EXECUTIVE BOARD

No: 139/16

Belgrade, 26.05.2016.

PUBLISHING DATA AND INFORMATION OF THE

MARFIN BANK JSC Belgrade

for period 01.01.2015. - 31.12.2015.

Belgrade, May 2016.

1. Introduction

Marfin Bank JSC Belgrade (hereinafter: Bank) was established on 28 December 1990. In accordance with the Law on Banks, the Bank is registered for domestic payments and international payments and lending and deposits activities in the country.

Head office is in Belgrade, no. 22 Dalmatinska street.

In accordance with the Law on Banks and Decision on publishing data and information of the bank, the Bank is publishing the report for the period 01.01.2015. - 31.12.2015.

The report is published at the internet domain of the Bank (www.marfinbank.rs).

The publication refers solely to the Bank's data, as Bank is not preparing consolidated financial statements since it has no subsidiaries.

Total regulatory capital as at 31.12.2015. amounts to **RSD 814.877 thousands** and consists of core capital of RSD 407.439 thousands and RSD 407.438 thousands of suplementary capital.

Minimun capital requirements coverage amounts to **RSD 1.421.867 thousands**, out of which requirements for the credit and counterparty risk amounts to RSD 1.243.638 thousands, for the market risk RSD 17.024 thousands and for the operational risk RSD 161.205 thousands.

Internal capital requirements coverage, calculated in accordance with Procedure for Internal Capital Adequacy Process (ICAAP) amounts to **RSD 1.574.673 thousands.**

The capital adequacy ratio in line with the Decision on capital adequacy amounts to **6,88%.**

The capital adequacy ratio in line with ICAAP amounts to **6,21%.**

During 2015, till November, the Bank's capital adequacy ratio was above the regulatory limit, within the range of 13,35% and 15,46%.

Undercapitalisation of the Bank, which occured at 30.11.2015 is a result of the decrease in the Bank's capital in amount RSD 872.573 thousands, which was caused by increase of amount of reserves for potential losses. This increase in the amount of reserves is mainly result of the alignment with the recommendations of National bank of Serbia, set out during the direct control, as well as the allocation of reserve for repossessed asset acquired 18.11.2014. through collection of receivables from debtor, that the Bank has failed to sell as planned.
Increase of the amount of reserves for potential losses has led to a reduction of core capital, which furthermore caused the decrease of supplementary capital in the amount of RSD 294.193 thousands.

Due to undercapitalisation, the Executive Board of the Bank as at 18.12.2015. activated the Recovery Plan of the Bank.

In order to improve the level of capital and capital adequacy ratio, in accordance with the defined Plan of recovery, the following activities has been undertaken:

- restricting of lending to the level of repayments with limiting the increase of exposure for clients with large exposure and restricting of lending at lending only to clients with A and B grade,
- changing the structure of assets by intensifying the collection of problematic loans and the sale of NPL portfolio. At the meeting of 23.11.2015, the Board of Directors made the decision to start the process of selling NPL portfolio and repossessed assets that are fully provided,
- management of the Bank, together with the Special Administrator leads the intensive negotiations with the Bank of Cyprus regarding the restructuring of the Bank's liabilities and potential debt forgiveness.

1.1 Minimum capital requirements and internal capital requirements of the Bank

Amount in RSD thousands	Capital Adequacy in line with the Decision on Capital Adequacy	Capital Adequacy in line with ICAAP	Difference
(A)	Capital	Available internal capital	
	814.877	**814.877**	
(B)	Minimum capital requirements	Internal capital requirements	
Credit risk	1.243.638	1.275.845	32.207
Market risks	17.024	36.157	19.133
Operational risk	161.205	194.695	33.490
Concentration risk		17.044	
Credit-FX risk		20.368	
Interest rate risk		1.053	
Liquidity risk		0	
Investment risk		6.240	
Other material risk		23.271	
TOTAL	**1.421.867**	**1.574.673**	**84.830**
	CAR in line with the Decision on Capital Adequacy	CAR in line with ICAAP	
A / (B*8,33)*100	**6,88%**	**6,21%**	

2. Strategy and policy for risk management

Risk Management Strategy provides a unified and consistent risk management of the Bank on long term basis and determines the Bank's stance towards the risks to which it is exposed or may be exposed during the course of its operations.

Risk Management Strategy should be in compliance with the Business Policy and Strategy of the Bank, as well as Capital Management Strategy and Plan.

Risk Management Strategy contains the following:

- revision and definition of all risks to which the Bank is or may be exposed;
- long-term goals, established by the Business Policy and Strategy of the Bank, as well as risk appetite defined in accordance with these goals;
- basic principles of undertaking and managing the risks;
- basic principles of the Bank´s internal capital adequacy assessment process (ICAAP).

The document shall be regularly reviewed and revised if necessary, at least in case there are regulatory requirements changes and significant changes business policy and strategy of the Bank or macroeconomic environment in which the Bank operates.

The competent authorities of the Bank and organizational units that implement and participate in the Risk Management System are liable for the implementation of Risk Management Strategy:

Assembly

- adopt business policy and strategy of the Bank, which define the Bank's business objectives for the period of minimum three years;
- adopt the Bank's articles of association and adopt amendments and supplements to the founding act and articles of association of the Bank;
- adopt the Bank's financial report and decide on the use and distribution of the realised profit, and/or coverage of losses;
- decide on the increase in Bank's capital, and/or investment of capital into another bank or other legal persons, as well as on the amount of investments in Bank's fixed assets and investments properties ;
- appoint and remove the president and members of the Bank's Board of Directors;
- decide on status changes and termination of Bank,s operations;
- decide on any acquisition and disposal of significantly valuable property and assets i.e. assets the market value of which on the date of decision is equal to at least 30% of the book value of assets as declared in the latest annual balance sheet;
- adopt the rulebook on its operation and decide on other issues in compliance with law and Bank,s articles of association.

Board of Directors

- convene meetings of the Bank,s assembly;
- prepare decision proposals for the Bank,s assembly and bear responsibility for their implementation;
- adopt the Bank's proposed business policy and strategy and submit them to the Bank's assembly for adoption;

- adopt the risk management strategy and policy and the capital management strategy;
- determine general terms of business of the Bank, as well as amendments and supplements thereto;
- appoint and remove the president and members of the Bank's Executive Board;
- appoint and remove members of the Audit Committee, Credit Committee, and Assets and liabilities management Committee;
- establish upper limits for decisions of the Bank's Executive Board on placements and borrowing and decide on the Bank's placements and borrowing in excess of those limits;
- give prior consent for the Bank's exposure to each single person or a group of related persons which exceeds 10% of the Bank's capital, and/or for the increase of this exposure in excess of 20% of the Bank's capital;
- supervise the activities of the Bank's Executive Board;
- establish the internal control systems and monitor its efficiency;
- adopt the programme and plan of internal audit of the Bank and the internal audit methodology;
- review external and internal audit reports, as well as reports on the activities and work of internal audit, and approve the annual report on the adequacy of risk management and the internal controls of the Bank;
- adopt quarterly and annual reports of the Bank's Executive Board on Bank's operations, including quarterly reports on risk management, and submit the adopted financial report to the Bank’s assembly for final adoption;
- adopt annual report on internal capital adequacy assessment process (ICAAP report);
- adopt rulebooks on its operation and operation of the Audit Committee, Credit Committee and Assets and liabilities management Committee;
- adopt the Bank's recovery plan and monitors the implementation of the recovery plan in the event of its activation;
- inform the National Bank of Serbia and other competent bodies of the established irregularities;
- establish the Bank's internal organization, namely the organizational structure providing for the division of powers, duties and responsibilities of the employees, members of management bodies and other persons holding managing positions in the Bank, in the manner which prevents the conflict of interest and ensures a transparent and documented process of decision making and implementation;
- adopt the policy on salaries and other remunerations to the Bank's staff;
- propose decisions to the Bank,s assembly of any acquisition of treasury shares, sale of shares and/or participating interest in related persons;
- prepare proposals for allocation of net profit and present them to the Bank,s assembly for approval;
- pass resolutions on fixed assets, and bad and doubtful debts to be written off as proposed by the Executive Board, where the Board of Directors can pass some of its authority to the Executive Board up to the limit specified by the special Decision of the Board of Directors;
- propose the amount of investments to the Bank’s assembly to be made in fixed assets needed by the Bank and investment properties, as well as the sale of fixed assets of any significant value (property owned by the Bank);
- as proposed by the Executive Board, resolve on any fixed assets to be purchased or sold as well investment properties, within the amount set by the Bank's assembly provided that such assets do not fall within the authority of the Bank's assembly in terms of their value;
- pass resolutions on transfer and/or sell of receivables of the Bank with possibility to pass some of this authority to the Executive Board by the special Decision;

- adopt the Business Continuity Plan, as well as the Disaster Recovery Plan, which ensure smooth and continuous functioning of all important systems and processes of the Bank, as well as limitation of losses in emergency situations;
- perform other activities in compliance with the Bank’s articles of association.

The Bank’s Board of Directors is responsible for the accuracy of all reports on Bank's operations, financial condition and business results disclosed to the Bank's shareholders, the public, and the National Bank of Serbia.

