mirabank

Partner of the Best

Disclosure of Bank Data and Information

31 December 2017

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Partner of the Best

Content

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), which 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 Committee of the Bank, Decision on the Adoption of the Articles of Association 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: Španskih boraca 1 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 2017.

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 Committee	President of the Executive Committee
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2. RISK MANAGEMENT STRATEGY AND POLICY

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

The Bank has defined an appropriate Risk Management Strategy as well as a set 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 of the Bank.

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 decisions in terms of return and risks taken on 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;
- 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 for taking on risk and risk tolerance;
- Each risk taken must be approved within the risk management framework;
- Accepted risks must be adequately compensated for through return;
- 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, as well as the defined risk profile and risk appetite (risk tolerance), are 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 Bank's EC is responsible for their implementation. Policies define and delineate 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 Committee 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.

The Credit Risk Management Policy defines risks the Bank is exposed to 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 repayment of a specific loan, as well as when drafting the regular annual report on the client's business operations.

Said credit risk assessment 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 Risk Management Division 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 Committee 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 2017, the maximum value of the FX risk indicator reached 2.43%, an average value of 0.59%, and a minimum of 0.00%. The FX risk indicator amounted to 0.18% as at 31 December 2017.

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 any FX risk mitigation techniques 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 Committee 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 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 Committee.

The operational risk management framework has been documented in detail and adequately documented 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, 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 and relieved of duty by the BoD.

With the aim of implementing regular business activities within its scope, as well as identifying and monitoring compliance risk, the 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 the handling of 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 ensures 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 affect 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 Committee 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 and risks that arise therefrom, 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 EC 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 2017, 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 which 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 Committee 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 2017 amounted to 18.73%; the average value amounted to 6.23%; and the minimum value amounted to 1.37%. The liquidity ratio amounted to 3.84% as at 31 December 2017. The maximum value of the narrow liquidity indicator throughout 2017 amounted to 16.85%; the average value amounted to 5.28%; and the minimum value amounted to 0.97%. The narrow liquidity indicator amounted to 2.90% as at 31 December 2017. The liquidity coverage ratio (LCR) amounted to 898% as at 31 December 2017. 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, the Bank's liquidity plan, stress testing 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 an 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, Information Security Policy, 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 EC 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 2017, 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 Committee.

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 on who intended recepients are 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 Committee 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.

3. MANAGING THE BANK'S CAPITAL

3.1. BANK CAPITAL

The total capital of the Bank consists of **Tier 1 capital** and **Tier 2 capital**.

The **Tier 1 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 years* in the amount of RSD 704,472 thousand, the *loss of the current year* in the amount of RSD 485,373 thousand, *intangible assets* in the amount of RSD 211,679 thousand, *unrealised losses on securities* available for sale in the amount of RSD 185 thousand and *required reserves for estimated losses* on balance sheet assets and off-balance sheet items of the Bank in the amount of RSD 19,669 thousand.

Tier 2 capital consists of subordinated liabilities of the Bank in the amount of RSD 1,184,727 thousand.

The following **Tables 1a and 1b** show data and information relative to linking the Bank's Balance Sheet items with the Bank's capital positions, as presented in the Report on Capital compiled in line with the decision governing the Bank's capital adequacy reporting as at 31 December 2017.

Table 1a **PI-UPK**

Data referring to the Bank's capial
Linking positions in the brokendown Balance Sheet with the PI-KAP form positions

(in 000 RSD)

Item No.	Position title	Balance Sheet	Reference
A	ASSETS		
A.I	Cash and assets with the central bank	382,825	
A.II	Pledged financial assets	-	
A.III	Financial assets led by fair value through the income statement intended for trade	5,800	
A.IV	Financial assets initially led by fair value through the income statement	-	
A.V	Financial assets available for sale	1,387,095	
A.VI	Financial assets held to maturity	-	
A.VII	Loans and receivables from banks and other financial organisations	1,706,061	
A.VIII	Loans and receivables from clients	2,200,643	
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	-	
A.XII	Investments in subsidiaries	-	
A.XIII	Intangible investments	211,679	b
A.XIV	Property, plant and equipment	114,390	
A.XV	Investment property	-	
A.XVI	Current tax assets	-	
A.XVII	Deferred tax assets	-	
A.XVIII	Fixed assets assets held for sale and discontinued operations	-	
A.XIX	Other assets	14,234	
A.XX	TOTAL ASSETS (items labelled AOP from 0001 to 0019 in consolidated Balance Sheet)	6,022,727	

Table 1a (continued)

(in 000 RSD)

Item No.	Position title	Balance Sheet	Reference
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	41,250	
PO.V	Deposits and other liabilities to other clients	2,258,537	

PO.VI	Change in fair value of hedged items	-	
PO.VII	Own securities issued and other borrowings	-	
PO.VIII	Subordinated liabilities	1,184,958	
-	Of which subordinated liabilities included in the bank's Tier 2 capital	1,184,727	d
PO.IX	Provisions	5,971	
PO.X	Liabilities under assets held for sale and discontinued operations	-	
PO.XI	Current tax liabilities	-	
PO.XII	Deferred tax liabilities	13,391	
PO.XIII	Other liabilities	49,910	
PO.XIV	**TOTAL LIABILITIES (EDP items from 0401 to 0413 in the consolidated balance sheet)**	**3,554,017**	
-	CAPITAL		
PO.XV	Share capital	3,631,200	
-	Of which: shares and other capital insruments meeting conditions from Item 8. DCA	3,631,200	a
PO.XVI	Own shares	-	
PO.XVII	Profit	-	
PO.XVIII	Loss	1,189,845	
-	Of which losses from previous years	704,472	c
-	Of which losses from the current year	485,373	c
PO.XIX	Reserves	27,540	
-	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	27,540	
PO.XX	Unrealised losses	185	
-	Of which unrealised losses on securities available for sale	185	c
PO.XXI	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	2,468,710	
PO.XXII	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.XXIII	TOTAL LIABILITIES (the result of adding, i.e. subtracting the following EDP items from consolidated balance sheet items: 0414 + 0422 - 0423)	**6,022,727**	
V.P.	**OFF-BALANCE SHEET ITEMS**		
V.P.A.	Off-balance sheet assets	4,242,279	
V.P.P.	Off-balance sheet liabilities	4,242,279	

