-
	299,557	**299,557**	**-**
In foreign currency			
Cash on hand	13,371	13,371	-
Foreign currency account (items in Balance sheet Loans and advances from banks and other financial institutions)	-	474,005	(474,005)
Liquidity surpluses deposited with the NBS	89,000	89,000	-
Interest receivables from NBS	12	-	12
Mandatory reserve at NBS	473,638	-	473,638
	576,021	**576,376**	**(355)**
Balance as at 31 December 2016	**875,578**	**875,933**	**(355)**

4.1.3 Classification and Measurement of Financial Instruments

The Bank classifies the financial assets in the following four categories:
1) Loans and advances,
2) Held-to-maturity investments,
3) Financial assets at fair value through profit or loss
4) Available-for-sale financial assets.

4.1.3.1 Initial Recognition

The Bank recognizes financial assets or financial liabilities in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Upon initial recognition the Bank measures financial assets and liabilities at fair values. Financial instruments not measured at fair value through profit or loss are initially recognized at fair value plus transaction costs and minus fees that are directly attributable to the acquisition or issue of the financial instrument.

4.1.3.2 Subsequent Measurement of Financial Assets

For each of the above categories the following applies:

1) Loans and advances

The Bank has classified the following as Loans and advances:
a) Loans to clients,
b) All receivables from clients, banks, etc.,

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This category is measured at amortized cost using the effective interest rate method and is periodically tested for impairment, in compliance with the procedures described under 4.1.10.

The effective interest rate method is a method of calculating the amortized cost of a financial instrument and of allocating the interest income or expense during a specified period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the contractual life of a financial instrument or, where appropriate, for a brief period of the financial instrument to the net carrying value of the financial asset or financial liability.

2) Held-to-Maturity Investments

Non derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold until maturity can be classified as held to maturity investments. Held to maturity investments are measured at amortized cost using the effective interest rate method and are tested for impairment at each reporting date. In cases when objective evidence exists that an impairment loss has occurred, the carrying amount of the financial asset is reduced to the recoverable amount, and the difference is recognized in profit or loss.

As at the balance sheet date, the Bank has not reported any outstanding balance under this position.

3) Financial Assets at Fair Value through Profit or Loss

Financial assets in this category are as follows:
a) Financial assets acquired primarily for the purpose of selling in the near term, to obtain short term profit (financial assets held for trading),
b) Financial assets that the Bank designated, at the initial recognition, as financial assets at fair value through profit or loss.

This classification is used under following circumstances:
a) When management monitors and manages the financial instruments on a fair value basis in accordance with a documented risk management or investment strategy.
b) When the designation eliminates an accounting mismatch which would otherwise arise from measuring financial assets and liabilities on a different basis (i.e. amortized cost) in relation to another financial asset or liability (i.e. derivatives that are measured at fair value through the profit or loss).
c) When a financial instrument contains an embedded derivative that significantly modifies the cash flows or where separation of these derivatives from the main financial instruments is not prohibited.

4) Available-for-sale Financial Assets

Available-for-sale financial assets are financial assets that have not been classified in any of the previous categories. This category is measured at fair value. Changes in fair value are recognized directly in equity until the financial asset is sold. Upon sale, the cumulative gains and losses previously recognized in equity are recognized in profit or loss. The financial assets included in this category are reviewed at each balance sheet date to determine whether there is any indication of impairment. For investments in securities, a significant and prolonged decline in their fair value below their acquisition cost is considered as an objective evidence of impairment.

The Bank considers any decrease exceeding 20% of the cost of the investment to be “significant”.

The Bank considers a decrease to be “prolonged” if such decrease in the fair value is below cost for a continuous period exceeding one year.

The above criteria are assessed in conjunction to the general market conditions. In case of impairment, the cumulative loss already recognized in equity is reclassified in profit and loss.

When a subsequent event causes a decrease in the amount of impairment loss recognized on an available-for-sale financial asset, the impairment loss is reversed through profit or loss, providing that it can be objectively related to such event that occurred after the recognition of the impairment loss. The impairment losses recognized for investments in shares are not reversed through profit or loss.

4.1.3.3 Reclassification of Financial Assets

Reclassification of non-derivative financial assets is permitted in the following cases:

1) Reclassification out of the "held-for-trading" category to one of category "investments held to maturity" or "available-for-sale financial assets" category is permitted in some rare cases only and then the financial assets are no longer held for sale in the foreseeable future.
2) Reclassification out of the "held-for-trading" category to "Loans and advances" is only permitted, if the financial assets meet the definition of Loans and advances and that there is the intention to hold them for the foreseeable future or until maturity.
3) Reclassification out of the "available-for-sale" category to the "Loans and advances" category is permitted for financial assets that comply with the definition of Loans and advances and the Bank intends to hold the financial asset for the foreseeable future or until maturity.
4) Reclassification out of the "available-for-sale" category to the "held to maturity" category is permitted for financial assets that comply with the relevant characteristics of the "held-to-maturity investments" and the Bank has the intention and ability to hold that financial asset until maturity.
5) Reclassification out of the "held-to-maturity" category to the "available-for-sale" category occurs when the Bank has no longer the intention or the ability to hold these instruments until maturity. In case of a sale or reclassification of a significant amount of held-to-maturity investments, the remaining investments in this category are mandatorily transferred to the available-for-sale category. Over the period of two years from such reclassification, the Bank may not classify any securities as held-to-maturity. Exceptions apply in cases of sales or reclassifications of investments that:
   a) Are very close to maturity,
   b) After the Bank has collected substantially the entire amount of financial asset's original principal through scheduled payments or prepayments,
   c) Are caused by some specific, non-recurring event that is beyond the control of the Bank.

4.1.3.4 Derecognition of Financial Assets

The Bank derecognizes a financial asset when:
1) The cash flows from the financial asset expire,
2) The contractual right to receive the cash flows of the financial assets is transferred and at the same time both risks and rewards of ownership are transferred,
3) Loans and advances or investments in securities are no longer recoverable and consequently are written off.

In case of transactions, where despite the transfer of the contractual right to recover the cash flows from financial assets both the risk and rewards remain with the Bank, no derecognition of these financial assets occurs. The amount received based on such the transfer is recognized as a financial liability. The accounting practices followed by the Bank in such transactions are analysed further under 4.1.16.

In case of transactions whereby the Bank transfers the risks and rewards of the financial assets, but retains control over them, the financial assets are recognized to the extent of the Bank's continuing involvement.

If the Bank does not retain control of the assets then such assets should be derecognized, and in their position the Bank recognizes, distinctively, the assets and liabilities which are created or retained during the transfer.

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4.1.3.5 Subsequent Measurement of Financial Liabilities

The Bank classifies financial liabilities in the following categories for measurement purposes:

1) Financial liabilities measured at fair value through profit or loss,
   a) This category includes financial liabilities held for trading, that is:
      i) Financial liabilities acquired or incurred principally with the intention of selling or repurchasing in the near term for short term profit, or
      ii) Derivatives not used for hedging purposes.

Liabilities arising from either derivatives held for trading or derivatives used for hedging purposes are presented as "derivative financial liabilities" and are measured according to the principles set out under 4.1.4.

   b) This category also includes financial liabilities which are designated by the Bank as at fair value through profit or loss upon initial recognition, in compliance with the principles set out for financial asset, under 4.1.3.2, point 3.

2) Financial liabilities carried at amortized cost

The liabilities classified in this category are measured at amortized cost using the effective interest method.

Liabilities to credit institutions and customers, debt securities issued by the Bank and other loan liabilities are classified in this category.

In cases where the financial liabilities included in this category are designated as the hedged item in a hedge relationship, the accounting principles applied are those set out under 4.1.4.

4.1.3.6 Derecognition of Financial Liabilities

The Bank derecognizes a financial liability (or part thereof) when its contractual obligations are discharged or cancelled or expired.

In cases that a financial liability is exchanged with another one with substantially different terms, the exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new one.

The same applies in cases of a substantial modification of the terms of an existing financial liability or a part thereof.

The terms are considered substantially different if the discounted present value of the cash flows under the new terms (including any fees paid or any fees received), discounted using the original effective interest rate is at least 10% different from the present value of the remaining cash flows of the original financial liability.

The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

4.1.3.7 Netting (Offsetting) of Financial Assets and Financial Liabilities

Financial assets and liabilities are offset and the net amount is presented in the balance sheet, only in cases where the Bank has both the legal right and the intention to settle them on a net basis, or to realize the asset and to settle the liability simultaneously.

The Bank did not offset financial assets and financial liabilities on the balance sheet date.

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4.1.4 Derivatives

Derivatives are financial instruments that upon recognition have a minimal or zero value that subsequently changes in accordance with a particular underlying instrument (foreign exchange rate, interest rate, index or other variable).

Derivatives are recognized as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivatives are used for either hedging or trading purposes and they are measured at fair value irrespective of the purpose for which they have been transacted.

4.1.4.1 FX Swaps

These types of swaps are entered into primarily to hedge the exposures arising from customer loans and deposits. As there is no documentation to support hedge accounting, the FX swaps are classified as trading instruments.

The result arising from these derivatives is recognized as interest and foreign exchange differences, in order to match with the interest element and foreign exchange differences resulting from the loans and deposits, and as other gains less losses on financial transactions.

4.1.5 Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The Bank measures the fair value of assets and liabilities traded in active markets based on available quoted market prices. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market is determined by the use of valuation techniques, appropriate under the circumstances, and for which sufficient data to measure fair value are available, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

4.1.5.1 Financial Instruments

For financial instruments, the best evidence of fair value at initial recognition is the transaction price, unless the fair value can be derived by other observable market transactions relating to the same instrument, or by a valuation technique using only observable inputs. In these cases, if the fair value differs from the transaction price, the difference is recognized in income statement. In all other cases, fair value is adjusted to defer the difference with the transaction price. After initial recognition, the deferred difference is recognized as a gain or loss only to the extent that it arises from a change in a factor that market participants would take into account when pricing the instrument.

4.1.5.2 Non Financial Assets and Liabilities

The most important category of non-financial assets for which fair value is estimated is real estate property.

The process predominantly followed for the determination of fair value are listed below:
1) Assignment to the engineer – valuer,
2) Setting of additional data,

3) Autopsy – Inspection,
4) Data processing – Calculations,
5) Preparation of the valuation report.

The fair value measurement of a property takes into account a market participants' ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

4.1.6 Property, Plant and Equipment

This caption includes: land, buildings used by the branches or for administrative purposes, additions or improvements of leased property and equipment.

Property, plant and equipment are initially recognized at cost which includes any expenditure directly attributable to the acquisition of the asset. Subsequently, property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Subsequent expenditures are recognized on the carrying amount of the item when it increases future economic benefit only. Expenditure on repairs and maintenance is recognized in profit or loss, as an expense as incurred.

Depreciation is charged on a straight line basis over the estimated useful lives of property, plant and equipment and it is calculated on the asset's cost minus residual value.

In 2016 calculation of depreciation of fixed assets with the following estimated useful life was carried out (the Bank does not own buildings, so there is no estimated useful life inserted in the table):

Description	Estimated useful life (in years)	Minimal rate per annum (%)
Furniture	Max 5	20
Electronic systems	From 3 to 5	33.33 to 20
Other	Max 5	20

In 2015, calculation of depreciation of fixed assets was carried out using the same rates.

In 2016 calculation of depreciation for leasehold improvements was carried out using an estimated useful life of 5 years with a rate in the range of 20% to 27.9052% (in 2015 a single rate of 20% was used).

The residual value of property and equipment and their useful lives are periodically reviewed and adjusted if necessary at each reporting date.

Property, plant and equipment are reviewed at least once a year to determine whether there is an indication of impairment (impairment test) and if they are impaired, the carrying amount is adjusted to its recoverable amount and the difference is recorded in profit or loss. If there is an indication that some event might have caused the impairment, the Bank is performing the impairment test even more often than once per year.

Gains and losses from the sale of property and equipment are recognized in profit or loss.

4.1.7 Investment Property

This category includes buildings or portions of buildings that are held to earn rental income or for the purpose of increase of their value. Investment property is initially recognized at cost which includes any expenditure directly attributable to the acquisition of the asset.

At the balance sheet date, the Bank has not reported any outstanding balance under this position.

4.1.8 Intangible Assets

In this category, the Bank has included software and licenses, which is measured at cost less accumulated amortization, and impairment losses.

The cost of separately acquired software comprises of its purchase price and any directly attributable cost of preparing the software for its intended use.

Amortization is charged over the estimated useful life of the software, which the Bank estimates at a maximum of 15 years. The Bank's core system is estimated at 7 years in 2016 and 2015.

Amortization of licenses shall be calculated at the rate of 33.33% and 20% (in 2015 there were no licenses with an estimated useful life of 3 years, but only 5 years old, and it was used the rate of 20%).

Expenditure incurred to maintain software programs is recognized in the income statement as incurred.

Software that is considered to be an integral part of hardware (hardware cannot operate without the use of the specific software) is classified under “Property, plant and equipment”.
Intangible assets are amortized using the straight line method, excluding those with indefinite useful life, which are not amortized.
All intangible assets are tested for impairment. No residual value is estimated for intangible assets.

4.1.9 Lease

The Bank enters into leases either as a lessee. When all the risks and rewards incident to ownership of an asset are substantially transferred to the lessee they are classified as finance leases. All other lease agreements are classified as operating leases.

The accounting treatment followed depends on the classification of the lease, which is as follows:

4.1.9.1 When the Bank is the Lessee

1) Finance Leases:

For finance leases, where the Bank is the lessee, the leased asset is recognized as “Property, plant and equipment” and a respective liability is recognized in “Other liabilities”.

At the commencement of the lease, the leased asset and liability are recognized at amounts equal to the fair value of leased property, or (if lower) at the present value of the lease payments. The discount rate used in calculating the present value of the lease payments is the interest rate implicit in the lease or, if this is not available, the Bank’s borrowing rate for similar financing.

Subsequent to initial recognition the leased assets (recognized as “Property, plant and equipment”) are depreciated over their useful lives unless the duration of the lease is less than the useful life of the leased asset and the Bank does not expect to obtain ownership at the end of the lease, in which case the asset is depreciated over the term of the lease. The lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

As At the balance sheet date, the Bank has not reported any outstanding balance under this position.

2) Operating Lease:

For operating leases, the Bank as a Lessee does not recognize the leased asset but charges in general administrative expenses the lease payments on an accrual basis. Bank are operating leases for office space and cars.

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4.1.10 Impairment of Loans and advances

The Bank has created a methodology for group impairment, taking into consideration the current regulatory act of the National Bank of Serbia (and the accompanying guidelines and other documents), International Accounting Standards, the characteristics of the Bank operations and other relevant factors.

For the reporting date of 31 December 2016, the entire amount of the impairment of balance sheet assets and provisions for losses on off-balance sheet items, is based on group assessment, bearing in mind that no objective evidence of impairment was established in the Bank's receivables.

The Bank performs assessment of impairment of balance sheet assets and probable losses arising from off-balance sheet items on an aggregate basis for all receivables in which impairment or losses cannot be directly linked to the receivable, but which based on experience can be estimated as present in the loan portfolio.

Assessment of impairment of balance sheet assets on individual basis includes determining the existence of objective evidence of impairment, assessment of the present value of future cash flows and the calculation of the amount of that impairment for each individual receivables from debtor that is included in such assessment.

Objective evidence of impairment of balance sheet assets on an individual basis, of:

- if the debtor's financial condition indicates significant problems in his business;
- if there are data of settlement of liabilities, the frequent delays in payment of interest and / or principal, or the non-fulfilment of other contractual provisions;
- if the bank, due to financial difficulties of the debtor, essentially change the terms of repayment claims in relation to those originally agreed;
- if it becomes certain that it will be launched bankruptcy proceedings against the debtor or other of its financial reorganization.

4.1.11 Impairment of Non-Financial Assets

The Bank assesses at least once per annum non-financial assets for impairment, particularly property, plant and equipment, investment property and intangible assets. In assessing whether there is an indication that an asset may be impaired, both external and internal sources of information are considered, of which the following are indicatively mentioned:

1) The asset’s market value has declined significantly, more than would be expected as a result of the passage of time or normal use;
2) Significant changes with an adverse effect have taken place during the period or will take place in the near future, in the technological, economic or legal environment in which the Bank operates or in the market to which the asset is dedicated;
3) Significant adverse changes in foreign exchange rates;
4) Interest rates have increased during the period, and such increases are likely to affect the discount rate used in calculating an asset’s value in use;
5) The carrying amount of the net assets of the Bank is more that its market capitalization;
6) Evidence is available of obsolescence or physical damage of an asset.

An impairment loss is recognized in profit or loss when the recoverable amount of an asset is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell is the amount received from the sale of an asset (less the cost of disposal) in an orderly transaction between market participants.

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Value in use for property, plant and equipment is the present value of the future cash flows expected to be derived from an asset or cash–generating unit through their use and not from their disposal. Value in use incorporates the value of the asset as well as all the improvements which render the asset perfectly suitable for its use by the Bank.

4.1.12 Income Tax

Income tax consists of current and deferred tax.

Current tax for a period includes the expected amount of income tax payable in respect of the taxable profit for the current reporting period, based on the tax rates enacted at the balance sheet date.

Deferred tax is the tax that will be paid or for which relief will be obtained in future periods due to the different period that certain items are recognized for financial reporting purposes and for taxation purposes.

It is calculated based on the temporary differences between the tax base of assets and liabilities and their respective carrying amounts in the financial statements.

Deferred tax assets and liabilities are calculated using the tax rates that are expected to apply when the temporary difference reverses, based on the tax rates (and laws) enacted at the balance sheet date (in 2016 and 2015:15 percent).

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Income tax, both current and deferred, is recognized in profit or loss except when it relates to items recognized directly in equity. In such cases, the respective income tax is also recognized in equity.

4.1.13 Non-Current Assets Held for Sale

Non-current assets that are expected to be recovered through a sale transaction, along with the related liabilities, are classified as held-for-sale.

The above classification is used if the asset is available for immediate sale in its present condition and its sale is highly probable. The sale is considered highly probable when the following conditions are met:
1) It has been decided by the Management,
2) An active program to locate a buyer has been launched,
3) The asset has to be actively marketed for sale, at a price which is reasonable in relation to its current fair value, and
4) The sale is expected to be completed within one year.

Non-current assets that are acquired exclusively with a view to their subsequent disposal are classified as held for sale at the acquisition date when the one-year requirement is met and it is highly probable that the remaining criteria will be met within a short period following the acquisition (usually within three months).

Non-current assets held for sale consist mainly of assets acquired through the enforcement of security over loans and advances.

Prior to their classification as non-current assets held for sale, such assets are remeasured in accordance with the respective accounting standard.

Assets held for sale are initially recognized and subsequently measured at each balance sheet date at the lower of their carrying amount and fair value less cost to sell.

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Any loss arising from the subsequent measurement is recorded in profit or loss and can be reversed in the future.

Assets in this category are not depreciated. Gains or losses from the sale of these assets are recognized in the income statement.
Non-current assets that are acquired through enforcement procedures based on Loans and advances but are not available for immediate sale or are not expected to be sold within a year are included in "Other Assets" and are measured at the lower of cost (or carrying amount) and fair value.

Non-current assets held for sale, that the Bank subsequently decides either to use or to lease, are reclassified to the categories of "Property, plant and equipment" or "Investment property".

For reclassification purposes, such assets are measured at the lower of their recoverable amount and their carrying amount (before they were classified as held for sale, adjusted for any depreciation, amortization or revaluation that would have been recognized had the assets not been classified as held for sale).

As at the balance sheet date, the Bank has not reported any outstanding balance under this position.

4.1.14 Employee Benefits

A defined benefit plan is a pension plan that defines an amount of pension benefit that is to be paid to the employee on retirement.

As at each balance sheet date, the Bank is estimating the long-term provisions for retirement pay as the present value of the expected future payments to employees, based on an actuarial valuation.

The net liability recognized in the profit or loss is the present value of the defined benefit obligation (which is the expected future payments required to settle the liabilities resulting from employee service in the current and prior periods).

The present value of the defined benefit liability is calculated based on the return of high quality corporate bonds with a corresponding maturity to that of the obligation, or based on the return of government bonds in cases when there is no deep market in corporate bonds.

Interest on the net defined benefit liability, which is recognized in profit or loss, is determined by multiplying the net defined benefit liability by the discount rate used to discount post-employment benefit obligation, as determined at the beginning of the financial year, taking into account any changes in the net defined benefit liability.

Service cost, which is also recognized in profit or loss, consists of:

1. Current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;
2. Past service cost that is the change in the present value of the defined benefit obligation for employee service/services provided in previous periods, resulting from the changes (introduction or withdrawal to a defined benefit plan) or a curtailment (a significant reduction in the number of employees covered by a plan by the Bank);
3. Any gain or loss on settlement.

Prior to determining the past service cost and gain or loss on settlement, the Bank remeasures the net defined benefit liability using the current actuarial assumptions, curtailment or settlement.

Past service cost is directly recognized to profit or loss at the earliest of the following dates:
1. When the plan is changed or when curtailment occurs; or
2. When the Bank recognizes restructuring costs (in compliance with IAS 37) or when the benefits are terminated.

Likewise, the Bank recognizes a gain or loss on the settlement when the settlement occurs.

Remeasurements of the net defined benefit liability, which comprise of:
1. Actuarial gains and losses;
2. Any change in the effect of the limitation of assets, excluding amounts included in net interest on the net defined benefit liability, are recognized directly in other income and cannot be recognized in profit or loss in subsequent periods.

When the Bank decides to terminate the employment contract before retirement or the employee accepts the Bank's offer (which includes certain benefits) in exchange for termination of employment, the liability and the relative expense for termination benefits are recognized at the earlier of the following dates:

1. When the Bank can no longer withdraw the offer of those benefits; and
2. When the Bank recognizes restructuring costs that involve the payment of termination benefits.

4.1.15 Provisions and Contingent Liabilities

A provision is recognized if, as a result of a past event, the Bank has a present legal or contractual obligation that can be estimated reliably, and it is certain that an outflow of economic benefits will be required to settle the obligation.

Provisions are, also, recognized in cases of restructuring plans based on the management attempts either to change the corporate activity or the manner in which it is conducted.

The recognition of a provision is accompanied with the relevant program authorized by the Management and with the suitable actions of disclosure.

The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Where the effect of the time value of money is material, the amount of the provision is equal to the present value of the expenditures expected to settle the obligation.

Amounts paid for the settlement of an obligation are set against the original provisions for these obligations.

Provisions are reviewed at the end of each reporting period.

If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Additionally, provisions are not recognized for future operating losses.

Future events that may affect the amount required to settle the obligation, for which a provision has been made, are taken into account where sufficient objective evidence exists that they will occur.

Reimbursements (refunds) from third parties relating to a portion of or the entire estimated cash outflow are recognized as assets, only when it is very certain that they will be received.

The amount recognized for the reimbursement (refund) must not exceed the amount of the provision.

The expense recognized in profit or loss relating to the provision is presented net of the amount of the reimbursement (refund).

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The Bank does not recognize in the statement of financial position contingent liabilities which relate to:

1) Contingent liabilities resulting from past events that will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of the Bank, or
2) Present liabilities resulting from past events and:
   a) It is not probable that an outflow of resources embodying the economic benefits will be required to settle the liability; or
   b) The liability amount cannot be estimated reliably.

The Bank provides disclosures for contingent liabilities taking into consideration materiality thereof.

4.1.16 Repo operations and pledge on securities

The Bank purchases securities under agreements to resell on a certain future date, at a fixed price (repos).

Securities purchased subject to commitments to resell them at future dates are not recognized as investments. These are recognized as “Loans and advances” from banks or clients, in the amount paid.

The difference between the purchase and resale price is recognized as interest income, on accrual basis.

Securities sold under agreements to repurchase continue to be recognized in the balance sheet and are measured in accordance with the accounting policy of the category that they have been classified in and are presented as investments.

The proceeds from the sale of the securities are reported as liabilities to either banks or customers.

The difference between the sales price and the repurchase price is recognized as interest expenses on accrual basis.

Securities acquired by the Bank under securities resale agreements are not recognized in the balance sheet except when these are sold to third parties whereby the liability to deliver the security is recognized and measured at fair value.

As at the balance sheet date, the Bank has not reported any outstanding balance under this position.

4.1.17 Equity

4.1.17.1 Distinction between Debt and Equity

Financial instruments issued by the Bank are classified as equity in cases where, based on the substance of such transaction, the Bank does not undertake a contractual obligation to pay cash or another financial asset or to exchange financial instruments under conditions that are potentially unfavourable for the issuer.

In cases where the Bank is required to issue equity instruments in exchange for the funding obtained, the number of equity instruments must be fixed and determined on the initial contract, in order for the obligation to be classified as equity.

4.1.17.2 Incremental Costs of Share Capital Increase

Incremental costs directly attributable to the issue of new shares are presented in equity as a deduction, net of tax, from retained earnings.

4.1.17.3 Share Premium

Share premium is the difference between the nominal value of shares and actually received consideration in case of a share capital increase. The share premium additionally includes the difference between the nominal value of issued shares and the market value of such shares, in cases of exchanges of shares as consideration for acquisition of a business (company) by the Bank.

4.1.17.4 Retained Earnings

Retained earnings are previous years' earnings for which General Assembly have not made any decision on distribution.

4.1.18 Interest Income and Expense

At accounts: revenue from interest on loans, deposits, securities, other investments and assets in RSD and foreign currency, shall disclose accrued income from regular and default interest in the current accounting period, regardless of the time it falls due for payment.

At accounts: expense from interest on loans, deposits, securities, other investments and assets in RSD and foreign currency, shall disclose accrued income from regular and default interest in the current accounting period, regardless of the time it falls due for payment.

Interest income and expense is recognized in the income statement for all interest bearing financial assets and liabilities. Interest income and expense are recognized on accrual basis and measured by using the effective interest rate.

The effective interest rate method includes all paid or received fees and costs, which are integral part of effective interest rate. Interest on impaired financial assets is determined in the manner specified under 4.1.10.

4.1.19 Fee and Commission Income and Expenses

Accounts of income from fees and commissions in RSD and foreign currency, shall disclose income from fees and commissions accounted for in the current accounting period irrespective of the time of their collection, such as fees for RSD and foreign payment transactions, fees for warranty processing, etc.

Accounts of expenditure fee and commission expenses, in RSD and foreign currency, shall disclose accrued fees and commission expenses in the current accounting period irrespective of the time of their payments, such as fees for RSD and foreign currency payments, commissions of other banks, CSD, etc.

Fee and commission income is recognized in the income statement on accrual basis in the period when the relevant service was provided.

Fees and commissions income and expense that are integral part of effective interest rate are included in the calculation of effective interest rate and accordingly reported within interest income or interest expenses.

4.1.20 Related Parties

Pursuant to IAS 24, a related party is a person or entity that is related to the entity that is preparing its financial statements. For the Bank in particular, related parties are considered to be:

A. The parent company, and entities that constitute for the Bank or the parent company:
   - A branch,
   - A joint venture.

B. The person and a close member of that person's family, if such person is a member of the key management personnel.

The Bank considers all the members of the Board of Directors and of the Executive Board to be the key management personnel as well as members of the other boards of the Bank.

Close family members of the above mentioned persons are considered to be:
- Spouses or domestic partners of such persons,
- The first degree relatives of that person's spouse or domestic partner, and
- Dependents of that person or dependents of that person's spouse or domestic partner.

In addition to that, the Bank discloses all transactions and outstanding balances with entities which are controlled or jointly controlled by the above mentioned persons. This disclosure concerns stakes and shares of the above mentioned persons in entities that exceed 20%.

4.1.21 Comparative figures

To the extent considered necessary, the comparatives are adjusted to facilitate changes in presentation of the current year amounts.

Comparative figures relate to the year 2015 covering the period 5 February to 31 December 2015.

4.1.22 Assessments, the criteria for decision-making and important sources of uncertainty

The Bank, in the context of applying accounting policies and preparing financial statements in accordance with the International Financial Reporting Standards (IFRS), makes estimates and assumptions that affect the amounts recognized as income, expenses, assets or liabilities. The use of estimates and assumptions is an integral part of recognizing amounts in the financial statements that mostly relate to the following:

4.1.22.1 Fair Value of Assets and Liabilities

For assets or liabilities traded in active markets, the determination of their fair value is based on quoted, market prices. In all other cases the determination of fair value is based on valuation techniques that use observable market data to the greatest extent possible. In cases where there is no active market, the fair value is determined using data that are based on internal estimates and assumptions, such as, for example, determination of expected cash flows, discount rates, prepayment probabilities or potential counterparty default.

4.1.22.2 Impairment of Financial Assets

The Bank, when performing impairment tests on Loans and advances, makes estimates in compliance with the amount and timing of future cash flows. Given that these estimates are affected by a number of factors, such as the financial position of the borrower, the net realizable value of any collateral or the historical loss ratios per portfolio, actual results may differ from those estimated. Similar estimates are used in the assessment of impairment losses of securities classified as available for sale or held to maturity.

4.1.22.3 Impairment of Non-Financial Assets

The Bank, at each balance sheet date, assesses for impairment the non – financial assets, and in particular property, plant and equipment, investment property and other intangible assets. Internal estimates are used to a significant degree to determine the recoverable amount of the assets, i.e. the higher between the fair value less costs to sell and the value in use.

On the balance sheet date the Bank has no impairment of non-financial assets

4.1.22.4 Income Tax

The Bank recognizes the amounts of current and deferred income tax based on estimates concerning the amount of taxable profits, based on which the amounts of tax expected to be paid or recovered in the current and future periods are determined. Estimates are affected by factors such as the practical implementation of the relevant legislation, the expectations regarding the existence of future taxable profit etc. Future tax audits, changes in tax legislation and the amount of taxable profit actually, may result in tax payments other than those recognized in the financial statements of the Bank.

4.1.22.5 Employee Benefits

Long-term provisions for retirement pays are made based on actuarial valuations that include assumptions regarding the discount rate, future changes of salaries and pensions. Any change in these assumptions affect the amount of liabilities recognized.

