KOMERCIJALNA BANKA

REPORT

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

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EXECUTIVE BOARD OF THE BANK
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1. INTRODUCTION

- Komercijalna banka AD Beograd Banking Group (hereinafter: Group) 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 BANKING GROUP

- Komercijalna banka AD Beograd Group is composed of Komercijalna banka AD Beograd, as a parent bank and three subsidiary legal entities:
- Komercijalna banka AD Budva (100% in the Bank ownership) was incorporated in November 2002 and entered in the Central Register of the Economic Court of Podgorica on 6 March 2003,
- Komercijalna banka AD Banja Luka (99.99% in the Bank ownership) was incorporated in September 2006 and entered on September 15th of the same year in the Court Register based on the Ruling of the First Instance Court of Banja Luka.
- Investment Fund Management Company - Kombank Invest AD Beograd (100% owned by the Bank) was established in December 2007 and registered on 5 February 2008.

- The Group'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, Swed Fund, DEG...), as well as different powerful domestic public and private companies.

3. RISK MANAGEMENT

3.1. Risk Management Strategy

- The Banking Group has established the comprehensive and reliable risk management system, which allows for management of all risks that the Group is or may be exposed to on the basis of all business operations and which is proportionate to the nature, scope and complexity of Group'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 Group.
- Risk management system at the Banking Group 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 Risk Management;
- Other internal documents.
- Risk Management Strategy regulates the uniform and consistent managing of risks to which the Group is or may be exposed in its operations and the same is aligned with the Business Policy and Strategy.
- The implementation of the Risk Management Strategy shall be the responsibility of the competent authorities of the parent Bank and those organizational units which implement and participate in risk management system, as well as bodies and organizational units of Group members:

General Meeting of Shareholders of the parent Bank 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 parent bank's fixed assets and investment property.

Board of Directors of the parent Bank 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;
- adoption of quarterly risk management reports;
- adoption of the Recovery Plan;
- adoption of the program and plan of the Bank's Internal Audit amd methodology of its work;
- considering the reports of external and internal audit at banking group level;
- providing the implementation of the internal capital adequacy process and its compliance with the strategic operating objectives.

Audit Committee of the parent Bank 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 of the parent Bank

- proposes and implements business policy and strategy of the bank, strategy and policy of risk management and strategy and plan of capital management;
- 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 and semiannual and annual statements at Group level;
- adopts procedures and methodologies for risk management and internal capital adequacy assessment at Group level;
- implements the procedures for supervising Group activities, regularly assesses their quality and, if necessary, enhances them in accordance with the Business Policy
- reporting to the Board of Directors about the risk exposure level and risk management and making decisios, with prior consent of the BoD, about each increase of the Bank's exposure to the person related to the Bank, and informs the BoD thereof;
- passes its Rules of Procedure

Asset/Liability Management Committee (ALCO)

- each member of the banking group has its Assets and Liabilities Management Committee in charge of monitoring the exposure of every indiivudal banking group member to the risk that result from the structure of its balance sheet liabilities and receivables and off-balance items, proposing measures to manage interest rate and liquiditiy risk, as well as performing other duties established by the appropriate regulations of the banking group member.

Credit Committee

- Each Group member has the Credit Committee which makes decisions within its competences and limits.
- Competences of other Committees of the Group which participate in the risk management system are determined by regulatory provisions and documents that are applied at Group level, whereas the competences of the Committees of the Group members are defined by local legislation and their internal documents.

Risk Management Function of the parent Bank

- independent business function responsible for risk management at Group level, 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 Group is exposed to in its operations;
- reports to the competent authorities of the Group on risk management on consolidated basis (Bank's Board of Directors, Audit Committee, Executive Board, Asset/Liability Management Committee...).
- takes activities and measures to manage bad assets.

Treasury Management Division of the parent Bank:

- it is included in process of asset and liquidity management, as well as with asset/liability management at Group level. Likewise, it participates in liquidity risk, interest rate risk and foreign exchange risk management.

Compliance Division of the parent Bank

- responsible for:
- identification and monitoring of Group operations compliance risk and for managing such risk, which particularly includes and refers to risk of sanctions by regulatory authority and risk of financial losses, as well as reputational risk.

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 of the parent Bank

- competent and responsible for:
- continuous supervision of implementation of risk management policies and procedures at Group level and examines the adequacy of procedures and compliance of the Group with them. Internal Audit reports on its findings and recommendations to the Audit Committee and Board of Directors.

Banking Group members have the organizational units for risk management, prevention of money laundering, asset management and internal audit.

By its Risk Management Strategy the Group included the following:

- overview and definition of all the risks which the Group is, or may be exposed to;
- long-term objectives, established by the Group'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 Group;
- basic principles of managing the bad assets.

The Group 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 Group that might occur due to debtors' failure to discharge their liabilities to the Group. 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 Group is exposed.
- **Dilution Risk**– is the risk of possibility of occurrence of adverse effects on Group'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 Group'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 Group'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 Group 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 Group'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 Group 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 Group's investment in other legal entities and fixed assets.
- **Country Risk** is the risk relating to the country of origin of the entity to which the Group is exposed, or the risk of possible negative effects on the financial result and capital of the Group due to Group'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 Group 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 Group'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 Group, 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 Group's financial result and capital on the basis of court or out-of-court proceedings in connection with Group's operations (labor relations, contracts and torts…)
- **Liquidity Risk** is the risk of possible negative effects on the financial result and capital of the Group caused by the Group'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 Group 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 Group'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 Group 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 Group'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 Group 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 Group's financial result and capital due to losses caused by movement of prices of options in the market.

The Group 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 Group due to Group'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 Group's financial result and capital due to the loss of public confidence and unfavorable public attitude about the Group's business operations, irrespective of whether there exist the grounds for it or not.
- **Strategic Risk** is the risk of probable negative effects on Group'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 Group operates, or Group's failure to properly react to such changes.

Long-term Objectives

- Long-term objectives for Group'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 Group's capital;
    - maintaining the required level of capital adequacy;
    - diversification of risks to which the Group is exposed;
    - maintaing the NPL to total loans within the defined limits.
- The objectives of risk management are aligned with the Business Plan and can be modified during the year.
- The Risk Management Process includes clear defining and documenting the risk profile and compliance of risk profile with Group's propensity to risk assuming.
- Propensity to risks shall imply the Group'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 operations at Group level;
- 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 Group 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 Group, 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 Group's risk exposure profile and further impact on profitability, liquidity and net worth of the Group.

- 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 risk and other, including the process of managing bad assets, or risk loans;
  - manner of organizing the risk management process of the Group and clear division of the employees' responsibilities at all stages of that process;
  - manner of assessing the risk profile of the Group members 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 Group, 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 Group;
  - 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 Group is conducted pursuant to the statutory regulations and by-laws of the National Bank of Serbia.
- Group members on monthly, quarterly and annual basis report to the Risk Management Division of the parent Bank,

which monitors all types of risks at Group level.

3.3. Organizational Structure of the Risk Management Function

- All Group members have established the independent Risk Management Function.
- The Risk Management Function of the parent Bank conducts its activities through the following organizational units: Risk Management Division, Credit Risk Analysis Division and Division for Prevention and Management of Risk Loans
- Parent bank's risk management division is in charge of managing risks at the banking Group level and preparation of semi-annual consolidated risk management reports, and 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, which conduct the activities falling under their respective competences at the parent bank's level, as well as the analysis and giving opionons about credit proposals that exceed the limits defined for subsidiaries.
- Division for Prevention and Management of Risk Loans consists of the Risk Loan Monitoring and Prevention Department, Loan Restructuring and Rehabilitation Department of the parent bank consisting of 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.
- Komercijalna banka AD Budva and Komercijalna banka AD Banja Luka carry out the risk management-related activities through established risk management divisions which on monthly basis report to the Risk Management Division of the parent Bank on conducted risk management activities at the level of Group members.

