REPORT

On Disclosure of Data and Information of Komercijalna Banka A.D. Beograd for the year 2016

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KOMERCIJALNA BANKA

EXECUTIVE BOARD OF THE BANK
No. 15079/IO
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1. INTRODUCTION

- Komercijalna banka AD Beograd (hereinafter: Bank) in accordance with the Law on Banks and the Decision on Disclosure of Data and Information by Banks, further below publishes the Report for the year 2016.
- This Report contains qualitative and quantitative information as prescribed by the above mentioned Decision.
- The Report shall be publicized on the Bank's Internet domain (www.kombank.com).

THE EXECUTIVE BOARD OF THE BANK

Miroslav Perić	dr Alexander Picker
Member of Executive Board	**President of the Executive Board**

2. GENERAL INFORMATION ABOUT THE BANK

- Komercijalna banka AD Beograd is the second largest bank in the Serbian market, with market share of over 12,9%. The registered seat of Komercijalna banka AD Beograd (hereinafter: Bank) is in Belgrade, 14, Svetog Save Street. Clients have at their disposal the largest network of 205 branches and sub-branches throughout Serbia and another nearly 40 branches and sub-branches within the independent banks in Montenegro and Bosnia and Herzegovina.
- The Bank's largest shareholder is the Republic of Serbia (41,74%), which has the strategic agreement with the second largest shareholder EBRD (24.43%). Among the shareholders of Komercijalna Banka there are also a number of internationally renowned professional investors (IFC, SwedFund, DEG...), as well as different powerful domestic public and private companies.

3. RISK MANAGEMENT

3.1. Risk Management Strategy

- The Bank has established the comprehensive and reliable risk management system, which allows for management of all risks that the Bank is or may be exposed to on the basis of all business operations and which is proportionate to the nature, scope and complexity of Bank's business activities. The established system of risk management ensures that the risk profile is in line with the determined propensity towards risks, and/or the risk profile of the Bank.
- Risk management system at the Bank's level is defined by the following internal legal documents:
- Risk Management Strategy, Capital Management Strategy and Capital Management Plan;
- Risk Management Policies;
- Risk Management Procedures;
- Methodologies for Managing Individual Risks;
- Other internal documents.
- Risk Management Strategy regulates the uniform and consistent managing of risks to which the Bank is or may be exposed in its operations and the same is aligned with the Bank's Business Policy and Strategy.
- The implementation of the Risk Management Strategy shall be the responsibility of the competent authorities of the Bank and those organizational units which implement and participate in risk management system.

General Meeting of Shareholders is in charge of:

- adopting the Bank's business policy and strategy;
- making decisions on capital increase, or equity investments in another bank or legal entities, as well as on the level of investing in the bank's fixed assets and investment property.

Board of Directors is in charge of :

- passing the Risk Management Strategy, Capital Management Strategy and Plan and Risk management Policy, as well as other legal documents specified in the regulations of the National Bank of Serbia;
- establishing an internal control system and supervising its efficiency;
- establishing internal organization i.e. the organizational structure of the Bank that provides for distribution of duties, competencies and responsibility of employees in a manner that prevents the conflict of interest and ensures a transparent and documented process of making and implementing decisions;
- adopting the Remuneration Policy;
- supervision over the Executive Board;
- adoption of quarterly risk management reports;
- adoption of the Recovery Plan;
- adopting the program and the plan of internal audit of the Bank and its methodology;
- ensuring that the process of internal capital adequacy assessment is carried out and is in compliance with the strategic goals;

Audit Committee is in charge of:

- analyzing annual reports that are submitted to the Board of Directors for consideration and adoption;
- analyzing and adopting the draft strategies and policies of managing risks and the internal control system that are submitted to the Board of Directors for consideration and adoption;
- report to the Board of Directors at least once a month on its activities and identified irregularities and proposes the manner in which such irregularities will be eliminated i.e. how the risk management policies and procedures will be improved and how internal control systems will be implemented.

Executive Board:

- proposes and implements the business policy and the strategy of the Bank, the risk management strategy and

policies, along with the capital management strategy;;
- adopts and analyzes the efficiency of implementation of procedures for risk management, which define more closely the process of identifying, measuring and assessment of risk and risk management and reports to the Board of Directors in connection with those activities;
- implementation of business continuity plan and activities of the recovery plan in case of disasters, their revision in accordance with the business changes and continuing testing;
- reports to the Board of Directors on efficiency of implementation of defined risk management procedures.
- reporting to the Board of Directors about the risk exposure level, and making decisions, upon obtaining the prior consent of the BoD, about each increase in the bank's exposure to a related person and informing the BoD thereabout;
- adoption of the Operating Rules;

Asset/Liability Management Committee (ALCO):

- monitors the Bank's exposure to risks that arise from the structure of its balance sheet liabilities and accounts receivable and off-balance sheet items, proposes the measures for managing interest rate risk and liquidity risk and performs other tasks as stipulated by the internal legal documents of the Bank.

Credit Committee:

- decides on loan applications within the framework established by the Bank's internal documents, analyzes the Bank's exposure to credit, interest rate and currency risk, analyzes the loan portfolio and applies the findings of the internal audit within the competence of the Committee, and also proposes the measures to the Bank's Executive Board. Performs other tasks in line with the Bank's internal documents and by order of the Executive Board.

Risk Management Function

- independent business function responsible for risk management, which performs the following:
- defines and proposes for adoption the strategy and policies of risk management;
- defines and proposes for adoption the procedures and methodologies of risk management;
- develops models and methodologies for risk identification, measuring, mitigation, monitoring and control,
- identifies, measures, assesses, monitors and manages the risks which the Bank is exposed to in its operations;
- reports to the competent authorities of the Bank on risk management (Bank's Board of Directors, Audit Committee, Executive Board, Asset/Liability Management Committee, Credit Committee...);
- undertakes activities and measures to manage bad assets.

Compliance Division:

- responsible for:
- identification, monitoring, managing the compliance risk of the Bank;
- at least once a year identifies and assesses the main Bank's compliance risks and proposes the plans for managing such risks, of which it prepares the report and then submits the same to the Executive Board and the Audit Committee.

Money Laundry and Terrorism Financing Department is in charge of the following:

- Identification, monitoring, managing the money laundering and terrorism financing risk;
- At least once a year, analysis and assessment of the bank's exposure to the bank's money laundering and terrorism financing risk;
- Submit the report to the Executive Board and the Audit Committee about the money laundry and terrorism financing activities at least once a year.

Internal Audit Function:

- conducts independent evaluation of the risk management system and performs a regular assessment of adequacy, reliability and efficiency of the internal controls system.
- By its Risk Management Strategy the Bank included the following:
- overview and definition of all the risks which the Bank is, or may be exposed to;
- long-term objectives, established by the Bank's Business Policy and Strategy, and also propensity to risks as determined in accordance with those objectives;
- basic principles of assuming and managing the risks;
- basic principles of internal capital adequacy assessment process of the Bank;
- basic principles of managing bad assets.

The Bank has identified and defined the risks to which it is exposed, or to which it may be exposed in its operations, as follows:

- **Credit risk** is the risk of possible negative effects on financial result and capital of the Bank that might occur due to debtors' failure to discharge their liabilities to the Bank. Credit risk includes:
- **Residual risk** - risk that the credit risk mitigation techniques may be less efficient than expected, or that their implementation/use has an insufficient impact on reduction of all the risks to which the Bank is exposed.

- **Dilution Risk**– is the risk of possibility of occurrence of adverse effects on Bank's financial result and capital due to reduced value of purchased receivables as a result of cash or non-cash liabilities of the former creditor to the debtor.
- **Settlement/Delivery Risk** – is the possibility of adverse effects on the Bank's financial result and capital arising from unsettled transactions or counterparty's failure to deliver in free delivery transactions on the due settlement/delivery date.
- **Counterparty Risk** – is the possibility of occurrence of adverse effects on the Bank's financial result and capital arising from counterparty's failure to fulfill his part of the deal in a transaction before final settlement of cash flows of the transaction.
- **Credit – Foreign Exchange Risk** – is the possibility that the Bank shall suffer the loss due to debtor's failure to discharge his liabilities within the agreed time limits and which arises due to adverse effect of changes in RSD exchange rate on debtor's financial position.
- **Environmental Risk** (risk of environmental and social protection) – risk of occurrence of adverse effects on Bank's financial result, capital and reputation due to event which has or is likely to have a material adverse effect on the environment, health or safety, or the community as a whole.
- **Concentration Risk** is the risk which directly or indirectly arises from exposure of the Bank to the same or similar risk factor or type of risk, such as exposure to one party or a group of related parties, industries, geographic areas, types of products and activities, credit protection instruments, financial instruments, commodities…
- **Investment Risk** is the risk which arises from Bank's investment in other legal entities and fixed assets and investment property.
- **Country Risk** is the risk relating to the country of origin of the entity to which the Bank is exposed, or the risk of possible negative effects on the financial result and capital of the Bank due to Bank's inability to collect claims from such entity/debtor for reasons arising from political, economic or social conditions in such entity's/debtor's country of origin. Country risk includes the following risks:
- **political and economic risk**, which means the probability of loss due to the inability of the Bank to collect the receivables due to the limitations imposed by state laws and bylaws and other authorities of the country of origin of the debtor, as well as general and systemic conditions in that country;
- **transfer risk**, which means the probability of loss due to inability to collect the receivables denominated in a currency other than the currency of the country of origin of the debtor and due to limitations in payments of liabilities to the creditors from other countries in a particular currency as determined by legislation of the state and other authorities of the country of the debtor.
- **Operational Risk** is the risk of possible occurrence of adverse effects on Bank's financial result and capital due to unintentional and intentional omissions in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the Bank, as well as due to occurrence of unforeseen external events. Operational risk includes legal risk.
- **Legal risk** is the risk of occurrence of adverse effects on Bank's financial result and capital on the basis of court or out-of-court proceedings in connection with Bank's operations (labor relations, contracts and torts…)
- **Liquidity Risk** is the risk of possible negative effects on the financial result and capital of the Bank caused by the Bank's inability to meet all its due obligations, on account of:
- **Withdrawal of the existing funding sources,** or inability to obtain new sources of funding (funding liquidity risk), or
- **Difficulty of converting assets into liquid assets due to market disruption (market liquidity risk).**
- **Interest Rate Risk** is the risk of possible negative effects on the financial result and capital of the Bank arising from positions in the banking book due to adverse changes in interest rates.
- **Market Risks** are the risks of possible occurrence of adverse effects on Bank's financial result and capital on the basis of losses in the balance sheet and off-balance sheet positions due to market price movements, and the same include the following:
- **Foreign Exchange Risk** is the risk of occurrence of negative effects on the financial result and capital of the Bank caused by changes in exchange rates for the items that are kept in the banking book and the trading book.
- **Price Risk** based on debt and equity securities is the risk of possible occurrence of negative effects on Bank's financial result and capital due to losses caused by market price fluctuations of debt and equity securities in the trading book.
- **Commodity Risk** is the risk of occurrence of adverse effects on the financial result and capital of the Bank due to losses caused by the movement of prices of commodities in the market.
- **Options Risk** is the risk of possible occurrence of negative effects on Bank's financial result and capital due to losses caused by movement of prices of options in the market.

The Bank is not exposed to options risk or commodity risk.

- **Compliance Risk** is the risk of possible occurrence of negative effects on the financial result and capital of the Bank due to Bank's failure to comply its operations with the law, bylaws, its internal documents, procedures for prevention of money laundering and financing of terrorism, as well as with the rules of profession, sound business practices and business ethics and in particular encompasses the risk of sanctions by the regulatory authority, risk of financial losses and reputational risk. The risk of compliance includes the risk of money laundry and terrorism financing.
- **Risk of money laundry and terrorism financing** is the risk of negative effects on financial result, equity or reputation of the Bank due to the use of the Bank (directly or indirectly through misuse of the business relationship with the Bank, transactions, services or products of the Bank) for money laundering and / or terrorist financing.
- **Reputational Risk** is the risk of possible occurrence of adverse effects on Bank's financial result and capital due to the loss of public confidence and unfavorable public attitude about the Bank's business operations, irrespective of whether there exist the grounds for it or not.
- **Strategic Risk** is the risk of probable negative effects on Bank's financial result or capital due to lack of appropriate business policy and strategy, their inadequate implementation and also due to changes in environment in which the Banks operate, or Bank's failure to properly react to such changes.