4.1.22.6 Provisions and Contingent Liabilities

The Bank recognizes a provision when it estimates that it has a present legal or contractual obligation that can be estimated reliably, and it is almost certain that an outflow of economic benefits will be required to settle the obligation. In contrast, when it is probable that an outflow of resources will be required, or when the amount of liability cannot be measured reliably, the Bank does not recognize a provision, but it provides disclosures for contingent liabilities, taking into consideration their materiality.

The estimation for the probability of the outflow, as well as for the amount of the liability are affected by factors which are not controlled by the Bank, such as court decisions, the practical implementation of the relevant legislation and the probability of default of the counterparty (for the cases related to the exposure to off-balance sheet items). The estimates and judgments applied by the Bank in making decisions and in preparing the financial statements are based on historical information and assumptions which are considered appropriate at present. The estimates and judgments are reviewed on an ongoing basis in order to take into account current market conditions. The effect of any changes in estimates is recognized in the period in which the estimates are revised.

5. Financial risk review

In compliance with the nature of its business activity, the Bank established an adequate risk management system, which pertains to the management of types of risks, and especially so for the most important risks that may arise during operation.

Risk Management Objectives and Principles

The Bank established the risk management process through:

- A specified risk management strategy;
- Clearly defined risk management policies and procedures that include risk identification, measuring, monitoring, reporting and control;
- Adequately established organizational structure that clearly defines the roles and responsibilities of individuals involved in undertaking of risks, risk management and supervision of risk management adequacy;
- Independence of the organizational units tasked with risk management from those tasked with other business activities;
- Effective information system intended for use by the management, which provides information flow from the operational level to top management, as well as the reporting system for any deviations identified;
- Continuous independent supervision of the risk management system.

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Responsibilities

The Board of Directors, Supervisory Board, Executive Board, Asset and Liability Committee are responsible for establishing of the system and for the supervision of the risk management system in compliance with the regulations of the National Bank of Serbia, policy and principles of the Bank and risk management best practices.

With the aim to set up a consolidated risk management system and to provide for the functional and organizational independence of the risk management function from the regular business activities, in addition to the legally prescribed management bodies, individual Boards and Committees of the Bank are responsible for risk management, in compliance with the Rules on their operations.

Bodies of the Bank continuously monitor the changes in legal regulations as well, they analyse the impact of such changes to the risk levels on the level of the Bank and undertake measures to bring the operations and procedures with newly adopted regulations within the controlled risk.

In addition to the above, the introduction of new products, activities, lines of business and systems is followed by the required business, market and economic analyses with the aim to determine their impact on the risk portfolio of the Bank.

Bodies of the Bank responsible for risk management jointly establish the risk management principles and methodology, based on the following:

- Regulations and decisions passed by the legislative authorities, and principally by the National Bank of Serbia;
- Appetite for risk-taking, adopted as an internal act of the Bank (part of the Strategy for Risk Management) by the Board;
- Needs of the good business practice, with the aim to adequately identify, measure and estimate the risks, as well as to manage the risks to which the Bank is exposed.

Risk Measurement and Reporting

Organizational units responsible for monitoring of individual risk types and other expert services continuously monitor the indicators of individual categories of risks within their specific competencies and perform measuring, control and reporting to the competent Boards/Committees of the Bank, in compliance with the risk management system established by means of the most important internal acts regulating risk management.

Overview of Risk Types

In compliance with the Risk Management Strategy, the Bank has classified the potential operating risks in the following categories:

A. **Credit risk** and risks related to credit risk (concentration risk, country risk, FX credit risk, residual risk)
B. **Liquidity risk**,
C. **Market risk**, interest risk in banking book, foreign exchange risk,
D. **Capital management.**

In addition to the above listed risks, the following risks may arise as well:
- Strategic risk,
- Reputational risk,
- Compliance risk,
- Operational risk,
- Other risks that are difficult to quantify.

5.A. Credit risk

Credit risk is the risk of negative effects on the financial result and capital of the Bank caused by borrower's default on its obligations to the Bank.
The basic goal of credit risk management within the Bank is to reduce the possibility of occurrence of negative effects on the financial result and capital of the Bank due to the failure of the debtors to meet their obligations towards the Bank. In order to control the acceptance of the credit risk and adequate management of such risks, the Bank has established an adequate credit process which includes the approval of placements and credit risk management, which are regulated by Bank's procedures.

The credit risk management process includes:
- identification,
- evaluation and measuring,
- monitoring and
- reporting about the credit risk.

Credit Risk Management

The Bank manages the credit risk from individual borrowers, portfolio risk, transaction risk, i.e., it manages the collaterals separately, through the management of:
- Default risk – the risk of defaulting by the borrower;
- Risk from the changes in asset value – the risk of losses in the value of assets;
- FX credit risk – the risk of defaulting by the borrower due to a significant rise in the foreign exchange rate;
- Concentration risk that originates from the exposure to entities from the high exposures group, as well as the concentration risk that originates from the concentration of exposure to individual risk factors pertaining to: the economic sector, geographical area, product type and loan hedging activities and the similar.

Credit risk is adequately managed through risk identification, measuring, control, monitoring and reporting.

With the aim to achieve an effective credit risk management framework, the Bank has defined the basic components as follows:
- Establishing and supervision of the system by the Board of Directors and senior management,
- Clear allocation of competencies and responsibilities in the management process,
- Adequate implementation of management system and relevant policies and procedures.

The credit risk management process includes the following:
- Risk identification in compliance with the adopted procedures,
- Risk measuring and assessment by using the prescribed methodologies,
- Risk monitoring and control in accordance with the established procedures, as well as the application of relevant risk mitigation techniques, by using the loan hedging instruments,
- Reporting on exposure to credit risk.

Supervision by the Board of Directors and Senior Management

The Board of Directors of the Bank approved the credit risk management strategy and policies. The Board of Directors adopts the risk profile of the Bank and supervises the implementation of the process of adequate credit risk management, to ensure that the total credit risk exposure of the Bank is maintained on a safe level and matched to available capital both under the regular conditions and in crisis and any disturbances in the market.

Credit risk management of the Bank is based on the implementation of the following basic principles:
- Conservative approach to credit risk management,
- Management through defined control levels,

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- Credit policy cycles in conjecture with segmentation of clients, products, economic sectors, geographic locations, currencies and maturity dates,
- Focus on the target market in compliance with the strategy,
- Diversification of credit exposure, and
- Risk pricing.

The Executive Board of the Bank, as well as other bodies are responsible for the development and establishing of credit policies and credit administration procedures within the relevant organizational units of the Bank, as a part of the general credit risk management system and for the adequate implementation and permanent supervision of such system.

Prior to the approval of any investment, competent decision-making levels perform assessments of the risk profile of the client/transaction, and following that, the continuous monitoring of the value of receivables and collaterals' values and adequacy is performed.

Limit Setting

The Bank actively participates in the management of its exposure to credit risks by means of defining and setting the exposure limits for individual borrowers and for the group of related borrowers, such that using various factors of risk concentration credit limits are revised from time to time.

Credit Risk Supervision and Control

Supervision of credit risk pertains to continuous supervision of individual loans, including the off-balance sheet exposure to borrowers and supervision of the entire portfolio of the Bank.

The system established for the credit risk supervision includes the following:

- The time dimension of the supervision in accordance with the nature of the credit risk (from daily to quarterly),
- Different supervisory procedures on predefined decision making levels,
- Continuous independent internal control of the lending process,
- Separate credit risk management on the level of clients and on the portfolio level, as well as on the level of transactions,
- Collateral management, and
- Management of risk investments.

The Bank conducts this activity with the aid of a system that ensures daily supervision of the quality of credit portfolio and implements corrective measures if and when the creditworthiness of a client deteriorates.

This system is created to ensure reliable monitoring of placements' servicing in accordance with the specified deadlines, adequacy of impairments, maintenance of the total risk profile within the limits set by the management and compliance with the regulatory limits by the Bank. Credit monitoring system is created to provide support to the senior management in the supervision of the quality of the entire credit portfolio and its trends.

Credit Risk Identification

The credit risk identification is the basic step in the credit risk management aiming to detect credit risk in a timely manner.

The identification of exposure to a specific risk starts at the moment of submitting of the loan application. The analysis of individual placements includes the analysis of the qualitative and quantitative indicators of the client, as well as the identification of other client's risk factors.

The approval process consist of the defined steps which may differ depending on the type of the client, the characteristics, type and the purpose of placement, the security instruments and include following steps:

– The preparation of the proposals for credit placement;
– The collection and verification of the credit documents;
– Credit analysis;
– Risk assessment;
– Placement approval;
– Control of the accompanying documents and other conditions;
– Disbursement of the funds.

Credit Risk Assessment and Measurement

The Bank has defined the mechanism of independent, continuous assessment of credit risk management process. The result of such assessment is documented in an adequate manner, and is a part of the reporting system to the Board of Directors and senior management.

Management of Non-Performing Loans

The Bank has a defined and established system that enables prior identification of non-performing loans where there is a number of acceptable options for corrective measures. As soon as a loan is designated as non-performing, the course of the management of such loan changes and it is included in the implementation of special corrective procedures.

With the aim to reduce the risk of defaulting by the clients, the Bank may undertake the following measures to regulate the receivables:

- Rescheduling and restructuring,
- Activation of collaterals,
- Sales and assignment of receivables,
- Settlements,
- Initiation of court procedures and other measures.

In case that the measures undertaken should fail to produce adequate results, the proposal for permanent write-off of outstanding receivable will be made in the collection procedure on the specified decision-making levels.
The assessment of the credit risk is being performed during the review of the requirements for a specific placement, the requests for the change of conditions, terms of use and repayment of certain loan, as well as during the regular annual report about the business operations of the client. The assessment of the credit risk is based on the analysis of financial situation of the debtor, the timeliness of debtor's settlement of the obligations towards the Bank, qualitative data collected about the client and the quality of collateral instruments.

The process of measuring the credit risk is based on regulatory approach according with the classification of the debtor's receivables, as well as the assessment of the provisions for losses per off-balance positions, in line with the regulations of the National Bank of Serbia.

Restructuring

Restructuring of loans relates to any change in contractual terms concluded between the Bank and the client in changing the repayment schedule of the exposure in order to respond to any potential increase in current or future delays for such placement. The decision to restructure the credit exposure is always based on the client's liability toward the Bank. The Bank does not have any restructured loans as at balance sheet date.

Credit Risk Mitigation

In order to mitigate the credit risk, during the approval of the placement, security instruments are requested. The type of the requested security instrument depends on the evaluated credit risk of each client. The security conditions that follow each placement depend on the creditworthiness of the debtor, the type and the degree of exposure to the credit risk, the maturity and the amount of placement.

Credit Risk Monitoring

After the approval of the placement, the clients are being monitored through regular and extraordinary monitoring aiming to ensure timely identification of the warning signs.

In order to prevent any increase in the credit risk, monitoring process is established to identify clients for which it is necessary to take measures to prevent their migration from the status of non-problematic clients to the status of clients under intensive monitoring or of problematic clients.

The status of the client is defined based on the combination of the basic indicators (number of days of delay, account freezing, etc.), financial indicators and the professional opinion of the employees involved in the risk management process.

By monitoring the portfolio at the level of the individual placements and at the level of the entire credit portfolio, the Bank performs a comparison against the previous periods, identifies the tendencies and causes of changes in the level of exposure to the credit risk.

The Bank is required to maintain the level of reserves at an adequate level to be able to absorb expected and unexpected credit losses related to the credit portfolio.

Assessment of impairment of balance sheet financial assets

Impairment of placements (provisioning) is determined based on the assessment indicating the cash flows that will not be realized, and in principle it is the difference between the carrying amount less the determined uncollectible percentage and the recoverable amount – expected cash flows discounted by using the effective interest rate.

Recoverable amount is the present value of the expected future cash flows (inflows), discounted by using the effective interest rate.

The most important factors taken into account in impairment assessment of a financial asset or a group of financial assets include objective evidence that can include: significant difficulties of the client, non-compliance with the agreed conditions, high probability of bankruptcy or some other change in the organizational and financial status of the client, deteriorating of an active market for the financial asset.

Financial assets subject to impairment assessment are classified in two separate groups: the receivables that are assessed for impairment: (a) individually – for receivables where there is objective evidence of impairment and according to the amount of material receivables and (b) collectively – for receivables that are not assessed individually.

Individual Assessment

Individual assessment is performed for individually significant receivables where there is objective evidence that the receivables will not be collected by the Bank in the originally agreed amount or within the originally agreed deadlines, or for the receivables where there is objective evidence of impairment.

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When assessing impairment the possibility of implementation of the customer's business plan is taken into account, its ability to improve performance in the event of financial difficulties, the value at which collateral may realize and timing of realization of collateral, the availability of financial support customers, the ability to charge overdue receivables, as well as the timing of the expected cash flows.

When it is estimated that collection from ordinary activities of the client is not possible, during the individual assessment expected income from the realization of collateral is taken into account.

Assessment of impairment of balance sheet assets on individual basis includes determining the existence of objective evidence of impairment, assessment of the present value of future cash flows and the calculation of the amount of that impairment for each individual claim against the debtor that is included in this assessment.

Objective evidence of impairment of balance sheet assets on an individual basis, exist:
- if the debtor's financial condition indicates significant problems in his business activities;
- if there is information of default, frequent delays in payment of interest and / or principal, or the non-fulfilment of other contractual provisions;
- if the bank, due to financial difficulties of the debtor, significantly changes repayment terms in relation to those originally agreed;
- if it becomes certain that bankruptcy proceedings will be initiated against the debtor or other type of financial reorganization.

The selection of the collateral (collateral) is closely connected with the assessment of credit risk, which depends on the financial status of the debtor, the amount of credit exposure, maturity, purpose of the loan and the ways in which the loan is repaid.

As at reporting date 31 December 2016, no objective evidence of impairment in the Bank's receivables has been identified, and accordingly the Bank did not make any individual allowances for impairment losses (there were no individually impaired receivables).

Collective Assessment

For the reporting date of 31 December 2016, the entire amount of the impairment of balance sheet assets and provisions for losses on off-balance sheet items, is based on group assessment, bearing in mind that it was assessed that there is no objective evidence of impairment in the Bank's receivables.

The Bank has developed a methodology for group impairment, given the current regulatory act of the National Bank of Serbia (and the accompanying guidelines and other documents), International Accounting Standards, the characteristics of the Bank and other relevant factors.

The evaluation group basis, inter alia, takes into account the internal rating of the loan portfolio in the following 8 categories: A1, A2, B1, B2, V1, V2, G1, D. Category A1 represents the highest quality category, while D represent the worst category in the loan portfolio of the Bank .

The Bank performs assessment of impairment of balance sheet assets and probable losses arising from off-balance sheet items on an aggregate basis for all receivables in which impairment or losses cannot be directly linked to the receivable, but which based on experience can be estimated as present in the loan portfolio.

The Bank performs the specified assessment on a group basis:
- For claims for which assessment on individual basis determines no objective evidence of impairment of balance sheet assets or probable losses on off-balance sheet items, or if based on individual assessment no amount of impairment of balance sheet assets and probable losses arising from off-balance sheet items is identified;
- For claims that belong to the group of small claims.

Notwithstanding the above rule, the Bank's assessment of impairment of balance sheet assets and probable loss on off-balance sheet items for claims that belong to the group of small claims, in accordance with the methodology, may be carried out on an individual basis.

In the implementation of such collective assessment, the Bank grouped receivables based on similar credit risk characteristics that reflect the debtor's ability to meet its obligations in accordance with contractual terms.

Assessment of impairment of balance sheet assets at group level is a joint estimation of future cash flows of individual groups of receivables on the basis of data on losses from previous periods for receivables, with credit risk characteristics similar to those in the group.

The assessment of probable loss on off-balance sheet items on a group basis is a joint assessment of the recoverability of future cash outflows for off-balance sheet liabilities for group off-balance sheet items with similar characteristics.

Assessment of Provisioning for Off-Balance Sheet Items

Assessment of provisioning for off-balance sheet items (guarantees, avals, letters of credit, etc.) is performed in compliance with the adopted criteria, individually and on collective basis.

Evidence based on which the Bank performs individual impairment assessments of the items of off-balance sheet assets are payments from the Bank accounts for obligations undertaken for guarantees, avals and letters of credit and other off-balance sheet items that can potentially be activated at the expense of the Bank.

Assessment of provisioning for off-balance sheet items on individual basis is performed in the same manner as for the receivables in the balance sheet assets, by using the same software application, bearing in mind that the majority such cases involve an intervention from the part of the Bank, i.e., the transfer of an off-balance sheet item in the balance sheet.

As with balance sheet receivables, for off-balance sheet items for the reporting date of 31 December 2016, the entire amount of the provision for losses on off-balance sheet items is based on group assessment, bearing in mind that no objective evidence of impairment had been established.

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5.A. i. Analysis of loan portfolio quality

The table below shows the structure of credit portfolio of the Bank, at levels of quality.

Maximum credit exposure

In thousands of RSD	**Loans and advances to customers**		**Loans and advances to banks and other financial institutions**		**Financial assets at fair value through profit or loss held for trading**		**Other assets (advances and fees)**		**Off-balance sheet items**	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**
Gross exposure:	**2,519,937**	**510,161**	**1,734,433**	**201,783**	**124,698**	**-**	**2,465**	**7,283**	**2,540,998**	**157,524**
Category A1	82,641	12,163	1,734,433	201,783	124,698	-	176	-	73,736	-
Category A2	962,144	121,097	-	-	-	-	1,482	6,425	62,560	-
Category B1	211,538	111,792	-	-	-	-	155	145	1,307,665	119,331
Category B2	656,902	192,536	-	-	-	-	594	713	485,413	-
Category V1	500,248	72,573	-	-	-	-	11	-	611,624	-
Category V2	92,172	-	-	-	-	-	7	-	-	38,193
Category G1	14,292	-	-	-	-	-	37	-	-	-
Category D	-	-	-	-	-	-	3	-	-	-
Allowance for impairment of balance sheet assets	(10,227)	-	(2)	-	-	-	(8)	-	-	-
Provisions for losses on off-balance sheet items	-	-	-	-	-	-	-	-	(1,391)	-
Net exposure	**2,509,710**	**510,161**	**1,734,431**	**201,783**	**124,698**	**-**	**2,465**	**7,283**	**2,539,607**	**157,524**

The table below shows the structure of credit portfolio of the Bank, by days of delay.

As at 31 December 2016

In thousands of RSD	Not in delay	Less than 30 days	31-60 days	61-90 days	More than 90 days	Total gross
Balance sheet items						
Loans and advances to customers	2,449,781	70,156	-	-	-	**2,519,937**
Loans and advances to banks and other financial institutions	1,734,433	-	-	-	-	**1,734,433**
Financial assets at fair value through profit or loss held for trading	124,698	-	-	-	-	**124,698**
Other assets	2,412	36	-	-	17	**2,465**
Total	**4,311,324**	**70,192**	**-**	**-**	**17**	**4,381,533**

As at 31 December 2015

In thousands of RSD	Not in delay	Less than 30 days	31-60 days	61-90 days	More than 90 days	Total gross
Balance sheet items						
Loans and advances to customers	510,161	-	-	-	-	**510,161**
Loans and advances to banks and other financial institutions	201,783	-	-	-	-	**201,783**
Financial assets at fair value through profit or loss for trading	-	-	-	-	-	**-**
Other assets	7,283	-	-	-	-	**7,283**
Total	**719,227**	**-**	**-**	**-**	**-**	**719,227**

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The table below shows the amount of impairment of the credit portfolio of the Bank, including the matured and undue part of the loan portfolio.

		Loans and advances to customers		Loans and advances to banks and other financial institutions		Financial assets at fair value through profit or loss held for trading		Other assets (advances and fees)		Off – balance	
In thousands of RSD	***Note***	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**
Maximum exposure to credit risk											
Gross exposure		**2,519,937**	**510,161**	**1,734,433**	**201,783**	**124,698**	**-**	**2,465**	**7,283**	**2,540,998**	**157,524**
Thereof:											
Matured		8,362	-	32	-	-	-	131	-	-	-
The corresponding impairment		(64)	-	-	-	-	-	(7)	-	-	-
Undue		2,511,575	510,161	1,734,401	201,783	124,698	-	2,334	728.3	-	-
The corresponding impairment		(10,163)	-	(2)	-	-	-	(1)	-	-	-
Total impairment		**(10,227)**	**-**	**(2)**	**-**	**-**	**-**	**(8)**	**-**	**-**	**-**
Provisions for losses on off-balance sheet items		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,391)**	**-**
Net exposure	18,20,21, 24,32	**2,509,710**	**510,161**	**1,734,431**	**201,783**	**124,698**	**-**	**2,464**	**7,283**	**2,539,607**	**157,524**

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The table below shows the analysis of credit risk exposure arising from transactions with derivatives:

5.A. ii. Derivatives

In thousands of RSD	**Nominal value**	**Fair value**
31 December 2016		
Receivables arising from derivatives	2,338,430	2,324,974
Derivative liabilities	(2,200,276)	(2,200,276)
31 December 2015		
Receivables arising from derivatives	-	-
Derivative liabilities	-	-

The fair value of financial assets through profit or loss held for trading (financial derivatives) is calculated using a model that discounts cash flows to their present value using market interest rates and exchange rates, and is classified into a level 2 for measuring fair value.

5.A. ii. Collateral and other credit enhancements

Collateralization of credit exposures serves as an important risk mitigation factor and enhances the incentives for borrowers to repay their financial obligations.

Collateral provides additional security and the Bank generally requests that corporate borrowers provide it.

The collateral has to be permitted by law and deemed appropriate by the Credit Committee. The collateral serves as a guarantee that the Bank, as the creditor, can recover the credit exposure and as a means of motivating the borrower to repay the credit exposure.

The Bank makes agreement with the client in which the client agrees to register certain collateral with the Bank in order to cover various credit facilities that the client intends to utilize during the term of validity of the agreement.
The lending decision is primarily based on assessment of the business and the creditworthiness of the borrower and his/her ability to repay the requested credit exposure, as well as on other factors related to credit risk. Nevertheless, the Bank aims to secure its claims against the clients it finances with high-quality collateral.

The Bank will require that the financed asset will serve as collateral for the credit exposure.
The choice of the collateral is closely related to the credit risk assessment, which depends on the financial status of the borrower, the credit exposure amount, the maturity, the purpose of the credit exposure and the manner in which it is to be repaid.

Collateral *In thousands of RSD*	**Market value as at 31 December 2016**	**Market value as at 31 December 2015**
Land	125,942	124,059
Residential buildings	46,673	-
Office building	160,181	103,880
Deposits	24,347	12,163
Equipment	25,558	25,176
Supplies	369,063	-
Receivables	265,815	46,131
Pledge on shares	71	61
Corporative guarantee	185,208	101,355
Total:	**1,202,858**	**412,825**
Loans and advances from customers	2,519,937	510,161
Coverage of collateral	47.7%	80.9%

5.A. iii. Concentrations of Credit Risk

Exposure to risks per regions, industrial sectors and types of clients is presented in the Tables below, to present the exposure to concentration risk. Depending on the general economic trends and the trends observable in individual industrial sectors, the Bank performs diversification of investments in industrial sectors that are resistant to the influence of the negative economic trends.

		Loans and advances to customers		Loans and advances to banks and other financial institutions		Financial assets at fair value through profit or loss held for trading		Other assets (advances and fees)		Off-balance sheet items	
In thousands of RSD	Note	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Carrying amount	*18,20, 21, 24, 31*	**1,734,433**	**201,783**	**2,519,937**	**510,161**	**124,698**	**-**	**2,465**	**7,283**	**2,540,998**	**157,524**
Concentration by sector											
Corporate:											
Agriculture, forestry and fishing		-	-	157,151	154,583	-	-	15	-	-	-
Mining, manufacturing, water supply		-	-	363,759	196,634	-	-	77	-	607,877	-
Electricity supply		-	-	-	-	-	-	-	-	-	-
Construction		-	-	358,809	11,996	-	-	10	-	52,826	-
Wholesale and retail trade and other		-	-	1,575,892	146,948	-	-	533	203	1,597,963	119,331
Transportation and storage		-	-	64,326	-	-	-	1,637	7,080	220,594	38,193
Real estate		-	-	-	-	-	-	17	-	61,736	-
Other		-	-	-	-	-	-	176	-	-	-
Financial institutions		1,734,433	201,783	-	-	124,698	-	-	-	-	-
Total		**1,734,433**	**201,783**	**2,519,937**	**510,161**	**124,698**	**-**	**2,465**	**7,283**	**2,540,996**	**157,524**
Concentration by location											
Serbia		1,248,714	4,864	2,519,937	-	-	-	2,458	7,283	2,540,996	157,524
Europe		474,005	196,919	-	510,161	-	-	7	-	-	-
The rest of the world		11,714	-	-	-	124,698	-	-	-	-	-
Total		**1,734,433**	**201,783**	**2,519,937**	**510,161**	**124,698**	**-**	**2,465**	**7,283**	**2,540,996**	**157,524**

The maximum exposure to a single entity or group of related entities, as at 31 December 2016 amounted to: 21.05% of regulatory capital, which is in line with the NBS the prescribed regulatory value.

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Collateral Management

The Collateral Management Policy regulates in greater detail the methods and procedures for collateral management with the aim to minimize the credit risk for the Bank. The purpose of this Policy is to describe the characteristics of the collaterals accepted by the Bank, as well as to specify the necessary activities within the regular monitoring of collateral acceptance. This document describes the allocation of responsibilities among individual organizational units of the Bank, aimed at efficient performance of the collateral management process.

Collaterals are presented in the financial statements at their fair (as last assessed) value, which is at the same time the subject of continuous monitoring process and periodical assessments. Collateral classification in the overview is performed based on the criteria specified in the Decision on the Classification of Balance Sheet Assets and Off-Balance Sheet Items.

5.B. Liquidity risk
i. Exposure to liquidity risk

Liquidity risk is the potential for the occurrence of certain unfavourable events with adverse effects on the financial result and equity of the Bank, as the inability of the Bank to meet its liabilities due at the time of their maturity, due to the inadequate structure of its sources, i.e. because its placements are not marketable.

Liquidity ratio is a ratio between the sum of Bank's liquid first- and second-degree receivables, on the one hand, and the sum of the Bank's sight liabilities or liabilities without determined maturity and the Bank's liabilities with maturity within one month from the date of liquidity ratio calculation, on the other hand.

Narrow liquidity ratio is the ratio between the sum of Bank's liquid first-degree receivables, on the one hand, and the sum of the Bank's sight liabilities or liabilities without determined maturity and the Bank's liabilities with maturity within one month from the date of liquidity ratio calculation, on the other hand.

The bank's first-degree liquid receivables shall include cash and receivables where the agreed maturity falls within one month from the date of calculation of liquidity ratio, as follows: vault cash, gyro-account balances, gold and other precious metals; funds in the accounts with banks with available credit rating of the chosen credit rating agency equivalent to credit quality 3 or better, determined in accordance with the decision on capital adequacy of banks (investment rank); deposits with the National Bank of Serbia; cheques and other monetary receivables in the process of execution; irrevocable credit facilities approved to the bank; shares and debt securities quoted on the stock exchange.

Liquid first-degree receivables of the bank shall also include 90% of the fair value of securities denominated in RSD with no foreign currency clause, issued by the Republic of Serbia with minimum maturity of three months/90 days, which the bank has classified as securities that are traded or securities available for sale.

As at 31 December 2016 the Bank had investments in securities denominated in RSD and issued by the Republic of Serbia in the amount of RSD 2,050,876 thousand.
Bank's second-degree liquid receivables shall include other bank receivables falling due within one month from the date of calculation of liquidity ratio.

Receivables classified into G and D categories according to the decision on classification of balance-sheet assets and off-balance sheet items shall not be included in the calculation of the bank's liquidity ratio.

Bank's sight liabilities or liabilities without agreed maturity shall constitute a part of its liabilities as follows: 40% of sight deposits of banks; 20% of sight deposits of other depositors; 10% of savings deposits; 5% of guarantees and other sureties; 20% of unfunded committed irrevocable credit lines. Other Banks liabilities falling due within one month from the date of calculation of liquidity ratio shall be considered bank liabilities with agreed maturity.

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The Bank expresses the level of liquidity through the liquidity ratio and narrow liquidity ratio.

The Bank shall maintain its liquidity level in a way that:

Liquidity ratio:

– equals at least 1.0 when calculated as an average of liquidity ratios for all business days in a month,
– is not lower than 0.9 for more than three consecutive business days,
– equals at least 0.8 when calculated for a single business day.

Also, the Bank shall maintain the level of liquidity with the narrow liquidity ratio as follows:

Narrow liquidity ratio:

– equals at least 0.7 when calculated as an average of liquidity ratios for all business days in a month,
– is not lower than 0.6 for more than three consecutive business days,
– equals at least 0.5 when calculated for a single business day.

The Management Board shall establish a system of liquidity risk management and supervises that system in accordance with an acceptable risk profile. Above leadership is responsible for the implementation appropriate policies and procedures in line with the strategic direction and a penchant for risk defined by the Board.

Liquidity risk management in the Bank is defined by Policy and Procedure for liquidity. ALCO committee is responsible for managing of liquidity risk. The Bank uses the following tools for measuring and managing liquidity risk:

- liquidity report with the standard analysis of the liquidity gap,
- liquidity ratios
- narrow liquidity ratio
- ratio loans/deposits and
- Liquidity plan

The Asset and Liability Committee (ALCO) has special competencies in the liquidity risk management process, and specifically it:

- Manages liquidity risk;
- Monitors and analyses liquidity ratios;
- Analyses the assumptions of the stress tests and perform their adoption;
- Defines liquidity ratios (internal limits and triggers for reporting);
- Gives proposals to Executive Board in the short and long-term investments and bank borrowings;
- Analyses the movement of the Bank's liquidity, including liquidity gap analysis and decision-making in order to reduce liquidity risk;
- Approved for no separate liquidity gap analysis to be carried out for the currency in which the Bank has more than 5% of liabilities;
- Decides on the establishment and the amount of liquidity reserves;
- Analyses other parameters that may have an effect on the liquidity of the Bank and make decisions in order to reduce liquidity risk.