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 Group 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 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 Group is determined by an acceptable risk level for the Group and in accordance with the Risk Management Strategy and depends on the Group'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 Group, 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 the Bank defined the highest acceptable level of bad assets for the banking group.
- 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 pursuant to regulations of the Central Banks of Group members and the client's internal rating according to Group methodology), and the control of the extent to which the limit has been used up at Group level;
- 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;
  - internal approach – measurement of the risk level of an individual loan on the basis of the internal rating system of the Group.
- Within the loan approval process, exposure relative to regulatory and internally defined limits is reviewed.
- Loan approval limits are defined by decision-making system of each Group member, depending on the types of clients

and the level of exposure.

- For each subsidiary of the Group an individual decision making limit is defined, pertaining to the maximum amount up to which the subsidiaries can independently place funds, i.e. without obtaining the opinion from the Credit Risk Analysis Division of the parent Bank.
- In order to maintain the risk at acceptable level, the Group members apply 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 Group 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 Group members make comparisons to the previous time periods; identify the trends and the causes of changes in the level of credit risk. Likewise, they monitor 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.
- Reporting on credit risk at the Group's level includes the system of external and internal reporting on credit risk management. External reporting on consolidated basis 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 Group's internal documents.
- The report on credit risk management includes: total exposure to credit risk on consolidated basis, exposure to credit risk according to internal rating system, due receivables, risky placements and loans, collaterals, allowance for impairment, exposure risks...

3.3.2. Liquidity Risk

- The basic objective of the liquidity risk management is to maintain the level of liquid assets in order to properly and timely settle the due liabilities on balance sheet and off-balance sheet operations at Group level and of each member separately, or to minimize the negative effects on the financial result and capital at Group level and each member separately.
- The Group 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 of the parent Bank and also the independent functions of individual members) and the process of support to managing this risk from the process of liquidity risk taking.
- Basic principles of liquidity risk management:
  - the readiness to respond to matured obligations, through maintenance of minimum level of liquid assets for Group members;
  - 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).
- Measurement of exposure to liquidity risk 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 at Group level;
  - Internal approach – application of static and dynamic GAP and ratio analysis, stress testing (sensitivity analysis and analyses scenario) and simulations.

- The parent 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, identification and quantification of early elements of liquidity crisis.
- In order to manage the liquidity risk the system has been established of external (prescribed by local regulatory authorities of the Group members' countries) and internal limits (adopted by competent committees of the Group). Regulatory defined liquidity limits are observed by all Group members and they maintain the liquidity level above defined minimum values, aligning their operations with the limits defined at Group level. For the purpose of liquidity risk management the system of monitoring of limits has been established. The limits which the Group and Group members observe refer to maintaining minimum liquidity ratios in period of 1 day, 3 days and average for a month. When defining the limit of exposure to liquidity risk, multiple aspects of liquidity risk are reviewed, taking into account the limiting negative effect on financial result and capital, thus limiting the maturity mismatch.
- The Group has established the monitoring and control of liquidity risk process, which includes 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 Group, 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 Group 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 Group 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. The applied techniques 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 in place the established system for liquidity risk reporting which includes assessment and analysis of the exposure to the liquidity risk, compliance with the limits, results of the stress test analysis and proposal of measures.

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 Group'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 Group 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 parent Bank's Committees have their roles and their decisions may have an impact on exposure to the above stated risk.
- Basic principles of Group'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 products Group members.
- 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 Group and its members are 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.
- Measurement of interest rate risk of the Group represents the quantitative and qualitative assessment of the exposure to interest rate risk by applying gap and ratio analysis, duration, economic value of capital and stress testing. Mitigation of interest rate risk is conducted 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 Group applies the external limits system (defined by local regulatory authorities of the Group members' countries) and internal limits (adopted by the competent committees of the Group) defined separately for members, as well as limit at Group level. When defining the exposure limit to interest rate risk the Group 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. At Group level the limits are defined of interest-bearing positions, and limit of changes of the economic value of capital, by which the negative impact on capital is limited.

- Group has established the process of monitoring and control of interest rate risk, which includes the monitoring of compliance of operations with defined system of limits, for the purpose of maintaining the interest rate risk at the level accepted by the defined risk profile of the Group, 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 Group, as is also the independent control of the assessment of adequacy, reliability and efficiency of the interest rate risk management system.
- The Group 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, diversifying the funding sources by type of interest rate, maturity, or 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 limits, results of stress test analysis and proposals of measures.

3.3.4. Market Risk

- In its everyday operations the Group is 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 Group, through minimization of the negative effects of changes in the exchange rate on the financial result and capital of the Group, for the positions that are kept in the banking book and the trading book.
- The Group 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 at Group level and individual members.
- 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 represents quantitative and qualitative assessment of the exposure to foreign exchange risk and 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 at Group level;
  - Internal approach – stress testing (sensitivity and scenario analysis) and simulations, value at risk and back testing.
- The Group 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 Group implements the system of external (prescribed by regulators) and internal limits (adopted by competent committees of the Group), established on the basis of foreign exchange risk ratio at Group level and each individual member. 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 Group.
- The Group uses derivatives and other instruments and measures in the segment of assets and funding sources in order to minimize and mitigate the exposure to the mentioned risk.
- At the level of Group and its members the system has been established of follow up and control of limits and implementation of measures for minimizing the foreign exchange risk.

Price Risk Management

- The Group has established an appropriate organizational structure, business activities, decision-making and responsibilities lines, by clear delineation of risk assumption process at the level of members and Group from the process of its management and support, and guided by the principles of the risk management system organization of the trading book.
- Basic principles for Group's price risk management are:
  - maintenance of the risk level in compliance with the externally and 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 Group 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.
- 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.
- The Group has in place the established system of internal limits adopted by the competent Committees and Boards of

the Group, both at Group level and at the level of individual members. At the Group level defined are: the exposure limits for all trading book positions and limits of trading book share in overall operations of the Group.

- The system of price risk internal control is integrated in all business activities of the Group, as is also the independent control of the assessment of adequacy, reliability and efficiency of the price risk management system.
- Mitigation of price risk the Group carries out 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 system of price risk internal control is integrated in all business activities of the Group, as is also the independent control of the assessment of adequacy, reliability and efficiency of the price risk management system. Control of price risk includes also the regular control of each transaction.
- Pursuant to the established system of reporting on Group's price risk, the reporting is performed on exposure to price risks.

3.3.5. Operational Risks

- In order to minimize occurrence of an operational risk event, the Group 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 Group is guided by the following principles:
  - 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 event occurrence by implementation of the measures;
  - analysis of key risk indicators that lead to occurrence of operational risk event,
  - measurement of the operational risk by applying regulatory approach (operational risk indicator), 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 Group continuously mitigates the operational risk, which involves maintenance of the risk at the acceptable level for risk profile, through determination of measures to minimize the operational risk mitigation measures, 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 Group, 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 Group 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 Group 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 system of reporting on operational risk 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 Group to third parties.
- The Group calculated the capital requirement for operational risk in accordance with the regulations, using the standardized approach.

3.3.6. 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 Group defines the procedure for country risk monitoring and control as monitoring of the limit on consolidated level, and of the measures adopted for mitigating the country risk, as well as the control process.
- The Group has in place the established system for country risk reporting on consolidated level by which the management, competent committees and organizational units are timely informed.

3.3.7. Investment Risk

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

4. BANKING GROUP CAPITAL

- The Group's Capital Strategy and Plan concretely stipulate and specify the implementation of the strategic objectives and guidelines for capital planning, and set the time period for their accomplishment in view of the impact of macro-economic indicators and changes in economic cycle trends on the strategic plans, the manner in which the Group 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.
- Pursuant to the defined targeted values, members of the banking group take measures to achieve planned capital and its maintenance.