Table 1b — PI-KAP

Data referring to the Bank's capital

Linking positions in the brokendown Balance Sheet and positions in the PI-KAP form

Item No.	Position title	Amount	Data source in line with references from step 2
	Common equity Tier 1 capital (CET 1): Elements		
1	Instruments of CET 1 and corresponding issue premium	**3,631,200**	
1.1	*of which. shares and other capital instruments meeting the requirements from Item 8.DCA*	3,631,200	a
1.2	*of which: corresponding issue premiums which accompany instruments from Item 1.1., i.e. paid amount above the nominal value of those instruments*	-	
2	Earnings from previous years not encumbered with future liabilities, for which the Bank's General Assembly reached a decision to be allocated to the CET1	-	

3	Earnings from the current year or earnings from the pervious year for which the Bank's General Assembly still has not reached a decision for it to be allocated to the CET1, which meets conditions in Item 10, Sub-Items 2 and 23 for the inclusion in the CET1	-	
4	Revaluation reserves and other unrealised gains	-	
5	Reserves from earnings and other reserves of the Bank, with the exception of reserves for general banking risks	-	
6	Reserves for general banking risks	-	
7	Non-controlling participation (minority participation) recognised in the CET1 **	-	
8	**CET1 before regulatory adjustments and deductibles (sum 1 to 7)**	**3,631,200**	
-	**CET1: regulatory adjustments and deductibles**	**-**	
9	Additional value adjustments (-)	-	
10	Intangible investments, including goodwill (reduced by the amount of deferred tax assets) (-)	(211,679)	b
11	Deferred tax assets depending on the Bank's future profitability, with the exception of those arising from temporary differences, reduced by related deferred tax labilities, provided that conditions from Item 14 Sub-Item 1 of DCA are met.	-	
12	Fair values for impairments with relation to gains and losses based on hedging instruments for cash flow risks for financial instruments not quantified at fair value, including projected cashflows	-	
13	IRB approach: the negative amount of difference obtained by conducting calculation in line with Item 134 of DCA (-)	-	
14	Increase in capital resulting form exposure securitization (-)	-	
15	Gains and losses based on bank liabilities measured at fair value due to a change in the Bank's credit rating	-	
16	Assets held with the pension fund at fees defined in the Bank's Balance Sheet (-)	-	
17	Direct, indirect and synthetic investments of the Bank in its own **CET1** instruments of entities in the financial sector which have mutual investments in the Bank, the investments having been made for the purpose of disclosing a higher amount of the Bank's capital (-)	-	
18	Direct, indirect and synthetic investments of the Bank in its own CET1 instruments, including own instruments of the CET1 which the Bank is obliged or may be obliged to buy as a result of a contractual obligation (-)	-	
19	Applicable amount of the Bank's Direct, indirect and synthetic investments in the CET1 instruments of entities in the financial sector in which the Bank does not hold a substantial investment (-)	-	
20	Applicable amount of the Bank's Direct, indirect and synthetic investments in the CET1 instruments of entities in the financial sector in which the Bank holds a substantial investment (-)	-	
21	The amount of exposures meeting conditions for the application of risk weighting of 1.250%, which the Bank may decide to deduct from the CET1 instead of applying the weighting	-	
21.1.	*of which: stakes in entities which are not entities from the financial sector exceeding 10% of such entities' capital, i.e. stakes allowing effective exercising of significant influence on the managing of such legal entities or those business entities' corporate policy (-)*	-	
21.2.	*of which securitised positions (-)*	-	
21.3.	*of which: free deliveries (-)*	-	

Table 1b (continued)

