EXECUTIVE BOARD

No: 173/13

Belgrade, 29.05.2013.

PUBLISHING DATA AND INFORMATION OF THE

MARFIN BANK JSC Belgrade

for period 01.01.2012.-31.12.2012.

Belgrade, May 2013.

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 01.01.2012.- 31.12.2012.

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

The publication refers solely to the Bank's data, as Marfin bank JSC is not preparing consolidated financial statements.

Total regulatory capital as at 31.12.2012. amounts to **RSD2.653.323,82K** and consists of core capital of **RSD2.407.724,46K** and **RSD245.599,36K** of suplementary capital.

Minimun capital requirements coverage amounts to **RSD1.768.215,83K**, out of which for the credit and counterparty risk related RSD 1.536.662,04K and the operational risk RSD 231.553,78K.

Internal capital requirements coverage, calculated in accordance with Procedure for Internal Capital Adequacy Process (ICAAP) amounts to RSD 2.043.147,60K.

The capital adequacy ratio in line with the Decision on capital adequacy as at 31.12.2012. amounts to **18,01%.**

The capital adequacy ratio in line with ICAAP as at 31.12.2012. amounts to **15,58%.**

1.1 Minimum capital requirements and internal capital requirements of the Bank

	Capital Adequacy in line with the Decision on Capital Adequacy	Capital Adequacy in line with ICAAP	Difference
(A)	Capital	Available internal capital	
	2.653.324	2.653.324	
(B)	Minimum capital requirements	Internal capital requirements	
Credit risk	1.536.662	1.601.899	**65.237**
Market risks	0	29.229	**29.229**
Operational risk	231.554	260.527	**28.973**
Concentration risk		33.944	
Credit-FX risk		22.102	
Interest rate risk		65.252	
Liquidity risk		0	
Other material risk		30.194	
Differsification effects		0	
Total	**1.768.216**	**2.043.148**	**274.932**
A/ (B*8,33) *100	CAR in line with the Decision on Capital Adequacy	CAR in line with ICAAP	
	18,01	**15,58**	

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 is aligned with the Business Plan and the Bank's Capital Management Strategy.

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 Bank´s internal capital adequacy assessment process.

The document shall be regularly reviewed and revised if necessary, at least in case there are regulatory requirements changes, significant changes of the Business Plan, Capital Management Strategy or changes in 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

- Adopts Business Plan and strategy of the Bank;
- Decides on capital increase, i.e. on investments of the capital in another Bank or other legal entities, as well as on the amount of investments into Bank's fixed assets;

Board of Directors

- Establishes a unified risk management system for managing Bank risks in the Bank and for supervision over the system;
- Adopts risk management strategy and policies, as well as the Capital Management Strategy;
- Adopts Business Continuity Plan and Contingency Plan;
- Establishes the internal organization, i.e. the organizational structure of the Bank that provides segregation of duties, competencies and responsibilities of employees so as to prevent conflict of interests and provides a transparent and documented process of adoption and implementation of decisions;
- Supervises the Executive Board activities;
- Adopts program and plan of the Internal Audit.

Executive Board

- Implements the strategy and policies for risk management, as well as the Capital Management Strategy;
- Adopts and analyzes the efficiency of risk management procedures, which define in detail the process of identification, measurement, assessment and management of risks, as well as the process of regular reporting on risk management to the Bank authorities and regulatory body;
- Implements Business Continuity Plan and Contingency Plan, their revision in accordance with business trends, regular testing;
- Reports to the Board of Directors on the efficiency of the defined risk management procedures implementation;
- Ensures the Internal Capital adequacy assessment process and its compliance with strategic goals of business operations.

Audit Committee

- Analyzes proposals of the strategies and policies of the Bank which refer to risk management and the system of internal controls which are submitted to the Board of Directors for consideration and adoption;
- Analyzes and monitors the implementation and adequate application of the adopted strategies and policies for risk management and the implementation of internal control systems;
- At least once a month reports to the Board of Directors about its activities and detected irregularities and proposes ways of eliminating such irregularities, namely upgrade the policies and procedures for risk management and implementation of internal control systems.

Assets and Liability Committee

- The ALCO Committee monitors the exposure of the Bank to the risks which arise from the structure of its balance sheet liabilities and receivables as well as from off-balance sheet items and it proposes the measures for managing interest and liquidity risk and performs other activities prescribed by the Bank's enactments.

Credit Committee

- Decides on loan applications within the limits established by the Bank's enactments, analyzes the Bank exposure to credit risk, analyzes credit portfolio and also performs other business activities in accordance with the Bank's enactments.

Risk Management Policy shall be followed by all Bank's organizational units which participate in the Risk Management System as well as by all Bank's authorities in charge of the establishment, management and control of risk management system.

