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Disclosure of Bank Data and Information

31 December 2016

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1. INTRODUCTION AND BASIC INFORMATION ABOUT THE BANK

The founder of Mirabank a.d. Beograd (hereinafter: the Bank) is Duingraaf Financial Investments B.V., Kabelweg 37, 1014BA Amsterdam, Holland (hereinafter: the Founder), obtained preliminary approval for the establishment of the Bank in line with EB Decision No. 32, issued by the Executive Board of the National Bank of Serbia on 18 August 2014.

With NBS EB Decision No. 58 of 16 December 2014, the National Bank of Serbia gave its consent to the Bank to commence operations.

Upon receiving approval of the National Bank of Serbia on the Bank's Founding Assembly Act (Decision on the Appointment of the President and Members of the Board of Directors, Decision on the Appointment of the President and Members of the Executive Board of the Bank, Decision on the Adoption of the Statute of the Bank, Decision on the Issue of the First Shares of the Bank, Decision on the Adoption of the Bank Strategy and Business Policy), the Bank was thereby registered in the Business Entities Register - Companies in line with Decision BD 8779/2015 of 5 February 2015, issued by the Business Registers Agency.

Neither the Bank's Founder nor the Bank are part of a banking group. The Bank's founding capital amounts to EUR 15 million in the RSD equivalent and the conversion of capital was performed on 6 April 2015 when an account belonging to the Bank was opened with the National Bank of Serbia, upon which the Bank began operations via said account and began to complete payment operations. At the same time, the Bank began to engage in the reporting process with the National Bank of Serbia. On 11 May 2016, upon registering with the Central Securities Depository and Clearing House, an increase of the Bank's capital was executed through the issuance of II issues in the amount of 1,840,500 ordinary shares with a nominal value of RSD 1,000 per share, upon which the Bank's total share capital (with the founding issue in the amount of RSD 1,790,700 thousand) amounted to a total of RSD 3,631,200 thousand.

The Bank is seated in Belgrade, at ul. Španskih boraca br. 1, Novi Beograd (*in English: 1 Španskih boraca Street, New Belgrade*), and the Bank conducts its business via one branch located within the territory of the Republic of Serbia at the same address.

The Bank's Identification No. is 21080608. The Bank's Tax Identification No. is 108851504.

In accordance with the Law on Banks (Banking Act) and the Decision on Disclosure of Data and Information by Banks, the Bank hereby publishes this Report which contains all of the data and information prescribed by said Decision for the period of 1 January to 31 December 2016.

The Report herein has been published on the Bank's website (http://www.mirabankserbia.com/.).

Disclosure relates solely to the Bank's data.

Mirjana Garapić-Zakanyi	Dr. Ilinca Rosetti
Member of the Executive Board	President of the Executive Board
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2. RISK MANAGEMENT STRATEGY AND POLICY

2.1. Strategy and Policy Implemented in the Management of All Risks

Throughout 2016, the Bank updated its Risk Management Strategy as well as a set of Risk Management policies.

The Bank has established and continues to improve a comprehensive and reliable risk management system which is included in all of its business activities and ensures that the Bank's risk profile remains in line with its risk appetite.

The risk management process has been clearly defined and documented throughout, taking into account the Bank's developmental stage, the type and nature of risks the Bank is willing and able to undertake in order to achieve its business objectives. In terms of this, all business activities are guided by a general strategy of the Bank and are determined by legal regulations and internal acts.

At the strategic level, the Bank's risk management objectives are as follows:

- Identifying material risks and ensuring that the business profile and plans are in compliance with the Bank's risk appetite;
- Optimising risk/return decisions by ensuring that they are as close as possible to the business model, accompanied by the establishment of strong and independent testing and control structures;
- Ensuring that business growth plans are appropriately supported by an efficient risk management infrastructure;
- Managing the risk profile so that specific financial products remain acceptable in various business environments;
- To assist management in improving control and in coordinating risks found within operations.

The Bank actively takes into account risks that are linked to business activities and in this regard the following principles represent risk management within the Bank:

- Risks are taken within the defined risk appetite;
- Each risk taken must be approved within the risk management framework;
- Accepted risks must be adequately compensated for;
- Risk must be continuously monitored;
- A strict risk management culture assists in strengthening the Bank's stability.

The risk management system consists of the following:

- The Risk Management Strategy, policies and procedures;

- Internal organisation (organisational structure for the management of specific types of risk);
- An efficient and effective management process for all risks that the Bank is or may be exposed to as a result of its activities;
- An adequate internal control system;
- A suitable information system;
- An adequate internal capital adequacy assessment system.

The Risk Management Strategy is in compliance with the Bank's Business Policy and Strategy. The Risk Management Strategy includes an overview and definition of all risks that the Bank is or may be exposed to, long-term objectives determined by the Bank's business policy and strategy, basic principles related to taking on risk and risk management as well as the basic principles of the Bank's internal capital adequacy assessment process.

The objective of risk management policies is to define the manner in which the Bank actively manages risks it is or may be exposed to, i.e. to define the principles, guidelines and rules for risk identification, measurement and risk assessment, control of individual risks and establishing a limit system within the Bank.

Strategies and policies are in accordance with the Bank's size and organisational structure. The mentioned documents were adopted by the Bank's BoD, and the EB is responsible for their implementation. Policies define and confine employee responsibilities within the risk management process, at all times taking into account the Bank's size. The responsibilities of taking on risk are strictly separate from the area which deals with risk management, including the Executive Board level.

The Bank's internal control system

The Bank's internal control system is a set of processes and procedures that are an integral part of the business activities of the Bank and ensure the collection of relevant and accurate information in relation to risk management and the creation of databases that relate to said information, as well as the timely and effective monitoring of all activities related to risk management and control of system compliance with the rules and procedures of the Bank.

The following are defined as the main objectives of the internal control framework:

- The efficiency and effectiveness of activities (targeted performances);
- Reliability, completeness and timeliness of financial and management information (targeted awareness); and
- Compliance with relevant laws and regulations (targeted compliance).

Internal control is comprised of five related elements:

- Supervision of managers and the control culture;
- Recognition of risk and assessment;
- Control activities and segregation of duties;
- Information and communication, and
- Monitoring of activities and correction of deficiencies.

The effective functioning of these elements is essential to the Bank's ability to perform and to its awareness and compliance objectives.

2.2. Credit Risk Management and Management of Risks Related to Credit Risk

The main objective of credit risk management within the Bank is to minimise the possibility of adverse effects on the Bank's financial results and capital due to the failure of debtors to fulfil their obligations towards the Bank. In order to control the acceptance of credit risk and the adequate management of said, the Bank has established an adequate lending process which includes loan approval and credit risk management, which are regulated in detail by the Bank's corresponding procedures.

Throughout 2016 the Bank updated its Credit Risk Management Policy for Legal Entities.

The Credit Risk Management Policy defines risks the Bank is exposed as a result of its operations:

Credit Risk is the possibility of the occurrence of negative effects on the Bank's financial results and the capital due to the inability of the debtor to meet its obligations towards the Bank under conditions of the agreement.

FX-Induced Credit Risk is the probability that the Bank shall suffer losses due to a debtor's failure to meet their obligation as a result of the negative effects of changes to the RSD exchange rate on the debtor's financial state and creditworthiness.

Concentration Risk is the direct or indirect result of the Bank's exposure to the same or a similar source of risk, i.e. the same or similar type of risk. Concentration risk relates to: large exposures, groups of exposures with the same or similar risk factors (such as commercial sectors, geographical regions, and the like).

Counterparty Risk is the possibility of the occurrence of negative effects on the Bank's financial results and capital due to the inability of the counterparty to meet its obligations in transactions prior to the final settlement of cash flow transactions, i.e. settlement of financial obligations under the transaction.

Settlement/Delivery Risk is the possibility of the occurrence of negative effects on the Bank's financial results and capital based on unsettled transactions and/or due to the default of the counterparty under free delivery transactions on the contracted date of settlement/delivery.

Credit Risk Management

The objective of credit risk management is to reduce the negative effects of credit risk on the capital and financial result of the Bank.

The credit risk management process includes: identification, evaluation and measuring, monitoring and reporting on credit risk.

Credit risk identification is a basic step in credit risk management, aiming to detect such risk in a timely manner.

The identification of exposure to a concrete credit risk happens the moment a loan is applied for. Analysis of individual placements (loans) includes the analysis of qualitative and quantitative business indicators of a client, by identifying the client's risk factor. The Bank's loan approval process consists of defined steps which may differ depending on the type of client, the type, characteristics and the purpose of the loan, the type of collateral given for the loan, and include:

- Preparation of proposals for the loan;
- Collection and verification of loan documentation;
- Credit analysis;
- Risk assessment;
- Control of accompanying documentation and other conditions;
- Loan approval;
- Disbursement of funds.

