ERSTE BANK A.D. NOVI SAD

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 AND INDEPENDENT AUDITOR’S REPORT

CONTENT

	Page
Independent Auditor's Report	
Consolidated financial statements	
Consolidated income statement for the year ended 31 December 2020	
Consolidated statement of comprehensive income for the year ended 31 December 2020	
Consolidated balance sheet as at 31 December 2020	
Consolidated statement of changes in equity for the year ended 31 December 2020	
Consolidated statement of cash flows for the year ended 31 December 2020	
Notes to consolidated financial statements	
Notes to consolidated financial statements for the year ended 31 December 2020	6-159
Supplementary Schedules	160-175
Consolidated Annual business report for the year ended 31 December 2020	

Independent Auditor's Report

To the Shareholders of Erste Bank a.d. Novi Sad

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Erste Bank a.d. Novi Sad (the "Bank") and its subsidiary (together – the "Group") as at 31 December 2020, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated income statement for the year ended 31 December 2020;
- the consolidated statement of other comprehensive income for the year ended 31 December 2020;
- the consolidated balance sheet as at 31 December 2020;
- the consolidated statement of changes in equity for the year ended 31 December 2020;
- the consolidated statement of cash flows for the year ended 31 December 2020; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the Law on Auditing in the Republic of Serbia. Our responsibilities under this law are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

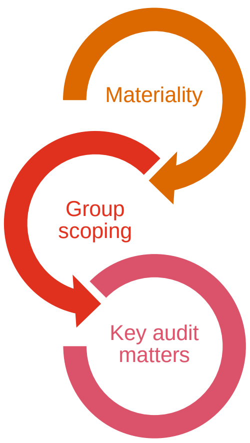
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on auditing in the Republic of Serbia that are relevant to our audit of the consolidated financial statements in the Republic of Serbia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on auditing in the Republic of Serbia.

Our audit approach

Overview



- Overall Group materiality: RSD ("Serbian Dinars") 296,360 thousand, which represents 0.90% of Bank's net assets.

- The consolidated financial statements included the Bank and one subsidiary. We audited the financial information of the Bank since the Bank is the sole significant component of the Group.
- Our audit scope addressed 93% of the Group's absolute value of profit before tax and 95% of the Group's total assets.

Estimate of the credit loss allowances for loans and advances to customers

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	RSD 296,360 thousand
How we determined it	0.90% of Bank's Net Assets
Rationale for the materiality benchmark applied	In the context of the structure of the shareholders of the Bank, which is wholly owned by an international group, and taking into account the interest of the other key stakeholders, who are regulators, depositors, debt holders and others, whose primary focus are the Bank's capital adequacy and ability to fulfil its obligations, we consider it appropriate that the materiality is determined by reference to the capital resources of the Bank, using net assets as a proxy for capital for the purpose of materiality determination. We chose 0.9% which we believe is within the range of acceptable quantitative materiality thresholds for this benchmark in the circumstances.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Estimate of the credit loss allowances for loans and advances to customers Refer to Note 3 "Key accounting estimates and judgments", Note 10 "Net loss from impairment of financial assets that are not valued at fair value through profit and loss", Note 22 "Loans and advances to customers" and Note 36 "Risk Management" to the financial statements for detailed information on the expected credit losses ("ECL") for loans and advances to customers. As at 31 December 2020, the Group recognised the credit loss allowances for loans and advances to customers measured at amortised cost of RSD 4,953,585 thousand. We focused on this area during the audit due to the significance of the amounts involved for the financial statements and because of the nature of the judgements and assumptions that management are required to make. IFRS requires management to make judgments about the future and various items in the financial statements are subject to estimation uncertainty. The estimates required for credit loss allowances for loans and advances to customers are the most significant estimates for the Group. The identification of loans defaulting, the assessment of significant increase in credit risk, forecasts of future cash flows, incorporation of forward-looking information and the determination of the expected credit loss allowances of loans to customers are all inherently uncertain. For loans in stage 1 credit loss allowances are generally collectively measured at an amount equal to 12-month	Our audit approach was as follows: • We updated our understanding of the expected credit loss calculation methodology applied by the Group, obtained the understanding of model adjustments made as a result of the management's assessment of Covid 19 impact and assessed its compliance with the requirements of IFRS 9. We engaged our credit risk technical experts to assist us in undertaking this assessment. • We evaluated control activities in credit risk management and lending business processes and tested controls, which for the purpose of our work were considered key, notably with respect to the credit approval of loans and ongoing monitoring. • We evaluated control activities and tested key controls in the area of customer ratings and valuation of collaterals. • We assessed the process of incorporating the forward-looking information in the estimates. • We tested the statistical models used by the management to determine key assumptions (probability of default, loss given default and exposure at default) to assess whether the calculation process was consistent with our expectations. • We analysed sensitivity of specific model aspects. • We evaluated whether key components of the expected credit loss calculation are correctly incorporated in the models by reviewing the system algorithms to the extent considered necessary.

expected credit loss. If a significant increase in credit risk has occurred, credit loss allowances are measured as lifetime expected credit loss allowances. For defaulted loans that are considered not to be individually significant, expected credit loss allowances are collectively assessed as well.

In all of these cases above, the ECL is determined by using the key assumptions being the probability of an account falling into arrears and subsequently defaulting ("PD"), definition of significant increase in credit risk, exposure at the moment of default ("EAD") and the estimated losses from defaulted loans ("LGD"). Statistical models are used for determination of the key assumptions including different future macroeconomic scenarios.

For defaulted loans considered to be significant at customer level, credit loss allowances are determined on an individual basis. These loss allowances are calculated considering scenario probabilities, expected cash flows as well as expected proceeds from the realisation of collateral (where applicable).

Also, in 2020, due to Covid 19 pandemic, the Group approved moratoria for the loans repayment to the customers which, together with impact that Covid 19 pandemic made to the general market and macroeconomic forecasts significantly influence key assumptions made by the management in estimating the ECL.

- We tested, on a sample basis the appropriateness of loans staging allocation in accordance with the relevant policies and criteria.
- We tested, on a sample basis moratoria approvals and staging of exposures under the moratoria.
- We verified the calculation of modification losses for the exposures under the moratoria.
- We verified the reconciliation of the output of the ECL calculation engine with the accounting records.
- We tested, on a sample basis, the adequacy of individual loan loss allowances, assessing the forecasted scenarios and the estimated expected cash flows.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We did the scoping and as a result we conducted audit work in relation to financial information of the Bank, since the Bank is the sole significant component of the Group. All audit work in relation to the consolidated financial statements was performed by the Group engagement team.

Other information including the consolidated Annual Report

Management is responsible for the other information. The other information comprises Supplementary Schedule that include disclosures in accordance with the "Decision on disclosure of data and information by banks" and the consolidated Annual Report (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the consolidated Annual Report we also performed procedures required by the Law on Accounting in the Republic of Serbia. Those procedures include considering whether the consolidated Annual Report includes the disclosures required by the Law on Accounting in the Republic of Serbia.

Based on the work undertaken in the course of our audit, in our opinion:

- the consolidated Annual Report has been prepared in accordance with the requirements of the Law on Accounting in the Republic of Serbia; and
- the information given in the consolidated Annual Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

In addition, considering the knowledge and understanding of the Group and its environment obtained during the audit, we are required to report if we have identified material misstatements in the other information. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law on Auditing in the Republic of Serbia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law on Auditing in the Republic of Serbia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The licensed auditor engaged as partner on the audit resulting in this independent auditor's report is Saša Todorović.

Refer to the original signed Serbian version

Refer to the original signed Serbian version

Saša Todorović
Licensed Certified Auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 11 March 2021

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

ERSTE BANK a.d. NOVI SAD

CONSOLIDATED INCOME STATEMENT IN THE PERIOD FROM 1 JANUARY 2020 TO 31 DECEMBER 2020

(in thousand RSD)

	Note	2020.	2019.
Interest income	4	10.597.399	9.751.454
Interest expense	4	(2.150.123)	(2.209.041)
Net interest income		**8.447.276**	**7.542.413**
Fee and commission income	5	3.093.884	2.880.288
Fee and commission expense	5	(1.170.712)	(1.091.039)
Net income from fee and commission		**1.923.172**	**1.789.249**
Net gains from change in fair value of financial instruments	6	-	359.648
Net loss from change in fair value of financial instruments	6	(112.198)	-
Net gains from derecognition of financial instruments valued at fair value	7	44.600	6.090
Net gains from hedging	8	773	562
Net foreign exchange gains and currency clause effects	9	630.309	424.677
Net loss from impairment of financial assets that are not valued at fair value through profit and loss	10	(2.092.167)	(503.048)
Net gains from derecognition of financial instruments valued at amortized cost	11	15.048	-
Net loss from derecognition of financial instruments valued at amortized cost	11	-	(29.107)
Other operating income	12	67.622	76.897
TOTAL NET OPERATING INCOME		**8.924.647**	**9.667.381**
Cost of salaries, contributions and other personnel	13	(2.608.529)	(2.337.303)
Depreciation costs	14	(639.010)	(573.117)
Other income	15	254.108	501.649
Other expenses	16	(4.622.399)	(4.306.720)
PROFIT BEFORE TAX		**1.308.605**	**2.951.890**
Income tax	17	(24.951)	(186.773)
Deferred tax gain	17	119.775	-
Deferred tax losses	17	-	11.812
PROFIT FOR THE YEAR	33	**1.403.429**	**2.776.929**
Profit that belongs to the parent entity		1.385.887	2.752.638
Profit that belongs to minority interest		17.542	24.291

Notes on the following pages form an integral part of these financial statements.

Novi Sad, March 10, 2021

Stevan Čomić Head of Accounting and Controlling Department	Suzan Tanriyar Executive Board Member	Slavko Carić Executive Board Chairman

ERSTE BANK a.d. NOVI SAD 21

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

(in thousand RSD)

	Note	2020.	2019.
PROFIT FOR THE YEAR	33	**1.403.429**	**1.403.429**
Components of other comprehensive income that can not be reclassified to profit or loss:			
Actuarial loss		(86.296)	(5.658)
Positive effects of changes in value of equity instruments valued through other comprehensive income		14.980	28.953
Components of other comprehensive income that can be reclassified to profit or loss:			
Positive effects of changes in the value of debt instruments that are measured at fair value through other comprehensive income		-	227.268
Negative effects of changes in the value of debt instruments that are measured at fair value through other comprehensive income		(198.214)	-
Tax gain related to other comprehensive income of the period		40.452	-
Tax loss related to other comprehensive income of the period		-	(37.697)
Total other comprehensive income		**-**	**213.606**
Total other comprehensive loss		**(229.078)**	**-**
TOTAL RESULT FOR THE YEAR		**1.174.352**	**1.617.035**
Total result that belongs to the parent entity		1.157.109	1.599.493
Total result that belongs to minority interest		17.243	17.542

Notes on the following pages form an integral part of these financial statements.

Novi Sad, March 10, 2021

Stevan Čomić
Head of Accounting and Controlling Department

Suzan Tanriyar
Suzan Tanriyar
Executive Board Member

Slavko Carić
Executive Board Chairman

ERSTE BANK a.d. NOVI SAD 21

ERSTE BANK a.d. NOVI SAD

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2020

(in thousand RSD)

ASSETS	Note	31.12.2020.	31.12.2019.
Cash and balances with Central bank	18	35.402.631	21.855.352
Pledged financial assets	20	4.622.478	-
Derivative receivables	19	408.411	346.899
Securities	20	49.554.573	41.791.566
Loans and receivables to banks and other financial institutions	21	2.944.805	1.606.479
Loans and receivables to customers	22	201.214.645	171.568.590
Investment in subsidiaries		118	118
Intangible assets	23	1.146.644	683.397
Property, plant and equipment	23	3.187.470	3.076.169
Current tax asset	17	185.043	229.409
Deferred tax asset	17	154.981	2.044
Fixed assets held for sale and assets of discontinued operations	24	12.252	12.252
Other assets	25	1.147.687	1.348.380
TOTAL ASSETS		**299.981.738**	**242.520.655**
LIABILITIES AND EQUITY			
LIABILITIES			
Derivative liabilities	26	346.766	250.039
Deposits and other liabilities due to banks, other financial institutions and Central Bank	27	78.207.806	71.909.427
Deposits and other financial liabilities due to customers	28	175.995.703	126.407.953
Liabilities for issued securities	29	3.509.426	3.512.691
Subordinated liabilities	30	3.870.407	4.206.971
Provisions	31	1.320.593	758.606
Current tax liabilities	17	-	169.499
Deferred tax liabilities	17	7.677	13.365
Other liabilities	32	3.410.728	3.153.824
TOTAL LIABILITIES		**266.669.106**	**210.382.375**
Equity	33		
Share capital		15.462.944	15.462.944
Retained earnings		1.597.441	2.891.319
Reserves		16.132.957	13.681.971
Minority interest		119.290	102.047
TOTAL EQUITY		**33.312.632**	**32.138.280**
TOTAL LIABILITIES AND EQUITY		**299.981.738**	**242.520.655**

Notes on the following pages form an integral part of these financial statements.

Novi Sad, March 10, 2021

Stevan Čomić
Head of Accounting and Controlling Department

Suzan Tanriyar
Executive Board Member

Slavko Carić
Executive Board Chairman

ERSTE BANK a.d. NOVI SAD 21

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

(in thousand RSD)

	Share capital	Share premium	Other reserves	Revaluation reserves	Retained earnings	Total equity	Minority interest	Total
Balance as at 1 January 2019	**10.040.000**	**124.475**	**10.036.645**	**513.700**	**3.057.163**	**23.771.983**	**77.914**	**23.849.897**
Recapitalization	2.869.000	2.429.469	-	-	-	5.298.469	-	5.298.469
Total other comprehensive result	-	-	-	213.141	-	213.141	(158)	212.984
Profit for the year	-	-	-	-	2.752.639	2.752.639	24.291	2.776.930
Transfer from profit to reserves	-	-	2.918.483	-	(2.918.483)	-	-	-
Balance as at 31 December 2019	**12.909.000**	**2.553.944**	**12.955.129**	**726.841**	**2.891.319**	**32.036.233**	**102.047**	**32.138.280**
Balance as at 1 January 2020	**12.909.000**	**2.553.944**	**12.955.129**	**726.841**	**2.891.319**	**32.036.233**	**102.047**	**32.138.280**
Total other comprehensive result	-	-	-	(228.779)	-	(228.779)	(298)	(229.077)
Profit for the year	-	-	-	-	1.385.888	1.385.888	17.541	1.403.429
Transfer from profit to reserves	-	-	2.679.766	-	(2.679.766)	-	-	-
Balance as at 31 December 2020	**12.909.000**	**2.553.944**	**15.634.895**	**498.062**	**1.597.441**	**33.193.342**	**119.290**	**33.312.632**

Notes on the following pages form an integral part of these financial statements.