Capital structure RSD 000

Name	31.12.2016.	31.12.2015.
CORE CAPITAL	**47.588.844**	**40.641.633**
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	19.320.507	25.737.155
Profit of current year	-	-
Losses of earlier years	616.420	-
Loss of current year	6.413.844	7176831
Deductible items from core capital	6.663.612	19.793.194
Intangible investments	394.546	251947
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	67.906	310212
Required reserves from profit for estimated losses under balance sheet assets and off-balance sheet items of the bank	5.843.927	18.873.801
Minority stakes in subsidiaries	66	65
Other positive consolidated reserves	1.927.597	1.839.888
SUPPLEMENTARY CAPITAL	**4.425.745**	**4.034.778**
Part of revaluation reserves of the bank	4.425.745	2.818.517
Subordinated liabilities		1.216.261
DEDUCTIONS FROM CAPITAL	**121.681**	**190.945**
Direct and indirect investment in banks and other entities in the financial sector in amount higher than 10% of the capital of such banks or other entities	121.681	190.945
Required reserve from profit for estimated losses under balance sheet assets and off-balance sheet items of the bank	-	-
TOTAL CORE CAPITAL	**47.528.003**	**40.546.161**
TOTAL SUPPLEMENTARY CAPITAL	**4.364.905**	**3.939.305**
TOTAL REGULATORY CAPITAL	**51.892.908**	**44.485.466**

- The Group 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	**51.892.908**	**44.485.466**
Total core capital	47.528.003	40.546.161
Total supplementary capital	4.364.905	3.939.305
Credit risk, counterparty risk and settlement/ delivery risk based on free deliveries	**20.708.402**	**19.988.185**
Exposures to states and central banks	1.080.027	757.854
Exposures to territorial autonomies and local government units	281.149	306.981
Exposures to public administrative bodies	10.842	-
Exposures to international development banks	-	33
Exposures to banks	936.948	605.550
Exposures to companies	9.555.293	10.245.951
Exposures to private individuals	3.901.392	3.592.605
Exposures secured by mortgages on real property	3.221.040	2.788.297
Due outstanding receivables	336.173	224.005
Other exposures	1.385.538	1.466.909
Market Risks	**326.456**	**500.123**
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	209.854	500.123
Capital requirement for commodity risk		–
Operational Risks	**2.780.771**	**2.667.139**
Exposure to operational risk	2.780.771	2.667.139
Total capital requirements	**23.815.629**	**23.155.447**
Capital adequacy ratio (minimum 12%)	**26,15%**	**23,05%**

- In terms of the banking group level, capital requirement for price risk is calculated taking into account the scope and activities of their business in the part of trading book, which exceed the regulatory defined requirements. Capitl requirement for the FX risk is calculated for the banking group members, which have the FX risk indicator exceeding 2% of their capital.

Structure of the capital requirement for the operational risk RSD 000

Line of Business	Exposure indicator			Capital requirement rate	Capital requirement
	2013.	2014.	2015.		
1. Financing business entities	8.476	6.611	5.498	18%	2.780.771
2. Trade and sales	582.162	(1.980.285)	(295.514)	18%	
3. Brokerage to retail clients	5.032	5.722	6.200	12%	
4. Corporate banking transactions	10.136.666	14.187.748	7.343.568	15%	
5. Retail banking transactions	6.763.964	5.278.501	10.876.460	12%	
6. Payment transactions	1.932.184	1.990.472	2.034.688	18%	
7. Agency services	28.995	26.320	47.597	15%	
8. Asset Management	77.087	203.192	163.051	12%	

4.1. Internal Capital Adequacy Assessment Process – ICAAP

- The Group 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 Group's capital i.e. to ensure that the Group 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 Group. Also, it is regularly revised and adjusted, especially when the Bank is exposed to new risks or significant changes.
- The Group 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, and Capital Management Strategy. Basic conditions met by ICAAP implemented in the Group:
  - 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 Group is or may be exposed to in its operations;
  - Ensures adequate internal capital in accordance with the Group's risk profile;
  - It is incorporated in the Group's management system and in decision-making process in the Group;
  - 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 is to improve the relationship between the Bank's risk profile, risk management system and capital availability. The Bank is expected to implement an appropriate assessment process, which includes all the key elements of planning and capital management, as well as to ensure a sufficient level of capital in relation to the identified risks.
- By determining the potential for risk coverage, the Group 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 framework of internal capital adequacy assessment process reflects the Risk Management Strategy, Capital Management Strategy and Capital Management Plan, and the limits set where ICAAP serves as a comprehensive managing model.
- The Group continuously assesses the risk profile and regularly revises the procedure for internal capital adequacy assessment developing at the same time the methodologies for assessment of other risk types in order for the comprehensive risk management at the Group level to be as efficient as possible.
- The basic principles of the internal capital adequacy assessment process of the Group are:
  - establishment of the internal capital adequacy assessment process of the Group 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 Group in accordance with the volume, type and complexity of the Group's operations;
  - provision of the internal capital in accordance with the risk profile of the Group.

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 Group's business operations, as well as the specificities of the markets on which it operates. In assessing the risk materiality, the Group 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 Group manages them through the established risk management system.
- Calculation of the amount of the internal capital requirements for individual risks − the Group uses the methods prescribed for calculation of minimum capital requirements, as well as the internal approaches to measurement. The Group performs the stress testing for all materially significant risks and internal capital, which include the risk factors specific for the environment in which the Group 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 Group applies the following methodologies for the following:
  - **Credit risk** – standardized approach with the application of stress testing;

- **Operational risk** – standardized approach with the application of stress testing;
- **Market risk (Foreign exchange risk and price risk arising from trading book positions)** –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** – for ICAAP needs, the application of testing of "hypothetical" level of liquidity crisis and the calculation of the amount of missing funds are taken into consideration;
- **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 Group 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 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 Group members also use the principles prescribed by the local regulations of the Central Banks of their countries, 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 Group members to cover the unexpected losses that may be incurred due to inability of the client to settle his liabilities at maturity in line with contractually defined terms. Therefore, the Group members classify the receivables and calculate the required level of provisions, which is a form of protection from possible negative consequences if invested funds are not repaid when due and in full amount.

The matured unsettled receivables the Group 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 clients' accounts, and other due obligations of the clients).

- **Unsettled receivables (Default)** – receivables that are in over 90-days default, based on the assessment of the financial situation, or creditworthiness of the borrower, which indicate, upon the assessment, that the borrower will not be able to settle his liabilities in full, avoiding enforcement of the collateral and irrespectively of whether the borrower settles his liabilities in time or not, the Group considers unlikely to be repaid by the borrower in full, not taking into the account the possibility of enforcing collateral and such receivables have the determined amount of provision through estimates on the individual or group level, except with respect to the receivables for which such amount cannot be specified on the level of individual receivable in the group.

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 Group has the clearly definedx criteria for credit and receivable assessment and recognition, and the criteria for assessing and recognizing the provisions for contingent liabilities, also by observing the requirements of the International Accounting Standards (IAS) 39 and 37.
- Loans are impaired and provisions are made only in the case when there are justifiable grounds, or when there is objective evidence 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 Group.
- 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 Group members assess the impairment of receivables as individual and group assessment. All clients are grouped pursuant to the internally prescribed methodology based on the Group'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 is recognized as an expense in the income statement.