The assessment of credit risk is performed upon review of a specific loan application, requests for a change of conditions, maturity date and terms of use and return of a specific loan, as well as when drafting the regular annual report on the client's business operations.
It is based on an analysis of indicators relating to the financial position of the debtor, the timeliness of the settlement of obligations towards the Bank, measuring the effect of changes to the RSD exchange rate on the debtor's financial state, qualitative data collected on the client and the quality of collateral.

In order to mitigate credit risk, during loan approval or while the approved loan is in use, specific collateral is requested. The amount and type of requested collateral depends on the evaluated credit risk that each client poses individually. Security conditions that follow each loan depend on the debtor's credit rating, the type and the degree of exposure to credit risk, the maturity and the loan amount.

After loan approval, both the loan and business operations of the client are monitored through regular and extraordinary monitoring, aiming to ensure the timely identification of warning signs.

The Credit Risk Management Department monitors the loan portfolio monthly.
By monitoring the portfolio, the Bank compares the previous periods, identifies tendencies and causes of changes in the level of credit risk exposure.

The credit risk reporting process includes:

- Reporting to the Executive Board and the Board of Directors of the Bank;

- Regulatory reporting to the National Bank of Serbia in accordance with regulations prescribed by the National Bank of Serbia.

A directly connected, intertwined and complementary process which relates to the credit risk management process is the concentration risk management process. In order to better manage concentration risk management, the Bank has defined internal limits, monitored regularly (in addition to the prescribed regulatory limits). Based on the above, the concentration risk management process is integrated into comprehensive credit risk management (which includes, inter alia, reporting, harmonisation of processes, mitigation techniques, control, etc.) and concentration risk is incorporated into the credit risk reporting process.

2.3. Market Risk Management

Market risks include interest rate and foreign exchange risks, as well as other market risks.
The Liquidity and Market Risks Management Policy defines risks to which the Bank is exposed in its operations.

Interest Rate Risk is the risk of the possibility of the occurrence of negative effects on the Bank's financial result and capital due to changes in interest rates. The responsibility of market risk management as well as liquidity risk, are defined by the Policy. Exposures to interest rate risk are monitored by the Risk Management Department and presented to the ALCO on a quarterly basis, in the form of a report that indicates the degree of exposure to the stated risk. Bearing in mind the Bank's existing balance sheet structure, the estimation to date is that more frequent reporting of this risk is unnecessary, however, in the event that more frequent reporting is deemed necessary, said shall be conducted. The Bank manages its assets and liabilities in a such a manner so as not to be significantly exposed to interest rate risk, and therefore, there has been no need to apply risk mitigation techniques thus far.

Foreign Exchange Risk is the risk of the possibility of the occurrence of negative effects on the Bank's financial result and capital due to changes in foreign exchange rates. Other market risks include price risk on the basis of debt securities, price risk on the basis of equity securities, etc. The responsibilities of foreign exchange risk management as well as liquidity risk, are defined by the Policy. Exposure to FX risk is monitored daily by the Treasury Department and the Risk Management Department. Additionally, FX risk is monitored within the framework of the ALCO, where the movement of this risk is analysed and, as necessary, certain measures are adopted to reduce this risk.

While reporting on market risks is done on a monthly basis, the movement of FX risk indicators is monitored daily, as are any fluctuations.
Throughout 2016, the maximum value of the FX risk indicator reached 4.02%, an average value of 0.30%, and a minimum of 0.01%. The FX risk indicator amounted to 0.28% as at 31 December 2016.

The Bank maintains a nearly closed foreign exchange position, therefore it is not significantly exposed to FX risk, thus, in line with said, it does not apply mitigation techniques to FX risk at this time.

The Bank is not exposed to other market risks, nor does it have a trading book.

The market risk reporting process includes:

- Reporting to the Executive Board and the Board of Directors of the Bank;
- Regulatory reporting to the National Bank of Serbia in accordance with regulations prescribed by the National Bank of Serbia.

2.4. Operational Risk Management

Given the Bank's level of development, its internal organisation and the complexity of its operations, the Bank pays special attention to the management and control of operational risk.

The Bank defines operational risk as a risk of the potential occurrence of negative effects on the Bank's financial result and capital due to intentional and unintentional employee error, inadequate internal procedures and processes, inadequate management of information and other systems within the Bank, as well as due to the occurrence of unforeseeable external events.

The operational risk management framework includes all adopted written documents, procedures and the organisational structure, as defined in accordance with internal and regulatory requirements.

The Bank measures, i.e. evaluates operational risk exposure taking into consideration the possibility, i.e. the frequency of occurrence of said risk, as well as its potential effect on the Bank, paying close attention to events whose occurrence is less likely, but which may potentially cause significant material losses.

In order to achieve long-term objectives, the Bank has established a corporate culture guided by risk management principles, which supports and ensures appropriate standards and incentives for the professional and responsible behaviour of employees and has developed an operational risk management framework which has been fully integrated into a comprehensive risk management process at the level of the Bank.

The Bank records events that have occurred on the basis of operational risk by classifying them according to business lines, types, causes and significance of impact. The Bank uses a central database for recording events. Employees are responsible to report any event that has occurred on the basis of operational risk to the Operational Risk Management Department.

The process of gathering data on events is centralised and is performed by the Risk Management Department which unifies and analyses all reported events and enters this data into the event recording system based on operational risk. The Risk Management Department monitors exposure to operational risks per type, cause and significance of the event and is under obligation to inform management of the Bank thereof on regular basis, as well as on measures taken to mitigate said risks.

Self-assessment of operational risks and processes is the process of identifying and determining the priorities of potential operational risks which may prevent the Bank from achieving its business objectives. This process is performed on the principle of residual (remaining) risk, i.e. it is focused on the assessment of operational risk exposure and risks relating to fraud, after taking into consideration all internal controls used.

In accordance with risk assessment, the Bank uses Key Risk Indicators (KRI) as a tool to assess, monitor and control operational risks, as a preventive mechanism in preventing losses due to operational risks, and as a management mechanism in the adoption of decisions for the improvement of business process performance and control efficiency.

For the purpose of operational risk management, the Risk Management Department submits adequate reports on the Bank's exposure to operational risks to the Executive Board.

The operational risk management framework has been documented in detail and adequately within the adopted acts of the Bank and includes monitoring operational risk and operational losses. The most important documents that include operational risk management are the Risk Management Strategy, Capital Management Strategy, Information System Development Strategy, Operational Risk Management Policy, User Password Policy, Classification and Protection of Information Policy, Ownership of Data Policy, Recovery Plan, Outsourcing Policy, and the Business Plan, in the event of unforeseeable circumstances.

The Bank defines governance structures for operational risk management, including reporting lines and responsibilities, establishes a risk reporting system and monitors inherent and residual risks.

The Bank pays close attention to the assessment and identification of operational risks when introducing new products, activities and processes, as well as to whether the outsourcing of activities to third parties may lead to increased operational risk.

The Bank seeks to mitigate operational risks, inter alia, by constantly identifying and monitoring operational risks, proposing corrective measures and action plans to eliminate or reduce risks involved, as well as by forecasting a plan to secure business continuity and a recovery plan in the event of disaster.

2.5. Compliance Risk Management

The compliance risk monitoring programme is governed through the establishment and implementation of compliance control within the Bank, aiming to reach the highest business standards and in line with regulations.

The Bank's Compliance Department regularly identifies, assesses, monitors and manages operational compliance risk which may incur as a result of the incompliance of the Bank's operations with regulations and the Bank's own internal acts, the rules of the profession and good business practices which include the following, in particular:

1) the risk of sanctions applied by regulatory bodies;
2) the risk of financial loss;

3) reputational risk;

The function of compliance control is an integral part of the Bank's internal control system, which aims to continually monitor compliance risk to which the Bank is or may be exposed to in its operations. The department is functionally an independent unit, responsible for identifying, monitoring and managing compliance risk, which includes the proposal of preventative and mitigation plans that will serve to reduce said risk. The department and its employees complete their work independently and conduct activities which are solely within the scope of the department, avoiding potential conflicts of interest with employees in other organisational units. The Head of the department is responsible for effectively implementing compliance control within the Bank and is appointed by the BoD.

With the aim of implementing regular business activities within its scope, as well as identifying and monitoring compliance risk, the Compliance Department also takes on the following activities: monitors the compliance of the Bank's internal acts with regulations, as well as their mutual compliance; takes action and supervises over client complaints; undertakes necessary activities to protect confidential information and banking secrecy; monitors and undertakes activities to prevent the misuse of privileged information, ensures the application of the Code of Ethics, confirms the existence of conflicts of interest and ensure the management of said, undertakes activities necessary to combat fraud and corruption; participates in the process of introducing new products and services, as well as in the process of outsourcing activities and services to third parties; actively partakes in monitoring established and adequate procedures, as well as updating said at the level of all organisational units of the Bank with the aim of continual monitoring of compliance.