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

- Risk Management Department
- Credit Appraisal Department
- Business Banking Department
- Retail Banking Department
- Branch Network Department
- Treasury Department
- Financial Control Department
- Legal Department
- Information Systems and Infrastructure Department
- Back Office Department
- Administration Department
- Organization Department
- Debt Collection Department
- HR Department
- Corporate Affairs Department
- Internal Audit Department
- 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
- Credit Committee of the Bank
- Assets and Liability Committee (ALCO)
- Customer Complaints Committee
- Information Security Committee
- Products and Pricing Committee
- Tender and Outsourcing Committee
- Projects and Technology Committee
- Business Continuity and Crisis Management Committee
- Distribution Network Assessment Committee
- Debt Collection follow up Committee
- Control Access Commission

- Group Risk Management Department
- Other Group Departments related with the scope of work of the Risk Management activities

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.
- Providing sufficient level of regulatory capital in line with the 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 and the Group 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 local and the Group limits for risk management.
- Implementation of adequate procedures for identifying, assessment, monitoring, mitigating and control of risk management as well as putting in place the adequate system for reporting about risk management issues.

2.1 Risk Registry

The main risks to which the Bank is exposed are as follows:
- Credit Risk (including the settlement/delivery risk and counterparty risk)
- Credit – FX risk
- Residual risk
- Foreign exchange and other market risks
- Liquidity risk
- Interest rate risk
- Operational risks
- Exposure Risk (Concentration)
- Investment risks
- Country risk
- Dilution risk
- Compliance risk
- Reputational risk.
- Strategic risk

Credit risk - Credit risk means the possibility of arising of negative effects on financial result and capital of the bank caused by the debtor's failure to fulfill their obligations to the bank.

Settlement/delivery risk - means the possibility of negative effects on financial result and capital of the bank in terms of transactions relating to debt/ equity securities (other than repo and reverse repo contracts and contracts on lending/borrowing securities) when there is a mismatch between the moment of payment and the moment of delivery.

Counterparty risk- means the possibility of negative effects on financial result and capital of the bank caused by unsettled liabilities of the contracting party in the transaction before the final settlement of transaction.

Residual risk - means the possibility of negative effects on the financial result and equity due to the fact that (credit) risk mitigation techniques may be less effective than expected, or that their use has inappropriate influence on the reduction of all risk to which the Bank is exposed.

FX credit risk means the likelihood that the Bank may incur losses 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.

Market risk - means 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 trading book risks, FX risk and commodity risk.

Foreign exchange 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 rate to which the bank is exposed based on positions in the banking and trading books.

Trading book risks - market risks arising from operating activities in the trading book including: price risk (general and specific) and the risk of exceeding the limit of exposure arising from trading activities.

- **Price risk -** risk of the change in the price of securities included in the trading book. Price risk on debt securities is the risk of change in prices of debt securities caused by change in interest rates. Price risk on equity securities shall be the risk of change in prices of equity securities.

  The price risk includes the following:
  a) Specific price risk - is the risk of change in the price of debt / equity securities caused by factors relating to their Issuer (Issuer of securities) or the Issuer of a financial instrument which is the subject of the relevant agreement (in case of derivatives);
  b) General price risk - is the risk of change in the price of debt securities caused by a change in the general level of interest rates, namely that the price of equity securities will be changed due to the change of the general level of prices for such securities.

- **Commodity risk** is the risk of probability of occurrence of negative effects on the financial result and capital of the Bank due to the losses within commodity positions because of the price fluctuations of goods on the market.

Liquidity risk is the risk of probability of occurrence of negative effects on the financial result and capital of the Bank due to the Bank's inability perform its matured liabilities. It also includes the risk that the Bank will be able to secure these obligations only at excessive cost.

Interest rate risk (IR Risk) - is defined as the risk of having adverse effects on the financial result and capital of the bank, against the positions from the banking book, due to unfavorable interest rate changes.

Operational risk - means the possibility of arising of negative effects on financial result and capital of the bank due to the dysfunctional and inappropriate:

- Internal processes (including the lack of or inadequate procedures or errors),
- People (including negligence or deliberate failures or internal fraud),
- Systems
- External events (including external fraud and natural disasters)

Operational risk includes legal risk but excludes strategic and reputational risk.

It should be noted that **credit and market risk** related events (such as the write off of loans when a customer is unable to pay, or the loss resulting from market developments) are not classified as Operational Risk events unless they arise from **operational causes** (such as the use of faulty documentation, faulty procedures, limit excesses etc). It shall be considered that a certain event occurred if the result of a process does not correspond to the expected result, and such deviation may be attributed to operational causes. The Bank measures, namely assesses the exposure to operational risk, taking into account the possibility, namely the frequency of risk occurrence as well as its potential influence on the bank.