Long-term Objectives

- Long-term objectives for Bank's risk management are as follows:
    - development of activities in line with the Business Strategy and opportunities and market development in order to create a competitive advantage;
    - avoiding or minimizing the risk in order to maintain the business operations within the acceptable level of risk;
    - minimizing negative effects on Bank's capital;
    - maintaining the required level of capital adequacy;
    - diversification of risks to which the Bank is exposed;
    - maintaining the NPL to total loans within the defined limits.
- The objectives of risk management are aligned with the Bank's Business Plan and can be modified during the year.
- The process of risk management shall include clearly defined and documented risk profile, along with harmonizing the risk profile with the propensity of the Bank to assume risks.
- Propensity to risks shall imply the Bank's intention to assume risks in order to accomplish its strategies and policies and to establish this assumption to be at acceptable risk level.

Basic principles of risk assumption and management

- The basic principles of risk assumption:
- establishing explicit and clear rules for managing the individual types of risks, with associated policies and procedures for management of individual risk types with corresponding objectives of actions to be taken by the Bank;
- gathering of complete, timely and truthful information important for risk management and provision of adequate capacities for safekeeping and processing of data;
- conservative risk taking – implies that the relation towards the risks undertaken by the Bank is such that the expected yields significantly outweigh losses which may incur by risk taking;
- making business decisions determined by the qualitative and quantitative analysis on the basis of applicable risk parameters;
- utilization of a number of methods for risk identification and measurement – when managing the risks the Bank, in addition to regulatory prescribed frameworks and approaches for risk management, also applies the internal methods taking into account their applicability and justifiability in terms of investment in their development and justification of their implementation in terms of complexity and volume of business activities.
- development of quantitative modeling mechanism which allows measurement analysis of the effects of changes in the business and market environment on Bank's risk exposure profile and further impact on profitability, liquidity and net worth of the Bank.

- Basic risk management principles:
    - To organize operation of a separate organisational unit for risk management at the bank's level;
    - Functional and organisational separation of risk management activities from the regular business activities of the bank;
    - Entirety of risk management – managing risk includes all three phases and all significant risk that appear in business;
    - Effectiveness of risk management;
    - Cyclicality of risk management;

- Development of risk management as the strategic decision; risk management is a part of business culture – awareness of the importance of risk management is present at all levels of the bank's organisational structure.

Principles of managing bad assets, or risk loans:

- Active management over the risk loans, in order to minimize the adverse effect on the financial result and equity of the Bank;
- Preventive measures and activities in order to minimize further worsening of the assets quality;
- Defining strategies to manage bad assets, or risk loans;
- Clearly defined activities of managing bad assets, or risk loans;
- Early identification of debtors who are facing financial difficulties or who are defaulting or entered the status of failing to settle their liabilities (the watch list);
- Assessment of the financial state of the debtor;
- Set of indicators which will serve as the indicators, which, if fulfilled, indicate that the conditions are met to include the debtor in the scope of the organised unit in charge of bad assets' management;
- Segmentation of bad assets due to more efficient management;
- Tangibility principle when defining the possible measures. Higher frequency of monitoring the value of the collateral for risk loans, and the collateral acquired through collection of the receivables;
- Organisational separation of the Division for Prevention and Management of Risk Loans in charge of taking the activities and measures to manage bad assets from the organisational unit under whose scope of competence is to take the risk;
- Engagement in corporative management and risk management indicators for monitoring bad assets, or risk loans;

Transparent reporting of the Bank's bodies on risk loans, including the efficiency information and effectiveness of measures taken to collect, and measures taken to manage bad assets, i.e. risk loans.

3.2. Risk Management Policies

- Risk Management Policy determines the following:
  - implementation of the risk management strategy by all risk types: credit, market, interest rate, liquidity and operational risk and other, including the process of managing bad assets, or risk loans;
  - manner of organizing the risk management process of the Bank and clear division of the employees' responsibilities at all stages of that process;
  - manner of assessing the risk profile of the Bank and methodologies for risk identification, measurement or assessment;
  - methods of risk monitoring and control and establishment of the system of limits or the types of limits used by the Bank, and their structure;;
  - measures for risk mitigation and rules for applying such measures;
  - manner and methodology for implementing the internal capital adequacy assessment process of the Bank;;
  - principles for the functioning of the internal controls system;
  - framework and frequency of stress tests, as well as actions taken in cases of unfavorable stress test results.
- External reporting of the Bank is conducted pursuant to the statutory regulations and by-laws of the National Bank of Serbia.
- The internal reports are delivered on monthly, quarterly and annual basis to the Bank's competent bodies (Board of Directors, Bank's shareholders, Executive Board, Audit Committee, ALCO, Credit Committee).

3.3. Organizational Structure of the Risk Management Function

- The Risk Management Function conducts its activities through the following organizational units: Risk Management Division, Credit Risk Analysis Division and Division for Prevention and Management of Risk Loans.
- The Risk Management Division consists of the Department for Development of Systems and Risk Management Methodologies, Risk Controlling Department, Market and Operational Risk Management Department.
- Credit Risk Analysis Division consists of the Department for Credit Risk Analysis of Large Corporate Clients, Small and Medium Clients Credit Risk Department and the Department for Credit Risk of Retail and Micro Clients.
- Division for Prevention and Management of Risk Loans consists of the Risk Loan Monitoring and Prevention Department, Loan Restructuring and Rehabilitation Department, Work Our Department for Legal Persons, Department for Management of Risk Loans of Retail Clients and Entrepreneurs, Department for Management over Acquired Assets, Department for Control of Risk Loans Portfolio Quality and Reporting.

3.3.1. Credit Risk

- Credit risk management policy represents the document which more specifically defines the **credit risk management system**, including the residual risk, the dilution risk, concentration risk, settlement/delivery risk, and the counterparty risk to which the Bank is or may be exposed in its operations, as a part of the risk management system.
- The most important processes of the risk management system are:
  - The loan approval process;
  - The process of managing the credit protection instruments;
  - The process of monitoring the loans for early detection of warning signs;
  - The process of credit risk measurement in accordance with the regulations of the National Bank of Serbia and with the Bank's internal methodology;
  - The process of portfolio and credit risk monitoring;
  - Process of prevention and management over the potentially risky loans and bad assets;
  - The process of calculation of the minimum capital requirement for credit risk and internal capital adequacy assessment;
- The risk profile of the Bank is determined by an acceptable risk level for the Bank and, in accordance with the Risk Management Strategy, also depends on the Bank's portfolio structure. The purpose of credit risk management is to minimize the negative effects of the credit risk on the financial result and capital of the Bank, on the basis of balance sheet and off-balance sheet items, as well as on the basis of operations with the counterparty for the positions kept in the banking book. In accordance with the risk profile we defined the highest acceptable level of bad assets.

  In accordance with the risk profile the Bank defines the highest acceptable level of bad assets.
- Credit risk identification starts by filing an application for loan approval.
- The loan approval process consists of gathering and verification of all the necessary documentation, information and data on the basis of which a credit analysis of individual loans is performed, as well as of the credit risk factors.
- Individual loan analysis includes the analysis of qualitative and quantitative indicators of the client's operations, identification of the risk level (establishment of classification and the client's internal rating), and the control of the extent to which the limit has been used up.
- When analyzing the individual loan, consideration is also given as to the impact on capital requirement for credit risk.
- The process of credit risk measurement is based on two approaches:
  - regulatory approach – the loan impairment process and estimation of the provisions for losses under off-balance sheet items according to the International Accounting Standard 39 and the International Accounting Standard 37, as well as classification and calculation of provisions pursuant to the regulations of the National Bank of Serbia
  - internal approach – measurement of the risk level of an individual loan on the basis of the internal rating system.
- Within the loan approval process, exposure relative to regulatory and internally defined limits is reviewed.
- Loan approval limits are defined by decision-making system, depending on the types of clients and the level of exposure: for loans within the defined limit, the decisions are made by credit committees of the branches and in certain cases the consent of the organizational unit for risk management is required. Under the competence of the central credit committees (depending on the types of clients) are the loans above the defined limits, where the decisions are rendered by obtaining a prior opinion of the organizational unit for risk management. The Executive Board and the Board of Directors pass the decisions depending on the level of exposure.
- In order to maintain the risk at acceptable level, the Bank applies the credit risk mitigation techniques at the level of individual loan by observing the exposure limits, diversification of investments, and by acquiring acceptable collaterals for the purpose of secondary collection.
- Upon approval of a loan, the loan itself and the client's operations are monitored through regular and extraordinary monitoring in order to timely identify the warning signs.
- The Bank monitors portfolio quality based on identifying and analysis of the early warning signals of the clients. Warning signal are monitored at regular intervals and based on their analysis, the client is classified into the following categories: standard, potentially risky (watch list) and NPL clients (clients with problems in settling their liabilities).
- Restructured performing loans are classified into the category of potentially risk client, while the restructured non-performing are classified into NPL client category.
- By monitoring and controlling the portfolio as a whole and by individual segments, the Bank makes comparisons to previous periods, identifies the trends and the causes of changes in the level of credit risk. Likewise, it monitors the asset quality indicators (NPL trends, NPL coverage by allowance for impairment...), as well as the exposure to regulatory and internally defined limits.

- A special aspect of monitoring the exposure to credit risk is monitoring the level of bad assets, i.e. risk loans, which includes monitoring:
  - At portfolio level;
  - On individual basis for considerable exposures;
  - Assets acquired by collection in line with internal act that regulates takeover and management over the acquired assets and management of real estate intended for sale.
- Also, monitoring bad assets includes monitoring of execution of measures and strategies defined in order to manage risk loans and funds acquired through collection.
- For the purpose of concentration risk control the Bank has established the internal exposure limits with the same or similar risk factors (by sectors/industry, types of products, geographic areas, individual debtors or groups of related entities, credit protection instruments...). Establishment of appropriate exposure limits is the basis for diversifying the loan portfolio.
- Reporting on credit risk at the Bank's level includes the system of external and internal reporting on credit risk management. External reporting is carried out in accordance with the requirements of the National Bank of Serbia and the International Financial Reporting Standard 7 for credit risk, and the internal reporting in accordance with the Bank's internal documents.
- The report on credit risk management includes: total exposure to credit risk, exposure to credit risk according to the criteria of the National Bank of Serbia and the Internal rating system, due receivables, risky placements and loans, collaterals, provisions for estimated losses, allowance for impairment, required reserves, exposure risks, exposure and concentration limits...

3.3.2. Liquidity Risk

- The basic objective of the liquidity risk management is to maintain the level of liquid assets in order for liabilities due on balance sheet and off-balance sheet operations of the Bank to be properly and timely settled, or to minimize the negative effects on the financial result and capital of the Bank.
- The Bank has established an adequate organizational structure, business activities, the lines of decision-making and responsibilities by a clear delineation of the liquidity risk management process (implemented by the independent function responsible for risk management) and the liquidity risk management support process from the process of liquidity risk taking.
- Liquidity Management Committee and the Asset/Liability Management Committee have a significant and primary role in risk liquidity management process, within the scope of their competence, in ordinary and extraordinary business conditions. Also, the other Bank's Committees have a role in liquidity risk management process and their decisions may have an impact on exposure to the stated risk.
- Basic principles of liquidity risk management:
  - the readiness to respond to matured obligations, through maintenance of minimum level of liquid assets;
  - maintenance of the match between inflow and outflow of assets by limiting the currency and maturity mismatch of receivables and liabilities;
  - establishment of planned activities in the case of occurrence of unforeseen events (liquidity crisis).
- Identification of liquidity risk implies the analysis of all the indicators that lead to occurrence and increase of liquidity risk, monitoring the level of available liquid assets (liquidity reserves) and reviewing the types and the amount of funding sources, through the assessment of stability of deposits.
- The process of liquidity risk measurement includes the assessment of the current and the future exposure to liquidity risk and the same is conducted by applying the regulatory and internally defined methods and models:
  - Regulatory approach – application of liquidity ratio and more specific liquidity ratio;
  - Internal approach – application of static and dynamic GAP and ratio analysis, stress testing (sensitivity analysis and scenario analyses) and simulations.
- In order to manage the liquidity risk, the limit monitoring system has been established. Regulatory defined liquidity limits which the Bank observes relate to maintenance of minimum liquidity ratios over the period of 1 day, 3 days and the average for a month. When defining the exposure limit to liquidity risk, a number of aspects of liquidity risk are considered, taking into account the limitation of negative effect on the financial result and capital of the Bank, and limitation of currency and maturity mismatch. The Bank has defined the internal standards for liquidity risk management, which refer to defined internal limit of liquidity ratio, limits of liquidity gaps by maturity and currencies, structural liquidity limits, indicator of early warning of liquidity crisis.
- Monitoring and control of liquidity risk include the monitoring of business activity compliance with the defined limit system, in order to maintain the liquidity risk at the level accepted by the defined risk profile of the Bank, as well as to

follow up and monitor the implementation of measures. The liquidity risk monitoring and control have been established and integrated in all business activities of the Bank and at all levels of liquidity risk management, as has also been established an independent control of the assessment of adequacy, reliability and efficiency of the liquidity risk management system.