Compliance risk management is a process made up of specific, predefined phases, as follows:

1. Identification of risks - consists of identifying all business processes conducted by the Bank, relevant regulations, internal acts and procedures applicable to established processes - the so-called *regulatory environment,* recognising whether or not business processes are conducted in a manner which results or may result in injury to the above mentioned regulatory environment, identifying reasons for performing in such a manner and identifying risks related to said performance. The aim of this phase is to prepare a list of risks which may hinder successful business and the realisation of objectives and tasks within the scope of specific organisational units, as well as to determine laws, by-laws, other regulatory and internal acts applicable to the business process within a specific organisational unit;

2. Risk assessment - is conducted by the process owner in collaboration with the Compliance Department and estimates the consequences of a specific occurrence of identified risks, which effect the ability to achieve objectives and implement tasks related to specific processes of the Bank and the assessment of the probability of occurrence of a particular risk. Based on the probability of occurrence of a specific risk and estimated consequences, the initial risk level is determined. Afterwards, all internal regulations, controls and other existing measures used to mitigate initial exposure to risk are taking into account and a new assessment of the possibility of occurrence of said risk and possible consequences is conducted and if necessary, adjustments are made. The given result is the residual risk and is a basis for drafting plans that will be used to monitor and manage compliance risk.

3. Risk management - exposure to residual risk may be estimated as: low, medium and high, and is conducted according to the criteria contained in the Bank's internal acts which govern compliance risk management. For low risk exposure, it is unnecessary to undertake additional measures or activities, medium risk requires careful monitoring, and high risk requires an immediate plan of action to reduce the level of risk exposure.

Compliance control implies regular reporting, as well as *ad hoc* reporting in special cases - so-called Special reports, in accordance with regulations and internal acts of the Bank.

Regular reporting implies quarterly and annual reports drafted by the department on compliance risk which are submitted to the Executive Board and Audit Committee, as well as the Bank's IA Department, and quarterly department activity reports.
Special reports include reporting in the event of internal or external fraud, when it is necessary to react promptly; reports issued to the National Bank of Serbia at its request and other reports in line with relevant regulation.

In an attempt to mitigate risk, the department continually identifies, monitors and manages compliance risk and proposes plans to avoid and mitigate said risk. To implement said activities, two basic principles/control models have been envisaged within the framework of the Compliance Risk Management Methodology:

a) Preventative measures within the area of continual compliance risk management - Regarding preventative measures in compliance risk management within the Bank, the Compliance Department engages in the following activities: informing competent organisational units of the Bank on the relevant regulatory framework, changes to said and the proposal of necessary compliance of internal acts with said; participation and monitoring of established appropriate procedures, as well as updating existing and controlling compliance of internal regulations prior to their adoption by the competent body of the Bank; providing expert opinions.
b) Controlling activities within the area of compliance risk management are done by implementing the department's Annual Activity Plan which includes a description of the main activities and implementation deadlines, depending on compliance risk assessment. The aim of the Plan is to consider and manage all relevant compliance risks from the aspect of the Bank's business and defines activities that will reduce mentioned risks to an acceptable level.

2.6. Strategic Risk Management

Strategic risk is the possibility of the occurrence of negative effects on the Bank's financial result and capital due to a lack of appropriate policies and strategies, their adequate implementation, as well as due to changes in the environment in which the Bank operates or the lack of appropriate response to these changes by the Bank.

The Bank has adopted a set of documents that define the Bank's strategic areas, the most important of which are as follows: The Bank's Strategy, Corporate Policy, Risk Management Strategy, Capital Management Strategy, the Information System Development Strategy and the Bank Strategic Management Procedure.

Strategic risk assessment is included in the Bank's ICAAP. The EB and BoD are informed of the results of strategic risk assessment within the framework of the ICAAP, and the values as at the reporting date, 31 December 2016, are given in the following chapters of this Report.
The Bank seeks to mitigate strategic risk, through careful implementation of the planning process.

2.7. Liquidity Risk Management

Liquidity risk is the possibility of the occurrence of negative effects on the Bank's financial result and capital due to inability of the Bank to fulfil its matured obligations due to:

- The withdrawal of existing sources of finance, i.e. inability to obtain new sources of finance;
- Difficulty in converting property into liquid assets due to disturbances on the market.

Responsibilities of liquidity risk management are defined in detail in the Policy. The Risk Management Department monitors exposure to liquidity risk on a daily basis and presents said to the ALCO at regular monthly sessions, and more often, as necessary. The ALCO is responsible for monitoring the Bank's exposure to liquidity risk, as well as the decision-making process and implementation of measures aimed at reducing exposure to said risk. Apart from the Bank's Management, the ALCO is attended by representatives of organisational units who play a part in managing the Bank's assets and liabilities. In this way, different participants share relevant information that may be important to Management when considering the Bank's risk exposure, as well as when making decisions related to liquidity risk management within the Bank. The Executive Board regularly informs the Board of Directors of all elements significant to the management of the Bank's liquidity risk.

When reporting on liquidity risk, the movement and tendencies of daily liquidity indicators and narrow liquidity indicators are monitored on a monthly basis. The maximum value of the daily liquidity indicator throughout 2016 amounted to 85.55; the average value amounted to 22.33; and the minimum value amounted to 5.41. The liquidity ratio amounted to 12.15% as at 31 December 2016. The maximum value of the narrow liquidity indicator throughout 2016 amounted to 85.22; the average value amounted to 20.14; and the minimum value amounted to 4.79. The narrow liquidity indicator amounted to 9.59% as at 31 December 2016. In addition to said liquidity indicator monitoring, a part of the regular set of reports on liquidity consists of the analysis of the Bank's liquidity gaps, as well as of additional analyses and reports that are drafted, when necessary, with the aim of contributing to an adequate liquidity management process.

Considering the Bank's current level of development and balance sheet structure, it can be said that it is not significantly exposed to liquidity risk. Therefore, there was no need to apply certain advanced risk mitigation techniques. As the Bank continues to develop, and in accordance with the level of development, risk mitigation techniques shall be applied accordingly.

2.8. Information System Risk Management

IS risk is the risk of the possibility of the occurrence of negative effects on the Bank's financial result and capital due to the inadequate management of IS risk and its security. The Bank has a developed and adequate system used to manage this risk, as well as suitable organisation. Regarding internal acts which regulate IS management and risk mitigation techniques, the Bank has adopted numerous internal acts, of which we can highlight the following: Bank IS Strategy, ICT System Security Act, User Password Policy, Classification and Protection of Information Policy, Data Ownership Policy, Business Continuity Plan, Disaster Recovery Plan, etc. Given the essence of this risk, management activities here are for the most part linked to operational risk management. Therefore, the Bank seeks to mitigate this risk, inter alia, by constantly identifying and monitoring risks, proposing corrective measures and action plans to eliminate or reduce existing risks.

IS risk assessment is included in the Bank's ICAAP. The EB and BoD are informed of the results of this risk assessment within the framework of the ICAAP, and the values as at the reporting date, 31 December 2016, are given in the following chapters of this Report.

2.9. Money Laundering and Terrorist Financing Prevention Management

The basic model used to manage the risk of money laundering and terrorist financing is based primarily on principle of integrity - striving to achieve objectives which are honourable, accurate and responsible, in full compliance with the rules and positive regulations, ensuring the following:

- that adopted measures are proportionate to risks related to the prevention of money laundering and terrorist financing, specific to different types of clients, business relationships, activities, products or transactions;
- that adopted measures are suitable to banking activities, financial business operations and the size of the Bank.

By adoption of the AML and PTF Policy the Bank achieve compliance with the provisions of the corresponding Law; ensured the establishment of corresponding procedures within the domain of knowing and monitoring of clients, reporting, keeping records, internal controls, risk assessment, risk management, compliance and data exchange, with the aim of preventing money laundering and financing of terrorism.

In accordance with the organisational model, the AML and PTF Department was formed as independent function within the Bank, reporting directly to top management. Functionally, the AML and PTF Department is formed by the Head of the department and his/her deputy. The designated person responsible for the prevention of money laundering (AML) is the Head of the AML and PTF Department. The designated person responsible for AML and his/her deputy are appointed and dismissed by the Executive Board.

The designated AML person is responsible for the establishing, functioning and further development of the system for the prevention and detection of money laundering and financing of terrorism and in that terms, starts initiatives and provides management with proposals for the application of corresponding measures for their development. Inter alia, the authorised person organises and directs tasks related to the prevention of money laundering in terms of approval and the application of procedures and guidelines from the mentioned area, participates in the development of supporting software and participates in the development of professional educational programmes, employee training and their development.