- **Legal risk** - is the possibility of negative effects on the financial result and equity due to penalties and sanctions of the competent regulatory authority or arising out of litigation coming from breach of contractual and legal obligations.

Concentration risk is the risk which directly or indirectly results from a bank's exposure toward the same or similar risk factor or risk type, such as exposure toward one person or a group of related persons, industries, geographical areas, types of products and activities, instruments, credit protection, financial instruments, commodities, etc.

Investment risk is the possibility of occurrence of adverse effects on financial result and bank's capital due to large scale long term investments in other legal entities' shares and in fixed assets.

Country risk is the risk related to the country of origin of the person to whom the Bank is exposed, risk of having negative effects on the financial result and capital of the Bank due to the inability of the Bank to collect receivables from the debtor for political reasons, economic or social developments in the debtor's country of origin.

Dilution risk is the risk of occurrence of negative effects on the financial result and capital of the Bank based on the reduction of the value of purchased receivables due to cash or cashless liabilities of the previous creditor toward the debtor.

Compliance risk – means the possibility of negative effects on the financial result and capital of the bank due to failure of the Bank to comply its operations with law, regulations or its internal regulations, procedures against money laundering and terrorism financing, as well as the code of practice, good business practice and business ethics.

Reputational risk - means the possibility of negative effects on the financial result and equity due to loss of public confidence, that is, an unfavorable public attitude on the Bank, regardless of whether there is a basis or not.

Strategic risk - means the possibility of negative effects on the financial result and equity due to lack of appropriate business policies and strategies, their unadequate implementation, and due to changes in the environment in which the Bank operates, or lack of adequate response of the Bank 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 sustainable long-term growth, ensuring profitability and 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 host 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, which is further defined as:
  - Total required regulatory capital: core capital plus supplementary capital I for credit, market and operational risk, as prescribed by the National Bank of Serbia;
  - Available regulatory capital: total of core capital plus supplementary capital I and II less applicable deductions.

- Internal capital, which is further defined as:
  - Required internal capital: core capital plus supplementary capital I (as defined by the Bank through its internal capital assessment process);
  - Available internal capital: total of core capital plus supplementary capital I and II less applicable deductions (equals available regulatory capital).

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 Instruction for assessment of creditworthiness, FX risk and classification 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 Marfin Bank JSC Belgrade system for risk management.

Approach to credit risk management

Credit risk management is based on parallel and synchronized implementation of two approaches to Risk management:

- Regulatory approach – 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.
- Group approach – implementation of Group policies, standards and good practices relevant to Credit Risk Management.

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
Individuals	Retail Banking Department Branch Network Department HR Department (Bank employees)
SBB customers	Retail Banking Department Branch Network Department
Corporate and Commercial 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 all organizational units of the Bank whose business activities involve the process of approving facilities as well as at the level of:

- Risk Management Department
- Financial Control Department
- The Bank's Executive Board and Board of Directors,

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 in accordance with the Group standards 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 Executive Board about the quality of the portfolio on a monthly basis and 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 constantly 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 and Group requirements.

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:

- description of all elements which are included in the capital calculation
- total amount of core capital, review of elements of core capital and deductible items
- total amount of supplementary capital I, review of elements of supplementary capital I and deductible items
- total amount of supplementary capital II and review of elements of supplementary capital II
- amount of total Bank's capital