Novi Sad, March 10, 2021

Stevan Čomić
Head of Accounting and Controlling Department

Suzan Tanriyar
Suzan Tanriyar
Executive Board Member

ERSTE BANK a.d. 21 NOVI SAD

Slavko Carić
Executive Board Chairman

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE PERIOD FROM 1 JANUARY 2020 TO 31 DECEMBER 2020

(in thousand RSD)

	2020.	2019.
A. CASH FLOW FROM OPERATING ACTIVITIES		
Cash generated by operating activities	**16.923.439**	**18.425.746**
Interest receipts	8.161.763	9.432.108
Fee and commission receipts	3.147.942	2.835.384
Receipts of other operating income	5.588.012	6.122.033
Dividend receipts and profit sharing	25.722	36.222
Cash used in operating activities	**16.803.763**	**18.199.709**
Interest payments	2.092.802	2.125.774
Fee and commission payments	1.154.534	1.075.807
Payments to and on behalf of employees	2.568.610	2.304.585
Taxes, contributions and other duties paid	565.690	553.853
Payments for other operating expenses	10.422.126	12.139.690
Net cash inflows from operating activities prior to increases or decreases in loans and deposits	**119.677**	**226.038**
Decrease in placements and increase in deposits and other liabilities	**54.001.538**	**14.394.817**
Increase in deposits and other liabilities to banks, other financial institutions, central bank and customers	54.001.538	14.394.817
Increase in loans and decrease in deposits received and other liabilities	**43.953.795**	**24.557.021**
Increase in loans and receivables from banks, other financial organizations, central bank and customers	30.933.615	18.615.415
Increase in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not held for trading	13.020.179	5.941.606
Net cash inflow from operating activities before income tax	**10.167.420**	**-**
Net cash outflow from operating activities before income tax	**-**	**9.936.166**
Paid income tax	125.130	308.641
Net cash inflow from operating activities	**10.042.290**	**-**
Net cash outflow from operating activities	**-**	**10.244.807**
CASH FLOW FROM INVESTMENT ACTIVITIES		
Cash inflows from investment activities	**2.471.665**	**3.016.373**
Inflows from investing in investment securities	251.360	-
Other inflows from investing activities	2.220.305	3.016.373
Cash outflows from investment activities	**4.043.702**	**5.857.563**
Outflows for the purchase of intangible assets, plant and equipment	1.388.735	716.143
Other outflows from investing activities	2.654.967	5.141.420
Net cash outflow of cash from investment activities	**1.572.036**	**2.841.190**
CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	**6.346.354**	**19.492.412**
Cash inflows from subordinated liabilities	-	5.298.469
Inflows from loans received	5.897.574	10.603.162
Other inflows from financing activities	448.780	3.590.781
Cash outflows from financing activities	**4.458.682**	**5.529.502**
Cash outflows based on subordinated liabilities	336.565	359.366
Outflows based on loans taken	4.103.975	5.169.624
Other outflows from financing activities	18.142	512
Net cash inflow from financing activities	**1.887.672**	**13.962.910**
TOTAL CASH INFLOWS	**79.742.996**	**55.329.348**
TOTAL CASH OUTFLOWS	**69.385.070**	**54.452.436**
NET INCREASE IN CASH	**10.357.926**	**876.913**
CASH AT THE BEGINNING OF THE YEAR	**9.763.167**	**8.461.312**
POSITIVE FOREIGN EXCHANGE DIFFERENCES	**8.817.149**	**5.196.723**
NEGATIVE FOREIGN EXCHANGE DIFFERENCES	**8.186.627**	**4.771.781**
CASH AND CASH EQUIVALENT AT THE END OF THE YEAR	**20.751.615**	**9.763.167**

Notes on the following pages form an integral part of these financial statements.

Novi Sad, March 10, 2021

Stevan Čomić
Head of Accounting and Controlling Department

Suzan Tanriyar
Executive Board Member

Slavko Carić
Executive Board Chairman

1. GENERAL INFORMATION

Erste Bank a.d. Novi Sad is the oldest financial institution in the country, founded in 1864 as the first savings bank (Novosadska štedionica). During 2005, Novosadska banka became a member of Erste Group, which was founded in 1819 as the first savings bank in Austria.

By the decision of Business Register Agency no. BD 101499/2005 as at 21 December 2005, a change in the name of Novosadska banka ad, Novi Sad in Erste Bank a.d., Novi Sad was registered.

The Bank's shareholders are Erste Group Bank AG, Vienna ("Erste Group") with a 74% interest and Steiermärkische Bank und Sparkassen AG, Graz with a 26% interest in the Bank's share capital. For simplification of Erste Group Bank AG's structure, the ownership of shares of the banks in Europe held by EBG CEPS was transferred to Erste Group. In this manner Erste Group became a direct shareholder of the Bank with 74% of its shareholding. The Bank's Shareholder Assembly enacted the relevant decision on amendment to the Articles of Association and the changes in this respect were registered with the Serbian Business Registers Agency as at 22 June 2015.

As at 15 January 2014, under the Agreement on Purchase and transfer of Equity Interest executed by and between Steiermärkische Bank und Sparkassen AG and Erste Group Immorent International Holding GMBH, the Bank acquired a 75% equity interest in the company S-leasing d.o.o., Serbia, while the remaining 25% are held by Steiermärkische Bank und Sparkassen AG. Furthermore, in 2014 the Bank acquired a 19% equity interest in S Rent d.o.o., Serbia.

Through this transaction, both companies remained members of Erste Group.

The Bank is registered in the Republic of Serbia for providing banking services of payment transfers in the country and abroad, lending and depositary activities in the country, payment card transactions, operations involving securities and broker-dealer activities. In accordance with the Law on Banks, the Bank operates on the principles stability and security.

The Bank is headquartered in Novi Sad, at no. 5, Bulevar Oslobođenja St. The Bank operates through 7 business centres, 46 branches, 33 sub-branches and 2 counters.
As at 31 December 2020, the Bank had 1.212 employees (31 December 2019: 1.154 employees).

The Bank's corporate ID number is 08063818, and its tax ID number (fiscal code) is 101626723.

The Bank's SWIFT code is GIBARS22 and its website is www.erstebank.rs.

S - Leasing doo Belgrade was founded in June 2003. The company was organized as a limited liability company and was registered with the Commercial Court in Belgrade on June 18, 2003, while it was registered with the Business Registers Agency by decision no. BD 33349/2005 of 7 June 2005.

After the entry into force of the Law on Financial Leasing, the Company received a license to perform financial leasing operations according to the Decision of the National Bank of Serbia no. 622 of 25 January 2006.

Share capital of the Company as of December 31. In 2013, it consisted of the founders of Steiermaerkische Bank und Sparkassen AG, Graz, Austria (50%) and Immorent International Holding GmbH, Vienna, Austria (50%).
In 2014, there was a change in the ownership structure of the share capital of S-Leasing and Erste Bank joint stock company, Novi Sad, Serbia became the majority owner of the company with a share of 75%, while Steiermaerkische Bank und Sparkassen AG, Graz, Austria reduced its share to 25%.

The main activity of the company is the provision of financial leasing services for movable property to individuals and legal entities in the territory of the Republic of Serbia.

The headquarters of the Company is in Belgrade at Milutina Milankovića Street 3a.

As at 31 December 2020, the Company had 50 employees (31 December 2019: 50 employees).

The company registration number is 17488104, and the tax identification number is 102941384.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation and Presentation of the separate Financial Statements

The Bank's separate financial statements (the "financial statements") as at and for the year ended 31 December 2020 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and the regulations of the National Bank of Serbia governing the financial reporting of banks.

The attached financial statements are presented in the form prescribed by the Decision on Forms and Contents of Positions in Forms of Financial Statements for Banks ("Official Gazette of the Republic of Serbia" No. 101/2017, 38/2018 and 103/2018).

The accompanying financial statements represent the consolidated financial statements of the Group. The Bank, as the parent legal entity of the Group, has prepared and presented a special set of individual financial statements.

The Bank holds a 75% interest in the equity of its subsidiary S-leasing d.o.o. Beograd (25% is held by Steiermärkische Bank und Sparkassen AG).

These consolidated financial statements were prepared at historical cost principle, except for the following items measured at fair value: financial assets at fair value through profit and loss account and financial assets at fair value through other comprehensive income.

Figures in the accompanying Group financial statements are stated in thousands of dinars, unless otherwise specified. Dinar (RSD) represents the Bank's functional and presentation currency of the Group. All transactions executed in other than functional currencies are treated as foreign currency transactions.

The accompanying consolidated financial statements have been prepared on a going concern basis, which entails that the Group will continue to operate in the foreseeable future.

In the preparation of the accompanying financial statements, the Group adhered to the accounting policies described further in Note 2.

A) New and amended standards and interpretations

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Group:

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

Definition of material – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1. Basis of Preparation and Presentation of the separate Financial Statements (continued)

B) Standards issued but not yet entered into force and have not been early adopted

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1. Standards issued but not yet effective and have not been early adopted (continued)

B) Standards issued but not yet entered into force and have not been early adopted (continued)

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020). The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The amendment is to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8.

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- Effective date: The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- Expected recovery of insurance acquisition cash flows: An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- Contractual service margin attributable to investment services: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
- Reinsurance contracts held – recovery of losses: When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1. Standards issued but not yet effective and have not been early adopted (continued)

B) Standards issued but not yet entered into force and have not been early adopted (continued)

- Other amendments: Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.

- End date for Phase 1 relief for non contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.

- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

The Management of the Group has chosen not to adopt these new standards, amendments to existing standards and new interpretations before they take effect. Management anticipates that the adoption of these new standards, amendments to existing standards and new interpretations will not have a material impact on the Group's financial statements in the period of initial application.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. Basis for consolidation

The accompanying consolidated financial statements include the financial statements of the Bank and of the company under the Bank's control. Control exists if the Bank has the power to manage the financial and operating policies of the subsidiary in such a manner that it can realize benefits from its activities. Control is achieved if the Bank has exposure to or rights to variable returns from its involvement with the investee and has the ability use its power over the investee to affect the amount of returns.

Income and expenses of the subsidiary are included in the consolidated income statement and other comprehensive income from the effective date of control acquisition. Financial statements of the subsidiary are the Group. All balances receivable or payable, income and expenses arising from intra-group transactions are eliminated in full upon consolidation. The non-controlling interest represents a share in the profit or loss and equity of the subsidiary of which the Bank is neither direct nor indirect owner. The non-controlling interest is presented separately in the Group's income statement and within equity in the statement of financial position, separately from the Bank's equity.

2.3. Business Combinations

As at 31 December 2020 the Bank holds 75% ownership of the Leasing. At the date of acquisition, total assets of the Leasing amounted to RSD 3.092.233 thousand, total equity amounted to RSD 60.455 thousand while the loss amounted to RSD 113.284 thousand. On 31 December 2020, total assets of the Leasing amounted to RSD 13.825.358 thousand, total equity amounted to RSD 67.500 thousand while the profit amounts to RSD 477.160 thousand.

A business combination involving entities or operations under joint control is a business combination in which those entities are under joint control by the same entity, before or after the business combination, and that control is not transferable. As IFRS 3 does not apply to business combinations of jointly controlled entities, the Group has, in accordance with IAS 8, adopted an accounting policy in which such transactions are accounted for using the pooling of interests method.

The application of the method is as follows:

- The assets and liabilities of the merging entities are stated at book value as presented in the previous reports of the ultimate parent company of the Group;
- There is no new assessment of fair value or recognition of new assets or liabilities. Only adjustments are made to reconcile accounting policies;
- Goodwill is not recognized as a result of the merger;
- The difference between the amount paid / transferred and the "acquired" capital is shown in equity;
- The income statement reflects the result of all companies for the entire business year, if the merger occurred at the beginning of the year and there is no material deviation;
- Comparative data is not revised.

2.4. Interest income and expense

Interest income and expenses, including penalty interest and other income and other expenses from interest bearing assets, i.e. liabilities are recognized on an accrual basis under obligatory terms defined by a contract executed between the Group and a customer. Interest income and expense are recognized on the accrual basis, using the effective interest rate determined at the time of initial recognition of the financial asset / liability.

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as available for sale, interest income and expense are recognized using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to:

- the net carrying amount of the financial asset or financial liability (amortized cost before decrease for expected credit loss)
- the amortized cost of financial liability

In the case of POCI loans (purchased or placed loan impairment), the effective interest rate adjusted for credit risk is calculated, using estimated future cash flows that include expected credit losses.

When calculating the effective interest rate for financial instruments that are not POCIs (not purchased or not impaired at the time of approval or undergoing significant modification of contractual cash flows as credit- impaired), the Group estimates future cash flows taking into account all contractual terms and conditions relating to that financial instrument, but not future credit losses.

The non-amortized balance of pre-charged fees and other transaction costs included in the effective interest rate, as well as the non-amortized balance of loan adjustment due to modification, in the event of derecognition of a financial asset is presented within the interest income on the day of derecognition.

Unwinding as interest income on impaired loans and advances to customers is calculated using the effective interest rate on the amortized value (net worth) of loans and placements.

Interest income also includes gains and losses from modifications recognized on financial assets classified as Stage 1.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Fee and Commission Income and Expenses

Income and expenses from fees and commissions arising from the provision or use of banking services are recognized on the principle of causality of income and expenses, ie on an accrual basis and are determined for the period when they were realized, ie. when the service is provided.

The Group's **fees and commission income** are earned from a wide range of banking services provided to its clients. Fee income can be classified into two following categories:

/i/ Fee Income Earned from Services Rendered Over a Certain Period of Time

Fees earned for the provision of services over time are deferred over the period of service rendering. These fees include fees for loans that are not part of the effective interest rate of the financial instrument, account maintenance fees and commissions and other fees and commissions based on domestic and international payment services, guarantee fees, custodians and other management fees, as well as and insurance brokerage fees. Loan origination fees for those loans that are likely to be withdrawn and other loan-related fees are deferred (together with any additional costs) and are recognized as a change in the effective interest rate of the loan.

/ii/ Fee Income Earned from Transaction Services

Fees or components of fees that are linked to the performance of certain transactions are recognized upon fulfilment of the corresponding criteria. Fee income from the provision of services to third parties, such as the organization of the acqusition of shares or other securities, or the purchase / sale of a business, is recognized upon completion of the transaction.

Fee and commission expenses comprise fee expenses based on domestic and foreign payment transactions, card transaction costs and similar fees (Note 5).

2.6. Net gain / loss on derivatives and hedge accounting

Net gains / losses on hedging include net gains / losses on changes in the value of derivatives used for hedging.

2.7. Net gains / loss from derecognition of financial instruments valued at amortized cost

These items include gains / losses on sale of financial instruments and modifications to the contractual terms over the life of the financial instrument that result in the derecognition of the financial asset or financial liability.