Executive Board

- implement decisions of the Bank’s assembly and Board of Directors;
- propose to the Board of Directors Bank’s business policy and strategy, as well as the risk management strategy and policy and capital management strategy;
- implement the Bank's business policy and strategy by making appropriate business decisions;
- implement the risk management strategy and policies and the capital management strategy of the Bank by adopting procedures for risk management, and/or risk identification, measurement and assessment, and by ensuring their application, and shall report to the Board of Directors of these activities;
- approves and propose to the Board of Directors adoption of the Bank's recovery plan;
- activates and implement the Bank's recovery plan based on consideration of early warning indicators, market situation and Bank financial position;
- analyse the risk management system and report to the Bank Board of Directors on risk exposure levels and risk management on a minimum quarterly basis;
- take decisions on the Bank's placements and borrowing up to the amount determined by the Board of Directors;
- take decisions, subject to prior consent of the Board of Directors, on any increase in the Bank's exposure to a person related to the Bank and inform the Board of Directors thereof;
- ensure security and regular monitoring of the Bank's information technology and treasury operation systems;
- inform the Board of Directors of any actions that are not in compliance with regulations and other acts of the Bank;
- present an overview of business activities, balance sheet and income statement of the Bank to the Board of directors at least once during each business quarter;
- promptly inform the Board of Directors and the National Bank of Serbia of any deterioration in the Bank's financial condition, or the danger of such deterioration, as well as of other facts that may significantly affect the Bank's financial condition;
- ensure that all employees are familiar with regulations and other acts of the Bank regulating their business duties;
- adopt a rulebook on its operation;
- decide on all matters that are not under the remit of the Bank’s assembly and Board of Directors;
- decide on the Bank participation in reorganizations and other proceedings involving the Bank’s corporate borrowers;
- decide on the Bank’s branches to be founded, consolidated, merged or dissolved in compliance with the acts of internal organization of the Bank;

- organise and manage the work of the Bank’s employees, and issue rules providing for job classification and particular job assignments;
- appoint and dismiss officers with special powers and responsibilities, and set the amount of their salaries;
- propose resolutions to be passed by the Board of Directors on the procurement and/or purchase and sale of fixed assets and investment properties of value not being subject to the resolution of the Bank’s assembly at the time of purchase and/or sale;
- passe decisions related to interest rates as well as decisions on the amendments of the same;
- within the limit established by the Decision of the Board of Directors, pass resolutions on fixed assets and bad and doubtful debts to be written off as proposed by the bodies of the Bank responsible to prepare such proposals including the commission in charge of annual listing and evaluation of the Bank's fixed assets and receivables;
- in accordance with the Decision of the Board of Directors, pass resolutions on transfer and/or sell of receivables of the Bank;
- is responsible for Business Continuity and Disaster Recovery Plan implementation, as well as for training and informing employees of their role and responsibilities in case of emergencies;
- is responsible for changes to Business Continuity and Disaster Recovery Plan in accordance with business changes, including changes in products, activities, processes and systems, changes in environment, as well as in line with Bank’s business policy and strategy;
- is responsible for regular testing of Business Continuity and Disaster Recovery Plan, including adequate documentation to evidence the results of testing and their inclusion in the reporting to the Board of Directors;
- ensure the implementation of Internal Capital adequacy assessment process and its compliance with Bank’s business policy and strategy.

Committee for monitoring Bank’s operations (Audit Committee)

- analyse annual and other financial statements of the Bank, which are submitted for review and adoption to the Board of Directors;
- analyse and adopt the Bank’s proposed risk management and internal control system strategies and policies, which are submitted for review and adoption to the Board of Directors;
- analyse and supervise the implementation and adequate enforcement of adopted strategies and policies for risk management and implementation of internal controls systems;
- report at least once a month to the Board of Directors on its activities and irregularities detected, and propose the method for elimination of detected irregularities, and/or the manner of improving policies and procedures for risk management and implementation of internal controls systems;
- review Bank’s investments and activities, on proposal of the Board of Directors or Executive Board or external auditor of the Bank.

Assets and Liability Committee

- review and monitor on monthly basis the Bank's accounts for the purpose of ensuring:
  - adequately balanced assets and liabilities in terms of maturity gaps;
  - liquidity and solvency;

- prudence and profitability; and
- protection against risks in operation of the Bank.

- monitor developments in the Bank's balance sheet and income statement on monthly basis proposing measures to improve its profitability:
    - the Bank's policies in the area of interest rates, fees and commissions;
    - protection of the Bank against market risks (interest and currency risk).
- review the quality of the Bank's assets in terms of collectability of loans and interest proposing solutions and measures to its Executive Board for the purpose of upgrading the quality of assets;
- review changes in the Bank's balance sheet liabilities proposing solutions and measure to its Executive Board for the purpose of upgrading the quality of liabilities in respect of:
    - volume of deposits;
    - needed increase in capital or issue of the Bank's shares;
    - validly justified issue of the Bank's long- and short-term securities.
- review the Bank's overall credit portfolio in respect of its exposure to credit risk proposing the respective measures to its Executive Board;
- examine new development plans of the Bank and their effects on its accounts, i.e. assets and liabilities;
- examine the performance in terms of the targets provided by the Bank's annual projections;
- present reports to the Bank's Executive Board in respect of the reported assets and liabilities and any changes therein proposing measures and action to be taken for the purpose of adequately balanced maturity gaps, maintained liquidity, risk management, improved profitability, and in respect of other issues.

Credit Committee

- make decisions on any dinar and foreign exchange credit facilities, guarantees, documentary credits, and other forms of sureties in line with the Bank's internal rules, and subject to the Law on Banks and regulations of the National Bank of Serbia;
- present monthly reports to the Executive Board in respect of:
    - volume of approved loans;
    - the amount of approved loans;
    - other issues relating to its activities;
- performs an other duties as requested by the Executive Board.

Risk Management function

Independent business function responsible for risk management, which:

- proposes strategy and policies of risk management to the Executive and Board of Directors;
- proposes risk management procedures to the Executive Board;
- develops models and methodologies for identifying, measuring, mitigating, monitoring and control of risks,
- monitors, identifies, measures, assesses, the risks to which the Bank is exposed during the course of its business operations in accordance with relevant regulation and internal acts ;
- regularly reports to the competent authorities of the Bank about risk management in accordance with the procedures governing regular reporting to the Bank’s authorities of risk management.

Compliance function

Is responsible for the following:

- identification and monitoring of compliance of Bank operations and management of that risk, which specially includes risk from the sanctions of regulatory body and financial losses as well as reputational risk;
- at least once a year identifies and assesses the main compliance risks in the Bank and proposes the plans to manage such risks, about which it makes a Report which it submits to the Executive Board and the Committee for Monitoring Business Activities of the Bank.

Internal Audit function

- give an independent and objective opinion to the Board of Directors on matters which are subject to audit;
- perform the consulting activity aimed at upgrading the existing internal controls system and operation of the Bank;
- provide assistance to the Board of Directors in the achievement of ite objectives, through application of a systematic, disciplined and documented approach to the evaluation and upgrade of the current method of risk management, control and management of processes;
- assess the adequacy and reliability of the Bank's internal controls system and compliance function;
- ensure adequate identification and control of risks;
- determine deficiencies in activities of the Bank and its employees, as well as cases of failure to perform duties and of acting in excess of authority, and shall prepare proposals for the elimination of these deficiencies and recommendations for their prevention;
- prepare reports on activities of internal audit on a regular basis and submit them to the Board of Directors and the Audit Committee.

Risk Management Policy defines a unique system for managing the risks to which the Bank is exposed in its operations.

The Bank's organizational parts which participate in the risk management system:

- Risk Management Department
- Credit Appraisal Department
- Corporate Banking Department
- Retail and Branch Network Department
- Treasury Department
- Financial Control Department
- Information Systems and Infrastructure Department
- Back Office Department
- Administration Department
- Organization Department
- Debt Collection Department
- Human resources and Legal Department
- Corporate Affairs Department
- Internal Audit Department
- Bank Compliance and Anti-money Laundering Department

Bank's authorities in charge of the establishment, management and control of risk management system:

- Board of Directors of the Bank
- Executive Board of the Bank
- Audit Committee of the Bank
- Assets and Liability Committee (ALCO)
- Credit Committee of the Bank
- Committee for Products and Services
- Business Continuity and Crisis Management Committee
- Customer Complaints Commission
- Information Security Commission
- Tender and Outsourcing Commission
- Projects and Technology Commission
- Distribution Network Assessment Commission
- Debt Collection follow up Commission
- Commission for Access Control
- Commission for hiring of lawyers for DC legal cases
- IT Steering Commission

Risk Management Goals

The Bank's Risk Management System Goals:

- maintenance of the Bank's risk profile at the level of Bank's pre-defined preferences to the risk;
- Bank stability and maximization of the proportion return / risk for the Bank;
- Ppoviding sufficient level of regulatory capital in line with the Bank risk appetite and the allocation of the remaining capital in accordance with the risks the Bank has taken;
- adequate reporting to competent authorities of the Bank on risk management issues;
- develop the necessary system/infrastructure/methodologies for the risk capture.

Risk management principles

The basic principles for risk management are as follows:

- the existence of specially defined processes for managing all types of risks to which the Bank is exposed;
- clear definition of responsibilities of all organizational parts involved in the risk management system;
- clear organization and definition of basic functions within the risk management system: Functions of taking risk, independent risk assessment, decision-making, support, collection, reporting, independent control and supervision;
- parallel and synchronized implementation of regulatory and internally defined limits for risk management;
- implementation of adequate procedures for identifying, assessment, monitoring, mitigating and control of risks as well as putting in place the adequate system for reporting about risk management issues.

2.1 Risk Registry

Risk is the possibility of having unfavourable results which may have an adverse effect on business operations and performance of the Bank.

The Bank identifies the risks to which it is or may be exposed in its operations according to the type, scope and complexity of its activities and markets in which it operates, as well as according to the risk profile. Identification of risk aims to protect the Bank's capital and provide sufficient amount of capital to cover the measured risks.

The Bank is exposed or may be exposed in its business operations by the following risks:

Credit risk is the possibility of occurrence of adverse effects on the bank's financial result and capital caused by the debtor's failure to fulfil their obligations to the bank.

Residual risk is the possibility of occurrence of adverse effects on the bank's financial result and capital due to the fact that credit risk mitigation techniques are less effective than anticipated, or their implementation does not have sufficient influence on the reduction of all risks to which the bank is exposed.

Dilution risk is the possibility of occurrence of adverse effects on the bank's financial result and capital due to reduced value of purchased receivables as a result of cash or non-cash liabilities of the former creditor to the debtor.