The Bank is responsible for executing of legal obligations related to the prevention of money laundering and financing of terrorism and for this reason the Bank has regulated the reporting process. The content of reports depends from their intention and the purpose of reporting, and it may be as follows:

- External reporting to supervisory bodies in line with regulations on the prevention of money laundering and the financing of terrorism – Administration for the Prevention of Money Laundering, the National Bank of Serbia and others;
- Internal reporting to the Bank's bodies – Executive Board and BoD. Internal reporting, besides operational reports, includes the comprehensive Annual Report on the Prevention of Money Laundering and evaluation of the system used to manage money laundering risk applied within the Bank. Additionally, the Bank conducts a comprehensive AML and PTF Risk Analysis annually.

The money laundering risk analysis aims to identify a comprehensive profile of money laundering to which the Bank is exposed to and consequently to identify potential weaknesses which require corresponding improvements within the organisation, processes and procedures of the Bank, as a primary measure aiming to mitigate the overall exposure to risk of money laundering.

2.10. Other Risks Management

In addition to the mentioned risks, the Bank has a developed and adequate risk management system, organises processes, i.e. internal acts (policies and/or other documents) also for the management of other risks, such as: Outsourcing Risk, Country Risk, etc. The materiality of these risks is assessed within the ICAAP and on the basis of the results achieved, appropriate activities are undertaken to ensure that the treatment of said risks is appropriate.

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3. MANAGING THE BANK’S CAPITAL

3.1. BANK CAPITAL

The total capital of the Bank consists of **core** and **supplementary capital**.

The **core capital** of the Bank consists of: the *nominal value of paid-in shares* (excluding cumulative preference shares) in the amount of RSD 3,631,200 thousand reduced by: the *loss of the previous year* in the amount of RSD 261,158 thousand, the *loss of the current year* in the amount of RSD 443,314 thousand, *intangible assets* in the amount of RSD 238,937 thousand, *unrealised losses on securities* available for sale in the amount of RSD 653 thousand and *required reserves for estimated losses* on balance sheet assets and off-balance sheet items of the Bank in the amount of RSD 117,033 thousand.

Supplementary capital consists of subordinated liabilities of the Bank in the amount of RSD 1,234,723 thousand and part of the revaluation reserves of the Bank in the amount of RSD 5,996 thousand.

The following **Table 1** shows the structure of the Bank’s capital as at 31 December 2016.

Table 1 **PI-KAP**

Data on the Bank’s Capital Position

(in 000 RSD)

Item No.	Position Title	Amount
I	**TOTAL CORE CAPITAL**	**2,570,105**
1.	**CORE CAPITAL BEFORE DEDUCTIONS**	**3,631,200**
1.1.	**Nominal value of paid-in shares, other than cumulative preference shares**	**3,631,200**
1.2.	**Share premium**	**-**
1.3.	**Reserves from profit**	**-**
1.4.	**Retained earnings from previous years**	**-**
1.5.	**Profit from the current year**	**-**
1.6.	**Minority participation in subordinate companies**	**-**
1.7.	**Other positive consolidated reserves**	**-**
2.	**DEDUCTIBLES FROM CORE CAPITAL**	**1,061,095**
2.1.	**Losses from previous years**	**261,158**
2.2.	**Losses from the current year**	**443,314**
2.3.	**Intangible assets**	**238,937**
2.4.	**Acquired own shares, other than cumulative preference shares**	**-**
2.5.	**Amount of shares received in pledge, other than cumulative preferential shares**	**-**
2.6.	**Regulatory value adjustments:**	**117,686**
2.6.1.	Unrealised losses on securities available for sale	653
2.6.2.	Other net negative revaluation reserves	-
2.6.3.	Gains on bank liabilities measured at fair value due to the change in bank’s credit rating	-
2.6.4.	Required reserve from profit for estimated losses on balance sheet assets and off-balance sheet items of the bank	117,033
2.7.	**Other negative consolidated reserves**	-
II	**TOTAL SUPPLEMENTARY CAPITAL**	**1,240,719**
1.	**CORE CAPITAL BEFORE DEDUCTIONS**	**1,240,719**
1.1.	**Nominal value of paid cumulative preference shares**	**-**
1.2.	**Share premium on cumulative preferential shares**	**-**
1.3.	**Part of revaluation reserves of the bank**	**5,996**
1.4.	**Hybrid instruments**	**-**
1.5.	**Subordinated liabilities**	**1,234,723**
1.6.	**Overallocation of impairment allowances, provisions and required reserves from profit relative to expected losses**	**-**

2.	**DEDUCTIBLES FROM SUPPLEMENTARY CAPITAL**	**-**
2.1.	**Acquired own cumulative preference shares**	**-**
2.2.	**Receivables in respect to the bank's balance-sheet assets and off-balance sheet items secured by a hybrid instrument or subordinated liability**	**-**
2.3.	**Amount of cumulative preferential shares received in pledge**	**-**
2.4.	**Amount of capital in excess of limitations on supplementary capital**	**-**

Table 1 (continued)

III	**TOTAL CAPITAL**	**3,810,824**
1.	**TOTAL CAPITAL BEFORE DEDUCTIONS**	**3,810,824**
2.	**DEDUCTIBLES FROM CAPITAL**	-
	Of which reduction in core capital	-
	Of which reduction in supplementary capital	-
2.1.	**Direct or indirect investment in banks and other financial sector entities that exceed 10% of the capital of said banks and/or other financial sector entities**	-
2.2.	**Investment in hybrid instruments and subordinated liabilities of other banks and financial sector entities in which the Bank has a direct or indirect investment that exceeds 10% of the capital of said entities**	-
2.3.	**The total amount of direct and indirect investments in banks and other financial sector entities in the amount of up to 10% of their capital, as well as investment in their hybrid instruments and subordinated liabilities that exceeds 10% of the sum of core and supplementary capital of a bank for which the capital is calculated**	-
2.4.	**The amount by which qualified participation in non-financial sector entities has been exceeded**	-
2.5.	**Underallocation of impairment allowances, provisions and required reserves from profit relative to expected losses**	-
2.6.	**The amount of exposure to free deliveries if the counterparty failed to fulfil its obligation within four business days**	-
2.7.	**Receivables from and potential liabilities toward parties related to the Bank or employees in the Bank which the Bank has negotiated under terms that are more favourable than the terms negotiated with other parties**	-
IV	**NOTES:**	
	Positive/negative difference between total impairment allowances for balance sheet assets, provisions for losses on off-balance sheet items and required reserves from profit on the one hand, and total estimated losses under the IRB approach, on the other	-
	Amount of impairment allowances, provisions and required reserves from the bank's profit	-
	Of which on a group basis	-
	Of which on an individual basis	-
	Amount of expected losses under the IRB approach	-
	Gross amount of subordinated liabilities	**1,234,723**

The following **Table 2** shows the basic features of all the elements included in the calculation of Bank's capital as at 31 December 2016.

Table 2

PI–FIKAP

Data on the main features of financial instruments included in the calculation of the Bank's capital

Item No.	Instrument Features	Description
1.	Issuer	Duingraaf Financial Investments B.V., Kabelweg 37, 1014BA Amsterdam, Holland
2.	Treatment in line with regulations	
2.1.	Treatment in line with the Decision on the Capital Adequacy of Banks	Core Capital Instruments
2.2.	Individual/group/individual and group level of inclusion of the instrument in the capital at a group level	-
2.3.	Type of Instrument	Ordinary Shares
3.	Amount recognised for the purpose of calculating regulatory capital (in RSD thousand, as at the last reporting date)	Amount recognised for regulatory purposes does not differ from the one obtained at the issuance of the instrument
4.	Nominal value of the instrument	The total nominal value of shares amounts to RSD 1,790,700,000 ((1,790,700+1,840,500)*1,000= RSD 3,631,200,000)
5.	Accounting Classification	Share Capital
6.	Initial Date of Issuance	The founding capital of the Bank amounts to EUR 15,000,000 in the RSD equivalent and the conversion of capital was performed on 6 April 2015 when an account belonging to the Bank was opened with the National Bank of Serbia. On 11 May 2016, upon registering with the Central Securities Depository and Clearing House, an increase of the Bank's capital was executed through the issuance of II issues in the amount of 1,840,500 ordinary shares with a nominal value of RSD 1,000 per share, upon which the Bank's total share capital (with the founding issue in the amount of RSD 1,790,700 thousand) amounted to a total of RSD 3,631,200 thousand.
7.	Instrument with or without a maturity date	No maturity date
7.1.	Original maturity	-
8.	With or without an issuer call option	No
8.1.	First date of call option activation	-
8.2.	Subsequent dates of call option activation (if applicable)	-
9.	*Coupons/dividends*	-
9.1.	Fixed or variable dividends/coupons	-
9.2.	Full, partial or no discretion regarding the time of payment of dividends/coupons	-
9.3.	Full, partial or no discretion regarding the amount of dividends/coupons	-
9.4.	Step up option	-
9.5.	Non-cumulative or cumulative dividends/coupons	-
10.	Convertible or non-convertible instrument	Non-convertible
10.1.	If convertible, terms under which conversion may take place	-
10.2.	If it is convertible, specify if it is partially or fully convertible	-
10.3.	If it is convertible, rate of conversion	-
10.4.	If it is convertible, mandatory or voluntary conversion	-
10.5.	If it is convertible, specify instrument to which it is converted	-
10.6.	If it is convertible, the issuer of the instrument to which it is converted	-
11.	Write-off option	No
11.1.	If there is write-off option, specify terms under which the write-off may take place	-
11.2.	If there is write-off option, specify if partial or full	-
11.3.	If there is a write-off option, specify if temporary or permanent write-off	-
11.4.	If the write-off is temporary, specify terms of re-recognition	-
12.	Type of an instrument which will be paid off directly before the said instrument during liquidation	-

The following **Table 3a** provides data and information about matching the Bank's capital positions from the balance sheet with the Bank's capital positions from the report on capital drafted in accordance with the decision which governs reporting on the Bank's capital adequacy, as at 31 December 2016.