2.8. Net gain / loss on derivatives and hedge accounting

Net gains / losses on hedging include net gains / losses on changes in the value of derivatives used for hedging.

2.9. Net gains / loss from derecognition of financial instruments valued at amortized cost

These items include gains / losses on sale of financial instruments and modifications to the contractual terms over the life of the financial instrument that result in the derecognition of the financial asset or financial liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10. Foreign Exchange Translation

Financial statement items are stated using the currency of the Group's primary economic environment (functional currency). The accompanying financial statements are stated in thousands of dinars (RSD).

Transactions denominated in foreign currencies are translated into dinars at the official middle exchange rates determined at the Interbank Foreign Exchange Market and effective at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are into dinars at the official middle exchange rates determined at the Interbank Foreign Exchange Market prevailing as of that date.

Net foreign exchange positive or negative effects arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the income statement as foreign exchange gains or losses and positive or negative currency clause effects.

Gains or losses realized/incurred upon translation of financial assets and liabilities with a currency clause index are recorded within the income statements as foreign exchange gains or losses and positive or negative currency clause effects.

Commitment and contingent liabilities in foreign currencies are translated into dinars at official middle exchange rates of the National Bank of Serbia effective as at the reporting date.

2.11. Financial instruments

A financial instrument is any contract that leads to an increase in the financial assets of one of the parties i.e. Financial obligations or equity instruments of the other counterparty. In accordance with IFRS 9, all financial assets and liabilities - which also include derivative financial instruments - should be recognized in the balance sheet and in accordance with their assigned categories.

2.11.1. Methods of measuring financial instruments

a) Amortised cost and Effective interest rate

Amortised cost is the amount by which the financial asset or financial liability is measured at initial recognition minus repayment of principal and plus or minus cumulative depreciation by using the effective interest rate method of any difference between that initial amount and the amount of maturity. For financial assets, the amount is for the impairment allowance.

Effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected duration of a financial instrument or, if appropriate, a shorter period than the gross carrying amount of the financial asset or the net carrying amount of a financial liability.

When the effective interest rate is calculated, the G estimates cash flows taking into account all contractual terms of a financial instrument (for example, early repayment, purchase and similar options) but does not take into account future credit losses. The calculation includes all fees and points paid or received between the contracting parties, which are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

For purchased or created financial assets less credit losses ("POCI"), a credit adjusted EIR is used - the effective interest rate adjusted for credit risks. It is the rate that accurately discounts estimated future cash flows that take into account expected credit losses at the amortized cost of the financial asset.

The effective interest rate is used for the recognition of interest income and interest expense.

Interest income is calculated as follows:

- Applying the effective interest rate to the gross carrying amount of a financial asset (Stage 1 and Stage 2)
- Applying the effective interest rate on the amortised value of a financial asset in subsequent reporting periods as long as the asset is reduced for credit losses (Stage 3)
- • Applying a credit-adjusted effective interest rate on purchased or created financial assets reduced for credit losses (POCI).

b) Fair value

The fair value is defined as the price that would be received for a sale of the asset or would be paid for transfer of the obligation in a normal transaction between market participants on the measurement date. This definition of fair value also applies to the measurement of the fair value of non-financial assets and liabilities. More detailed disclosure on valuation models and hierarchy of instruments that are valued at fair value are given in Note 37.10. Fair value of financial assets and liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11. Financial instruments (continued)

2.11.2. Initial recognition and measurement

a) Initial recognition

Financial assets and financial liabilities are recorded in the Group's balance sheet from the moment the Group is contractually bound to the instrument. The purchase or sale of financial assets in a "regular manner" is recognized by applying the settlement at the settlement date, which is the date on which the asset is delivered to the other party.

b) Initial measurement

Financial instruments are initially measured at fair value, plus transaction costs (excluding financial assets or financial liabilities at fair value through profit or loss), which are directly attributable to the acquisition or issue of the financial asset or financial liability. Upon initial recognition, fair value is in many cases equal to the transaction price, ie. the price paid for the acquisition or takeover of financial assets or received for the assumption of financial obligations.

"Day 1" Profit

When the transaction price in an inactive market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include data from observable markets, the Group immediately recognizes the difference between the transaction price and fair value ("Day 1" profit) in the income statement.

2.11.3. Classification and subsequent measurement

Group Management performs classification of financial instruments at initial recognition. The classification of financial instruments in initial recognition depends on:

a) A business model for managing these financial assets – it is estimated whether a financial asset is a part of a portfolio that is managed by collecting contracted cash flows or is financial asset sold, or any other model;
b) The characteristic of contracted cash flows – estimates focuses on checking whether the contractual terms of a financial asset increase, on specific dates, a cash flow that represents the payment of principal and interest.

The Group classified the financial assets into the following categories:

- financial assets at amortized cost;
- financial assets at fair value through profit and loss;
- financial assets that are valued at fair value through other comprehensive results.

Subsequent valuation of financial assets depends on their classification.

2.11.3.1. Financial assets at amortised cost

Financial assets are measured at amortized cost if a business model is intended to collect the contracted cash flows and if those cash flows are SPPI.

On the balance sheet, these assets are carried at amortised cost, i.e. the gross carrying amount net of the credit loss allowance.

They are presented under the line 'Loans and receivables, 'Securities' and 'Cash and cash balances'. Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this item.

Financial assets at amortized cost are the largest category of measurement, as the entire credit portfolio of the Group's is measured at amortized cost. A part of securities consists of debt securities that are measured at amortized cost. The remaining debt securities are valued at fair value either through the profit and loss or through other comprehensive results.

Interest income on these assets is calculated by effective interest method and is included under the line 'Interest income' under 'Net interest income' in the statement of income. Impairment gains or losses are included in the line 'Impairment result from financial instruments'. Gains and losses from derecognition (such as sales) of the assets are reported under the line item 'Gains/losses from derecognition of financial assets measured at amortised cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11. Financial instruments (continued)

2.11.3.2. Financial assets at fair value through other comprehensive income

Financial assets are measured at fair value through other comprehensive income if the characteristics of the contracted cash flow are SPPI and if the assets are held within a business model whose goal is achieved by collecting the contracted cash flow and selling.

In the balance sheet, such assets are presented within the 'Securities' position.

A part of debt securities that meets the above criteria is measured at fair value through other comprehensive results. Interest income on such securities is calculated using the effective interest method and is included in the 'net interest-income based on interest rate' position in the Group’s income statement. Gains and losses arising from impairment for credit losses are also presented in the income statement at the position “Net expense from impairment of financial assets that are not valued at fair value through profit and loss account.” As a result, the effect of valuation recognized in the Group’s income statement is the same as for financial assets that are measured at amortized cost. The difference between the fair value at which these securities are valued in the balance sheet and their amortized cost is recognized through the other comprehensive result within the 'Positive / negative effects of the change in debt instruments that are valued at fair value through other comprehensive income”. When the securities ceases to be recognized, the amount previously accumulated in the other comprehensive result is reclassified to the income statement and presented at the position 'Net gain / loss on recognition of financial instruments at fair value.'

The Group chose the option that certain equity instruments that are not held for trading are valued at fair value through other comprehensive results, and this option applies to strategically significant investments of the Group. Result of valuation through fair value is presented under 'Positive / negative effects of the change in equity instruments that are valued at fair value through the other comprehensive income'. The amount recognized in the other comprehensive result is never reclassified to the income statement.

Other equity instruments of the Group are valued at fair value through profit and loss.

2.11.3.3. Financial assets at fair value through profit and loss

The category of measuring fair value through the income statement has financial assets that have either not passed the SPPI test or have some other business model. These financial assets are generally sold before their maturity and their performance is estimated on the basis of fair value and the profit is realized through its realization through sale. In the Group's operations, it is a business model in which financial assets are held for trading. The Group has a portion of its debt instruments held for trading in its securities portfolio.

For debt securities measured at fair value through profit or loss, gains and losses from adjustment to market value, ie the effects of changes in fair value in subsequent valuation, are recognized in the income statement within the position “Net gain / loss on changes in fair value values of financial instruments ”and are not subject to impairment. Interest income on the basis of coupons for financial assets held for trading is recognized using the effective interest method and is included in the item “Interest income” in the income statement.

The Group does not have debt financial instruments that have not passed the SPPI test nordesigned to be measured at fair value through profit and loss.

2.11.3.4. Reclassification of financial assets

The Group reclassifies financial assets only when it changes its business model. If the Group changes its business model for financial assets management, it will apply reclassification prospecitvely from the reclassification date. The Group will not make amendments to previously recognized gains, losses or interest.

There were no reclassifications made by the Group during 2020.

2.11.3.2 Equity instruments

Equity instruments are instruments that meet the definition of capital from the issuer's perspective, ie instruments that do not contain a contractual obligation to pay and that represent a share in the issuer's net assets. Group equity instruments are carried at fair value through profit or loss and at fair value through profit or loss. Equity instruments at fair value through profit or loss are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition, unless the Group in certain cases estimates that cost is the best estimate of fair value.

The effects of changes in the fair value of equity instruments measured at fair value through profit or loss on subsequent measurement are recognized in other results and are never reclassified to profit or loss, even on recognition. For these instruments, the effects of impairment through the income statement are not recognized, but all changes in fair value are recorded within other results. The effects of changes in the fair value of equity instruments measured at fair value through profit or loss are recorded under the item "Net profit based on changes in the fair value of financial instruments".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11. Financial instruments (continued)

2.11.4. Impairment of financial instruments under IFRS 9

The Group recognizes impairment losses on debt financial instruments (loans and receivables and debt securities) other than those valued under FVPL, as well as for off-balance sheet credit exposures arising from guarantees and other liabilities.

Impairment is based on the model of expected credit losses whose measurement reflects:

- An impartial and probable weighted amount determined on the basis of an estimate of a number of possible outcomes;
- Time value of money;
- All reasonable and corroborative information available without unnecessary cost and effort on the day of reporting, on past events, current conditions and forecast of future economic circumstances.

Expected credit loss / impairment is the present value of any decrease in the expected cash flow over the expected life of the financial asset. The decrease represents the difference between the cash flows owed to the Group in accordance with the contract and the cash flows that the Group expects to receive. Since the expected credit losses take into account the amount and the time of payment, the credit loss arises even when the Group expects to pay in full but later than the maturity of the contract.

The amount of the impairment loss is recognized as an impairment allowance of the asset. For the purpose of measuring the amount of expected credit losses (ECL) and the recognition of interest income, the Group distinguishes between three stages of impairment.

1) Stage 1

   a) Assets the initial (on-balance) recognition (except POCI assets)
   b) Financial assets which fulfil the low credit risk conditions
   c) Financial assets without significant increase in credit risk since initial recognition irrespective of their credit quality

   For Stage 1 the credit risk loss allowances are calculated as 12-months ECL.

2) Stage 2

   It includes financial assets with a significant increase in credit risk, but not credit-impaired, including initially recognized assets described under.

   For Stage 2 the credit risk loss allowances are calculated as lifetime ECL.

3) Stage 3

   It includes financial assets which are credit-impaired at the reporting date.

   For Stage 3 the credit loss allowances are calculated as lifetime ECL.

POCI assets – financial assets impaired during initial recognition. POCI assets are note part of Stage transfer i.e. regardless of the change in the credit quality of the client after the initial recognition of the POCI property, the calculation of expected credit losses is made throughout the life of the financial asset. Moreover, lifetime credit losses expected on POCI asset's initial recognition date have to be considered in the calculation of asset's fair value at that date and not recognized as a credit loss allowance (whilst subsequent changes in those original expectation result in recognition of credit loss allowances only if they result in lower expectations compared to origination date, whereas those that result in better expectations compared to initial recognition date are recognized as increases in POCI asset's gross carrying amount).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11. Financial instruments (continued)

2.11.5. Derecognition of financial assets and liabilities

Financial assets cease to be recognized when the Group loses control over the contractual rights over these instruments, which occurs when the rights of use of the instruments are realized, expired, abandoned or ceded.

When the Group has transferred the rights to receive cash inflows from assets or has concluded a transfer agreement and thereby has not transferred all risks and benefits of the asset nor did it transfer control over the asset, the asset is recognized to the extent that the Group is engaged around the asset. Further engagement of the Group, which has the form of a guarantee on the transferred asset, is valued at the amount of the original carrying amount of the asset or the amount of the maximum amount of compensation that the Group would have to pay, depending on the amount that is lower.

In its regular operations during the term of the loan agreement, the Group may renegotiate the terms of the contract and modify them. This may include commercial market-driven customer negotiations or commercial negotiations that prevent or mitigate the financial difficulties of a client. In order to preserve the economic substance and determine the financial effects of such modifications, the Group has defined some criteria by which it assesses whether the changed terms of the agreement are substantive and significantly different from the original ones. These are - the change of the borrower, the change of currency, the introduction of clauses that lead to a change in cash flows so that the placement is no longer a SPPI.

Certain contract changes (such as reprogramming) with clients experiencing financial difficulties are not treated as significant from the point of view of cessation of recognition as they aim to improve the probability of payment of the contracted cash flow by the Group.

On the other hand, such changes in clients who do not face financial difficulties can be dysfunctional and lead to the termination of recognition. These are the following criteria: change in the repayment plan in the way that the average remaining maturity of the placements is changed by more than 100% and not more than two years compared to the original contract, the change in the time or amount of the contracted cash flow resulting in the change of the present value of the modified asset for more from 10% to the book value of placements, commercial negotiations initiated due to changes in market conditions that are more favorable to the client as an alternative to refinancing.

In case of significant modifications of the contractual terms (as stated above), the Group ceases to recognize the old asset and recognizes a new, modified asset. If the debtor is in default or a significant modification leads to default, the new asset has the treatment of POCI (purchased / placed loan impaired) placements.

Financial liabilities cease to be recognized when the obligation stipulated in the contract is fulfilled, cancelled or expired. In the case where the existing financial liability has been replaced by another obligation towards the same creditor, but under significantly changed conditions or if the terms of the existing obligation have been significantly changed, such replacement or change of terms is treated as a cessation of recognition of the original obligation with the simultaneous recognition of the new obligation, whereby the difference between the original and the new value of liability is recognized in the income statement.

2.11.6. Restructured Loans

Where possible, the Group seeks to reprogram or restructure loans rather than realize collaterals. This may involve extending the repayment period or any other modification to the original loan agreement terms. Reprograms can be business or forbearance as defined by the EBA.

The business reprogram implies a change in the initially agreed conditions which is not conditioned by the deterioration of the debtor's financial position, ie by mitigating the consequences of the deteriorated financial position and does not represent restructuring. The result is a changed situation on the market (customers, suppliers, competition) and the need to adapt the existing dynamics and conditions of the loan to the new situation.