In RSD '000

No	Position Name	Amount
I	**CAPITAL**	**2.653.323,82**
1.	**CORE CAPITAL**	**2.407.724,46**
1.1.	Nominal value paid-In shares, except for preferred cumulative shares	5.671.608,50
1.2.	Aquired bank's own shares, except the preferred cumulative shares	0,00
1.3.	Issuing premium	2.877.486,67
1.4.	Profit reserves	151.672,87
1.5.	Undistributed profit from the previous years	0,00
1.6.	Losses from the previous years	3.794.673,19
1.7.	Profit from the current year	0,00
1.8.	Losses from the current year	0,00
1.9.	Non-material investments	79.301,82
1.10.	Amount of the bank's shares taken in pledge, except the preferred cumulative shares	
1.11.	Regulatory value adjustment	**2.419.068,58**
1.11.1.	Unrealized losses based on securities available for sale	
1.11.2.	Other net negative revaluation reserves	
1.11.3.	Profit based on bank liabilities evaluated at the fair value achieved due to the change of the credit rating of the bank	
1.11.4.	Reserve requirements from the profit for the estimated losses in the balance assets and off-balance items of the bank	2.419.068,58
1.12.	Minority shares	
1.13.	Other negative consolidated reserves	
1.14.	Other Positive Consolidated Reserves	
2.	**SUPPLEMENTARY CAPITAL I**	**245.599,36**
2.1.	Nominal value paid-In preferred cumulative shares	
2.2.	Own preferred cumulative shares	
2.3.	Issuing premium based on preferred cumulative shares	
2.4.	Parts of the revaluating bank reserves	245.599,36
2.5.	Hybrid Capital Instruments	
2.6.	Subordinated Liabilities	
2.7.	Several separated value adjustments, reserves and reserve requirements from the profit in relation to the expected losses	
2.8.	Amount of the capital exceeding the limits for the additional assets I	
2.9.	Receivables based on the balance assets and off-balance items secured by hybrid instruments or subordinated liabilities	
2.10.	Amount of the bank's preferred cumulative shares taken in pledge	
3.	**DEDUCTIBLES FROM TOTAL CAPITAL**	
3.1.	Of which: fixed assets reductions	
3.2.	Of which: additional assets I reductions	
3.3.	Direct or indirect investment in banks and other entities in the financial sector in an amount higher than 10% of the capital of such banks, i.e. other entities	
3.4.	Investment in hybrid instruments and subordinated liabilities of other banks and entities in the financial sector, in which the bank has direct or indirect investments in an amount higher than 10% of the capital of such entities	
3.5.	Total direct or indirect investment in banks and other entities in the financial sector in an amount of up to 10% of the capital of such banks, as well as investments in their hybrid instruments and subordinated liabilities exceeding the 10% of sum of equity and additional capital of the banks for which the capital is being calculated	
3.6.	Amounts exceeding the qualified bank shares in entities which are not entities in the financial sector	
3.7.	Less separated value adjustments, reserves and reserve requirements from the profit in relation to the expected losses	
3.8.	Exposure amount based on free deliveries when the other party hasn't settled its obligation within four working days	
3.9.	Receivables and potential liabilities from the entities associated with the bank which have been stipulated by the bank under conditions which are more advantageous than the conditions stipulated with other entities which are not associated with the bank	
3.10.	Required reserves for estimated losses on balance sheet assets and off-balance sheet items of banks according to the point 427, Paragraph 1 of decision on the capital adequacy of banks	
4.	**TOTAL CORE CAPITAL**	**2.407.724,46**
5.	**TOTAL SUPPLEMENTARY CAPITAL**	**245.599,36**

Note: The above report is in line with KAP form prescribed by National Bank of Serbia

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 (Chapter II Review of items of assets 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 (Chapter III Rules for defining classes and subclasses of exposure and calculation of capital requirements before applying mitigation techniques),
- the Bank's items subject to calculation of capital requirements for counterparty risk (Chapter IV Review of items of assets 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 (Chapter V 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 (Chapter VI 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 61% of total assets (exposure value)
- 64% of total gross assets is within the risk weighted ponders 100% and 150% (72% excluding the expsoures towards banks, governments and central banks)
- 84% of nonperforming loans is already covered with provisions (53%) and reservations (31%)
- Only 15% of total net assets is adjusted for credit risk mitigation techniques, out of which 9% is related to LG issued by the Republic of Serbia

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 (96% 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 35.240k
2) For retail assets class in amount RSD 23.581k.

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 6.416k).

Internal capital requirements coverage for credit risk as at 31.12.2012, amounts to RSD 1.601.898,96K.

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.

The basis for the calculation of Net open position is DEV Report (Daily Report on Bank FX risk ratio), prescribed by the NBS.

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 six 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

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 731k).

Internal capital requirements coverage for FX risk as at 31.12.2012, amounts to RSD 29.228,76K.

4.4. Capital requirements for operational risk

The procedure of calculating minimum capital requirements for operational risk by applying THE BASIC INDICATOR (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 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 based on the following elements:

- Interest Income and expenses
- Income from dividends and stakes
- Fee and commissions income and expense
- Profit and loss based on the sale of securities
- Income and expenses from change in value of assets and liabilities
- Interest Income and expenses
- Other income from regular business operations.

The following are excluded from the calculation of exposure indicators:

- Expenses of indirect write- offs of facilities based on balance sheet items
- Expenses of reserves for off-balance sheet items
- Other expenses arising from regular business operations
- Realized income/losses arising from financial assets which is not intended for trading
- Other income which do not arise from the regular business operations of the Bank (e.g. Income under insurance contracts).

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			Average	Capital requirement (‘000 rsd)
t-3	t -2	t-1		
2010	2011	2012		
1.397.082	1.700.341	1.533.653	1.543.692	231.554

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 same approach as for the calculation of minimum capital requirements taking into consideration the fact that the Bank adjusts its procedures in accordance with the NBS regulations and the instructions of the Group. Additionally, in accordance with the European directives for the implementation of Basel II, BIA approach should be used in the initial stages.