- In order to maintain the liquidity risk at the level accepted by the defined risk profile, the Bank applies the techniques and measures of liquidity risk mitigation in the conditions when the exposure to liquidity risk tends to the upper limit of the defined risk profile of the Bank. The techniques applied by the Bank relate to maintenance of sufficient level of liquidity reserves, or marketable liquid assets in major currencies, diversification of funding sources by maturity and currency, reducing the concentration of funding sources by sector structure, for the purpose of establishing a stable base of sources of funds.
- The Group has set up a liquidity risk reporting system which includes an assessment and analysis of exposure to liquidity risk, compliance with external and internal limits, results of stress test analysis and proposed measures, as well as results of the completed testing of the Liquidity Risk Management Plan for contingency situations.

3.3.3. Interest Rate Risk in the Banking Book

- The objective of interest rate risk management is to preserve the economic value of the Bank's capital, with simultaneous minimization of negative effects of changes in interest rates on the financial result, for the positions that are kept in the Banking Book.
- The Bank has established an appropriate organizational structure, business activities, decision-making and responsibilities lines, by clear delineation of risk assumption process from risk management process.
- Asset/Liability Management Committee has a significant and primary role in interest rate risk management process, within its competence. Likewise, in interest rate risk management process other Bank's Committees have their role and their decisions may have an impact on exposure to the above stated risk.
- Basic principles of Bank's interest rate risk management are:
    - maintenance of interest rate risk level which allows for minimizing the negative effect of changes in interest rates on the market and also the maintenance of minimum required interest rate margin;
    - limitation as to maturity and currency mismatch for the purpose of preserving the economic value of capital, or minimizing the negative impact of interest rate changes on exposure to interest rate risk;
    - optimization of the cost of funds with adaptation and caution during the formation of competitive interest rates on Bank's products.
- Identification of the interest rate risk implies the analysis of all the indicators and factors which lead to occurrence and increase of exposure to interest rate risk, along with the type of interest rate risk to which the Bank is exposed.
- Measurement of interest risk constitutes a quantitative and qualitative assessment of exposure to interest risk and is conducted using the internal models of static and dynamic GAP and ratio analysis, economic value of capital, net present value and stress testing. Mitigation of interest rate risk is conducted by the Bank continuously by maintaining the risk at acceptable level for risk profile and by establishing and implementing the adequate measures and techniques. In interest rate risk management process the Bank applies the internal limits system. When defining the exposure limit to interest rate risk the Bank takes into account multiple aspects of interest rate risk, thus limiting the negative effect on the financial result and the economic value of the capital. The Bank has defined the limits of interest-bearing positions, gap limits by currencies up to 1 year, which leads to limitation of the negative impact on the financial result, and limit of change in the economic value of the capital by which the negative impact on the capital is limited.
- Interest rate risk monitoring and control include the compliance of business activities with the defined system of limits, for the purpose of maintaining the interest rate risk at the level accepted by the defined risk profile of the Bank, as well as the follow-up and monitoring of implementation of the measures. The system of internal interest rate risk control is integrated in all business operations of the Bank, as is also the independent control of the assessment of adequacy, reliability and efficiency of the interest rate risk management system.
- The Bank has established the process for monitoring and reporting on the effects of implementation of applied risk mitigation measures and techniques, that are aimed at maintaining the match of interest rate-sensitive positions, diversification of funding sources by type of interest rate, maturity, and by repricing and currency and at optimizing the cost of funds.
- The system of reporting on exposure to interest rate risk includes the assessment and analysis of the exposure to interest rate risk, compliance with the external and internal limits, results of stress test analysis and proposals of measures.

3.3.4. Market Risk

- In its everyday operations the Bank is continually exposed to foreign exchange risk and price risk.

Foreign Exchange Risk Management

- The objective of foreign exchange risk management is to ensure safe operation of the Bank through minimization of the negative effects of changes in the exchange rate of the domestic currency on the financial result and capital of the Bank, for the positions that are kept in the banking book and the trading book.
- The Bank has established an appropriate organizational structure, business activities, decision-making and responsibilities lines, by clear delineation of foreign exchange risk assumption process from the process of its management and the support process.
- Assets and Liabilities Management Committee and other Bank's Committees have a significant role in foreign exchange risk management process and their decisions may have an impact on the exposure to the above mentioned risk.
- Identification of the foreign exchange risk refers primarily to consideration of transaction and balance sheet exposure, and also to exposure arising from introduction of new products and activities and to analysis of internal and external factors. Identification of exposure to foreign exchange risk is conducted at the level of exposure to a single currency and also at the level of entire foreign exchange portfolio for all the currencies.
- Measurement of foreign exchange risk includes the assessment of the current and the future exposure to foreign exchange risk and is performed by applying the regulatory and internally defined methods and models:
  - Regulatory approach – application of foreign exchange risk ratios;
  - Internal approach – stress testing (sensitivity and scenario analysis) and simulations, value at risk and back testing.
- The Bank conducts a continuous mitigation of foreign exchange risk by maintaining the risk at acceptable level for risk profile, and also by establishing and applying the appropriate measures and techniques, and by follow up and monitoring of implementation of the measures. The Bank implements the system of external and internal limits, established on the basis of foreign exchange risk ratio. When defining the exposure limit to foreign exchange risk multiple aspects of foreign exchange risk are taken into account, thus limiting the negative effect on the financial result and capital of the Bank. The Bank has defined the internal limits of foreign exchange risk ratio by individual currencies and aggregated at more rigorous level than the regulatory limits, as well as limits on transactions that affect the financial result.
- As a part of foreign exchange risk management the Bank uses standard and derivative instruments and measures in the segment of assets and funding sources in order to minimize and mitigate the exposure to the mentioned risk. The Bank has established a process of monitoring and reporting on the effects of implementation of the measures and techniques applied to mitigate the foreign exchange risk, through regular reporting to the competent committees and bodies, and by clear division of responsibilities, defining rules on the frequency and reporting on the implementation of measures adopted to reduce foreign exchange risk.
- The Bank has established a reporting system which includes an assessment and analysis of the exposure to foreign exchange risk, compliance with external and internal limits, results of the stress test analysis, and proposals of measures.

Price Risk Management

- The Bank has established an appropriate organizational structure, business activities, decision-making and responsibilities lines, by clear delineation of risk assumption process from the process of its management and support, and guided by the principles of the risk management system of the trading book.
- The Executive Board has a significant role in the risk management of the trading book. Other Bank's Committees and Boards also have a role in price risk management process and their decisions may affect the exposure to the stated risk.
- Basic principles for Bank's price risk management are:
  - maintenance of the risk level in compliance with the internally defined limits;
  - monitoring the changes on the market that may lead to increased exposure to the trading book risks;
  - determination of the measures for mitigating the exposure to risks in the circumstances when the Bank tends to the upper limit of the accepted risk profile of the risk exposure.
- Identification of the risk of trading book operations includes the analysis of all the indicators and factors which lead to occurrence and increase of the risk profile of the Bank.
- Measurement and assessment of the risk of trading book operations includes the following implementation:
  - standardized (regulatory prescribed) approach
  - internal model by using Value at Risk methodology.
- Mitigation of price risk is conducted continuously by maintaining the risk at acceptable level for risk profile and by

establishing and implementing the adequate measures and techniques. Defining and applying the appropriate safeguards and preventive measures, defining the exposure limit and defining and implementing the measures for price risk mitigation characterize the phase of mitigating the price risk. The Bank has in place the established system of internal limits adopted by the competent Committees and Boards of the Bank, as follows: exposure limits for all trading book positions, limits on investment by products and types of transactions, limits by type of issuer of the securities and the participation of the issuer in total portfolio.

- The system of price risk internal control is integrated in all business activities of the Bank, as is also the independent control of the assessment of adequacy, reliability and efficiency of the price risk management system.
- Pursuant to the established system of reporting on Bank's price risk, the Bank performs external and internal reporting.

3.3.1. Operational Risks

- In order to minimize occurrence of an operational risk event, the Bank establishes an appropriate framework which includes: the process of identifying the operational risk event, the process of classifying the operational risk events according to risk level, the analysis of the operational risk event, the process of monitoring the operational risk event, the process of monitoring the measures for operational risk mitigation, and the system of early detection of operational risk event.
- When assuming the operational risk the Bank is guided by the following principles:
    - managing business operations in accordance with the good operational risk management practices;
    - provision of adequate controls for operational risk management;
    - timely identification and continuous monitoring of the operational risk event, minimization of operational risk occurrence by implementation of the measures;
    - analysis of key risk indicators that lead to occurrence of operational risk event,
    - measurement of operational risk by applying the regulatory approach (operational risk ratio) internal approach (stress testing)
    - measurement of the current exposure to operational risk and the assessment of the exposure based on the introduction of new products and activities on the implementation of measures to minimize the operational risk events.
- The Bank continuously mitigates the operational risk, which involves maintenance of the risk at the acceptable level through determination of measures to minimize the operational risk, which include the following:
    - definition of the exposure limit;
    - definition and application of the operational risk mitigation measures;
    - system of physical controls;
    - Business Continuity Plan and
    - Disaster Recovery Plan.
- Operational risk monitoring and control involve the monitoring of the compliance of business operations with the defined system of limits for the purpose of maintaining the operational risk at the level accepted by the defined risk profile of the Bank, as well as the follow-up and monitoring of implementation of the measures. Operational risk monitoring and control have been established and integrated in all business activities of the Bank and at all levels of operational risk management, as has also been established the independent control for assessing the adequacy, reliability and efficiency of the operational risk management system.
- The Bank has established the process of monitoring and reporting on the effects of implementation of the applied measures and techniques of operational risk mitigation through regular reporting to the competent committees and bodies, and a clear division of responsibilities, definition of the rules with regard to frequency of reporting on implementation of the measures adopted to minimize the operational risk. The reporting system includes timely reporting on the operational risk events by event type and business lines, the causes and sources of the event occurrence, significance of the event, exposure trend, measures intended to be taken or already taken for the purpose of mitigating and limiting the consequences of the events, and activities entrusted by the Bank to third parties.
- Bank calculates the capital requirement for operational risk in accordance with the regulations of the National Bank of Serbia, using standardized approach.

3.3.2. Country Risk

- The objective of country risk management is to ensure minimum exposure through adequate country risk measurement by applying the adopted methodology and defined limits of exposure to countries or a group of countries on the basis of the country rating.
- Identification of country risk includes the analysis of all the indicators that give rise to and increase the country risk, carried out at the level of the individual placement and the overall portfolio.

- Prerequisite for achieving the defined objectives of the country risk management is the existence of adequate and updated database containing the recorded information provided by the business sectors on client's domicile country and his place of residence.
- Measurement of country risk is based on external credit ratings of client's domicile country, on the basis of which the loans are classified/grouped to certain level of risk.
- The Bank defines the procedure for country risk monitoring and control as monitoring of the limit and of the measures adopted to reduce the country risk, as well as the control process.
- The Bank has in place the established system for country risk reporting by which the Bank's Management, competent committees and boards and organizational units are timely informed.

3.3.3. Investment Risk

- The Bank has established the internal and external system for reporting on investment risk, thus ensuring that the investment outside the financial sector does not exceed 10% of the Bank's capital, and that the Bank's investments in financial sector and in fixed assets and investment property do not exceed 60% of the Bank's capital.

4. BANK'S CAPITAL

- The Bank's Capital Strategy and Plan substantiate and specify the implementation of the strategic objectives and guidelines for capital planning, and set the time horizon for their accomplishment in view of the impact of macro-economic indicators and changes in economic cycle trends on strategic plans, the manner in which the Bank will respond to capital requirements in the future, and relevant limitations on the capital, as well as the general plan for acting in unforeseen circumstances.
- In line with the defined targeted values, the Bank takes measures to achieve planned capital and its maintenance.