Forbearance represents restructuring caused by:

- the borrower's inability to fulfil its contractual obligations due to financial difficulties and
- the need of the Group to make certain concessions to enable the borrower to service its liabilities.

Once the terms have been renegotiated, the loan is no longer considered past due, but if after restructuring evidence of impairment arises, the client will again be assigned the default status. The Group continuously monitors rescheduled/restructured loans to ensure that all criteria are met, as well as that future payments are made or default status assigned in a timely manner to the clients not complying with the re-defined criteria.

2.11.7. Issued Financial Instruments and Other Financial Liabilities

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11. Financial instruments (continued)

2.11.7. Issued Financial Instruments and Other Financial Liabilities (continued)

to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Components of compound financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Deposits and Other Liabilities due to Banks and Customers

All deposits from other banks and customers and interest-bearing financial liabilities are initially measured at fair value less transaction costs, except for the financial liabilities at fair value through profit and loss. After initial recognition, interest-bearing deposits and borrowings are subsequently measured at amortized cost.

Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Borrowings are classified as current liabilities, unless the Group has the undisputable right to postpone the settlement of obligations for at least 12 months after the reporting date.

Other Liabilities

Trade payables and other current operating liabilities are stated at nominal value.

2.12. Offsetting Financial Assets and Financial Liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if when there is a currently enforceable legal right to offset the recognized amounts and the Group has an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.13. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances on the Group’s and Lessor’s RSD current accounts and cash in hand (both in dinars and foreign currency) and foreign currency accounts and deposits with up to 3-month maturities held with other domestic and foreign banks.

2.14. Repurchase Transactions (“Reverse Repo” Transactions)

Securities purchased under a contract, which determined that they would be resold on a specific day in the future, reverse repo, are recognized in the balance sheet.

The corresponding cash given, including accrued interest, is recognized in the balance sheet. The difference between the sale and repurchase prices is treated as interest income and is accrued over the life of the agreement.

Transactions involving the **sale of securities** under a repurchase agreement on a specified date in the future constitute "repo agreements". Securities sold in such transactions are not derecognised on the balance sheet because the Group retains substantially all the risks and rewards of ownership, as the securities are redeemed at a fixed price when the repo transaction is completed.

Cash received after the sale of securities is recognized in the balance sheet with the corresponding obligation to return under "Financial liabilities at amortized cost".

The difference between the sale and purchase price is treated as interest expense and is recorded in the income statement in the interest expense item under the "Net interest income" item and is calculated over the life of the contract. The financial assets transferred by the Group under the repurchase agreement remain on the Group's balance sheet. The measurement category of transferred financial assets does not change.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15. Intangible Assets

Intangible assets are measured at cost, less accumulated amortization and impairment losses, if any. Intangible assets comprise licenses and other intangible assets.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over their useful lives. The amortization period and method for intangible assets with finite useful lives are reviewed at least annually at the end of the financial year.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embedded in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Amortization of intangible assets is calculated using the straight-line method to write off the cost of intangible assets over their estimated useful lives, as follows:

Software licenses	in accordance with the agreed term of use
Other intangible assets	4 - 6 years

The amortization cost on intangible assets with finite lives is recognized in the income statement.

Costs associated with developing and maintaining computer software programs are recognized as expenses when incurred.

2.16. Property, plant, equipment and investment property

Property, plant and equipment and investment property are stated at cost less accumulated depreciation and impairment losses, if any.

Costs include all expenses directly related to purchase of property, plant and equipment.

Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to income statement of the financial period in which they are incurred.

Depreciation is provided for on a straight-line basis to the cost of fixed assets, using the following prescribed annual rates, in order to write them off over their useful lives:

Buildings	40 years
Computer equipment	4 years
Other equipment	5 to 10 years

Changes in the expected useful lives of assets are accounted for as changes in the accounting estimates.

Calculation of depreciation of property and equipment commences at the beginning of month following the month when an asset is placed into use. Assets under construction are not depreciated. The depreciation charge is recognized as an expense for the period in which incurred.

Leasehold improvements are depreciated over the period of usage pursuant to the relevant lease contracts.

Gains from the disposal of property and equipment are credited directly to other income, whereas any losses arising on the disposal of property and equipment are charged to other operating expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17. Impairment of Non-Financial Assets

In accordance with the adopted accounting policy, at each reporting date, the Group's management reviews the carrying amounts of the Group's intangible assets and property, plant and equipment. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of an asset's fair value less costs to sell and value in use. Impairment losses, representing a difference between the carrying amount and the recoverable amount of tangible and intangible assets, are recognized in the income statement as required by IAS 36 "Impairment of Assets".

Non-financial assets (other than goodwill) that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.18. Leases IFRS 16

Assets with a right of use and lease obligations are recognized on the commencement date of the lease. Assets are initially measured at cost, which represents the initial value of liabilities (discounted to present value) and all payments to the leasing company made before the lease date less incentives received from the leasing company. These estimated assets are subsequently depreciated from the beginning to the end of the lease period. The Group uses the straight-line method of depreciation.

Lease payments include fixed rents, variable rent payments that depend on the index or rate, amounts expected to be paid under the residual value guarantee, and lease payments over an optional extension period if the lessee estimates that they will exercise option, as well as penalties for early termination of the contract if the lease term reflects a lessees intention of using the termination option. Thereafter, the carrying amount of the lease liability is increased by interest calculated using the discount rate, less any lease payments made, and possibly revalued in accordance with the change in lease agreement.

In assessing the lease period, the Group included a non-cancellation period, an optional lease extension period, if the lessee is relatively certain to exercise that option, a period covered by the option to terminate the lease, if the lessee is relatively certain that the option will not be used, while in case of a leasing without a defined (fixed) term, the Group applied term determined in accordance with the best possible estimate of the lease term. When the best estimate is not feasible due to unavailability of data, the lease term is estimated to be 5 years according to the budgeting period.

Lease obligations are discounted using an interest rate that is an implicit lease rate. If this rate cannot be determined, the Group uses an incremental borrowing rate - the rate at which the Group can borrow from Erste Group.

The Group uses an incremental borrowing rate for the lease of movable property - the rate at which the Group could borrow funds from the Erste Group.

2.19. Provisions, Contingent Liabilities and Contingent Assets

A provision is a liability that is uncertain as to the timing and amount. Provisions are recognized and made:

- when the Group has a present obligation, legal or constructive, as a result of past events;
- when it is probable that an outflow of resources will be required to settle the obligation
- when the amount of the liability can be estimated reliably.

The amount recognized as a provision represents the best estimate of the expenditure required to settle the present obligation at the balance sheet date. In order to maintain the best possible estimate of provisions, they are reviewed, determined and, if necessary, adjusted at each reporting date. Provisions are measured at the present value of the expected expenditure to settle the obligation, using a discount rate that reflects current market assessments of the time value of money.

When the outflow of economic benefits for the purpose of settling a legal or derivative obligation is no longer probable, the provision is canceled by reversing the costs of the current year, ie in favor of income, if the provision was formed in the previous period.

The provision is monitored by type and can only be used for expenditures for which it was originally recognized. Provisions are not recognized for future operating losses.

Contingent liabilities are not recognized in the financial statements. They are disclosed in notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. If a future outflow of resources is probable, the liability is recognized in the financial statements. The Group makes provisions on load of credit risk off-balance sheet items up to the required provision reserve in accordance with IFRS 9.

Contingent assets are not recognized in the financial statements. They are disclosed in notes to the financial statements if an inflow of resources embodying economic benefits is probable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20. Employee benefits

(a) Employee social Security Taxes and Contributions – Defined Benefit Plans

In accordance with the Republic of Serbia regulatory requirements, the Group is obligated to pay contributions to tax authorities and to various state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in the amounts computed by applying the specific, legally prescribed rates. The Group is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government funds. The Group has no legal obligation to pay further benefits due to its employees by the Pension Fund of the Republic of Serbia upon their retirement. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

(b) Other Employee Benefits – Retirement Benefits and Jubilee Awards

In accordance with the Collective Agreement, the Group is obliged to pay compensation to employees upon retirement (severance pay) in the amount of 3 average monthly salaries earned in the Republic of Serbia according to the last published data of the Republic Bureau of Statistics or 3 average monthly salaries earned in the Group in the month preceding retirement, ie 3 monthly salaries of the employee earned in the month preceding the month of payment - depending on what is more favorable for the employee.

In addition, in accordance with the collective agreement, the Group is obliged to pay jubilee awards for 10, 20, 30, 40 years of continuous work in the Group. Jubilee awards are paid in the amount of one, two or three average salaries in the Group earned in the month preceding the payment date, depending on the duration of continuous work with the employer.

Costs and liabilities under these plans are not provided to the funds. Liabilities for fees and related costs are recognized in the amount of the present value of expected future cash flows using the actuarial design method per unit of entitlement.

Actuarial gains and losses and costs of previously rendered services are recognized in the income statement when incurred, with actuarial gains and losses on retirement benefits being recognized in other comprehensive income.

(c) Short-Term Compensated Absences, plaćena odsustva

Accumulating compensated absences (annual vacation leaves) may be carried forward and used in future periods if the current period’s entitlement is not used in full. Expenses for compensated absences are recognized at the amount the Group expects to pay as a result of the unused entitlement that has accumulated at the reporting date. In the case of non-accumulating compensated absences, an obligation or expense is recognized when the absences occur.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Financial Guarantees

In the ordinary course of business, the Group issues financial guarantees, consisting of payment guarantees and performance bonds, letters of credit, acceptances and other warranties. Financial guarantees are contracts which obligate the issuer of a guarantee to perform the payment or compensate the loss to the holder of a guarantee, incurred if a certain client fails to settle its liabilities in due time as required under the terms of the contract.

Financial guarantees are initially recognized in the financial statements at fair value as at the date the guarantee is issued. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of the guarantee.

Any increase in the liability relating to the financial guarantees is recognized in the income statement within the item "Net expenses / income from impairment of financial assets and credit risk off-balance sheet items".. The premium received is recognized in the income statement within the fee and commission income, depending on the type of fee. A Group receives certain types of fees on a one-off basis and those that are charged for a known period of time are deferred on a straight-line basis over the life of the guarantee.

The contractual guarantees are contracts that provide compensation if the other party fails to fulfil its contractual obligation. Such contracts are transferred, in addition to the credit and non-financial risks of execution. Performance guarantees are initially recognized at fair value, which is usually proven by the amount of compensation received. This amount is amortized diligently during the term of the contract. At the end of each reporting period, performance guarantees contracts are measured in excess of (i) the unamortised amount at initial recognition and (ii) the best estimate of the cost of the needs for the settlement of the contract at the end of the reporting period discounted to the present value.

2.22. Repossessed Assets

The Group assumes assets (collaterals) as a form of collection in cases of lending with problems in repayment. The basic reasons are to enable collateral control and protect collateral value in illiquid or problematic markets by setting the market base and, as a defense strategy, a strategy against losing property at auction at an inadequate price. The conversion of bad placements into tangible assets is also seen as a measure to improve the cost control per Group and to avoid further deterioration of value.

Assets acquired in such a way can be classified as:

1) Tangible assets held by the Group for their use (IAS 16, Assets, plant and equipment)
2) Investment property (IAS 40 Investment Property)
3) Assets acquired through collecting receivables (IAS 2 Inventory)
4) Fixed assets held for sale (IFRS 5)

Assets acquired through collecting receivables are recorded at the purchase price in RSD.

Tangible assets of the Group used by the Group are recorded at cost and depreciated in accordance with the Group's Accounting Policy and the IFRS Accounting Manual Erste Bank ad Novi Sad

An investment property is a property owned by the owner for the purpose of generating rental income. The original investment is recognized at cost and amortized in accordance with the Group's Accounting Policy and the IFRS Accounting Manual Erste Bank ad Novi Sad

Repossessed assets are valued, in accordance with IAS 2, at the lower of the following two values, purchase price / cost and net realizable value (selling prices less for the cost of sales).

From the balance sheet date, the Group's management analyses the value of the inventory according to which the assets of the Group are disclosed. If there is an indication that a property is impaired, the recoverable amount of the asset is estimated to determine the amount of the impairment. If it is estimated that the recoverable amount of the property is lower than the value at which the property is disclosed, the present value of such assets is reduced to the amount of the realisable value.

The Risk Management Department performs evaluation. The write-offs of inventories to the net generated value, as well as the losses of inventories, are recognized as the expense of the period during which the write-off occurred and the occurrence of the loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22. Repossessed Assets (continued)

The Group classifies fixed assets as fixed assets intended for sale if its book value can be recovered primarily through a sales transaction rather than through further use. Assets classified as held for sale must be available for immediate sale in their current condition and their sale must be probable.

When reclassifying a portion of an asset to a fixed asset held for sale, the asset is valued at a lower value than the carrying amount that would have been classified as held for sale (cost) and fair value less costs to sell. If the carrying amount is lower, the carrying amount is carried forward, and if the fair value is lower, the expense of the period representing the impairment of assets is reported. Impairment expense is transferred to sale expense if the asset was sold in the same year it was reclassified as held for sale. In order to be reclassified from the category of investment property to fixed assets held for sale, not only the decision to sell is sufficient, but also the capital expense of translating that asset into an asset held for sale.

These assets are not depreciated because this classification implies fast and certain sale.

If, during the holding of assets, the crtiteria for the classification of assets for sale are not met, it is necessary to reclassify and adjust its carrying amount and effects recognized in the income statement for the period when the reclassification occurred. When a fixed asset ceases to be classified as held for sale, it is valued at the lower of the following amounts:

- its carrying amount before the asset was classified as held for sale, adjusted for depreciation that would have been recognized if the asset had not been classified as held for sale; and
- its recoverable amount on the date it was decided not to sell.

Property classified as held for sale is carried at its present value. When reclassifying, it is necessary to calculate the amount of depreciation for the period for which the asset is not depreciated and to record accrued depreciation.

2.23. Taxes and Contributions

(a) Income Taxes

Current Income Tax

Current income tax represents an amount calculated in accordance with the Republic of Serbia Corporate Income Tax Law. During the year, the Group pays income tax in advance in monthly instalments determined on the basis of the prior year income tax return. The ultimate tax base to which the prescribed income tax rate of 15% is applied is determined in the Group's income tax statement and reported in the annual tax return.

In order to obtain the amount of taxable profit, the accounting profit is adjusted for certain permanent differences and reduced for certain investments during the year, as shown in the annual tax balance submitted within 180 days from the end of the period for which it is determined. tax liability.

Taxpayers who by 2014, in accordance with the Law on Corporate Income Tax of the Republic of Serbia, acquired the right to a tax credit on the basis of investments in fixed assets, can use up to 33% of the calculated tax. The unused part of the tax credit can be transferred to the income tax account from future accounting periods, but not longer than ten years, ie. up to the amount of the transferred tax credit.