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

The Bank has conducted a stress test for operational risks based on an analysis of the percentage of increase of exposure indicators in the period 2008 to 2012. The average increase of exposure indicator based on historical data is 17.49% (not taking into account the decreases in the period).
The calculated percentage of the average increase is the presumed increase of exposure indicator in the current year, based on which the Bank determines the amount of the assumed capital requirements.

Internal capital requirements coverage for operational risk as at 31.12.2012, amounts to RSD 260.526,94K.

4.5. Internal capital requirements for non Pillar I risks

4.5.1 Estimation of Materially Significant Risks Included in ICAAP

An essential prerequisite for analyzing the risk-bearing capacity is to assess all of a bank,s material risks and aggregate them into the bank,s overall risk position. The purpose of assessing risks is to depict the significance and effects of risks taken on the Bank. In order to ensure that risks are consciously handled and systematically managed in line with the ICAAP, it is especially important to distinguish between relevant risk categories.

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 net exposure of the receivables contracted in foreign currency or in dinars with a foreign currency clause in total net exposure, calculated on day for which it calculates internal capital requirements.

In determining the net 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, 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 this ratio is greater than 20% in any of time zones, 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 before 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 fixed assets defined in the Decision on risk management passed by the National Bank of Serbia.

The Bank do not make such investments, so the Bank is not exposed to investment risk management in its operations, therefore investment risk are not materially significant.

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.

As per the above, as at 31.12.2012, the Banka does not consider following risk to be materially significant: dilution risk, country risk, investment risks and residual risk, and for these risks does not allocate capital.

4.5.2 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 as at 31.12.2012. is RSD 22.102k.

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.

Considering that during the 2012, the Banks liquidity ratio was never lower than 1, 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.

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 as at 31.12.2012. is RSD 65.252k.

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.

Internal capital requirements for concentration risk are determined as:

$$CRcr = n * HHI * 12\%$$

Where (n) stands for the total amount of large 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.

After stress testing, the Bank' s large exposures were within the prescribed limit as at 31.12.2012.

Internal capital requirement for concentration risk as at 31.12.2012. is RSD 33.944k.

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

On every reporting date the Bank identifies receivables for which the calculation of allowances for impairment of balance sheet assets will be performed at individual level (individual assessment-individually significant exposures). These receivables are those with total exposure greater than RSD2,5m.

For the rest of the portfolio (small loan portfolio or collectively significant exposures) calculation will be performed at group level (group assessment).

Small loan portfolio loans are grouped together in a group or groups depending on their characteristics:

- Type of client (individual, entrepreneur, legal entity)
- Days of delay (no arrears, up to 30 days, 31-60, 61-90 and above 90 days of delay)
- Credit facility type
- Age of the portfolio
- Credit rating of legal entity

For receivables not belonging to the small loan portfolio calculation will be performed at group level if:

- The bank assesses that there is no objective evidence of impairment.
- Allowances for impairment calculated at individual level equal zero.

Individually significant exposures – The Bank assesses on every reporting date if the objective evidence of impairment of financial asset exists. Financial assets is impaired, i.e. impairment losses has been recognized only if objective evidence of impairment exists as a result of one, or more events that have been occurred after initial assessment and when losses are affecting future cash flows of financial asset or group of assets.

Objective evidence of impairment may be:

- Significant financial difficulty of the borrower;
- Violation of the contractual terms resulting in the default or delay of principal or interest payments;
- The client’s facilities have been restructured due to financial difficulties with reduction of total customer liabilities;
- Significant probability that the borrower will enter bankruptcy or other financial reorganization;

- Undertaking of legal action against the borrower;
- Evidence for significant deterioration in the loan repayment ability;
- Bankruptcy of the borrower;
- Other objective evidence that leads to the conclusion that the Bank will not collect the full amount due.

If the Bank determines that objective evidence of impairment exists, losses (provisions) are calculated as difference between Loan value and present value of estimated future cash flows.

As Discount Factor the Bank will use original interest rate of the customer accounts in case of contracted fixed interest rate. In case when variable interest rate is contracted, as Discount Factor will be used current interest rate (on the day of calculation of the PVFC).
In cases when, due to financial difficulties of the borrower contracted repayment conditions have been changed, original contracted interest rate will be used as discount factor.

Exceptionally, in case when for certain liability the expected maturity date and expected future cash flow is shorter than one year, the provisions may be determined as difference between the loan carrying amount and expected future cash flow.

The bookkeeping value of the asset shall be reduced by provisioning account and the impairment loss is recognized in Income statement.

Collective provisions are raised for the performing portfolio that can supplement specific provisions as a cover for the potential loss that exists but has not been identified yet. The performing portfolio should be assessed on a portfolio basis within the pools of loans with similar credit risk characteristics.