The Liquidity Risk Management Strategy, includes the monitoring of liquidity risk in compliance with the following principles:

- Adjusting the structure of assets and liabilities according to their maturity and currencies,
- Diversification of financing sources as per their maturity and currencies,
- Ensuring access to interbank market of currencies and capital,
- Establishing of adequate liquidity provisions' levels.

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Liquidity risk management, as a part of the Bank management, includes the systems for identification, measuring, supervision and control of Bank exposure to liquidity risk. The Bank performs timely identification and quantification of primary sources of liquidity risk for the Bank on transaction level and on the levels of credit and deposit portfolios, under the regular conditions for operation, as well as under conditions of higher risk and market disturbances, as well as on the occasion of approval of new business processes, products and activities.

The Asset and Liability Committee monitors liquidity risk exposure. The Bank manages the liquidity risk under the actual operating conditions, extraordinary conditions and on the occasion of introduction of new business processes, products and activities.

Liquidity ratio	**2016**	**2015**
At 31 December	12.15	62.41
Average for the period (December)	13.61	52.32
Maximum for the period (December)	16.69	68.39
Minimum for the period (December)	11.51	20.71

Narrow liquidity ratio		
At 31 December	9.59	62.41
Average for the period (December)	10.97	47.72
Maximum for the period (December)	13.09	63.38
Minimum for the period (December)	9.32	17.27

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ii. Maturity analysis for financial assets and financial liabilities

The tables below set out the remaining maturities of the Bank's financial liabilities and financial assets.

31 December 2016 In thousands of RSD	*Note*	Amount	Gross amount	Less than 1 month	1–3 months	3 months –1 year	1–5 years	More than 5 years
Assets								
Cash and balances with the central bank	*17*	875,578	875,578	875,578	-	-	-	-
Financial assets at fair value through profit or loss held for trading	*18*	124,698	124,698	-	-	124,698	-	-
Financial assets available for sale	*19*	2,050,876	2,050,876	-	-	1,263,738	787,138	-
Loans and advances to banks and other financial institutions	*20*	1,734,431	1,734,433	1,734,433	-	-	-	-
Loans and advances to customers	*21*	2,509,710	2,519,937	53,837	319,387	1,756,608	315,876	74,229
		7,295,293	**7,305,522**	**2,663,848**	**319,387**	**3,145,044**	**1,103,014**	**74,229**
Liabilities								
Deposits and liabilities to banks, other fin. inst. and central bank	*25*	30,839	30,839	30,839	-	-	-	-
Deposits and other liabilities to customers	*26*	3,444,564	3,444,564	1,043,948	-	2,388,270	-	12,346
Subordinated liabilities	*27*	1,235,022	1,235,022	-	-	299	-	1,234,723
		4,710,425	**4,710,425**	**1,074,787**	**-**	**2,388,569**	**-**	**1,247,069**
Liquidity gap		**2,584,868**	**2,595,097**	**1,589,061**	**319,387**	**756,475**	**1,103,014**	**(1,172,840)**

31 December 2015 In thousands of RSD	*Note*	Amount	Gross amount	Less than 1 month	1–3 months	3 months –1 year	1–5 years	More than 5 years
Assets								
Cash and balances with the central bank	*17*	1,147,386	1,147,386	1,147,386	-	-	-	-
Loans and advances to banks and other financial institutions	*20*	201,783	201,783	201,783	-	-	-	-
Loans and advances to customers	*21*	510,161	513,239	5,860	43,469	165,682	191,885	106,343
		1,859,330	**1,862,408**	**1,355,029**	**43,469**	**165,682**	**191,885**	**106,343**
Liabilities								
Deposits and liabilities to banks, other fin. inst. and NBS	*25*	82	82	82	-	-	-	-
Deposits and other liabilities to customers	*26*	76,939	76,939	64,805	-	-	-	12,134
Subordinated liabilities	*27*	608,130	608,130	-	-	-	-	608,130
		685,151	**685,151**	**64,887**	**-**	**-**	**-**	**620,264**
Liquidity gap		**1,174,179**	**1,177,257**	**1,290,142**	**43,469**	**165,682**	**191,885**	**(513,921)**

iii. Liquidity reserves

To use Risk liquidity management, the Bank formed liquidity reserves. The bank holds liquidity reserves in the form of cash, equivalents cash and/or placing the National Bank of Serbia.

In thousands of RSD	31 December 2016	31 December 2015
National bank of Serbia	1,357,842	1,137,006
Other banks	1,219,778	207,297
Liquidity reserves	**2,577,620**	**1,344,303**

C. Market risk

Market risks – the possibility of occurrence of negative effects on financial result and the capital of the Bank due to changes in the value of balance sheet items and off-balance items of the Bank resulting from the movement of prices on the market.

Include the interest rate risk, foreign exchange risk, price risk of debt and equity securities and commodity risk. The Bank has exposure to interest rate risk and foreign exchange risk.

Interest rate risk is the Bank's exposure risk to the adverse change of interest rates.

The foreign exchange risk is the possibility of occurrence of negative effects on financial result and the capital of the bank due to changes in the foreign exchange rate.

ALCO Committee is responsible for managing market risks.

Interest Rate Risk

Interest rate risk is the risk of negative effects on the financial result and equity of the Bank due to the variations in interest rates. The interest rate risk occurs in cases where there are discrepancies between the items that are subject to interest rate adjustments over a certain period.

The Bank controls the interest rate risk by monitoring the ratio of interest-bearing assets and liabilities for which interest is paid and their share in the total assets, i.e. liabilities, through the management of:

- Repricing risk,
- Risk of economic value of capital,
- Basis risk,
- Optionality, and
- Yield curve risk.

Revenue Forecasts - The Bank manages the interest risk by analysing the maturity matching of revenues and expenditure.

Economic Value Forecasts - Net present value of capital is the present value of future cash flows. In economic value forecasts, the potential for long-term impact of the interest rates on the capital of the Bank is taken into account.

The interest rate risk occurs due to (1) the different timings of interest rate change and cash flow; (2) changes in the correlation rate between different yield curves that impact the activities of the Bank; (3) changes in the correlation rate in maturity classes, and (4) options related to interest embedded in the products of the Bank.

The risk from the change of interest rates is measured and monitored by analysing the risk of exposure to the changes in interest rates, which shows the structure and the level of interest-sensitive assets and interest-sensitive liabilities in different maturity intervals.

5 C. Market risk (continued)

ii. Exposure to interest rate risk – Non-trading portfolios

The following is a summary of the Bank's interest rate gap position of financial assets and financial liabilities of the Bank, from the interest rate perspective, relating on non-trading portfolios (interest rate gap position):

31 December 2016 In thousands of RSD	**Note**	**Carrying amount**	**Less than 1 month**	**1-3 month**	**3–12 months**	**1–5 years**	**More than 5 years**	**Non-interest bearing**
Cash and balances with the central bank	15	875,578	381,079	-	-	-	-	494,499
Financial assets at fair value through profit or loss held for trading	15a	124,698	-	-	124,698	-	-	-
Financial assets available for sale	156	2,050,876	-	-	1,566,575	484,301	-	-
Loans and advances to banks and financial institutions	16	1,734,431	1,729,495	-	-	-	-	4,936
Loans and advances to customers	17	2,509,710	385,056	306,835	1,693,792	-	123,050	977
		7,295,293	**2,495,630**	**306,835**	**3,385,065**	**484,301**	**123,050**	**500,412**
Deposits and other liabilities to banks, other fin. inst. and central bank	21	30,839	-	-	-	-	-	30,839
Deposits and other liabilities to customers	22	3,444,564	1,040,657	-	2,349,143	-	12,347	42,417
Subordinated liabilities	23	1,235,022	1,234,724	-	-	-	-	298
		4,710,425	**2,275,381**	**-**	**2,349,143**	**-**	**12,347**	**73,554**
Interest rate risk gap		**2,584,868**	**220,249**	**306,835**	**1,035,922**	**484,301**	**110,703**	**426,858**

31 December 2015 In thousands of RSD	**Note**	**Carrying amount**	**Less than 1 month**	**1-3 month**	**3–12 months**	**1–5 years**	**More than 5 years**	**Non-interest bearing ***
Cash and balances with the central bank	15	1,147,386	1,033,103	-	-	-	-	114,283
Loans and advances to banks and financial institutions	16	201,783	-	-	-	-	-	201,783
Loans and advances to customers	17	510,161	362,446	33,333	116,667	-	-	(2,285)*
		1,859,330	**1,395,549**	**33,333**	**116,667**	**-**	**-**	**313,781**
Deposits and other liabilities to banks, other fin. inst. and central bank	21	82	-	-	-	-	-	82
Deposits and other liabilities to customers	22	76,939	-	-	-	-	-	76,939
Subordinated liabilities	23	608,130	-	-	608,130	-	-	-
		685,151	**-**	**-**	**608,130**	**-**	**-**	**77,021**
Interest rate risk gap		**1,174,179**	**1,395,549**	**33,333**	**(491,463)**	**-**	**-**	**236,760**

* Negative amount because accrued liabilities (disbursement fee)

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The Bank is exposed to the changes in levels of market interest rates that impact its financial position and cash flows. As the result of these changes, the interest rate margin can increase or decrease.

Interest rates are based on market interest rates and the Bank performs adjustments of interest rates. The interest rate risk management activity is aimed at achieving optimum net income from interest, maintenance of market interest rate on a consistent level, in compliance with the business strategy of the Bank.

ALCO manages the liquidity gaps of assets and liabilities based on: the macroeconomic analyses and forecasts; forecasts of conditions for achieving liquidity, as well as based on the analysis and forecasts of the market trends in interest rates.

Interest rate risk is the adverse change in the price of active interest rates compared against the level of passive interest rates, as well as the potential for the reduction of the optimum difference between the average active and passive interest rates.

ii. Exposure to interest rate risk -Non-trading portfolio

The table below shows the impact of the effect of potential changes interest rate on income of the Bank as at 31 December 2016.

The effects of potential changes in interest rates are related to interest bearing assets and liabilities in the balance sheet.

Risk calculation illustrates the effect of the interest rate on interest-sensitive assets and passive. The scenario includes a 50BP parallel rise and fall and 100BP parallel growth and falling interest rates.

	Effect on interest earning (cumulatively over a period of 1 year)					
In thousands of RSD	Interest increase of 50 b.p.			Interest decrease of 50 b.p.		
	Total	Foreign currencies	RSD	Total	Foreign currencies	RSD
31 December 2016	4,501	(2,775)	7,276	(4,501)	2,775	(7,276)

	Effect on interest earning (cumulatively over a period of 1 year)					
	Interest increase of 100 b.p.			Interest decrease of 100 b.p.		
	Total	Foreign currencies	RSD	Total	Foreign currencies	RSD
31 December 2016	9,003	(5,549)	14,552	(9,003)	5,549	(14,552)

	Effect on economic value of equity in thousands of RSD					
	Interest increase of 50 b.p.			Interest decrease of 50 b.p.		
	Total	Foreign currencies	RSD	Total	Foreign currencies	RSD
31 December 2016	(10,988)	90	(11,078)	10,988	(90)	11,078

	Effect on economic value of equity					
	Increasing of 100BP Interest increase			Decreasing of 100BP Interest decrease		
	Total	Foreign currencies	RSD	Total	Foreign currencies	RSD
31 December 2016	(21,975)	180	(22,155)	21,975	(180)	22,155

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The table below shows the impact of the effect of potential changes in interest rate on income of the Bank as at 31 December 2015.

In thousands of RSD	Effect on interest earning (cumulatively over a period of 1 year)					
	Interest increase of 50 b.p.			Interest decrease of 50 b.p.		
	Total	Foreign currencies	RSD	Total	Foreign currencies	RSD
31 December 2015	5,006	(170)	5,176	(5,006)	170	(5,176)

	Effect on interest earning (cumulatively over a period of 1 year)					
	Interest increase of 100 b.p.			Interest decrease of 100 b.p.		
	Total	Foreign currencies	RSD	Total	Foreign currencies	RSD
31 December 2015	10,011	(340)	10,351	(10,011)	340	(10,351)

	Effect on economic value of equity in thousands of RSD					
	Interest increase of 50 b.p.			Interest decrease of 50 b.p.		
	Total	Foreign currencies	RSD	Total	Foreign currencies	RSD
31 December 2015	(466)	(1,005)	539	466	10,005	(539)

	Effect on economic value of equity					
	Increasing of 100BP Interest increase			Decreasing of 100BP Interest decrease		
	Total	Foreign currencies	RSD	Total	Foreign currencies	RSD
31 December 2015	(932)	(2,009)	1,078	932	2,009	(1,078)

iii. Exposure to currency risks

Foreign currency risk is the risk from the negative effects of adverse changes in foreign exchange rates to the financial result and equity of the Bank. It pertains to the impact of the inauspicious trends in foreign exchange rates on the value of open foreign currency position.

Foreign Currency Position:

31 December 2016 in thousands	**EUR**	**USD**	**RSD**	**Total**
Cash and balances with the central bank	481,502	5,507	388,569	**875,578**
Financial assets at fair value through profit or loss held for trading	-	-	124,698	**124,698**
Financial assets available for sale	-	-	2,050,876	**2,050,876**
Loans and advances to banks and financial institutions	1,233,531	500,718	182	**1,734,431**
Loans and advances to customers	2,217,725	-	291,985	**2,509,710**
Intangible assets	14,292	-	224,645	**238,937**
Property, plant and equipment	-	-	150,423	**150,423**
Other assets	-	147	13,086	**13,233**
Total assets	3,947,050	506,372	3,244,464	**7,697,886**
Deposits and other liabilities to banks, other financial institutions and central bank	-	-	30,839	**30,839**
Deposits and other liabilities to customers	518,463	2,848,785	77,316	**3,444,564**
Subordinated liabilities	1,235,021	-	1	**1,235,022**
Provisions	-	-	4,841	**4,841**
Deferred tax liabilities	-	-	14,710	**14,710**
Other liabilities	-	-	35,173	**35,173**
Equity	-	-	2,932,737	**2,932,737**
Total liabilities and equity	1,753,484	2,848,785	3,095,617	**7,697,886**
Foreign currency swap	2,200,276	(2,338,430)	138,154	**-**
Net foreign currency position 31 December 2016	**(6,710)**	**(3,983)**	**10,693**	**-**

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31 December 2015 in thousands				
Cash and balances with the central bank	68,970	1,068	1,077,348	**1,147,386**
Loans and advances to banks and financial institutions	193,675	8,108	-	**201,783**
Loans and advances to customers	362,975	-	147,186	**510,161**
Intangible assets	-	-	217,825	**217,825**
Property, plant and equipment	-	-	163,370	**163,370**
Other assets	-	-	8,202	**8,202**
Total assets	625,620	9,176	1,613,931	**2,248,727**
Deposits and other liabilities to banks, other financial institutions and central bank	53	-	29	**82**
Deposits and other liabilities to customers	13,015	7,754	56,170	**76,939**
Subordinated liabilities	608,130	-		**608,130**
Provisions	-	-	2,892	**2,892**
Deferred tax liabilities	-	-	11,910	**11,910**
Other liabilities	-	-	19,232	**19,232**
Equity	-	-	1,529,542	**1,529,542**
Total liabilities and equity	621,198	7,754	1,619,775	**2,248,727**
Foreign currency swap	-	-	-	-
Net foreign currency position 31 December 2015	**4,422**	**1,422**	**(5,844)**	

With the aim to protect against the foreign exchange risk, the Bank monitors the foreign exchange rates' trends in the financial market on the daily basis, implements the policy of low exposure to the foreign exchange risk. The Asset Management Division monitors the trends in the foreign exchange market on the daily basis and manages the foreign exchange position of the Bank in its entirety and per individual significant currencies.

Asset and Liability Committee proposes measures to the Executive Board of the Bank for adjustments of FX assets and liabilities to provide for favourable foreign exchange position on each currency segment. An independent market risk department performs independent analysis of the foreign exchange management process through monitoring of the compliance with the established system of limits.

Foreign exchange risk management is supplemented with the monitoring of:
- Impact of increase/decrease of FX items of assets/liabilities to the open position and foreign exchange risk indicator, and
- Sensitivity of income statement of the Bank to different scenarios of variations in foreign exchange rates. Sensitivity of income statement is the effect of assumptions regarding the changes in foreign exchange rates to net income from fluctuations in foreign exchange rates.

ii. Exposure to currency risks

In thousands of RSD	**2016 EUR**	**2016 USD**
Exposure to foreign currency risk:		
USD		(3,983)
EUR	(6,710)	

The effect of increasing the rate of 10% on net income

In thousands of RSD	**EUR**	**USD**
Exposure to foreign currency risk:		
USD		(398)
EUR	(671)	

The effect of decreasing the rate of 10% on net income

In thousands of RSD	**EUR**	**USD**
Exposure to foreign currency risk:		
USD		398
EUR	671	

The effect of growth rate of 10% of the economic value of capital: 0.03%.

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The effect of reducing rate of 10% of the economic value of capital: 0.03%.

In thousands of RSD	2015 EUR	2015 USD
Exposure to foreign currency risk:		
USD		1,422
EUR	4,422	

The effect of increasing the rate of 10% on net income

In thousands of RSD	EUR	USD
Exposure to foreign currency risk:		
USD		213
EUR	663	

The effect of decreasing the rate of 10% on net income

In thousands of RSD	EUR	USD
Exposure to foreign currency risk:		
USD		(213)
EUR	(663)	

The effect of growth rate of 10% of the economic value of capital: 0.05%
The effect of reducing the rate of 10% of the economic value of capital: (0.05%)

iv. Other market risks

Other market risks include the price risk on debt securities, price risk on equity securities and – the commodity risk, in compliance with the Decision regulating the Bank's capital adequacy.

During 2016, given the nature of its operations and the fact that it had no items in the trading book, the Bank was not exposed to any other market risks.

Once it introduces products exposed to this kind of risk, the Bank shall previously provide the prerequisites for such products (HR-technical equipment, written procedures for daily monitoring of trading book items, procedures for measuring of capital requirements for these risks, and item valuation methods in financial instruments included in calculation and subject to prior approval of the National Bank of Serbia, etc.) subject to consent of the Bank's competent boards.

Operational risk

The operational risk is the risk of negative effects on the Bank's financial result and capital due to failures in employees' performance, inadequate internal procedures and processes, inadequacy of information and other systems management in the Bank, and any other unforeseeable external events.

In the operational risk management, the Bank implements quantitative and qualitative measures based on collection of data on losses arising from operational risk, per categories defined according to sources of losses, and based on adopted internal acts.

The role of the operational risk management is to identify, estimate, control and mitigate the possibilities for the arising and impact of operational risks and losses. The Bank cannot eliminate all operational risks, but it may use the process of operational losses recording and analysis to identify flaws in its processes, products and procedures, and to improve them in order to reduce the frequency and negative effects of operational losses on Bank's operations and profitability. The Bank manages the operational risk so as to minimize the effects of adverse and unsuccessful internal processes, people and systems, or external events, on the Bank's financial result.

Database on events which gave rise or might have given rise to a loss, according to the prescribed limit, as a consequence of operational risk per categories defined according to sources of losses, shall be filled by entering the data based on identified risks per types of operations, by persons in charge of operational risk management.

Bank's exposure to operational risks shall be particularly attentively treated when introducing new products, activities, lines of business or systems, when required analyses are to be made by organisational units which participate in introduction of new products, activities, lines of business or system, and the Risk Management Department which is directly in charge of operational risk management.

For the assessment of exposure the Bank uses internal methods developed in line with best practice in the area of operational risk management.

Bank's investment risks

The Bank's investment risks include the risks of investing in capital of other legal entities and fixed assets. In compliance with the regulations of the National Bank of Serbia, the amount of Bank's investments and the amount of regulatory capital are monitored, to ensure that the Bank's investment in any non-financial sector entity does not exceed 10% Bank's capital, and that the Bank's total investments in non-financial sector entities and in Bank's fixed assets do not exceed 60% Bank's capital. The exposure to the risk of Bank's investments in other legal entities and fixed assets is monitored by way of informing the organisational unit or body of the Bank in charge of fixed assets procurement and investments in legal entities of the current status of exposure and amount of capital, in order to act timely in accordance with the set limits.

In 2016, the Bank took care of compliance of investment risks and conducted appropriate activities to ensure the compliance of investments with the indicators stipulated by the National Bank of Serbia. Additional monitoring of the Bank's investment risks indicators is performed in risk management division, finance division and compliance control functions, reported to the Bank's management bodies. The Bank has no items under investment property.

Exposure risk

The Bank's exposure risks (which also represent part of the concentration risk) include the risks of Bank's exposure to a single entity or to a group of related entities, as well as the risks of Bank's exposure to an entity related to the Bank. Monitoring of the Bank's exposure to the risk of exposure to a single entity or a group of related entities, and to entities related to the Bank, is performed at the moment of a request initiation, at the moment of financing, and after completed financing. Monitoring of Bank's exposure to this risk is a mandatory part of procedures in the investment approval phase, meaning that the board which approves of the investment avails with information concerning the total level of Bank's exposure to a client or to a group of related entities against the Bank's total capital.

In accordance with regulations and Bank's internal acts, the competent board issues approval on Bank's exposure to the exposure risk per individual clients or per groups of related entities and entities related to the Bank. Additional monitoring of the Bank's exposure indicators is performed in risk management division and finance division, with reporting to the Bank's management bodies.

Country risk

The risk related to the country of origin of the entity to which the Bank is exposed implies negative effects which might influence its financial result and capital, due to Bank's inability to collect debts from such entity for reasons resulting from political, economic or social conditions in such entity's country of origin.

The Bank's placements are mostly to customers from the Republic of Serbia, while being exposed to the country risk mostly concerning the part of funds held at times on accounts with foreign banks. The Bank's policy of country risk management is to continuously monitor the exposure to the country risk against adopted limits, defined according to the country rating as determined by competent institutions (OECD), with regular reporting of existing exposures to the management bodies.

D. Capital management
i. Regulatory capital

In thousands of RSD	*Note*	31 December 2016	31 December 2015
Ordinary share capital	26	3,631,200	1,790,700
Loss up to the amount of equity		(704,472)	(261,158)
Intangible assets	18	(238,937)	(217,825)
Required reserve for estimated losses on balance sheet assets and off-balance sheet items	10	(117,033)	(24,772)
Unrealized losses on securities available for sale		(653)	-
Total share capital		**2,570,105**	**1,286,945**
Subordinated liabilities	23	1,234,723	608,130
Part of revaluation reserves of the Bank		5,996	-
Total regulatory capital		**3,810,824**	**1,895,075**

The bank continuously manages the capital in order to:
- ensure compliance with capital requirements defined by the National Bank of Serbia (NBS),
- maintain an adequate level of capital for continuous operation by the “going concern” principle,
- maintain the capital base which enables coverage of risks it is exposed to while ensuring further business development.

Capital adequacy, as well as the use of the Bank’s capital is monitored on monthly basis by the Bank management. The Bank manages its capital structure and may make adjustments in the light of changes in economic conditions and risk characteristics inherent in its activities.

The National Bank of Serbia has defined the following limits for capital:

- Minimum monetary amount of capital of EUR 10 million; and
- Capital adequacy ratio not lower than 12%.

In accordance with the Decision on Capital Adequacy of Banks, the methodology of capital adequacy calculation has been determined.
Accordingly, the Bank’s total regulatory capital consists of the core capital and supplementary capital and deductible items:

- The core capital is comprised of: share capital for ordinary shares, share issuing premiums, reserves from profit and bank’s profit, and the deductibles from the core capital are: losses from previous years,
- Supplementary capital is comprised of: part of the bank’s positive revaluation reserves,
- Deductibles from the bank capital are the shortfalls in impairments and provisions against the special reserve for expected losses.
- Risk-weighted balance sheet and off-balance sheet assets are determined in compliance with prescribed risk weights for all types of assets. The value the items of balance sheet assets, for the purpose of calculation of credit risk-weighted assets, equals the gross book value of such items minus the impairment and required reserve for estimated losses. The value of off-balance sheet items, for calculation of credit risk-weighted assets, equals the gross book value of such items minus provisions for losses in balance sheet assets and required reserve for estimated losses, multiplied by the following conversion factors:

  1) 0% – if an off-balance sheet item is classified into low risk category;
  2) 20% – if an off-balance sheet item is classified into moderate risk category;
  3) 50% – if an off-balance sheet item is classified into medium risk category;
  4) 100% – if an off-balance sheet item is classified into high risk category.

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The Bank classifies the exposures from the banking book, exposures from the trading book for which it is obliged to calculate the capital requirements of counterparty risks, and other exposures from the trading book, provided that the conditions specified in the a/m Decision are fulfilled, into one of the following categories, and thereby estimates the risk of:

1) Exposure to countries and central banks;
2) Exposure to territorial autonomies and local self-government units;
3) Exposure to public administrative bodies;
4) Exposure to international development banks;
5) Exposure to international organizations;
6) Exposure to banks;
7) Exposure to corporates;
8) Exposure to natural persons;
9) Exposure secured by mortgage on real estate property;
10) Past due receivables;
11) High-risk exposures;
12) Exposure based on covered bonds;
13) Exposure from investments in open-end investment funds;
14) Other exposures.

The Bank has established and continuously developed the process of internal capital adequacy assessment.

6. Fair values of financial instruments

A. Valuation models (assessments)

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable 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 for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value of financial assets and liabilities

The Bank's business policy is to disclose information on the fair value of assets and liabilities when there is official market information and when the fair value significantly differs from the book value.

The market price, provided that there is an active market, is the best proof of a financial instrument's fair value. However, market prices are not available for a number of Bank's financial assets and liabilities. Therefore, when market prices of financial instruments are unavailable, the fair value of assets and liabilities is estimated using the present value or other valuation techniques based on currently prevailing market conditions.

In the Republic of Serbia, the market experience is insufficient, the same as the stability and liquidity in purchase and sale of debts and other financial assets and liabilities, since the official market information is not available at all times. Consequently, the fair value is impossible to be reliably determined in the absence of an active market.

The following methods and assumptions were used for the estimate of the fair value of Bank's financial instruments as at 31 December 2016:

- The fair values of cash and cash equivalents, short-term deposits, other loans and advances and other assets, transaction deposits, trade payables and other short-term liabilities, match their respective book values primarily due to short-term maturity of such financial instruments.
- Loans and advances from banks and other financial organizations tend to have short-term maturities and carry an interest rate that reflects current market conditions. Consequently, the Bank considers that the value of listed financial instruments approximates their market value.
- The fair value of loans and investments to customers and deposits and other liabilities to customers is calculated by discounting cash flows using market interest rates of comparable maturities and currency structure. The fair value of financial assets through profit or loss held for trading (financial derivatives) is calculated using a model that discounts cash flows to their present value using market interest rates and exchange rates, and is classified into level 2 for measuring fair value.
- Bonds and Bills of the Republic of Serbia are measured using available prices on the secondary market and are classified in Level 2 of the fair value measurement.

In the opinion of the Bank's management, the amounts in the enclosed financial statements reflect the value which is, under the circumstances, the most credible and useful for the reporting purposes.

E. Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments:

31 December 2016 *In thousands of RSD*	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Assets					
Cash and balances with the central bank	-	875,577	-	875,577	875,578
Loans and advances to banks and other financial institutions	-	-	1,734,433	1,734,433	1,734,431
Loans and advances to customers	-	-	2,471,665	2,471,665	2,509,710
Financial assets at fair value through profit or loss held for trading	-	124,698	-	124,698	124,698
Financial assets available for sale	-	2,050,876	-	2,050,876	2,050,876
Liabilities					
Deposits and other liabilities to banks, other financial institutions and central bank	-	-	30,839	30,839	30,839
Deposits and other liabilities to customers	-	-	3,430,863	3,430,863	3,444,565
Subordinated liabilities	-	-	1,188,237	1,188,237	1,235,022

31 December 2015 *In thousands of RSD*	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Assets					
Cash and balances with the central bank	-	1,147,386	-	1,147,386	1,147,386
Loans and advances to banks and other financial institutions	-	-	201,783	201,783	201,783
Loans and advances to customers	-	-	488,967	488,967	510.161
Financial assets at fair value through profit or loss held for trading	-	-	-	-	-
Financial assets available for sale	-	-	-	-	-
Liabilities					
Deposits and other liabilities to banks, other financial institutions and central bank	-	-	82	82	82
Deposits and other liabilities to customers	-	-	75,599	75,599	76,939
Subordinated liabilities	-	-	578,789	578,789	608,130

7. Net interest income

In thousands of RSD	1January–31December2016	5February–31December2015
a) Interest income		
Deposited excess liquidity with NBS	17,989	7,193
Interest income on loans to REPO transaction with NBS in RSD	2,036	-
Interest income from domestic banks	867	-
Deposits in foreign currency with NBS	929	-
Securities of the Republic of Serbia in RSD	49,446	-
Mandatory reserves in RSD with NBS	2,441	1
Short-term loans to corporates	42,769	1,669
Long-term loans to corporates	17,042	562
Total interest income	**133,519**	**9,425**
b) Interest expenses		
Foreign currency accounts with NBS	(1,124)	(91)
Subordinated liabilities of foreign legal entities, in foreign currency	(2,676)	(453)
Short-term deposits of legal entities in foreign currencies	(28,709)	-
Overnight of legal entities in RSD	(269)	-
Short-term special purpose deposits of legal entities in RSD	(565)	(52)
Short-term deposits of insurance organizations in RSD	(718)	-
Other	(4)	-
Total interest expenses	**(34,065)**	**(596)**
Net interest income	**99,454**	**8,829**

8. Net fee and commission income

In thousands of RSD	1 January – 31 December 2016	5 February – 31 December 2015
a) Fee and commission income		
Fees and commissions on guarantees	3,518	720
Income from fees from non-residents	4,690	431
Fees from legal entities from domestic payment operations	3,893	237
Fees from legal entities by remittance	3,038	-
Other	418	12
Total fee and commission income	**15,557**	**1,400**
b) Fee and commission expenses		
Fees and commissions to NBS	(1,272)	(1,054)
Fees and commissions to other banks	(1,412)	(42)
Other	(107)	(10)
Total fee and commission expenses	**(2,791)**	**(1,106)**
Net fee and commission income	**12,766**	**294**

9. Net gains on financial assets held for trading

In 2016, derivatives were presented at fair value, based on which increase was recorded in net gains on financial assets held for trading in the amount of RSD 124,698 thousand (in 2015 on this basis there was no revenue).