Beginning from the tax period for 2018, taxpayers have been enabled to recognize the effects of change in the accounting policy arising from the first application of IASs or IFRSs, based on which, in accordance with the accounting regulations, correction of the respective positions in the balance sheet is recognized as revenue, i.e. expenditure in the tax balance, starting from the tax period in which that correction was made. Revenues and expenses are recognized in equal amounts in five tax periods.

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carry back period. However, any current year losses may be used to reduce or eliminate taxes to be paid in future periods, but only for a duration of no longer than five ensuing years.

Deferred Income Taxes

Deferred income taxes are provided using the balance sheet liability method for the temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. The tax rate used to calculate deferred tax amounts equals 15%.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23. Taxes and Contributions (continued)

(a) Income taxes (continued)

Deferred Income Taxes (continued)

Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of deductible temporary differences associated with investments in subsidiaries and associates when deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Current and deferred taxes are recognized as income or expenses and are included in the net profit/ (loss) for the period.

Deferred income taxes related to items that are recorded directly in equity are also recognized in equity.

(b) Indirect Taxes and Contributions

Indirect taxes and contributions include property taxes, value added tax, payroll contributions charged to the employer and various other taxes, contributions and duties payable under the republic and municipal tax regulations. These are included under operating and other expenses within the income statement.

2.24. Segment Reporting

The Group's management monitors operating segments in accordance with the methodology and segmentation defined at the level of Erste Group and on such basis makes decisions about, allocates resources to and assesses the performance of the individual segments. Segment reporting is performed and the report is prepared in compliance with FINREP reporting methodology used in Erste Group where there are departures within certain items from the result stated using the local NBS methodology.

2.25 Managed Funds

The funds that the Group manages on behalf of and for the account of third parties are disclosed within off-balance sheet items. The Group bears no risk in respect of such funds.

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation and presentation of the financial statements requires the Group's management to make best estimates and reasonable assumptions that influence the assets and liabilities amounts, as well as the disclosure of contingent liabilities and receivables as of the date of preparation of the financial statements, and the income and expenses arising during the accounting period.

These estimates and assumptions are based on information available at the date of preparation of the financial statements. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis and, when adjustments become necessary, are recognized in the income statement for the periods in which they become known.

(a) SPPI assessment

Fulfillment analysis of whether the contracted cash flow of a financial asset leads to an increase in cash flow that is solely the payment of principal and interest (SPPI), which is the subject of significant assessment when classifying a financial asset. These estimates are critical to the IFRS 9 classification and measurement process because they determine whether an asset will be measured at fair value through profit or loss (FVPL), or depending on the assessment of the business model, at amortized cost (AC) or at fair value through other comprehensive income. result (FVOCI).

Taking into account and considering the characteristics of the loan agreement, the following were observed as significant estimates: fee for early repayment and mismatch of the interest rate and the update period.

The assessment whether the prepayment fees applied to loans can be considered as a reasonable compensation for early terminations or prepayments is based on comparing the level of the fees with the economic costs incurred by the Group upon the early termination. For these purposes, Group uses a quantitative test where the costs relate to the lost interest margin and the lost interest differential due to a potential decrease in the interest rates upon early termination or prepayment. The adequacy of the fees can also be defended on a qualitative basis such as common market practice regarding level prepayment fees and their acceptance by authorities.

The discrepancy in the interest rate and its update period refers to variable loan interest rates where the reference interest rate is mismatched in terms of tenor and update period (as is the case when 3M EURIBOR is adjusted more often, ie every month or less often, eg every 6 months) or the update period determined before the beginning of the interest period (for example 3MEURIBOR is updated 2 months before the release of the loan and the beginning of the interest period). Such cases need to be assessed by means of a „benchmark test" whether the contracted (undiscounted) cash flow of the loan deviates significantly from the benchmark loan (loan maturity, the same amount, the same currency, but which does not have an interest rate mismatch). Materiality threshold for passing the quantitative benchmark test is a 5% cumulative deviation or 10% periodic deviation. This test is done on a single individual placement on an initial recognition.

For assets with interest mismatches resulting only from prior and average rates (i.e. no mismatches resulting from a tenor different from the reset frequency), SPPI compliance is considered to be met based on a qualitative assessment if the time lag between the fixation of the rate and the start of the interest period does not exceed one month.

Upon transition to IFRS 9, the Group tested its placements with contracted "old rates" qualitatively, as well as a number of placements that have contracted interest maturity with the update period, quantitatively and all placements have passed the benchmark test.

Also, the loan portfolio has been tested in respect of the early repayment fee. The management of the Group believes that all loans meet the SPPI criteria.

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Business model assessment

For each SPPI-compliant financial asset at initial recognition, Group must assess whether it is part of a business model where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets, or they are held in other business models.

As a consequence, the critical aspect in distinguishing the business models is frequency and significance of sales of assets in the respective business model. Since asset allocation to business models is based on the initial assessment, it may happen that in subsequent periods cash flows are realised differently than originally expected, and a different measurement method may seem to be appropriate. In accordance with IFRS 9, such subsequent changes do not generally lead to reclassifications or prior period error corrections in respect of existing financial assets. The new information on how cash flows are realised may, however, indicate that the business model, and thus the measurement method changes for newly acquired or newly originated financial assets.

The Group does not consider sales due to increased credit risk, sales that are close to maturity and infrequent sales due to some events such as changes in legislation, major internal reorganizations, rare liquidity crises, etc. as contrary to the established business model of collecting contracted cash flows.

The Group estimates that all group loans meet the business model holding in order to collect contracted cash flows.

Business models of the Group:

Business model Corporate - Loans and receivables: Hold to Collect (AC valuation method)
All loans and receivables are held to collect contracted cash flows (principal and interest) over the total duration of placements, i.e. to maturity. There is no trading in placements, that is, there is no placement of loans in order to sell them and realize the profit on the basis of the difference in price.

Business model Real estate - Loans and receivables: Hold to Collect (AC valuation method)
All loans and receivables are approved for the purpose of collecting cash flows during the placement. The main difference in relation to corporate loans is that loans are approved for the implementation of special projects, so they are approved to special (SPV) companies established only for the purpose of implementing a specific project. The repayment itself is based exclusively on the income from the project that is the subject of financing.

Business model Retail - Loans and receivables: Hold to Collect (AC valuation method)
All loans and receivables are held to collect contracted cash flows (principal and interest) over the total duration of placements, i.e. to maturity. There is no trading in placements, that is, there is no placement of loans in order to sell them and realize the profit on the basis of the difference in price.

Business model Treasury - Debt securities: Hold to Sell (FVPL valuation method)
Financial assets i.e. Debt securities are managed to earn earnings in the form of a price difference.

Business model ALM - Debt securities: Hold to Collect (AC valuation method)
Financial assets i.e. debt securities, in the business model "hold for collection" ("HtC"), is managed to cash flows by collecting contractual cash flows. Realizing the difference in price is not the goal, nor the nature of this business model.

Business model ALM - Debt securities: Hold and Sell (FVOCI valuation methods)
Financial assets i.e. Debt securities in the H&S Holding and Sales model is managed to generate cash flows by collecting contractual cash flows, but also by selling financial assets as well as by achieving price differences.

(c) Credit Loss Allowance

The expected credit loss model is based on judgment because it requires an assessment of a significant increase in credit risk and the measurement of expected losses without any more detailed guidance. With respect to a significant increase in credit risk, the Group has established specific assessment rules that include quantitative and qualitative criteria. Measuring expected credit loss includes complex models that rely on historical data on default probabilities and loss rates, their extrapolation in case of insufficient data, individual portions of cash flows adjusted for credit losses, and probabilities of scenario realization including forward-looking information.

Detailed disclosure of the identification of a significant increase in credit risk, including collective, individual credit, foresight techniques used to measure the expected loss and default definition, and other aspects of credit risk assessment are given in Note 36.

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(d) Determining the Fair Value of Financial Instruments

The fair value of financial instruments traded on an active market at the reporting date are based on the quoted market bid and ask prices, before the decrease by transaction costs. The fair value of financial instruments which are not listed on an active market are determined using adequate measurement techniques including techniques of net present value, comparison with similar instruments for which there are market prices and other relevant models.

When market inputs are not available, they are determined by estimates that involve some degree of judgment in estimating fair value. Valuation models reflect the current market situation at the measurement date and do not have to represent market conditions before or after the measurement date. Therefore, valuation techniques are reviewed periodically to adequately reflect current market conditions.

Detailed disclosure is found in Note 36.4 (sensitivity limits) and 36.10 (fair valuation and levels).

(e) Provisions for litigation

The Group, as well as other business entities, conducts disputes arising from the ordinary course of business, relating to economic, contractual and labor matters.

When allocating provisions, the Group assesses the probability of any negative outcomes in these disputes, as well as the extent of probable and reasonable estimated losses, and for those with a probable negative outcome, allocates provisions in the amount of the client's request, in the part it estimates could be established for default interest, attorney's fees and court costs

The outcome of disputes is assessed on the basis of a careful analysis of all facts in a particular dispute, based on the opinion of the legal department, current case law, the opinion of external legal advisers, and depending on whether the obligation arises from past events, whether the Group is likely to be in the obligation to pay and whether the amount of payment can be reliably estimated.

A provision for litigation is formed when it is probable that an obligation will exist that can be estimated reliably by careful analysis. The required reservation may change in the future due to new events or obtaining new information.

Issues that are either contingent liabilities or do not meet the criteria for recognition of a provision are disclosed unless the probability of an outflow of economic resources is remote. Note 38 (b) discloses information about the Group's contingent liabilities in litigation.

(f) Valuation of right of use assets and leasing liabilities in accordance with IFRS 16

IFRS 16 introduces a lease recognition model in the balance sheet for leasing users. The lessee recognizes the right of use asset and the corresponding lease liability in the balance sheet. There are exceptions to this principle, which can be applied to short-term and low-value leases. The estimates used by the Group to measure financial leasing liabilities and right of use assets relate primarily to:

- Classification of contracts as subject to IFRS 16
- Determination of the lease term - the length of contracts that are subject to IFRS 16 (including contracts of indefinite duration and contracts that can be extended)
- Determination of depreciation rates
- Determining the interest rates that will be applied to discount future cash flows

At the moment of initial recognition of leases, the Group uses a model which in accordance with IFRS 16 requirements. The lessee recognizes the right of use asset, which represents it’s right to use the underlying property, and the lease liability, which,represents its lease payment obligation.

For each lease agreement, it is assessed whether it contains a lease, ie. whether the contract bears the right to control the use of the identified property in the contracted period in exchange for compensation.

The lease liability is initially measured at the present value of the lease payments not paid at the leasing contract inception date, discounted using the interest rate implied in the lease or, if the rate cannot be easily determined, the incremental borrowing rate.

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(f) Valuation of right of use assets and leasing liabilities in accordance with IFRS 16 (continued)

Determining the incremental rate of borrowing for the lease of immovable property is based on a rate that can be easily observed. Such a rate represents the return on assets that reflects the annual return expected on the assets - the capitalization rate
A simplified approach using financing / refinancing rates has been applied to determine the incremental lending rate for assets in the Erste Group.

The incremental borrowing rate is determined on the basis of the specific market rate for a fully secured loan and a certain allowance that represents the unsecured portion of the debt that would normally be used to finance the acquisition of the right to use.

Component A: "market rate" (securred, 70% weight)

The "market rate" is derived from existing bank data from the lending business and should replicate specific debt borrowing rates by properly reflecting the lease term, creditworthiness and the base rate EURIBOR – other components such as capital costs etc. might be appropriate to be included as well in order to determine a market rate, which is at arm's length.

This rate assumes full collateralization. Following Group's lending principles, the maximum lending value is 70% of the face value.

Component B: "single property rate" (unsecured, 30% weight)

The quality of an individual asset directly affects the amount of the allowance at the becoming secured market rate. The calculation of the allowance for the unsecured part of the loan was obtained by comparing the unsecured with the secured refinancing instruments, whereby both instruments have a similar term. The difference between these two instruments is in addition to the market rate whose schedule will be based on the quality of individual assets.

Discout rate – incremental borrowing rate	31.12.2020.
Average incremental borrowing rate - facilities	2,86%
Average incremental borrowng rate - vehicles	2,76%

4. INTEREST INCOME AND EXPENSES

In RSD '000

	2020.	2019.
Interest income		
– Banks	39.535	116.335
– Public companies	240.068	175.499
– Corporate customers	3.195.890	2.909.909
– Entrepreneurs	155.650	149.959
– Public sector	2.122.299	1.785.596
– Retail customers	4.791.614	4.541.409
– Non-residents	19.405	29.462
– Agricultural producers	14.743	18.521
– Other customers	18.195	24.764
Total	**10.597.399**	**9.751.454**
Interest expense		
– Banks	547.503	623.795
– Public companies	2.697	12.284
– Corporate customers	386.885	355.674
– Entrepreneurs	3.841	3.308
– Public sector	260.280	226.840
– Retail customers	211.206	145.918
– Non-residents	710.196	716.226
– Households and agricultural producers	1	52
– Other customers	27.514	124.944
Total	**2.150.123**	**2.209.041**
Net Interest Income	**8.447.276**	**7.542.413**

Interest income and expenses per classes of financial instruments are presented below:

In RSD '000

	2020.	2019.
Interest Income		
Cash funds held at Central Bank	44.129	111.836
Securities valued at amortised cost	1.193.289	824.472
Securities valued at FV through other comprehensive income	652.386	675.298
Securities valued at FV through profit and loss	152.772	238.925
Placements and advances to clients	7.630.849	6.941.544
Placements and advances to credit institutions	437.620	10.412
Interest-bearing swap valued at FV through profit and loss	101.601	448.725
Other interest income	384.754	500.242
Total	**10.597.399**	**9.751.454**
Subordinated liabilities		
Bank deposits	141.312	153.729
Customer deposits	675.893	696.953
Securities valued at amortised cost	938.624	1.029.132
Securities valued at FV through other comprehensive income	167.491	100.354
Securities at FV through profit and loss	63.683	45.304
Interest-bearing swap valued at FV through profit and loss	-	-
Other interest liabilities	81.554	110.453
	78.113	73.022
	3.453	94
Total	**2.150.123**	**2.209.041**
Net interest income	**8.447.276**	**7.542.413**

5. FEE AND COMMISSION INCOME AND EXPENSES

	2020.	In RSD '000 2019.
Fee and commission income		
Domestic and foreign payment transaction services	1.587.431	1.491.092
Loans operations	30.889	32.563
Deposits operation	1.102.675	1.005.143
Payment cards operations	42.442	43.726
Guarantees and other warranties	195.606	170.031
Other fees and commissions	134.841	137.733
Total	**3.093.884**	**2.880.288**
Fee and commission expense		
Deposits operation	6	6
Domestic and foreign payment transaction services	664.254	644.128
Other fees and commissions	506.452	446.905
Total	**1.170.712**	**1.091.039**
Net fee and commission income	**1.923.172**	**1.789.249**

6. NET GAINS (LOSSES) FROM CHANGES IN FV OF FINANCIAL INSTRUMENTS

	2020.	In RSD '000 2019.
Gains from changes in the value of assets and liabilities		
Gains from changes in value of other derivatives	833.646	1.308.726
Gains from changes in value of financial assets valued at FV through profit and loss	100.717	284.824
Gains from changes in value of financial liabilities valued at FV through profit and loss	31.365	9.067
Total	**965.728**	**1.602.617**
Losses from changes in the value of assets and liabilities		
Losses from changes in value of other derivatives	1.000.294	1.152.507
Losses from changes in value of financial assets valued at FV through profit and loss	77.580	90.462
Losses from changes in value of financial liabilities valued at FV through profit and loss	52	-
Total	**1.077.926**	**1.242.969**
Net gains (losses) from changes in the FV of financial instruments	**(112.198)**	**359.648**

7. NET GAINS FROM DERECOGNITION OF FINANCIAL INSTRUMENTS VALUED AT FAIR VALUE

		In RSD '000
	2020.	**2019.**
Gains from derecognition of financial instruments		
Gains from derecognition of financial instruments valued at FV through profit and loss	47.329	27.173
Gains from derecognition of financial instruments value at FV through other comprehensive income	21	17.721
Total	**47.350**	**44.894**
Losses from derecognition of financial instruments		
Gains from derecognition of financial instruments valued at FV through profit and loss	2.750	36.438
Gains from derecognition of financial instruments through profit or loss	-	2.366
Total	**2.750**	**38.804**
Net gains from derecognition of financial instruments value at FV	**44.600**	**6.090**

8. NET GAINS FROM HEDGING

		In RSD '000
	2020.	**2019.**
Gains from hedging		
Gains from changes in value of placements and receivables	1.182	1.295
Income from changes in the value of derivatives	-	-
Total	**1.182**	**1.295**
Losses from hedging		
Losses from changes in value of placements and receivable	409	733
Expences from changes in the value of derivatives	-	-
Ukupno	**409**	**733**
Net gains from hedging	**773**	**562**

Net gains from hedging are the result of changes in value of placements that are contracted to follow the growth of retail prices.