Calculation of Provisions for Losses under Off-Balance Sheet Items

- Provisions of the Group members 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 group 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 group is using the conversion factor (*credit conversion factor* – CCF) which corrects the accounting value of the unused undertaken liabilities.
- Assessment of the provisions on the group level is performed based on the migrations of the risk categories by taking into consideration all elements of the internal rating system, in the manner identical to the one applied in the procedure pertaining to 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	193.108.792	170.829.976	172.724.823	146.062.412
Territorial autonomies and local government units	4.252.554	4.316.208	4.431.392	4.058.245
Exposures to public administrative bodies	239.644	1.107.243	1.149.037	1.027.361
International development banks	257	697	1.035	32.866
Banks	26.343.234	25.729.264	18.632.527	26.342.463
Companies	84.399.522	97.218.039	95.080.807	106.600.602
Private individuals	44.634.117	42.190.490	41.012.812	39.655.887
Exposures secured by mortgages on real property	42.393.500	41.262.791	40.282.211	39.653.679
Due outstanding receivables	4.764.308	12.439.765	12.468.830	17.441.332
Other exposures	41.600.766	43.613.415	43.224.725	44.607.457
Total	**441.736.694**	**438.707.887**	**429.008.199**	**425.482.304**

**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	**195.359.768**	**177.640.770**
Finance and insurance sector	53.697.248	41.691.729
Public sector	141.662.058	135.605.180
Foreign entities sector	462	–
Other customers sector	–	343.861
Territorial autonomies and local government units	**4.194.087**	**4.377.124**
Public sector	3.552.852	3.776.795
Foreign entities sector	641.235	600.328
Exposure to public administrative bodies	**90.346**	**–**
Finance and insurance sector	90.346	–
International development banks	**257**	**1.035**
Finance and insurance sector	257	1.035
Banks	**26.032.997**	**18.592.235**
Finance and insurance sector	9.965.615	3.589.738
Foreign entities sector	16.018.952	15.002.461
Banks-other	48.430	36
Companies	**85.382.922**	**85.382.922**
Finance and insurance sector	487.199	487.199
Public companies sector	8.561.072	8.561.072
Company sector	70.222.680	70.222.680
Entrepreneurs sector	786.488	786.488
Public sector	2.163.949	2.163.949
Foreign entities sector	1.936.656	1.936.656
Household corporate firms with employees and farms	924.777	924.777
Other clients' sector	300.100	300.100
Other	–	–
Private individuals	**43.310.036**	**39.886.352**
Finance and insurance sector	8.115	12.605
Public companies sector	29.698	24.504
Company sector	6.479.147	5.932.280
Entrepreneurs sector	2.187.852	1.632.799
Public sector	16.289	5.093
Retail sector	29.349.311	27.872.341
Foreign entities sector	44.207	38.411
Household corporate firms with employees and farms	5.094.083	4.240.773
Other clients' sector	101.334	127.546
Exposures secured by mortgages on real property	**42.087.679**	**39.823.477**
Company sector	2.438.335	2.293.303
Entrepreneurs sector	279.931	238.166
Public sector	1.878	2.150
Retail sector	39.277.943	37.187.108
Foreign entities sector	4.489	4.803
Household corporate firms with employees and farms	81.815	81.838
Other clients' sector	3.288	16.110
Due outstanding receivables	**2.625.312**	**1.713.494**
Public companies sector	184.955	504.727
Company sector	1.508.836	780.493
Entrepreneurs sector	44.809	14.203
Retail sector	643.545	317.506
Foreign entities sector	13	–
Household corporate firms with employees and farms	33.809	28.904
Other clients' sector	209.345	67.660
Other exposures	**40.344.204**	**40.894.863**
Finance and insurance sector	36.954	2.727
Company sector	214.787	398.334
Entrepreneurs sector	20	–
Public sector	20.597	16.642
Foreign entities sector	505	771
Other clients' sector	1.360.738	1.154.965
Other	38.710.603	39.321.425
Total	**433.672.128**	**408.312.272**

**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
States and central banks	**-**	**-**	**1.526.434**	**16**
Public sector	-	-	1.526.434	16
Territorial autonomies and local self-government bodies	**2.906.444**	**910**	**3.149.851**	**65**
Financing and insurance sector	2.906.444	910	3.149.851	65
Banks	**1.684.711**	**955.455**	**371.800**	**298.883**
Finances and insurance sector	1.095.324	638.556	21.604	2.065
Non-resident sector	533.300	309.877	347.564	294.297
Other customers sector	56.087	7.022	2.631	2.521
Companies	**93.162.164**	**9.457.452**	**94.687.320**	**6.826.101**
Insurance and finances sector	602	1	66	48
Public companies sector	4.812.884	98.830	8.724.137	20.551
Corporate sector	79.284.751	8.664.843	79.678.187	6.489.157
Sector of entrepreneurs	732.395	12.651	807.409	14.246
Public sector	2.092.879	70.826	2.319.571	34.315
Non-residents sector	4.650.476	223.934	1.924.790	210.009
Corporations with employees and farms	1.020.981	1.491	927.738	1.302
Other customers sector	567.196	384.877	305.422	56.473
Natural persons	**50.101.338**	**630.786**	**37.767.462**	**737.468**
Finances and insurance sector	8.518	211	5.486	45
Public companies sector	53.730	571	29.954	501
Corporate sector	7.125.204	169.855	6.155.037	231.184
Sector of entrepreneurs	2.371.939	75.795	1.688.485	61.680
Public sector	19.653	332	3.422	1.238
Retail sector	35.120.838	312.768	25.439.664	372.856
Non-residents sector	32.056	556	10.421	648
Corporations with employees and farms	5.261.283	58.350	4.284.647	53.303
Other customers sector	108.117	12.348	150.346	16.012
Exposures secured by mortgages on real estate	**43.424.953**	**146.891**	**41.047.162**	**140.753**
Corporate sector	3.357.402	8.893	3.080.500	33.815
Sector of entrepreneurs	285.541	1.276	244.338	3.282
Retail sector	39.690.240	135.988	37.612.814	101.767
Non-residents sector	4.519	2	4.809	7
Corporations with employees and farms	83.306	732	85.927	1.880
Other customers sector	3.945	-	16.580	2
Past due receivables	**29.180.260**	**24.585.346**	**44.985.944**	**32.706.054**
Insurance and finances sector	24	24	105.483	105.483
Public companies sector	4.261.404	3.768.477	4.064.346	2.262.122
Corporate sector	12.945.520	10.541.173	14.826.642	9.544.571
Sector of entrepreneurs	272.280	216.064	333.361	262.839
Public sector	168.464	168.464	30.124	30.124
Retail sector	4.240.243	3.194.128	3.985.319	2.867.826
Non-residents sector	74.295	74.295	88.660	88.660
Corporations with employees and farms	406.667	350.392	418.148	326.643
Other customers sector	6.811.248	6.272.214	21.133.834	17.217.760
Other	115	115	27	27
Other exposures	**17.999.326**	**6.767.289**	**18.871.805**	**6.376.315**
Insurance and finances sector	2.231	109	2.247	43
Corporate sector	225.377	1.747	352.541	9.999
Sector of entrepreneurs	57	6	26	3
Public sector	25.647	1.176	11.586	14
Other customers sector	934.147	360.163	974.070	334.536
Other	16.811.867	6.404.088	17.531.336	6.031.720
Total	**238.459.196**	**42.544.128**	**242.407.779**	**47.085.655**

**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	**195.359.768**	**177.640.770**
Republic of Serbia	186.359.220	170.981.459
Bosnia and Herzegovina	5.816.733	5.418.607
Montenegro	3.183.354	896.843
Other	461	343.861
Territorial autonomies and local government units	**4.194.087**	**4.377.124**
Republic of Serbia	3.061.122	3.037.574
Other	1.132.965	1.339.550
Exposure to public administrative bodies	**90.346**	**-**
Republic of Serbia	90.346	-
International development banks	**257**	**1.035**
Other	257	1.035
Exposures to Banks	**26.032.997**	**18.592.235**
Republic of Serbia	9.892.513	3.554.594
Germany	7.430.169	7.061.757
Austria	2.101.603	1.791.468
Great Britain	1.636.551	2.277.382
Croatia	1.460.774	99.641
France	1.154.567	414.663
Other	2.356.820	3.392.730
Private individuals	**79.627.442**	**85.382.922**
Republic of Serbia	67.673.838	75.928.531
Montenegro	6.546.061	4.960.432
Bosnia and Herzegovina	4.556.926	4.474.180
Other	850.617	19.779
Private individuals	**43.310.036**	**39.886.352**
Republic of Serbia	40.510.127	37.308.670
Bosnia and Herzegovina	1.442.853	1.297.072
Montenegro	1.343.003	1.267.732
Other	14.053	12.878
Exposures secured by mortgages on real property	**42.087.679**	**39.823.477**
Republic of Serbia	38.614.409	36.703.576
Montenegro	2.102.512	1.849.117
Bosnia and Herzegovina	1.368.538	1.270.784
Other	2.220	-
Due outstanding receivables	**2.625.312**	**1.713.494**
Republic of Serbia	1.859.615	886.523
Other	765.697	826.971
Other exposures	**40.344.204**	**40.894.863**
Republic of Serbia	36.984.269	38.887.508
Montenegro	2.398.557	418.279
Other	961.378	1.589.076
Total	**433.672.128**	**408.312.272**