Part of the income from the change in value of derivatives held for trading relating to increase in fair value, arising from exchange differences, compensates the amount of foreign exchange losses and the effects of foreign currency clause.

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10. Net income/ (expense) on foreign exchange rate differences and effects of foreign currency clause

In thousands of RSD	1 January – 31 December 2016	5 February – 31 December 2015
Income from foreign exchange rate differences	496,517	32,680
Income from foreign currency clause	13,683	690
Income from foreign exchange rate differences and foreign currency clause	**510,200**	**33,370**
Expenses from foreign exchange rate differences	(606,384)	(27,434)
Expenses from foreign currency clause	(7,439)	(66)
Expenses from foreign exchange rate differences and foreign currency clause	**(613,823)**	**(27,500)**
Net income/(expenses) on foreign exchange rate differences and foreign currency clause	**(103,623)**	**5,870**

11. Other operating income

In thousands of RSD	1 January – 31 December 2016	5 February – 31 December 2015
Income from reversal of provision expenses	6,804	-
Revenues on the basis of damages	7	-
Depreciation costs	**6,811**	**-**

12. Net expenses on impairment of financial assets and credit risk-weighted off-balance sheet items

a) Impairment losses

As at 31 December 2016 the Bank had expenses from impairment of financial assets and the credit risk off balance sheet items. In 2015, the Bank had no expenses on this basis.

	1 January – 31 December 2016	5 February – 31 December 2015
Losses from impairment:		
- balance sheet items	(10,237)	-
- off-balance sheet items	(1,391)	-
	(11,628)	**-**

b) Special reserve for estimated losses

Based on categorization of placements determined in conformity with the regulations of the National Bank of Serbia as at 31 December 2016, the required reserve for estimated losses based on total exposure of the Bank to the credit risk is assessed:

	31 December 2016	31 December 2015
Required reserves from gains for estimated losses in balance-sheet assets and off-balance sheet items:		
- balance sheet items	92,280	16,990
- off-balance sheet items	24,753	7,782
	117,033	**24,772**

As at 31 December 2016, the required reserve for estimated losses which might arise from balance sheet assets and off-balance sheet items, calculated in accordance with the Decision of the National Bank of Serbia, amounts to RSD 117,033 thousand (31 December 2015 amounts to RSD 24,772 thousand).

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13. Salaries, salary compensations and other personal expenses

In thousands of RSD	1 January – 31 December 2016	5 February – 31 December 2015
Cost of net earnings	(193,474)	(90,816)
Taxes and contributions on salaries	(22,951)	(31,859)
The cost of compensation for members of the BoD	(9,299)	(8,883)
Net expenses on the basis of provisioning (IAS 19)	(558)	(2,892)
Other personal expenses	(4,459)	(127)
Salaries, salary compensations and other personal expenses	**(230,741)**	**(134,577)**

14. Depreciation expenses

In thousands of RSD	1 January – 31 December 2016	5 February – 31 December 2015
The cost of depreciation of property, plant and equipment	(39,928)	(10,300)
Amortization of intangible assets	(34,242)	(10,787)
Depreciation expenses	**(74,170)**	**(21,087)**

15. Other expenses

In thousands of RSD	1 January – 31 December 2016	5 February – 31 December 2015
Facility expenses	(62,180)	(43,065)
ICT expenses	(68,342)	(14,451)
Professional services	(31,953)	(21,979)
Marketing	(46,205)	(12,931)
Insurance expenses	(5,438)	(735)
Deposit insurance agency	(1,632)	(3,635)
Other administrative expenses	(48,332)	(11,781)
Total other expenses	**(264,082)**	**(108,577)**

The Bank pays the rent to legal entities for its business premises under concluded lease agreements. The agreed lease periods are five years. The rent includes currency clause, and it is payable on monthly basis. Costs of business premises lease in 2016 amounted to the total of RSD 46,481 thousand (31 December 2015 amounted to RSD 29,611 thousand). In this category of costs, there are also the costs of maintenance of the premises (as defined in the Lease Agreement) as well as utility costs and all other expenses that are directly related to the use of the premises of the Bank.

16. Income Tax

a) Income tax components

	31 December 2016	In thousands of RSD 31 December 2015
Tax expenses for the period on the basis of deferred tax	(2,799)	(11,910)
	(2,799)	**(11,910)**

b) Deferred tax liabilities

Deferred tax liabilities relating to temporary differences between the carrying value of fixed assets and intangible assets and their tax base, due to the application of different rates of depreciation and revaluation of fixed assets. As at 31 December 2016, there were recorded deferred tax liabilities in the amount of RSD 14,710 thousand (31 December 2015 amounted of RSD 11,910 thousand).

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c) Overview of tax loss carried forward from preceding periods

Year of loss	Amount of loss	Amount of used loss	Remaining losses carried forward	Year up to which loss can be carried forward
2015	317,942	-	317,942	2020
2016	485,393	-	485,393	2021
Total	**803,335**	**-**	**803,335**	

According to the Corporate Income Tax Law, the time limit for tax loss carried forward is 5 years. The Bank did not recognize the carried forward tax losses as deferred tax assets as at 31 December 2016, due to uncertainty of income earning in the following years against which these losses could be used.

d) Deferred tax components

As at 31 December 2015, deferred taxes were calculated and corresponding bookings were entered. The deferred tax components are as follows:

(380,341)	Book value of other assets subject to depreciation
279,657	Net book value according to tax regulations
(100,684)	**Taxable temporary difference**
(15,103)	**Deferred tax liability at 15% rate**
2,620	Provisions for retirement pay
393	**Deferred tax assets at 15% rate, booked**

Summary of deferred taxes

(15,103)	Deferred tax liabilities
393	Deferred tax assets
(14,710)	**Net deferred tax liabilities**

Recognized in books of accounts

(15,103)	Deferred tax liabilities
393	Deferred tax assets on provisions for retirement
(14,710)	Closing balance as at 31 December

17. Cash and balances with the central bank

In thousands of RSD	**31 December 2016**	**31 December 2015**
Gyro account	292,250	71,728
Cash on hand in RSD	7,307	5,358
Deposited excess liquidity with NBS	89,000	1,000,261
Interest receivables from NBS	12	-
RSD cash	**388,569**	**1,077,347**
Cash on hand in foreign currency	13,371	5,021
Mandatory reserve in foreign currency with NBS	473,638	65,018
Foreign currency cash	**487,009**	**70,039**
Balance as at 31 December	**875,578**	**1,147,386**

The RSD mandatory reserve is the minimum RSD reserve allocated in compliance with the Decision of the National Bank of Serbia on Bank's Mandatory Reserve with the National Bank of Serbia ("Official Gazette of the Republic of Serbia", nos. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012, 62/2013, 125/2014, 135/2014, 4/2015, 78/2015 and 102/2015).

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The RSD base for calculation of the mandatory reserve is comprised of the daily average of reservable RSD liabilities in preceding calendar month, excluding the currency clause-indexed RSD liabilities.

RSD liabilities are comprised of liabilities in respect of RSD deposits, credits and securities, and other RSD liabilities excluding RSD deposits received under transactions performed by the bank on behalf and for the account of third parties, that are not in excess of the amount of investment made from such deposits.

The National Bank of Serbia pays interest to banks on the amount of average daily balance of allocated RSD mandatory reserve in the accounting period not exceeding the amount of gross calculated RSD mandatory reserve, for all days of the accounting period – at the interest rate set by the decision on interest rates applied by the National Bank of Serbia in the implementation of monetary policy.

The Bank is obliged to maintain throughout an accounting period an average daily balance of allocated RSD mandatory reserve at the amount of calculated RSD mandatory reserve. The calculated RSD mandatory reserve for December 2016 was RSD 3,796 thousand (December 2015 was RSD 32,842 thousand and was compliant with the aforementioned Decision of the National Bank of Serbia. The interest rate on the amount of allocated RSD mandatory reserve during 2016, on annual level, amounted to 1.75%.

The required foreign currency reserve is the minimum reserve in foreign currency allocated in compliance with the Decision of the National Bank of Serbia on Bank's Mandatory Reserve with the National Bank of Serbia ("Official Gazette" of the Republic of Serbia nos. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012,107/. 62/2013, 125/2014, 135/2014, 4/2015, 78/2015 and 102/2015) stipulating that banks shall calculate the foreign currency mandatory reserve at the rate of:

- 20% – on the foreign currency base portion comprised of liabilities maturing in less than two years, and/or 730 days and, exceptionally, at 100% rate for the foreign currency base portion comprised of currency clause-indexed RSD liabilities maturing in less than two years and/or 730 days,

- 13% – on the foreign currency base portion comprised of liabilities maturing in more than two years, and/or 730 days and, exceptionally, at 100% rate for the foreign currency base portion comprised of currency clause-indexed RSD liabilities maturing in more than two years and/or 730 days.

Foreign currency liabilities are the liabilities in respect of foreign currency deposits, credits and securities and other foreign currency liabilities, as well as deposits, credits and other foreign currency funds received from abroad under transactions performed by the bank on behalf and for the account of third parties.

The bank allocates the mandatory reserve calculated on the foreign currency base to the foreign currency account of the National Bank of Serbia. The bank is obliged to maintain throughout an accounting period the average daily balance of allocated foreign currency mandatory reserve at the amount of calculated foreign currency mandatory reserve. The National Bank of Serbia does not pay any interests on the amount of achieved average balance of allocated foreign currency reserve. The foreign currency base for calculation of the mandatory reserve is comprised of the daily average reservable balance of foreign currency liabilities in the preceding calendar month and the average daily reservable balance of currency clause-indexed RSD liabilities in the preceding calendar month.

The bank which achieved the average daily balance of allocated foreign currency mandatory reserve at the amount in excess of the calculated one – pays to the National Bank of Serbia the interest on the amount of difference between the achieved daily balance of allocated foreign currency mandatory reserve and calculated foreign currency mandatory reserve, for all days of the accounting period, at the interest rate set by the decision on interest rates applied by the National Bank of Serbia in the procedure of implementing the monetary policy. Daily average balance of allocated foreign currency mandatory reserve in the accounting period exceeds the calculated foreign currency mandatory reserve in the period, if it amounts to more than 100.49% of the calculated foreign currency mandatory reserve for the period.

As at 31 December 2016, the Bank's foreign currency mandatory reserve was compliant with the Decision of the National Bank of Serbia.

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18. Financial assets at fair value through profit or loss held for trading

Financial assets at fair value through profit or loss held for trading include:

In thousands of RSD	**31 December 2016**	**31 December 2015**
Derivatives held for trading	124,698	-
Balance as at 31 December	**124,698**	**-**

19. Financial assets available for sale

The bank as at 31 December 2016 in its portfolio had government bonds and treasury bills amounting to RSD 2,050,876 thousand (there were no financial assets available for sale in 2015).

In thousands of RSD	**31 December 2016**	**31 December 2015**
Bonds of Republic of Serbia	825,952	-
Treasury bills	1,224,924	-
Balance as at 31 December	**2,050,876**	**-**

20. Loans and advances from banks and other financial institutions

In thousands of RSD	**31 December 2016**	**31 December 2015**
Regular foreign currency accounts with foreign banks	474,005	196,918
Cash balances with the Central Securities Registry	4,939	4,865
Avista dedicated foreign currency deposits in foreign currency at NBS	502,758	-
Special purpose guarantee deposit in foreign currency VISA	11,714	-
OVERNIGHT investments with domestic banks in foreign currency	370,417	-
Short-term deposits with domestic banks in foreign currency	370,417	-
Accruals for interest calculated on the basis of RSD required reserves (NBS)	183	-
Allowance for impairment	(2)	-
Balance as at 31 December	**1,734,431**	**201,783**

Changes in allowance for impairment:

In thousands of RSD	**31 December 2016**	**31 December 2015**
Balance as at 31 December of previous year	**-**	**-**
Increase during the year	2	-
Balance as at 31 December	**2**	**-**

21. Loans and advances to customers

In thousands of RSD	**31 December 2016**	**31 December 2015**
Receivables from loans to customers	2,523,197	512,445
Receivables from interests and fees	3,281	793
Total	**2,526,478**	**513,238**
Deferred loan origination fee	(6,541)	(3,077)
Impairment provision for loans and advances to customers	(10,227)	-
Balance as at 31 December	**2,509,710**	**510,161**

Structure of loans and advances to customers

In thousands of RSD	**31 December 2016**	**31 December 2015**
Interests and fees	**3,281**	**793**
Short-term placements	**2,030,855**	**124,000**
In RSD and with currency clause	1,213,993	124,000
In foreign currency	816,862	-
Long-term placements	**492,342**	**388,445**
In RSD and with currency clause	492,342	388,445
In foreign currency	-	-
Gross placements to customers	**2,523,197**	**512,445**
Deferred loan origination fee		
Short-term placements	**(3,800)**	**(469)**
In RSD and with currency clause	(3,800)	(469)
In foreign currency	-	-
Long-term placements	**(2,741)**	**(2,608)**
In RSD and with currency clause	(2,741)	(2,608)
In foreign currency	-	-
Total deferred loan origination fee:	**(6,541)**	**(3,077)**
Allowance for impairment		
Interests and fees	(7)	-
Short-term placements	(9,873)	-
In RSD and with currency clause	(7,705)	-
In foreign currency	(2,168)	-
Long-term placements	(347)	-
In RSD and with currency clause	(347)	-
In foreign currency	-	-
Total allowance for impairment	**(10,227)**	**-**
Net investments to customers		
Interests and fees	**3,274**	**793**
Short-term placements	**2,017,182**	**123,531**
In RSD and with currency clause	1,202,488	123,531
In foreign currency	814,694	-
Long-term placements	**489,254**	**385,837**
In RSD and with currency clause	489,254	385,837
In foreign currency	-	-
Total net Loans and advances to customers:	**2,509,710**	**510,161**

Changes in allowance for impairment:

In thousands of RSD	**31 December 2016**	**31 December 2015**
Balance as at 31 December previous year	**-**	**-**
Increase during the year	(10,227)	**-**
Balance as at 31 December	**(10,227)**	**-**

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Loans and advances to customers

The Bank only started to deal with loan activities in 2015. In subject period, the approved loans to legal entities were long-term loans with currency clause, for working capital and investment loans, with interest rate ranging from 2.30% to 4.50% on annual level. Legal entities were granted also short-term revolving RSD loans, and the interest rates ranged from 5% to 7.50% p.a.

In 2016 the Bank continued its lending activities, mainly by granting short-term loans to corporate customers.

22. Intangible assets

Changes in intangible assets during 2016:

In thousands of RSD	**Software**	**Licences**	**Intangible assets in progress**	**Total**
Purchase value				
Balance as at 5 February 2015	-	-	-	-
Purchase during the year	-	-	228,612	228,612
Transfer from investments in progress	210,017	15,638	(225,655)	-
Balance as at 31 December 2015	**210,017**	**15,638**	**2,957**	**228,612**
Balance as at 1 January 2016	210,017	15,638	2,957	228,612
Purchase during the year	-	-	55,354	55,354
Transfer from investments in progress	43,715	7,322	(51,037)	-
Balance as at 31 December 2016	**253,732**	**22,960**	**7,274**	**283,966**
Impairment				
Balance as at 5 February 2015	-	-	-	-
Calculated amortization	10,004	783	-	10,787
Balance as at 31 December 2015	**10,004**	**783**	**-**	**10,787**
Balance as at 1 January 2016	10,004	783	-	10,787
Calculated amortization	30,918	3,324	-	34,242
Balance as at 31 December 2016	**40,922**	**4,107**	**-**	**45,029**
Present value as at 31 December 2015	**200,013**	**14,855**	**2,957**	**217,825**
Present value as at 31 December 2016	**212,810**	**18,853**	**7,274**	**238,937**

The Bank does not possess any intangible assets estimated to have an unlimited useful life as at 31 December 2016. Further to the estimate of the Bank's management, as at 31 December 2016 there are no indications that the value of intangible assets is impaired.

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23. Property, plant and equipment

In thousands of RSD	Equipment and other fixes assets	Investments in fixed assets of other legal entities	Fixed assets in progress	Total
Purchase value				
Balance as at 5 February 2015	-	-	-	-
Purchase during the year	-	-	173,670	173,670
Transfer from investments in progress	104,441	68,128	(172,569)	-
Balance as at 31 December 2015	**104,441**	**68,128**	**1,101**	**173,670**
Balance as at 1 January 2016	104,441	68,128	1,101	173,670
Purchase during the year	-	-	26,981	26,981
Transfer from investments in progress	16,824	9,513	(26,337)	-
Balance as at 31 December 2016	**121,265**	**77,641**	**1,745**	**200,651**
Impairment				
Balance as at 5 February 2015	-	-	-	-
Calculated amortization	6,055	4,245	-	10,300
Balance as at 31 December 2015	**6,055**	**4,245**	**-**	**10,300**
Balance as at 1 January 2016	6,055	4,245	-	10,300
Calculated amortization	24,771	15,157	-	39,928
Balance as at 31 December 2016	**30,826**	**19,402**	**-**	**50,228**
Present value as at 31 December 2015	**98,386**	**63,883**	**1,101**	**163,370**
Present value as at 31 December 2016	**90,439**	**58,239**	**1,745**	**150,423**

The Bank does not possess any real estate property, plants and equipment estimated to have an unlimited useful life. As at 31 December 2016, the Bank is in possession of the assets it avails with and has no encumbrance on property. Further to the estimate of the Bank's management, as at 31 December 2016 there are no indications that the value of fixed assets and investments in leased business premises is impaired.

24. Other assets

Other assets include:

In thousands of RSD	31 December 2016	31 December 2015
Receivables from advances paid for current assets	395	655
Receivables from advances paid for fixed assets	1,923	6,628
Prepaid costs	2,217	861
Petty inventory in use	2,823	367
Fees from legal entities and receivables from employees	147	-
Other	6,250	58
Other assets	**13,755**	**8,569**
Impairment of other assets	(522)	(367)
Balance as at 31 December	**13,233**	**8,202**

Changes in allowances:

In thousands of RSD	31 December 2016	31 December 2015
Balance as at 31 December of previous year	**(367)**	**-**
Increase during the year	(155)	(367)
Balance as at 31 December	**(522)**	**(367)**

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25. Deposits and other liabilities to banks, other financial institutions and central bank

In thousands of RSD	**31 December 2016**	**31 December 2015**
Transaction deposits	110	-
Short-term deposits	30,001	-
Liabilities for fees and commissions to NBS	10	64
Liabilities for fees and commissions to other banks etc.	718	18
Balance as at 31 December	**30,839**	82

26. Deposits and other liabilities to customers

In thousands of RSD	**31 December 2016**	**31 December 2015**
Corporate and retail		
Transaction deposits in RSD	64,736	56,168
Long-term deposits on loans in RSD	24,347	12,163
Overnight	509	-
Transaction deposits in foreign currency	950,202	8,374
Long-term deposits on loans in foreign currency	11,217	-
Short-term deposits in foreign currency	2,363,869	-
Other liabilities in foreign currency	29,684	234
Balance as at 31 December	**3,444,564**	**76,939**

Short-term deposit are term deposits denominated in RSD and foreign currency with maturity up to 12 mouths. These deposits have interest rates ranging from 0.28% - 2.2% per annum (on foreign currency deposits) or up to 3.9% (on RSD deposits).

27. Subordinated liabilities

Loans received in foreign currency

The Bank has long-term subordinated liabilities to Aflaj INVESTMENT LLC. , with contract of six mouth income payment, with annual interest rate of 6M Euribor increased for 0.50%, which amounted to 0.28% as at 31 December 2016 (31 December 2015 it amounted to 0.498%).

The structure of received loans per creditors, with balance as at 31 December 2016, is presented in the following table:

Creditor name	Agreed amount	Curren cy	31 December 2016 in EUR	Interest rate p.a.	Maturity date	Balance as at 31 December 2016 in 000 RSD
AFLAJ INVESTMENT LLC, Abu Dabi	5,000,000	EUR	5,000,000	6m euribor+0 .5%	22.10.2025.	617,362
AFLAJ INVESTMENT LLC, Abu Dabi	5,000,000	EUR	5,000,000	6m euribor+0 .5%	14.11.2025.	617,362
Deferred liabilities for accrued interest						298
Total						**1,235,022**

Creditor name	Agreed amount	Currency	31 December 2015 in EUR	Interest rate p.a.	Maturity date	Balance as at 31 Dec 2015 in 000 RSD
AFLAJ INVESTMENT LLC, Abu Dabi	5,000,000	EUR	5,000,000	6m euribor+0.5%	22.10.2025,	608,130
Total						608,130

28. Provisions

In thousands of RSD	**31 December 2016**	**31 December 2015**
Provisions for retirement benefits, in accordance with IAS 19	2,620	2,474
Provisions for employees' annual leave, in accordance with IAS 19	830	418
Provisions for losses on off-balance sheet assets IAS 39	1,391	-
	4,841	**2,892**

Changes in total provisions:

In thousands of RSD	**Provisions for retirement benefits, in accordance with IAS 19**	**Provisions for employees' annual leave, in accordance with IAS 19**	**Provisions for losses on off-balance sheet assets IAS 39**
Balance as at 5 February 2015	**-**	**-**	**-**
Increase	2,474	418	-
Decrease	-	-	-
Balance as at 31 December 2015	**2,474**	**418**	**-**
Balance as at 1 January 2016	**2,474**	**418**	**-**
Increase	146	412	1,391
Decrease	-	-	-
Balance as at 31 December 2016	**2,620**	**830**	**1,391**

The trends in provisions for potential losses in retirement pays and other purposes are presented in the above table. Provisions for retirement pay to employees are formed based on actuarial valuation, with balance on the balance sheet date, and these are recognized in the amount of the present value of expected future payments.
In compliance with its Rules of Procedure, the Bank is obliged to pay out retirement pays at the amount of two average gross salaries in the Republic of Serbia in the month preceding the month of payment, as per latest published information of the republic statistical authority.

The value of expected outflows was assessed using the average monthly salary in the Republic of Serbia in December 2016 and 7% (in 2015 was 8%), discount rate which represents an adequate rate according to IAS 19 "Employee Benefits" in the absence of a developed market of high-quality corporate bonds, which is the return on 10-year treasury bonds of the Republic of Serbia. The provision is assessed based on the Bank's Rules of Procedure and an assumed average salary increase at the rate of 3% (in 2015 was 4%) p.a, which is equal to the target inflation rate projected by NBS.

29. Other liabilities

In thousands of RSD	31 December 2016	31 December 2015
Suppliers	3,951	16,784
Guarantee commissions	3,033	285
Prepaid expenses for legal fees	26,465	1,940
Taxes and contributions	1,671	83
Other	53	140
Total	**35,173**	**19,232**

30. Equity and reserves

As at 31 December 2015, the subscribed paid-in share capital of the Bank amounted for RSD 1,790,700 thousand and consisted of 1,790,700 ordinary shares with par value of RSD 1 thousand RSD.

As at 31 December 2016, the subscribed paid-in share capital of the Bank amounted RSD 3,631,200 thousand, consisted of 3,631,200 ordinary shares with par value of RSD 1 thousand.

Central Depository and Clearing House carried out registration of the increase in share capital of the Bank as at 11 May 2016, according to the Decision on the second share issue of ordinary shares without the obligation to publish a prospectus in order to increase the initial capital Mirabank ad Belgrade. The capital of Bank on the basis of that decision was increased by 1,840,500 shares, with a nominal value of RSD 1 thousand so that the total number of shares now amounts to 3,631,200.

Shareholder Structure

Duingraaf Financial Investments B.V., Kabelweg 37, 1014BA Amsterdam, the Netherlands, is 100% shareholder of the Bank as at 31 December 2016.

	31 December 2016		31 December 2015	
Shareholder name:	**No. of shares**	**% ownership**	**No. of shares**	**% ownership**
Duingraaf Financial Investments B.V., Amsterdam, The Netherlands	3,631,200	100%	1,790,700	100%

The share capital structure is presented in the table below:

In thousands of RSD

	31 December 2016		31 December 2015	
	Amount in thousand RSD	**U %**	**Amount in thousand RSD**	**U %**
Ordinary shares	3,631,200	100.00	1,790,700	100.00
Balance as at 31 December	3,631,200	100.00	1,790,700	100.00

Provisions for estimated losses

The provisions for estimated credit risk losses contained in the Bank's credit portfolio are calculated in accordance with the Decision of the National Bank of Serbia on Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items ("Official Gazette of RS" nos. 94/2011, 57/2012, 123/, 113/2013 and 135/2014 and 25/2015 and 38/2015).

As at 31 December 2016, the required reserve for estimated losses which might arise from balance sheet assets and off-balance sheet items, calculated in accordance with the Decision of the National Bank of Serbia, amounts to RSD 117,033 thousand (31 December 2015 was RSD 24,772 thousand).

Capital adequacy and Bank's business indicators stipulated under the Law on Banks

The Bank is obliged to harmonize the scope and structure of its business and risk-weighted placements with business indicators stipulated under the Law on Banks and relevant decisions of the National Bank of Serbia made pursuant to the named Law.

The achieved business indicators of the Bank as at 31 December 2016 were as follows:

1. Capital adequacy indicators

In thousands of RSD	**31 December 2016**	**31 December 2015**
Core capital	2,570,105	1,286,945
Supplementary capital	1,240,719	608,130
Deductibles from capital	-	-
Capital	**3,810,824**	**1,895,075**
Assets weighted with credit risk multiplied by reciprocal value of the adequacy of capital	3,350,751	831,758
Exposure to foreign currency risk multiplied by the reciprocal value of the capital adequacy	-	-
Exposure to operational risk	96,933	18,742
Total risk assets	**3,447,684**	**850,500**
Capital adequacy indicator	**110.53%**	**222.82%**

1. Business indicators	**Prescribed**	**Achieved**
1. Capital (expressed in EUR)	Minimum EUR 10 million	30,863,789
2. Capital adequacy	Minimum 12%	110.53%
3. Bank's investments in non-financial sector and in non-current asset	Maximum 60%	3.95%
4. Sum of large exposures	Maximum 400%	44.80%
5. Average monthly liquidity indicators (December 2016)	Minimum 1	13.61
6. Foreign currency risk ratio	Maximum 20%	0.28%
7. Exposure of the Bank to a single entity or a group of related entities	Maximum 25%	21.05%

31. Off-balance sheet items

In thousands of RSD	31 December 2016	31 December 2015
Guarantees, securities, secured property and commitments	**2,540,998**	**157,524**
Investments managed on behalf of third parties	**-**	**-**
In RSD	-	-
In foreign currency	-	-
Payment guarantees:	**286,700**	**127,193**
In RSD	286,700	93,000
In foreign currency	-	34,193
Performance guarantees:	**193,877**	**25,331**
In RSD	66,998	25,331
In foreign currency	126,879	-
Other forms of guarantee:	**2,400**	**-**
In RSD	2,400	-
In foreign currency	-	-
Revocable and irrevocable commitments for unwithdrawn loans and placements in RSD:	**2,058,021**	**5,000**
revocable	1,547,604	-
irrevocable	510,417	5,000
Derivatives	**2,392,205**	**-**
Other off-balance sheet items	**185,347**	**101,453**
Other irrevocable commitments under guarantees	185,208	101,355
Checks, bills, policies, authorities and others	44	-
Other	95	98
Total off-balance sheet items	**5,118,550**	**258,977**

32. Related party relationships

The following table presents the total balance sheet exposure and exposure to related parties, as well as income and expenses from related parties which influence the Bank's business operations:

In thousands of RSD

BALANCE SHEET	**31 December 2016**	**31 December 2015**
Liabilities		
Subordinated loan	1,234,723	608,130
PROFIT AND LOSS ACCOUNT	**2016**	**2015**
Interest expenses from subordinated loans	(2,676)	(453)

Gross and net income of the President and members of the Board of Directors and the Executive Board in 2016 and 2015 were as follows:

In thousands of RSD	**2016**	**2015**
Gross income	**66,001**	**34,882**
Executive board	58,979	25,999
Board of directors	7,022	8,883
Net income	**55,362**	**28,056**
Executive board	50,924	22,442
Board of directors	4,438	5,614

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Remuneration of the Executive Board in 2016 relates to the payment of three members: two members for the full-year and one for eleven months - only for members of the Executive Board who are active as at 31 December 2016.

Remuneration of the Executive Board in 2015 relates to the payment of two members: one member for eleven months and one for five months - only for members of the Executive Board who are active as at 31 December 2015.

33. Commitments to lease

The Bank rents office space through operational leasing.

Future payments under operating leases where the Bank emerges as the lessee are shown in the following table:

In thousands of RSD	**31 December 2016**	**31 December 2015**
Operating leasing payments		
One year period	63,094	61,870
Period from 1 to 5 years	160,897	220,787
Period over 5 years	-	-
Total	**223,991**	**282,657**

34. Litigation

At 31 December 2016 there are no pending litigations initiated by the Bank against third parties, while there is one litigation pending against the Bank. The Bank does not expect a negative outcome on the basis of the litigation, so there are no provisions formed on that basis.

35. Reconciliation of receivables and payables

In accordance with Article 18 of the Accounting Law the Bank performed reconciliation of receivables and payables with its debtors and creditors, and there is authentic documentation to that effect. The Bank sent clients confirmation requests or statements of outstanding items, in order to reconcile outstanding receivables / payables as at 31 October 2016.

The total reconciled amount refers to:

- Receivables in the amount of RSD 4,265,823 thousand, which is 91.27% of receivables,
- Liabilities in the amount of RSD 800,692 thousand, which is 32.41% of liabilities.

The total amount of unconfirmed receivables is RSD 407,805 thousand, and unconfirmed liabilities in the amount of 1,669,440 thousand RSD.

The reason they outstanding balances remain unconfirmed in the total amount of 1,669,440 thousand RSD is that clients did not confirm balances on their current accounts at the Bank.

36. Subsequent events

There were no significant events after the end of the reporting period that could require adjustments to or disclosures in notes to the accompanying financial statements of the Bank for 2016.