9. NET FOREIGN EXCHANGE GAINS AND POSITIVE CURRENCY CLAUSE EFFECTS

		In RSD '000
	2020.	**2019.**
Positive foreign exchange difference	8.604.189	4.750.230
Negative foreign exchange difference	(8.015.958)	(3.816.361)
Positive currency clause effects	214.710	502.164
Negative currency clause effects	(172.632)	(1.011.356)
Net Income of Foreign Exchange and currency clause effects	**630.309**	**424.677**

10. NET LOSS FROM IMPAIRMENT OF FINANCIAL ASSET NOT VALUED AT FAIR VALUE THROUGH PROFIT AND LOSS

		In RSD '000
	2020.	**2019.**
Gains from impairment of financial asset not valued at FVTPL		
Losses from reversal of indirect write-offs of financial asset valued at amortized cost	4.538.307	4.437.030
Losses from reversal of impairment of financial assets valued at FV through other comprehensive result	2.589	3.422
Gains from reversal of provisions for off-balance sheet items	678.731	444.478
Gains from the modification of financial instruments	6.327	19.767
Total	**5.225.954**	**4.904.697**
Losses from impairment of financial asset not valued at FVTPL		
Gains from indirect write-offs of financial asset valued at amortized cost		
Gains from impairment of financial assets valued at FV through other comprehensive result	6.313.126	4.895.618
Losses from provisions for off-balance sheet items	3.639	3.923
Losses from the modification of financial instruments	654.189	485.783
	347.167	22.421
Total	**7.318.121**	**5.407.745**
Net losses from impairment of financial asset not valued at FVTPL	**(2.092.167)**	**(503.048)**

The largest part of losses on the basis of modification are losses from modification of placements on the basis of two moratoriums in accordance with the Decision of the National Bank of Serbia. Due to the deferral of principal payments and the postponement of payment deadlines without accruing interest on deferred payment, the net present value of such modified cash flows is lower than the remaining net present value of the original cash flows of the placement. Losses amounted to RSD 342.896. thousand cumulatively for both morals, most of which were losses from the modification of placements to individuals.

10.a NET LOSS FROM IMPAIRMENT OF FINANCIAL ASSET NOT VALUED AT FAIR VALUE THROUGH PROFIT AND LOSS (continued)

		In RSD '000
	2020.	**2019.**
Losses from impairment of financial assets and credit risk off-balance sheet items		
Losses from indirect write-offs of placements of balance sheet items:		
- securities (Note 20)	(17.412)	(9.005)
– loans and advances to banks and other financial institutions (Note 21(d))	(5.761)	(2.159)
- loans and advances to customers (Note 22(d))	(3.720.304)	(2.892.037)
– other assets (Note 25)	(73.724)	(65.650)
	(3.817.201)	**(2.968.851)**
Provisions for losses on off-balance sheet assets (Note 31)	(157.042)	(182.371)
Total losses from impairment of financial assets and credit risk off-balance sheet items	**(3.974.243)**	**(3.151.222)**
Gains from impairment of financial assets and credit risk off-balance sheet items		
Gains from reversal of direct write-offs of placements of balance sheet items:		
– securities (Note 20)	138	2.110
– loans and advances to banks and other financial institutions (Note 21(d))	4.706	3.344
- loans and advances to customers (Note 22(d))	2.032.070	2.521.790
– other assets (Note 25)	6.787	5.854
	2.043.701	**2.533.098**
Provisions for losses on off-balance sheet assets (Note 31)	181.584	141.070
Total gains from impairment of financial assets and credit risk off-balance sheet items	**2.225.285**	**2.674.168**
Net losses from impairment and provisions	**(1.748.958)**	**(477.054)**

11. NET GAINS (LOSSES) FROM DERECOGNITION OF FINANCIAL INSTRUMENTS VALUED AT AMORTIZED COST

		In RSD '000
	2020.	**2019.**
Gains from derecognition of financial instruments valued at amortized cost		
Gains from derecognition_other stages	-	176.832
Gains from derecognition_stage 3 and POCI per AC	28.237	135.509
Total:	**28.237**	**312.341**
Losses from derecognition of financial instruments valued at amortized cost		
Gains from derecognition_other stages	10.776	212.236
Gains from derecognition_stage 3 and POCI per AC	2.413	129.212
Total:	**13.189**	**341.448**
Net gains (losses) from derecognition of financial instruments valued at amortized cost	**15.048**	**(29.107)**

12. OTHER OPERATING INCOME

		In RSD '000
	2019.	**2020.**
Income from consulting services	3.217	5.651
Income from rent	6.445	7.204
Income from IT services	9.045	10.528
Other income	48.491	53.135
Dividend income and other income from shares	424	379
Total	**67.622**	**76.897**

13. COST OF SALARIES, CONTRIBUTIONS AND OTHER PERSONNEL EXPENSE

		In RSD '000
	2020.	**2019.**
Net salaries and benefits	1.566.839	1.468.505
Payroll taxes and contributions charged to the employee	590.874	552.399
Retirement benefits, jubilee awards, bonuses and annual leave	338.603	211.618
Other staff costs	78.119	81.347
Provision expenses for retirement (Note 31)	34.094	23.435
Total	**2.608.529**	**2.337.303**

14. DEPRECIATION COSTS

		In RSD '000
	2020.	**2019.**
Depreciation expense:		
– Tangible assets (Note 23)	546.583	473.941
– Intangible assets (Note 23)	92.427	99.176
Total	**639.010**	**573.117**

15. OTHER INCOME

		In RSD '000
	2020.	**2019.**
Income from collection of written receivables	202.190	417.509
Reversal of unused provision for liabilities	3	31
Reversal of unused other provision	4.427	2.709
Income from sale of properties and intangible assets	111	9.716
Other income	47.377	71.684
Total	**254.108**	**501.649**

16. OTHER EXPENSES

In RSD '000

	2020.	2019.
Professional services	1.876.338	2.005.174
Donations and sponsorships	32.640	29.068
Marketing and advertising	224.055	263.205
Telecommunication services and postage	64.596	66.827
Insurance premiums	448.502	585.194
Rental cost	78.596	72.093
Cost of materials	117.930	125.957
Taxes and contributions payable	130.088	119.652
Maintenance of fixed assets and software	660.367	442.715
Losses on sale and disposal of fixed and intangible assets	207	679
Payroll contributions payable by the employer	321.093	309.520
Per diems and travel expenses	63.986	107.404
Training and counselling	17.230	43.743
Provision expenses for litigations (Note 31)	507.348	39.617
Other	79.423	95.872
Total	4.622.399	4.306.720

17. INCOME TAXES

(a) Components of Income Taxes

The total tax expense consists of the following taxes:

In RSD '000

	2020.	2019.
Current income tax expense	(24.951)	(186.773)
Gains on created deferred tax assets and decrease of deferred tax liabilities	119.775	11.812
Total	**94.824**	**(174.961)**

(c) Reconciliation of the Tax Expense Recognized in the Income Statement and Profit Before Tax Multiplied by the Statutory Income Tax Rate

In RSD '000

	2020.	2019.
Profit before tax	**1.308.606**	**2.951.890**
Income tax at the rate of 15%	**196.291**	**442.783**
Tax effects of expenses not recognized for the tax purposes	144.314	12.391
Recognized deferred tax assets based on losses from previous years	(40.244)	-
Tax effects of non-taxable income (interest on securities issued by the Republic of Serbia, Autonomous Province, local self-government or NBS)	(299.129)	(268.401)
Tax effects of first implementation of IFRS 9	(16.525)	(25.249)
Other	(79.531)	13.437
Total tax expense stated in the income statement	**(94.824)**	**174.961**
Effective interest rate	0,00%	5,93%

17. INCOME TAXES (continued)

(c) Deferred Tax Components

	31 December 2020	
	Temporary difference amount	**Deferred tax amount**
Deductible temporary difference per difference between the carrying value and tax base of fixed assets – deferred tax assets	189.846	28.477
Deductible temporary difference per adjustment of securities to fair value – deferred tax liabilities	(635.260)	(95.289)
Deductible temporary difference per prior years' tax loss carryforwards – deferred tax assets	268.817	40.322
Deductible temporary difference based on provisions for litigations- deferred tax assets	725.831	108.875
Deductible temporary difference based on provisions for jubilee awards- deferred tax assets	141.874	21.281
Deductible temporary difference based on retirement provisions deferred tax assets	184.726	27.709
Deductible temporary difference based on provisions for pensions - actuarial gain - deferred tax liabilities	49.252	7.388
Deductible temporary difference based on the provision of state securities - deferred tax liability	-	-
Temporary differences based on the effect of IFRS 9	108.119	16.218
Balance as at 31 December 2020.	**1.033.205**	**154.981**

	31 December 2019	
	Temporary difference amount	**Deferred tax amount**
Deductible temporary difference per difference between the carrying value and tax base of fixed assets – deferred tax assets	180.291	26.935
Deductible temporary difference per adjustment of securities to fair value – deferred tax liabilities	(820.076)	(122.774)
Deductible temporary difference per prior years' tax loss carryforwards – deferred tax assets	523	78
Deductible temporary difference based on provisions for litigations- deferred tax assets	261.281	41.128
Deductible temporary difference based on provisions for jubilee awards- deferred tax assets	130.292	20.143
Deductible temporary difference based on retirement provisions deferred tax assets	86.143	13.164
Deductible temporary difference per difference between the carrying value and tax base of fixed assets – deferred tax assets	(37.017)	(5.557)
Deductible temporary difference based on the provision of state securities - deferred tax liability	-	-
Temporary differences based on the effect of IFRS 9	159.107	24.327
Balance as at 31 December 2019.	**(39.456)**	**(2.556)**

17. INCOME TAXES (continued)

(d) Changes in deferred taxes

	2020.	In RSD '000 2019.
Balance of deferred tax assets (liabilities) as at 1 January	(5.221)	20.553
Effect of temporary tax differenced credited to the income statement	119.776	11.811
Effect of temporary tax differenced credited to equity	40.426	(37.585)
Deferred tax assets (liabilities) balance as at 31 December	**154.981**	**(5.221)**

(e) The rights to transfer unused tax credits expire in the following periods

	2020.	In RSD '000 2019.
Based on portable unused tax credits under the law on conversion of housing loans indexed in Swiss francs	21.973	-

Creation of deferred tax assets in the amount of RSD 154.981 thousand (the reversal of the previously recognized deferred tax liabilities in the amount of RSD 5.221 thousand) had an effect on the income statement in the amount of RSD 119.776 thousand and the effect through equity in the amount of RSD 40.215 thousand.

During 2020, the Group made a profit after tax in the amount of RSD 1.403.429 thousand. This amount will be distributed in accordance with the Decision at the forthcoming Bank and S-Leasing assembly meeting.

18. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

		In RSD '000
	31.12.2020	**31.12.2019**
In RSD		
Current account	13.650.653	4.073.621
Cash on hand	2.612.940	2.894.574
Deposits of surplus liquid assets	1.300.000	-
Receivables for accrued interest, fee and commission on cash and funds with NBS	4	-
	17.563.597	**6.968.195**
In foreign currencies		
Cash on hand	2.814.671	1.667.826
Obligatory foreign currency reserve held with NBS	15.024.363	13.219.331
	17.839.034	**14.887.157**
Gold and other precious metals	-	-
Total	**35.402.631**	**21.855.352**

The Bank's obligatory RSD reserve represents the minimum RSD reserve set aside in accordance with the NBS Decision on Required Reserves of Banks with the National Bank of Serbia (Official Gazette of RS, nos. 76/2018). Pursuant to the previously mentioned Decision, the obligatory reserve is to be calculated at the rate of 5% on the average balance of RSD liabilities maturing within 2 years, and at the rate of 0% on the portion of the RSD liabilities with maturities of over 2 years during a calendar month.

The Bank is under obligation to calculate and maintain the average daily balance of the allocated obligatory RSD reserve on its gyro account over the accounting period.

The obligatory RSD reserve balance that had to be maintained from 18 December 2020 to 17 January 2021 amounted to RSD 12.663.126 thousand.

The National Bank of Serbia pays interest on the amount of the average daily balance of the allocated dinar mandatory reserve in the accounting period that does not exceed the amount of the calculated RSD mandatory reserve at the interest rate of 1,25% annually.

The obligatory foreign currency reserve represents the minimum foreign currency reserve set aside in accordance with the NBS Decision on Required Reserves of Banks with the National Bank of Serbia (Official Gazette of RS, nos. 76/2018), which prescribes that banks calculate the obligatory foreign currency reserve at the following rates: 20% on the average daily balance of foreign currency liabilities maturing within 2 years, and exceptionally at the rate of 100% on the portion of RSD liabilities indexed to a currency clause maturing within 2 years; 13% on the average daily balance of foreign currency liabilities with maturities of over 2 years, and exceptionally at the rate of 100% on the portion of RSD liabilities indexed to a currency clause with maturities of over 2 years during a calendar month.