Concentration risk is a risk which arises, directly or indirectly, from the bank's exposure to the same or similar source of risk or same or similar type of risk.
Concentration risk shall refer to:

- large exposures (bank's exposure to a single person or a group of related persons amounting to at least 10% of the Bank's capital);
- group of exposures with the same or similar risk factors, such as economic sectors, geographic areas, types of products, etc.;
- credit hedging instruments, including maturity and currency mismatch between large exposures and instruments of credit hedging against these exposures.

A bank's exposure to a single person represents the total amount of receivables and off-balance sheet items towards such person or group of related persons (loans, investments in debt securities, ownership investments and participations, issued guarantees and sureties on promissory notes, etc.).

Investment risks shall include the risks of bank's investments in other legal entities and in fixed assets and investment property.

Country risk is a risk relating to the country of origin of the person to which the bank is exposed, i.e. risk of possible adverse effects on the financial result and capital of the bank due to the bank's inability to collect receivables from such person for reasons arising from political, economic or social circumstances in such person's country of origin.

Country risk shall include the following risks:

- political-economic risk, which shall imply the possibility of losses arising from the bank's inability to collect receivables due to the restrictions established by regulations of government and other authorities of the borrower's country, as well as general and systemic circumstances in the country;
- transfer risk, which shall imply the possibility of losses arising from the bank's inability to collect receivables in a currency that is not the official currency in the borrower's country, due to the restrictions on payment of obligations to creditor from others countries in a specific currency, established by regulations of government and other authorities of the borrower's country of origin.

Settlement/delivery risk is the possibility of occurrence of adverse effects on bank's financial result and capital arising from unsettled transactions regarding debt or equity securities (except repo and reverse repo agreements and borrowing and lending securities agreements) for which there is a gap between the moment of payment and delivery, or counterparty's failure to deliver in free delivery transactions on the due delivery date.

Counterparty credit risk is the possibility of occurrence of adverse effects on bank's financial result and capital arising from counterparty's failure to fulfil his part of the deal in a transaction before final settlement of cash flows of the transaction or settlement of monetary liabilities under that transaction.

FX credit risk is the possibility of occurrence of adverse effects on bank's financial result and capital due to the debtor's failure to perform his obligations within the agreed period, where the result of such loss is the negative impact of depreciation of the dinar exchange rate on the financial standing of the debtor.

Operational risk is the risk of possible adverse effects on the bank's financial result and capital caused by intentional and unintentional omissions in employees work, inadequate internal procedures and processes, inadequate management of information and other systems, as well as by unforeseeable external events. Operational risk includes legal risk but excludes reputational and strategic risk.
Legal risk is the possibility of occurrence of adverse effects on bank's financial result and capital due to the penalties and sanctions of competent regulatory bodies or arising from litigations based on the breach of contractual and legal obligations

Market risks shall imply the possibility of occurrence of adverse effects on the bank's financial result and capital due to changes in the value of balance-sheet positions and off-balance sheet items arising from changes of prices in the market.

Foreign exchange risk is the possibility of occurrence of adverse effects on bank's financial result and capital due to the change of FX rate to which the bank is exposed based on positions in the banking and trading books.

Commodity risk is the possibility of occurrence of adverse effects on the bank's financial result and capital due to the losses within commodity positions because of the price fluctuations of goods on the market.

Price risk is the possibility of occurrence of adverse effects on the bank's financial result and capital due to the change in the price of securities included in the trading book.

Liquidity risk is the possibility of occurrence of adverse effects on the bank's financial result and capital caused by the bank's inability to fulfil its due obligations as a result of:

- withdrawal of existing sources of financing and/or impossibility of securing new sources of financing (funding liquidity risk), or
- difficulties in converting assets into liquid funds due to market disturbances (market liquidity risk).

Interest rate risk is risk of possible adverse effects on the bank's financial result and capital arising from positions in the banking book due to changes in interest rates.

Compliance risk of the bank's business activities is the possibility of adverse effects on bank's financial result and capital as a consequence of failure to comply its operation with law and other regulations, operating standards, procedures for the prevention of money laundering and financing of terrorism and other rules governing operation of banks, and in particular encompasses the risk of sanctions by the regulatory authority, risk of financial losses and reputational risk.

Reputational risk is the possibility of adverse effects on bank's financial result and capital due to the loss of public confidence and/or adverse effect on the public awareness of the bank's operations, regardless of whether there are valid grounds for that or not.

Strategic risk is the possibility of adverse effects on bank's financial result and capital due to absence of adequate policies and strategies, or due to their inadequate implementation, and due to changes in the environment in which the bank operates or failure of the bank to adequately respond to these changes.

2.2 Capital Management Strategy and Plan

Marfin Bank's (the Bank) capital management strategy is driven by its overall mission of maintaining the stability of the Bank, ensuring adequate liquidity in the medium-term whilst taking into account the regulatory and business environment in which the Bank operates as well as market conditions. The Bank complies with the regulators' provisions on Basel II requirements in force.

Basel II is structured around three Pillars:

- Pillar I: minimum capital requirements;
- Pillar II: supervisory review and evaluation process, which results in an individual capital guidance; and
- Pillar III: market discipline.

The Bank has adopted the following definitions of capital:

- Regulatory capital of the bank, in accordance with NBS Decision on Capital Adequacy, is the sum of its core capital and supplementary capital less deductibles from capital.
- Internal capital of the Bank is further defined as the amount of the capital needed to cover all risks that the bank is exposed to or may be exposed to in its operation.

Available internal capital is equal to regulatory capital.

Capital Management Plan includes:

- strategic aims and period of achievement;
- way of organizing internal capital management processes;
- process of planning an adequate level of internal capital;
- way of achieving and maintaining an adequate level of internal capital;
- business plan in case of unforeseen events that may affect the amount of internal capital.

The Bank's main objective is to maintain at all times a strong capital base that will enable it to:

- comply compliance with the requirements set by the National Bank of Serbia;
- safeguard of its ability to continue as a going concern;
- support of the development of its business and maintain the flexibility to take advantage of any prospective business opportunities and
- enhance of its position in the market and ensure financial stability.

2.3 Credit Risk Management

Risk Management Policy and procedure for credit risk management, as well as bank documents: Methodology for calculating allowances for impairment of balance sheet assets and reserves for losses per off-balance sheet items and Methodology for classification of balance sheet assets and off-balance sheet items present a framework for establishing the Bank's credit risk management system.

The Bank has adopted Chapter Credit Risk Management with purpose to establish rules and procedures for credit risk identification, measurement i.e. assessment and the risk management within the Bank system for risk management.

Approach to credit risk management

Credit risk management is based on the implementation of NBS regulations governing credit risk management: Decision on Risk Management, Decision on the Classification of Balance Sheet Assets and Off-balance Sheet Items and the Decision on Capital Adequacy.

Bank has ensured that the following aims and principles are achieved for managing credit risk:

<u>Objectives</u>

- establishing appropriate credit risk environment
- efficient activities within the quality implementation of credit process
- maintaining appropriate credit risk management, assessment and monitoring of processes
- ensuring quality control over credit risk
- the increase of Bank's return rate by maintaining credit risk exposure within acceptable parameters.

<u>Principles</u>

- system of credit risk management enables efficient credit risk management

- the allocation of duties and responsibilities among the Bank's organizational parts involved in the credit risk management system
- responsibility of persons involved in the credit risk management system to be precisely defined
- the independence of decision-making process to be ensured and the conflict of interest in the process of approval to be prevented
- persons involved in the credit risk management system to be fully informed
- the internal controls of the credit risk management system to be ensured.

The Bank's credit risk management involves the following:

- Management of credit risk at the level of individual facilities,
- Management of credit risk at the level of the portfolio,

Credit risk management at the level of individual facilities involves:

- Credit risk management in the process of approving and realization of facilities,
- Credit risk management in the process of monitoring and collection of facilities.

Organizational units of the Bank responsible for assuming and managing credit risk at the level of individual credit facility:

Customer's type according to internal segmentation of Bank customers	Organizational Unit
Retail Banking (Small Business Banking, Entrepreneurs, Individuals)	Retail Banking & Branch Network Department
Business Banking	Business Banking Department
Banks and other financial institutions	Treasury Department

2.3.1 Management of credit risk at the level of the portfolio

Managing credit risk at the level of the Bank's portfolio shall be followed by:

- Executive Board and Board of Directors
- Risk Management Department
- Financial Control Department
- all organizational units of the Bank whose business activities involve the process of approving and monitoring of facilities

By monitoring and identifying credit risk at the level of the portfolio and also by analyzing the structure and characteristic of the portfolio, the Bank shall timely identify the factors which may lead to the increase of credit risk.

Identifying credit risk at the level of the Bank's portfolio shall be done through ascertaining the current exposure to credit risk based on actual and historical data and by establishing the exposure to credit risk which may occur in future, through projections and simulation of the Bank's portfolio

Internal reporting and external reporting in accordance with the laws and regulations shall be affected by the Financial Control Department and Risk Management Department.

Monitoring credit risk and various groups of facilities with similar characteristics in terms of credit risk shall be effected by monitoring both the whole portfolio and individual segments. The Risk Management Department together with other competent organizational units of the Bank shall be in charge of monitoring activities at the Bank's level.

Internal reporting which in terms of credit risks shall cover the following areas:

- Portfolio quality – portfolio quality reports contain detailed opinion about the structure of the portfolio and they focus on the concentration indicators
- Classification of loans – the classification of loans into risk categories and ratings are done quarterly. Classification per portfolio segments is necessary in order to have a valuable insight into the source of risk
- Provisions and allowances for impairment per loans – the analysis of provisions and allowances for impairment per loans is considered important being the indicator of portfolio quality and the means for identifying the source of loan deterioration
- Large exposures – analysis of large exposures is focused on important concentrations toward certain customers as well as on compliance with regulations.