Capital structure RSD 000

Name	31.12.2016.	31.12.2015.
CORE CAPITAL	**44.667.035**	**40.078.298**
Nominal value of paid up shares, except for cumulative preferred shares,	17.191.466	17.191.466
Paid up ordinary shares	16.817.956	16.817.956
Paid up non-cumulative preferred shares	373.510	373.510
Issue premium	22.843.084	22.843.084
Reserves from the profit	18.791.828	24.935.440
Profit of current year	–	–
Loss from current year	8.063.183	6.299.631
Deductible items from core capital	6.096.159	18.592.061
Intangible investments	362.507	216.830
Amount of bank shares taken in pledge, except for cumulative preferred shares	357.233	357.233
Non-realized losses arising from securities available/held for sale	5.985	268.169
Required reserves from profit for estimated losses under balance sheet assets and off-balance sheet items of the bank	5.370.434	17.749.829
SUPPLEMENTARY CAPITAL	**4.175.529**	**3.909.144**
Part of revaluation reserves of the bank	4.175.529	2.692.883
Subordinated liabilities		1.216.261
DEDUCTIONS FROM CAPITAL	**2.611.859**	**5.555.355**
Direct and indirect investment in banks and other entities in the financial sector in an amount higher than 10% of the capital of such banks or other entities	2.611.859	5.555.355
Required reserve from profit for estimated losses under balance sheet assets and off-balance sheet items of the bank	–	–
TOTAL CORE CAPITAL	**43.361.105**	**37.300.621**
TOTAL SUPPLEMENTARY CAPITAL	**2.869.600**	**1.131.467**
TOTAL REGULATORY CAPITAL	**46.230.705**	**38.432.087**

- The Bank calculates the capital adequacy ratio and capital requirements in accordance with the regulations of the National Bank of Serbia by using the standardized approach for credit risks, market risks and operational risks.
- Regulatory prescribed minimum capital adequacy ratio is 12%.

Overview of total capital requirements according to standardized approach RSD 000

Capital Requirements	31.12.2016.	31.12.2015.
CAPITAL	**46.230.705**	**38.432.087**
Total core capital	43.361.106	37.300.621
Total supplementary capital	2.869.600	1.131.467
Credit risk, counterparty risk and settlement/ delivery risk based on free deliveries	**17.682.647**	**17.343.799**
Exposures to states and central banks	16	–
Exposures to territorial autonomies and local government units	145.193	146.235
Exposures to public administrative bodies	10.841	–
Exposures to international development banks	-	34
Exposures to banks	877.644	632.626
Exposures to companies	8.620.929	9.231.319
Exposures to private individuals	3.644.868	3.356.841
Exposures secured by mortgages on real property	2.917.719	2.530.474
Due outstanding receivables	234.152	112.863
Other exposures	1.231.284	1.333.407
Market Risks	**280.636**	**488.748**
Capital requirement for price risk based on debt securities	–	–
Capital requirement for price risk based on equity securities	116.602	–
Capital requirement for foreign exchange risk	164.034	488.748
Capital requirement for commodity risk	–	–
Operational Risks	**2.605.239**	**2.481.578**
Exposure to operational risk	2.605.239	2.481.578
Total capital requirements	**20.568.522**	**20.314.125**
Capital adequacy ratio (minimum 12%)	**26,97%**	**22,70%**

- The Bank calculates capital requirement for price risk, considering that the scope and activities of the Bank related to the trading book exceed regulatory defined requirements.
- Capital requirement for FX risk is calculated, as the FX risk ratio exceeds 2% of the Bank's capital.

Structure of calculation of capital requirement for operational risk RSD 000

Business line	Exposure indicator			Capital requirement rate	Capital requirement
	2013.	2014.	2015.		
1. Corporate financing	6.144	5.666	5.440	18%	2.605.239
2.Trade and sales	1.020.003	(1.864.071)	(375.418)	18%	
3. Retail broker-dealer operations	5.032	5.722	6.200	12%	
4. Corporate banking operations	9.200.142	13.305.319	6.620.493	15%	
5. Retail banking operations	6.305.799	4.886.347	10.485.897	12%	
6.Payment transactions	1.782.950	1.837.468	1.868.917	18%	
7. Agency services	29.231	39.081	47.716	15%	
8. Property management	75.166	200.436	177.245	12%	

4.1. Internal Capital Adequacy Assessment Process – ICAAP

- The Bank has set up an internal capital adequacy assessment process (hereinafter ICAAP) in accordance with its risk profile. The aim of ICAAP is to strengthen the relationship between risk management and the Bank's capital i.e. to ensure that the Bank has sufficient capital at its disposal to support current and future activities and to cover all materially significant risks the Bank is exposed to in its operation.
- ICAAP is included in the risk management system and forms an integral part of the decision-making process in the Bank. Also, it is regularly revised and adjusted, especially when the Bank is exposed to new risks or significant changes.
- The Bank has established the Capital Management Strategy and the Capital Management Plan. Capital Management Plan includes:
  - Strategic goals and time periods for their implementation, taking into account the impact of macroeconomic environment and economic cycle phases;
  - Manner of organization of available internal capital management process;

  - Procedures for planning the adequate level of available internal capital;
  - Manner of accomplishment and maintenance of adequate internal capital level;
  - Business plan in the case of unforeseen events which can influence the amount of available internal capital.
- ICAAP is a stable risk management process which adequately identifies, measures, aggregates and monitors risks by including all key elements of capital requirements assessment and capital management and planning.
- ICAAP is a documented process which is carried out on a continued basis and in accordance with the Risk Management Strategy and individual Risk Management Policies, as well as with the Capital Management Strategy and Capital Management Plan. Basic conditions met by ICAAP implemented in the Bank:
  - It is based on the process of risk identification and measurement, or risk assessment;
  - It provides a comprehensive risk assessment, as well as monitoring of the significant risks the Bank is or may be exposed to in its operations;
  - Ensures adequate internal capital in accordance with the Bank's risk profile;
  - It is incorporated in the Bank's management system and in decision-making process in the Bank;
  - It is subject to regular analysis, monitoring and verification.
- ICAAP objective is to clearly determine such level of capital that suffices for coverage of all risks to which the Bank is or may be exposed in its operation. The main objective of the internal capital adequacy assessment process is to enhance the relation among the Bank's risk profile, risk management system and capital availability. The Bank is expected to implement the appropriate assessment process which includes all the key elements of capital planning and management, as well as to provide the sufficient level of capital in relation to the identified risks.
- By determining the potential for risk coverage, the Bank indirectly sets the maximum level of the risk it is ready to accept. Apart from assessment of internal capital requirements, internal capital is also assessed through ICAAP. Planning of internal capital also ensures maintaining the level of capital that can support the growth of loans, future funding sources, dividend policy...
- The Bank continuously assesses the risk profile and regularly revises the internal capital adequacy assessment process, developing at the same time the methodologies for assessment of other risk types in order for the comprehensive risk management at the Bank's level to be as efficient as possible.
- The basic principles of the internal capital adequacy assessment process of the Bank are:
  - establishment of the internal capital adequacy assessment process of the Bank in accordance with the risk management objectives and principles for risk taking and management;
  - identification, measurement (assessment), mitigation and monitoring of all risks as a basis for capital adequacy assessment;
  - establishment of the internal capital adequacy assessment process of the Bank in accordance with the volume, type and complexity of the Bank's operations;
  - provision of the internal capital in accordance with the risk profile of the Bank.

ICAAP Phases:

- Establishment of materially significant risks − Quantitative and qualitative criteria are established based on the methodology, serving to determine the materially significant risks that will be included in the internal capital adequacy assessment process in accordance with the type, volume and complexity of the Bank's business operations, as well as the specificities of the markets on which it operates. In assessing the risk materiality, the Bank considers all risks to which it is exposed or which it assumes. All assumed risks can be divided into significant, which require allocation of a part of the capital, and those which do not require such allocation since they have been assessed as non-material or the Bank manages them through the established risk management system.
- Calculation of the amount of the internal capital requirements for individual risks − the Bank uses the methods prescribed for calculation of minimum capital requirements, as well as the internal approaches to measurement. The Bank performs the stress testing for all materially significant risks and internal capital, which include the risk factors specific for the environment in which the Bank operates. The stress test results are taken into account at assessing and maintaining the internal capital at a certain level. For the purpose of inclusion of materially significant risks in ICAAP, the Bank applies the following methodologies for the following:
  - **Credit risk** – standardized approach with stress testing by applying econometric models with a time horizon of one year;
  - **Operational risk** – standardized approach with the application of stress testing;
  - **Market risk (Foreign exchange risk)** –VaR methodology with application of stress testing as well.
  - **Interest rate risk** – methodology based on sensitivity of net interest income and change in factors;
  - **Liquidity risk** –testing "hypothetical" level of liquidity crisis and the calculation of the amount of missing funds;
  - **Residual risk** – stress testing of deteriorating efficiency of applied mitigation techniques;
  - **Credit FX risk** – stress testing the effects on increase of exposure to credit risk due to increase in exchange rate;

- **Strategic risk** – stress testing the negative departures from the planned values of net interest income;
- **Investment risk** – capital reserve to the level of 2% of the available capital.
- **Materially insignificant risks** are included in ICAAP through the system of policies and procedures, system of limits, decision-making system...

- Calculation of total internal capital includes results of stress testing. Also, for regulatory and internal capital planning the time horizon is three years.
- Comparison of the capital amount calculated in accordance with regulatory requirements and the amount of the available internal capital, as well as the minimum capital requirements and the internal capital requirements.

5. EXPOSURE TO RISKS

5.1. Credit Risk and Dilution Risk

In the credit risk analysis and assessment the Bank uses two parallel approaches: internal and regulatory.

- Internal rating system is not only the instrument for shaping the individual decisions and the assessment of risk level of an individual loan, but instead it represents the basis for portfolio analysis, support in loan approval process and in process of loan impairment and also in assessment of provisions for losses under off-balance sheet positions/items in order to rank the risk exposure level of a loan and to express the real value of claims. Internal rating system is subject to regular audit and improvement.
- In credit risk analysis, in addition to Internal rating system, the Bank also uses the principles prescribed by the regulations of the National Bank of Serbia, which require the classification of each loan based on stipulated criteria and calculation of reserves for credit risk assessment. Application of these criteria allows the Bank to cover the unexpected losses that may incur due to inability of the client to settle his liabilities at maturity in line with contractually defined terms. Therefore, the Bank classifies the receivables and calculates the required level of credit loss reserves, which is a form of protection from possible negative consequences if invested funds are not repaid when due and in full amount.
- Positive difference between calculated credit loss reserves (based on regulatory approach), on the one hand, and the allowance for impairment and provisions for potential losses (based on internal approach), on the other hand, provides the required credit loss reserves, which represent a deductible item from capital.
- Pursuant to the changes in regulations of the National Bank of Serbia, in 2016 the Bank adjusted the method of classification of restructured loans, changed the manner of calculation of the reserve for estimated losses in term of the newly approved loans after 30.09.2016, classified into B category, as well as the method of calculation of the required reserve which is a deductible capital item, in accordance with the reduced percentage of NPLs in non-financial and non-governmental sector compared to the situation as of 30.06.2016.

The matured unsettled receivables the Bank defines as all receivables not recovered at maturity (principal, interest and fees, as well as the interventions under guarantees, guarantees of a bill and other forms of sureties, illicit overdraft in client accounts, and other due obligations of the clients).

Exposures with performed allowances for impairment are exposures where assessment of their collectability is made, or where reduction is made for the amount of the expected loss.

- The Bank has the clearly defined criteria for credit and receivable assessment and recognition, and the criteria for assessing and recognizing the provisions for contingent liabilities, in accordance with the Decision of the National Bank of Serbia on Classification of Balance Sheet Assets and Off-Balance Sheet Items and also by observing the requirements of the International Accounting Standards (IAS) 39 and 37.
- Loans are impaired and provisions made only in the case of justified or objective proof of the impairment as a consequence of the events occurring after the initial recognition of the receivable, and which have an adverse impact on regular settlement of debtor's liabilities to the Bank.
- The main elements in assessing the impairment of a loan are: overdue payment of principal or interest, difficulties in cash flows of loan beneficiaries, fall in the credit rating or changes of the original contractual terms and conditions, etc.
- Loan is impaired based on the assessment of expected future cash flows from clients' operation, and by realization of the collateral if assessed that there is a realistic possibility for the loan to be recovered from such funds.