The obligatory foreign currency reserve balance that had to be maintained from 18 December 2020 to 17 January 2021 amounted to EUR 130.780 thousand.

The National Bank of Serbia does not pay interest on the amount of the average balance of the allocated foreign currency reserve.

19. DERIVATIVE RECEIVABLES

		In RSD '000
	31.12.2020	**31.12.2019**
In RSD		
Financial assets at FV through profit and loss		
– FV of derivatives intended for trading (FVTPL)	22.245	14.287
	22.245	**14.287**
In foreign currency		
Financial assets at FV through profit and loss		
– FV of derivatives intended for trading (FVTPL)	386.166	332.612
	386.166	**332.612**
Total financial assets	**408.411**	**346.899**
Minus: Value adjustment (FVTPL)	-	-
Balance as of December 31	**408.411**	**346.899**

20. SECURITIES

In RSD '000

	31.12.2020	31.12.2019
In RSD		
Debt securities		
– bonds (AC)	27.163.004	15.348.789
– bonds (FVTPL)	3.780.083	4.144.280
– government bonds (FVTPL)	1.477.473	-
– bonds (FVTOCI)	11.159.358	10.698.745
Equity securities		
– shares in equity (FVTPL)	27.251	27.608
	43.607.169	**30.219.422**
In foreign currency		
Debt securities		
– bonds (AC)	849.515	850.624
– bonds (FVTPL)	5.718.121	6.628.446
– government bonds (FVTPL)	-	-
– bonds (FVTOCI)	3.890.448	3.880.476
– government bonds (FVTOCI)	46.313	136.029
Equity securities		
– other securities available for sale - VISA shares (FVTOCI)	103.544	97.354
	10.607.941	**11.592.929**
Total securities	**54.215.110**	**41.812.351**
Minus: Value adjustment (AC)	(38.059)	(20.785)
Balance as of December 31 - with pledged financial resources	**54.177.051**	**41.791.566**
Of that pledged financial resources		
In RSD		
Debt securities		
– government bonds (FVTPL)	514.289	-
– bonds (AC)	4.108.189	-
Total pledged financial resources	**4.622.478**	**-**
Balance as of December 31 - no pledged funds	**49.554.573**	**41.791.566**

Government securities issued by the Republic of Serbia, denominated in RSD, are pledged in two repo transactions. The repo with the National Bank of Serbia was concluded in the amount of RSD 500.005.900, with a percentage reduction of 3%, for a period of 3 months and was allocated to the trading book. The repo with Erste Group Bank AG was concluded in the amount of EUR 30.000.155, with a percentage reduction of 20%, for a period of 6 months and was placed in the banking book. By concluding secured transactions, the Group obtained cheaper sources of financing in RSD, ie EUR currency.

In the table, except for trading securities (FVTPL), all debt securities are classified in impairment level 1. Of all listed securities, bonds are listed on the stock exchange, as well as Vasa shares valued through equity and Alta banka shares valued through income statement.

20. SECURITIES (continued)

Changes in allowances during the year are shown in the following table:

In RSD '000

	Opening balance	Increase due to recognition and acquisition	Decrease due to recognition and acquisition	Increase due to credit risk change	Decrease due to credit risk change	Closing balance
Changes in impairment allowances of financial assets						
Stage 1	**20.785**	**17.394**	**334**	**18**	**138**	**38.059**
Other companies	-	2.754	**-**	-	-	2.754
Public sector	20.785	14.640	**334**	18	138	35.305
TOTAL	**20.785**	**17.394**	**334**	**18**	**138**	**38.059**

21. LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2020			31 December 2019		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Loans	-	16.729	**16.729**	-	1.583	**1.583**
Deposits	5.000	-	**5.000**	-	-	**-**
Other placements	-	1	**1**	-	3	**3**
	5.000	**16.730**	**21.730**	**-**	**1.586**	**1.586**
In foreign currency						
Foreign currency accounts	1.673.727	-	**1.673.727**	1.127.373	-	1.127.373
Loans	1.176.816	42.652	**1.219.468**		88.983	88.983
Deposits placed	4.704	-	**4.704**	357.481	-	357.481
Other placements	27.969	-	**27.969**	32.805	-	32.805
	2.883.216	**42.652**	**2.925.868**	**1.517.659**	**88.983**	**1.606.642**
Gross loans and receivables	**2.888.216**	**59.382**	**2.947.598**	**1.517.659**	**90.569**	**1.608.228**
Less: Impairment allowance			(2.793)			(1.749)
			(2.793)			**(1.749)**
Balance as at 31 December			**2.944.805**			**1.606.479**

Loans with a foreign currency clause index are presented within loans and receivables in foreign currencies.

21. LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

a) Overview of loans and deposits by type of loan users and stages

In RSD '000

	Gross book value					Impairment allowance				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
In RSD										
Banks in the country	1	-	-	-	**1**	(825)	-	-	-	**(825)**
Insurance companies	74	-	-	-	**74**	-	-	-	-	**-**
Financial leasing	27	-	-	-	**27**	-	-	-	-	**-**
Auxiliary activities in providing financial and insurance services	1.841	14.787	-	-	**16.628**	(15)	(91)	-	-	**(106)**
Foreign banks	5.000	-	-	-	**5.000**	(5)	-	-	-	**(5)**
	6.943	**14.787**	**-**	**-**	**21.730**	**(845)**	**(91)**	**-**	**-**	**(936)**
In foreign currency										
Banks in the country	1.175.802	-	-	-	**1.175.802**	(779)	-	-	-	**(779)**
Financial leasing	42.653	-	-	-	**42.653**	(642)	-	-	-	**(642)**
Auxiliary activities in providing financial and insurance services	32.673	-	-	-	**32.673**	(41)	-	-	-	**(41)**
Foreign banks	1.674.740	-	-	-	**1.674.740**	(395)	-	-	-	**(395)**
	2.925.868	**-**	**-**	**-**	**2.925.868**	**(1.857)**	**-**	**-**	**-**	**(1.857)**
Total	**2.932.811**	**14.787**	**-**	**-**	**2.947.598**	**(2.702)**	**(91)**	**-**	**-**	**(2.793)**

Loans with a currency clause are included in the overview of loans and deposits in foreign currency.

21. LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

b) Transfer of exposure to loans and receivables from banks and other financial institutions between stages

During 2020, the Group did not have any transfers of exposures on loans and receivables from banks and other financial institutions by impairment levels.

c) Maturities of Loans and Receivables due from Banks and Other Financial Institutions

Maturities of loan and receivables due from banks and other financial institutions per outstanding maturity as at 31 December 2020 and 31 December 2019:

In RSD '000

	31.12.2020	**31.12.2019**
Without defined maturity	2.883.216	1.162.690
Under 30 days	5.000	352.845
From 1 to 3 months	-	-
From 3 months to 12 months	1	2.124
Over a year	59.381	90.569
Total	**2.947.598**	**1.608.228**

21. LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

d) Changes in credit loss allowances and provisions of financial assets

In RSD '000

	Balance as at 1 January 2020	Increase due to recognition and acquisition	Decrease due to derecognition	Increase due to credit risk change	Decrease due to credit risk change	Foreign exchange differences	Other changes	Balance as at 31 December 2020
Changes in credit loss allowances of financial assets								
Stage 1	**1.456**	**3.359**	**780**	**2.311**	**3.633**	**(8)**	**(2)**	**2.703**
Banks in the country	357	3.111	440	553	1.977	-	-	1.604
Insurance companies	2	-	-	-	2	-	-	-
Financial leasing	445	232	-	1.607	1.642	-	-	642
Auxiliary activities in providing financial and insurance services	55	3	-	2	3	-	-	57
Foreign banks	597	13	340	149	9	(8)	(2)	400
Stage 2	**293**	**91**	**293**	**-**	**-**	**-**	**(1)**	**90**
Financial leasing	293	-	293	-	-	-	-	-
Activities auxiliary to financial services and insurance activities	-	91	-	-	-	-	(1)	90
TOTAL	**1.749**	**3.450**	**1.073**	**2.311**	**3.633**	**(8)**	**(3)**	**2.793**

22. LOANS AND RECEIVABLES TO CUSTOMERS

In RSD '000

	31.12.2020			31.12.2019		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Loans	2.075.010	49.161.147	**51.236.157**	472.391	38.545.532	**39.017.923**
Other placements	4.775.797	8.780.794	**13.556.591**	3.873.771	7.273.605	**11.147.376**
	6.850.807	**57.941.941**	**64.792.748**	**4.346.162**	**45.819.137**	**50.165.299**
Foreign currency						
Loans	4.840.568	136.206.337	**141.046.905**	2.267.918	122.150.476	**124.418.394**
Deposits placed	82.749	-	**82.749**	90.755	-	**90.755**
Other placements	245.828	-	**245.828**	226.074	-	**226.074**
	5.169.145	**136.206.337**	**141.375.482**	**2.584.747**	**122.150.476**	**124.735.223**
Gross loans and receivables	**12.019.952**	**194.148.278**	**206.168.230**	**6.930.909**	**167.969.613**	**174.900.522**
Less: Credit Loss Allowance						
– Individual assessment			(1.072.056)			(739.675)
– Collective assessment			(3.881.529)			(2.592.257)
			(4.953.585)			**(3.331.932)**
Total			**201.214.654**			**171.568.590**

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

(a) Overview of deposits and loans by types of users and Stage

In RSD '000

	Gross book value					Impairment allowance				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
In RSD										
Public enterprises	1.756.702	192	-	-	**1.756.894**	(8.616)	-	-	-	**(8.616)**
Other companies	2.827.366	540.163	129.664	-	**3.497.193**	(29.735)	(20.429)	(102.519)	-	**(152.683)**
Entrepreneurs	1.395.015	463.294	35.161	-	**1.893.470**	(9.303)	(13.906)	(26.361)	-	**(49.570)**
Public sector	1.328.204	327	-	-	**1.328.531**	(1.220)	(1)	-	-	**(1.221)**
Retail customers	33.034.560	8.586.771	983.615	35.056	**42.640.002**	(374.796)	(973.454)	(813.106)	(7.889)	**(2.169.245)**
Foreign entities	27	264	36	-	**327**	-	(2)	(28)	-	**(30)**
Farmers	34.687	80.743	2.137	-	**117.567**	(808)	(5.752)	(1.223)	-	**(7.783)**
Other customers	35.200	22.363	22.235	-	**79.798**	(235)	(293)	(18.375)	-	**(18.903)**
	40.411.761	**9.694.117**	**1.172.848**	**35.056**	**51.313.782**	**(424.713)**	**(1.013.837)**	**(961.612)**	**(7.889)**	**(2.408.051)**
In foreign currency										
Public enterprises	7.238.736	187.448	1.034	-	**7.427.218**	(30.589)	(2.786)	(1.034)	-	**(34.409)**
Other companies	85.977.124	7.509.887	838.997	55.417	**94.381.425**	(578.452)	(284.650)	(598.078)	(26.668)	**(1.487.848)**
Entrepreneurs	1.105.717	410.384	32.958	-	**1.549.059**	(8.519)	(11.631)	(25.253)	-	**(45.403)**
Public sector	2.381.286	65.669	-	-	**2.446.955**	(18.539)	(1.439)	-	-	**(19.978)**
Retail customers	45.435.287	1.830.843	283.140	136.415	**47.685.685**	(126.758)	(216.465)	(218.259)	(46.387)	**(607.869)**
Foreign entities	107.224	213.210	-	-	**320.434**	(241)	(26.429)	-	-	**(26.670)**
Farmers	28.963	64.905	35.397	-	**129.265**	(5.359)	(5.388)	(29.354)	-	**(40.101)**
Other customers	545.339	46.736	322.332	-	**914.407**	(11.457)	(571)	(271.228)	-	**(283.256)**
	142.819.676	**10.329.082**	**1.513.858**	**191.832**	**154.854.448**	**(779.914)**	**(549.359)**	**(1.143.206)**	**(73.055)**	**(2.545.534)**
Total	**183.231.437**	**20.023.199**	**2.686.706**	**226.888**	**206.168.230**	**(1.204.627)**	**(1.563.196)**	**(2.104.818)**	**(80.944)**	**(4.953.585)**

The Bank values all loans at amortized cost.

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

b) Transfer of exposure to loans and receivables from customers between stages

	Gross book value					
	Transfer between Stage 1 and Stage 2		Transfer between Stage 2 and Stage 3		Transfer between Stage 1 and Stage 3	
	From Stage 2 to Stage 1	From Stage 1 to Stage 2	From Stage 3 to Stage 2	From Stage 2 to Stage 3	From Stage 3 to Stage 1	From Stage 1 to Stage 3
Other companies	**762.093**	**4.411.523**	**-**	**619.789**	**-**	**93.639**
Construction	7.860	72.621	-	-	-	220
Agriculture and food industry	15.368	234.140	-	10.425	-	9.862
Manufacturing industry	61.010	1.252.568	-	546.923	-	14.291
Production and supply of electricity	109.090	7	-	-	-	-
Trade	84.190	1.380.542	-	26.363	-	50.813
Services and tourism	484.574	1.471.646	-	36.077	-	18.454
Entrepreneurs	**100.814**	**764.444**	**104**	**27.233**	**267**	**10.366**
Public sector	**-**	**71.421**	**-**	**-**	**-**	**-**
Retail	**1.032.905**	**6.599.710**	**131.691**	**115.037**	**38.396**	**167.195**
Other customers	**705**	**195.742**	**-**	**-**	**-**	**18.616**
Total	**1.896.516**	**12.042.840**	**131.795**	**762.059**	**38.663**	**289.816**

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

c) Maturity of loans and receivables to customers

Maturities of loan and receivables due from customers per outstanding maturity as at 31 December 2020 and as at 31 December 2019 are presented in the table below:

In RSD '000

	31.12.2020	**31.12.2019**
Without defined maturity	1.719.184	1.369.067
Under 30 days	272.183	285.828
From 1 to 3 months	585.258	845.748
From 3 to 12 months	9.443.327	5.709.177
Over a year	194.148.278	166.690.702
Total	**206.168.230**	**174.900.522**