Risk Management Department shall advise the Assets and Liabilities Committee about the quality of the portfolio on a monthly basis and the Executive Board as well whenever the level of risk is changed suggesting measures for the protection against the increased credit risk.

2.4 Liquidity risk managenent

Liquidity risk presents the possibility of arising of negative effects on financial result and capital of the bank caused by incapability of such bank to fulfil its due liabilities arising either from the withdrawal of the existing source of finance, namely the impossibility to obtain new sources of finance (source of funds liquidity risk) or from difficulty in converting property into liquid funds due to market disturbances (market liquidity risk).

Level of the Bank liquidity is presented by Liquidity ratio which presents the relation of a sum of the bank's liquid first rank receivables and liquid second rank receivables on one hand, to the sum of the bank's liabilities at sight without agreed maturity date and liabilities with agreed maturity date in the following month as of the date of calculating the liquidity ratio on the other hand

The Bank has established Chapter-Managing Liquidity Risk which defines in detail the system of managing liquidity risk to which Marfin Bank JSC is exposed during the course of its regular business operations but also techniques of measurement / assessment of liquidity risk:

- Analysis of regulatory reports on liquidity,
- Liquidity GAP- follows liquidity of the Bank by major currencies (all currencies with the over 5% participation in total Bank portfolio), which one beside RSD nominated positions has EUR, USD, CHF nominated positions as well;
- Stres test which follows impact of different scenarious on the liquidity movement;
- Analyse of the impact of a new product on liquidity risk.

The compentent authorities of the bank have adopted Liquidity GAP Methodology but also corresponding limits that are continuosly monitored and analized.

2.5 Interest rate risk management

The Bank is managing with interest rate risk in accordance with the Chapter-Interest rate Risk Management which defines the system and methodologies of interest rate risk management, duties and responsibilities of the system members but also controls that should be performed in in the aim of system efficiency.

The subject of the interest rate risk management is any item from the Banking Book that may cause negative effects on the result and capital of the Bank owing to the change of the interest rate.

In order to manage interest rate risk exposure the Bank uses GAP Methodology. Interest rate GAP limits are defined by Decision of the competent bank authorities and are constantly monitored and analized.

As an integral part of the interest rate risk assessment the Bank conducts stress tests of the effects of changes in interest rates. In determining exposure to interest rate risk in the banking book and interest rate risk limit, the Bank assesses the effects of IR changes on the financial result of the Bank (income statement), but also effects on the economic value of Bank capital, by applying the test - the standard interest rate shock in accordance with the nature and level of risks that Bank is exposed to.

2.6 Market risk management

Market risk present the possibility of arising of negative effects on financial result and capital of the bank caused by losses within the balance sheet and off-balance sheet items due to relevant changes on the market.

Market Risk includes FX risk, price risk on the debt and equity securities and commodity risk.

- FX risk means the possibility of arising of negative effects on financial result and capital of the bank due to the change of foreign exchange. The Bank has established Chapter-Managing FX Risk which defines in detail the system of managing FX risk. FX risk momitoring is based on daily reports on FX risk, stress tests and analysis of the impact of introducing new products to foreign currency risk of the bank. Risk is regularly monitored and assessed.
- Monitoring of price risk on investments in securities is defined by the Chapter-Risk Management of investments in financial instruments, which monitor the investment to the individual level and at the portfolio of financial instruments. Chapter defines monitoring of settlement / delivery risk, counterparty risk and price risk.
- The Bank does not invest in commodities and is not exposed to the commodity risk.

2.7 Operational Risk Management

The aim of the Operational Risk Management Framework, together with the adopted procedures for identifying and measuring operational risks are as follows:

- The prevention and reduction of Operational Losses

- The reduction in regulatory capital requirements for Operational Risk
- Improved Operational Risk Management
- The achievement of immediate compliance with the Basic Indicator Approach (BIA) and future transition to the Standardized Approach (SA).

The key principles governing the implementation of the Framework are the following:

- Identification and Assessment of Operational Risks by employing Risk and Control Self – Assessment (RCSA) Workshops on a periodic and ad-hoc basis.
- Management of Identified Risks via Action Plans (mainly as part of RCSA Workshops or on an ad-hoc basis) for control/mitigation, transfer, avoidance or retention of operational risk.
- Monitoring of Risks by setting up Key Risk Indicators and by recording Operational Loss events (on the electronic Operational Loss Database).
- Reporting of Risks through MBS`s internal and external reporting channels according to regulatory.

The subject of managing operational risk focuses on identifying critical processes and types of operational risks which arise from these processes, regardless of whether these processes are periodical or frequent, manual or automated, related to products, communication, systems or people.

3. Capital of the bank

In the segment of data and information related to the Bank's capital, the Bank publishes the following information:

- amount of total Bank's capital, as well as the amount of core and supplementary capital, review of elements of the capital and all deductible items (appendix PI-KAP – Data on Bank's capital position);
- description of basic characteristics of all elements included in the calculation of capital (appendix PI-FIKAP – Data on basic characteristics of financial instruments included in the calculation of bank's capital);
- data and information on relation between positions of of the Bank's capital from Balance sheet with positions of the Bank's capital from report on Capital (appendix PI-UPK – Data on connecting capital position from the balance sheet with the positions from the the PI-KAP form).

4. Capital adequacy and capital requirement calculation

4.1 Capital requirements for credit risk and counterparty risk

Methodology on Calculation of Capital Requirements for Credit Risk and (hereinafter referred to as: „the Methodology“) defines the method of calculation of minimum capital requirements for credit risk and counterparty risk.

In the calculation of minimum capital requirements for credit risk and counterparty risk the Bank shall use a standardized approach as defined and described by the Decision on Capital Adequacy adopted by the National Bank of Serbia (hereinafter referred to as: "the Decision").

The basic objective of this methodology is to define:

- a Bank’s balance sheet and off-balance sheet items subject to calculation of capital requirements for credit risk,
- rules for segmentation of balance sheet and off-balance sheet assets into classes and sub-classes of exposures and the method of calculation of a capital requirement for credit risk before applying mitigation techniques,
- the Bank’s items subject to calculation of capital requirements for counterparty risk,
- rules for applying mitigation techniques and the method of a capital requirements calculation for credit risk after applying mitigation techniques,
- rules for preparing reports relating to capital requirements calculation for credit risk and counterparty risk .

The bank is obliged to classify all exposures subject to capital requirements calculation for credit risk in one of the following classes:

1. exposures to states and central banks;
2. exposures to territorial autonomies and local government units;
3. exposures to public administration bodies;
4. exposures to international development banks;
5. exposures to international organizations;
6. exposures to banks;
7. exposures to legal;
8. exposures to individuals;
9. exposures secured by mortgages;
10. overdue receivables;
11. high-risk exposures;
12. exposures based on covered bonds;
13. exposures based on investments in open investment funds;
14. other exposures.

The starting presumption for accurate creation of exposure classes indicated in the previous chapter is to separate the balance sheet assets from off-balance sheet items subject to capital requirements calculation for credit risk and their classification into account items and loans & advances items. Such separation must be done due to further different treatment of these items in terms of required amount of additional information based on which further classification into defined classes and subclasses of exposure is made.

The following reports from the bank’s core system are used to define exposure classes and further capital requirements calculation for credit risk:

- Report 1821,
- Trial Balance.

The both reports are obtained from the bank's core system on the same date for which capital requirements for credit risk are calculated and the risk for other parties.

The Bank, in order to adjust assets weighted for credit risk for the effects of mitigation technique, uses the following credit protection instruments:

- Collateral in the form of financial assets, as instruments of material credit protection, and
- Guarantees, as a form of intangible instruments of credit protection.

Procedure for Internal Capital Adequacy Process (ICAAP) defines the method of calculation of internal capital requirements for credit risk.
The Bank has decided to use the same approach as for the calculation of minimum capital requirements taking into consideration complexity of the mentioned approach, as well as the volume and current structure of the credit portfolio:

- Risk weighted assets is equal to 31% of total assets (exposure value)
- 61% of total gross assets is within the risk weighted ponders 100% and 150% (73% excluding the expsoures towards banks, governments and central banks)
- 91% of non-performing loans is already covered with provisions (71%) and reservations (20%)
- Only 4% of total net assets is adjusted for credit risk mitigation techniques.

For the assessment of possible underestimation of credit risk due to the application of standardised approach, the Bank applies modified standardized approach which implies application of different risk weight ponders for specific asset classes, in comparison to those defined by Decision, as:

1) Change of risk weight ponder for nonperforming loans with ponder 100% to 125% for loans in arrears over 180 days (87% of nonperfoming lonas with risk ponder 100% are in arrears over 180 days)
2) Change of risk weight ponder for retail assets class 75% to 80%.

The Bank increases minimum capital requirements for the calculated effects, respectively:

1) For nonperforming loans in amount RSD 4.069 thousands
2) For retail assets class in amount RSD 18.993 thousands.

The Bank increases capital requirements for the calculated effects of the stress test which involves testing the amount of capital required in the case of reduction of the property value by 10% (RSD 9.146 thousands).

Internal capital requirements coverage for credit risk amounts to RSD 1.275.845 thousands.

4.2 Capital requirements for market risk

Capital requirements for market risk are equal to sum of capital requirements for:

- Price risk for business activities from trading book,
- FX risk for all business activities,
- Commodity risk for all business activities.

In its operations the Bank is exposed to foreign currency risk only, so the capital requirement is calculated only for this type of risk.

4.3 Capital requirements for FX risk

The subjects to capital requirements for FX risk are all FX assets and FX liabilities positions i.e.:

- Assets and liabilities expressed in foreign currency,
- Assets and liabilities expressed in dinars indexed with an FX clause.

Based to foreign currency assets and liabilities, the Bank calculates net open FX position which is used as input for capital requirements calculation for FX risk.