**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	**195.359.768**	**177.640.770**
Up to three months	74.793.062	165.863.825
From three months to 6 months	20.326.609	311.377
From 6 months to 1 year	24.973.692	2.727.741
Over 1 year	75.266.405	8.737.827
Territorial autonomies and local government units	**4.194.087**	**4.377.124**
Up to three months	641.246	1.049.192
From three months to 6 months	13.855	–
From 6 months to 1 year	110.812	165.450
Over 1 year	3.428.174	3.162.482
Exposure 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	**26.032.997**	**18.592.235**
Up to three months	21.643.687	14.980.794
From three months to 6 months	82.214	4.540
From 6 months to 1 year	68.123	24.498
Over 1 year	4.238.973	3.582.403
Companies	**79.627.442**	**85.382.922**
Up to three months	5.486.332	5.018.038
From three months to 6 months	6.510.969	7.693.885
From 6 months to 1 year	11.701.784	11.335.767
Over 1 year	55.928.357	61.335.232
Private individuals	**43.310.036**	**39.886.352**
Up to three months	5.673.710	5.747.859
From three months to 6 months	2.342.103	2.321.087
From 6 months to 1 year	5.620.190	5.013.894
Over 1 year	29.674.033	26.803.512
Exposures secured by mortgages on real property	**42.087.679**	**39.823.477**
Up to three months	205.000	100.958
From three months to 6 months	89.921	103.387
From 6 months to 1 year	936.279	280.302
Over 1 year	40.856.479	39.338.830
Due outstanding receivables	**2.625.312**	**1.713.494**
Up to three months	933.438	326.424
From three months to 6 months	37.819	42.390
From 6 months to 1 year	94.723	89.820
Over 1 year	1.559.332	1.254.860
Other exposures	**40.344.204**	**40.894.863**
Up to three months	39.675.177	40.044.192
From three months to 6 months	34.273	54.112
From 6 months to 1 year	96.610	134.209
Over 1 year	538.144	662.350
Total	**433.672.128**	**408.312.272**

**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	Other assets	Off-balance exposure	Total
Balance as of 01.01.2016.	399.898	38.133.470	98.039	2.639.054	575.406	41.845.867
Increase	4.051	22.616.148	82.166	1.623.091	701.750	25.027.206
Decrease	(2.077)	(10.931.042)	(941)	(187.171)	(784.280)	(11.905.511)
Exchange rate differences	15.585	482.991	115	16.348	616	515.655
Write offs	(105.463)	(18.912.206)	(13.500)	(114.838)	-	(19.146.007)
Other changes	-	701.241	-	(400.073)	-	301.168
Balance as of 31.12.2016	**311.994**	**32.090.602**	**165.879**	**3.576.411**	**493.492**	**36.638.378**

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

- Decrease in impairment and provision accounts resulted from the full transfer of impaired receivables to off balance sheet records of the parent bank. At the same time, during 2016, there were increases in loan provisions, mostly resulting from the new risk loans, lower value assessments of mortgages, initiation of bankruptcy proceedings, new assessments of assets acquired through collection and investment property.

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

Risk Category	Corporate clients	Banks	Retail clients	Total
1	31.279.775	17.980.673	41.768.192	91.028.640
2	54.018.952	8.960.071	47.757.185	110.736.207
3	12.340.407	117	1.354.420	13.694.944
4	10.961.210		1.316.532	12.277.742
5	27.435.713	1.851.444	6.380.100	35.667.257
Total	**136.036.057**	**28.792.305**	**98.576.429**	**263.404.790**

**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.*

Use of credit ratings

- During 2016 for the class of exposure to countries and central banks, the Bank used credit ratings of the external credit rating agency Moody's.
- For exposures in the form of financial instruments from the banking book, the Bank does not use the credit ratings of the issuers nor their specific issues due to their non-existence. For financial instruments issued by the Republic of Serbia, the Bank applies 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	
		31.12.2016.	31.12.2015.	31.12.2016.	31.12.2015.
States and central banks		**193.108.792**	**172.715.474**	**195.359.768**	**177.640.770**
1	0%	184.108.568	166.400.024	186.359.544	171.325.321
5	100%	9.000.224	6.315.450	9.000.224	6.315.450

Credit Risk Mitigation Techniques

Valuation of credit protection instruments and their managing

- By methodology for valuation of collateral the Group has regulated the valuation of hedge instruments and management of these instruments.
- 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 Group member and the applicant, and their procuring after the conclusion of the agreement and prior to realization of the loan.
- The Group members regularly assess/value the collaterals, prior to the conclusion of the loan agreement and during the agreement validity.
- The acceptable loan amount and collateral value ratio is determined 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 Group member can collect.

Description of basic types of credit protection instruments

- The Group uses the following credit protection instruments:
  - material credit protection;
  - non-material credit protection;
- Among the instruments of material credit protection, the Group 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 Group uses as eligible instruments of protection:
  - cash and cash equivalents deposited with the Group members, 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 Group uses guarantees, other forms of sureties, counter-guarantees, etc.

Basic types of credit protection providers

- In the case of using the guarantees as the credit protection instruments, the Group uses the guarantees issued by:
  - states,
  - banks,
  - territorial autonomies,
  - other
- Guarantees as credit protection instruments are 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 Group 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 Group reports to the management semiannually about large exposures on consolidated basis.
- 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 and
  - of the established exposure limit system.
- The major part of eligible non-material credit protection instruments accounts 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	29.489	5.167		–
Companies	1.142.147	1.025.862	2.256.658	4.936.327
Private individuals	992.554	838.904	–	–
Exposures secured by mortgages on real property	69.578	60.157	–	–
Due outstanding receivables	80.702	2.492	–	–
Other exposures	257	7.687	–	–
Total	**2.314.727**	**1.940.269**	**2.256.658**	**4.936.327**

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

5.2. Counterparty Risk

Counterparty Risk

- The Group 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.

- The Banking Group members do not perform transactions that are subject to counterparty risk.
- For the needs of calculating the exposure of the positions that are subject to calculation of the capital requirements for the counterparty risk, the Group 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 Group 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 Group 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 Group's liabilities in terms of the structure and concentration of deposit potential and share of adequate sources of funding in the liabilities (funding sources risk), while external factors relate to exposure to non-marketability of assets in case of need to acquire the sources of funding.
- The Group manages the liquidity risk on daily basis by monitoring/following up and controlling its assets and due liabilities, by controlling the positions in all major currencies in order to timely perceive the needs for additional sources of financing, and/or in long-term the Group members plan the structure of their sources and loans so as to provide the enough stable sources and sufficient liquidity reserves.
- The parent Bank measures the exposure to the liquidity risk of the Group by analyzing the Group's exposure relative to the defined limits.
- The Group members test the individual Liquidity Management Plans in crisis situations which enables to identify a possible crisis, they test the survival period and solvency of the members in presumed crisis conditions, and also analyze the accessibility of the sources for covering potential obligations and/or assess the accompanying organizational support (public relations and the Plan for the case of occurrence of unforeseen events).
- The Group has developed an 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 Group 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 re-pricing (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 Group measures semiannually, as a minimum, the exposure to interest rate risk by GAP and ratio analysis, interest rate shock and duration, stress tests and simulations, while GAP, ratio analysis, duration and interest rate shock are performed monthly at the level of Group members.
- For the needs of preparation of interest rate GAP, the mentioned positions are categorized in the following manner:
  - positions with contracted 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 business policy are categorized according to maturity period, assets and liabilities not having a defined maturity or having the maturities other than the agreed ones are categorized in relevant time frames based on the analysis of such positions in the previous period (assessment and prior experience).
- The Group regularly performs the stress testing of the interest rate risk by which it assesses the impact of the change in

the key factors on the Group's interest rate risk. In modeling the scenarios, apart from the changes in interest rates, the impact of early withdrawal of deposits and prepayments of loans are particularly taken into consideration, which are assessed by the bank on the basis of historical trends and expert assessment. The parent Bank performed the assessment of the movement of transaction deposits and demand deposits by applying the relevant statistical models in the field of time series analysis, which is applied at the Group level.