Item No.	Position title	Amount	Data source in line with references from step 2
22	Deferred tax assets depending on the Bank's future profitability, arising from temporary differences (amounts exceeding 10% of the Bank's CET1, from Item 21 Sub-Item 2, reduced by the amount of related tax liabilities, provided that conditions from Item 14 Sub-Item 1 of DCA are met (-)	-	
23	The sum of deferred tax liabilities and investments in entities in the financial sector in which the Bank has a substantial investment from Item 21 Sub-Item 3 of DCA (-)	-	
23.1	*of which: Direct, indirect and synthetic investments in CET 1 instruments of entities in the financial sector in which the Bank holds a substantial investment (-)*	-	
23.2	*of which: deferred tax assets arising from temporary differences*	-	
24	Loss for the current year and previous years as well as unrealised losses (-)	(1,190,030)	c
25	Tax amounts relative to the elements of the CET1 which may be envisaged at the time of capital calculation, unless the Bank has previously corrected the amount of CET1 elements by amounts in which those taxes reduce the amount up to which the CET1 elements may be used for risk or losses coverage (-)	-	
26	The amount by which CET 1 deductibles exceed the amount of the Tier 2 capital (-)	-	
27	The amount of required impairments for estimated losses arising from Balance Sheet and Off-Balance Sheet items	(19,669)	
28	**Total regulatory adjustments and deductibles from the CET1 (sum 9 to 27)**	**(1,421,378)**	
29	**CET1 (difference between 8 and 28)**	**2,209,823**	
	Tier 1 capital: elements		
30	Shares and other capital instruments meeting conditions from Item 23 of DCA and corresponding issue premiums	-	
31	CET1 instruments issued by subsidiaries recognised in the Tier 2 capital	-	
32	**Tier 2 capital before deductions (30+31)**	-	
-	**Tier 2 capital: deductibles**	-	
33	Direct, indirect and synthetic of the Bank investment in its own Tier 2 capital instruments, including instruments which the Bank is obliged or may be obliged to buy as a result of an existing contractual obligation (-)	-	
34	Direct, indirect and synthetic investments of the Bank in its own Tier 2 capital instruments of entities in the financial sector which have mutual investments in the Bank, the investments having been made for the purpose of disclosing a higher amount of the Bank's capital (-)	-	
35	Applicable amount of the Bank's Direct, indirect and synthetic investments in the Tier 2 capital instruments of entities in the financial sector in which the Bank holds a substantial investment (-)	-	
36	Direct, indirect and synthetic investments of the Bank in instruments of Tier 2 capital in the financial sector in entities where bank holds a substantial investment, excluding positions on the basis of custody for shares held five business days or shorter (-)	-	
37	Amount by which Tier 2 capital deductibles exceed the amount of the Bank's Tier 2 capital (-)	-	
38	**Total deductibles from the Tier 2 capital (sum 33 to 37)**	-	
39	**Tier 2 capital (difference between 32 and 38)**		
40	**CET1 (sum 29 and 39)**	**2,209,823**	
	Tier 2 capital: elements		
41	Shares and other Tier 2 capital instruments and subordinated liabilities which meet conditions from Item 28 of DCA and corresponding issue premiums with instruments	1,184,727	d
42	Capital instruments issued by subsidiaries recognised for the Tier 2 capital **	-	

43	Credit risk adjustments which meet the conditions to be included in the Tier 2 capital	-	
44	**Tier 2 capital before deductions (sum 41 to 43)**	**1,184,727**	
	Tier 2 capital: deductibles		
45	Direct, indirect and synthetic of the Bank investment in its own Tier 2 capital instruments and subordinated liabilities including instruments which the Bank is obliged or may be obliged to buy as a result of an existing contractual obligation (-)	-	
46	Direct, indirect and synthetic investments of the Bank in the Tier 2 capital instruments and subordinated liabilities of entities in the financial sector which have mutual investments in the Bank, the investments having been made for the purpose of disclosing a higher amount of the Bank's capital (-)	-	
47	Applicable amount of the Bank's direct, indirect and synthetic investments in the Tier 2 capital instruments of entities in the financial sector in which the Bank does not hold a substantial investment (-)	-	
48	Direct, indirect and synthetic investments of the Bank in instruments of Tier 2 capital and subordinated liabilities of entities in the financial sector where the Bank holds a substantial investment, excluding positions on the basis of custody for shares held five business days or shorter (-)	-	
49	**Total deductibles from the Tier 2 capital (sum 45 to 48)**		
50	**Tier 2 capital (difference between 44 and 49)**	**1,184,727**	
51	**Total capital (sum 40 and 50)**	**3,394,550**	
52	**Total risk weighted assets**	**4,781,182**	
	Capital adequacy ratios and capital buffer		
53	CET1 adequacy ratio (%)	**46.22%**	
54	Tier 1 adequacy ratio (%)	**46.22%**	
55	Capital adequacy ratio of the Bank (%)	**71.00%**	
56	Total regulatory capital buffer (%) ***	**3.45%**	
57	CET1 available for capital buffer coverage (%)****	**41.72%**	

The following **Table 2** shows the basic features of all the elements included in the calculation of Bank's capital as at 31 December 2017.

Table 2 **PI-FIKAP**

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

In 000 RSD

Item No.	Instrument Features	Description	Description
1.	**Issuer**	Duingraaf Financial Investments B.V., Kabelweg 37, 1014BA Amsterdam, Holland	AFLAJ INVESTMENT LLC, Abu Dhabi
1.1.	**Individual denotation (e.g. CUSIP, ISIN or Bloomberg denotation for private placements)**	ISIN: RSMIRAE27626	-
	Treatment in line with regulations	-	-
2.	**Treatment in line with the Decision on Capital Adequacy of Banks**	Instrument of CET1	Instrument of Tier 2 capital
3.	**Individual/(sub)consolidated)/individual and (sub)consolidated level of including instruments in the capital on Group level**	Individual	Individual
4.	**Instrument type**	Ordinary shares	Subordinated debt issued in the form of a financial instrument
5.	**Amount recognised for the purpose of calculating regulatory capital (in RSD thousand, as at the last reporting date)**	3,631,200	1,184,727
6.	**Nominal value of the instrument**	**The total nominal value of shares amounts to RSD 3,631,200,000 ((1,790,700+1,840,500)*1,000= RSD 3,631,200,000)**	1,184,727

6.1.	**Issuing price**	-	-
6.2.	**Purchasing price**	-	-
7.	**Accounting Classification**	Share capital	Liability – amortised value
8.	**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.	592,363.5 issued on 30/10/2015 592,363.5 issued on 02/11/2015
9.	**Instrument with or without a maturity date**	No maturity date	With maturity date
9.1.	**Original maturity**	No maturity date	592,363.5 mature on 30/10/2025 592,363.5 mature on 02/11/2025
10.	**With or without an issuer call option**	No	No
10.1.	**First date of call option activation, conditional call option activation dates and purchasing value**	-	-
10.2.	**Subsequent dates of call option activation (if applicable)**	-	-