All Bank positions are divided in categories: Euro (EUR), SAD dollar (USD), Swiss franc (CHF), other currencies and Gold. Open position is calculated for each specified category as a sum of net spot positions, net forward positions and positions in If the sum of listed items above in one currency is above zero, net position in that currency is long, otherwise the position is short.

Total long foreign currency position represents the sum of all its net long foreign currency positions in individual currencies and Total short foreign currency position represents the sum of all its net short foreign currency positions in individual currencies.

The higher absolute value of those two positions represents the Total Net open FX position of the Bank.

The Bank calculates minimum capital requirements for FX risk if the sum of total net open position and absolute value of net open position in gold is greater than 2% of Bank's capital. The Bank does not have positions in gold and therefore they shall not be considered here.

Capital requirements for FX risk = Total Net Open FX Position * 12%

Procedure for Internal Capital Adequacy Process (ICAAP) defines the method of calculation of internal capital requirements for FX risk.

The Bank has decided to use the same approach as for the calculation of minimum capital requirements for FX risk taking into consideration current FX strucutre of balance sheet.

For the assessment of possible underestimation of FX risk due to the application of standardised approach, the Bank applies modified standardized approach.

Internal capital requirements by this method is determined by multiplying the average maximum open positions on a monthly basis in the last twelve months of the date of calculation of capital requirements by 12% if the value of open foreign currency positions exceed 2% of the regulatory capital.

Internal capital requirements calculated by this method amounts to RSD 21.970 thousands.

The Bank increases capital requirements for the calculated effects of the stress test which involves the calculation of foreign exchange losses due to changes in the exchange rate by 10% in the negative direction in relation to the position taken by the Bank on the day for which the Bank calculates the internal capital requirement (RSD 14.187 thousands).

Internal capital requirements coverage for FX risk amounts to RSD 36.157 thousands.

4.4. Capital requirements for operational risk

The procedure of calculating minimum capital requirements for operational risk by applying the Basic indicator approach (BIA) based on the information obtained from the revised annual financial statements.

The minimum capital requirement for operational risk has been calculated by applying the the Basic indicator approach is equal to the amount of the three year average exposure indicator multiplied by the capital requirement rate of 15%. The three year average of the exposure indicator is the arithmetic mean of the value of that particular indicator for the previous three years.

The exposure indicator is calculated based on data from the revised annual financial statements as the sum of net income from interest and net non-interest income.

In case the exposure indicator was negative or zero in any of the previous years, that amount is not included in the calculation of the three-year average, but this average is calculated as the relation of the sum of positive values of exposure indicators and the number of years in which the positive values have been realized.

Exposure indicator (in RSD thousands)			Average (in RSD thousands)	Minimum capital requirements (in RSD thousands)
t3 / 2013	t2 / 2014	t1 / 2015		
1.251.820	994.860	977.427	1.074.702	161.205

Procedure for Internal Capital Adequacy Process (ICAAP) defines the method of calculation of internal capital requirements for operational risk.

The Bank has decided to use the Basic Indicator Approach (BIA) for capital requirement which is already used for the calculation of minimum capital requirement in accordance with the Decision on the capital adequacy of the Bank.

Bearing in mind the recommendations of the original Basel Committee on Banking Supervision, the Bank mitigates the amount of possible underestimation of internal capital requirement for operational risk, due to the implementation of the of BIA, calculated as the amount of 15% compared to the calculated regulatory capital requirement for credit risk.

In case the amount received exceeds the minimum capital requirement, it shall be taken as an internal capital requirement for operational risk, otherwise, the internal capital requirement is equal to the minimum capital requirement calculated in accordance with the BIA.

Internal capital requirements calculated by this method amounts to RSD 186.546 thousands.

The amount obtained in such manner will be increased by the results of the stress test and will be the total internal capital requirement for operational risks.

The Bank has conducted a stress test for operational risks and for results of stress test is taken 1% of Banks capital as at 31.12.2015. in total amount of RSD 8.149 thousands. In that way, the Bank ensures that a loss up to 1% of the capital of the Bank will be covered, something that could happen once during the year or rarely.

Internal capital requirements coverage for operational risk amounts to RSD 194.695 thousands.

4.5 Capital Adequacy

In the segment of data and information related to the Capital Adequacy, the Bank publishes as appendix, the report Data on total capital requirements and Banks' capital adequacy ratio (appendix PI-AKB).

4.6. Internal capital requirements for non Pillar I risks

4.6.1 Estimation of Materially Significant Risks Included in ICAAP

An essential prerequisite for analyzing the risk-bearing capacity is to identify and assess all of a material risks to which the Bank is or might be exposed.. The purpose of assessing risks is to depict the significance and effects of risks taken on the Bank
Non Pillar I risks, risks for which the Bank does not calculate minimum capital requirements in accordance with the Decision on capital adequacy, are separated into two groups:

1. Risks that can be quantified from the exposure perspective and loss perspective (quantifiable risks):

- Credit-FX risk
- Residual risk
- Liquidity risk
- Interest rate risk in banking book
- Concentration risk
- Investment risk
- Country risk
- Dilution risk

2. Risks that cannot be quantified, or more precisely their losses are potentially quantifiable, but their likely exposure cannot be quantified:

- Compliance risk
- Strategic risk
- Reputational risk

For risks, that can be quantified, the assessment of material significance is based on the quantitative criteria, as follows:

Credit – FX risk - The Bank will determine the material significance of credit FX risk based on the participation of exposure of the receivables contracted in foreign currency or in dinars with a foreign currency clause in total exposure, calculated on day for which it calculates internal capital requirements, whereby exposure means exposure after applying credit risk mitigation techniques.

In determining the exposure of receivables contracted in foreign currency or in dinars with foreign currency, the Bank does not include exposures to other banks.

If this participation is greater than 20%, credit FX risk is considered materially significant and it is included in the internal capital adequacy assessment process.

Residual risk - The Bank will determine the material significance of residual risk based on the ratio of net exposures covered by credit risk mitigation techniques in the Bank,s credit portfolio, calculated on day for which it calculates internal capital requirements.

The Bank analyzes credit portfolio of Bank in line with the Decision on Capital Adequacy for the calculation of the Risk Weighted Assets in order to identify exposures that are covered with risk mitigation techniques.

If this ratio is greater than 20%, residual risk is considered materially significant and it is included in the internal capital adequacy assessment process.

Liquidity risk - Capital requirements for Liquidity risk is calculated if in the previous period , where period of observation is one year, liquidity ratio (calculated as defined in the Decision on Risk Management by Banks) was lower than 1,2, for one working day.

Interest rate risk in banking book - The Bank will determine the material significance of interest rate risk in banking book based on the ratios of absolute marginal gap per time zones in total balance sheet assets.

If that ratio is greater than 10% in any time zone, interest rate risk in banking book is considered materially significant and it is included in the internal capital adequacy assessment process.

Concentration risk - The Bank will determine the material significance of concentration risk based on the participation of the sum of large exposures (VI-LI form) in total exposure, calculated on day for which it calculates internal capital requirements.

Exposure in this sense is determined according to the NBS methodology for the preparation of reports on large exposures and refers to net exposure after applying credit risk mitigation techniques.
If this participation is greater than 20%, concentration risk is considered materially significant and it is included in the internal capital adequacy assessment process.

Investment risks - The Bank is liable to observe investment risk limits when investing in other legal entities and in fixed assets and investment property defined in the Decision on risk management passed by the National Bank of Serbia.

Investment risk is considered as material if regulatory limits are exceeded.

Country risk - The Bank will determine the material significance of country risk based on the participation of net exposure toward the non domicile obligors (persons headquarted or residing outside the Republic of Serbia) in total net exposure, calculated on day for which it calculates internal capital requirements.

If this participation is greater than 20%, country risk is considered materially significant and it is included in the internal capital adequacy assessment process.

Dilution risk - The Bank will determine the material significance of dilution risk based on the participation of exposures towards repurchased receivables – factoring, in the Bank's credit portfolio, calculated on day for which it calculates internal capital requirements.

The Bank’s in it,s credit portfolio has no exposure towards repurchased receivables, dilution risk is not considered as materially significant.

For risks, that cannot be quantified (**compliance,strategic, reputational**), the Bank calculates a reserve in the form of additional internal capital requirements. The reserve is set as a fixed percentage (1,5%) of total internal capital requirements for risks that are materially significant and can be quantified.

Internal capital requirements for risks that cannot be quantified, amounts to RSD 23.271 thousands as at 31.12.2015.

As per the above, as at 31.12.2015, the Banka does not consider following risk to be materially significant: dilution risk, country risk and residual risk, and for these risks does not allocate capital.

4.6.2 Methodology for the calculation of internal capital requirements

For the purpose of measurement/assessment of internal capital requirements for **credit FX risk**, the Bank applies FXAOF factor (FX add-on-factor) which adjusts the internal capital requirements for credit risk.

Internal capital requirements for credit FX risk is determined by multiplying the internal capital requirements for credit risk by FXAOF factor.

FXAOF factor is determined by multiplying the spillover factor (Fp) with the percentage of participation of net exposure of the receivables contracted in foreign currency or in dinars with a foreign currency clause in total net exposure.

Spillover factor (Fp) represents determined factor which measures the increase of default rate due to fx fluctuations. In case that calculated (Fp) is less than 2%, than fixed percentage of 2% will be used in the calculation.

The Bank increases internal capital requirements for the calculated effects of the stress test which calculates effects of exchange rate changes (changes in the exchange rate of EUR 10%).

Internal capital requirement for credit – fx risk amounts to RSD 20.368 thousands.

Internal capital requirement for **Liquidity risk** is calculated as

$$CRlr = n \times 12\%$$

where (n) stands for the amount of liquidity deficit on the day when liquidity ratio was lower than 1,2.