- The Group 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 Group 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).
- Internal factors of exposure to foreign exchange risk originate from currency structure of loans and deposits: loans are primarily agreed in RSD with currency clause (EUR and CHF), and/or in BAM with currency clause. In 2016 the exposure to foreign exchange risk remained within the internally and externally defined limits
- The Group is insignificantly exposed to the price risk, which is also demonstrated by the share of the trading book in total operations of the Group, which is below 1%, and which is exclusively the exposure of the parent Bank. In the structure of price risk exposure the dominant is the share of bonds available for trading, while insignificant is the share of equity instruments. The Group members do not take up positions in the trading book. The Group has developed the customized internal approach for the purpose of establishing the required internal capital for risk coverage, for whose application it has not requested the permission of the National Bank of Serbia. The Group 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 parent 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 parent Bank and the member from Budva also hold minority equity investments in companies, which enable them 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 such financial assets 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 i 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
Banks and financial organizations	82.536	81.863	673	-	214	-
Companies and other legal entities	468.277	421.898	46.379	-	20.680	3.280
Foreign entities abroad	830.108		830.108	-	829.738	-
Total	**1.380.921**	**503.761**	**877.160**		**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	451.630	6.773
Total	**1.380.921**	**877.160**

**Note: exposure is presented as gross exposure in the column of bookkeeping value, while in the column of the fair value the exposure is presented after impairment*

- In 2016, the Group did not achieve realized gain / loss arising from sale or from closing the positions based on equity investments.
- Total unrealized gain/loss originating from equity investments is presented in the table, while the amount of unrealized gains which is included in calculation of supplementary capital is reduced by 10%. Unrealized losses are not reduced when included in supplementary capital.

5.7. Consolidated Financial Statements and Group Operations

- Financial statements of all the members of the Banking Group are consolidated by full consolidation method in accordance with relevant IAS/IFRS.
- The Group 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 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	

Consolidation for supervision		Consolidation according IFRS	Difference
Description of balance sheet position	Amount in RSD 000	Amount in RSD 000	Amount in RSD 000
Assets	428.942.969	428.827.608	115.361
Liabilities	369.677.589	369.535.188	142.401
Capital	59.265.380	59.292.420	(27.040)
Profit before tax	(6.561.731)	(6.533.686)	(28.045)
Income tax	293.410	292.556	854
Profit after tax	(6.268.321)	(6.241.130)	(27.191)

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. ANNEXES

Pursuant to the Decision on Disclosure of Information and Data of Banks, the Bank is under obligation to disclose data and information about the capital on the following forms.

6.1. Annex 1 - Data about capital position of the Bank (PI-KAP)

No	Item	Amount
I	TOTAL CORE CAPITAL	**47.588.844**
1.	CORE CAPITAL BEFORE DEDUCTIONS	**61.282.720**
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	19.320.507
1.4.	Retained earnings from previous years	
1.5.	Profit of the current year	
1.6.	Minority participations in subordinate companies	66
1.7.	Other positive consolidated reserves	1.927.596
2.	DEDUCTIBLES FROM CORE CAPITAL	**13.693.876**
2.1.	Losses from previous years	616.420
2.2.	Loss of the current year	6.413.844
2.3.	Intangible assets	394.546
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:	5.911.833
2.6.1.	Unrealised losses on securities available for sale	67.906
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	5.843.927
2.7.	Other negative consolidated reserves	
II	TOTAL SUPPLEMENTARY CAPITAL	**4.425.745**
1.	SUPPLEMENTARY CAPITAL BEFORE DEDUCTIONS	**4.425.745**
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	4.425.745
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	
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	
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	**51.892.908**
1.	TOTAL CAPITAL BEFORE DEDUCTIONS	**52.014.589**
2.	DEDUCTIBLES FROM CAPITAL	**121.681**
	Of which reduction in core capital	60.841
	Of which reduction in supplementary capital	60.841
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	121.681
2.2.	Investment in hybrid instruments and subordinated liabilities of other banks and financial sector persons in which the bank has direct or	
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	
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	
IV	NOTES	
	Positive/negative difference between total impairment allowances for balance sheet assets, provisions for losses on off-balance sheet	
	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), into the capital calculation (Consolidated data on capital position of the banking group – Form PI – KAP) as of 31.12.2016 the following elements are included:

- **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 general meeting of banking group's shareholders;
- **Loss of current year** – Consolidated loss of current year to the amount of RSD 6.413,8 million is a deductible item from the consolidated capital of the banking group;
- **Losses of earlier years** – Losses of earlier years to the amount of RSD 616,4 million are a deductible item from capital;
- **Intangible assets** – Investments in licenses, software and similar rights, net of calculated depreciation, represent a deductible from core capital of the banking group members;
- **Amount of Bank's shares received in pledge, except cumulative preferential shares, which in full refer to Komercijalna Banka a.d. Beograd** – KB Beograd accepted as pledge ordinary shares from a certain number of its customers. By comparing the value of receivables impaired by the pledge of shares and nominal values of shares taken increased by inherent issue premium, for each customer separately, the amount was determined representing a deductible item from core capital;
- **Unrealized losses from securities available for sale** refer to Komercijalna Banka a.d. Beograd, Komercijalna Banka a.d. Budva and Komercijalna Banka a.d. Banja Luka. These losses are a deductible item from core capital and result from negative changes in value of securities compared 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:
  - ✓ 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.) – KB Beograd,
  - ✓ Decision on Minimum Standards on Managing Credit Risk in Banks („Off.Gazzete of Montenegro ", 22/12 dated 23.04.2012, 55/12 dated 02.11.2012 and 57/13 dated 16.12.2013) – for KB Budva,
  - ✓ Decision on Minimum Standards on Managing Credit Risk and Assets Classification of Banks („Official Journal of the Republic of Srpska", No. 49/13 dated 30.05.2013 and 01/14 dated 27.11.2013) – for KB Banja Luka and represents a deductible item from core capital;
- **Part of revaluation reserves of the bank** – Increased value of fixed assets for Komercijalna Banka a.d. Beograd, which was determined by the assessment performed by an independent assessor and positive effects of change in fair value of securities available for sale of the banking group members (KB Beograd, KB Budva and KB Banja Luka) influenced accumulation of positive revaluation reserves. These reserves decreased by the effects of potential tax liabilities, and as such have been included into supplementary capital of the banking group;
- **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. Share capital of dependent banks abroad – KB Budva and KB Banja Luka – amounts to dinar counter-value of RSD 7.167,2 million, excluding the provisions; share in equity of dependent banks abroad, which are consolidated/set off by expenses of indirect loan write-offs to the amount of RSD 2.869 million. KB's share in equity of dependent legal persons (RSD 5.340,88 million) is consolidated in accordance with IAS/IFRS, and the difference to the amount of RSD 1.826,3 million has been included in the regulatory capital of the banking group through the position: "Other positive consolidated reserves". Share in capital of dependent company – Investment Fund Management Company KomBank INVEST a.d. Belgrade (RSD 140.0 million), pursuant to the Decision on Control of Banking Group at Consolidated Level („Official Gazette of RS", NO. 45/2011), is declared in the consolidated report on the capital of the banking group (consolidated financial statements by equity method), so as to reduce it by the accumulated loss of KomBank INVEST a.d. Beograd (-RSD 18.32 million, via position „2.1. Direct or indirect investments in banks and other entities in the financial sector to the

amount exceeding 10% of capital of those banks, or other entities").