Calculation of Allowances for impairment for Balance Sheet Assets

- The Bank assesses the impairment of receivables as individual and group assessment. All clients are grouped pursuant to the internally prescribed methodology based on the Bank's internal rating system.
- Impairment assessment procedure is performed individually, when there are objective proofs on loan impairment, for each individually significant loan with the status indicating that liabilities are not being settled – default (risk loan,

category of risk 4 according to the internal rating system that has a default status and category risk 5), and at the group level for loans that have been determined as not individually significant, having no default status, for loans which, after calculation on the individual level, indicated 0 equal provision and for fees and other receivables that bear no elements that would require their reduction on the present value. The impairment amount is assessed individually as book values and current values of the expected future cash flows, established by discounting the expected loan resulted inflows, through applying the last stipulated effective interest rates of the specific loans. In terms of interventions by RSD guarantees and other forms of sureties, current value is established by discounting the expected inflow upon applying the average legal annual default interest rate. In the event of interventions by guarantees and other forms of sureties indexed in foreign currency, current value is established by discounting of expected inflows through applying the effective interest rate valid for balance sheet receivables of similar distinctions.

- Impairment on the group level is assessed for each group individually, bearing in mind their similar characteristics with respect to the credit risk, to the amount of per cent of migration of a proper group into non performing status – default, by types of clients or products.
- Loan impairment that reduces the value of a loan is recorded in the provision account in the balance sheet, and recognized as an expense in the income statement.

Calculation of Provisions for Losses under Off-Balance Sheet Items

- Provisions of the Bank are calculated on individual and group basis. Contingent liabilities with a high degree of probability to entail an outflow of assets are assessed individually, while the rest of contingent liabilities are assessed on group level. Establishment of potential loss is performed by the Bank for unused undertaken liabilities, which have no stipulation of unconditional and unannounced possibility of cancelation of the stipulated obligation. When calculating the reserves for unused undertaken liabilities, the Bank is using the conversion factor (*credit conversion factor* – CCF) which corrects the accounting value of the unused undertaken liabilities.
- When assessing provisions for potential losses by off balance sheet items, funds acquired through realization of the collateral are taken into account, if fully certain that the outflow of funds arising from potential obligation will be settled by enforcement of the collateral.
- The assessment of provisions on the group basis is performed based on the migration of risk categories, taking due care about all elements of the internal rating system, in the same manner as in the procedure described for the balance sheet positions.
- Provisions are recorded within liabilities in the balance sheet and are recognized as an expense in the income statement of the period in which the probability originated.

Overview of Exposures to Credit Risk per Assets Class RSD 000

Exposure to Credit Risk	31.12.2016.		31.12.2015.	
	Exposure	Average value	Exposure	Average value
States and central banks	183.283.961	161.689.619	163.569.142	138.059.694
Territorial autonomies and local government units	3.103.952	2.903.880	3.054.746	2.443.827
Public administrative bodies	239.644	1.107.243	1.149.037	1.027.361
International development banks	257	697	1.035	32.866
Banks	23.823.071	24.218.405	17.644.861	25.409.383
Companies	76.326.372	88.176.018	86.391.685	96.960.262
Private individuals	41.692.534	39.503.757	38.294.231	37.184.889
Exposures secured by mortgages on real property	38.857.927	37.815.401	37.085.950	36.287.972
Due outstanding receivables	3.800.192	11.014.038	10.834.526	15.705.982
Other exposures	38.107.987	41.182.318	41.208.945	42.650.219
Total	**409.235.895**	**407.611.377**	**399.234.159**	**395.762.455**

**Note: gross exposure reduced by allowances and provisions for estimated losses and adjusted for conversion factors for off-balance sheet items.*

Sector Exposure Distribution per Classes of Assets RSD 000

Exposure to Credit Risk	31.12.2016.	31.12.2015.
	Value of exposure	Value of exposure
States and central banks	**185.540.618**	**168.494.413**
Finance and insurance sector	48.868.208	37.219.215
Public sector	136.671.949	130.931.337
Other customers sector	461	343.861
Territorial autonomies and local government units	**3.061.122**	**3.037.574**
Public sector	2.419.887	2.437.246
Foreign entities sector	641.235	600.328
Exposures to public administrative bodies	**90.346**	**–**
Public sector	90.346	–
International development banks	**257**	**1.035**
Finance and insurance sector	257	1.035
Banks	**23.522.146**	**17.586.517**
Finance and insurance sector	9.892.506	3.554.592
Foreign entities sector	13.629.632	14.031.923
Banks-other	8	2
Companies	**71.841.071**	**76.927.662**
Finance and insurance sector	304	487.199
Public companies sector	4.039.455	8.489.033
Company sector	60.444.704	63.771.869
Entrepreneurs sector	643.535	741.206
Public sector	1.172.608	1.045.410
Foreign entities sector	4.523.579	1.404.928
Household corporate firms with employees and farms	1.007.578	924.777
Other clients' sector	9.308	63.240
Private individuals	**40.498.533**	**37.298.237**
Finance and insurance sector	7.281	12.605
Public companies sector	29.596	24.310
Company sector	5.721.894	5.125.744
Entrepreneurs sector	2.112.231	1.574.315
Public sector	15.269	5.093
Retail sector	27.494.198	26.242.131
Foreign entities sector	14.179	13.944
Household corporate firms with employees and farms	5.088.346	4.240.773
Other clients' sector	15.539	59.322
Exposures secured by mortgages on real property	**38.612.022**	**36.698.364**
Company sector	1.966.663	1.963.878
Entrepreneurs sector	255.414	213.125
Retail sector	36.303.641	34.424.347
Foreign entities sector	4.489	4.803
Household corporate firms with employees and farms	81.815	81.838
Other clients' sector	-	10.373
Due outstanding receivables	**1.859.049**	**886.523**
Public companies sector	184.955	504.555
Company sector	931.858	110.111
Entrepreneurs sector	39.978	6.599
Retail sector	521.876	231.807
Foreign entities sector	13	–
Household corporate firms with employees and farms	33.241	28.904
Other clients' sector	147.127	4.547
Other exposures	**36.981.101**	**38.888.558**
Finance and insurance sector	36.954	2.727
Company sector	214.723	357.777
Entrepreneurs sector	20	–
Public sector	15.592	16.639
Foreign entities sector	505	771
Other clients' sector	39.276	54.707
Other	36.674.031	38.455.937
Total	**402.006.265**	**379.818.882**

**Note: gross exposure reduced by allowances, provisions for estimated losses and required reserves and adjusted for conversion factors for off-balance sheet items upon application of mitigation techniques*

Gross exposure where allowances and provisioning under off-balance sheet items was made RSD 000

Exposure to credit risk	31.12.2016.		31.12.2015.	
	Gross exposure where allowance or provisioning was made	Allowance and provisions	Gross exposure where allowance or provisioning was made	Allowance and provisions
Territorial autonomies and local government units	**2.153.372**	**20**	**1.963.983**	**29**
Public sector	2.153.372	20	1.963.983	29
Banks	**980.091**	**350.634**	**361.194**	**298.707**
Finance and insurance sector	440.187	34.153	11.114	1.893
Foreign entities sector	533.299	309.877	347.564	294.297
Other customers sector	6.604	6.604	2.516	2.516
Companies	**85.431.900**	**8.606.526**	**86.070.370**	**5.915.485**
Finance and insurance sector	602	1	66	48
Public companies sector	4.748.753	92.385	8.661.411	20.277
Company sector	72.973.750	7.883.395	73.002.016	5.618.199
Entrepreneurs sector	712.816	12.597	754.345	8.121
Public sector	1.310.924	22.830	1.146.620	2.517
Foreign entities sector	4.279.324	209.126	1.458.384	209.098
Household corporate firms with employees and farms	1.020.981	1.491	927.738	1.302
Other customers sector	384.749	384.702	119.790	55.924
Private individuals	**47.332.061**	**523.741**	**35.140.977**	**642.016**
Finance and insurance sector	7.485	20	5.486	45
Public companies sector	53.626	569	29.756	499
Company sector	6.361.479	129.630	5.303.182	191.583
Entrepreneurs sector	2.293.538	66.250	1.630.203	56.246
Public sector	19.652	332	3.422	1.238
Retail sector	33.288.023	259.292	23.805.737	326.260
Foreign entities sector	22.289	45	6.097	335
Household corporate firms with employees and farms	5.261.068	58.344	4.284.647	53.303
Other customers sector	24.901	9.260	72.447	12.507
Exposures secured by mortgages on real property	**39.902.288**	**129.205**	**37.879.245**	**136.229**
Company sector	2.887.342	3.326	2.731.479	31.855
Entrepreneurs sector	260.733	1.276	218.984	3.282
Retail sector	36.666.389	123.870	34.838.046	99.206
Foreign entities sector	4.519	2	4.809	7
Household corporate firms with employees and farms	83.305	732	85.927	1.880
Due outstanding receivables	**26.037.300**	**22.369.743**	**41.759.318**	**31.022.148**
Finance and insurance sector	24	24	105.483	105.483
Public companies sector	4.259.546	3.766.619	4.062.687	2.260.463
Company sector	10.692.428	8.985.621	12.446.328	8.427.651
Entrepreneurs sector	221.428	181.427	304.172	243.539
Public sector	168.464	168.464	30.124	30.124
Retail sector	3.562.961	2.659.907	3.304.472	2.390.198
Foreign entities sector	72.146	72.146	86.747	86.747
Household corporate firms with employees and farms	406.098	350.392	418.148	326.643
Other customers sector	6.654.091	6.185.029	21.001.131	17.151.274
Other exposures	**16.365.116**	**5.990.925**	**17.502.618**	**5.786.695**
Finance and insurance sector	2.231	109	2.247	43
Company sector	224.047	1.743	350.108	9.623
Entrepreneurs sector	57	6	26	3
Public sector	20.429	964	11.583	14
Foreign entities sector	1.263	0	-	-
Other customers sector	53.805	1.090	57.955	1.815
Other	16.063.285	5.987.014	17.080.700	5.775.196
Total	**218.202.128**	**37.970.795**	**220.677.705**	**43.801.309**

**Note: presented is the gross exposure of items where allowance and provisions for off-balance sheet items was made*

Geographic exposure according to materially significant areas, per classes of assets RSD 000

Exposure to credit risk	31.12.2016.	31.12.2015.
	Exposure value	Exposure value
States and central banks	**185.540.619**	**168.494.413**
Republic of Serbia	185.540.157	168.150.551
Other	461	343.861
Territorial autonomies and local government units	**3.061.122**	**3.037.574**
Republic of Serbia	3.061.122	3.037.574
Exposures to public administrative bodies	**90.346**	**-**
Public sector r	90.346	-
International development banks	**257**	**1.035**
Other	257	1.035
Banks	**23.522.145**	**17.586.517**
Republic of Serbia	9.892.513	3.554.594
Germany	4.949.589	5.533.539
Austria	2.101.603	1.791.468
Great Britain	1.636.551	2.277.382
Croatia	1.353.264	99.641
France	1.154.567	414.663
Other	2.434.058	3.915.231
Companies	**71.841.073**	**76.927.662**
Republic of Serbia	67.317.494	75.522.733
Montenegro	3.693.840	1.404.928
Other	829.739	-
Private individuals	**40.498.531**	**37.298.237**
Republic of Serbia	40.483.201	37.284.332
Other	15.331	13.905
Exposures secured by mortgages on real property	**38.612.022**	**36.698.364**
Republic of Serbia	38.609.802	36.698.364
Other	2.220	-
Due outstanding receivables	**1.859.049**	**886.523**
Republic of Serbia	1.859.046	886.523
Other	3	–
Other exposures	**36.981.101**	**38.888.558**
Republic of Serbia	36.979.462	38.887.508
Other	1.639	1.050
Total	**402.006.265**	**379.818.882**

**Note: gross exposure reduced by allowance, provisions for estimated losses and required reserves and adjusted for conversion factors for off-balance sheet items upon application of mitigation techniques*