Impairment loss is calculated by multiplying:
- Total loan value of each group
- Possibility of default (PD) of each group

For receivables which are in delay up to 90 days, the Bank determines PD on the historical data in previous two years. For receivables that are in delay more than 90 days, PD of 100% is applied.

PD percentages are applied on unsecured part of receivables. The following collaterals are taken into consideration for the purpose to determine unsecured part:
- 100% of cash collateral
- 75% of the value of mortgages

Methodology and assumptions used are regularly checked in order to prevent differences between projected and real losses.

5.1.3 Industry diversification

In RSD '000

	Total	With default status	Total provisions	Total reserve
Republic of Serbia and NBS	2.538.169,18	0,00	0,00	0,00
Accomodation and food service activities	1.472.603,49	832.819,78	172.971,09	264.803,44
Administrative and support service activities	286.295,90	184.122,80	90.481,88	43.915,24
Agriculture, forestry and fishing	835.396,55	292.934,47	61.997,10	118.504,74
Arts, entertainment and recreation	371.304,94	326.373,74	187.425,07	21.159,77
Banks	1.497.607,51	3.054,99	3.054,99	8.350,46
Construction	4.795.566,62	526.687,44	187.721,16	176.437,40
Education	4.757,13	0,00	66,00	24,94
Electricity, gas, steam and air conditioning supply	5.210,18	0,00	1,08	781,48
Financial and insurance activities	824.464,40	532.080,96	322,89	521.984,81
Human health and social work activities	6.212,52	0,00	88,57	0,00
Individuals	5.926.097,98	1.194.238,53	794.851,41	180.591,95
Information and communication	51.613,87	385,72	928,19	489,87
Manufacturing	5.451.991,02	2.721.036,17	706.285,74	577.775,40
Mining and quarring	20.409,30	0,00	5,79	4,13
Other services and activities	56.776,86	4.065,84	6.463,17	1.704,78
Professional, scientific and technical activities	357.136,97	187.920,50	85.171,57	40.802,05
Real estate activities	214.058,90	19.716,42	2.596,31	16.243,18
Transportation and storage	358.792,10	192.193,07	46.053,91	36.619,30
Water supply, sewerage, waste management and remediation activities	51.900,05	1.059,10	736,16	108,65
Wholesale and retail trade; repair of motor vehicles and motorcycles	6.527.053,13	2.747.727,02	1.198.285,26	391.787,55
Other	4.428.145,49	0,00	497.186,24	16.979,45
Total	**36.081.564,10**	**9.766.416,56**	**4.042.693,60**	**2.419.068,58**

5.1.4. Legal eneteties and enterpreneurs by sectors

In RSD '000

Sector	Legal entities	Individuals	Other	Total
Accomodation and food service activities	1.365.915,75	106.687,49	0,25	1.472.603,49
Administrative and support service activities	201.855,06	84.050,50	390,34	286.295,90
Agriculture, forestry and fishing	771.727,20	63.330,25	339,10	835.396,55
Arts, entertainment and recreation	5.231,27	9.137,26	356.936,41	371.304,94
Construction	4.626.604,96	158.726,16	10.235,50	4.795.566,62
Education	0,00	4.757,13	0,00	4.757,13
Electricity, gas, steam and air conditioning supply	0,80	5.209,38	0,00	5.210,18
Financial and insurance activities	823.519,01	945,39	0,00	824.464,40
Human health and social work activities	1.818,00	4.394,52	0,00	6.212,52
Information and communication	27.350,94	24.262,93	0,00	51.613,87
Manufacturing	4.849.125,33	602.865,69	0,00	5.451.991,02
Mining and quarring	20.000,80	408,50	0,00	20.409,30
Other service activities	17.106,95	15.687,42	23.982,49	56.776,86
Professional, scientific and technical activities	267.696,59	89.440,38	0,00	357.136,97
Real estate activities	209.792,51	4.266,39	0,00	214.058,90
Transportation and storage	228.516,94	130.275,16	0,00	358.792,10
Water supply, sewerage, waste management and remediation activities	45.343,84	6.556,21	0,00	51.900,05
Wholesale and retail trade; repair of motor vehicles and motorcycles	5.462.156,58	1.064.896,55	0,00	6.527.053,13
Grand Total	**18.923.762,54**	**2.375.897,30**	**391.884,09**	**21.691.543,93**

5.1.5. Provisions and reserve with changes in the period from 01.01.2012-31.12.2012

In RSD '000

		Provisions
Risk weighted balance sheet assets	Opening balance	3.849.227,87
	Total increase	738.852,62
	Total decrease	-549.583,49
	Closing balance	4.038.497,00
Risk weighted off balance sheet items	Opening balance	24.040,96
	Total increase	134.087,33
	Total decrease	-153.931,29
	Closing balance	4.197,00