Considering that during the 2015, the Banks liquidity ratio was never lower than 1,2, the Bank has no internal capital requirements for liquidity risk.
The Bank increases internal capital requirements for the calculated effects of the stress test. Stress test results are obtained by simulation of liquidity ratio due to changes in the liquidity assets and liabilities positions, used in ratio calculation.

Simulation of the liquidity ratio based on scenario analysis involves the following:

1) reducing the position of first-degree liquid receivables by 20%;
2) reducing the position of second degree liquid receivables – to include only the receivables classified into A category;
3) increase in position Liabilities with maturity within one month form the date of liquidity ratio calculation – assumption of shortening the maturity on one month for the 10 largest depositors (legal entities and private individuals).

As per ICAAP procedure, if after stress testing, Bank liquidity ratio is lower than 1, the amount of liquidity deficit multiplied with 12% present result of the stress test.
Considering that, after conducted stress test, calculated liquidity ratio was above 1, the result of the stress test is null.

Internal capital requirement for **Interest rate risk** is calculated as:

For calculation of capital requirement for **interest rate risk in banking book** the Bank applies change in economic value of equity of the Bank triggered by the interest rate changes by +/- 200 bps, as the generally accepted method in banking sector.

The Bank calculates internal capital requiremetns for interest rate risk as

$$CRirr = n * 12\%$$

where (n) stands for change in economic value of equity of the Bank triggered by the interest rate changes by +/- 200 bps in the time zone in which the ratio (gap/total assets) is greater than 20%.

Internal capital requirement for interest rate risk amounts to RSD 1.053 thousands.

For the purposes of measurement / assessment of internal capital requirements for **concentration risk** Bank applies the method based on the Herfindahl-Hirschman Index (HHI), as the generally accepted method in banking sector.
HHI, as a basis for the calculation of internal capital requirements for concentration risk is defined as the sum of the squares of the shares of the large exposures in a total amount of large expsoures of the Bank (credit portfolio).

Internal capital requirements for concentration risk are determined as:

$$CRcr = n * HHI * 12\% \text{ at the level of portfolio}$$

Where (n) stands for the total amount of individual net exposures determined according to the NBS methodology for the preparation of reports on large exposures.

The Bank increases internal capital requirements for the calculated effects of the stress test which calculates effects of growth by 10% on the large exposures. As per ICAAP procedure, if as a result of the stress test, the prescribed limit of 25% is exceeded, the Bank will calculate additional capital requirements of 12% on the excess amount.

Internal capital requirement for concentration risk amounts to RSD 17.044 thousands.

For measuring of internal capital requirement for **investment risk**, the Bank is based on historical data, respectively the effects on the financial result and capital achieved by the sale of repossessed assets.

Capital requirement for investment risk is calculated as:

CRir= n x 5% x 12%

where n is - the book value of investment property at the date of calculation,
and percentage of 5% is determined on the basis of the ratio between value at which the Bank sold and the value at which the Bank repossessed sold real estate - taking into account repossessed assets the Bank sold until the date of calculation. This % is adjusted each time the calculation of capital requirements is done.

Bearing in mind that the Bank, in calculating capital requirements, takes into account only negative effect which is realized by the sale of real estate (not effect on capital which is positive), the Bank for the purposes of the internal capital adequacy assessment does not conduct stress testing of investment risk.

Internal capital requirement for investment risk amounts to RSD 6.240 thousands.

5. Risk exposure and approaches to risk measurement (estimation)

5.1. Credit risk exposure and approaches to credit risk measurement (estimation)

5.1.1 Status of default

The status of default of a certain debtor occurs in any of the following cases:

a) The Bank believes that it is highly unlikely to completely collect liabilities due from debtor irrespective of the possibility to activate collateral and at least taking into account the following:

- Termination of interest calculation in accordance with the internal enactments of the Bank,
- Partial or entire write-off of receivables or calculating allowances for impairment of the balance sheet assets and reserves for losses on off-balance sheet items on individual basis,
- Restructuring receivables due to deterioration of the debtor's financial standing,
- Failure of the debtor to act in accordance with adopted reorganization plan in terms of the Law which governs terms and manner of initiating and effecting bankruptcy procedures over legal entities,
- Bankruptcy or liquidation of a debtor,
- Financial difficulties of a debtor – financial standing and creditworthiness of the debtor jeopardize the possibility of collecting the receivables,

b) The debtor settles his liabilities with over 90- day delay in materially significant amount.

5.1.2. Methodology for calculating allowances for impairment of balance sheet assets and reserves for losses on off - balance sheet items

Individual Impairment Assessment

At each reporting date the Bank identifies financial assets that will be subject to individual impairment allowance (individual assessment – individually significant exposures). Such receivables are due from borrowers whose total exposure as at the calculation date is above RSD 4.0 million.

Individually significant exposures -the Bank assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. A financial asset is impaired and impairment loss recognized only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset.

The criteria used by the Bank in determining whether there is objective evidence of impairment include:

- financial situation of the borrower indicative of its significant problems in operations;
- information of the breach of contractual provisions, such as failure to settle the liabilities falling due, frequent delays in payment of interest and/or repayment of principal and non-compliance with other contractual provisions;
- due to the borrower's significant financial difficulties, significant alterations were made to the originally agreed terms of repayment;
- it is probable that a bankruptcy procedure or another sort of financial reorganization will be instigated over the borrower as a result of its deteriorating financial situation;
- the Bank has instigated a lawsuit against the borrower;
- there is evidence on the significantly deteriorated ability of the borrower to repay the loan further;
- bankruptcy or liquidation of the borrower; and
- other objective evidence leading to the conclusion that the Bank will not collect the total amount matured.

If the Bank determines that there is objective evidence of impairment o fan individually significant financial assets, the impairment loss amount is measured as the difference between the carrying value of the asset and the present value of the estimated future cash flows.

The expected cash flows are calculated using the market value of mortgages and/or deposits used as collaterals securitizing loans and expected period of their collection. The expected cash flows are discounted to their present value.

Depending on the type of property assigned under mortgage, its location and the date of its most recent value appraisal, in the process of impairment calculation the Bank uses the reduced market value of the property by applying the following haircut percentages:

Residental property	
Territory	**Hiarcut**
Belgrade	10%
Novi Sad	10%
Other cities over 50.000 inhabitants	10%
Cities with less than 50.000 inhabitants	15%
Villages and towns	20%
Commercial property	
Territory	**Hiarcut**
Belgrade	10%
Novi Sad	10%
Other cities over 50.000 inhabitants	20%
Cities with less than 50.000 inhabitants	25%
Industrial property	
Type	**Hiarcut**
Factories	30%
Warehouses	30%
Land	
Type	**Hiarcut**
Land	25%

In instances of the most recent value appraisal dating back to 2012 and prior years, a 40% haircut is applied to the appraised value irrespective of the type or location of the property.

Expected cash flows must be discounted to their present values. The Bank uses the original effective interest rate as the **discount rate** in instance of contracted fixed interest rates, and the current effective interest rate in instances of contracted variable interest rates. In the event that the Bank has approved modification to the repayment terms due to the financial difficulties of the borrower, the originally agreed effective interest rate is used for cash flow discounting.
For off-balance sheet exposures, as well as for the guarantees called on and paid by the Bank, the Bank uses the legally prescribed penalty interest rate as the discount rate.

Expected collateral realization period represents a period within which collateral is expected to be realized so as to enable collection of the Bank's receivables from the value achieved through collateral realization (sale). The expected collateral collection period is determined by Credit Departments, which take into consideration the following factors:

- mortgage type (depends on which law the mortgage has been established, i.e. if it is established under the Mortgage law or it is established under the Law on enforcement procedure);
- validity of the mortgage documentation (Quality of the mortgage documentation;
- type, purpose, function and size of the property that is mortgaged and the location at of the real estate;
- supply and demand on the market of the mortgaged real estates;
- current level of realization of mortgage, i.e. whether the collection is started in the court procedure or out of the court procedure, or the collection is expected from the bankruptcy proceedings;
- cooperation of the customer.

Where deposits are received as collaterals, the Credit Departments determine the expected collection time depending on the level of the borrower's cooperation with the Bank and the Bank's decision on the timing of commencing collection of the matured amounts due from the guarantee deposit.

Collective (Group) Impairment Assessment

For the purposes of *collective impairment assessment*, financial assets are grouped based on similar credit risk characteristics. These characteristics are relevant to the estimation of the future cash flows for groups of such assets as they are indicative of the borrower's ability to pay all the amounts due in accordance with the contractual terms of the asset subject to impairment assessment.

Individually insignificant (small-amount) receivables with similar characteristics are grouped according to the following criteria:

- borrower type (private individual, entrepreneur, legal entity),
- number of days past due (none, up to 30 days past-due, from 31 to 60 and from 61 to 90 days past-due),
- product type (housing loans, consumer and cash loans, credit cards, current account overdrafts, business credit cards, payment guarantees, performance bonds, etc.),
- portfolio age (old portfolio, i.e., loans approved before June 1, 2008 and new portfolio, i.e., loans approved after the said date),
- legal entity borrower's credit rating (from 1 to 7).

For receivable other than small-amount receivables the collective impairment calculation is performed in the event that:

- the Bank assesses that credit risk has not increased (there is no objective evidence of impairment); and
- Individual impairment assessment identified no impairment loss/impairment allowance amount.

Impairment loss is calculated as the product of:

- unsecured portion of the receivables (credit risk exposure of each group less the secured amount) and
- probability of default (“PD”) for each group.

For receivables up to 90 days past due as at the assessment date, the Bank determined PD parameter based on the historical data on payments over 90 days past due. To receivables over 90 days past due as at the assessment date, the Bank applies a PD rate of 100%.

Upon determining the value of collateral, the **recoverable portion of the loan** is calculated by treating the financial collaterals (deposits, guarantees, etc.) as fully collectable, while for mortgages impaired market values are used by applying haircuts, in the same manner as for the individual impairment assessment.