Table 2 (continued)

Item No.	Instrument Features	Description	Description
	Coupons/dividends	-	-
11.	**Fixed or variable dividends/coupons**	-	-
12.	**Coupon rate and related indices**	-	-
13.	**Existence of mechanism of mandatory dividend cancellation**	-	-
14.1.	**Full, partial or no discretion regarding the time of dividend/coupon payment**	Full discretion	-
14.2.	**Full, partial or no discretion regarding the amount of dividend/coupon**	Full discretion	-
15.	**Step up option or other purchase incentives**	No	No
16.	**Non-cumulative or cumulative dividends/coupons**	Non-cumulative	-
17.	**Convertible or non-convertible instrument**	Non-convertible	Non-convertible
18.	**If convertible, terms under which conversion may take place**	-	-

19.	**If it is convertible, specify if it is partially or fully convertible**	-	-
20.	**If it is convertible, rate of conversion**	-	-
21.	**If it is convertible, mandatory or voluntary conversion**	-	-
22.	**If it is convertible, the instrument to which it is converted**	-	-
23.	**If it is convertible, the issuer of the instrument to which it is converted**	-	-
24.	**Possibility of value reduction**	No	No
25.	**If there is possibly to reduce value, terms under which value can be reduced**	-	-
26.	**If there is possibly to reduce value, in part or in full**	-	-
27.	**If there is possibly to reduce value, permanently or temporarily**	-	-
28.	**If temporary, specify terms of re-recognition**	-	-
29.	**Type of instrument to be collected immediately prior to said instrument in case of bankruptcy or receivership**	Subordinated debt	Other
30.	**Mismatched features of converted instruments**	-	-
31.	**If any, specify mismatched features**	-	-

3.2. Regulatory Capital Requirements and Capital Adequacy Ratio

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

- credit risk – by applying the standardised approach;
- FX risk - by applying the standardised approach;
- operational risk - by applying the basic indicator approach;
- credit valuation risk (CVA) - by applying the standardised approach;

and maintains capital adequacy in accordance with the regulatory requirements at a level above:

- 4.5% for CET1 adequacy ratio,
- 6.0% for Tier 1 capital adequacy ratio and
- 8.0% for capital adequacy ratio.

The following **Table 4** shows data on total capital requirements and the capital adequacy ratio of the Bank as at 31 December 2017.

Table 4 **PI–AKB**

Data on total capital requirements and the capital adequacy ratio

in 000 RSD

Item No.	Item title	Amount
I	CAPITAL	3,394,550
1.	TOTAL CET1	2,209,823
2.	TOTAL TIER 1 CAPITAL	-
3.	TOTAL TIER 2 CAPITAL	1,184,727
	CAPITAL REQUIREMENTS	
1.	CAPITAL REQUIREMENT FOR CREDIT RISK, COUNTERPARTY RISK AND SETTLEMENT/DELIVERY RISK ON THE BASIS OF FREE DELIVERIES	357,779
1.1.	*Standardised Approach (SA)*	4,472,244
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*	123,717
1.1.7.	*Exposures towards corporates*	2,633,520
1.1.8.	*Retail exposures*	2,765
1.1.9.	*Exposures secured on real estate collateral*	223,650
1.1.10.	*Past due items*	19,795
1.1.11.	*High-risk exposures*	-
1.1.12.	*Exposures in the form of covered bonds*	-
1.1.13.	*Exposures under securitised positions*	-
1.1.14.	*Exposures towards banks and corporates with short-term credit rating*	-
1.1.15.	*Exposures under investments in open investment funds*	-
1.1.16.	*Exposures under ownership investments*	-
1.1.17.	*Other exposures*	1,468,798

Table 4 (continued)

in 000 RSD

Item No.	Item title	Amount
1.2.	Internal rating based (IRB) approach	
1.2.1.	*Exposures towards 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.	*of which: Retail exposures collateralised with mortgages on properties*	-
1.2.4.2.	*of which: Qualified retail revolving exposures*	-
1.2.4.3.	*of which: Exposures towards SME's classified in this exposure category*	-
1.2.5.	*Exposures under ownership investments*	-
1.2.5.1.	*Applied approach:*	-
1.2.5.1.1.	*Simple risk weighting approach*	-
1.2.5.1.2.	*PD/LGD approach*	-
1.2.5.1.3.	*Internal model approach*	-
1.2.5.2.	*Types of exposures under ownership investments*	-
1.2.5.2.1.	*Tradeable ownership investments*	-
1.2.5.2.2.	*Non-tradeable ownership investments which are in sufficiently diversified portfolios*	-
1.2.5.2.3.	*Other ownership investments*	-
1.2.5.2.4.	*Ownership investments to which the Bank applies the Standardised Credit Risk Approach*	-

1.2.6.	*Exposures under securitised positions*	-
1.2.7.	*Exposures under other positions*	-
2	CAPITAL REQUIREMENT FOR SETTLEMENT/DELIVERY RISK ON THE BASIS OF UNSETTLED TRANSACTIONS	-
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*	-
	which capital requirements for price risk arising from securitised positions	-
3.1.2.	*Capital requirements for price risk arising from equity securities*	-
3.1.3.	*Additional capital requirements for large exposures from the trading book*	-
3.1.4.	*Capital requirement for foreign exchange risk*	-
3.1.5.	*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	24,692
4.1.	Capital operational risk requirement calculated by applying the basic indicator approach	24,692
4.2.	Capital operational risk requirement calculated by applying the standardised/alternative standardised indicator approach	-
4.3.	Capital operational risk requirement calculated by applying the advanced approach	-
5.	CAPITAL REQUIREMENT FOR THE EXPOSURE TO CREDIT VALUATION RISK (CVA)	23
III	CET1 ADEQUACY RATIO (%)	46.22%
IV	TIER 1 ADEQUACY RATIO (%)	46.22%
V	CAPITAL ADEQUACY RATIO (%)	71.00%

3.3. 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 capital adequacy of banks and available internal capital,
    - minimal capital requirements calculated in accordance with the NBS Decision which governs capital adequacy of banks and available internal capital requirements for individual risks,
    - a sum of the minimal capital requirements calculated in accordance with the NBS Decision which governs 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.