PI-UPK

Table 3a

Data on matching the capital positions from the balance sheet with items from the PI–KAP form

2. Breakdown of elements in the balance sheet

Item designation	Position Title	Balance Sheet	Reference
A	**ASSETS**		
A.I	Cash and assets with the central bank	875,578	
A.II	Pledged financial assets	-	
A.III	Financial assets led by fair value through the income statement intended for trade	124,698	
A.IV	Financial assets initially led by fair value through the income statement	-	
A.V	Financial assets available for sale	2,050,876	
A.VI	Financial assets held to maturity	-	
A.VII	Loans and receivables from banks and other financial organisations	1,734,431	
A.VIII	Loans and receivables from clients	2,509,710	
A.IX	Change in fair value of hedged items	-	
A.X	Receivables arising from hedging derivatives	-	
A.XI	Investments in associated companies and joint ventures	-	
	Of which direct or indirect investments in banks and other financial sector entities	-	u
A.XII	Investments in subsidiaries	-	
	Of which direct or indirect investments in banks and other financial sector entities	-	f
A.XIII	Intangible assets	238,937	i
A.XIV	Property, plant and equipment	150,423	
A.XV	Investment property	-	
A.XVI	Current tax assets	-	
A.XVII	Deferred tax assets	-	
A.XVIII	Non-current assets held for sale and discontinued operations	-	
A.XIX	Other assets	13,233	
	Of which direct or indirect investments in banks and other financial sector entities that exceed 10% of the capital of such banks i.e. such entities	-	h
A.XX	**TOTAL ASSETS (EDP items from 0001 to 0019 in the consolidated balance sheet)**	**7,697,886**	
P	**LIABILITIES**		
PO	**LIABILITIES**		
PO.I	Financial liabilities led by fair value through the income statement intended for trade	-	
PO.II	Financial liabilities initially led by fair value through the income statement	-	
PO.III	Liabilities arising from hedging derivatives	-	
PO.IV	Deposits and other liabilities to banks, other financial organisations and the central bank	30,839	
PO.V	Deposits and other liabilities to other clients	3,444,564	
PO.VI	Change in fair value of hedged items	-	
PO.VII	Own securities issued and other borrowings	-	
	Of which liabilities arising from hybrid instruments	-	r
PO.VIII	Subordinated liabilities	1,235,022	
	Of which subordinated liabilities included in the bank's supplementary capital	1,235,022	s
PO.IX	Provisions	4,841	
PO.X	Liabilities under assets held for sale and discontinued operations	-	
PO.XI	Current tax liabilities	-	
PO.XII	Deferred tax liabilities	14,710	
PO.XIII	Other liabilities	35,173	
PO.XIV	**TOTAL LIABILITIES (EDP items from 0401 to 0413 in the consolidated balance sheet)**	**4,765,149**	

Table 3a (continued)

	CAPITAL		
PO.XV	Share Capital	3,631,200	
	Of which nominal value of paid-in shares, except cumulative preferential shares	3,631,200	a
	Of which share premium on share capital, except cumulative preferential shares	-	b
	Of which nominal value of cumulative preferential shares	-	nj
	Of which nominal value of cumulative preferential shares	-	o
PO.XVI	Own shares	-	
	Of which acquired own shares, except cumulative preferential shares	-	j
	Of which acquired own cumulative preferential shares	-	t
PO.XVII	Profit	-	
	Of which retained earnings from previous years	-	g
	Of which profit of the current year	-	d
PO.XVIII	Loss	704,472	
	Of which losses from previous years	-	ž
	Of which losses from the current year	704,472	z
PO.XIX	Reserves	6,009	
	Of which reserves from profit which represent element of core capital	-	v
	Of which other positive consolidated reserves	-	e
	Of which other negative consolidated reserves	-	n
	Of which other net negative revaluation reserves	-	lj
	Of which gains on bank liabilities measured at fair value due to a change in the bank's credit rating	-	m
	Of which positive revaluation reserves created on the basis of effects of changes in fair value of fixed assets, securities and other assets which are, in accordance with IFRS/IAS, credited to these reserves	5,996	p
PO.XX	Unrealised losses	-	
	Of which unrealised losses on securities available for sale	-	l
PO.XXI	Non-controlling participation	-	
	Of which minority participation in subordinated companies	-	đ
PO.XXII	**TOTAL CAPITAL (the result of adding, i.e. subtracting the following EDP items from consolidated balance sheet items: 0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0**	2,932,737	
PO.XXIII	**TOTAL CAPITAL SHORTFALL (the result of adding, i.e. subtracting the following EDP items from consolidated balance sheet items: 0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0**	-	
PO.XXIV	**TOTAL LIABILITIES (the result of adding, i.e. subtracting the following EDP items from consolidated balance sheet items: 0414 + 0422 - 0423)**	**7,697,886**	
V.P.	**OFF-BALANCE SHEET ITEMS**		
V.P.A.	Off-balance sheet assets	5,118,550	
	Of which amount of shares received in pledge, except cumulative preferential shares	-	k
	Of which amount of cumulative preferential shares received in pledge	-	ć
V.P.P.	Off-balance sheet liabilities	5,118,550	

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Table 3b

3. Matching the items in the decomposed balance sheet and items in PI–KAP Form

Item No.	Position Title	Amount	Data source in accordance with references from step 2
I	**TOTAL CORE CAPITAL**	**2,570,758**	
1.	**CORE CAPITAL BEFORE DEDUCTIONS**	**3,631,200**	
1.1.	**Nominal value of paid-in shares, other than cumulative preference shares**	3,631,200	**a**
1.2.	**Share premium**	-	**b**
1.3.	**Reserves from profit**	-	**v**
1.4.	**Retained earnings from previous years**	-	**g**
1.5.	**Profit from the current year**	-	**d**
1.6.	**Minority participation in subordinate companies**	-	**đ**
1.7.	**Other positive consolidated reserves**	-	e
2.	**DEDUCTIBLES FROM CORE CAPITAL**	**1,060,442**	
2.1.	**Losses from previous years**	-	**ž**
2.2.	**Losses from the current year**	704,472	**z**
2.3.	**Intangible assets**	238,937	**i**
2.4.	**Acquired own shares, other than cumulative preference shares**	-	**j**
2.5.	**Amount of shares received in pledge, other than cumulative preferential shares**	-	**k**
2.6.	**Regulatory value adjustments:**	**117,033**	
2.6.1.	Unrealised losses on securities available for sale	-	**l**
2.6.2.	Other net negative revaluation reserves	-	**lj**
2.6.3.	Gains on bank liabilities measured at fair value due to the change in bank's credit rating	-	m
2.6.4.	Required reserve from profit for estimated losses on balance sheet assets and off-balance sheet items of the bank	117,033	
2.7.	**Other negative consolidated reserves**	-	**n**
II	**TOTAL SUPPLEMENTARY CAPITAL**	**1,241,018**	
1.	**CORE CAPITAL BEFORE DEDUCTIONS**	**1,241,018**	
1.1.	**Nominal value of paid cumulative preference shares**	-	nj
1.2.	**Share premium on cumulative preferential shares**	-	**o**
1.3.	**Part of revaluation reserves of the bank**	5,996	**p**
1.4.	**Hybrid instruments**	-	**r**
1.5.	**Subordinated liabilities**	1,235,022	**s**
1.6.	**Overallocation of impairment allowances, provisions and required reserves from profit relative to expected losses**	-	
2.	**DEDUCTIBLES FROM SUPPLEMENTARY CAPITAL**	**-**	
2.1.	**Acquired own cumulative preference shares**	-	t
2.2.	**Receivables in respect to the bank's balance-sheet assets and off-balance sheet items secured by a hybrid instrument or subordinated liability**	-	
2.3.	**Amount of cumulative preferential shares received in pledge**	-	**ć**
2.4.	**Amount of capital in excess of limitations on supplementary capital**	-	

Table 3b (continued)