In addition to the investments referred to above, the parent bank has share in equity of Euroaxis Bank a.d. Moscow, which exceeds 10% of capital of that legal entity (RSD 78.386,5 million) which ended up fully impaired on the expense side.

6.2. Annex 2 - Information on basic characteristics of financial instruments included in the calculation of the Bank's capital (PI-FIKAP)

No	Instrument features	Description	No	Instrument features
1.	Treatment in compliance with as per legislation	Komercijalna Banka AD, Beograd	Komercijalna Banka AD, Beograd	Komercijalna Banka AD, Banja Luka
	Treatment in compliance with as per the Decision on Capital Adequacy of Banks			
2.1.	Individual/group/individual and group level of inclusion of instrument in capital at on a group level	Core capital instrument	Core capital instrument	Core capital instrument
2.2.	Type of instrument	-	-	-
2.3.	Amount recognized for the purpose of calculating regulatory capital (in RSD thousand, as at the last reporting date)	Ordinary shares	Non-cumulative preferential shares	Ordinary shares
3.	Nominal value of instrument	39.661.040	373.510	63
4.	Accounting classification	Total issued 16,817,956 ordinary shares, with a nominal value of individual share being RSD 1,000.	A total of 373,510 issued non-cumulative preference shares, with a nominal value of individual share being RSD 1,000.	Total issued 1 ordinary share, with nominal value of a single share being 1,000 BAM.
5.	Initial date of issuance of instrument - Date of initial issuance	Share capital	Share capital	Share capital
6.	Instrument with or without with no maturity date.	May 6, 1992	May 6, 1992	September 15, 2006
7.	Original maturity	Without due date	Without due date	Without due date
7.1.	Does the issuer have call option With or with no issuer call option	Without due date	Without due date	Without due date
8.	First day of activating call option right First date of call option activation	No	No	No
8.1.	Subsequent dates of activating call option activation (if applicable)	-	-	-
8.2.	Coupons/dividends	-	-	-
	Fixed or variable dividends/coupons	-	-	-
9.1.	Full, partial or no discretion regarding the time of payment of dividends/coupons	Variable	Variable	Variable
9.2.	Full, partial or no discretion regarding the amount of dividends/coupons	Full discretion right	Full discretion right	Full discretion right
9.3.	Step up option	Full discretion right	Full discretion right	Full discretion right
9.4.	Non-cumulative or cumulative dividends/coupons	No	No	No
9.5.	Convertible or non-convertible instrument	Non-cumulative	Non-cumulative	Non-cumulative
10.	If convertible, terms under which conversion may take place terms of conversion	Non-cumulative	Non-cumulative	Non-cumulative
10.1.	If not it is convertible, specify if it is partially or fully convertible	-	-	-
10.2.	If it is convertible, rate of conversion.	-	-	-
10.3.	If it is convertible, mandatory or voluntary conversion	-	-	-
10.4.	If it is convertible, specify instrument to which it is converted.	-	-	-
10.5.	If it is convertible, the issuer of the instrument to which it is converted.	-	-	-
10.6.	Write-off option	-	-	-
11.	If there is write-off option, specify terms of the write-off under which the write-off may take place.	No	No	No
11.1.	If there is write-off option, specify if partial or full partial or full write-off.	-	-	-
11.2.	If there is write-off option, specify if temporary or permanent write-off	-	-	-
11.3.	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	-	-	-
11.4.	Type of an instrument which will be paid off directly before the said instrument during liquidation	-	-	-
12.	Treatment in compliance with as per legislation	Non-cumulative preference shares	Subordinated debt	-

6.3. Annex 3 - Information on connecting capital position from the balance sheet positions in the form (PI-UPK)

6.3.1. Differences between the balance sheet drawn up for the purpose of controlling the banking group on a consolidated basis and consolidated financial statements of the banking group composed in accordance with International Accounting Standards and International Financial Reporting Standards

Designation of item	Item	Consolidated balance sheet as disclosed in financial reports	Consolidated balance sheet under regulatory method and scope of consolidation
A	ASSETS		
A.I	Cash and assets with the central bank	61.919.102	61.919.102
A.II	Pledged financial assets	-	-
A.III	Financial assets recognized at fair value through income statement and held for trading	247.862	242.920
A.IV	Financial assets initially recognized at fair value through income statement	-	-
A.V	Financial assets available for sale	139.808.210	139.808.210
A.VI	Financial assets held to maturity	368.999	368.999
A.VII	Loans and receivables from banks and other financial organizations	43.216.681	43.216.681
A.VIII	Loans and receivables from clients	166.401.008	166.401.008
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	Investments into subsidiaries	-	121.681
A.XIII	Intangible assets	394.546	394.546
A.XIV	Property, plant and equipment	6.251.187	6.251.137
A.XV	Investment property	2.608.051	2.608.051
A.XVI	Current tax assets	7.283	7.283
A.XVII	Deferred tax assets	-	-
A.XVIII	Non-current assets held for sale and discontinued operations	349.523	349.523
A.XIX	Other assets	7.255.156	7.253.828
A.XX	TOTAL ASSETS (ADP items from 0001 to 0019 in the consolidated balance sheet)	428.827.608	428.942.969
R	LIABILITIES	-	-
RO	LIABILITIES	-	-
RO.I	Financial liabilities recognized at fair value through income statement and held for trading	-	-
RO.II	Financial liabilities initially recognized at fair value through income statement	-	-
RO.III	Liabilities arising from financial derivatives intended for hedging	-	-
RO.IV	Deposits and other liabilities to banks, other financial organizations and central bank	9.822.519	9.967.874
RO.V	Deposits and other liabilities to other clients	345.135.959	345.135.959
RO.VI	Changes in fair value of hedged items	-	-
RO.VII	Own securities issued and other borrowings	-	-
RO.VIII	Subordinated liabilities	6.178.390	6.178.390
RO.IX	Provisions	2.021.507	2.020.709
RO.X	Liabilities under assets held for sale and discontinued operations	-	-
RO.XI	Current tax liabilities	9.027	8.289
RO.XII	Deferred tax liabilities	53.457	53.457
RO.XIII	Other liabilities	6.314.329	6.312.911
RO.XIV	TOTAL LIABILITIES (ADP items from 0401 to 0413 in the consolidated balance sheet)	369.535.188	369.677.589
	CAPITAL		
RO.XV	Share capital	40.034.550	40.034.550
RO.XVI	Own shares	-	-
RO.XVII	Profit	545.985	500.476
RO.XVIII	Loss	7.048.674	7.030.264
RO.XIX	Reserves	25.760.493	25.760.552
RO.XX	Unrealised gains	-	-
RO.XXI	Non-controlling participation	66	66
RO.XXII	**TOTAL CAPITAL** (result of adding up and/or subtracting the following ADP items from the consolidated balance sheet: 0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0	59.292.420	59.265.380
RO.XXIII	**TOTAL CAPITAL SHORTFALL** (result of adding up and/or subtracting the following ADP items from the consolidated balance sheet: 0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0	-	-
RO.XXIV	**TOTAL LIABILITIES** (result of adding up and/or subtracting the following ADP items from the consolidated balance sheet: 0414 + 0422 - 0423)	428.827.608	428.942.969
V.P.	OFF-BALANCE SHEET ITEMS		
V.P.A.	Off-balance sheet assets	551.970.348	551.970.348
V.P.P.	Off-balance sheet liabilities	551.970.348	551.970.348