Impairment due to the Country Risk

In calculating impairment allowance of loans approved to entities/persons domiciled outside the republic of Serbia, the Bank increased the impairment allowance amount determined in the above described manner by a certain percentage depending on the degree of the risk of the borrower's country of origin.

A country's degree of risk is determined according to the OECD country classification, as presented in the table below:

OECD Methodology	0 / 1 / 2	3	4 / 5 / 6	7
Risk level	Low	Medium	Increased	High
% of provision increase	0%	20%	50%	100%

If a country is not included in the OECD classification, the Bank will treat it as a country with the medium risk if it belongs to the OECD countries or the high-yield countries of the Eurozone; otherwise, it will be treated as a high-risk country.

When a loan is irrecoverable, it is written off via the loan impairment allowance account upon completion of all the necessary procedures and determination of the loss amount.

In case the amount of impairment loss on loans in the forthcoming period reverses due to the event which took place after the initial impairment loss was recognized (such as improvement of the borrower's credit rating), the previously recognized impairment loss is adjusted through changes on the impairment allowance accounts. The adjustment amount is recognized in the profit and loss within gains on the reversal of provisions.

5.1.3 Industry diversification

Sector	Total	Out of which: past due items	Total provisions	Total reservations
Central bank	5.611.135	0	0	0
Central government	44.075	0	0	0
Public administrative bodies	11.413	0	0	0
Banks	401.771	154.997	154.997	55
Agriculture, forestry and fishing	997.144	346.236	72.811	160.345
Mining and quarring	6.433	0	55	0
Manufacturing	4.981.940	3.226.412	1.166.087	747.442
Electricity, gas, steam and air conditioning supply	925	0	4	139
Water supply, sewerage, waste management and remediation activities	46.065	1.473	2.752	458
Construction	2.251.660	982.878	369.029	231.797
Wholesale and retail trade; repair of motor vehicles and motorcycles	5.401.605	3.018.340	1.286.095	274.910
Transportation and storage	433.756	201.032	50.383	27.114
Accomodation and food service activities	1.164.976	693.108	475.073	82.336
Information and communication	21.646	1.450	1.074	793
Financial and insurance activities	29.756	11.485	3.643	25
Real estate activities	503.914	14.090	5.392	1.708
Professional, scientific and technical activities	536.635	217.443	112.457	16.300
Administrative and support service activities	404.225	260.014	135.473	2.359
Education	13.108	0	38	0
Human health and social work activities	8.479	531	473	0
Arts, entertainment and recreation	220.076	174.544	86.767	6.065
Other service activities	138.162	3.949	2.165	814
Individuals	6.547.503	1.737.007	875.412	134.394
Other	3.478.662	0	575.715	590.726
Total	**33.255.062**	**11.044.990**	**5.375.895**	**2.277.782**

5.1.4. Legal eneteties, enterpreneurs and individuals by sectors

Exposures to corporates

Sector	Total	Out of which: past due items	Total provisions	Total reservations
Agriculture, forestry and fishing	940.354	329.519	65.924	157.411
Mining and quarring	0	0	0	0
Manufacturing	4.454.868	3.083.808	1.096.284	714.716
Electricity, gas, steam and air conditioning supply	0	0	0	0
Water supply, sewerage, waste management and remediation activities	10.072	0	0	0
Construction	2.065.158	943.468	346.147	229.162
Wholesale and retail trade; repair of motor vehicles and motorcycles	4.555.486	2.645.531	1.101.956	242.648
Transportation and storage	283.730	181.533	41.206	21.342
Accomodation and food service activities	1.074.446	636.207	452.331	75.381
Information and communication	222	0	1	1
Financial and insurance activities	15.165	3.055	3.055	0
Real estate activities	486.918	0	1	287
Professional, scientific and technical activities	458.602	201.228	101.444	14.170
Administrative and support service activities	347.555	245.361	127.625	0
Education	12.322	0	0	0
Human health and social work activities	1.794	0	0	0
Arts, entertainment and recreation	28.263	0	0	40
Other service activities	8.435	0	0	768
Other	793.836	0	4.724	590.726
Total	**15.537.226**	**8.269.710**	**3.340.696**	**2.046.652**

Retail exposures

Sector	Total	Out of which: past due items	Total provisions	Total reservations
Agriculture, forestry and fishing	56.518	16.444	6.696	2.934
Mining and quarring	6.433	0	55	0
Manufacturing	527.071	142.604	69.803	32.726
Electricity, gas, steam and air conditioning supply	925	0	4	139
Water supply, sewerage, waste management and remediation activities	35.993	1.473	2.752	458
Construction	130.105	39.410	22.792	2.636
Wholesale and retail trade; repair of motor vehicles and motorcycles	846.119	372.810	184.139	32.262
Transportation and storage	150.026	19.499	9.177	5.772
Accomodation and food service activities	90.530	56.901	22.742	6.956
Information and communication	21.424	1.450	1.073	793
Financial and insurance activities	14.592	8.430	588	25
Real estate activities	16.996	14.090	5.391	1.421
Professional, scientific and technical activities	78.028	16.215	11.011	2.128
Administrative and support service activities	56.298	14.653	7.829	2.358
Education	785	0	38	0
Human health and social work activities	6.685	531	473	0
Arts, entertainment and recreation	2.543	0	63	3
Other service activities	8.074	2.475	1.645	37
Individuals	6.547.503	1.737.007	875.412	134.394
Other	5.159	0	0	0
Total	**8.601.806**	**2.443.994**	**1.221.682**	**225.042**

Other exposures

Sector	Total	Out of which: past due items	Total provisions	Total reservations
Agriculture, forestry and fishing	272	272	191	0
Mining and quarring	0	0	0	0
Manufacturing	0	0	0	0
Electricity, gas, steam and air conditioning supply	0	0	0	0
Water supply, sewerage, waste management and remediation activities	0	0	0	0
Construction	56.397	0	91	0
Wholesale and retail trade; repair of motor vehicles and motorcycles	0	0	0	0
Transportation and storage	0	0	0	0
Accomodation and food service activities	0	0	0	0
Information and communication	0	0	0	0
Financial and insurance activities	0	0	0	0
Real estate activities	0	0	0	0
Professional, scientific and technical activities	5	0	2	2
Administrative and support service activities	372	0	19	0
Education	0	0	0	0
Human health and social work activities	0	0	0	0
Arts, entertainment and recreation	189.270	174.544	86.705	6.022
Other service activities	121.652	1.474	521	9
Individuals	0	0	0	0
Other	2.679.667	0	570.991	0
Total	**3.047.635**	**176.290**	**658.520**	**6.033**

5.1.5. Provisions and reserve with changes in the period from 01.01.2015-31.12.2015

Exposure type	Description	Allowances for impairment of balance sheet assets and reserves for losses on off balance sheet items
Risk weighted balance sheet assets	**Opening balance**	**4.400.818**
	Increases during the period	1.752.269
	Decreases during the period	-1.015.540
	Write offs during the period	-336.998
	Exchange rate differences	1.181
	Closing balance	**4.801.730**
Risk weighted off balance sheet items	**Opening balance**	**0**
	Total increase	4.355
	Total decrease	-1.177
	Closing balance	**3.178**

5.1.6. Exposures as per remaining balance

Exposure class	Long term exposures	Short term exposures	Total
Exposures to central governments and central banks	39.381	5.615.829	5.655.210
Exposures to public administrative bodies	0	11.413	11.413
Exposures to banks	30.475	371.296	401.771
Exposures to corporates	6.546.125	8.991.101	15.537.226
Retail exposures	4.814.160	3.787.646	8.601.806
Other exposures	2.292.691	754.944	3.047.635
Total	**13.722.832**	**19.532.230**	**33.255.062**

5.1.7. Exposures as per categories of classification

Category	Balance sheet assets and off-balance sheet items subject to classification	Calculated reserve for estimated losses	Allowances for impairment of balance sheet assets and reserves for losses on off balance sheet items	Required reserve for estimated losses
A	10.412.663	0	56.895	0
B	1.478.717	27.524	27.979	19.477
V	851.309	126.040	25.537	110.251
G	1.118.867	335.462	119.265	235.110
D	6.533.690	6.488.176	4.575.232	1.912.944
Total	**20.395.246**	**6.977.201**	**4.804.908**	**2.277.782**

5.1.8. Rating agencies

For the purpose of calculation of risk weighted assets, i.e. capital reqirements for credit and counter party risk, the Bank uses ratings of Moody's Investor Service Ltd agency for the exposures towards banks that are funded out of Republic of Serbia. For the exposures towards banks funded in the Republic of Serbia, the Bank takes into consideration the NBS decision on Capital Adequacy.

Exposure type	The level of credit quality	Moody,s Investor Service Ltd
Maping of long-term credit ratings into the levels of credit quality (for exposures towards countries, central banks, banks and corporates)	1	od Aaa do Aa3
	2	od A1 do A3
	3	od Baa1 do Baa3
	4	od Ba1 do Ba3
	5	od B1 do B3
	6	Caa1 i niže
Maping of short-term credit ratings into the levels of credit quality (for exposures towardsbanks and corporates)	1	P-1
	2	P-2
	3	P-3
	4-6	NP

5.1.9. Collaterals

The Bank recognizes the following **categories of securities:**

- Direct: Securities offered by the applicant / borrower
- Indirect: Securities offered by third parties – Pledges, to cover the facilities used by the Borrower. Pledger can be at the same time joint or accessory guarantor for the facility, but not necessary. Pledger can be, but not necessary, signatory of contract on loan/other facility. Whether it is necessary that pledger signs the main contract is decided for each individual case.

Legality of Securities:

- The legal or physical entity offering a security must be legally eligible to do so
- Documentation of securities must be properly signed by authorized persons of the pledger. Any additions, corrections, amendments must also be initialized/signed in the same manner.