Maturity distribution of all exposures per classes of assets RSD 000

Exposure to credit risk	31.12.2016.	31.12.2015.
	Exposure value	Exposure value
States and central banks	**185.540.619**	**168.494.413**
Up to three months	67.733.310	161.219.969
From three months to 6 months	20.326.609	8
From 6 months to 1 year	24.973.692	2.727.741
Over 1 year	72.507.007	4.546.695
Territorial autonomies and local government units	**3.061.122**	**3.037.574**
Up to three months	641.235	1.049.187
From three months to 6 months	13.855	–
From 6 months to 1 year	110.812	43.606
Over 1 year	2.295.221	1.944.781
Exposures to public administrative bodies	**90.346**	**–**
Up to three months	60.765	–
From three months to 6 months	7.001	–
From 6 months to 1 year	–	–
Over 1 year	22.580	–
International development banks	**257**	**1.035**
Up to three months	257	1.035
From three months to 6 months	–	–
From 6 months to 1 year	–	–
Over 1 year	–	–
Banks	**23.522.145**	**17.586.517**
Up to three months	19.092.848	13.787.756
From three months to 6 months	61.782	4.442
From 6 months to 1 year	29.378	14.445
Over 1 year	4.338.137	3.779.875
Companies	**71.841.073**	**76.927.662**
Up to three months	4.104.679	3.702.010
From three months to 6 months	5.434.071	6.628.671
From 6 months to 1 year	10.760.283	10.471.458
Over 1 year	51.542.039	56.125.522
Private individuals	**40.498.531**	**37.298.237**
Up to three months	5.406.362	5.520.568
From three months to 6 months	2.202.252	2.189.942
From 6 months to 1 year	5.267.595	4.697.914
Over 1 year	27.622.323	24.889.813
Exposures secured by mortgages on real property	**38.612.022**	**36.698.364**
Up to three months	201.485	97.491
From three months to 6 months	69.306	84.642
From 6 months to 1 year	867.496	240.150
Over 1 year	37.473.735	36.276.080
Due outstanding receivables	**1.859.049**	**886.523**
Up to three months	592.761	43.358
From three months to 6 months	33.241	3.308
From 6 months to 1 year	10.564	33.802
Over 1 year	1.222.482	806.055
Other exposures	**36.981.101**	**38.888.558**
Up to three months	36.689.505	38.495.602
From three months to 6 months	34.273	54.112
From 6 months to 1 year	92.228	131.194
Over 1 year	165.095	207.651
Total	**402.006.265**	**379.818.882**

**Note: gross exposure reduced by allowances, provisions for estimated losses and required reserves and adjusted for conversion factors for off-balance sheet items upon application of mitigation techniques*

Changes in allowances and provisions RSD 000

	Loans to banks	Loans to customers	Investment securities	Investments in dependent companies	Other assets	Off balance exposure	Total
Balance as of 01.01.2016.	399.760	36.284.007	98.039		1.808.525	540.123	39.130.454
Increase	-	21.380.889	82.166	2.869.029	1.115.236	522.126	25.969.446
Decrease	-	(10.186.735)	(941)		(185.228)	(631.308)	(11.004.212)
Rate of	15.577	453.211	115		3.140		472.043
Write-offs	(105.463)	(18.912.206)	(13.500)		(114.838)		(19.146.007)
Other changes	-	625.839			(94.147)		531.692
Balance 31.12.2016.	**309.874**	**29.645.005**	**165.879**	**2.869.029**	**2.532.688**	**430.941**	**35.953.416**

Note: Allowances for fixed assets, intangible investments and inventories are not included in the allowance and provisions changes

- Decrease in the impairment and provision accounts is the result of full transfer of impaired receivables to the off balance sheet records to the amount of RSD 19.146.007 thousand. At the same time, during 2016, there were increases in loan provisions mostly resulting from new risk loans, lower value assessments of mortgages, initiation of bankruptcy proceedings, new assessments of assets acquired through collection and investment property, as well as the impairment of the share in equity of the subsidiaries (KB Budva, KB Banja Luka) based on the assessment of value by an independent assessor in accordance with IAS 36 and recommendation of the external auditor of the Bank.

Exposure according to risk categories and client type as of 31.12.2016 RSD 000

Classification	Corporate clients	Banks	Retail clients	Total
A	63.175.111	18.984.426	74.928.148	157.087.685
B	18.614.356	1.382.808	7.057.677	27.054.841
V	9.719.629	4.043.846	1.706.178	15.469.653
G	7.437.226	0	968.599	8.405.825
D	26.041.302	1.851.444	5.313.969	33.206.715
Total	**124.987.625**	**26.262.525**	**89.974.570**	**241.224.720**

**Note: total exposure to credit risk by risk category and client type is shown in gross amount before mitigation effect based on the amount of impairment.*

Overview of credit loss reserves and required reserves by client type as of 31.12.2016 RSD 000

Type of Client	Credit Loss Reserves	Required Reserves
Corporate clients	29.842.396	3.880.247
Banks	2.367.583	321.343
Retail clients	5.680.017	1.168.844
Total	**37.889.996**	**5.370.434**

- In accordance with the NBS Decision on Classification, the Bank implemented provisions that allow relaxation of calculated level of the required reserves for estimated losses, based on the proactive management and decrease in level on NPLs, reducinge the required reserve cumlatively by 3,2 billion dinars, bearing in mind that the share of NPL of the non-financial and non-governmental sector decreased compared to the balance as of 30.06.2016, due to full transfer of impaired receivables to the off-balance records.

Use of credit ratings

- In 2016, the Bank used credit ratings of the external credit rating agency Moody's to determine the class of exposure to the states and central banks.
- For exposures in the form of financial instrument from the banking book, the Bank does not use credit ratings of the issuer or the specific issues of such instruments. For the financial instrument issued by the Republic of Serbia, the Bank is applying the preferential risk weight, or 0%.

Credit rating assignment to credit risk levels

Moody's credit rating	Aaa – Aa3	A1-A3	Baa1 – Baa3	Ba1 – Ba3	B1 – B3	Caa1 - D
The level of credit quality	1	2	3	4	5	6
Credit risk weight	0%	20%	50%	100%	100%	150%

Overview of classes of exposure to states and central banks per credit quality level and risk weight RSD 000

Categories of lowest export insurance premiums	Credit risk weight	Exposure amount before application of credit protection instruments		Exposure amount after application of credit protection instruments e	
		31.12.2016.	31.12.2015.	31.12.2016.	31.12.2015.
States and central banks		**183.283.961**	**163.569.116**	**185.540.619**	**168.494.413**
1	0%	183.283.823	163.569.116	185.540.481	168.494.413

2	100%	137	0	137	

Note: gross exposure reduced by provisions and reserves for estimated losses

Credit Risk Mitigation Techniques

Valuation of credit protection instruments and their managing

- The Bank has the Valuation of Collateral Methodology regulated by its internal documents the valuation of credit protection instruments and their managing.
- The types of security for the receivables and instruments on that basis are in each concrete case determined by the special provision of the Agreement between the Bank and the applicant, and their procuring after the conclusion of the agreement and prior to realization of the loan.
- The Bank pays attention to regular assessment/valuation of the collaterals, which is necessarily conducted prior to the conclusion of the loan agreement and during the agreement validity. Securities are assessed on monthly basis.
- The acceptable loan amount and collateral value ratio is based on the assessed collateral value, which is adjusted by application of defined percentage depending on type of collateral, thereby establishing the liquidation value of the collateral that the Bank can collect.

Description of basic types of credit protection instruments

- The Bank uses the following credit protection instruments:
  - material credit protection;;
  - non-material credit protection;
- Among the instruments of material credit protection, the Bank uses the financial instruments by applying the complex method in accordance with the regulations of the National Bank of Serbia. As to financial instruments, the Bank uses as appropriate instruments of protection:
  - cash and cash equivalents deposited with the Bank, such as the deposits placed as collateral;
  - Securities, which include debt securities issued by the states and central banks, and shares.
- As a form of non-material credit protection, the Bank uses guarantees, other forms of sureties, counter-guarantees, etc.

Basic types of credit protection providers

- In the case of using the guarantee as a credit protection instrument, the Bank uses the guarantees issued by:
  - states,
  - banks,
  - territorial autonomies,
  - other.
- A guarantee as a credit protection instrument is taken only if the guarantor’s risk weight is more favorable than the counterparty’s risk weight.

Data about market or credit risk concentration within the applicable mitigation techniques

- The Bank follows up and manages the credit and market risk concentration in the segment of large exposures by also considering the issuers of eligible security instruments. Also, the Bank reports to the management on monthly basis on large exposures
- In order to manage the concentration risk in the framework of used credit risk mitigation techniques:
  - Analysis is made of indirect exposure to the credit protection provider, within the credit process;
  - The exposure limit system is established.
- The major part of eligible non-material credit protection instruments account for the guarantees of the Government of the Republic of Serbia

Exposures secured by credit protection instruments per classes of assets RSD 000

Exposure to credit risk	Amount of exposures secured by material credit protection instruments		Amount of exposures secured by non-material credit protection instruments	
	31.12.2016.	31.12.2015.	31.12.2016.	31.12.2015.
States and central banks	–	–	–	–
Territorial autonomies and local government units	–	–	–	–
Public administrative bodies	–	–	–	–
International development banks	–	–	–	–
Banks	–	814	–	–
Companies	946.475	951.345	2.256.658	4.925.297
Private individuals	884.888	749.656		–
Exposures secured by mortgages on real property	53.688	43.701		–
Due outstanding receivables	80.702	2.492		–
Other exposures	257	2.634		–
Total	**1.966.010**	**1.750.642**	**2.256.658**	**4.925.297**

**Note: exposure presented after application of the conversion factor and volatility factor*

5.2. Counterparty Risk

Counterparty Risk

- Bank performs transactions in the trading book and banking book which fall under the counterparty risk, and in part of operations with:
  - Financial derivatives;
  - Repo and reverse repo transactions.
- For the needs of calculating the exposure of the positions that are subject to calculation of the capital requirements for the counterparty risk, the Bank uses:
  - the current exposure method for financial derivatives;
  - the complex method for calculation of adjusted transaction and collateral value in the case of repo and reverse repo transactions, and for the lending and borrowing transactions. A characteristic of „repo" transactions performed by the Bank with the National Bank of Serbia is that the collateral cannot be used as an eligible credit protection instrument since the collateral issuer and the counterparty is one and the same.

Exposure to counterparty risk RSD 000

Type of risk	Exposure value
Exposures to counterparty risk	20.000.000

5.3. Liquidity Risk

- The Bank may be exposed to the risk of inability to settle matured obligations (default risk), as well as to possible occurrence of a liquidity crisis on the basis of external and internal factors. Internal factors relate to the structure of the Bank's liabilities in terms of the deposit potential and share of adequate sources of funding in Bank's liabilities (funding sources risk), while external factors relate to exposure to non-marketability of assets in the case of need to acquire the sources of funding.
- The Bank manages in short-term the liquidity risk by monitoring/following up and controlling the positions in all major currencies in order to timely perceive the needs for additional sources of financing in case of maturity of the corresponding positions, and/or in long-term it plans the structure of its sources and loans so as to provide the enough stable sources and sufficient liquidity reserves.
- On short-term basis, the Bank manages the liquidity ratio which it limited to 1 on daily basis, and also the more specific liquidity ratio which it complies with the regulatory defined limits. On long-term basis, the Bank has defined the financial leverage to equal maximum 90%.
- On monthly basis the bodies of the Bank monitor the liquidity crisis indicators and the structure of liquidity reserves.
- The Bank tests the Plan for managing liquidity in crisis situations, by which it identifies the possible crisis, tests the survival period and solvency of the Bank in presumed crisis conditions, and also perceives and analyzes the accessibility of sources for covering potential obligations, and/or assesses the accompanying organizational support (public relations and the Plan for the case of occurrence of unforeseen events).
- The Bank has developed its own internal approach for the needs of determining the capital required for covering the liquidity risk.

5.4. Managing Interest Rate Risk in the Banking Book

- The Bank is exposed to:
  - The risk of change in prices (repricing risk), which arises from the mismatch of assets and liabilities items relative to the remaining maturity (for positions with fixed interest rate) and price redetermination (for positions with variable interest rate);
  - Yield curve risk
  - Basis risk due to changes of different reference interest rates in case of interest rate sensitive positions with similar characteristics in terms of maturity or re-pricing,
  - Options risk, to which it may be exposed due to contractual provisions in connection with interest rate sensitive positions, as well as built-in minimum and maximum interest rates options.
  - The Bank measures the exposure to interest rate risk by Gap and ratio analysis, interest rate shock and duration on monthly basis and by stress tests and simulations minimum on semiannually basis.
- For the needs of preparation of interest rate GAP, the mentioned positions are categorized in the following manner:
  - positions with agreed fixed interest rate are categorized according to maturity period,
  - positions with agreed market variable interest rate are categorized according to the repricing period provided such

period is shorter than the maturity period,
- positions with agreed variable interest rate in accordance with the Bank's business policy are categorized according to maturity period, assets and liabilities not having a defined maturity or having the maturity other than the agreed one are categorized in relevant time frames based on the analysis of such positions in the previous period (assessment and prior experience).

- The Bank regularily conducts stress testing of the interest rate risk, which is used to assess the effect of change in key factors to interest rate risk exposure of the Bank. When modelling the scenario, in addition to change of the interest rate, the influence of temporarily withdrawal of deposits and early repayment of laons is particularily considered, since the Bank is assessing on the basis of historical movements and expert opinions. The Bank carried out the assessment of movements in transaction deposits, on demand deposits and retail savings by applying relevant statistical model from the domain of the analysis of time series.
- The Bank has limited to 20% the impact on the economic value of capital and has internally developed a model for calculation of capital requirements for the interest rate risk.