Belgrade, March 15, 2017

Dragana Bojin Head of Accounting Department	Ilinca Rosetti President of the Executive Board
	Saša Mićević Member of the Executive Board

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ANNUAL REPORT FOR 2016
Mirabank a.d. Belgrade

March 2017

Contents

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1. Macroeconomic Environment and Serbian Banking Sector

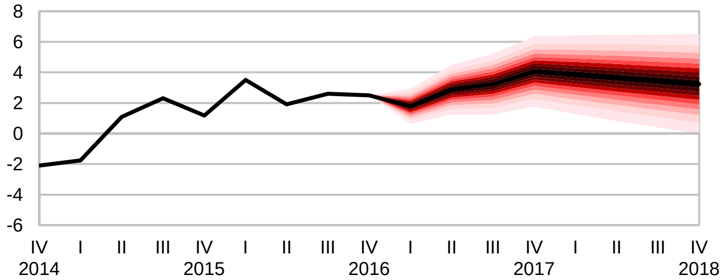
Macroeconomic environment

The economy of Republic of Serbia in 2016 continued to strengthen, supported by the authorities' efforts to improve public finances, address structural weaknesses, and strengthen the financial sector. Employment was rising, inflation remained firmly under control, and public debt has started to decline.

Growth in the first four quarters of 2016 reached 2.5 percent (yoy), supported by continued recovery of industrial production and agriculture as well as strong investment and increase of net exports. The current account deficit has narrowed to around 4 percent and yields on government securities continued to decline. Labor participation was improving, with strong employment growth in both formal and informal sectors, and a sharp drop in unemployment. Private sector wages have picked up. An increase in the minimum wage of nearly 7 percent happened after two years without an increase.

Significant progress has been made on fiscal consolidation in 2016, on account of strong revenue and ongoing expenditure control. Institutional reforms aim to secure fiscal sustainability and improve public services. Priorities include eliminating domestic arrears, reforming the public administration and wage system, and strengthening public investment management. Further efforts are also needed to minimize fiscal risks through a restructuring of unviable state-owned enterprises, especially in the mining, energy, and transportation sectors, while enhancing social safety nets. The authorities are taking steps to strengthen public project appraisal and implementation, and modernize the educational system. The external position continued to strengthen. The current account deficit narrowed in 2016 on account of strong exports supported by past investments. Net FDI remained at about 5 percent of GDP in 2016. Private sector deleveraging has continued to slow, reflecting higher rollover rates in the banking sector as well as a reduction in deposits abroad. Depreciation pressures on the dinar due to portfolio outflows in the first half of 2016 proved to be temporary and, since July, the NBS has been only sporadically purchasing forex from the market.

GDP growth projection (y-o-y, in %)
Source: NBS

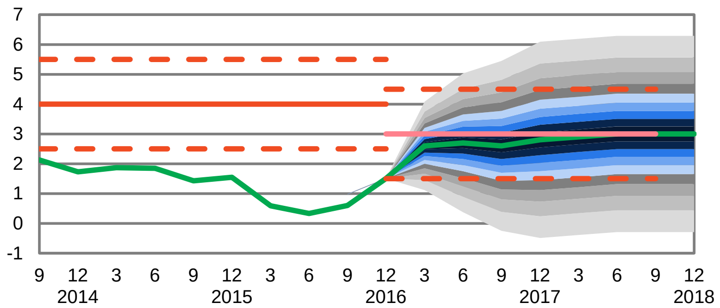


The reduction in the inflation target reflects improved macroeconomic fundamentals and market confidence. The lower target is expected to support the dinarization strategy and help reduce long-term interest rates. The cautiously accommodative monetary policy stance remained consistent with the new target. Despite substantial monetary policy easing, inflation has remained persistently low. As fiscal adjustment took hold and external financing conditions remained stable, the NBS has reduced the key policy rate by 400 basis points. Headline inflation (1.6 percent in December) has picked up moderately, mostly due to higher food and utility prices. Interbank rates have stabilized below 3 percent, and dinar lending interest rates have declined to historic lows. The accommodative monetary policy stance has supported a revival of credit growth: demand for loans increased and banks eased their credit conditions.

The January-December fiscal deficit was only EUR 390 million. Tax over-performance continues to be led by VAT and excises, with CIT collection also performing well. Non-tax and capital revenue were higher too, primarily due to one-off sources. On the expenditure side, higher goods and services spending was offset by underspending on interest, subsidies, and transfers.

Financial sector reforms have strengthened the resilience of the sector. The strategy for resolving nonperforming loans has helped reduce the overall bad loan ratio, and the authorities remain committed to its full implementation, especially with respect to state-owned banks.

Inflation projection (y-o-y, in %)
Source: NBS



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Real GDP growth is projected to reach 3 percent in 2017, with the largest contributions coming from consumption and private investment growth.

Inflation is projected rising to 2.4 percent in 2017 on account of recovering demand and higher energy prices.

The current account deficit narrowed to about 4.2 percent of GDP in 2016 (on account of buoyant exports supported by recent FDI inflows to the tradable sector) and slightly further in 2017, as a worsening of terms of trade is expected to be offset by stronger export volumes.

The abovementioned outlook is subject to a range of risks. Serbia remains susceptible to possible spillovers from regional developments and market volatility. Also, political resistance to reform from vested interests (especially in the state-owned enterprise sector), possible delay in delivering on structural reforms (including in light of the presidential elections in the spring), or slippages in maintaining fiscal discipline could reduce growth prospects and compromise the quality and durability of fiscal adjustment. This, together with continued inflation undershooting, could make debt reduction harder. On the upside, growth could surprise again, outperforming projections as confidence continues to improve.

Banking sector

Banking sector conditions in 2016 remained stable. Data for the third quarter of 2016 points to continued resilience in the wake of last year's asset quality review, with an average capital ratio exceeding 21 percent and a gradual improvement in asset quality (as illustrated by the change in the composition of classified assets). Banking sector profitability continues to improve year-on-year, with the reduction in credit losses outpacing the decline in banks' net interest income.

Measures taken to address the distressed debt overhang are starting to yield results: with the aggregate stock of NPLs falling both in nominal terms and relative to total loans. Still, progress made by individual banks is uneven, underscoring the importance of concerted supervisory action—in particular by scrutinizing banks' strategies for reducing NPL stocks to acceptable levels, and encouraging write-offs of exposures deemed uncollectable. To underpin long-term stability of the Serbian banking system, and to ensure harmonization of the regulatory framework with EU standards, the NBS is pushing ahead with the implementation of Basel III standard.

2. Overview of the business activities and the organizational structure of Mirabank a.d. Beograd

2.1 Mission and Vision Statement of Mirabank a.d. Beograd

Our mission is to support economic growth of the countries we operate in by providing transparent and sustainable financial services.

Our vision is to become internationally recognized as an innovative bank which brings economic growth to the countries where we operate in and to our stakeholders.

2.2 Our Values and Our Approach to Banking

Client centricity

We place our clients at the core of our organization
We provide our customers with a great experience, while we are working together towards their goals
We deliver with excellence and we move banking forward

Commitment

We commit to our core values and we live them day by day
We have a high sense of belonging to our organization
We believe in our promises and we turn them into reality

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Innovation

We have the courage to challenge the routine and to envision new possibilities

We embrace change and we are responsive

We foster continuous development and improvement by going beyond conventional wisdom

Accountability

We create honest expectations

We take balanced risks, putting long-term success over short-term gains

We communicate openly and transparently

2.3 Bank's Key Facts Sheet

Key target group of Mirabank are corporates, mainly medium-sized and large businesses. The Bank serves its target group with all banking services, focusing on financing and trade finance support and coupled with other services such as acceptance of deposits, processing of payments and other services.

In 2016 the Bank expanded its business operations into the field of investment banking. Key focus in investment banking activities is to secure deal flow in financial advisory (M&A transactions and debt advisory) for buy-side and sell-side clients operating in different industries. Besides other international clients interested in investing in the region, primary customers in this business segment of the Bank are investors originating from UAE and Middle East as well as local companies aiming to attract funding for business growth.

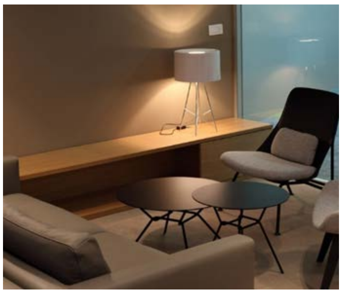
2.4 Identity and Communication

The Bank, in accordance with the fact that recently began its operations, in 2016 made great efforts in creation of identity and increase of brand recognition of the Bank. The Bank intends in the future to continue with those activities, for the purpose of positioning, however, mainly through Below-The-Line communication and networking efforts since the nature of its business is related mainly to corporate clients where the best results are achieved on one-to-one relationship.

„360˚ approach"

We take a methodical and meticulous approach to every client and situation. Our detailed, analytic and comprehensive work and our firm belief in two-way communication provide us with the best understanding of their business ideas and targets. As each client is unique, we tailor our offers and services to their specific needs, taking all aspects carefully into account.

Banking center and lounge



We believe that great business requires great partnerships, forged through mutual trust and understanding of each other's needs.

Every business relationship requires a space in which it will develop and grow. That is why our fully equipped banking center includes a lounge – a pleasant space, available to our clients and their partners, for informal meetings, networking, exchange of ideas, or as a waiting room during regular bank business hours. The Bank plans to have a marketing strategy that is based on targeted campaigns that will be directly addressed to target groups, namely: large and medium-sized businesses, their managers and owners, as well as a number of private individuals who want to avoid a massive banking approach. The Bank is not planning any mass marketing campaign. The Bank's approach is reflected through the organization of exclusive networking events, as Mirabank Business club at SQ9, then through an exclusive magazine that gets personally Bank's target group and which is a part of the Bank's communication with current and future clients (LUMEN).

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2.5 Bank's Organisational structure

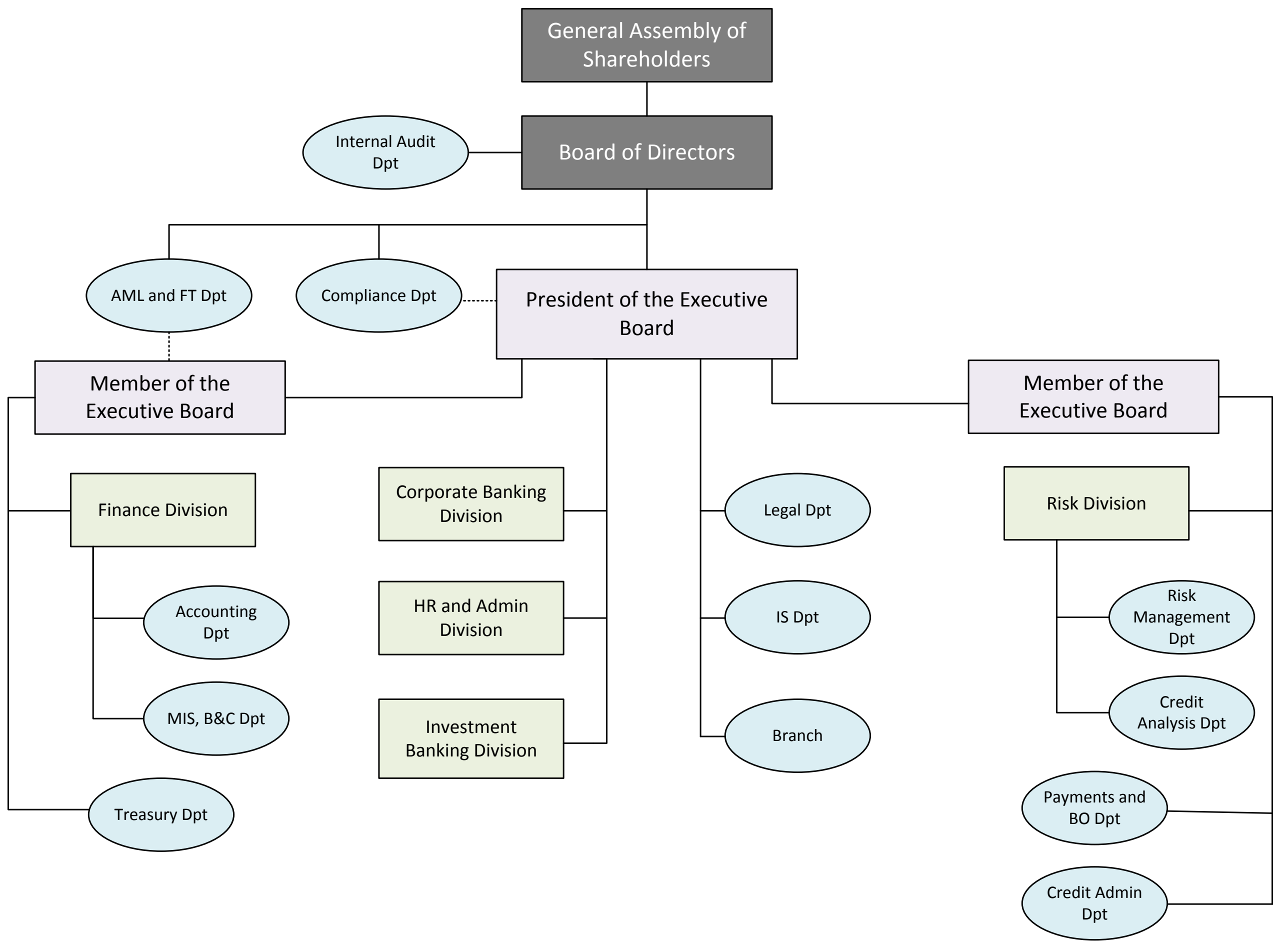
Bank's Governance structure

Shareholders
The founder of the Bank is Duingraaf Financial Investments B.V., with its seat at Amsterdam, Kabelweg 37, 1014BA, organized and existing under the laws of Netherlands and registered under no. 33246685 with the Netherlands Chamber of Commerce Commercial Register. It is the sole shareholder holding 100% of the shares issues by the Bank. In 2016 the Bank did not acquire any Treasury Shares nor does it have any Treasury Stock (stock of its own shares).

Board of Directors
Mr. Hamad Al Shamsi, *Chairman of the Board of Directors*
Mr. Majed Odeh, *Member of the Board of Directors*
Mr. Mahmood Mohamed Al Mahmood, *Member of the Board of Directors*
Mr. Mustafa Kheriba, *Member of the Board of Directors*
Mr. Vladimir Radić, *Independent member of the Board of Directors*
Mr. Dejan Nikolić, *Independent member of the Board of Directors*

Executive Board
Mrs. Dr. Ilinca Rosetti, *Chairperson of the Executive Board*
Mr. Saša Mićević, *Member of the Executive Board*
Mrs. Mirjana Garapić Zakanyi, *Member of the Executive Board*

2.6 Organizational chart of the Bank



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3 Overview of development, financial aspect and results of operations as well as information on HR matters

3.1 Business results overview of Mirabank a.d. Belgrade as at 31/12/2016

Mirabank a.d. Beograd			
Monetary values are in thousands RSD	2016	Change	2015
Income Statement			
Net interest income	99,454	1026%	8,829
Net fee & commission income	12,766	4242%	294
Net gains on financial assets held for trading	124,698	-	-
General administrative expenses	(568,993)	115%	(264,241)
Loss before tax	(440,515)	77%	(249,248)
Loss after tax	(443,314)	70%	(261,158)
Balance Sheet			
Loans and advances to banks and other financial institutions	1,734,431	760%	201,783
Loans and advances to customers	2,509,710	392%	510,161
Deposits and other liabilities to banks, other financial institutions and central bank	30,839	37509%	82
Deposits and other liabilities to customers	3,444,564	4377%	76,939
Total Equity	2,932,737	92%	1,529,542
Total Assets	7,697,886	242%	2,248,727
Regulatory information			
Regulatory capital	3,810,824	101%	1,895,075
Core capital ratio	75%	(50%)	151%
Own funds ratio	111%	(50%)	223%
Performance			
Return on equity (ROE) before tax	(15%)	(6%)	(16%)
Return on equity (ROE) after tax	(15%)	(12%)	(17%)
Cost/income ratio	406%	(77%)	1762%
Return on assets (ROA) before tax	(6%)	(45%)	(11%)
Risk/interest earnings ratio	12%	-	-
Resources			
Number of staff on Balance Sheet date	42	11%	38
Business outlets	1	0%	1

3.2 Human Resources

The Bank has a separate HR and Administration Department, with the aim of providing ultimate support to the business in business results achievement through internal processes improvement and improvement of the quality of Human Resource Management.

Achieved in the previous period:
- ✓ Recruitment of adequate staff on key positions in order to establish business processes;
- ✓ Investment in staff development;
- ✓ Defining and adoption of the Bank's procedures.

Goals for the next period:
- ✓ Establishment of a system for employees evaluation;
- ✓ Defining of the individual development plans.

3.3 Business Support

In its organizational structure, the Bank has several separate organizational units in charge of the banking business support. Those units are:

- ✓ Payments & Back office Department;
- ✓ Credit Administration Department;
- ✓ Information System Department;
- ✓ Legal Department;
- ✓ Treasury Department;
- ✓ AML and FT Department;
- ✓ Finance Division, including Accounting Department and MIS and B&C Department;
- ✓ Compliance Department;
- ✓ Internal Audit Department.

Achieved in the previous period:

- ✓ Formation of the teams and segregation of duties;
- ✓ Defining and adoption of the strategies / methodologies / policies / procedures;
- ✓ Defining and implementation of Controls.

Goals for the next period:

- ✓ Increase of the efficiency of the business processes;
- ✓ Customer satisfaction improvement;
- ✓ Cost optimization.

4 Investments in Environmental Sustainability and Social Responsibility

Taking into consideration very recent start of its activities and operations, in 2016. Bank did not participate in socially responsible activities, but intends in the future to become an active participant, thus confirming its dedication as a socially responsible company. For the same reasons the Bank did not participate in environment protection programs. However, Mirabank is committed to improving the environment in how the Bank approach its global business strategy, work with partners and support Bank's employees. The Bank is committed in supporting low-carbon and sustainable business activities, to develop solutions to climate change and other environmental challenges. We need to stress out that we are heavily involved in renewable energy projects through our investment banking business. Having in mind the culture of the shareholders, it is expected that the Bank will actively participate in such efforts in the future.

5 Subsequent events after the end of the reporting period

There were no significant events after the end of the reporting period that could require adjustments to or disclosures in Annual report of the Bank for 2016.

6 Projections of the future business development of Mirabank a.d. Belgrade

6.1 Major Strategic objectives

As an ultimate roadmap to the Vision, the Bank's Management has defined top Strategic goals for the next three years:

- To be high-end professional corporate and investment bank providing tailor-made products and services to its clients;
- To achieve excellence in customer service and execution time relying on flexibility and slim and efficient decision making process;
- To implement and maintain strict risk controls to achieve development of healthy loan portfolio and it's balanced and stable growth;
- To develop and steadily expand deposit funding base by being recognized as a trustworthy partner

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- To maintain strong capital position through close monitoring of customers and human approach in risk management;
- To manage liquidity in the most appropriate and optimal manner, always taking the least possible risk and protecting customers' deposits and shareholder's capital;
- To control costs by implementing robust controls over expenditure and apply the concept of shared services in order to achieve "above the market average" efficiency rates.

6.2 Corporate Banking – Current Stage and Plans

The Bank plans to primary focus its resources on serving Large and Medium size corporate sector clients and to accompany investments in Serbia.

In 2017, the Bank's plan is to expand its operations to the limited number of private individuals, through Prime retail banking. The Bank will offer full range of banking services customized to the need of particular client segment. It will be achieved through making strong and personal relations with future clients and offering competitive products with tailor made service towards each individual client's needs and capabilities. Attention will be paid on the achievement of excellence in customer services, setting standards in corporate and investment banking business. Simultaneously, tailored financing products as well as financial advisory, through Executive banking package, will be offered to high potential SMEs which are considered to be the main driver of the economic development in economies in transition. Executive banking package is unique product on Serbia market and Bank is a pioneer of combining commercial banking services together with advisory services through the partnership with PricewaterhouseCoopers Serbia and tier 1 law firm.

After successfully obtaining a VISA principal license, Bank started issuing VISA payment cards that will complete the range of banks products in working with clients.

The Bank offers a wide range of products to the companies and as a boutique bank that is small and with a shallow depth of decision-making, has the ability to offer to the customers tailored made products that can be realized in a faster time frame than the competition and with lower overhead (with acceptable costs). The Bank will take care to be fully competitive on the financial market in Serbia, especially in a part of providing newly defined services.

Bearing in mind the strategy of the Bank, the Bank does not plan to have a large number of clients, but plans to have a limited number of highly-potential clients who will get the service they have not experienced on the Serbian market. Given the number of planned employees, KPI are adopted in accordance with the annual budget of the Bank.

Key Products and Services Offer for Corporate Sector

- Credit products
  - Investment loans / Working capital loans
  - Project financing loans
  - Revolving loans
  - Overdraft
- Treasury products
  - FX
  - SWAPs (interest rate, currency)
- Global Transaction Services
  - Transactional banking
    - Domestic payments
    - International payments
  - Account services
    - Current accounts
    - O/N deposits
    - Term deposits
  - Cash Management
  - Trade finance and documentary business
    - Letters of Guarantee
    - Letters of Credit
    - Letter of Intents
  - High-end internet banking

Key Products and Services Offer for Retail Clients

- Credit products
  - Credit cards
  - Current account overdraft
- Services
  - e-banking
  - m-banking
- Deposits
  - Current accounts
  - Saving accounts
  - Term deposits
  - Payment cards

6.3 Investment Banking – Current Stage and Plans

The Bank offers financial advisory services to its clients, including transaction and capital structure advisory, as well as valuation, research, assistance in selection and cooperation with other professional advisers and facilitating communication with project stakeholders. Key Investment banking products and services include:

- Transaction Advisory Business
  - Mergers & Acquisitions
  - Privatizations
  - Restructurings
  - Project finance equity and debt advisory
  - Sourcing potential investors

- Capital Structure Advisory
  - Company and/ or project business and financial analysis including valuation
  - Risk analysis and stress testing
  - Assessment of strategic options, structure of debt and equity financing
  - Source and assist to negotiate new/adjusted financing
  - Lead execution of financial restructuring plan

- Complementary Services
  - Valuation
  - Macro and industry research
  - Assistance in selection of other professional advisers
  - Communication with project stakeholders

Objectives of the investment banking department in the future period include establishing working relationships with companies from Serbia and wider South-Eastern Europe region and presenting prospective investment opportunities to UAE investors and other investors interested in the region. Investment Banking team will leverage the Bank's existing corporate client base and will also lead new customers to the Bank. Prospective transactions should involve mainly debt and equity financing advisory and financial advisory mandates. The Investment Banking department obtained mandates for the projects which are expected to be finalised in course of 2017.

7 Research and Development Activities

In 2016, the Bank had no research and development activities.

8 Information on purchase of own shares

During 2016, the Bank did not repurchase its own shares, or shares, nor any.

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9 Branch Network

The centralized corporate and investment banking services are extended from our branch in Belgrade, covering the whole territory of Serbia and the region

Commercial teams are mobile and fully dedicated to provide high quality service to all clients.
Mirabank Head Office and Branch are located in Belgrade, Spanskih boraca 1 St.

10 Risk Management

One of the major focus of the Risk Management policy is that the risk profile and risk appetite of the Bank has to be clearly defined and documented throughout the risk management process, taking into consideration the major risks the Bank is willing and capable to take in order to meet its business goals.

The risk management system of the Bank has the goal to identify the main types of risk and adjust the Bank's business profile and Bank's plans to the risk appetite, to optimize the decisions whereby the Bank takes the risks with the expected level of profitability, having in mind the business operations of the Bank, with the simultaneous establishing of a strong and independent control function and structure ready to respond to the challenges in the organization and the environment, to ensure that the growth of the volume of business is adequately supported by efficient infrastructure for risk management.

In its business operation, the Bank actively takes over and manages the risks, while relying on the following principles:

- The level of risks need to be within the limits defined by the Bank's risk appetite
- Taken risks has to be approved within the risk management system
- The award should compensate the taken risk
- Continuous risk monitoring
- Promoting awareness about the risk and strengthening of the risk management culture shall help the strengthening of the Bank's resistance.

One of the goals of the Bank's Risk management in the Business Plan is to keep NPL ratio, in the targeted range for the planned period and to have targeted collateralization and adequate provisioning for the targeted risk indicator. Bank capital adequacy during the three years period, should always respect targeted / limit values from the Capital Management Strategy.

10.1 NPL & Collection

The Bank currently does not have NPL in portfolio and Bank did have NPL in previous period, i.e. from the start of the business in the last year. The Bank is expecting that the NPL during business plan period (until year 2020) will be kept on relatively low level (significantly lower the average NPL level of the banking sector in the Republic of Serbia). During following business plan years, the Bank is expecting that NPL level will be in range between 2 and 5%.

Regarding Bank's Strategy for the NPL monitoring and collections, the Bank is planning to implement strict roles and best practice, taking into consider characteristics of the Bank's business, its strategy, local regulation (specially new NBS regulation which is putting more focus on NPL segment, monitoring, organization, reporting, etc.), as well foreign countries state-of-the-art practices in this field.

11 Financial reports for 2016

INCOME STATEMENT
In the period 1 January to 31 December

(In thousands of RSD)

	2016	**2015***
Interest income	133,519	9,425
Interest expenses	(34,065)	(596)
Net interest income	**99,454**	**8,829**
Fee and commission income	15,557	1,400
Fee and commission expenses	(2,791)	(1,106)
Net fee and commission income	**12,766**	**294**
Net gains on financial assets held for trading	124,698	-
Net income/(expense) on foreign exchange rate differences and effects of foreign currency clause	(103,623)	5,870
Other operating income	6,811	-
Net expenses on impairment of financial assets and credit risk-weighted off-balance sheet items	(11,628)	-
Net operating income	**128,478**	**14,993**
Salaries, salary compensations and other personal expenses	(230,741)	(134,577)
Depreciation expenses	(74,170)	(21,087)
Other expenses	(264,082)	(108,577)
LOSS BEFORE TAX	**(440,515)**	**(249,248)**
Deferred tax loss	(2,799)	(11,910)
LOSS AFTER TAX	**(443,314)**	**(261,158)**

**In the period 5 February to 31 December 2015*

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STATEMENT ON OTHER COMPREHENSIVE INCOME
In the period 1 January to 31 December

(In thousands of RSD)

	2016	**2015***
GAIN/(LOSS) FOR THE PERIOD	**(443,313)**	**(261,158)**
Other result for the period		
Components of other result which may not be reclassified to profit or loss:		
Increase/(Decrease) in revaluation reserves for intangible assets and non-current assets	-	-
Components of other result which may be reclassified to profit or loss:		
Positive effects of fair value changes on financial assets available for sale	6,662	-
Unrealized losses on securities available for sale	(653)	-
Total positive/(negative) other comprehensive income for the period	6,009	-
TOTAL POSITIVE/(NEGATIVE) RESULT FOR THE PERIOD	**(437,305)**	**(261,158)**

**In the period 5 February to 31 December 2015*

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BALANCE SHEET
As at December 31
(In thousands of RSD)

	31 December 2016	31 December 2015
ASSETS		
Cash and balances with the central bank	875,578	1,147,386
Financial assets at fair value through profit or loss held for trading	124,698	-
Financial assets available for sale	2,050,876	-
Loans and advances to banks and other financial institutions	1,734,431	201,783
Loans and advances to customers	2,509,710	510,161
Intangible assets	238,937	217,825
Property, plant and equipment	150,423	163,370
Other assets	13,233	8,202
Total assets	**7,697,886**	**2,248,727**
LIABILITIES		
Deposits and other liabilities to banks, other financial institutions and central bank	30,839	82
Deposits and other liabilities to customers	3,444,564	76,939
Subordinated liabilities	1,235,022	608,130
Provisions	4,841	2,892
Deferred tax liabilities	14,710	11,910
Other liabilities	35,173	19,232
Total liabilities	**4,765,149**	**719,185**
Equity		
Share capital	3,631,200	1,790,700
Loss up to the amount of equity	(704,472)	(261,158)
Reserves	6,009	-
Total equity	**2,932,737**	**1,529,542**
Total liabilities and equity	**7,697,886**	**2,248,727**

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STATEMENT OF CHANGES IN EQUITY
In the period 1 January to 31 December
(In thousands of RSD)

	Share capital	Issue premium	Reserves	Accumulated result	Total
Balance as at 5 February 2015	-	-	-	-	-
Share issue	1,790,700	-	-	-	**1,790,700**
Current year loss*	-	-	-	(261,158)	**(261,158)**
Balance as at 31 December 2015	**1,790,700**	**-**	**-**	**(261,158)**	**1,529,542**
Share issue	1,840,500	-	-	-	**1,840,500**
The positive effects of fair value changes on financial assets available for sale	-	-	6,662	-	**6,662**
Unrealized losses on securities available for sale	-	-	(653)	-	**(653)**
Current year loss	-	-	-	(443,314)	**(443,314)**
Balance as at 31 December 2016	**3,631,200**	**-**	**6,009**	**(704,472)**	**2,932,737**

**In the period 5 February to 31 December 2015*

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CASH FLOW STATEMENT
In the period 1 January to 31 December

(In thousands of RSD)

	2016	2015*
Cash flow from operating activities	**104,646**	**14,867**
Inflow from interest	87,643	9,425
Inflow from fees	16,484	5,442
Inflow from other operating activities	519	-
Cash outflow from operating activities	**(586,637)**	**(220,595)**
Outflow from interest	(5,244)	(363)
Outflow from fees	(7,104)	(1,026)
Outflow from gross salaries, salary compensations and other personal expenses	(235,751)	(134,519)
Outflow from taxes, contributions and other duties charged to income	(6,452)	(83)
Outflow from other operating expenses	(332,086)	(84,604)
Net cash outflow from operating activities before an increase or decrease in placements and deposits	**(481,991)**	**(205,728)**
Increase in loans and placements to banks, other financial institutions, central bank and customers	(3,619,713)	(581,546)
Increase in deposits and other liabilities from banks, other financial institutions, central bank and customers	3,215,506	76,707
Decrease in financial assets at fair value through profit or loss, financial assets held for trading and other securities that are not intended for investment	123,856	-
Net cash outflow from operating activities	**(762,342)**	**(710,567)**
Outflows from investments in investment securities	(1,995,421)	-
Outflow from purchase of intangible assets and non-current assets	(83,725)	(408,909)
Net cash outflow from investing activities	**(2,079,146)**	**(408,909)**
Inflow from capital increases	1,840,500	1,790,700
Inflow from subordinated liabilities	615,180	608,314
Net cash (outflow)/inflow from financing activities	**2,455,680**	**2,399,014**
Net increase/decrease in cash and cash equivalents	**(385,808)**	**1,279,538**
Cash and cash equivalents at year beginning	**1,279,286**	-
Positive/negative exchange rate differences, net	(17,545)	(252)
Cash and cash equivalents at year end	**875,933**	**1,279,286**

**In the period 5 February to 31 December 2015*

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11.1 Financial risk review

In compliance with the nature of its business activity, the Bank established an adequate risk management system, which pertains to the management of types of risks, and especially so for the most important risks that may arise during operation.