5.1.6. Exposures as per remaining balance

In RSD '000

	Long term exposures	Short term exposures	Total
Class: State and NBS	36.820,38	2.501.348,80	2.538.169,18
Class: Banks	11.173,29	1.483.379,23	1.494.552,52
Class: Legal entities	10.305.638,05	8.898.560,04	19.204.198,09
Class: Individuals	6.241.556,93	2.030.291,47	8.271.848,40
Class:Other	1.671.797,88	2.900.998,03	4.572.795,91
Total	**18.266.986,53**	**17.814.577,57**	**36.081.564,10**

5.1.7. Exposures as per categories of classification

In RSD '000

Category	Total exposure	Provisions	Reserve
A	14.206.455	56.785	0,00
B	4.239.654	62.890	49.943
V	607.546	32.603	73.104
G	2.141.413	96.061	587.307
D	5.010.018	3.297.168	1.708.714
Total	**26.205.086**	**3.545.507**	**2.419.068**

5.1.8. Rating agencies

State	OECD Classification
Serbia	6
Germany	-
Italy	-
Ciprys	-
Montenegro	6
FYR Macedonia	5
USA	-

5.1.9. Collaterals

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 (listed in the section Exposure to international organizations (Class 05))
- 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

In RSD '000

	Gross exposure	Provisions and reserve	Net exposure	Effects of mitigation techniques	Net exposure after mitigation techniques
Total	**36.081.564,10**	**6.461.762,18**	**29.619.801,92**	**0,00**	**29.619.801,92**
Balance sheet assets	**30.192.208,34**	**6.279.404,07**	**23.912.804,27**	**-2.645.691,05**	**21.267.113,22**
Off balance sheet items	**5.840.985,44**	**182.358,10**	**5.658.627,33**	**+2.645.691,05**	**8.304.318.38**
Financial derivates	**48.370,31**	**0,00**	**48.370,31**	**0,00**	**48.370,31**
Class: State and NBS	2.538.169,18	0,00	2.538.169,18	+2.645.691,05	5.183.860,22
Class: Banks	1.494.552,52	8.350,46	1.486.202,06	0,00	1.486.202,06
Class: Legal eneties	19.204.198,09	4.384.390,43	14.819.807,66	-2.645.691,05	12.174.116,62
Class: Individuals	8.271.848,40	1.358.891,30	6.912.957,10	0,00	6.912.957,10
Class: Other	4.572.795,91	710.129,99	3.862.665,92	0,00	3.862.665,92

5.1.12 Report on exposures and capital requirements

In RSD ‘000

	Gross exposure	Net exposure	Net exposure after mitigation techniques	Effective value of exposure (E*)	Values of exposure	Capital requirements
Total	**36.081.564,10**	**29.619.801,92**	**29.619.801,92**	**27.947.750,09**	**21.069.048,12**	**1.536.662,05**
Balance sheet assets	**30.192.208,34**	**23.912.804,27**	**21.267.113,22**	**19.721.539,37**	**19.721.539,37**	**1.404.400,98**
Off balance sheet items	**5.840.985,44**	**5.658.627,33**	**8.304.318.38**	**8.177.840,41**	**1.299.138,44**	**128.322,93**
Financial derivates	**48.370,31**	**48.370,31**	**48.370,31**	**48.370,31**	**48.370,31**	**3.938,14**
Class: State and NBS	2.538.169,18	2.538.169,18	5.183.860,22	5.183.860,22	2.501.348,80	0,00
Class: Banks	1.494.552,52	1.486.202,06	1.486.202,06	1.486.202,06	1.435.427,13	34.856,50
Class: Legal eneties	19.204.198,09	14.819.807,66	12.174.116,62	10.650.386,54	7.689.032,81	880.726,06
Class: Individuals	8.271.848,40	6.912.957,10	6.912.957,10	6.764.635,34	5.772.952,36	449.529,23
Class: Other	4.572.795,91	3.862.665,92	3.862.665,92	3.862.665,92	3.670.287,02	171.550,26

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

In RSD '000

	Gross exposure		Capital requirements	
		On the basis of counterparty risks		On the basis of counterparty risks
Total	**36.081.564,10**	**48.370,31**	**1.536.662,05**	**3.938,14**
Balance sheet assets	**30.192.208,34**	**0,00**	**1.404.400,98**	**0,00**
Off balance sheet items	**5.840.985,44**	**0,00**	**128.322,93**	**0,00**
Financial derivates	**48.370,31**	**48.370,31**	**3.938,14**	**3.938,14**
Class: State and NBS	2.538.169,18	15.552,46	0,00	0,00
Class: Banks	1.494.552,52	0,00	34.856,50	0,00
Class: Legal enteties	19.204.198,09	32.817,85	880.726,06	3.938,14
Class: individuals	8.271.848,40	0,00	449.529,23	0,00
Class: Other	4.572.795,91	0,00	171.550,26	0,00