5.5. Market Risks

- The Bank is exposed to the risk of changes in the exchange rate of inter-currency pairs on the positions of the banking book and trading book (foreign exchange risk) as well as to the change in the price of equity and debt securities that are recorded in the trading book (price risk).
- In the structure of currency exposure, dominant is the exposure to currency EURO, then to USD, and also exposure to currency CHF. Internal factors of exposure to FX risk stem from the currency structure of facilities and deposits: loan are mostly agreed in dinars and indexed with a currency clause (EUR and CHF), while investment in securities are indexed in the USD. Deposits are mostly in EUR. During 2016 exposure to FX risk ranged within the defined limits and the average FX risk ratio was approx. 5.98%.
- In the structure of exposure to price risk, dominant share is of the investment units and swap transactions, as well as the bonds of the Republic of Serbia that are traded with.
- The Bank is insignificantly exposed to the price risk, which is also demonstrated by the share of the trading book in total operations of the Bank, which is below 1%.
- The Bank has developed the customized internal approach for the purpose of establishing the required internal capital for covering the foreign exchange risk, for whose application it has not requested the permission of the National Bank of Serbia. The Bank calculates the minimum capital requirements for these risks by using the standardized approach.

5.6. Exposures Arising from Equity Investments in the Banking Book

- Equity investments in the companies founded by the Bank in order to expand the offer of financial products and services have taken place for economic reasons or local regulations that impose that the offer of certain financial products and services must be made through companies exclusively founded for that purpose. This is the reason why the Bank has founded Komercijalna banka AD Budva, Komercijalna banka AD Banja Luka, as well as the Investment Fund Management Company (Kombank INVEST AD Beograd).
- In addition to majority stakes in subsidiaries, the Bank also holds minority equity investments in companies, which enable it to perform certain types of financial services.
- Equity stakes are initially assessed at purchase price and at the balance sheet date at market value, if the same is known. The changes in market value are stated within the capital, credited or charged to revaluation reserves until the disposal of the funds when the revaluation reserves are transferred to income or expenses.
- In case when equity stakes record a fall in fair value, with the objective evidence of impairment of assets (long and continuous decline in value over a period longer than twelve months, as well as decline in value above 30% of assets purchase price), accumulated loss is recognized as an impairment charge, although the recognition of a financial asset has not stopped, (IAS 39.59, IAS 39.67 and IAS 39.68).
- As to the investments in capital, intention is to hold them for an indefinite time period. These investments may be sold depending on liquidity needs or in the case of change in market prices. Investments in capital for which there is no active market are valued at purchase price.

Exposure per investment purpose as of 31.12.2016. RSD 000

Equity investments in banking book	Carrying value	Allowances	Fair value	Realized gain/loss	Unrealized gain	Unrealized loss
Subsidiary legal entities in the	140.000		140.000			
Subsidiary banks abroad	5.340.888	2.869.029	2.471.859			
Banks and financial organizations	82.536	81.863	673		214	
Companies and other legal	468.277	421.898	46.379		20.680	3.280

Foreign entities abroad	829.738		829.738		829.738	
Total	**6.861.439**	**3.372.790**	**3.488.649**		**850.632**	**3.280**

Exposure value as of 31.12.2016. RSD 000

Exposure type	Carrying value	Fair value
Holdings and investments in capital		
quoted on stock exchange	929.291	870.387
not quoted on stock exchange	451.260	6.403
Subsidiary legal entities	5.480.888	2.611.859
Total	**6.861.439**	**3.488.649**

- In 2016, the Bank did not achieve realized gain / loss which arise from sale or from closing the positions based on equity investments.
- Total unrealized gain/loss originating from equity investments is shown in the table, while the amount of unrealized gains which is included in calculation of supplementary capital is reduced by 15%. Unrealized losses are not reduced when included in supplementary capital.

5.7. Banking Group

- Banking Group of Komercijalna banka AD Beograd is consisted of Komercijalna banka AD Beograd, as a parent bank and three subsidiary legal entities.
- Financial statements of all the members of the Banking Group are consolidated by full consolidation method in accordance with relevant IAS/IFRS.

Members of the Banking Group

- Komercijalna banka AD Budva (100% owned by the Bank),
- Komercijalna banka AD Banja Luka (99,99% owned by the Bank),
- Investment Fund Management Company Kombank INVEST AD Beograd (100% owned by the Bank)

- The parent bank does not have related entities to whose financial statements the method of proportional consolidation and equity method would be applied or which would be excluded from consolidation because of a Group member's participation that represents a deductible item from the Group capital.

5.7.1. Overview of Differences between Consolidated Financial Statements

		Consolidation for supervision		Consolidation pursuant to IFRS	
Company type	Company name	Consolidation method		Consolidation method	
		Full	Equity method	Full	Equity method
Bank	Komercijalna banka AD Beograd	X		X	
	Komercijalna banka AD Budva	X		X	
	Komercijalna banka AD Banja Luka	X		X	
Investment Fund Management Company	KomBank INVEST AD Beograd		X	X	

5.7.2. Legal or Other Impediments for the Transfer of Capital

- There were no legal or other impediments in the previous period for a timely transfer of capital and settlement of obligations between the parent bank and subsidiary companies within the Banking Group business operations.
- In the forthcoming period, the parent bank does not expect any difficulties in the cash flows between the Banking Group members or any legal and other impediments in business operations.

6. ENCLOSURES

In accordance with the Decision on Disclosure of Data and Information by Banks, the Bank is required to disclose the data and information on capital on the following forms.

6.1. Enclosure 1 - Data on Bank's capital position (PI-KAP)

No.	Item	Amount
I	TOTAL CORE CAPITAL	**44.667.035**
1.	CORE CAPITAL BEFORE DEDUCTIONS	**58.826.378**
1.1.	Par value of paid-in shares, except cumulative preferential shares	17.191.466
1.2.	Share premium	22.843.084
1.3.	Reserves from profit	18.791.828
1.4.	Retained earnings from previous years	
1.5.	Profit of the current year	
1.6.	Minority participations in subordinate companies	
1.7.	Other positive consolidated reserves	
2.	DEDUCTIBLES FROM CORE CAPITAL	**14.159.342**
2.1.	Losses from previous years	
2.2.	Loss of the current year	8.063.183
2.3.	Intangible assets	362.507
2.4.	Acquired own shares, except cumulative preferential shares	
2.5.	Amount of shares received in pledge, except cumulative preferential shares	357.233
2.6.	Regulatory value adjustments:	**5.376.419**
2.6.1.	Unrealized losses on securities available for sale	5.985
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	5.370.434
2.7.	Other negative consolidated reserves	
II	TOTAL SUPPLEMENTARY CAPITAL	**4.175.529**
1.	SUPPLEMENTARY CAPITAL BEFORE DEDUCTIONS	**4.175.529**
1.1.	Par value of paid in cumulative preferential shares	
1.2.	Share premium on cumulative preferential shares	
1.3.	Part of revaluation reserves of the bank	4.175.529
1.4.	Hybrid instruments	
1.5.	Subordinated liabilities	0
1.6.	Overallocation of impairment allowances, provisions and required reserves from profit relative to expected losses	
2.	DEDUCTIBLES FROM SUPPLEMENTARY CAPITAL	0
2.1.	Acquired own cumulative preferential shares	
2.2.	Receivables in respect of balance-sheet assets and off-balance sheet items of the bank 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	
III	TOTAL CAPITAL	**46.230.705**
1.	TOTAL CAPITAL BEFORE DEDUCTIONS	**48.842.565**
2.	DEDUCTIBLES FROM CAPITAL	**2.611.859**
	Of which reduction in core capital	1.305.930
	Of which reduction in supplementary capital	1.305.930
2.1.	Direct or indirect investment in banks and other financial sector persons that exceed 10% of the capital of such banks and/or other financial sector persons	2.611.859
2.2.	Investment in hybrid instruments and subordinated liabilities of other banks and financial sector persons in which the bank has direct or indirect investment that exceeds 10% of the capital of such persons	
2.3.	Total amount of direct and indirect investment in banks and other financial sector persons 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 the bank for which the calculation of capital is made	
2.4.	The amount by which qualified participation in non-financial sector persons 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 fulfill its obligation within four working days	
2.7.	Receivables from and potential liabilities toward persons related to a bank or employees in the bank which the bank has negotiated under the terms that are more favorable 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 IRB approach on the other	
	Amount of impairment allowances, provisions and required reserves from bank's profit	
	Of which on a group basis	
	Of which on an individual basis	
	Amount of expected losses under IRB approach	
	Gross amount of subordinated liabilities	6.173.615

In addition to the financial instruments disclosed within the form PI-FIKAP (Enclosure 2), the capital calculation includes also the following elements:

- **Reserves from profit** – This element of the core capital comprises all types of reserves that are formed chargeable to profit after its taxation, in line with the Decisions of the General Meeting of Bank's Shareholders.
- **Loss** – Current loss, January through December 2016, totals RSD 8.063,18 million and the Bank included it in the report as deductible from the Bank's core capital.
- **Intangible assets** – Investments in licenses, software and similar rights, net of calculated depreciation, represent a deductible from core capital.
- **Amount of Bank's shares received in pledge, except cumulative preferential shares** – The Bank received in pledge own ordinary shares from certain number of its clients. By comparing the value of receivable secured by pledged shares and nominal value of received shares increased by accompanying issue premium, for each client separately, we get the amount which represents a deductible from the core capital.
- **Unrealized losses on securities available for sale** – The stated losses represent a deductible from core capital and are a result of negative fluctuations of prices of relevant instruments in relation to their initial value.
- **Required reserve from profit for estimated losses on balance-sheet assets and off-balance sheet items of the bank** – This reserve is calculated in accordance with the Decision on Classification of Balance Sheet Assets and Off-Balance Items of Banks („Official Gazette or RS", Nos. 94/2011, 57/2012, 123/2012, 43/2013, 113/2013, 135/2014, 25/2015, 38/2015, 61/2016, 69/2016 and 91/2016.) and represents a deductible from core capital. The Bank reduces the amount of required reserves for estimated losses in accordance with the Item 34a of the Decision on Amendments and Supplements of the Decision on Classification of Balance Sheet Assets and Off-Balance Items of Banks („Official Gazette of RS", No.69/2016).
- **Part of revaluation reserves of the bank** – Positive effects of change in fair values of core assets and securities available for sale. These reserves were reduced by the effects of potential tax liabilities and are as such included in the supplementary capital of the Bank.
- **Subordinated liabilities** – According to the regulations of the National Bank of Serbia, in December 2011 the Bank strengthened the capital base by taking subordinated loan to the amount of EUR 50,0 million from the International Finance Corporation. Loan maturity is 6 years; in accordance with the Decision of the National Bank of Serbia („Decision of Capital Adequacy of Banks, Official Gazette of RS Nos. 46/2011, 6/2013 and 51/2014 – item 17 para 2), until 30.12.2016 the Bank has had to include into the supplementary capital the aliquot part of subordinated debt. As of 31.12.2016, and pursuant the effective regulations, the Bank fully excluded from capital calculations these subordinated liabilities that mature for payment on December 30, 2017.
- **Direct or indirect investment in banks and other financial sector persons that exceed 10% of the capital of such banks and/or other financial sector persons** – The Bank has share in equity in the following dependent persons: KomBank INVEST a.d. Beograd, Komercijalna Banka a.d. Banja Luka and Komercijalna Banka a.d. Budva. Total investment in dependent companies as of 31.12.2016 total RSD 5.480,9 million. Based on share in equity of dependent banks abroad, impairment has been carried out on the expense side to the amount of RSD 2.869,0 million, so that total net investments in dependent companies amount to 2.611,9 million. In addition to these investments, the Bank has share in equity in Euroaxis Banka a.d. Moscow, which exceeds 10% of capital of that legal entity, which was fully impaired on the expense side.