Risk Management Objectives and Principles

The Bank established the risk management process through:
- A specified risk management strategy;
- Clearly defined risk management policies and procedures that include risk identification, measuring, monitoring, reporting and control;
- Adequately established organizational structure that clearly defines the roles and responsibilities of individuals involved in undertaking of risks, risk management and supervision of risk management adequacy;
- Independence of the organizational units tasked with risk management from those tasked with other business activities;
- Effective information system intended for use by the management, which provides information flow from the operational level to top management, as well as the reporting system for any deviations identified;
- Continuous independent supervision of the risk management system.

Responsibilities

The Board of Directors, Supervisory Board, Executive Board, Asset and Liability Committee are responsible for establishing of the system and for the supervision of the risk management system in compliance with the regulations of the National Bank of Serbia, policy and principles of the Bank and risk management best practices.

With the aim to set up a consolidated risk management system and to provide for the functional and organizational independence of the risk management function from the regular business activities, in addition to the legally prescribed management bodies, individual Boards and Committees of the Bank are responsible for risk management, in compliance with the Rules on their operations.

Bodies of the Bank continuously monitor the changes in legal regulations as well, they analyse the impact of such changes to the risk levels on the level of the Bank and undertake measures to bring the operations and procedures with newly adopted regulations within the controlled risk.

In addition to the above, the introduction of new products, activities, lines of business and systems is followed by the required business, market and economic analyses with the aim to determine their impact on the risk portfolio of the Bank.

Bodies of the Bank responsible for risk management jointly establish the risk management principles and methodology, based on the following:

- Regulations and decisions passed by the legislative authorities, and principally by the National Bank of Serbia;
- Appetite for risk-taking, adopted as an internal act of the Bank (part of the Strategy for Risk Management) by the Board;
- Needs of the good business practice, with the aim to adequately identify, measure and estimate the risks, as well as to manage the risks to which the Bank is exposed.

Risk Measurement and Reporting

Organizational units responsible for monitoring of individual risk types and other expert services continuously monitor the indicators of individual categories of risks within their specific competencies and perform measuring, control and reporting to the competent Boards/Committees of the Bank, in compliance with the risk management system established by means of the most important internal acts regulating risk management.

Overview of Risk Types

In compliance with the Risk Management Strategy, the Bank has classified the potential operating risks in the following categories:

A. **Credit risk** and risks related to credit risk (concentration risk, country risk, FX credit risk, residual risk)
B. **Liquidity risk**,
C. **Market risk**, interest risk in banking book, foreign exchange risk,
D. **Capital management.**

In addition to the above listed risks, the following risks may arise as well:
- Strategic risk,
- Reputational risk,
- Compliance risk,
- Operational risk,
- Other risks that are difficult to quantify.

A. Credit risk

Credit risk is the risk of negative effects on the financial result and capital of the Bank caused by borrower's default on its obligations to the Bank.

The basic goal of credit risk management within the Bank is to reduce the possibility of occurrence of negative effects on the financial result and capital of the Bank due to the failure of the debtors to meet their obligations towards the Bank. In order to control the acceptance of the credit risk and adequate management of such risks, the Bank has established an adequate credit process which includes the approval of placements and credit risk management, which are regulated by Bank's procedures.

The credit risk management process includes:
- identification,
- evaluation and measuring,
- monitoring and
- reporting about the credit risk.

Credit Risk Management

The Bank manages the credit risk from individual borrowers, portfolio risk, transaction risk, i.e., it manages the collaterals separately, through the management of:
- Default risk – the risk of defaulting by the borrower;
- Risk from the changes in asset value – the risk of losses in the value of assets;
- FX credit risk – the risk of defaulting by the borrower due to a significant rise in the foreign exchange rate;
- Concentration risk that originates from the exposure to entities from the high exposures group, as well as the concentration risk that originates from the concentration of exposure to individual risk factors pertaining to: the economic sector, geographical area, product type and loan hedging activities and the similar.

Credit risk is adequately managed through risk identification, measuring, control, monitoring and reporting.

With the aim to achieve an effective credit risk management framework, the Bank has defined the basic components as follows:
- Establishing and supervision of the system by the Board of Directors and senior management,
- Clear allocation of competencies and responsibilities in the management process,
- Adequate implementation of management system and relevant policies and procedures.

The credit risk management process includes the following:
- Risk identification in compliance with the adopted procedures,
- Risk measuring and assessment by using the prescribed methodologies,
- Risk monitoring and control in accordance with the established procedures, as well as the application of relevant risk mitigation techniques, by using the loan hedging instruments,
- Reporting on exposure to credit risk.

Supervision by the Board of Directors and Senior Management

The Board of Directors of the Bank approved the credit risk management strategy and policies. The Board of Directors adopts the risk profile of the Bank and supervises the implementation of the process of adequate credit risk management, to ensure that the total credit risk exposure of the Bank is maintained on a safe level and matched to available capital both under the regular conditions and in crisis and any disturbances in the market.

Credit risk management of the Bank is based on the implementation of the following basic principles:
- Conservative approach to credit risk management,
- Management through defined control levels,
- Credit policy cycles in conjecture with segmentation of clients, products, economic sectors, geographic locations, currencies and maturity dates,
- Focus on the target market in compliance with the strategy,
- Diversification of credit exposure, and
- Risk pricing.

The Executive Board of the Bank, as well as other bodies are responsible for the development and establishing of credit policies and credit administration procedures within the relevant organizational units of the Bank, as a part of the general credit risk management system and for the adequate implementation and permanent supervision of such system.

Prior to the approval of any investment, competent decision-making levels perform assessments of the risk profile of the client/transaction, and following that, the continuous monitoring of the value of receivables and collaterals' values and adequacy is performed.

Limit Setting

The Bank actively participates in the management of its exposure to credit risks by means of defining and setting the exposure limits for individual borrowers and for the group of related borrowers, such that using various factors of risk concentration credit limits are revised from time to time.

Credit Risk Supervision and Control

Supervision of credit risk pertains to continuous supervision of individual loans, including the off-balance sheet exposure to borrowers and supervision of the entire portfolio of the Bank.

The system established for the credit risk supervision includes the following:
– The time dimension of the supervision in accordance with the nature of the credit risk (from daily to quarterly),
– Different supervisory procedures on predefined decision making levels

- Continuous independent internal control of the lending process,
- Separate credit risk management on the level of clients and on the portfolio level, as well as on the level of transactions,
- Collateral management, and
- Management of risk investments.

The Bank conducts this activity with the aid of a system that ensures daily supervision of the quality of credit portfolio and implements corrective measures if and when the creditworthiness of a client deteriorates.

This system is created to ensure reliable monitoring of placements' servicing in accordance with the specified deadlines, adequacy of impairments, maintenance of the total risk profile within the limits set by the management and compliance with the regulatory limits by the Bank. Credit monitoring system is created to provide support to the senior management in the supervision of the quality of the entire credit portfolio and its trends.

Credit Risk Identification

The credit risk identification is the basic step in the credit risk management aiming to detect credit risk in a timely manner.

The identification of exposure to a specific risk starts at the moment of submitting of the loan application. The analysis of individual placements includes the analysis of the qualitative and quantitative indicators of the client, as well as the identification of other client's risk factors.

The approval process consist of the defined steps which may differ depending on the type of the client, the characteristics, type and the purpose of placement, the security instruments and include following steps:

- The preparation of the proposals for credit placement;
- The collection and verification of the credit documents;
- Credit analysis;
- Risk assessment;
- Placement approval;
- Control of the accompanying documents and other conditions;
- Disbursement of the funds.

Credit Risk Assessment and Measurement

The Bank has defined the mechanism of independent, continuous assessment of credit risk management process. The result of such assessment is documented in an adequate manner, and is a part of the reporting system to the Board of Directors and senior management.

Management of Non-Performing Loans

The Bank has a defined and established system that enables prior identification of non-performing loans where there is a number of acceptable options for corrective measures. As soon as a loan is designated as non-performing, the course of the management of such loan changes and it is included in the implementation of special corrective procedures.

With the aim to reduce the risk of defaulting by the clients, the Bank may undertake the following measures to regulate the receivables:

- Rescheduling and restructuring,
- Activation of collaterals,
- Sales and assignment of receivables,
- Settlements,
- Initiation of court procedures and other measures.

In case that the measures undertaken should fail to produce adequate results, the proposal for permanent write-off of outstanding receivable will be made in the collection procedure on the specified decision-making levels.
The assessment of the credit risk is being performed during the review of the requirements for a specific placement, the requests for the change of conditions, terms of use and repayment of certain loan, as well as during the regular annual report about the business operations of the client. The assessment of the credit risk is based on the analysis of financial situation of the debtor, the timeliness of debtor's settlement of the obligations towards the Bank, qualitative data collected about the client and the quality of collateral instruments.

The process of measuring the credit risk is based on regulatory approach according with the classification of the debtor's receivables, as well as the assessment of the provisions for losses per off-balance positions, in line with the regulations of the National Bank of Serbia.

Restructuring

Restructuring of loans relates to any change in contractual terms concluded between the Bank and the client in changing the repayment schedule of the exposure in order to respond to any potential increase in current or future delays for such placement. The decision to restructure the credit exposure is always based on the client's liability toward the Bank. The Bank does not have any restructured loans as at balance sheet date.

Credit Risk Mitigation

In order to mitigate the credit risk, during the approval of the placement, security instruments are requested. The type of the requested security instrument depends on the evaluated credit risk of each client. The security conditions that follow each placement depend on the creditworthiness of the debtor, the type and the degree of exposure to the credit risk, the maturity and the amount of placement.

Credit Risk Monitoring

After the approval of the placement, the clients are being monitored through regular and extraordinary monitoring aiming to ensure timely identification of the warning signs.

In order to prevent any increase in the credit risk, monitoring process is established to identify clients for which it is necessary to take measures to prevent their migration from the status of non-problematic clients to the status of clients under intensive monitoring or of problematic clients.

The status of the client is defined based on the combination of the basic indicators (number of days of delay, account freezing, etc.), financial indicators and the professional opinion of the employees involved in the risk management process.

By monitoring the portfolio at the level of the individual placements and at the level of the entire credit portfolio, the Bank performs a comparison against the previous periods, identifies the tendencies and causes of changes in the level of exposure to the credit risk.

The Bank is required to maintain the level of reserves at an adequate level to be able to absorb expected and unexpected credit losses related to the credit portfolio.

Assessment of impairment of balance sheet financial assets

Impairment of placements (provisioning) is determined based on the assessment indicating the cash flows that will not be realized, and in principle it is the difference between the carrying amount less the determined uncollectible percentage and the recoverable amount – expected cash flows discounted by using the effective interest rate.

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Recoverable amount is the present value of the expected future cash flows (inflows), discounted by using the effective interest rate.

The most important factors taken into account in impairment assessment of a financial asset or a group of financial assets include objective evidence that can include: significant difficulties of the client, non-compliance with the agreed conditions, high probability of bankruptcy or some other change in the organizational and financial status of the client, deteriorating of an active market for the financial asset.

Financial assets subject to impairment assessment are classified in two separate groups: the receivables that are assessed for impairment: (a) individually – for receivables where there is objective evidence of impairment and according to the amount of material receivables and (b) collectively – for receivables that are not assessed individually.

Individual Assessment

Individual assessment is performed for individually significant receivables where there is objective evidence that the receivables will not be collected by the Bank in the originally agreed amount or within the originally agreed deadlines, or for the receivables where there is objective evidence of impairment.

When assessing impairment the possibility of implementation of the customer's business plan is taken into account, its ability to improve performance in the event of financial difficulties, the value at which collateral may realize and timing of realization of collateral, the availability of financial support customers, the ability to charge overdue receivables, as well as the timing of the expected cash flows.

When it is estimated that collection from ordinary activities of the client is not possible, during the individual assessment expected income from the realization of collateral is taken into account.

Assessment of impairment of balance sheet assets on individual basis includes determining the existence of objective evidence of impairment, assessment of the present value of future cash flows and the calculation of the amount of that impairment for each individual claim against the debtor that is included in this assessment.

Objective evidence of impairment of balance sheet assets on an individual basis, exist:

- if the debtor's financial condition indicates significant problems in his business activities;
- if there is information of default, frequent delays in payment of interest and / or principal, or the non-fulfilment of other contractual provisions;
- if the bank, due to financial difficulties of the debtor, significantly changes repayment terms in relation to those originally agreed;
- if it becomes certain that bankruptcy proceedings will be initiated against the debtor or other type of financial reorganization.

The selection of the collateral (collateral) is closely connected with the assessment of credit risk, which depends on the financial status of the debtor, the amount of credit exposure, maturity, purpose of the loan and the ways in which the loan is repaid.

As at reporting date 31 December 2016, no objective evidence of impairment in the Bank's receivables has been identified, and accordingly the Bank did not make any individual allowances for impairment losses (there were no individually impaired receivables).

Collective Assessment

For the reporting date of 31 December 2016, the entire amount of the impairment of balance sheet assets and provisions for losses on off-balance sheet items, is based on group assessment, bearing in mind that it was assessed that there is no objective evidence of impairment in the Bank’s receivables.

The Bank has developed a methodology for group impairment, given the current regulatory act of the National Bank of Serbia (and the accompanying guidelines and other documents), International Accounting Standards, the characteristics of the Bank and other relevant factors.

The evaluation group basis, inter alia, takes into account the internal rating of the loan portfolio in the following 8 categories: A1, A2, B1, B2, V1, V2, G1, D. Category A1 represents the highest quality category, while D represent the worst category in the loan portfolio of the Bank .

The Bank performs assessment of impairment of balance sheet assets and probable losses arising from off-balance sheet items on an aggregate basis for all receivables in which impairment or losses cannot be directly linked to the receivable, but which based on experience can be estimated as present in the loan portfolio.

The Bank performs the specified assessment on a group basis:

- For claims for which assessment on individual basis determines no objective evidence of impairment of balance sheet assets or probable losses on off-balance sheet items, or if based on individual assessment no amount of impairment of balance sheet assets and probable losses arising from off-balance sheet items is identified;
- For claims that belong to the group of small claims.

Notwithstanding the above rule, the Bank's assessment of impairment of balance sheet assets and probable loss on off-balance sheet items for claims that belong to the group of small claims, in accordance with the methodology, may be carried out on an individual basis.

In the implementation of such collective assessment, the Bank grouped receivables based on similar credit risk characteristics that reflect the debtor's ability to meet its obligations in accordance with contractual terms.

Assessment of impairment of balance sheet assets at group level is a joint estimation of future cash flows of individual groups of receivables on the basis of data on losses from previous periods for receivables, with credit risk characteristics similar to those in the group.

The assessment of probable loss on off-balance sheet items on a group basis is a joint assessment of the recoverability of future cash outflows for off-balance sheet liabilities for group off-balance sheet items with similar characteristics.

Assessment of Provisioning for Off-Balance Sheet Items

Assessment of provisioning for off-balance sheet items (guarantees, avals, letters of credit, etc.) is performed in compliance with the adopted criteria, individually and on collective basis.

Evidence based on which the Bank performs individual impairment assessments of the items of off-balance sheet assets are payments from the Bank accounts for obligations undertaken for guarantees, avals and letters of credit and other off-balance sheet items that can potentially be activated at the expense of the Bank.

Assessment of provisioning for off-balance sheet items on individual basis is performed in the same manner as for the receivables in the balance sheet assets, by using the same software application, bearing in mind that the majority such cases involve an intervention from the part of the Bank, i.e., the transfer of an off-balance sheet item in the balance sheet.

As with balance sheet receivables, for off-balance sheet items for the reporting date of 31 December 2016, the entire amount of the provision for losses on off-balance sheet items is based on group assessment, bearing in mind that no objective evidence of impairment had been established.

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A. i. Analysis of loan portfolio quality

The table below shows the structure of credit portfolio of the Bank, at levels of quality.

Maximum credit exposure

	Loans and advances to customers		Loans and advances to banks and other financial institutions		Financial assets at fair value through profit or loss held for trading		Other assets (advances and fees)		Off-balance sheet items	
In thousands of RSD	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**
Gross exposure:	**2,519,937**	**510,161**	**1,734,433**	**201,783**	**124,698**	**-**	**2,465**	**7,283**	**2,540,998**	**157,524**
Category A1	82,641	12,163	1,734,433	201,783	124,698	-	176	-	73,736	-
Category A2	962,144	121,097	-	-	-	-	1,482	6,425	62,560	-
Category B1	211,538	111,792	-	-	-	-	155	145	1,307,665	119,331
Category B2	656,902	192,536	-	-	-	-	594	713	485,413	-
Category V1	500,248	72,573	-	-	-	-	11	-	611,624	-
Category V2	92,172	-	-	-	-	-	7	-	-	38,193
Category G1	14,292	-	-	-	-	-	37	-	-	-
Category D	-	-	-	-	-	-	3	-	-	-
Allowance for impairment of balance sheet assets	(10,227)	-	(2)	-	-	-	(8)	-	-	-
Provisions for losses on off-balance sheet items	-	-	-	-	-	-	-	-	(1,391)	-
Net exposure	**2,509,710**	**510,161**	**1,734,431**	**201,783**	**124,698**	**-**	**2,465**	**7,283**	**2,539,607**	**157,524**

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The table below shows the structure of credit portfolio of the Bank, by days of delay.

As at 31 December 2016

In thousands of RSD	**Not in delay**	**Less than 30 days**	**31-60 days**	**61-90 days**	**More than 90 days**	**Total gross**
Balance sheet items						
Loans and advances to customers	2,449,781	70,156	-	-	-	**2,519,937**
Loans and advances to banks and other financial institutions	1,734,433	-	-	-	-	**1,734,433**
Financial assets at fair value through profit or loss held for trading	124,698	-	-	-	-	**124,698**
Other assets	2,412	36	-	-	17	**2,465**
Total	**4,311,324**	**70,192**	**-**	**-**	**17**	**4,381,533**

As at 31 December 2015

In thousands of RSD	**Not in delay**	**Less than 30 days**	**31-60 days**	**61-90 days**	**More than 90 days**	**Total gross**
Balance sheet items						
Loans and advances to customers	510,161	-	-	-	-	**510,161**
Loans and advances to banks and other financial institutions	201,783	-	-	-	-	**201,783**
Financial assets at fair value through profit or loss for trading	-	-	-	-	-	**-**
Other assets	7,283	-	-	-	-	**7,283**
Total	**719,227**	**-**	**-**	**-**	**-**	**719,227**

The table below shows the amount of impairment of the credit portfolio of the Bank, including the matured and undue part of the loan portfolio.

	Loans and advances to customers		Loans and advances to banks and other financial institutions		Financial assets at fair value through profit or loss held for trading		Other assets (advances and fees)		Off – balance	
In thousands of RSD	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Maximum exposure to credit risk										
Gross exposure	2,519,937	510,161	1,734,433	201,783	124,698	-	2,465	7,283	**2,540,998**	**157,524**
Thereof:										
Matured	8,362	-	32	-	-	-	131	-	-	-
The corresponding impairment	(64)	-	-	-	-	-	(7)	-	-	-
Undue	2,511,575	510,161	1,734,401	201,783	124,698	-	2,334	728.3	-	-
The corresponding impairment	(10,163)	-	(2)	-	-	-	(1)	-	-	-
Total impairment	(10,227)	-	(2)	-	-	-	(8)	-	-	-
Provisions for losses on off-balance sheet items	-	-	-	-	-	-	-	-	(1,391)	-
Net exposure	**2,509,710**	**510,161**	**1,734,431**	**201,783**	**124,698**	**-**	**2,464**	**7,283**	**2,539,607**	**157,524**

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The table below shows the analysis of credit risk exposure arising from transactions with derivatives:

A. ii. Derivatives

In thousands of RSD	**Nominal value**	**Fair value**
31 December 2016		
Receivables arising from derivatives	2,338,430	2,324,974
Derivative liabilities	(2,200,276)	(2,200,276)
31 December 2015		
Receivables arising from derivatives	-	-
Derivative liabilities	-	-

The fair value of financial assets through profit or loss held for trading (financial derivatives) is calculated using a model that discounts cash flows to their present value using market interest rates and exchange rates, and is classified into a level 2 for measuring fair value.

A. ii. Collateral and other credit enhancements

Collateralization of credit exposures serves as an important risk mitigation factor and enhances the incentives for borrowers to repay their financial obligations.

Collateral provides additional security and the Bank generally requests that corporate borrowers provide it.
The collateral has to be permitted by law and deemed appropriate by the Credit Committee. The collateral serves as a guarantee that the Bank, as the creditor, can recover the credit exposure and as a means of motivating the borrower to repay the credit exposure.

The Bank makes agreement with the client in which the client agrees to register certain collateral with the Bank in order to cover various credit facilities that the client intends to utilize during the term of validity of the agreement.
The lending decision is primarily based on assessment of the business and the creditworthiness of the borrower and his/her ability to repay the requested credit exposure, as well as on other factors related to credit risk. Nevertheless, the Bank aims to secure its claims against the clients it finances with high-quality collateral.

The Bank will require that the financed asset will serve as collateral for the credit exposure.

The choice of the collateral is closely related to the credit risk assessment, which depends on the financial status of the borrower, the credit exposure amount, the maturity, the purpose of the credit exposure and the manner in which it is to be repaid.

Collateral *In thousands of RSD*	**Market value as at 31 December 2016**	**Market value as at 31 December 2015**
Land	125,942	124,059
Residential buildings	46,673	-
Office building	160,181	103,880
Deposits	24,347	12,163
Equipment	25,558	25,176
Supplies	369,063	-
Receivables	265,815	46,131
Pledge on shares	71	61
Corporative guarantee	185,208	101,355
Total:	**1,202,858**	**412,825**
Loans and advances from customers	2,519,937	510,161
Coverage of collateral	47.7%	80.9%

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A. iii. Concentrations of Credit Risk

Exposure to risks per regions, industrial sectors and types of clients is presented in the Tables below, to present the exposure to concentration risk. Depending on the general economic trends and the trends observable in individual industrial sectors, the Bank performs diversification of investments in industrial sectors that are resistant to the influence of the negative economic trends.

	Loans and advances to customers		Loans and advances to banks and other financial institutions		Financial assets at fair value through profit or loss held for trading		Other assets (advances and fees)		Off-balance sheet items	
In thousands of RSD	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Carrying amount	**1,734,433**	**201,783**	**2,519,937**	**510,161**	**124,698**	**-**	**2,465**	**7,283**	**2,540,998**	**157,524**
Concentration by sector										
Corporate:										
Agriculture, forestry and fishing	-	-	157,151	154,583	-	-	15	-	-	-
Mining, manufacturing, water supply	-	-	363,759	196,634	-	-	77	-	607,877	-
Electricity supply	-	-	-	-	-	-	-	-	-	-
Construction	-	-	358,809	11,996	-	-	10	-	52,826	-
Wholesale and retail trade and other	-	-	1,575,892	146,948	-	-	533	203	1,597,963	119,331
Transportation and storage	-	-	64,326	-	-	-	1,637	7,080	220,594	38,193
Real estate	-	-	-	-	-	-	17	-	61,736	-
Other	-	-	-	-	-	-	176	-	-	-
Financial institutions	1,734,433	201,783	-	-	124,698	-	-	-	-	-
Total	**1,734,433**	**201,783**	**2,519,937**	**510,161**	**124,698**	**-**	**2,465**	**7,283**	**2,540,996**	**157,524**
Concentration by location										
Serbia	1,248,714	4,864	2,519,937	-	-	-	2,458	7,283	2,540,996	157,524
Europe	474,005	196,919	-	510,161	-	-	7	-	-	-
The rest of the world	11,714	-	-	-	124,698	-	-	-	-	-
Total	**1,734,433**	**201,783**	**2,519,937**	**510,161**	**124,698**	**-**	**2,465**	**7,283**	**2,540,996**	**157,524**

The maximum exposure to a single entity or group of related entities, as at 31 December 2016 amounted to: 21.05% of regulatory capital, which is in line with the NBS the prescribed regulatory value.

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Collateral Management

The Collateral Management Policy regulates in greater detail the methods and procedures for collateral management with the aim to minimize the credit risk for the Bank. The purpose of this Policy is to describe the characteristics of the collaterals accepted by the Bank, as well as to specify the necessary activities within the regular monitoring of collateral acceptance. This document describes the allocation of responsibilities among individual organizational units of the Bank, aimed at efficient performance of the collateral management process.

Collaterals are presented in the financial statements at their fair (as last assessed) value, which is at the same time the subject of continuous monitoring process and periodical assessments. Collateral classification in the overview is performed based on the criteria specified in the Decision on the Classification of Balance Sheet Assets and Off-Balance Sheet Items.

B. *Liquidity risk*
i. Exposure to liquidity risk

Liquidity risk is the potential for the occurrence of certain unfavourable events with adverse effects on the financial result and equity of the Bank, as the inability of the Bank to meet its liabilities due at the time of their maturity, due to the inadequate structure of its sources, i.e. because its placements are not marketable.

Liquidity ratio is a ratio between the sum of Bank's liquid first- and second-degree receivables, on the one hand, and the sum of the Bank's sight liabilities or liabilities without determined maturity and the Bank's liabilities with maturity within one month from the date of liquidity ratio calculation, on the other hand.

Narrow liquidity ratio is the ratio between the sum of Bank's liquid first-degree receivables, on the one hand, and the sum of the Bank's sight liabilities or liabilities without determined maturity and the Bank's liabilities with maturity within one month from the date of liquidity ratio calculation, on the other hand.

The bank's first-degree liquid receivables shall include cash and receivables where the agreed maturity falls within one month from the date of calculation of liquidity ratio, as follows: vault cash, gyro-account balances, gold and other precious metals; funds in the accounts with banks with available credit rating of the chosen credit rating agency equivalent to credit quality 3 or better, determined in accordance with the decision on capital adequacy of banks (investment rank); deposits with the National Bank of Serbia; cheques and other monetary receivables in the process of execution; irrevocable credit facilities approved to the bank; shares and debt securities quoted on the stock exchange.

Liquid first-degree receivables of the bank shall also include 90% of the fair value of securities denominated in RSD with no foreign currency clause, issued by the Republic of Serbia with minimum maturity of three months/90 days, which the bank has classified as securities that are traded or securities available for sale.

As at 31 December 2016 the Bank had investments in securities denominated in RSD and issued by the Republic of Serbia in the amount of RSD 2,050,876 thousand.
Bank's second-degree liquid receivables shall include other bank receivables falling due within one month from the date of calculation of liquidity ratio.

Receivables classified into G and D categories according to the decision on classification of balance-sheet assets and off-balance sheet items shall not be included in the calculation of the bank's liquidity ratio.

Bank's sight liabilities or liabilities without agreed maturity shall constitute a part of its liabilities as follows: 40% of sight deposits of banks; 20% of sight deposits of other depositors; 10% of savings deposits; 5% of guarantees and other sureties; 20% of unfunded committed irrevocable credit lines. Other Banks liabilities falling due within one month from the date of calculation of liquidity ratio shall be considered bank liabilities with agreed maturity.

The Bank expresses the level of liquidity through the liquidity ratio and narrow liquidity ratio.

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The Bank shall maintain its liquidity level in a way that:

Liquidity ratio:

– equals at least 1.0 when calculated as an average of liquidity ratios for all business days in a month,
– is not lower than 0.9 for more than three consecutive business days,
– equals at least 0.8 when calculated for a single business day.

Also, the Bank shall maintain the level of liquidity with the narrow liquidity ratio as follows:

Narrow liquidity ratio:

– equals at least 0.7 when calculated as an average of liquidity ratios for all business days in a month,
– is not lower than 0.6 for more than three consecutive business days,
– equals at least 0.5 when calculated for a single business day.

The Management Board shall establish a system of liquidity risk management and supervises that system in accordance with an acceptable risk profile. Above leadership is responsible for the implementation appropriate policies and procedures in line with the strategic direction and a penchant for risk defined by the Board.

Liquidity risk management in the Bank is defined by Policy and Procedure for liquidity. ALCO committee is responsible for managing of liquidity risk. The Bank uses the following tools for measuring and managing liquidity risk:

- liquidity report with the standard analysis of the liquidity gap,
- liquidity ratios
- narrow liquidity ratio
- ratio loans/deposits and
- Liquidity plan

The Asset and Liability Committee (ALCO) has special competencies in the liquidity risk management process, and specifically it:

– Manages liquidity risk;
– Monitors and analyses liquidity ratios;
– Analyses the assumptions of the stress tests and perform their adoption;
– Defines liquidity ratios (internal limits and triggers for reporting);
– Gives proposals to Executive Board in the short and long-term investments and bank borrowings;
– Analyses the movement of the Bank's liquidity, including liquidity gap analysis and decision-making in order to reduce liquidity risk;
– Approved for no separate liquidity gap analysis to be carried out for the currency in which the Bank has more than 5% of liabilities;
– Decides on the establishment and the amount of liquidity reserves;
– Analyses other parameters that may have an effect on the liquidity of the Bank and make decisions in order to reduce liquidity risk.