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 the parallel and synchronized application of two approaches to risk management:

- Regulatory approach – based on the application of requirements defined by NBS,
- Approach based on the standards and instructions of the Group

In accordance with the instructions of the Group Risk Management Department, 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 for RSD positions, major currencies positions (EUR, CHF, USD), but also on consolidated level. Report is prepared once a month after final bookings.

Interest Rate GAP as of 31/12/2012		up to 1 month	1-3 months	3-12 months	over 1 year	Total ('000 RSD)
	Position	Cash Flow	Cash Flow	Cash Flow	Cash Flow	Total CashFlow
Asset	Interbank Placement	1.548.996	21.654	32.917	0	1.603.567
	Cards (bussines and retail)	49.961	4.559	61.662	79.037	195.220
	CB Reserve	1.006.893	0	0	0	1.006.893
	Corporate & SME Loans	9.132.190	970.397	618.883	329.125	11.050.595
	Corporate & SME Loans - NPL	4.737.863	0	0	0	4.737.863
	Current Accounts	165.926	19.733	21.319	55.342	262.319
	Housing loans	1.165.858	329.190	506.371	329.231	2.330.650
	Retail (Individuals) Loans	579.179	13.787	62.269	2.259.747	2.914.981
	Retail Loans- NPL	916.971				916.971
	Derivatives	456.326	911.642	1.720.053	528.203	3.616.223
	Total Asset	**19.760.163**	**2.270.962**	**3.023.473**	**3.580.685**	**28.635.283**
Liabilities	Interbank Borrowing	-6.476.473	-2.660.928	-505.945	-181.694	-9.825.040
	Deposits of banks in banruptcy	0	-4.548	0	0	-4.548
	Corporate Deposits- Demand	-185.798	0	0	0	-185.798
	Corporate Deposits-Term	-17.823	-27.446	-58.972	-67.094	-171.335
	Retail Deposits- Demand	-2.012.950	0	0	0	-2.012.950
	Retail Deposits-Term	-263.438	-1.027.009	-6.167.522	-269.498	-7.727.467
	SME Deposits-Demand	-167.845	0	0	0	-167.845
	SME Deposits-Term	-22.850	-37.707	-504.600	-16.028	-581.185
	Derivatives	-456.326	-2.638.991	-10.280	-518.358	-3.623.955
	Total Liabilities	**-9.603.503**	**-6.396.629**	**-7.247.320**	**-1.052.673**	**-24.300.124**
	GAP (Asset-Liabilities)	**10.156.660**	**-4.125.667**	**-4.223.846**	**2.528.012**	**4.335.159**

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.

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 change by 200bp will change the economic value of the Bank capital by 3,65% i.e. the value of capital will be increased by 96.911.000 RSD.

Positions nominated in '000 RSD	0-1m	1-3m	3-6m	6-12m	1-2y	2-3y	3-4y	4-5y	5-7y	7-10y	10-15y	15-20y	> 20y	TOTAL
Sensitive Asset	19.760.163	2.270.962	716.389	2.307.085	1.152.351	621.407	471.403	344.630	807.298	122.318	61.278	0	0	28.635.283
Sensitive Liabilities	-9.972.387	-6.027.744	-1.608.753	-5.638.567	-462.230	-55.900	-31.828	-17.217	-463.848	-6.047	-15.603	0	0	-24.300.124
GAP	**9.787.776**	**-3.756.783**	**-892.364**	**-3.331.482**	**690.121**	**565.507**	**439.575**	**327.413**	**343.450**	**116.271**	**45.675**	**0**	**0**	**4.335.159**
Basel 2 sensitivity coefficients (200 bp interest rate changes)	0,08%	0,32%	0,72%	1,43%	2,77%	4,49%	6,14%	7,71%	10,15%	13,26%	17,84%	22,43%	26,03%	
Effects (in '000 RSD)	**7.830**	**-12.022**	**-6.425**	**-47.640**	**19.116**	**25.391**	**26.990**	**25.244**	**34.860**	**15.418**	**8.148**	**0**	**0**	***96.911***
Regulatory capital														2.653.324
Total effects/Regulatory Capital (max 20%)														3,65%

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:

Participations/shares:	RSD (in ‘000)	Realized gains/losses on the purchase period (in ‘000)
Not listed on stock exchange	798	322
Listed on stock exchange	0	0
Total	**798**	**322**

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.