In terms of risk accumulation (namely its internal capital requirements) in the ICAAP, the Bank applies the method of adding the internal capital requirements for each risk specifically, the so-called *building-block* approach (i.e. a more conservative method compared to alternatives, and accordingly the overall internal capital requirements could be lower due to diversification effects).

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 2017 - 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 2017, it is necessary to allocate the following internal capital requirements for said date.

Table 1 - Overview of internal capital requirements

in 000 RSD

Type of risk	Internal capital requirement
Credit Risk	357,779
Operational Risk	24,692
Exposure to credit valuation risk (CVA)	23
Strategic Risk	58,132
IS Risk	33,875
Concentration Risk	78,895
Compliance Risk	17,880
FX-Induced Credit Risk	17,230
Other risks	3,578
Total:	**592,085**

3.4. CAPITAL BUFFERS

In accordance with the Decision on Capital Adequacy of Banks, the following capital buffers have been defined:

- capital maintenance buffer;
- countercyclical capital buffer;
- capital buffer for a global system significant bank;
- capital buffer for a system significant bank and
- capital buffer for structural system risk

As at 31 December 2017, the Bank defined the buffers for maintaining capital and for structural system risk. The capital maintenance buffer is defined at 2.5% of the Bank's risk-weighted assets whereas the structural system risk is defined at 3% of total F/X and F/X indexed loans (placements) extended to corporate and retail clients in the Republic of Serbia.

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Table 5

PI-GR

Data referring to Geographic distribution of Exposures of Relevance for the Calculation of Countercyclical Capital Buffer

in 000 RSD and %

Item No.		Other credit exposures		Exposures from the Trading Book		Exposures under securitisation		Regulatory capital requirements				Capital requirement weighting	Ratio of Countercyclical Capital Buffer
		Amount of exposure according to the standardised approach	Amount of exposure according to the IRB approach	Sum of long- and short-term positions in the Trading Book	Amount of exposure from the Trading Book as per the internal model	Amount of exposure according to the standardised approach	Amount of exposure according to the IRB approach	Of which: general credit exposures	Of which: exposures from the Trading Book	Of which exposures under securitisation	Total		
		1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
1.	**Breakdown by country**												
1.1.	Serbia	3,843,624	-	-	-	-	-	307,490	-	-	**307,490**	85.94	0%
1.2.	Austria	566,315	-	-	-	-	-	45,305	-	-	**45,305**	12.66	0%
1.3.	UAE	14,286	-	-	-	-	-	1,143	-	-	**1,143**	0.32	0%
1.4.	Switzerland	48,020	-	-	-	-	-	3,842	-	-	**3,842**	1.07	0%
2.	**Total**	**4,472,244**	**-**	**-**	**-**	**-**	**-**	**357,779**	**-**	**-**	**357,779**	**100.00**	**0%**

Table 2 – Capital buffers

in 000 RSD

Combined capital buffer requirement	**164,731**
- Capital maintenance buffer	119,530
- Countercyclical capital buffer	-
- Capital buffer for structural system risk	45,201
- Capital buffer for a system significant bank	-

Table 6 **PI-KZS**

Data on the total amount of the Bank's countercyclical capital buffer

in 000 RSD and %

1.	**Total risk weighted assets**	**4,781,182**
2.	**Specific countercyclical capital buffer ratio**	**0.00%**
3.	**Regulatory requirements for the Bank's countercyclical capital buffer**	**0**

4. EXPOSURE TO RISKS

4.1. 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 three reporting dates: 30 June, 30 September and 31 December 2017 (taking into account that the application of the new regulatory framework, based on the Basel III Standards, commenced as of the reporting date 30 June 2017, the report as at 31 March 2017 is not based on the same regulatory framework which is applicable to 30 June, 30 September and 31 December 2017 and is therefore not included in the *Average* position calculation). The shown exposures are based on data form the Bank's SP form ('net exposures').

Exposure data per exposure class as at 31 December 2017:

Table 3 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	2,205,130	3,600,621	42	42	-	-	7,108	3,959
Territorial Units Autonomies and local governments	-	-	-	-	-	-	-	-
Public administrative bodies	-	-	-	-	-	-	-	-
International development banks	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-
Banks	594,888	892,942	-	14,413	-	-	4,739	18,050
Companies	1,851,849	1,766,368	1,407,092	1,407,110	833,057	578,088	-	-

Private individuals	3,530	3,336	783	1,047	-	-	-	-
Exposures collateralised with mortgages on properties	272,361	411,457	67,680	68,302	1,701	567		
Exposures in non-settlement status	14,852	4,956						
High-risk exposures	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-	-
Banks and corporates with short-term credit rating								
Investments in open investment funds	-	-	-	-	-	-	-	-
Ownership investments								
Other exposures	844,621	466,815	676,798	557,033	-	2,667	-	-
Total	**5,787,231**	**7,146,497**	**2,152,395**	**2,047,948**	**834,758**	**581,322**	**11,847**	**22,009**

Detailed information regarding credit risk exposure has been disclosed in the Bank's Notes to the Financial Statements as at 31 December 2017.