The Liquidity Risk Management Strategy, includes the monitoring of liquidity risk in compliance with the following principles:
- Adjusting the structure of assets and liabilities according to their maturity and currencies,
- Diversification of financing sources as per their maturity and currencies,
- Ensuring access to interbank market of currencies and capital,
- Establishing of adequate liquidity provisions' levels.

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Liquidity risk management, as a part of the Bank management, includes the systems for identification, measuring, supervision and control of Bank exposure to liquidity risk. The Bank performs timely identification and quantification of primary sources of liquidity risk for the Bank on transaction level and on the levels of credit and deposit portfolios, under the regular conditions for operation, as well as under conditions of higher risk and market disturbances, as well as on the occasion of approval of new business processes, products and activities.

The Asset and Liability Committee monitors liquidity risk exposure. The Bank manages the liquidity risk under the actual operating conditions, extraordinary conditions and on the occasion of introduction of new business processes, products and activities.

Liquidity ratio	**2016**	**2015**
At 31 December	12.15	62.41
Average for the period (December)	13.61	52.32
Maximum for the period (December)	16.69	68.39
Minimum for the period (December)	11.51	20.71

Narrow liquidity ratio		
At 31 December	9.59	62.41
Average for the period (December)	10.97	47.72
Maximum for the period (December)	13.09	63.38
Minimum for the period (December)	9.32	17.27

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ii. Maturity analysis for financial assets and financial liabilities

The tables below set out the remaining maturities of the Bank's financial liabilities and financial assets.

31 December 2016 In thousands of RSD	Amount	Gross amount	Less than 1 month	1–3 months	3 months –1 year	1–5 years	More than 5 years
Assets							
Cash and balances with the central bank	875,578	875,578	875,578	-	-	-	-
Financial assets at fair value through profit or loss held for trading	124,698	124,698	-	-	124,698	-	-
Financial assets available for sale	2,050,876	2,050,876	-	-	1,263,738	787,138	-
Loans and advances to banks and other financial institutions	1,734,431	1,734,433	1,734,433	-	-	-	-
Loans and advances to customers	2,509,710	2,519,937	53,837	319,387	1,756,608	315,876	74,229
	7,295,293	**7,305,522**	**2,663,848**	**319,387**	**3,145,044**	**1,103,014**	**74,229**
Liabilities							
Deposits and liabilities to banks, other fin. inst. and central bank	30,839	30,839	30,839	-	-	-	-
Deposits and other liabilities to customers	3,444,564	3,444,564	1,043,948	-	2,388,270	-	12,346
Subordinated liabilities	1,235,022	1,235,022	-	-	299	-	1,234,723
	4,710,425	**4,710,425**	**1,074,787**	**-**	**2,388,569**	**-**	**1,247,069**
Liquidity gap	**2,584,868**	**2,595,097**	**1,589,061**	**319,387**	**756,475**	**1,103,014**	**(1,172,840)**

31 December 2015 In thousands of RSD	Amount	Gross amount	Less than 1 month	1–3 months	3 months –1 year	1–5 years	More than 5 years
Assets							
Cash and balances with the central bank	1,147,386	1,147,386	1,147,386	-	-	-	-
Loans and advances to banks and other financial institutions	201,783	201,783	201,783	-	-	-	-
Loans and advances to customers	510,161	513,239	5,860	43,469	165,682	191,885	106,343
	1,859,330	**1,862,408**	**1,355,029**	**43,469**	**165,682**	**191,885**	**106,343**
Liabilities							
Deposits and liabilities to banks, other fin. inst. and NBS	82	82	82	-	-	-	-
Deposits and other liabilities to customers	76,939	76,939	64,805	-	-	-	12,134
Subordinated liabilities	608,130	608,130	-	-	-	-	608,130
	685,151	**685,151**	**64,887**	**-**	**-**	**-**	**620,264**
Liquidity gap	**1,174,179**	**1,177,257**	**1,290,142**	**43,469**	**165,682**	**191,885**	**(513,921)**

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iii. Liquidity reserves

To use Risk liquidity management, the Bank formed liquidity reserves. The bank holds liquidity reserves in the form of cash, equivalents cash and/or placing the National Bank of Serbia.

In thousands of RSD	31 December 2016	31 December 2015
National bank of Serbia	1,357,842	1,137,006
Other banks	1,219,778	207,297
Liquidity reserves	**2,577,620**	**1,344,303**

C. Market risk

Market risks – the possibility of occurrence of negative effects on financial result and the capital of the Bank due to changes in the value of balance sheet items and off-balance items of the Bank resulting from the movement of prices on the market.

Include the interest rate risk, foreign exchange risk, price risk of debt and equity securities and commodity risk. The Bank has exposure to interest rate risk and foreign exchange risk.

Interest rate risk is the Bank's exposure risk to the adverse change of interest rates.

The foreign exchange risk is the possibility of occurrence of negative effects on financial result and the capital of the bank due to changes in the foreign exchange rate.

ALCO Committee is responsible for managing market risks.

Interest Rate Risk

Interest rate risk is the risk of negative effects on the financial result and equity of the Bank due to the variations in interest rates. The interest rate risk occurs in cases where there are discrepancies between the items that are subject to interest rate adjustments over a certain period.

The Bank controls the interest rate risk by monitoring the ratio of interest-bearing assets and liabilities for which interest is paid and their share in the total assets, i.e. liabilities, through the management of:
→ Repricing risk,
→ Risk of economic value of capital,
→ Basis risk,
→ Optionality, and
→ Yield curve risk.

Revenue Forecasts - The Bank manages the interest risk by analysing the maturity matching of revenues and expenditure.

Economic Value Forecasts - Net present value of capital is the present value of future cash flows. In economic value forecasts, the potential for long-term impact of the interest rates on the capital of the Bank is taken into account.

The interest rate risk occurs due to (1) the different timings of interest rate change and cash flow; (2) changes in the correlation rate between different yield curves that impact the activities of the Bank; (3) changes in the correlation rate in maturity classes, and (4) options related to interest embedded in the products of the Bank.

The risk from the change of interest rates is measured and monitored by analysing the risk of exposure to the changes in interest rates, which shows the structure and the level of interest-sensitive assets and interest-sensitive liabilities in different maturity intervals.

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C. Market risk (continued)

ii. Exposure to interest rate risk – Non-trading portfolios

The following is a summary of the Bank's interest rate gap position of financial assets and financial liabilities of the Bank, from the interest rate perspective, relating on non-trading portfolios (interest rate gap position):

31 December 2016 ***In thousands of RSD***	**Carrying amount**	**Less than 1 month**	**1-3 month**	**3–12 months**	**1–5 years**	**More than 5 years**	**Non-interest bearing**
Cash and balances with the central bank	875,578	381,079	-	-	-	-	494,499
Financial assets at fair value through profit or loss held for trading	124,698	-	-	124,698	-	-	-
Financial assets available for sale	2,050,876	-	-	1,566,575	484,301	-	-
Loans and advances to banks and financial institutions	1,734,431	1,729,495	-	-	-	-	4,936
Loans and advances to customers	2,509,710	385,056	306,835	1,693,792	-	123,050	977
	7,295,293	**2,495,630**	**306,835**	**3,385,065**	**484,301**	**123,050**	**500,412**
Deposits and other liabilities to banks, other fin. inst. and central bank	30,839	-	-	-	-	-	30,839
Deposits and other liabilities to customers	3,444,564	1,040,657	-	2,349,143	-	12,347	42,417
Subordinated liabilities	1,235,022	1,234,724	-	-	-	-	298
	4,710,425	**2,275,381**	**-**	**2,349,143**	**-**	**12,347**	**73,554**
Interest rate risk gap	**2,584,868**	**220,249**	**306,835**	**1,035,922**	**484,301**	**110,703**	**426,858**

31 December 2015 ***In thousands of RSD***	**Carrying amount**	**Less than 1 month**	**1-3 month**	**3–12 months**	**1–5 years**	**More than 5 years**	**Non-interest bearing**
Cash and balances with the central bank	1,147,386	1,033,103	-	-	-	-	114,283
Loans and advances to banks and financial institutions	201,783	-	-	-	-	-	201,783
Loans and advances to customers	510,161	362,446	33,333	116,667	-	-	(2,285)*
	1,859,330	**1,395,549**	**33,333**	**116,667**	**-**	**-**	**313,781**
Deposits and other liabilities to banks, other fin. inst. and central bank	82	-	-	-	-	-	82
Deposits and other liabilities to customers	76,939	-	-	-	-	-	76,939
Subordinated liabilities	608,130	-	-	608,130	-	-	-
	685,151	**-**	**-**	**608,130**	**-**	**-**	**77,021**
Interest rate risk gap	**1,174,179**	**1,395,549**	**33,333**	**(491,463)**	**-**	**-**	**236,760**

* Negative amount because accrued liabilities (disbursement fee)

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The Bank is exposed to the changes in levels of market interest rates that impact its financial position and cash flows. As the result of these changes, the interest rate margin can increase or decrease.

Interest rates are based on market interest rates and the Bank performs adjustments of interest rates. The interest rate risk management activity is aimed at achieving optimum net income from interest, maintenance of market interest rate on a consistent level, in compliance with the business strategy of the Bank.

ALCO manages the liquidity gaps of assets and liabilities based on: the macroeconomic analyses and forecasts; forecasts of conditions for achieving liquidity, as well as based on the analysis and forecasts of the market trends in interest rates.

Interest rate risk is the adverse change in the price of active interest rates compared against the level of passive interest rates, as well as the potential for the reduction of the optimum difference between the average active and passive interest rates.

ii. Exposure to interest rate risk -Non-trading portfolio

The table below shows the impact of the effect of potential changes interest rate on income of the Bank as at 31 December 2016.

The effects of potential changes in interest rates are related to interest bearing assets and liabilities in the balance sheet.

Risk calculation illustrates the effect of the interest rate on interest-sensitive assets and passive. The scenario includes a 50BP parallel rise and fall and 100BP parallel growth and falling interest rates.

In thousands of RSD	Effect on interest earning (cumulatively over a period of 1 year)					
	Interest increase of 50 b.p.			Interest decrease of 50 b.p.		
	Total	Foreign currencies	RSD	Total	Foreign currencies	RSD
31 December 2016	4,501	(2,775)	7,276	(4,501)	2,775	(7,276)

	Effect on interest earning (cumulatively over a period of 1 year)					
	Interest increase of 100 b.p.			Interest decrease of 100 b.p.		
	Total	Foreign currencies	RSD	Total	Foreign currencies	RSD
31 December 2016	9,003	(5,549)	14,552	(9,003)	5,549	(14,552)

	Effect on economic value of equity in thousands of RSD					
	Interest increase of 50 b.p.			Interest decrease of 50 b.p.		
	Total	Foreign currencies	RSD	Total	Foreign currencies	RSD
31 December 2016	(10,988)	90	(11,078)	10,988	(90)	11,078

	Effect on economic value of equity					
	Increasing of 100BP Interest increase			Decreasing of 100BP Interest decrease		
	Total	Foreign currencies	RSD	Total	Foreign currencies	RSD
31 December 2016	(21,975)	180	(22,155)	21,975	(180)	22,155

The table below shows the impact of the effect of potential changes in interest rate on income of the Bank as at 31 December 2015.

In thousands of RSD	Effect on interest earning (cumulatively over a period of 1 year)					
	Interest increase of 50 b.p.			Interest decrease of 50 b.p.		
	Total	Foreign currencies	RSD	Total	Foreign currencies	RSD
31 December 2015	5,006	(170)	5,176	(5,006)	170	(5,176)

	Effect on interest earning (cumulatively over a period of 1 year)					
	Interest increase of 100 b.p.			Interest decrease of 100 b.p.		
	Total	Foreign currencies	RSD	Total	Foreign currencies	RSD
31 December 2015	10,011	(340)	10,351	(10,011)	340	(10,351)

	Effect on economic value of equity in thousands of RSD					
	Interest increase of 50 b.p.			Interest decrease of 50 b.p.		
	Total	Foreign currencies	RSD	Total	Foreign currencies	RSD
31 December 2015	(466)	(1,005)	539	466	10,005	(539)

	Effect on economic value of equity					
	Increasing of 100BP			Decreasing of 100BP		
	Interest increase			Interest decrease		
	Total	Foreign currencies	RSD	Total	Foreign currencies	RSD
31 December 2015	(932)	(2,009)	1,078	932	2,009	(1,078)

iii. Exposure to currency risks

Foreign currency risk is the risk from the negative effects of adverse changes in foreign exchange rates to the financial result and equity of the Bank. It pertains to the impact of the inauspicious trends in foreign exchange rates on the value of open foreign currency position.

Foreign Currency Position:

31 December 2016 **in thousands**	**EUR**	**USD**	**RSD**	**Total**
Cash and balances with the central bank	481,502	5,507	388,569	**875,578**
Financial assets at fair value through profit or loss held for trading	-	-	124,698	**124,698**
Financial assets available for sale	-	-	2,050,876	**2,050,876**
Loans and advances to banks and financial institutions	1,233,531	500,718	182	**1,734,431**
Loans and advances to customers	2,217,725	-	291,985	**2,509,710**
Intangible assets	14,292	-	224,645	**238,937**
Property, plant and equipment	-	-	150,423	**150,423**
Other assets	-	147	13,086	**13,233**
Total assets	3,947,050	506,372	3,244,464	**7,697,886**
Deposits and other liabilities to banks, other financial institutions and central bank	-	-	30,839	**30,839**
Deposits and other liabilities to customers	518,463	2,848,785	77,316	**3,444,564**
Subordinated liabilities	1,235,021	-	1	**1,235,022**
Provisions	-	-	4,841	**4,841**
Deferred tax liabilities	-	-	14,710	**14,710**
Other liabilities	-	-	35,173	**35,173**
Equity	-	-	2,932,737	**2,932,737**
Total liabilities and equity	1,753,484	2,848,785	3,095,617	**7,697,886**
Foreign currency swap	2,200,276	(2,338,430)	138,154	**-**
Net foreign currency position 31 December 2016	**(6,710)**	**(3,983)**	**10,693**	**-**

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31 December 2015 **in thousands**	**EUR**	**USD**	**RSD**	**Total**
Cash and balances with the central bank	68,970	1,068	1,077,348	**1,147,386**
Loans and advances to banks and financial institutions	193,675	8,108	-	**201,783**
Loans and advances to customers	362,975	-	147,186	**510,161**
Intangible assets	-	-	217,825	**217,825**
Property, plant and equipment	-	-	163,370	**163,370**
Other assets	-	-	8,202	**8,202**
Total assets	625,620	9,176	1,613,931	**2,248,727**
Deposits and other liabilities to banks, other financial institutions and central bank	53	-	29	**82**
Deposits and other liabilities to customers	13,015	7,754	56,170	**76,939**
Subordinated liabilities	608,130	-		**608,130**
Provisions	-	-	2,892	**2,892**
Deferred tax liabilities	-	-	11,910	**11,910**
Other liabilities	-	-	19,232	**19,232**
Equity	-	-	1,529,542	**1,529,542**
Total liabilities and equity	621,198	7,754	1,619,775	**2,248,727**
Foreign currency swap	-	-	-	-
Net foreign currency position 31 December 2015	**4,422**	**1,422**	**(5,844)**	

With the aim to protect against the foreign exchange risk, the Bank monitors the foreign exchange rates' trends in the financial market on the daily basis, implements the policy of low exposure to the foreign exchange risk. The Asset Management Division monitors the trends in the foreign exchange market on the daily basis and manages the foreign exchange position of the Bank in its entirety and per individual significant currencies.

Asset and Liability Committee proposes measures to the Executive Board of the Bank for adjustments of FX assets and liabilities to provide for favourable foreign exchange position on each currency segment. An independent market risk department performs independent analysis of the foreign exchange management process through monitoring of the compliance with the established system of limits.

Foreign exchange risk management is supplemented with the monitoring of:
- Impact of increase/decrease of FX items of assets/liabilities to the open position and foreign exchange risk indicator, and
- Sensitivity of income statement of the Bank to different scenarios of variations in foreign exchange rates. Sensitivity of income statement is the effect of assumptions regarding the changes in foreign exchange rates to net income from fluctuations in foreign exchange rates.

iii. Exposure to currency risks

In thousands of RSD	**2016** **EUR**	**2016** **USD**
Exposure to foreign currency risk:		
USD		(3,983)
EUR	(6,710)	

The effect of increasing the rate of 10% on net income

In thousands of RSD	**EUR**	**USD**
Exposure to foreign currency risk:		
USD		(398)
EUR	(671)	

The effect of decreasing the rate of 10% on net income

In thousands of RSD	**EUR**	**USD**
Exposure to foreign currency risk:		
USD		398
EUR	671	

The effect of growth rate of 10% of the economic value of capital: 0.03%.

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The effect of reducing rate of 10% of the economic value of capital: 0.03%.

In thousands of RSD	2015 EUR	2015 USD
Exposure to foreign currency risk:		
USD		1,422
EUR	4,422	

The effect of increasing the rate of 10% on net income

In thousands of RSD	EUR	USD
Exposure to foreign currency risk:		
USD		213
EUR	663	

The effect of decreasing the rate of 10% on net income

In thousands of RSD	EUR	USD
Exposure to foreign currency risk:		
USD		(213)
EUR	(663)	

The effect of growth rate of 10% of the economic value of capital: 0.05%
The effect of reducing the rate of 10% of the economic value of capital: (0.05%)

iv. Other market risks

Other market risks include the price risk on debt securities, price risk on equity securities and – the commodity risk, in compliance with the Decision regulating the Bank's capital adequacy.

During 2016, given the nature of its operations and the fact that it had no items in the trading book, the Bank was not exposed to any other market risks.

Once it introduces products exposed to this kind of risk, the Bank shall previously provide the prerequisites for such products (HR-technical equipment, written procedures for daily monitoring of trading book items, procedures for measuring of capital requirements for these risks, and item valuation methods in financial instruments included in calculation and subject to prior approval of the National Bank of Serbia, etc.) subject to consent of the Bank's competent boards.

Operational risk

The operational risk is the risk of negative effects on the Bank's financial result and capital due to failures in employees' performance, inadequate internal procedures and processes, inadequacy of information and other systems management in the Bank, and any other unforeseeable external events.

In the operational risk management, the Bank implements quantitative and qualitative measures based on collection of data on losses arising from operational risk, per categories defined according to sources of losses, and based on adopted internal acts.

The role of the operational risk management is to identify, estimate, control and mitigate the possibilities for the arising and impact of operational risks and losses. The Bank cannot eliminate all operational risks, but it may use the process of operational losses recording and analysis to identify flaws in its processes, products and procedures, and to improve them in order to reduce the frequency and negative effects of operational losses on Bank's operations and profitability. The Bank manages the operational risk so as to minimize the effects of adverse and unsuccessful internal processes, people and systems, or external events, on the Bank's financial result.

Database on events which gave rise or might have given rise to a loss, according to the prescribed limit, as a consequence of operational risk per categories defined according to sources of losses, shall be filled by entering the data based on identified risks per types of operations, by persons in charge of operational risk management.

Bank's exposure to operational risks shall be particularly attentively treated when introducing new products, activities, lines of business or systems, when required analyses are to be made by organisational units which participate in introduction of new products, activities, lines of business or system, and the Risk Management Department which is directly in charge of operational risk management.

For the assessment of exposure the Bank uses internal methods developed in line with best practice in the area of operational risk management.

Bank's investment risks

The Bank's investment risks include the risks of investing in capital of other legal entities and fixed assets. In compliance with the regulations of the National Bank of Serbia, the amount of Bank's investments and the amount of regulatory capital are monitored, to ensure that the Bank's investment in any non-financial sector entity does not exceed 10% Bank's capital, and that the Bank's total investments in non-financial sector entities and in Bank's fixed assets do not exceed 60% Bank's capital. The exposure to the risk of Bank's investments in other legal entities and fixed assets is monitored by way of informing the organisational unit or body of the Bank in charge of fixed assets procurement and investments in legal entities of the current status of exposure and amount of capital, in order to act timely in accordance with the set limits.

In 2016, the Bank took care of compliance of investment risks and conducted appropriate activities to ensure the compliance of investments with the indicators stipulated by the National Bank of Serbia. Additional monitoring of the Bank's investment risks indicators is performed in risk management division, finance division and compliance control functions, reported to the Bank's management bodies. The Bank has no items under investment property.

Exposure risk

The Bank's exposure risks (which also represent part of the concentration risk) include the risks of Bank's exposure to a single entity or to a group of related entities, as well as the risks of Bank's exposure to an entity related to the Bank. Monitoring of the Bank's exposure to the risk of exposure to a single entity or a group of related entities, and to entities related to the Bank, is performed at the moment of a request initiation, at the moment of financing, and after completed financing. Monitoring of Bank's exposure to this risk is a mandatory part of procedures in the investment approval phase, meaning that the board which approves of the investment avails with information concerning the total level of Bank's exposure to a client or to a group of related entities against the Bank's total capital.

In accordance with regulations and Bank's internal acts, the competent board issues approval on Bank's exposure to the exposure risk per individual clients or per groups of related entities and entities related to the Bank. Additional monitoring of the Bank's exposure indicators is performed in risk management division and finance division, with reporting to the Bank's management bodies.

Country risk

The risk related to the country of origin of the entity to which the Bank is exposed implies negative effects which might influence its financial result and capital, due to Bank's inability to collect debts from such entity for reasons resulting from political, economic or social conditions in such entity's country of origin.

The Bank's placements are mostly to customers from the Republic of Serbia, while being exposed to the country risk mostly concerning the part of funds held at times on accounts with foreign banks. The Bank's policy of country risk management is to continuously monitor the exposure to the country risk against adopted limits, defined according to the country rating as determined by competent institutions (OECD), with regular reporting of existing exposures to the management bodies.

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D. Capital management

i. Regulatory capital

In thousands of RSD	*Note*	31 December 2016	31 December 2015
Ordinary share capital	26	3,631,200	1,790,700
Loss up to the amount of equity		(704,472)	(261,158)
Intangible assets	18	(238,937)	(217,825)
Required reserve for estimated losses on balance sheet assets and off-balance sheet items	10	(117,033)	(24,772)
Unrealized losses on securities available for sale		(653)	-
Total share capital		**2,570,105**	**1,286,945**
Subordinated liabilities	23	1,234,723	608,130
Part of revaluation reserves of the Bank		5,996	-
Total regulatory capital		**3,810,824**	**1,895,075**

The bank continuously manages the capital in order to:
- ensure compliance with capital requirements defined by the National Bank of Serbia (NBS),
- maintain an adequate level of capital for continuous operation by the "going concern" principle,
- maintain the capital base which enables coverage of risks it is exposed to while ensuring further business development.

Capital adequacy, as well as the use of the Bank's capital is monitored on monthly basis by the Bank management. The Bank manages its capital structure and may make adjustments in the light of changes in economic conditions and risk characteristics inherent in its activities.

The National Bank of Serbia has defined the following limits for capital:
- Minimum monetary amount of capital of EUR 10 million; and
- Capital adequacy ratio not lower than 12%.

In accordance with the Decision on Capital Adequacy of Banks, the methodology of capital adequacy calculation has been determined.

Accordingly, the Bank's total regulatory capital consists of the core capital and supplementary capital and deductible items:
- The core capital is comprised of: share capital for ordinary shares, share issuing premiums, reserves from profit and bank's profit, and the deductibles from the core capital are: losses from previous years,
- Supplementary capital is comprised of: part of the bank's positive revaluation reserves,
- Deductibles from the bank capital are the shortfalls in impairments and provisions against the special reserve for expected losses.
- Risk-weighted balance sheet and off-balance sheet assets are determined in compliance with prescribed risk weights for all types of assets. The value the items of balance sheet assets, for the purpose of calculation of credit risk-weighted assets, equals the gross book value of such items minus the impairment and required reserve for estimated losses. The value of off-balance sheet items, for calculation of credit risk-weighted assets, equals the gross book value of such items minus provisions for losses in balance sheet assets and required reserve for estimated losses, multiplied by the following conversion factors:
  1) 0% – if an off-balance sheet item is classified into low risk category;
  2) 20% – if an off-balance sheet item is classified into moderate risk category;
  3) 50% – if an off-balance sheet item is classified into medium risk category;
  4) 100% – if an off-balance sheet item is classified into high risk category.

  The Bank classifies the exposures from the banking book, exposures from the trading book for which it is obliged to calculate the capital requirements of counterparty risks, and other exposures from the trading book, provided that the conditions specified in the a/m Decision are fulfilled, into one of the following categories, and thereby estimates the risk of:

1) Exposure to countries and central banks;
2) Exposure to territorial autonomies and local self-government units;
3) Exposure to public administrative bodies;
4) Exposure to international development banks;
5) Exposure to international organizations;
6) Exposure to banks;
7) Exposure to corporates;
8) Exposure to natural persons;
9) Exposure secured by mortgage on real estate property;
10) Past due receivables;
11) High-risk exposures;
12) Exposure based on covered bonds;
13) Exposure from investments in open-end investment funds;
14) Other exposures.

The Bank has established and continuously developed the process of internal capital adequacy assessment.

11.2. Fair values of financial instruments
A. Valuation models (assessments)

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable 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 for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value of financial assets and liabilities

The Bank's business policy is to disclose information on the fair value of assets and liabilities when there is official market information and when the fair value significantly differs from the book value.

The market price, provided that there is an active market, is the best proof of a financial instrument's fair value. However, market prices are not available for a number of Bank's financial assets and liabilities. Therefore, when market prices of financial instruments are unavailable, the fair value of assets and liabilities is estimated using the present value or other valuation techniques based on currently prevailing market conditions.

In the Republic of Serbia, the market experience is insufficient, the same as the stability and liquidity in purchase and sale of debts and other financial assets and liabilities, since the official market information is not available at all times. Consequently, the fair value is impossible to be reliably determined in the absence of an active market.

The following methods and assumptions were used for the estimate of the fair value of Bank's financial instruments as at 31 December 2016:

– The fair values of cash and cash equivalents, short-term deposits, other loans and advances and other assets, transaction deposits, trade payables and other short-term liabilities, match their respective book values primarily due to short-term maturity of such financial instruments.

– Loans and advances from banks and other financial organizations tend to have short-term maturities and carry an interest rate that reflects current market conditions. Consequently, the Bank considers that the value of listed financial instruments approximates their market value.

– The fair value of loans and investments to customers and deposits and other liabilities to customers is calculated by discounting cash flows using market interest rates of comparable maturities and currency structure. The fair value of financial assets through profit or loss held for trading (financial derivatives) is calculated using a model that discounts cash flows to their present value using market interest rates and exchange rates, and is classified into level 2 for measuring fair value.

– Bonds and Bills of the Republic of Serbia are measured using available prices on the secondary market and are classified in Level 2 of the fair value measurement.

In the opinion of the Bank's management, the amounts in the enclosed financial statements reflect the value which is, under the circumstances, the most credible and useful for the reporting purposes.

B Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments:

31 December 2016 *In thousands of RSD*	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Assets					
Cash and balances with the central bank	-	875,577	-	875,577	875,578
Loans and advances to banks and other financial institutions	-	-	1,734,433	1,734,433	1,734,431
Loans and advances to customers	-	-	2,471,665	2,471,665	2,509,710
Financial assets at fair value through profit or loss held for trading	-	124,698	-	124,698	124,698
Financial assets available for sale	-	2,050,876	-	2,050,876	2,050,876
Liabilities					
Deposits and other liabilities to banks, other financial institutions and central bank	-	-	30,839	30,839	30,839
Deposits and other liabilities to customers	-	-	3,430,863	3,430,863	3,444,565
Subordinated liabilities	-	-	1,188,237	1,188,237	1,235,022

31 December 2015 *In thousands of RSD*	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Assets					
Cash and balances with the central bank	-	1,147,386	-	1,147,386	1,147,386
Loans and advances to banks and other financial institutions	-	-	201,783	201,783	201,783
Loans and advances to customers	-	-	488,967	488,967	510.161
Financial assets at fair value through profit or loss held for trading	-	-	-	-	-
Financial assets available for sale	-	-	-	-	-
Liabilities					
Deposits and other liabilities to banks, other financial institutions and central bank	-	-	82	82	82
Deposits and other liabilities to customers	-	-	75,599	75,599	76,939
Subordinated liabilities	-	-	578,789	578,789	608,130

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11.3. Net interest income

In thousands of RSD	1January–31December2016	5February–31December2015
a) Interest income		
Deposited excess liquidity with NBS	17,989	7,193
Interest income on loans to REPO transaction with NBS in RSD	2,036	-
Interest income from domestic banks	867	-
Deposits in foreign currency with NBS	929	-
Securities of the Republic of Serbia in RSD	49,446	-
Mandatory reserves in RSD with NBS	2,441	1
Short-term loans to corporates	42,769	1,669
Long-term loans to corporates	17,042	562
Total interest income	**133,519**	**9,425**
b) Interest expenses		
Foreign currency accounts with NBS	(1,124)	(91)
Subordinated liabilities of foreign legal entities, in foreign currency	(2,676)	(453)
Short-term deposits of legal entities in foreign currencies	(28,709)	-
Overnight of legal entities in RSD	(269)	-
Short-term special purpose deposits of legal entities in RSD	(565)	(52)
Short-term deposits of insurance organizations in RSD	(718)	-
Other	(4)	-
Total interest expenses	**(34,065)**	**(596)**
Net interest income	**99,454**	**8,829**

11.4. Net fee and commission income

In thousands of RSD	1 January – 31 December 2016	5 February – 31 December 2015
a) Fee and commission income		
Fees and commissions on guarantees	3,518	720
Income from fees from non-residents	4,690	431
Fees from legal entities from domestic payment operations	3,893	237
Fees from legal entities by remittance	3,038	-
Other	418	12
Total fee and commission income	**15,557**	**1,400**
b) Fee and commission expenses		
Fees and commissions to NBS	(1,272)	(1,054)
Fees and commissions to other banks	(1,412)	(42)
Other	(107)	(10)
Total fee and commission expenses	**(2,791)**	**(1,106)**
Net fee and commission income	**12,766**	**294**

11.5. Net gains on financial assets held for trading

In 2016, derivatives were presented at fair value, based on which increase was recorded in net gains on financial assets held for trading in the amount of RSD 124,698 thousand (in 2015 on this basis there was no revenue).