III	**TOTAL CAPITAL**	**3,811,776**	
1.	**TOTAL CAPITAL BEFORE DEDUCTIONS**	3,810,824	
2.	**DEDUCTIBLES FROM CAPITAL**	-	
	Of which reduction in core capital	-	
	Of which reduction in supplementary capital	-	
2.1.	**Direct or indirect investment in banks and other financial sector entities that exceed 10% of the capital of said banks and/or other financial sector entities**	**-**	**(u+f+h)**
2.2.	**Investment in hybrid instruments and subordinated liabilities of other banks and financial sector entities in which the Bank has a direct or indirect investment that exceeds 10% of the capital of said entities**	-	
2.3.	**The total amount of direct and indirect investments in banks and other financial sector entities in the amount of up to 10% of their capital, as well as investment in their hybrid instruments and subordinated liabilities that exceeds 10% of the sum of core and supplementary capital of a bank for which the capital is calculated**	-	
2.4.	**The amount by which qualified participation in non-financial sector entities has been exceeded**	-	
2.5.	**Underallocation of impairment allowances, provisions and required reserves from profit relative to expected losses**	-	
2.6.	**The amount of exposure to free deliveries if the counterparty failed to fulfil its obligation within four business days**	-	
2.7.	**Receivables and potential liabilities toward parties related to a bank or employees in the bank which the bank has negotiated under the terms that are more favourable than the terms negotiated with other parties**	-	
IV	**NOTES:**	-	
	Positive/negative difference between total impairment allowances for balance sheet assets, provisions for losses on off-balance sheet items and required reserves from profit on the one hand, and total estimated losses under the IRB approach, on the other	-	
	Amount of impairment allowances, provisions and required reserves from the bank's profit	-	
	Of which on a group basis	-	
	Of which on an individual basis	-	
	Amount of expected losses under the IRB approach	-	
	Gross amount of subordinated liabilities	1,235,022	

4. CAPITAL REQUIREMENTS AND INTERNAL CAPITAL ADEQUACY ASSESSMENT

4.1. Regulatory Capital Requirements

In accordance with the Decision on the Capital Adequacy of Banks, the Bank calculates the minimal capital requirements for the following risks:

- interest rate risk - by applying the standardised approach;
- FX risk - by applying the standardised approach;
- operational risk - by applying the basic indicator approach;

and maintains the capital adequacy in accordance with the regulatory requirements at a level above 12%.

The following **Table 4** shows data on total capital requirements and the capital adequacy ratio of the Bank as at 31 December 2016.

Table 4 **PI–AKB**

Data on total capital requirements and the capital adequacy ratio

(in 000 RSD)

Item No.	Title	Amount	Coverage by core capital	Coverage by supplementary capital
		1	2	3
1.	TOTAL CORE CAPITAL	2,570,105		
2.	TOTAL SUPPLEMENTARY CAPITAL	1,240,719		
II	CAPITAL REQUIREMENTS	413,722		
1.	CAPITAL REQUIREMENT FOR CREDIT RISK, COUNTERPARTY RISK AND SETTLEMENT/DELIVERY RISK ON THE BASIS OF FREE DELIVERIES	402,090	402,090	-
1.1.	Standardised Approach (SA)	3,350,751		
1.1.1.	Exposures to governments and central banks	-		
1.1.2.	Exposures towards territorial autonomies, and units of local government	-		
1.1.3.	Exposures towards public administrative bodies	-		
1.1.4.	Exposures towards international development banks	-		
1.1.5.	Exposures towards international organisations	-		
1.1.6.	Exposures towards banks	292,359		
1.1.7.	Exposures towards corporates	1,984,248		
1.1.8.	Retail exposures	17		
1.1.9.	Exposures secured on real estate collateral	-		
1.1.10.	Past due items	-		
1.1.11.	High-risk exposures	-		
1.1.12.	Exposures in the form of covered bonds	-		
1.1.13.	Exposures in the form of open-end investment funds	-		
1.1.14.	Other exposures	1,074,127		
1.2.	Internal Ratings Based Approach (IRB)	-		
1.2.1.	Exposures to governments and central banks	-		
1.2.2.	Exposures towards banks	-		
1.2.3.	Exposures towards corporates	-		
1.2.4.	Retail exposures	-		
1.2.4.1.	Retail exposures secured by real estate collateral	-		
1.2.4.2.	Qualifying revolving retail exposures	-		
1.2.4.3.	Other retail exposures	-		
1.2.5.	Equity exposures	-		
1.2.5.1.	Applied approach:	-		
1.2.5.1.1.	Simple Risk Weight Approach	-		
1.2.5.1.2.	PD/LGD approach	-		
1.2.5.1.3.	Internal models approach	-		
1.2.5.2.	Types of equity exposures	-		
1.2.5.2.1.	Exchange traded equity exposures	-		
1.2.5.2.2.	Non-exchange traded equity exposures in sufficiently diversified portfolios	-		
1.2.5.2.3.	Other equity exposures	-		
1.2.5.2.4.	Equity exposures to which the bank applies the Standardised Approach to credit risk	-		
1.2.6.	Exposures to other assets	-		
2	CAPITAL REQUIREMENT FOR SETTLEMENT/DELIVERY RISK ON THE BASIS OF UNSETTLED TRANSACTIONS	-	-	-

Table 4 (continued)

3	CAPITAL REQUIREMENT FOR MARKET RISKS	-	-	-
3.1.	Capital requirements for price, foreign exchange and commodity risks calculated under standardised approaches	-	-	-
3.1.1.	Capital requirements for price risk arising from debt securities	-	-	-
3.1.2.	Capital requirements for price risk arising from equity securities	-	-	-
3.1.3.	Capital requirement for foreign exchange risk	-	-	-
3.1.4.	Capital requirements for commodity risk	-	-	-
3.2.	Capital requirements for price, foreign exchange and commodity risks calculated under the Internal Models Approach	-	-	-
4	CAPITAL REQUIREMENTS FOR OPERATIONAL RISK	11,632	11,632	-
4.1.	Capital requirements for operational risk calculated under the Basic Indicator Approach	11,632	11,632	-
4.2	Capital requirements for operational risk calculated under the Standardised Approach	-	-	-
4.3.	Capital requirements for operational risk calculated under the Advanced Approach	-	-	-
5	COVERAGE OF CAPITAL REQUIREMENTS	413,722	413,722	-
III	CAPITAL ADEQUACY INDICATOR (%)	110.53%		

4.2. Internal Capital Adequacy Assessment

The Bank implements the ICAAP, which includes the following phases:

1) Determining materially significant risks;
2) Calculation of internal capital requirement for individual risks;
3) Determining total internal capital requirements;
4) Stress tests of internal capital requirements and their impact on ICAAP;
5) Comparison of the following elements:
    - Capital calculated in accordance with the NBS Decision which governs the capital adequacy of banks and available internal capital,
    - minimal capital requirements calculated in accordance with the NBS Decision which governs the capital adequacy of banks and available internal capital requirements for individual risks,
    - the sum of the minimal capital requirements calculated in accordance with the NBS Decision which governs the capital adequacy of banks and total internal capital requirements.

When determining the materially significant risks to which the Bank is exposed and those involved in the ICAAP, the type, scope and complexity of business are taken into account, as is the specificity of the market in which the Bank operates. Assessment is performed in relation to risks for which capital requirements are calculated in accordance with the NBS Decision which governs capital adequacy, as well as risks that are not covered in full or at all by the above mentioned Decision. The Bank applies quantitative and qualitative approaches when evaluating the material significance of risks.

The Risk Management Department, as well as other organisational units involved in the internal capital adequacy assessment process, shall regularly, and no less than once per year, verify and review the ICAAP Methodology, and if necessary, propose necessary changes and make adequate adjustments to the process.

In addition to the regular annually scheduled process check, the Bank shall put into question and adjust the process whenever it is exposed to new risks and significant changes, as in its strategic and operational plans, so as in the external environment.

Results of the internal capital adequacy assessment process as at 31 December 2016 - allocating internal capital requirements

Taking into account the implemented quantitative and qualitative evaluation reviews of materially significant risk and the valid ICAAP Methodology, the Bank has determined that as at 31 December 2016, it is necessary to allocate the following internal capital requirements for said date.

Table 5 - Overview of internal capital requirements

in 000 RSD

Type of risk	Internal capital requirement
Credit Risk	402,090
Operational Risk	14,760
Strategic Risk	31,669
IS Risk	14,011
Concentration Risk	71,706
Compliance Risk	15,598
Money Laundering and Terrorist Financing Prevention	7,005
FX-Induced Credit Risk	11,693
Other Risks	4,021
Total:	**572,553**

5. EXPOSURE TO RISKS

5.1. Credit Risk

The following tables provide an overview of the total and average exposure amounts per class and exposure categories. All of the *Average* columns of the following tables show the average exposure for the following four reporting dates: 31 March, 30 June, 30 September and 31 December 2016.