4.1.1. Geographic Distribution of Exposure per Asset Class

The following tables present credit risk exposure per geographical distribution by exposure class as at 31 December 2017:

Table 4 - 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	2,205,130	3,600,621	42	42	-	-
Total	**2,205,130**	**3,600,621**	**42**	**42**	**-**	**-**

Table 5 - Exposures towards banks

in 000 RSD

CLASS	Risk balance sheet assets		Risk off-balance sheet assets		Financial derivatives	
	Total	Average	Total	Average	Total	Average
Belgrade	354,789	121,923	-	-	4,739	2,991
Vojvodina	-	28,198	-	-	-	-
Šumadija and Western Serbia	-	36,672	-	-	-	-
Serbia_total	**354,789**	**186,793**	**-**	**-**	**4,739**	**2,991**
Luxemburg	-	-	-	-	-	-
Switzerland	240,099	161,558	-	-	-	-
Austria	-	303,347	-	-	-	-
UAE	-	241,244	-	14,413	-	14,063
Total	**594,888**	**892,942**	**-**	**14,413**	**4,739**	**17,054**

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Table 6 - 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
Belgrade	71,319	716,184	1,400,840	1,389,899	528,249	388,667
Vojvodina	1,070,509	835,936	3,382	13,427	224,747	109,513
Šumadija and Western Serbia	-	204,009	2,870	3,785	80,061	79,908
Serbia_total	**1,841,828**	**1,756,129**	**1,407,092**	**1,407,111**	**833,057**	**578,088**
UAE	10,021	10,239	-	-	-	-
Total	**1,851,849**	**1,766,368**	**1,407,092**	**1,407,111**	**833,057**	**578,088**

Table 7 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
Belgrade	3,530	3,143	783	380	-	-
Vojvodina	-	193	-	-	-	-
Šumadija and Western Serbia	-	-	-	667	-	-
Total	**3,530**	**3,336**	**783**	**1,047**	**-**	**-**

Table 8 - Exposures collateralised with mortgages on properties

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
Belgrade	139,508	283,851	67,680	68,302	1,701	567
Vojvodina	132,853	127,606	-	-	-	-
Total	**272,361**	**411,457**	**67,680**	**68,302**	**1,701**	**567**

Table 9 - Exposures in non-settlement status

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
Belgrade	14,852	4,956	-	-	-	-
Total	**14,852**	**4,956**	**-**	**-**	**-**	**-**

Table 10 - 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
Belgrade	155,511	155,322	655,473	549,924	-	2,667
Vojvodina	122,795	122,721	-	-	-	-
Šumadija and Western Serbia	-	-	-	-	-	-

Serbia_Total	278,306	278,043	655,473	549,924	-	2,667
Austria	566,315	188,772	-	-	-	-
UAE	-	-	21,325	7,108	-	-
Total	**844,621**	**466,815**	**676,798**	**557,032**	**-**	**2,667**

4.1.2. Sector Distribution of Exposure Based on Asset Class

Sector distribution of all exposures as at 31 December 2017 (i.e. throughout 2017 for averages), per exposure class is presented in the following tables:

Table 11 - Exposures towards banks

In 000 RSD

CLASS	Risk balance sheet assets		Risk off-balance sheet assets		Financial derivatives	
	Total	Average	Total	Average	Total	Average
Domestic banks and other monetary intermediation	349,494	181,368	-	-	4,739	3,988
Insurance	5,295	5,425	-	-	-	-
Foreign banks	240,099	706,149	-	14,413	-	14,063
Pension funds	-	-	-	-	-	-
Total	**594,888**	**892,942**	**-**	**14,413**	**4,739**	**18,051**

Table 12 - 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	-	-	-	-	-	-
Mining, processing industry, water supply and similar activities	275,783	277,515	110,371	217,079	480,860	271,087
Power, gas, steam supply and air-conditioning	77,675	25,892	142,253	87,799	23,340	15,977
Transport and warehousing, housing and catering services, information and communication	-	46,186	66,625	87,037	101,094	110,290
Real estate, professional, scientific and technical activities, administrative and support service activities	79,543	26,514	-	739	-	-
Agriculture, forestry, fishery	122,719	120,616	-	-	-	-
Construction	108,906	166,400	635,953	645,498	125,707	109,136
Foreign legal entities with the exception of banks	10,021	10,238	-	-	-	-
Wholesale and retail trade, repair of motor vehicles and motorbikes	1,110,983	1,050,748	451,890	344,913	101,984	71,574

Other	66,220	42,258	-	24,045	73	24
Total	**1,851,849**	**1,766,367**	**1,407,091**	**1,407,110**	**833,057**	**578,088**

The following table presents an overview of exposure to remaining maturity per exposure class as at 31 December 2017:

Table 13 - 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	3,530	3,336	783	1,047	-	-
Total	**3,530**	**3,336**	**783**	**1,047**	**-**	**-**

Table 14 - Exposures collateralised with mortgages on properties

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
Mining, processing industry, water supply and similar activities	-	48,003	-	-	-	-
Transport and warehousing, housing and catering services, information and communication	32,611	31,724	-	-	1,701	567
Agriculture, forestry, fishery	-	99,924	-	-	-	-
Construction	220,875	187,436	67,680	68,302	-	-
Wholesale and retail trade, repair of motor vehicles and motorbikes	18,875	44,371	-	-	-	-
Total	**272,361**	**411,458**	**67,680**	**68,302**	**1,701**	**567**