6.2. Enclosure 2 - Data on Basic Characteristics of Financial Instruments Included in Calculation of Bank's Capital (PI-FIKAP)

No.	Characteristics of instrument	Description –ordinary share	Description – preferential share
1.		Komercijalna banka AD, Beograd	Komercijalna banka AD, Beograd
2.	Treatment in compliance with as per legislation		
2.1.	Treatment in compliance with as per the Decision on Capital Adequacy of Banks	Instrument of core capital	Instrument of core capital
2.2.	Individual/group/individual and group level of inclusion of instrument in capital at on a group level	-	-
2.3.	Type of instrument	Ordinary shares	Non-cumulative preferential shares
3.	Amount recognized for the purpose of calculating regulatory capital (in RSD thousand, as at the last reporting date)	39.661.040	373.510
4.	Nominal value of instrument	In total 16.817.956 of ordinary shares were issued, whereby nominal value of a single share amounts to RSD 1.000.	In total 373.510 of non-cumulative preferential shares were issued, whereby nominal value of a single share amounts to RSD 1.000
5.	Accounting classification	Share capital	Share capital
6.	Initial date of issuance of instrument - Date of initial issuance	May 6, 1992	May 6, 1992
7.	Instrument with or without with no maturity date.	No maturity date a	No maturity date a
7.1.	Original maturity	No maturity date a	No maturity date a
8.	Does the issuer have call option With or with no issuer call option	No	No
8.1.	First day of activating call option right First date of call option activation	-	-
8.2.	Subsequent dates of activating call option activation (if applicable)	-	-
9.	Coupons/dividends	-	-
9.1.	Fixed or variable dividends/coupons	Variable	Variable
9.2.	Full, partial or no discretion regarding the time of payment of dividends/coupons	Full discretion	Full discretion
9.3.	Full, partial or no discretion regarding the amount of dividends/coupons	Partial discretion	Partial discretion
9.4.	Step up option	No	No
9.5.	Non-cumulative or cumulative dividends/coupons	Non-cumulative	Non-cumulative
10.	Convertible or non-convertible instrument	Non-convertible	Non-convertible
10.1.	If convertible, terms under which conversion may take place terms of conversion	-	-
10.2.	If not 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	No
11.1.	If there is write-off option, specify terms of the write-off under which the write-off may take place.	-	-
11.2.	If there is write-off option, specify if partial or full partial or full write-off.	-	-
11.3.	If there is write-off option, specify if temporary or permanent write-off	-	-
11.4.	If it is a temporary write-off, terms under which it is recognized again 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	Non-cumulative preferential shares	Subordinated debt

6.3. Enclosure 3 – Data on Connecting the Capital Positions from Balance Sheet with the Positions from the Form (PI-UPK)

6.3.1. Itemizing of elements in Balance Sheet – 31.12.2016

Designation	Item	Balance sheet	References
A	**ASSETS**		
A.I	Cash and assets with the central bank	55.153.209	
A.II	Pledged financial assets		
A.III	Financial assets recognized at fair value through income statement and held for trading	242.920	
A.IV	Financial assets initially recognized at fair value through income statement		
A.V	Financial assets available for sale	136.123.853	
A.VI	Financial assets held to maturity		
A.VII	Loans and receivables from banks and other financial organizations	40.601.413	
A.VIII	Loans and receivables from clients	150.411.409	
A.IX	Changes in fair value of hedged items		
A.X	Receivables arising from financial derivatives intended for hedging		
A.XI	Investments in associated companies and joint ventures		
A.XII	*Of which direct or indirect investments in banks and other financial sector person persons*	2.611.859	
	Investments into subsidiaries	2.611.859	z
A.XIII	*Of which direct or indirect investments in banks and other financial sector persons*	362.507	d
A.XIV	Intangible assets	5.856.458	
A.XV	Property, plant and equipment	2.217.816	
A.XVI	Investment property		
A.XVII	Current tax assets		
A.XVIII	Deferred tax assets	183.170	
A.XIX	Non-current assets held for sale and discontinued operations	6.252.855	
	Other assets	-	
A.XX	*Of which direct or indirect investment in banks and other financial sector persons that exceed 10% of the capital of*	**400.017.469**	
R	**TOTAL ASSETS (ADP items from 0001 to 0019 in the consolidated balance sheet)**		
RO	**LIABILITIES**		
RO.I	LIABILITIES		
RO.II	Financial liabilities recognized at fair value through income statement and held for trading		
RO.III	Financial liabilities initially recognized at fair value through income statement		
RO.IV	Liabilities arising from financial derivatives intended for hedging	7.834.962	
RO.V	Deposits and other liabilities to banks, other financial organizations and central bank	322.621.360	
RO.VI	Deposits and other liabilities to other clients		
RO.VII	Changes in fair value of hedged items		
RO.VIII	Own securities issued and other borrowings	6.178.390	
	Of which liabilities arising from hybrid instruments		
RO.IX	Subordinated liabilities	1.787.294	
RO.X	*Of which subordinated liabilities included in bank's supplementary capital*		
RO.XI	Provisions		
RO.XII	Liabilities under assets held for sale and discontinued operations	23.592	
RO.XIII	Current tax liabilities	6.147.569	
RO.XIV	Deferred tax liabilities	**344.593.167**	
	Other liabilities		
RO.XV	TOTAL LIABILITIES (ADP items from 0401 to 0413 in the consolidated balance sheet)	40.034.550	
	Of which nominal value of paid shares, except for preference cumulative shares	17.191.466	a
	Of which issue premium from share capital, except for preference cumulative shares	22.843.084	b
RO.XVI	Treasury shares		
RO.XVII	Profit	349.698	
RO.XVIII	Loss	8.063.183	g
RO.XIX	Reserves	23.103.237	
	Of which reserves from profit that are an element of fixed capital	18.791.828	**v**
	Of which unrealized losses from securities available for sale	5.985	e
	Of which other net negative revaluation reserves		
	Of which positive revaluation reserves from the effects of change in fair value of fixed assets, securities and other assets that are taken to these reserves in accordance with IFRS/IAS	4.175.529	ž
RO.XX	Unrealized losses		
RO.XXI	Non-controlling stakes		
RO.XXII	**TOTAL CAPITAL** (result of adding up or subtracting the following items from the balance-sheet: 0415 - 0416 + 0417 - 0418 + 0419 + 0420) ≥ 0	**55.424.302**	
RO.XXIII	**TOTAL CAPITAL SHORTFALL** (result of adding up or subtracting the following items from the balance-sheet: 0415 - 0416 + 0417 - 0418 + 0419 + 0420) < 0	–	
RO.XXIV	**TOTAL LIABILITIES** (result of adding up or subtracting the following items from the balance-sheet**: 0414 + 0421 - 0422)**	**400.017.469**	
V.P.	Reserves		
V.P.A.	Off-balance-sheet assets	520.370.274	
	Of which the amount of the bank's pledged shares, except for preference cumulative shares	357.233	đ
V.P.P.	Off-balance-sheet liabilities	520.370.274	

6.3.2. Connecting positions in Itemized Balance Sheet with the Positions in the Form – 31.12.2016

No	Item	Amount	Data source in accordance with references from step 2
I	TOTAL CORE CAPITAL	**44.667.035**	
1.	CORE CAPITAL BEFORE DEDUCTIONS	**58.826.378**	
1.1.	Par value of paid-in shares, except for cumulative preferential shares	17.191.466	a
1.2.	Share premium	22.843.084	b
1.3.	Reserves from profit	18.791.828	v
1.4.	Retained earnings from previous years	-	
1.5.	Profit of the current year	-	
1.6.	Minority participations in subordinate companies	-	
1.7.	Other positive consolidates reserves	-	
2.	DEDUCTIBLES FROM CORE CAPITAL	**14.159.342**	
2.1.	Losses from previous years	0	
2.2.	Loss of the current year	8.063.183	g
2.3.	Intangible assets	362.507	d
2.4.	Acquired own shares, except for cumulative preferential shares	0	
2.5.	Amount of shares received in pledge, except for cumulative preferential shares	357.233	đ
2.6.	Regulatory value adjustments:	5.376.419	
2.6.1.	Unrealized losses on securities available for sale	5.985	e
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	5.370.434	
2.7.	Other negative consolidates reserves	-	
II	TOTAL SUPPLEMENTARY CAPITAL	**4.175.529**	
1.	SUPPLEMENTARY CAPITAL BEFORE DEDUCTIONS	**4.175.529**	
1.1.	Par value of paid in cumulative preferential shares	-	
1.2.	Share premium on cumulative preferential shares	-	
1.3.	Part of revaluation reserves of the bank	4.175.529	ž
1.4.	Hybrid instruments	-	
1.5.	Subordinated liabilities	-	
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 preferential shares	-	
2.2.	Receivables in respect of balance-sheet assets and off-balance sheet items of the bank 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 restrictions on supplementary capital	-	
III	TOTAL CAPITAL	**46.230.705**	
1.	TOTAL CAPITAL BEFORE DEDUCTIONS	**48.842.565**	
2.	DEDUCTIBLES FROM CAPITAL	**2.611.859**	
	Of which reduction in core capital	1.305.930	
	Of which reduction in supplementary capital	1.305.930	
2.1.	Direct or indirect investment in banks and other financial sector persons that exceed 10% of the capital of such banks and/or other financial sector persons	2.611.859	z
2.2.	Investment in hybrid instruments and subordinated liabilities of other banks and financial sector persons in which the bank has direct or indirect investment that exceeds 10% of the capital of such persons	-	
2.3.	Total amount of direct and indirect investment in banks and other financial sector persons 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 the bank for which the calculation of capital is made	-	
2.4.	The amount by which qualified participation in non-financial sector persons 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 fulfill its obligation within four working days	-	
2.7.	Receivables and potential liabilities towards persons related to a bank or employees in the bank which the bank has negotiated under the terms that are more favorable than the terms negotiated with other parties	-	
IV	NOTES	**0**	
	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 IRB approach on the other hand	-	
	Amount of impairment allowances, provisions and required reserves from bank's profit	-	
	Of which on a group basis	-	
	Of which on an individual basis	-	
	Amount of expected losses under IRB approach	-	
	Gross amount of subordinated liabilities	6.173.615	

6.4. Enclosure 4 - Data on Total Capital Requirements and Capital Adequacy Ratio (PI-AKB)

No	Name	Amount	Coverage by core capital	Coverage by supplementary capital
		1	2	3
I	CAPITAL	**46.230.705**		
1.	TOTAL CORE CAPITAL	43.361.106		
2.	TOTAL SUPPLEMENTARY CAPITAL	2.869.600		
II	CAPITAL REQUIREMENTS	**20.568.521**		
1.	CAPITAL REQUIREMENTS FOR CREDIT RISK, COUNTERPARTY RISK AND SETTLEMENT/DELIVERY RISK IN CASE OF FREE DELIVERIES	**17.682.647**	**17.682.647**	**–**
1.1.	Standardized approach (SA)	**147.355.392**		
1.1.1.	***Exposures to central governments and central banks***	137		
1.1.2.	***Exposures to territorial autonomies and local self-government units***	1.209.944		
1.1.3.	***Exposures to public administrative bodies***	90.346		
1.1.4.	***Exposures to multilateral development banks***	–		
1.1.5.	***Exposures to international organizations***	–		
1.1.6.	***Exposures to banks***	7.313.701		
1.1.7.	***Exposures to corporates***	71.841.073		
1.1.8.	***Retail exposures***	30.373.899		
1.1.9.	***Exposures secured by real estate collateral***	24.314.325		
1.1.10.	***Past due items***	1.951.270		
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***	10.260.698		
1.2.	Internal Ratings Based Approach (IRB)	**–**		
1.2.1.	***Exposures to central governments and central banks***	–		
1.2.2.	***Exposures to banks***	–		
1.2.3.	***Exposures to 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.	***Approach applied:***	–		
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 a bank applied Standardized Approach to credit risk*	–		
1.2.6.	***Exposures to other assets***	–		
2	CAPITAL REQUIREMENTS FOR SETTLEMENT/DELIVERY RISK ARISING FROM UNSETTLED TRANSACTIONS	**–**	**–**	**–**
3	CAPITAL REQUIREMENTS FOR MARKET RISKS	**280.636**	**280.636**	**–**
3.1.	Capital requirements for price, foreign exchange and commodity risks calculated under standardized approaches	**280.636**	**280.636**	**–**
3.1.1.	***Capital requirements for price risk arising from debt securities***	–	–	–
3.1.2.	***Capital requirements for price risk arising from equity securities***	116.602	116.602	–
3.1.3.	***Capital requirements for foreign exchange risk***	164.034	164.034	–
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	**2.605.239**	**2.605.239**	**–**
4.1.	Capital requirements for operational risk calculated under the Basic Indicator Approach	–	–	–
4.2.	Capital requirements for operational risk calculated under the Standardized Approach	2.605.239	2.605.239	–
4.3.	Capital requirements for operational risk calculated under the Advanced Approach	–	–	–
5	COVERAGE OF CAPITAL REQUIREMENTS	**2.605.239**	**2.605.239**	**–**
III	CAPITAL ADEQUACY RATIO (%)	**26,97%**		