Exposure data per exposure class as at 31 December 2016:

Table 6 The amount of exposure per class, prior to mitigation technique

in 000 RSD

CLASS	Risk balance sheet assets		Risk off-balance sheet items		Off-balance sheet items not payable		Financial derivatives	
	Total	Average	Total	Average	Total	Average	Total	Average
Governments and central banks	3,116,541	3,023,808	-	50,001	44	45	-	-
Territorial Units Autonomies and local governments	-	-	-	-	-	-	-	-
Public administrative bodies	-	-	-	-	-	-	-	-
International development banks	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-
Banks	1,344,874	541,331	-	-	-	-	46,769	33,749
Companies	1,596,605	1,212,344	917,953	978,566	1,257,455	314,364	-	-
Private individuals	17	4	-	-	-	-	-	-
High-risk exposures	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-	-
Investments in open investment funds	-	-	-	-	-	-	-	-
Other investments	1,308,630	900,063	103,074	42,862	475,452	232,511	-	-
Total	**7,366,667**	**5,677,549**	**1,021,027**	**1,071,429**	**1,732,951**	**546,919**	**46,769**	**33,749**

Detailed information regarding credit risk exposure has been disclosed in the Bank’s Notes to the Financial Statements as at 31 December 2016.

5.1.1. Geographic Distribution of Exposure per Asset Class

The following tables present credit risk exposure per geographical distribution by exposure class as at 31 December 2016:

Table 7 - Exposures to governments and central banks

in 000 RSD

CLASS	Risk balance sheet assets		Risk off-balance sheet items		Off-balance sheet items not payable	
	Total	Average	Total	Average	Total	Average
Serbia	3,116,541	3,023,808	-	50,001	44	45
Total	**3,116,541**	**3,023,808**	**-**	**50,001**	**44**	**45**

Table 8 - Exposures towards banks

in 000 RSD

CLASS	Risk balance sheet assets		Financial derivatives	
	Total	Average	Total	Average
Serbia	746,171	266,402	-	-
Luxemburg	474,005	243,709	-	-
United Arab Emirates	124,698	31,221	46,768	33,748
Total	**1,344,874**	**541,332**	**46,768**	**33,748**

Table 9 - Exposures towards corporates

in 000 RSD

CLASS	Risk balance sheet assets		Risk off-balance sheet items		Off-balance sheet items not payable	
	Total	Average	Total	Average	Total	Average
Vojvodina	613,602	510,855	494,171	214,578	63,472	15,868
Belgrade	982,997	701,280	422,782	756,760	1,193,983	298,496
Šumadija and Western Serbia	6	140	1,000	7,229	-	-
Southern and Eastern Serbia	-	69	-	-	-	-
Total	**1,596,605**	**1,212,344**	**917,953**	**978,567**	**1,257,455**	**314,364**

Table 10 Retail exposures

in 000 RSD

CLASS	Risk balance sheet assets		Risk off-balance sheet items		Off-balance sheet items not payable	
	Total	Average	Total	Average	Total	Average
Serbia	10	3	-	-	-	-
Germany	7	2	-	-	-	-
Total	**17**	**5**	**-**	**-**	**-**	**-**

Table 11 - Other exposures

in 000 RSD

CLASS	Risk balance sheet assets		Risk off-balance sheet items		Off-balance sheet items not payable	
	Total	Average	Total	Average	Total	Average
Vojvodina	802,300	600,333	-	-	-	-
Belgrade	494,186	285,214	103,074	42,862	475,452	232,511
Šumadija and Western Serbia	432	2,093	-	-	-	-
Southern and Eastern Serbia	-	3,971	-	-	-	-
The United States of America	11,712	8,452	-	-	-	-
Total	**1,308,630**	**900,063**	**103,074**	**42,862**	**475,452**	**232,511**

5.1.2. Sector Distribution of Exposure Based on Asset Class

Sector distribution of all exposures as at 31 December 2016 (i.e. throughout 2016 for averages), per exposure class is presented in the following tables:

Table 12 - Exposures towards banks

in 000 RSD

CLASS	Risk balance sheet assets		Financial derivatives	
	Total	Average	Total	Average
Domestic banks and other monetary intermediation	740,834	262,202	-	-
Insurance	5,337	4,200	-	-
Foreign banks	598,703	274,929	46,769	33,749
Pension funds	-	-	-	-
Total	**1,344,874**	**541,331**	**46,769**	**33,749**

Table 13 - Exposures towards corporates

in 000 RSD

CLASS	Risk balance sheet assets		Risk off-balance sheet items		Off-balance sheet items not payable	
	Total	Average	Total	Average	Total	Average
Entrepreneurs	-	68	-	-	-	-
Mining, processing industry, water supply and similar activities	346,319	297,778	116,209	148,228	306,885	76,721
Power, gas, steam supply and air-conditioning	-	-	-	-	-	-
Transport and warehousing, housing and catering services, information and communication	39,754	75,272	92,721	110,494	21,188	5,297
Real estate, professional, scientific and technical activities, administrative and support service activities	144	1,555	-	46,191	61,736	15,434
Agriculture, forestry, fishery	154,007	153,653	-	-	-	-
Construction	354,197	122,738	3,527	2,625	-	-
Foreign legal entities with the exception of banks	-	-	-	-	-	-
Wholesale and retail trade, repair of motor vehicles and motorbikes	697,246	556,350	705,496	671,029	867,646	216,912
Other	4,938	4,930	-	-	-	-
Total	**1,596,605**	**1,212,344**	**917,953**	**978,567**	**1,257,455**	**314,364**

The following table presents an overview of exposure to remaining maturity per exposure class as at 31 December 2016:

Table 14 - Retail Exposures

in 000 RSD

CLASS	Risk balance sheet assets		Risk off-balance sheet items		Off-balance sheet items not payable	
	Total	Average	Total	Average	Total	Average
Retail	17	4	-	-	-	-
Total	**17**	**4**	**-**	**-**	**-**	**-**

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Table 15 - Other exposures

in 000 RSD

CLASS	Risk balance sheet assets		Risk off-balance sheet items		Off-balance sheet items not payable	
	Total	Average	Total	Average	Total	Average
Transport and warehousing, housing and catering services, information and communication	26,455	12,597	-	-	78,714	19,679
Mining, processing industry, water supply and similar activities	-	516	-	-	-	-
Agriculture, forestry, fishery	12	3	-	-	-	-
Construction	-	51,073	49,299	12,325	-	-
Real estate, professional, scientific and technical activities, administrative and support service activities	185	6,133	-	-	-	-
Wholesale and retail trade, repair of motor vehicles and motorbikes	804,278	605,453	-	-	-	-
Other	477,700	224,288	53,775	30,537	396,738	212,832
Total	**1,308,630**	**900,063**	**103,074**	**42,862**	**475,452**	**232,511**

5.1.3. Distribution of Exposures on Remaining Maturity

The following table presents an overview of exposure to remaining maturity per exposure class as at 31 December 2016:

Table 16 - Exposures according to remaining maturity

in 000 RSD

CLASS	Risk balance sheet assets	Risk off-balance sheet items	Off-balance sheet items not payable	Financial derivatives
Governments and central banks	**3,116,541**	**-**	**44**	**-**
up to 90 days	-	-	-	-
from 91 to 180 days	1,224,924	-	-	-
from 181 to 365 days	-	-	-	-
over 365 days	825,952	-	-	-
no deadline	1,065,665	-	44	-
Banks	**1,344,874**	**-**	**-**	**46,769**
up to 90 days	1,214,839	-	-	-
from 91 to 180 days	-	-	-	-
from 181 to 365 days	-	-	-	46,769
over 365 days	-	-	-	-
no deadline	130,035	-	-	-
Companies	**1,596,605**	**917,953**	**1,257,455**	**-**
up to 90 days	36,097	281,590	-	-
from 91 to 180 days	315,954	116,575	-	-
from 181 to 365 days	857,411	406,880	-	-
over 365 days	369,479	112,908	-	-
no deadline	17,664	0	1,257,455	-
Retail	**17**	**-**	**-**	**-**
up to 90 days	17	-	-	-
from 91 to 180 days	-	-	-	-
from 181 to 365 days	-	-	-	-
over 365 days	-	-	-	-
no deadline	-	-	-	-
Other exposures	**1,308,630**	**103,074**	**475,452**	**-**
up to 90 days	-	-	-	-
from 91 to 180 days	-	-	-	-
from 181 to 365 days	-	-	-	-
over 365 days	-	-	-	-
no deadline	1,308,630	103,074	475,452	-
Total	**7,366,667**	**1,021,027**	**1,732,951**	**46,769**

5.1.4. Distribution of Exposures for which Impairment was Assessed

The Bank formed impairment for the first time, i.e. provisions for the loan portfolio for the reporting date as at 31 December 2016. The complete amount of impairment relates to group impairment. The Bank's portfolio is without impairment allowances as at 31 December 2015.