Table 15 - Exposures in non-settlement status

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
Mining, processing industry, water supply and similar activities	14,852	4,951	-	-	-	-

Wholesale and retail trade, repair of motor vehicles and motorbikes	-	6	-	-	-	-
Total	**14,852**	**4,957**	**-**	**-**	**-**	**-**

Table 16 - 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	84	83	-	-	-	-
Mining, processing industry, water supply and similar activities	-	1	-	-	-	-
Construction	-	1	-	-	-	-
Real estate, professional, scientific and technical activities, administrative and support service activities	191	156	-	-	-	-
Wholesale and retail trade, repair of motor vehicles and motorbikes	122,795	122,737	-	-	-	-
Other	721,550	343,837	676,798	557,033	-	2,667
Total	**844,621**	**466,815**	**676,798**	**557,033**	**-**	**2,667**

4.1.3. Distribution of Exposures on Remaining Maturity

The following table presents an overview of exposure to remaining maturity per exposure class as at 31 December 2017:

Table 17 - 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	**2,205,130**	**42**	**-**	**7,108**
up to 90 days	817,961	42	-	7,108

from 91 to 180 days	153,119	-	-	-
from 181 to 365 days	-	-	-	-
over 365 days	1,234,050	-	-	-
no deadline	-	-	-	-
Banks	**594,888**	**-**	**-**	**4,739**
up to 90 days	594,888	-	-	4,739
from 91 to 180 days	-	-	-	-
from 181 to 365 days	-	-	-	-
over 365 days	-	-	-	-
no deadline	-	-	-	-
Companies	**1,851,849**	**1,407,092**	**833,057**	**-**
up to 90 days	196,067	461,650	309,262	-
from 91 to 180 days	316,041	84,010	125,393	-
from 181 to 365 days	346,955	566,044	294,739	-
over 365 days	992,786	295,388	103,663	-
no deadline	-	-	-	-
Retail	**3,530**	**783**	**-**	**-**
up to 90 days	3,530	783	-	-
from 91 to 180 days	-	-	-	-
from 181 to 365 days	-	-	-	-
over 365 days	-	-	-	-
no deadline	-	-	-	-
Exposures collateralised with mortgages on properties	**272,361**	**67,680**	**1,701**	
up to 90 days	-	67,680	1,701	-
from 91 to 180 days	5,830			
from 181 to 365 days	21,184			
over 365 days	245,347			
no deadline	-			
Exposures in non-settlement status	**14,852**	**-**	**-**	**-**
up to 90 days	14,852	-	-	-
from 91 to 180 days	-	-	-	-
from 181 to 365 days	-	-	-	-
over 365 days	-	-	-	-
no deadline	-	-	-	-
Other exposures	**844,621**	**676,798**	**-**	**-**
up to 90 days	844,621	676,798	-	-
from 91 to 180 days	-	-	-	-
from 181 to 365 days	-	-	-	-
over 365 days	-	-	-	-
no deadline	-	-	-	-
Total	**5,787,231**	**2,152,395**	**834,758**	**11,847**

4.1.4. 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 as at 31 December 2016 relates to group impairment. As regards the amount of allowance for impairment and provisions as at 31 December 2017, out of the total amount (RSD 14,177 thousand), RSD 9,232 thousand refer to group impairments and provisioning, whereas RSD 4,945 thousand refers to individual impairments.

Table 18 - Changes to impairment allowances and provisions throughout 2017

in 000 RSD

CLASS	Initial Balance	Increase Period	Decrease Period	Other	Final Balance
Allowance for impairment	10,237	1,153	-	-	11,390
Provisions	1,391	1,396	-	-	2,787
Total	**11,628**	**2,549**	**-**	**-**	**14,177**

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 2017.

4.1.5. 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 2017, the Bank applied the credit ratings of a recognised rating agency in the calculation of risk-weighted assets for exposures to banks, mapping external ratings into suitable credit quality categories according to the following table:

Table 19 - Credit Ratings

Recognised rating agencies	Moody's Investor Service LDT One Canada Square, Canary Wharf London E14 5FA Decision G. No. 1370 of 28 February 2012

Method of issuing consent	Based on assessed fulfilment of conditions related to credit quality methodology and assessment - direct recognition	
	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	X
	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		For 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

4.1.6. Credit Risk Mitigation Techniques

The following table presents exposures covered by credit risk mitigation instruments per exposure class as at 31 December 2017:

Table 20 - Exposures covered by credit risk mitigation instruments per exposure class

in 000 RSD

Exposure class	Funded credit protection		Unfunded credit protection
	the amount of exposure covered by financial assets	the amount of exposure covered by other material protection instruments	
Governments and central banks	-	-	-

Territorial autonomies and units of local government	-	-	-
Public administrative bodies	-	-	-
International development banks	-	-	-
International organisations	-	-	-
Banks	-	-	-
Companies	735	-	-
Private individuals	-	-	-
Exposures collateralised with mortgages on properties	12,841		
High-risk exposures	-	-	-
Covered bonds	-	-	-
Investments in open investment funds	-	-	-
Other investments	-	-	-
Total	**13,576**	**-**	**-**

Detailed information on collateral instruments has been disclosed in the Bank's Notes to the Financial Statements as at 31 December 2017 as well as the overall LTV ratio. As at 31 December 2017 the Bank did not have in its portfolio assets acquired through the collection of receivables.

4.1.7. Credit Quality of Receivables

As at 31 December 2017, 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 2017, the Bank did not have clients assigned the intensified sub-status, i.e. there were no clients with early signs of risk identified. Balance sheet exposure to that client amounted to RSD 26,788 thousand under a fully repaid long-term loan, whereas allowances for impairment amounted to RSD 12 thousand. As collateral under this loan, the Bank has a second-rank mortgage on a commercial building, the value of which is sufficient to fully cover its loan.