Types of Securities:

- Deposits (RSD and foreign currencies)
- Letters of Guarantee (issued by the Government or first class Banks)
- Bills of Exchange and Proxy for issuing orders in payment operations
- Mortgage over real estates
- Guarantee (guarantees of parent company guarantees or third party legal entities or individuals)
- Pledge over movable property, receivables and ownership stakes and Assignment of Receivables
- Pledge of securities (shares, bonds and other marketable securities)

The Bank's choice of security instruments is not limited to the above list, which represents the most often used instruments. The Bank has the right to request any other type of security or variation of the above, which it may deem necessary to properly protect its interests.

5.1.10. The rules for the application of mitigation techniques and calculation of capital requirements after the application of mitigation techniques

The Bank may make adjustments of assets weighted for credit risk for the effects of risk mitigation techniques if, in order to reduce this risk, it uses suitable instruments for credit protection and if the requirements for recognition of credit protection are fulfilled, in accordance with the provisions of the Decision.
The amount of credit risk weighted assets calculated after adjusting for the effects of techniques to mitigate that risk cannot be greater than the amount of that risk-weighted assets calculated prior to the adjustment.

The Bank, in order to adjust assets weighted for credit risk for the effects of mitigation technique, uses the following credit protection instruments:

- collateral in the form of financial assets, as instruments of material credit protection, and
- guarantees, as a form of intangible instruments of credit protection.

Eligible collateral in the form of financial assets are:

- cash and cash equivalents deposited with the Bank,

- debt securities issued by state or central banks with available credit rating of the chosen rating agency or the agency for crediting export where credit quality corresponds to level 4 or better,
- debt securities issued by banks with available credit rating of the chosen rating agency where level of credit quality corresponds to 3 or better,
- debt securities of companies with available credit rating of the chosen rating agency which corresponds to the level of credit quality 3 or better,
- debt securities with available short-term credit rating of the chosen rating agency which corresponds to the level of credit quality 3 or better,
- shares or convertible bonds that are included in the main stock exchange index,
- shares or convertible bonds that are traded on recognized stock exchanges and which are not included in the main stock exchange index,
- gold.

Guarantees are considered as eligible intangible credit protection instruments if the credit protection providers are:

- government and the central bank;
- territorial autonomy and local self-government;
- international development banks;
- international organizations;
- public administration bodies for which credit risk weighting factor is assigned in the manner prescribed for exposure to the states and central banks or for exposure to banks;
- banks;
- companies, including the parent company and subsidiaries of the Bank, with available credit rating of the agency selected for the rating which corresponds to the level of credit quality 2 or better.

5.1.11 Report on the total exposure of the Bank to credit risk

Exposure type / class	Gross exposure	Value adjustments, provisions and necessary reserve	Net exposure	Effects of application of credit protection instruments	Net exposure after application of credit protection instruments / Fully adjusted exposure value
Total exposure	33.255.062	7.653.677	25.601.385	982.630	24.618.755
On-balance sheet exposure	27.677.841	7.550.000	20.127.841	930.102	19.197.739
Off-balance sheet exposure	5.577.221	103.677	5.473.544	52.528	5.421.016
Financial deriatives	0	0	0	0	0
Exposures to central governments and central banks	5.655.210	0	5.655.210	0	5.655.210
Exposures to public administrative bodies	11.413	0	11.413	0	11.413
Exposures to banks	401.771	155.052	246.719	0	246.719
Exposures to corporates	15.537.226	5.387.348	10.149.878	905.704	9.244.174
Retail exposures	8.601.806	1.446.724	7.155.083	76.927	7.078.156
Other exposures	3.047.635	664.553	2.383.082	0	2.383.082

5.1.12 Report on exposures and capital requirements

Exposure type / class	Gross exposure	Net exposure	Net exposure after application of credit protection instruments / Fully adjusted exposure value	Exposure value	Capital requirement
Total exposure	33.255.062	25.601.385	24.618.755	19.359.886	1.243.638
On-balance sheet exposure	27.677.841	20.127.841	19.197.739	19.197.739	1.228.607
Off-balance sheet exposure	5.577.221	5.473.544	5.421.016	162.147	15.031
Financial derivatives	0	0	0	0	0
Exposures to central governments and central banks	5.655.210	5.655.210	5.655.210	5.615.829	0
Exposures to public administrative bodies	11.413	11.413	11.413	0	0
Exposures to banks	401.771	246.719	246.719	212.664	7.169
Exposures to corporates	15.537.226	10.149.878	9.244.174	5.548.947	614.891
Retail exposures	8.601.806	7.155.083	7.078.156	5.670.516	411.499
Other exposures	3.047.635	2.383.082	2.383.082	2.311.929	210.079

5.2 Counterparty risk exposure and approaches to measure (estimate) counterparty risk

The Bank calculates the credit risk-weighted assets for counterparty risk based on the following positions from the trading book and banking book:

- Financial derivatives;
- Credit derivatives (in the trading book);
- The transactions under repurchase (repo) agreements and reverse repurchase agreements;
- Transactions under contracts on the granting or taking a loan of securities or goods (hereinafter referred to as transaction giving or taking a loan of securities or goods);
- Trade credit transactions in securities;
- Transactions with a long term settlement.

In order to calculate the amount of exposure of the above mentioned positions, the Bank uses **the method of current exposure.**

The amount of credit risk-weighted assets is calculated by applying credit risk weighing factors for the class of exposure to which counterparty is classified.

5.2.1 Report on total exposure and capital requirements

Exposure type / class	Gross exposure	Out of which: arising from counterparty risk	Capital requirement	Out of which: arising from counterparty risk
Total exposure	33.255.062	0	1.243.638	0
On-balance sheet exposure	27.677.841	0	1.228.607	0
Off-balance sheet exposure	5.577.221	0	15.031	0
Financial derivatives	0	0	0	0
Exposures to central governments and central banks	5.655.210	0	0	0
Exposures to public administrative bodies	11.413	0	0	0
Exposures to banks	401.771	0	7.169	0
Exposures to corporates	15.537.226	0	614.891	0
Retail exposures	8.601.806	0	411.499	0
Other exposures	3.047.635	0	210.079	0

5.3. Exposure to market risks and approaches to measurement (assessment) of market risks

The Bank does not apply an advanced approach for calculating capital requirements for Market risks, so that all the information about Market risks relevant to the publication are covered thru the previous segments of this document.

5.4. Exposure to operational risks and approaches to measure (estimate) of operational risks

The Bank does not apply an advanced approach for calculating capital requirements for operational risks, so that all the information about operational risks relevant to the publication are covered thru the previous segments of this document.

5.5. Exposure to interest rate risk and approaches to measurement (assessment) Interest Rate Risk

The interest rate risk management is based on regulatory approach, application requirements by NBS.

The Bank uses the GAP methodology for the IR Management which presents defference between interest- bearing asset and interest-bearing liabilities within the defined time bands that shows how two sides of the balance react differently to the interest rate changes:
The positions are presented according to:

- their maturity (in the event of fixed interest rate instruments) or
- time remaining until their next interest rate change (in the event of variable interest rates).

Inetrest rate risk exposure is monitored monthly for RSD positions, major currencies positions (EUR, CHF, USD), but also on consolidated level.

Interest rate GAP limits are defined by Decision of the competent bank authorities and are constantly monitored and analized. Interest rate GAP report has been presented at ALCO Committee.

Interest rate GAP	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Cash and cash funds held with the central bank	1.226.010	0	0	0	0	2.494.873	3.720.883
Loans and receivables due from banks and other fin.institutions	2.420.035	0	0	0	0	199.754	2.619.789
Loans and receivables due from customers	4.332.803	3.610.835	3.382.372	886.922	202.919	1.092.172	13.508.023
Other assets	0	0	0	0	0	79.887	79.887
Total assets	**7.978.848**	**3.610.835**	**3.382.372**	**886.922**	**202.919**	**3.866.686**	**19.928.582**
Deposits and other liabilities due to banks, other fin.institutions and CB	6.578.745	1.702.068	1.080	2.000	0	65.214	8.349.107
Deposits and other liabilities due to customers	3.216.705	978.807	3.694.124	1.124.036	11.407	1.104.424	10.129.503
Treasury shares and other boroowed funds	0	0	0	0	0	123.053	123.053
Subordinated liabilities	608.131	0	0	0	0	3.902	612.033
Other liabilities	0	0	0	0	0	191.806	191.806
Total liabilities	**10.403.581**	**2.680.875**	**3.695.204**	**1.126.036**	**11.407**	**1.488.399**	**19.405.502**
GAP (assets-liabilities)	**-2.424.733**	**929.960**	**-312.832**	**-239.114**	**191.512**	**2.378.287**	**523.080**

As an integral part of the interest rate risk assessment the Bank conducts stress tests of the effects of changes in interest rates. In determining exposure to interest rate risk in the banking book and interest rate risk limit, the Bank assesses the effects of IR changes on the financial result of the Bank (income statement), but also effects on the economic value of Bank capital, by

applying the test - the standard interest rate shock in accordance with the nature and level of risks that Bank is exposed to.
The standard interest rate shock presents positive and negative parallel shift of interest rate changes by 200 basis points (1BP = 0.01%).
In existing IR GAP structure (observed on consolidated level which includes major currencies i.e. currencies EUR, RSD, CHF and USD) interest rate increase by 200bp will change the economic value of the Bank capital by 1,08% i.e. the value of capital will be increased by RSD 8.776 thousands.

5. 6. The exposure arising from equity investments in the banking book

Equity investments in the banking book date from the previous owner of the Bank and involve investment in financial institutions.

Portfolio structure:

Name	Purchase value (in RSD)	Number of shares	Book value as at 31.12.2015 (in RSD)
Tržište novca	373.853	3	144.540
Beogradska berza	102.000	10	652.962
Total	**475.853**		**797.502**

Bearing in mind that non listed entitities do not prepare periodic financial statements, shares are booked in accordance with the last annual avaliable share book value presented in the statement issued by the share issuer.

Securities have status avaliable for sale.