Part of the income from the change in value of derivatives held for trading relating to increase in fair value, arising from exchange differences, compensates the amount of foreign exchange losses and the effects of foreign currency clause.

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11.6. Net income/ (expense) on foreign exchange rate differences and effects of foreign currency clause

In thousands of RSD	1 January – 31 December 2016	5 February – 31 December 2015
Income from foreign exchange rate differences	496,517	32,680
Income from foreign currency clause	13,683	690
Income from foreign exchange rate differences and foreign currency clause	**510,200**	**33,370**
Expenses from foreign exchange rate differences	(606,384)	(27,434)
Expenses from foreign currency clause	(7,439)	(66)
Expenses from foreign exchange rate differences and foreign currency clause	**(613,823)**	**(27,500)**
Net income/(expenses) on foreign exchange rate differences and foreign currency clause	**(103,623)**	**5,870**

11.7. Other operating income

In thousands of RSD	1 January – 31 December 2016	5 February – 31 December 2015
Income from reversal of provision expenses	6,804	-
Revenues on the basis of damages	7	-
Depreciation costs	**6,811**	**-**

11.8. Net expenses on impairment of financial assets and credit risk-weighted off-balance sheet items

a) Impairment losses

As at 31 December 2016 the Bank had expenses from impairment of financial assets and the credit risk off balance sheet items. In 2015, the Bank had no expenses on this basis.

	1 January – 31 December 2016	5 February – 31 December 2015
Losses from impairment:		
- balance sheet items	(10,237)	-
- off-balance sheet items	(1,391)	-
	(11,628)	**-**

b) Special reserve for estimated losses

Based on categorization of placements determined in conformity with the regulations of the National Bank of Serbia as at 31 December 2016, the required reserve for estimated losses based on total exposure of the Bank to the credit risk is assessed:

	31 December 2016	31 December 2015
Required reserves from gains for estimated losses in balance-sheet assets and off-balance sheet items:		
- balance sheet items	92,280	16,990
- off-balance sheet items	24,753	7,782
	117,033	**24,772**

As at 31 December 2016, the required reserve for estimated losses which might arise from balance sheet assets and off-balance sheet items, calculated in accordance with the Decision of the National Bank of Serbia, amounts to RSD 117,033 thousand (31 December 2015 amounts to RSD 24,772 thousand).

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11.9. Salaries, salary compensations and other personal expenses

In thousands of RSD	1 January – 31 December 2016	5 February – 31 December 2015
Cost of net earnings	(193,474)	(90,816)
Taxes and contributions on salaries	(22,951)	(31,859)
The cost of compensation for members of the BoD	(9,299)	(8,883)
Net expenses on the basis of provisioning (IAS 19)	(558)	(2,892)
Other personal expenses	(4,459)	(127)
Salaries, salary compensations and other personal expenses	**(230,741)**	**(134,577)**

11.10. Depreciation expenses

In thousands of RSD	1 January – 31 December 2016	5 February – 31 December 2015
The cost of depreciation of property, plant and equipment	(39,928)	(10,300)
Amortization of intangible assets	(34,242)	(10,787)
Depreciation expenses	**(74,170)**	**(21,087)**

11.11. Other expenses

In thousands of RSD	1 January – 31 December 2016	5 February – 31 December 2015
Facility expenses	(62,180)	(43,065)
ICT expenses	(68,342)	(14,451)
Professional services	(31,953)	(21,979)
Marketing	(46,205)	(12,931)
Insurance expenses	(5,438)	(735)
Deposit insurance agency	(1,632)	(3,635)
Other administrative expenses	(48,332)	(11,781)
Total other expenses	**(264,082)**	**(108,577)**

The Bank pays the rent to legal entities for its business premises under concluded lease agreements. The agreed lease periods are five years. The rent includes currency clause, and it is payable on monthly basis. Costs of business premises lease in 2016 amounted to the total of RSD 46,481 thousand (31 December 2015 amounted to RSD 29,611 thousand). In this category of costs, there are also the costs of maintenance of the premises (as defined in the Lease Agreement) as well as utility costs and all other expenses that are directly related to the use of the premises of the Bank.

11.12. Income Tax

a) Income tax components

	31 December 2016	In thousands of RSD 31 December 2015
Tax expenses for the period on the basis of deferred tax	(2,799)	(11,910)
	(2,799)	**(11,910)**

b) Deferred tax liabilities

Deferred tax liabilities relating to temporary differences between the carrying value of fixed assets and intangible assets and their tax base, due to the application of different rates of depreciation and revaluation of fixed assets. As at 31 December 2016, there were recorded deferred tax liabilities in the amount of RSD 14,710 thousand (31 December 2015 amounted of RSD 11,910 thousand).

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c) Overview of tax loss carried forward from preceding periods

Year of loss	Amount of loss	Amount of used loss	Remaining losses carried forward	Year up to which loss can be carried forward
2015	317,942	-	317,942	2020
2016	485,393	-	485,393	2021
Total	**803,335**	**-**	**803,335**	

According to the Corporate Income Tax Law, the time limit for tax loss carried forward is 5 years. The Bank did not recognize the carried forward tax losses as deferred tax assets as at 31 December 2016, due to uncertainty of income earning in the following years against which these losses could be used.

d) Deferred tax components

As at 31 December 2015, deferred taxes were calculated and corresponding bookings were entered. The deferred tax components are as follows:

(380,341)	Book value of other assets subject to depreciation
279,657	Net book value according to tax regulations
(100,684)	**Taxable temporary difference**
(15,103)	**Deferred tax liability at 15% rate**
2,620	Provisions for retirement pay
393	**Deferred tax assets at 15% rate, booked**

Summary of deferred taxes

(15,103)	Deferred tax liabilities
393	Deferred tax assets
(14,710)	**Net deferred tax liabilities**

Recognized in books of accounts

(15,103)	Deferred tax liabilities
393	Deferred tax assets on provisions for retirement
(14,710)	Closing balance as at 31 December

11.13. Cash and balances with the central bank

In thousands of RSD	31 December 2016	31 December 2015
Gyro account	292,250	71,728
Cash on hand in RSD	7,307	5,358
Deposited excess liquidity with NBS	89,000	1,000,261
Interest receivables from NBS	12	-
RSD cash	**388,569**	**1,077,347**
Cash on hand in foreign currency	13,371	5,021
Mandatory reserve in foreign currency with NBS	473,638	65,018
Foreign currency cash	**487,009**	**70,039**
Balance as at 31 December	**875,578**	**1,147,386**

The RSD mandatory reserve is the minimum RSD reserve allocated in compliance with the Decision of the National Bank of Serbia on Bank's Mandatory Reserve with the National Bank of Serbia ("Official Gazette of the Republic of Serbia", nos. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012, 62/2013, 125/2014, 135/2014, 4/2015, 78/2015 and 102/2015).

The RSD base for calculation of the mandatory reserve is comprised of the daily average of reservable RSD liabilities in preceding calendar month, excluding the currency clause-indexed RSD liabilities.

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RSD liabilities are comprised of liabilities in respect of RSD deposits, credits and securities, and other RSD liabilities excluding RSD deposits received under transactions performed by the bank on behalf and for the account of third parties, that are not in excess of the amount of investment made from such deposits.

The National Bank of Serbia pays interest to banks on the amount of average daily balance of allocated RSD mandatory reserve in the accounting period not exceeding the amount of gross calculated RSD mandatory reserve, for all days of the accounting period – at the interest rate set by the decision on interest rates applied by the National Bank of Serbia in the implementation of monetary policy.

The Bank is obliged to maintain throughout an accounting period an average daily balance of allocated RSD mandatory reserve at the amount of calculated RSD mandatory reserve. The calculated RSD mandatory reserve for December 2016 was RSD 3,796 thousand (December 2015 was RSD 32,842 thousand and was compliant with the aforementioned Decision of the National Bank of Serbia. The interest rate on the amount of allocated RSD mandatory reserve during 2016, on annual level, amounted to 1.75%.

The required foreign currency reserve is the minimum reserve in foreign currency allocated in compliance with the Decision of the National Bank of Serbia on Bank's Mandatory Reserve with the National Bank of Serbia ("Official Gazette" of the Republic of Serbia nos. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012,107/. 62/2013, 125/2014, 135/2014, 4/2015, 78/2015 and 102/2015) stipulating that banks shall calculate the foreign currency mandatory reserve at the rate of:

- 20% – on the foreign currency base portion comprised of liabilities maturing in less than two years, and/or 730 days and, exceptionally, at 100% rate for the foreign currency base portion comprised of currency clause-indexed RSD liabilities maturing in less than two years and/or 730 days,

- 13% – on the foreign currency base portion comprised of liabilities maturing in more than two years, and/or 730 days and, exceptionally, at 100% rate for the foreign currency base portion comprised of currency clause-indexed RSD liabilities maturing in more than two years and/or 730 days.

Foreign currency liabilities are the liabilities in respect of foreign currency deposits, credits and securities and other foreign currency liabilities, as well as deposits, credits and other foreign currency funds received from abroad under transactions performed by the bank on behalf and for the account of third parties.

The bank allocates the mandatory reserve calculated on the foreign currency base to the foreign currency account of the National Bank of Serbia. The bank is obliged to maintain throughout an accounting period the average daily balance of allocated foreign currency mandatory reserve at the amount of calculated foreign currency mandatory reserve. The National Bank of Serbia does not pay any interests on the amount of achieved average balance of allocated foreign currency reserve. The foreign currency base for calculation of the mandatory reserve is comprised of the daily average reservable balance of foreign currency liabilities in the preceding calendar month and the average daily reservable balance of currency clause-indexed RSD liabilities in the preceding calendar month.

The bank which achieved the average daily balance of allocated foreign currency mandatory reserve at the amount in excess of the calculated one – pays to the National Bank of Serbia the interest on the amount of difference between the achieved daily balance of allocated foreign currency mandatory reserve and calculated foreign currency mandatory reserve, for all days of the accounting period, at the interest rate set by the decision on interest rates applied by the National Bank of Serbia in the procedure of implementing the monetary policy. Daily average balance of allocated foreign currency mandatory reserve in the accounting period exceeds the calculated foreign currency mandatory reserve in the period, if it amounts to more than 100.49% of the calculated foreign currency mandatory reserve for the period.

As at 31 December 2016, the Bank's foreign currency mandatory reserve was compliant with the Decision of the National Bank of Serbia.

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11.14. Financial assets at fair value through profit or loss held for trading

Financial assets at fair value through profit or loss held for trading include:

In thousands of RSD	31 December 2016	31 December 2015
Derivatives held for trading	124,698	-
Balance as at 31 December	**124,698**	**-**

11.15. Financial assets available for sale

The bank as at 31 December 2016 in its portfolio had government bonds and treasury bills amounting to RSD 2,050,876 thousand (there were no financial assets available for sale in 2015).

In thousands of RSD	31 December 2016	31 December 2015
Bonds of Republic of Serbia	825,952	-
Treasury bills	1,224,924	-
Balance as at 31 December	**2,050,876**	**-**

11.16. Loans and advances from banks and other financial institutions

In thousands of RSD	31 December 2016	31 December 2015
Regular foreign currency accounts with foreign banks	474,005	196,918
Cash balances with the Central Securities Registry	4,939	4,865
Avista dedicated foreign currency deposits in foreign currency at NBS	502,758	-
Special purpose guarantee deposit in foreign currency VISA	11,714	-
OVERNIGHT investments with domestic banks in foreign currency	370,417	-
Short-term deposits with domestic banks in foreign currency	370,417	-
Accruals for interest calculated on the basis of RSD required reserves (NBS)	183	-
Allowance for impairment	(2)	-
Balance as at 31 December	**1,734,431**	**201,783**

Changes in allowance for impairment:

In thousands of RSD	31 December 2016	31 December 2015
Balance as at 31 December of previous year	**-**	**-**
Increase during the year	2	-
Balance as at 31 December	**2**	**-**

11.17. Loans and advances to customers

In thousands of RSD	31 December 2016	31 December 2015
Receivables from loans to customers	2,523,197	512,445
Receivables from interests and fees	3,281	793
Total	**2,526,478**	**513,238**
Deferred loan origination fee	(6,541)	(3,077)
Impairment provision for loans and advances to customers	(10,227)	-
Balance as at 31 December	**2,509,710**	**510,161**

Structure of loans and advances to customers

In thousands of RSD	31 December 2016	31 December 2015
Interests and fees	**3,281**	**793**
Short-term placements	**2,030,855**	**124,000**
In RSD and with currency clause	1,213,993	124,000
In foreign currency	816,862	-
Long-term placements	**492,342**	**388,445**
In RSD and with currency clause	492,342	388,445
In foreign currency	-	-
Gross placements to customers	**2,523,197**	**512,445**
Deferred loan origination fee		
Short-term placements	**(3,800)**	**(469)**
In RSD and with currency clause	(3,800)	(469)
In foreign currency	-	-
Long-term placements	**(2,741)**	**(2,608)**
In RSD and with currency clause	(2,741)	(2,608)
In foreign currency	-	-
Total deferred loan origination fee:	**(6,541)**	**(3,077)**
Allowance for impairment		
Interests and fees	(7)	-
Short-term placements	(9,873)	-
In RSD and with currency clause	(7,705)	-
In foreign currency	(2,168)	-
Long-term placements	(347)	-
In RSD and with currency clause	(347)	-
In foreign currency	-	-
Total allowance for impairment	**(10,227)**	**-**
Net investments to customers		
Interests and fees	**3,274**	**793**
Short-term placements	**2,017,182**	**123,531**
In RSD and with currency clause	1,202,488	123,531
In foreign currency	814,694	-
Long-term placements	**489,254**	**385,837**
In RSD and with currency clause	489,254	385,837
In foreign currency	-	-
Total net Loans and advances to customers:	**2,509,710**	**510,161**

Changes in allowance for impairment:

In thousands of RSD	31 December 2016	31 December 2015
Balance as at 31 December previous year	-	-
Increase during the year	(10,227)	-
Balance as at 31 December	**(10,227)**	**-**

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Loans and advances to customers

The Bank only started to deal with loan activities in 2015. In subject period, the approved loans to legal entities were long-term loans with currency clause, for working capital and investment loans, with interest rate ranging from 2.30% to 4.50% on annual level. Legal entities were granted also short-term revolving RSD loans, and the interest rates ranged from 5% to 7.50% p.a.

In 2016 the Bank continued its lending activities, mainly by granting short-term loans to corporate customers.

11.18. Intangible assets

Changes in intangible assets during 2016:

In thousands of RSD	Software	Licences	Intangible assets in progress	Total
Purchase value				
Balance as at 5 February 2015	-	-	-	-
Purchase during the year	-	-	228,612	228,612
Transfer from investments in progress	210,017	15,638	(225,655)	-
Balance as at 31 December 2015	**210,017**	**15,638**	**2,957**	**228,612**
Balance as at 1 January 2016	210,017	15,638	2,957	228,612
Purchase during the year	-	-	55,354	55,354
Transfer from investments in progress	43,715	7,322	(51,037)	-
Balance as at 31 December 2016	**253,732**	**22,960**	**7,274**	**283,966**
Impairment				
Balance as at 5 February 2015	-	-	-	-
Calculated amortization	10,004	783	-	10,787
Balance as at 31 December 2015	**10,004**	**783**	**-**	**10,787**
Balance as at 1 January 2016	10,004	783	-	10,787
Calculated amortization	30,918	3,324	-	34,242
Balance as at 31 December 2016	**40,922**	**4,107**	**-**	**45,029**
Present value as at 31 December 2015	**200,013**	**14,855**	**2,957**	**217,825**
Present value as at 31 December 2016	**212,810**	**18,853**	**7,274**	**238,937**

The Bank does not possess any intangible assets estimated to have an unlimited useful life as at 31 December 2016. Further to the estimate of the Bank’s management, as at 31 December 2016 there are no indications that the value of intangible assets is impaired.

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11.19. Property, plant and equipment

In thousands of RSD	Equipment and other fixes assets	Investments in fixed assets of other legal entities	Fixed assets in progress	Total
Purchase value				
Balance as at 5 February 2015	-	-	-	-
Purchase during the year	-	-	173,670	173,670
Transfer from investments in progress	104,441	68,128	(172,569)	-
Balance as at 31 December 2015	**104,441**	**68,128**	**1,101**	**173,670**
Balance as at 1 January 2016	104,441	68,128	1,101	173,670
Purchase during the year	-	-	26,981	26,981
Transfer from investments in progress	16,824	9,513	(26,337)	-
Balance as at 31 December 2016	**121,265**	**77,641**	**1,745**	**200,651**
Impairment				
Balance as at 5 February 2015	-	-	-	-
Calculated amortization	6,055	4,245	-	10,300
Balance as at 31 December 2015	**6,055**	**4,245**	**-**	**10,300**
Balance as at 1 January 2016	6,055	4,245	-	10,300
Calculated amortization	24,771	15,157	-	39,928
Balance as at 31 December 2016	**30,826**	**19,402**	**-**	**50,228**
Present value as at 31 December 2015	**98,386**	**63,883**	**1,101**	**163,370**
Present value as at 31 December 2016	**90,439**	**58,239**	**1,745**	**150,423**

The Bank does not possess any real estate property, plants and equipment estimated to have an unlimited useful life. As at 31 December 2016, the Bank is in possession of the assets it avails with and has no encumbrance on property. Further to the estimate of the Bank's management, as at 31 December 2016 there are no indications that the value of fixed assets and investments in leased business premises is impaired.

11.20. Other assets

Other assets include:

In thousands of RSD	31 December 2016	31 December 2015
Receivables from advances paid for current assets	395	655
Receivables from advances paid for fixed assets	1,923	6,628
Prepaid costs	2,217	861
Petty inventory in use	2,823	367
Fees from legal entities and receivables from employees	147	-
Other	6,250	58
Other assets	**13,755**	**8,569**
Impairment of other assets	(522)	(367)
Balance as at 31 December	**13,233**	**8,202**

Changes in allowances:

In thousands of RSD	31 December 2016	31 December 2015
Balance as at 31 December of previous year	**(367)**	**-**
Increase during the year	(155)	(367)
Balance as at 31 December	**(522)**	**(367)**

11.21. Deposits and other liabilities to banks, other financial institutions and central bank

In thousands of RSD	31 December 2016	31 December 2015
Transaction deposits	110	-
Short-term deposits	30,001	-
Liabilities for fees and commissions to NBS	10	64
Liabilities for fees and commissions to other banks etc.	718	18
Balance as at 31 December	**30,839**	82

11.22. Deposits and other liabilities to customers

In thousands of RSD	31 December 2016	31 December 2015
Corporate and retail		
Transaction deposits in RSD	64,736	56,168
Long-term deposits on loans in RSD	24,347	12,163
Overnight	509	-
Transaction deposits in foreign currency	950,202	8,374
Long-term deposits on loans in foreign currency	11,217	-
Short-term deposits in foreign currency	2,363,869	-
Other liabilities in foreign currency	29,684	234
Balance as at 31 December	**3,444,564**	**76,939**

Short-term deposit are term deposits denominated in RSD and foreign currency with maturity up to 12 mouths. These deposits have interest rates ranging from 0.28% - 2.2% per annum (on foreign currency deposits) or up to 3.9% (on RSD deposits).

11.23. Subordinated liabilities

Loans received in foreign currency

The Bank has long-term subordinated liabilities to Aflaj INVESTMENT LLC. , with contract of six mouth income payment, with annual interest rate of 6M Euribor increased for 0.50%, which amounted to 0.28% as at 31 December 2016 (31 December 2015 it amounted to 0.498%).

The structure of received loans per creditors, with balance as at 31 December 2016, is presented in the following table:

Creditor name	Agreed amount	Currency	31 December 2016 in EUR	Interest rate p.a.	Maturity date	Balance as at 31 December 2016 in 000 RSD
AFLAJ INVESTMENT LLC, Abu Dabi	5,000,000	EUR	5,000,000	6m euribor+0.5%	22.10.2025.	617,362
AFLAJ INVESTMENT LLC, Abu Dabi	5,000,000	EUR	5,000,000	6m euribor+0.5%	14.11.2025.	617,362
Deferred liabilities for accrued interest						298
Total						**1,235,022**

Creditor name	Agreed amount	Currency	31 December 2015 in EUR	Interest rate p.a.	Maturity date	Balance as at 31 Dec 2015 in 000 RSD
AFLAJ INVESTMENT LLC, Abu Dabi	5,000,000	EUR	5,000,000	6m euribor+0.5%	22.10.2025,	608,130
Total						608,130

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11.24. Provisions

In thousands of RSD	31 December 2016	31 December 2015
Provisions for retirement benefits, in accordance with IAS 19	2,620	2,474
Provisions for employees' annual leave, in accordance with IAS 19	830	418
Provisions for losses on off-balance sheet assets IAS 39	1,391	-
	4,841	**2,892**

Changes in total provisions:

In thousands of RSD	Provisions for retirement benefits, in accordance with IAS 19	Provisions for employees' annual leave, in accordance with IAS 19	Provisions for losses on off-balance sheet assets IAS 39
Balance as at 5 February 2015	**-**	**-**	**-**
Increase	2,474	418	-
Decrease	-	-	-
Balance as at 31 December 2015	**2,474**	**418**	**-**
Balance as at 1 January 2016	**2,474**	**418**	**-**
Increase	146	412	1,391
Decrease	-	-	-
Balance as at 31 December 2016	**2,620**	**830**	**1,391**

The trends in provisions for potential losses in retirement pays and other purposes are presented in the above table. Provisions for retirement pay to employees are formed based on actuarial valuation, with balance on the balance sheet date, and these are recognized in the amount of the present value of expected future payments.

In compliance with its Rules of Procedure, the Bank is obliged to pay out retirement pays at the amount of two average gross salaries in the Republic of Serbia in the month preceding the month of payment, as per latest published information of the republic statistical authority.

The value of expected outflows was assessed using the average monthly salary in the Republic of Serbia in December 2016 and 7% (in 2015 was 8%), discount rate which represents an adequate rate according to IAS 19 "Employee Benefits" in the absence of a developed market of high-quality corporate bonds, which is the return on 10-year treasury bonds of the Republic of Serbia. The provision is assessed based on the Bank's Rules of Procedure and an assumed average salary increase at the rate of 3% (in 2015 was 4%) p.a, which is equal to the target inflation rate projected by NBS.

11.25. Other liabilities

In thousands of RSD	31 December 2016	31 December 2015
Suppliers	3,951	16,784
Guarantee commissions	3,033	285
Prepaid expenses for legal fees	26,465	1,940
Taxes and contributions	1,671	83
Other	53	140
Total	**35,173**	**19,232**

11.26. Equity and reserves

As at 31 December 2015, the subscribed paid-in share capital of the Bank amounted for RSD 1,790,700 thousand and consisted of 1,790,700 ordinary shares with par value of RSD 1 thousand RSD.

As at 31 December 2016, the subscribed paid-in share capital of the Bank amounted RSD 3,631,200 thousand, consisted of 3,631,200 ordinary shares with par value of RSD 1 thousand.

Central Depository and Clearing House carried out registration of the increase in share capital of the Bank as at 11 May 2016, according to the Decision on the second share issue of ordinary shares without the obligation to publish a prospectus in order to increase the initial capital Mirabank ad Belgrade. The capital of Bank on the basis of that decision was increased by 1,840,500 shares, with a nominal value of RSD 1 thousand so that the total number of shares now amounts to 3,631,200.

Shareholder Structure

Duingraaf Financial Investments B.V., Kabelweg 37, 1014BA Amsterdam, the Netherlands, is 100% shareholder of the Bank as at 31 December 2016.

Shareholder name:	31 December 2016 No. of shares	31 December 2016 % ownership	31 December 2015 No. of shares	31 December 2015 % ownership
Duingraaf Financial Investments B.V., Amsterdam, The Netherlands	3,631,200	100%	1,790,700	100%

The share capital structure is presented in the table below:

In thousands of RSD

	31 December 2016		31 December 2015	
	Amount in thousand RSD	**U %**	**Amount in thousand RSD**	**U %**
Ordinary shares	3,631,200	100.00	1,790,700	100.00
Balance as at 31 December	3,631,200	100.00	1,790,700	100.00

Provisions for estimated losses

The provisions for estimated credit risk losses contained in the Bank's credit portfolio are calculated in accordance with the Decision of the National Bank of Serbia on Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items ("Official Gazette of RS" nos. 94/2011, 57/2012, 123/, 113/2013 and 135/2014 and 25/2015 and 38/2015).

As at 31 December 2016, the required reserve for estimated losses which might arise from balance sheet assets and off-balance sheet items, calculated in accordance with the Decision of the National Bank of Serbia, amounts to RSD 117,033 thousand (31 December 2015 was RSD 24,772 thousand).

Capital adequacy and Bank's business indicators stipulated under the Law on Banks

The Bank is obliged to harmonize the scope and structure of its business and risk-weighted placements with business indicators stipulated under the Law on Banks and relevant decisions of the National Bank of Serbia made pursuant to the named Law.

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The achieved business indicators of the Bank as at 31 December 2016 were as follows:

1. Capital adequacy indicators

In thousands of RSD	**31 December 2016**	**31 December 2015**
Core capital	2,570,105	1,286,945
Supplementary capital	1,240,719	608,130
Deductibles from capital	-	-
Capital	**3,810,824**	**1,895,075**
Assets weighted with credit risk multiplied by reciprocal value of the adequacy of capital	3,350,751	831,758
Exposure to foreign currency risk multiplied by the reciprocal value of the capital adequacy	-	-
Exposure to operational risk	96,933	18,742
Total risk assets	**3,447,684**	**850,500**
Capital adequacy indicator	**110.53%**	**222.82%**

1. Business indicators	**Prescribed**	**Achieved**
1. Capital (expressed in EUR)	Minimum EUR 10 million	30,863,789
2. Capital adequacy	Minimum 12%	110.53%
3. Bank's investments in non-financial sector and in non-current asset	Maximum 60%	3.95%
4. Sum of large exposures	Maximum 400%	44.80%
5. Average monthly liquidity indicators (December 2016)	Minimum 1	13.61
6. Foreign currency risk ratio	Maximum 20%	0.28%
7. Exposure of the Bank to a single entity or a group of related entities	Maximum 25%	21.05%

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11.27. Off-balance sheet items

In thousands of RSD	31 December 2016	31 December 2015
Guarantees, securities, secured property and commitments	**2,540,998**	**157,524**
Investments managed on behalf of third parties	**-**	**-**
In RSD	-	-
In foreign currency	-	-
Payment guarantees:	**286,700**	**127,193**
In RSD	286,700	93,000
In foreign currency	-	34,193
Performance guarantees:	**193,877**	**25,331**
In RSD	66,998	25,331
In foreign currency	126,879	-
Other forms of guarantee:	**2,400**	**-**
In RSD	2,400	-
In foreign currency	-	-
Revocable and irrevocable commitments for unwithdrawn loans and placements in RSD:	**2,058,021**	**5,000**
revocable	1,547,604	-
irrevocable	510,417	5,000
Derivatives	**2,392,205**	**-**
Other off-balance sheet items	**185,347**	**101,453**
Other irrevocable commitments under guarantees	185,208	101,355
Checks, bills, policies, authorities and others	44	-
Other	95	98
Total off-balance sheet items	**5,118,550**	**258,977**

11.28. Related party relationships

The following table presents the total balance sheet exposure and exposure to related parties, as well as income and expenses from related parties which influence the Bank's business operations:

In thousands of RSD		
BALANCE SHEET	**31 December 2016**	**31 December 2015**
Liabilities		
Subordinated loan	1,234,723	608,130
PROFIT AND LOSS ACCOUNT	**2016**	**2015**
Interest expenses from subordinated loans	(2,676)	(453)

Gross and net income of the President and members of the Board of Directors and the Executive Board in 2016 and 2015 were as follows:

In thousands of RSD	**2016**	**2015**
Gross income	**66,001**	**34,882**
Executive board	58,979	25,999
Board of directors	7,022	8,883
Net income	**55,362**	**28,056**
Executive board	50,924	22,442
Board of directors	4,438	5,614

Remuneration of the Executive Board in 2016 relates to the payment of three members: two members for the full-year and one for eleven months - only for members of the Executive Board who are active as at 31 December 2016.

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Remuneration of the Executive Board in 2015 relates to the payment of two members: one member for eleven months and one for five months - only for members of the Executive Board who are active as at 31 December 2015.

11.29. Commitments to lease

The Bank rents office space through operational leasing.

Future payments under operating leases where the Bank emerges as the lessee are shown in the following table:

In thousands of RSD	**31 December 2016**	**31 December 2015**
Operating leasing payments		
One year period	63,094	61,870
Period from 1 to 5 years	160,897	220,787
Period over 5 years	-	-
Total	**223,991**	**282,657**

11.30. Litigation

At 31 December 2016 there are no pending litigations initiated by the Bank against third parties, while there is one litigation pending against the Bank. The Bank does not expect a negative outcome on the basis of the litigation, so there are no provisions formed on that basis.

11.31. Reconciliation of receivables and payables

In accordance with Article 18 of the Accounting Law the Bank performed reconciliation of receivables and payables with its debtors and creditors, and there is authentic documentation to that effect. The Bank sent clients confirmation requests or statements of outstanding items, in order to reconcile outstanding receivables / payables as at 31 October 2016.

The total reconciled amount refers to:

- Receivables in the amount of RSD 4,265,823 thousand, which is 91.27% of receivables,
- Liabilities in the amount of RSD 800,692 thousand, which is 32.41% of liabilities.

The total amount of unconfirmed receivables is RSD 407,805 thousand, and unconfirmed liabilities in the amount of 1,669,440 thousand RSD.

The reason they outstanding balances remain unconfirmed in the total amount of 1,669,440 thousand RSD is that clients did not confirm balances on their current accounts at the Bank.

11.32. Subsequent events

There were no significant events after the end of the reporting period that could require adjustments to or disclosures in notes to the accompanying financial statements of the Bank for 2016.

Belgrade, March 15, 2017

Dragana Bojin
Head of Accounting Department

Ilinca Rosetti
President of the Executive Board

Saša Mićević
Member of the Executive Board

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