As at 31 December 2017 the Bank identified two loans extended to one client as non-performing loans totalling RSD 19,719 thousand and individually assessed the depreciation amount totalling RSD 4,945 thousand. The said non-performing loans were fully collected in February 2018. The total amount of NPL's as at 31 December 2017 amounted to RSD 19,932 thousand, of which amount the two loans account for 99% of the total NPLs. As at 31 December 2017 the Bank did not have any restructured receivables.

The NPL ratio (participation of non-performing loans in total loans) as at 31 December 2017 was 0.87%

4.2. 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 8%, 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 2017, 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 21a – Nominal and fair value of financial derivatives

in 000 RSD

Financial derivatives	Nominal value	Fair value
Receivables under derivatives	602,108	1,844
Obligations under derivatives	(592,364)	3,956

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 exchange rates.

Table 21b – Calculation of capital requirements under 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	355,418	7,108	-	-
FX swap 2	236,946	4,739	4,739	379
TOTAL	**592,364**	**11,847**	**4,739**	**379**

* The applied rate of 2% is based on the original exposure method (Item 251 of the Decision on Capital Adequacy of Banks)

In terms of the amount of internal capital requirement for counterparty risk, as at 31 December 2017, said has been calculated in the same manner as the already described regulatory capital requirement for this risk.

4.3. Market Risk

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

4.3.1. Interest Rate Risk in the Banking Book

The interest rate risk represents a risk of changes in market exchange rates having an adverse effect of the Bank's financial result and capital. The main sources of interest rate risks are the risks of maturities mismatch and the repricing for the yield curve, base risks and option risk.

The report on exposure to interest rate risks is compiled by the Risk Management Department, which report is on a quarterly basis presented and analysed by the ALCO.

When assessing the exposure to interest rate risk the Bank uses the following presumptions:

- All assets and liabilities Balance Sheet items of the Banka are classified in certain timelines depending on their maturity (for times with a fixed interest rate) or period of next interest rate change (for items that have a variable interest rate.
- To all currencies, as an interest rate shock the 200 base points are applied in accordance with the Decision on Risk Management of Banks.
- Assumption of the movement of non-term deposits is converted and is based on the fact that all non-term deposits are considered overnight deposits.

An analysis of the exposure to option risk and the risk of premature TD termination or loan prepayment is considered at ALCO meetings. Given the Bank's corporate policy, and interest rates within the loan portfolio, the Bank's assumption is that the amount of prospective premature TD termination and loan prepayments is not of material significance.

When it comes to general information relative to interest income, changes in income structure, financial value and other information of relevance to interest rate risk management, relative details are disclosed in Notes to the Bank's Financial Statements as at 31 December 2017.

4.3.2. Foreign exchange risk

As regards the Bank's F/X position, it is monitored on a daily basis by means of the F/X risk ratio. Throughout the year, the F/X risk ratio was within limits defined by the supervising body. The Bank strived to maintain this particular position almost closed, and accordingly was not significantly exposed to F/X risk.

4.4. Operational Risk

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

Table 22 - Capital Requirements for Operational Risk

in 000 RSD

No.	Description	31 December 2015	31 December 2016	31 December 2017
1	**Net interest income**	**8,829**	**99,454**	**116,619**
-	Interest income	9,425	133,519	191,021
-	Interest expenses	(596)	(34,065)	74,402
2	**Income from dividends and participation**	-	-	
3	**Net income from fees and commissions**	**294**	**12,766**	**19,110**
-	Income from fees and commissions	1,400	15,557	23,166
-	Expenses from fees and commissions	(1,106)	(2,791)	4,056
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**	**131,793**
-	Foreign exchange gains	33,370	510,200	2,051,665
-	Foreign exchange losses	(27,499)	(613,823)	1,919,871
7	**Other income**	**0**	**131,509**	**71,228**

	Risk indicator	14,993	140,106	338,751
	Risk indicator * 15%	2,249	11,632	24,692
	Capital Requirement	**2,249**	**11,632**	**24,692**

4.5. Equity Exposures in the Banking Book

As at 31 December 2017, the Bank did not have any exposures in the form of equity exposures in the banking book.

4.6 Credit Valuation Risk (CVA risk)

The credit valuation risk (CVA risk) is a risk of the occurrence of losses resulting from changes in CV due to credit margin changes of the counterparty, as a result of such counterparty's credit rating change. The Bank calculates capital requirements for this risk by applying the standardised approach method. The amount of capital requirement of this risk as at 31 December 2017 is shown in the table titled: Data referring to total capital requirements and capital adequacy ratio.

4. LEVERAGE RATIO

In line with the Drafting the Report on the Leverage Ratio Methodology, the Bank calculates this ratio as a Tier 1 capital ratio, obtained as a sum of the CET1 capital and Tier 2 capital and the Bank's exposure is percentage denominated. The leverage ratio for the first time emerged when Basel III standards were introduced, as an additional indicator of banks' operations, it being not based upon the level of risk weighted assets.

As at 31 December 2017, the leverage ratio amounted to 30.11%

Table 23 shows the leverage ratio, as well as the amount of total exposure and levels of Tier 1 capital as at 31 December 2017.

Table 23 – Leverage Ratio

(in 000 RSD)

Total level of exposure for leverage ratio calculation purposes	7,338,944
Tier 1 capital in line with the decision governing capital adequacy of banks	2,209,823
Leverage ratio	30.11%