Table 17 - Changes to impairment allowances and provisions throughout 2016

in 000 RSD

CLASS	Initial Balance	Increase Period	Decrease Period	Other	Final Balance
Allowance for impairment	-	10,237	-	-	10,237
Provisions	-	1,391	-	-	1,391
Total	**-**	**11,628**	**-**	**-**	**11,628**

Detailed information on impairment allowances and the number of days in arrears has been disclosed in the Bank's Notes to the Financial Statements as at 31 December 2016.

5.1.5. Credit Rating and Calculation of the Capital Requirement for Credit Risk

The Bank applies the Standardised Approach to credit risk. The Bank applies Moody's Investor Services Ltd. credit ratings, which has received the approval of the National Bank of Serbia as a recognised external credit rating agency, in accordance with the Decision on the Capital Adequacy of Banks.

Throughout 2016, the Bank applied the credit ratings of a recognised rating agency in the calculation of risky assets for exposures to banks, mapping external ratings into suitable credit quality categories according to the following table:

Table 18 - Credit Ratings

<table>
<tr><td colspan="2">Recognised rating agencies</td><td>Moody's Investor Service LDT One Canada Square, Canary Wharf London E14 5FA
Decision G. No. 1370 of 28 February 2012</td></tr>
<tr><td rowspan="2">Method of issuing consent</td><td>Based on assessed fulfilment of conditions related to credit quality methodology and assessment - direct recognition</td><td></td></tr>
<tr><td>Based on the previous consent of no less than two regulatory bodies with which the NBS has signed collaboration agreements with submitted suitable documentation - indirect recognition</td><td>X</td></tr>
</table>

	Based on evidence of registration in an EU member state, issued by the competent authority	
Basic market segment for which consent has been issued	public finance	X
	corporate finance	X
	structured finance	
Mapping long-term credit ratings into categories of credit quality (for exposures to governments, central banks and companies)	1	from Aaa to Aa3
	2	from A1 to A3
	3	from Baa1 to Baa3
	4	from Ba1 to Ba3
	5	from B1 to B3
	6	Caa1 and lower
Mapping long-term credit assessments into categories of credit quality (for exposures to banks and companies)	1	P-1
	2	P-2
	3	P-3
	4 to 6	NP
Mapping based on investments in open funds	1	from Aaa to Aa3
	2	from A1 to A3
	3 and 4	from Baa1 to Baa3
	5 and 6	B1 and lower
Recognition of unsolicited credit ratings		exposures to governments and central banks

Source: Based on data found on the website of the NBS:http://www.nbs.rs/internet/latinica/55/55_5/rejting_agencije.pdf

5.1.6. Credit Risk Mitigation Techniques

The following table presents exposures covered by credit risk mitigation instruments per exposure class as at 31 December 2016:

Table 19 - Exposures covered by credit risk mitigation instruments per exposure class

in 000 RSD

Exposure class	Founded credit protection: the amount of exposure covered by financial assets	Founded credit protection: the amount of exposure covered by other material protection instruments	Unfounded credit protection
Governments and central banks	-	-	-
Territorial autonomies and units of local government	-	-	-
Public administrative bodies	-	-	-
International development banks	-	-	-
International organisations	-	-	-
Banks	-	-	-
Companies	24,347	-	-
Private individuals	-	-	-
High-risk exposures	-	-	-

Covered bonds	-	-	-
Investments in open investment funds	-	-	-
Other investments	-	-	-
Total	**24,347**	**-**	**-**

Detailed information on collateral instruments has been disclosed in the Bank's Notes to the Financial Statements as at 31 December 2016. As at 31 December 2016 the Bank did not have in its portfolio assets acquired through the collection of receivables.

5.1.7. Credit Quality of Receivables

As at 31 December 2016, the Bank has applied the principal of monitoring early signs of risk and therefore clients could be assigned one of the following statuses:

- Disbursed (this status is assigned to all clients who regularly make payments where early signs of risk have not been identified, i.e. a higher credit risk category) or
- Intensified sub-status (assigned to clients where early signs of risk have been identified in accordance with the Managing Clients in Arrears Procedure).

As at 31 December 2016, the Bank did not have clients assigned the intensified sub-status, i.e. there were no clients with early signs of risk identified.

As at 31 December 2016, the Bank did not have a materially significant amount in problematic receivables in its portfolio (RSD 17 thousand). Also, as at 31 December 2016 the Bank did not have any restructured receivables.

5.2. Counterparty Risk

The capital requirement for counterparty risk is an element of the capital requirement for credit risk and is calculated so that the credit risk-weighted asset for counterparty risk is multiplied by 12%, i.e. the minimal capital adequacy ratio.

The amount of credit risk-weighted assets for counterparty risk is determined by applying credit risk weights to exposures in the corresponding exposure class to which the counterparty belongs.

As at 31 December 2016, the Bank had positions only in financial derivatives (foreign exchange swaps), where the capital requirement for counterparty risk is in question.

In addition to the above mentioned regulatory approach, the Bank internally monitors exposure to counterparty risk on a daily basis, taking into account internal limits for this risk.

Table 20a - Financial derivatives

in 000 RSD

Financial derivatives	Nominal value	Fair value
Receivables under derivatives	2,338,430	2,324,974

Obligations under derivatives	(2,200,276)	(2,200,276)

The fair value of financial assets through the income statement held for trading (financial derivatives) are calculated through the use of a model which discounts cash flows on current value using market interest rates and foreign currency.

Table 20b - Financial derivatives

in 000 RSD

Client Transaction	Nominal Value	Base for the calculation of net risky assets*	Risk-weighted Assets	Capital Requirements
FX swap 1	851,603	17,032	8,516	1,022
FX swap 2	755,698	15,114	7,557	907
FX swap 3	731,128	14,623	7,311	877
TOTAL	**2,338,430**	**46,769**	**23,384**	**2,806**

5.3. Market Risk

When market risks are in question, the Bank is currently exposed to interest rate risk and foreign exchange risk.

5.3.1. Interest Rate Risk in the Banking Book

Interest rate risk occurs when changes to market interest rates negatively impact the Bank's financial results and capital. The main sources of interest rate risk are maturity mismatch and re-pricing risk, yield curve risk, basis risk and option risk.

The Interest Rate Risk Exposure Report is prepared by the Risk Management Department and is presented and analysed quarterly at the ALCO.

When estimating exposure to interest rate risk, the Bank uses the following assumptions:

- All assets and liabilities from the balance sheet of the Bank are classified into specific periods of time depending on the moment of maturity (for items that have a fixed interest rate) or a period following changes in interest rates (for items that have a variable interest rate).
- For all currencies, as an interest rate shock (sudden change in interest rate), a 200 BP is applied in accordance with the recommendation of Basel standards.
- The assumption on the movement of non-term deposits is regarded as conservative and is based on the fact that non-term deposits become due *overnight*.

Analysis of exposure to option risk, i.e. exposure to the risk of premature cancellation of a term deposit or loan prepayment is considered at ALCO sessions. Taking into account the Bank's business policy and the interest rates within the loan and deposit portfolio, the assumption of the Bank is that the amount of the premature cancellation of a term deposit or loan prepayment is not materially significant.

Regarding general information on interest income, detailed information has been disclosed in the Bank's Notes to the Financial Statements as at 31 December 2016.

5.3.2. Foreign Exchange Risk

When it comes to the Bank's foreign exchange position, it is monitored daily through FX risk indicators. The FX risk indicator remained within the limits defined by the regulator throughout the year. The Bank strove to keep the position almost closed, and therefore was not significantly exposed to FX risk.

5.4. Operational Risk

The Bank calculates the capital requirement for operational risk using the Basic Indicator method.

Table 21 - Capital Requirements for Operational Risk

in 000 RSD

No.	Description	31 December 2014	31 December 2015	31 December 2016
1	**Net interest income**	**-**	**8,829**	**99,454**
-	Interest income	-	9,425	133,519
-	Interest expenses	-	(596)	(34,065)
2	**Income from dividends and participation**	**-**	**-**	**-**
3	**Net income from fees and commissions**	**-**	**294**	**12,766**
-	Income from fees and commissions	-	1,400	15,557
-	Expenses from fees and commissions	-	(1,106)	(2,791)
4	**Gains/losses from the sale of securities in the trading book**	**-**	**-**	**-**
5	**Income/expenses from changes in the value of securities**	**-**	**-**	**-**
6	**Exchange rate differences**	**-**	**5,870**	**-103,623**
-	Foreign exchange gains	-	33,370	510,200
-	Foreign exchange losses	-	(27,499)	(613,823)
7	**Other income**	**-**	**0**	**131,509**
	Risk indicator	-	14,993	140,106
	Risk indicator * 15%	-	2,249	11,632
	Capital Requirement	**-**	**2,249**	**11,632**

5.5. Equity Exposures in the Banking Book

As at 31 December 2016, the Bank did not have any exposures in the form of equity exposures in the banking book.