6.3.2. Itemizing the Balance Sheet elements – 31.12.2016

No	Item	Balance Sheet	Reference
A	ASSETS		
A.I	Cash and balances with central banks	61.919.102	
A.II	Pledged funds	-	
A.III	Financial assets at fair value through profit or loss available for trade	242.920	
A.IV	Financial assets are initially recognized at fair value through profit and loss	-	
A.V	Financial assets available for sale	139.808.210	
A.VI	Financial assets held to maturity	368.999	
A.VII	Loans and advances to banks and other financial organizations	43.216.681	
A.VIII	Loans and advances to customers	166.401.008	
A.IX	Changes in fair value of the item subject to hedging	-	
A.X	Receivables from financial derivatives intended to risk hedge	-	
A.XI	Investments in joint companies and ventures	-	
A.XII	Investments in subsidiaries	121.681	
	Of which direct or indirect investment in banks and other entities in the financial sector	121.681	k
A.XIII	Intangible assets	394.546	ž
A.XIV	Property, plants and equipment	6.251.137	
A.XV	Investment property	2.608.051	
A.XVI	Current tax assets	7.283	
A.XVII	Deferred tax assets	-	
A.XVIII	Fixed assets held for sale and assets of discontinued operations	349.523	
A.XIX	Other assets	7.253.828	
A.XX	**TOTAL ASSETS (position under AOP marks from 0001 to 0019 in the balance sheet)**	**428.942.969**	
R	**LIABILITIES**		
RO	LIABILITIES		
RO.I	Financial liabilities at fair value through profit or loss held for trading	-	
RO.II	Financial liabilities are initially recognized at fair value through profit or loss	-	
RO.III	Liabilities arising from financial derivatives intended for hedging Deposits and other liabilities to banks,	-	
RO.IV	Deposits and other liabilities to other customers	9.967.874	
RO.V	Changes in fair value of items subject to hedging	345.135.959	
RO.VI	Issued own securities and other borrowed funds	-	
RO.VII	Financial liabilities are initially recognized at fair value through profit or loss	-	
RO.VIII	Subordinated liabilities	6.178.390	
	Of which gross amount of subordinated liabilities	6.173.615	l
	Of which subordinated liabilities that are included in the supplementary capital of the bank	-	
RO.IX	Provisions	2.020.709	
RO.X	Liabilities from assets held for sale and assets of discontinued operations	-	
RO.XI	Current tax liabilities	8.289	
RO.XII	Deferred tax liabilities	53.457	
RO.XIII	Other liabilities	6.312.911	
RO.XIV	**TOTAL LIABILITIES (positions under AOP marks from 0401 to 0413 in the balance sheet)**	369.677.589	
	CAPITAL		
RO.XV	Share capital	40.034.550	
	Of which the nominal value of paid-in shares, other than cumulative preference shares	17.191.466	a
	Of which share premium from the share capital, except for cumulative preference shares	22.843.084	b
RO.XVI	Own shares	-	
RO.XVII	Profit	500.476	
	Of which non-allocated profit of earlier years	474.278	
	Of which profit of current year	26.198	
RO.XVIII	Loss	7.030.264	
	Of which losses of earlier years	616.421	đ
	Of which loss of current year	6.413.844	e
RO.XIX	Reserves	25.760.552	
	Of which profit reserves, which represent element of the core capital	19.320.507	v
	Of which unrealized losses on securities available for sale	67.906	i
	Of which other positive consolidated reserves	1.927.596	d
	Of which positive revaluation effects arising from changes in fair value of fixed assets, securities and other assets which, in accordance with IAS/IFRS, are recorded in favour of these reserves	4.425.745	j
RO.XX	Unrealized losses	-	
RO.XXI	Non-controlling stakes	66	
	Of which minority interests in dependent companies	66	g
RO.XXII	TOTAL CAPITAL (the result of adding, or subtraction of the following positions in the balance sheet: 0415 - 0416 + 0417 - 0418 + 0419 + 0420) ≥ 0	59.265.380	
RO.XXIII	TOTAL LACK OF CAPITAL (the result of adding, or subtraction of the following positions in the balance sheet: 0415 - 0416 + 0417 - 0418 + 0419 + 0420) < 0	-	
RO.XXIV	TOTAL LIABILITIES - (the result of adding, or subtraction of the following positions in the balance sheet: 0414 + 0421 - 0422)	428.942.969	
V.P.	**OFF BALANCE SHEET POSITIONS**		
V.P.A.	Off balance assets	551.970.348	
	Of which the amount of bank shares taken in pledge, except cumulative preference shares	357.233	z
V.P.P.	Off balance liabilities	551.970.348	

6.3.3. Connection of positions in the itemized Balance Sheet and the positions in the form – 31.12.2016

No	Item	Amount	Data source in accordance with references from step 2
I	TOTAL CORE CAPITAL	**47.588.844**	
1.	CORE CAPITAL BEFORE DEDUCTIONS	**61.282.720**	
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	19.320.507	v
1.4.	Retained earnings from previous years	-	
1.5.	Profit of the current year	-	
1.6.	Minority participations in subordinate companies	66	g
1.7.	Other positive consolidates reserves	1.927.596	d
2.	DEDUCTIBLES FROM CORE CAPITAL	**13.693.876**	
2.1.	Losses from previous years	616.421	đ
2.2.	Loss of the current year	6.413.844	e
2.3.	Intangible assets	394.546	ž
2.4.	Acquired own shares, except for cumulative preferential shares	-	
2.5.	Amount of shares received in pledge, except for cumulative preferential shares	357.233	z
2.6.	Regulatory value adjustments:	5.911.833	
2.6.1.	Unrealised losses on securities available for sale	67.906	i
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	5.843.927	
2.7.	Other negative consolidates reserves	-	
II	TOTAL SUPPLEMENTARY CAPITAL	**4.425.745**	
1.	SUPPLEMENTARY CAPITAL BEFORE DEDUCTIONS	4.425.745	
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	4.425.745	j
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	**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 restrictions on supplementary capital	-	
III	TOTAL CAPITAL	**51.892.908**	
1.	TOTAL CAPITAL BEFORE DEDUCTIONS	**52.014.589**	
2.	DEDUCTIBLES FROM CAPITAL	**121.681**	
	Of which reduction in core capital	60.841	
	Of which reduction in supplementary capital	60.841	
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	121.681	к
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		
	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	l

KOMERCIJALNA BANKA

6.3.4. Annex 4 - Data on total capital requirements and capital adequacy indicator (PI-AKB)

No	Name	Amount	Coverage by core capital	Coverage by supplementary capital
		1	2	3
I	CAPITAL	**51.892.908**		
1.	TOTAL CORE CAPITAL	47.528.003		
2.	TOTAL SUPPLEMENTARY CAPITAL	4.364.905		
II	CAPITAL REQUIREMENTS	**23.815.629**		
1.	CAPITAL REQUIREMENTS FOR CREDIT RISK, COUNTERPARTY RISK AND SETTLEMENT/DELIVERY RISK IN CASE OF FREE DELIVERIES	20.708.402	20.708.402	-
1.1.	Standardized approach (SA)	172.570.019		
1.1.1.	*Exposures to central governments and central banks*	9.000.224		
1.1.2.	*Exposures to territorial autonomies and local self-government units*	2.342.908		
1.1.3.	*Exposures to public administrative bodies*	90.350		
1.1.4.	*Exposures to multilateral development banks*	–		
1.1.5.	*Exposures to international organizations*	–		
1.1.6.	*Exposures to banks*	7.807.902		
1.1.7.	*Exposures to corporates*	79.627.442		
1.1.8.	*Retail exposures*	32.511.600		
1.1.9.	*Exposures secured by real estate collateral*	26.842.000		
1.1.10.	*Past due items*	2.801.443		
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*	11.546.150		
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*	–		
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	**326.456**	**326.456**	–
3.1.	Capital requirements for price, foreign exchange and commodity risks calculated under standardized approaches	**326.456**	**326.456**	–
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*	209.854	209.854	–
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	**2.780.771**	**2.780.771**	–
4.1.	Capital requirements for operational risk calculated under the Basic	–	–	–
4.2.	Capital requirements for operational risk calculated under the	2.780.771	2.780.771	–
4.3.	Capital requirements for operational risk calculated under the	–	–	–
5	COVERAGE OF CAPITAL REQUIREMENTS	**23.815.629**	**23.815.629**	–
III	CAPITAL ADEQUACY RATIO (%)	**26,15%**		