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

d) Changes in credit loss allowances and provision of financial assets

In RSD '000

	Opening balance	Increase due to recognition and acquisition	Decrease due to derecognition	Increase due to credit risk change	Decrease due to credit risk change	Change due to modification	Decrease due to direct write-offs	Change due to foreign exchange differences	Other changes	Balance as at 31 December 2020
Changes in credit loss allowances of financial assets										
Impairment Stage 1	**1.034.032**	**438.207**	**261.066**	**828.458**	**1.066.661**	**5.215**	**8**	**(438)**	**233.919**	**1.211.658**
Public enterprises	11.212	31.745	3.163	4.852	9.198	6	-	8	5.097	40.559
Other companies	627.529	280.035	196.064	224.929	496.495	198	8	(439)	177.574	617.259
Entrepreneurs	16.524	2.835	1.609	33.211	36.153	21	-	-	3.134	17.963
Public sector	18.125	243	682	1.422	2.675	-	-	(3)	(1.007)	15.423
Retail customers	357.604	114.637	57.111	558.050	518.521	4.989	-	1	49.008	508.657
Foreign entities	101	-	-	243	167	-	-	(3)	3	177
Other customers	2.937	8.712	2.437	5.751	3.452	1	-	(2)	110	11.620
Impairment Stage 2	**658.810**	**241.045**	**89.182**	**1.234.360**	**364.534**	**13.650**	**7**	**-259**	**(137.541)**	**1.556.342**
Public enterprises	606	-	499	681	47	3	-	-	2.031	2.775
Other companies	306.914	97.043	42.070	167.666	26.955	(143)	-	(274)	(202.484)	299.697
Entrepreneurs	22.091	21.028	818	5.269	15.026	49	7	-	(7.457)	25.129
Public sector	-	-	-	2.362	2.016	-	-	-	947	1.293
Retail customers	328.957	122.358	45.750	1.057.454	319.724	13.741	-	15	69.530	1.226.581
Foreign entities	1	1	-	1	-	-	-	-	1	4
Other customers	241	615	45	927	766	-	-	-	(109)	863
Impairment Stage 3	**1.535.925**	**87.855**	**144.449**	**860.772**	**78.220**	**11.268**	**87.444**	**220**	**(81.284)**	**2.104.643**
Other companies	1.545	-	-	-	-	-	-	-	-	1.545
Entrepreneurs	430.818	27.849	40.717	472.824	7.659	911	9.269	53	(174.746)	700.064
Retail customers	23.723	2.929	1.000	31.471	10.131	55	387	-	5.097	51.757
Foreign entities	980.160	57.077	94.993	322.750	36.476	0.301	59.004	184	(118.083)	1.061.916
Other customers	15	-	-	-	-	-	-	-	13	28
POCI	99.664	-	7.739	33.727	23.954	1	18.784	(17)	206.435	289.333
Other companies	**103.165**	**29.529**	**27.958**	**78**	**-**	**-**	**14.701**	**(10)**	**(9.161)**	**80.942**
Entrepreneurs	72.980	-	18.908	78	-	-	14.509	(1)	(12.971)	26.669
Retail customers	101	-	2	-	-	-	99	-	-	-
TOTAL	30.084	29.529	9.048	-	-	-	93	(9)	3.810	54.273
Impairment Stage 1	**3.331.932**	**796.636**	**522.655**	**2.923.668**	**1.509.415**	**30.133**	**102.160**	**(487)**	**5.933**	**4.953.585**

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

e) Concentration of Loans and Receivables due from Banks, Other Financial Institutions and Customers

Concentration of loans and receivables from banks and other financial organisations and clients, shown in gross amount as at 31 December 2020 and 31 December 2019, is significant for the following activities:

In RSD '000

	31.12.2020	31.12.2019
Holding companies	-	-
Trade	13.578.615	12.652.527
Manufacturing industry	22.690.610	19.694.314
Construction	15.515.444	12.943.198
Production and supply of el. energy	12.717.501	9.917.662
Services and tourism	32.965.249	24.902.151
Agriculture and food industry	7.149.977	6.458.642
Retail customers	90.553.762	78.481.231
Domestic and foreign banks and other financial institutions	2.947.598	1.608.228
Public sector	4.816.779	4.740.260
Non-resident corporate customers	94.985	102.856
Agricultural producers	245.919	301.447
Other customers	1.491.524	1.237.216
Entrepreneurs	4.347.865	3.469.018
Total	**209.115.828**	**176.508.750**

f) Receivables from financial leasing

In RSD '000

	31.12.2020	31.12.2019.
Minimum lease payments	14.458.354	11.944.026
Minus: receivables for overdue interest	(874.067)	(765.237)
Receivables from financial leasing	**13.584.287**	**11.178.789**
Due to the remaining minimum lease payments	13.098	11.162
Other receivables from financial leasing	36.145	32.228
	13.633.530	**11.222.179**
Minus deferred income from receivables based on fees for approving financial leasing	(107.234)	(98.048)
	13.526.296	**11.124.131**
Minus: value correction		
- receivables from financial leasing	(299.886)	(235.604)
- receivables for accrued interest	(12.629)	(10.928)
- other receivables based on financial leasing	(33.927)	(31.864)
Total	**13.179.854**	**10.845.736**

23. PROPERTY, PLANT, EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS

In RSD '000

	Land and buildings	Equipment	Leased equipement/ Right of Use Assets	Investments in progress	Total fixed assets	Intangible assets in progress	Intangible assets
Cost							
Balance as at 1 January 2019	**776.491**	**1.101.134**	**1.697.119**	**8.773**	**3.583.517**	**327.744**	**1.408.369**
Additions	-	3.700	1.049.473	238.145	1.291.318	222.407	-
Transfers	2.246	224.984	2.568	(229.798)	-	-	5.794
Disposal and retirement	(5.055)	(64.790)	(231.144)	-	(300.989)	(95.139)	95.139
Balance as at 31 December 2019	**773.682**	**1.265.026**	**2.518.016**	**17.120**	**4.573.846**	**455.012**	**1.509.302**
Balance as at 1 Januar 2020	**773.682**	**1.265.026**	**2.518.016**	**17.120**	**4.573.846**	**455.012**	**1.509.302**
Additions	-	11.726	165.977	479.662	657.365	554.355	(3.487)
Transfers	26.978	239.350	-	(264.162)	2.166	(134.190)	132.022
Rebooking	-	19.670	(19.670)	-	-	-	-
Disposal and retirement	-	(121.865)	(45.213)	-	(167.078)	-	(10.858)
Balance as at 31 December 2020	**800.659**	**1.413.907**	**2.619.109**	**232.620**	**5.066.295**	**875.177**	**1.633.953**
Accumulated depreciation/amortisation							
Balance as at 1 January 2019	**293.443**	**727.508**	**110.417**	-	**1.131.368**	**-**	**1.181.741**
Rebooking	-	2.458	(2.458)	-	-	-	-
Depreciation (Note 14)	19.338	98.873	355.730	-	473.941	-	99.176
Disposal and retirement	(2.261)	(63.481)	(41.890)	-	(107.632)	-	-
Balance as at 31 December 2019	**310.520**	**765.358**	**421.799**	-	**1.497.677**	-	**1.280.917**
Rebooking	(3)	19.670	(19.670)	-	(3)	-	-
Depreciation (Note 14)	19.459	140.917	386.208	-	546.584	-	90.389
Disposal and retirement	-	(121.659)	(43.773)	-	(165.432)	-	(8.820)
Balance as at 31 December 2020	**329.976**	**804.286**	**744.564**	-	**1.878.826**	-	**1.362.486**
NET BOOK VALUE							
– 31 December 2020	**470.683**	**609.621**	**1.874.545**	**232.620**	**3.187.470**	**875.177**	**271.467**
– 31 December 2019	**463.161**	**499.668**	**2.096.216**	**17.120**	**3.076.169**	**455.012**	**228.385**

23. PROPERTY, PLANT, EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS

The Group does not have any mortgaging properties to secure repayment of loan obligations. The net book value of the equipment as at 31 December 2020 is mostly composed of computer and telecommunication equipment and office furniture. The net book value of intangible assets as at 31 December 2020 is mostly software and licenses.

The Group has implemented IFRS 16 using a modified retrospective approach. Within the scope of recognition of right of use assets and lease liablities under IFRS 16 are the following:

- IT equipment,
- immobilities – facilities,
- mobilities – vehicles.

Overview of the purchase value of assets with the right of use according to IFRS 16 is shown in the following table (In RSD '000):

Type of property	Balance on 1 January 2020	Changes during 2020		As at 31 December 2020
	Purchase value	Increase	Decrease	
IT equipment	315.096	-	(19.669)	295.425
Immobilities	2.158.910	132.195	(26.173)	2.284.896
Vehicles	44.013	13.782	(19.041)	38.752
Total:	**2.518.016**	**145.977**	**(64.883)**	**2.619.109**

The purchase value of IT equipment under financial leasing as of 1 January 2020 is RSD 315.094 thousand and has decreased as at 31 December 2020 and amounts to RSD 295.425 thousand.

The purchase value of real estate (facilities) as right of use assets on 1 January 2020 amounts to RSD 2.158.910 thousand. The increase in the purchase value in the amount of RSD 152.159 thousand refers to the adjustment of the value of assets, as well as indexation in accordance with the harmonized growth rate of consumer prices at the EU level, the so-called HICP index, increase in lease prices and registration of new leases. During 2020, value reductions were recorded due to changes in contractual conditions and cancellation of leases in the amount of RSD 26.173 thousand. On 31.12.2020. the purchase value of real estate (facilities) is RSD 2.284.896 thousand.

The cost of movable property (vehicles) as right of use assets on 1 January 2020 amounts to RSD 44.013 thousand and is increased by RSD 13.782 thousand related to the new lease and reduced by the amount of RSD 19.041 thousand related to cancellation / expiration of the existing lease.

The balance of the written-off value of right of use assets under IFRS 16 is shown in the following table (In RSD '000):

Type of property	Balance on 1 January 2020	Changes during 2020		As at 31 December 2020.
	Written-off value	Increase	Decrease	
IT equipment	186.565	72.664	(19.669)	239.560
Immobilities	215.577	293.673	(25.120)	484.130
Vehicles	19.658	19.871	(18.653)	20.876
Total:	**421.799**	**386.208**	**(63.442)**	**744.564**

The total written-off value of IT equipment classified as right of use assets as at 1 January 2020 amounts to RSD 186.565 thousand, while the total written-off value as of 31 December 2020 amounts to RSD 239.560 thousand.

The total written-off value of the immobilities (facilities) classified as right of use asset as at 31 December 2020 amounts to RSD 484.130 thousand, while the total written-off value of the movable property (vehicles) classified as right of use assets as at 31 December 2020 amounts to RSD 20.876 thousand.

23. PROPERTY, PLANT, EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS (continued)

The largest part of intangible assets relates to investments in the new information system of the Bank through the LIFT project. Capitalization of expenses is pefromed for those costs incurred during the implementation phase of the project, while other costs are recognized in the accounting records in accordance with the policies and procedures related to intangible assets.

At the end of 2020, the Group has assessed impairment indicators for non-financial assets and has determined that in current circumstances caused by Covide-19 pandemic, there are impairment indicators according to IAS 36.12 (b), and performed related quantitative testing. It was determined that there is no impairment of non-financial assets.

Reports of external appraisers on the fair value of buildings, as well as assessments of internal experts using comparable prices per m2 for renting space similar in terms of use and location, were used in determining the fair value of group-owned facilities and leased facilities. It was concluded that the fair value is not less than the carrying amount of the property.

The cost method was used in estimating the fair value of IT and other equipment. This method is based on determining the amount needed to purchase equipment of the same capacity to replace existing equipment. Given the fact that the Group replaces IT equipment when necessary in the conditions of accelerated technical and technological development of hardware, and again, the cost of replacement can only be higher than the historical cost of purchasing equipment. Thus, the cost (historical cost) represents a good approximation of the fair value of the equipment currently used by the Group. Also, all equipment is depreciated in accordance with the useful life and most of the value has already been written off, so it can be concluded that there is no need for additional impairment.

The assessment of the fair value of vehicles was made on the basis of the catalog of prices and nomenclature of vehicles of the Auto Moto Association of Serbia, Center for Motor Vehicles, as a certified appraiser in the territory of Serbia, Montenegro and Bosnia and Herzegovina. All vehicles have a higher fair value than the carrying amount and there is no need for impairment.

The Group's investment in software is estimated using the cost method (purchase value) because there is no comparable tool on the market because it is a specific software and applications designed and tailored to the needs of the Group. The cost is higher than the present value of intangible assets, so there is no need for additional impairment.

24. FIXED ASSETS INTENDED FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS

As disclosed in Note 2.21 in accordance with its accounting policies, the Group measures assets, classifed as assets intended for sale, at the lower of the following two amounts:

- at book value or
- fair value reduced for costs of sales

		In RSD '000
	31.12.2020.	**31.12.2019.**
Fixed assets intended for sale and assets from discounted operations	12.252	12.252
Balance as at 31 December	**12.252**	**12.252**

As at 31 December 2020, the Group has registered following fixed assets for sale, which are located in the territory of the Republic of Serbia:

- Zemun, Cara Dušana 266 – business premises of 374 m2
- Stara Pazova, Vojka, land 1.849 m2
- Vladimirci, Krnule:
    - land 3.000 m2
    - land 15.206 m2
    - land 2.330 m2
- Nova Varoš, Bela Reka - land 1.489 m2
- Čajetina, Šljivovica
    - land 11.030 m2
    - land 6.526 m2
    - land 736 m2
    - zemljište 3.555 m2
    - land 602 m2
    - land 1.000 m2
- Pančevo, Dolovo
    - land 6.222 m2
    - land 5.208 m2
    - land 806 m2

25. OTHER ASSETS

		In RSD '000
	2020	**2019**
In RSD		
Financial assets:		
– Receivables for accrued fees and commissions	41.069	98.055
– Trade receivables	1.407	3.418
– Other receivables from operations by establishing income	49.983	31.727
– Other receivables from standard operations	148.293	208.618
– Prepaid insurance premiums	522.309	527.909
– Coupon interest when buying bonds	139.662	229.756
- Other accruals	98.770	45.365
Non-financial assets:		
– Advances given	8.534	9.581
– Receivables from employees	5.050	19.043
- Receivables from prepaid taxes and contributions	513	1.114
-Inventoris	79.834	72.262
– Other receivables	(2.569)	(2.293)
– Other investments	27.005	27.005
– Other deferred assets	61.661	68.974
	1.181.521	**1.340.534**
In foreign currency		
Financial assets:		
– Receivables for accrued fees and commissions	620	156
– Trade receivables	-	15.136
– Other receivables from operations by establishing income	20	22
– Other receivables from standard operations	41.869	59.432
- Coupon interest when buying bonds	36.356	35.046
– Other receivables	4.687	43.117
Non-financial assets:		
- Advances given	25.419	27.134
- Receivables from employees	1.058	465
- Other non-financial receivables	53.826	349
	163.855	**180.857**
Gross other assets	**1.345.376**	**1.521.391**
Less: Impairment allowance	(197.689)	(173.011)
Balance as at 31 December	**1.147.687**	**1.348.380**

Other financial assets are valued at amortized cost.

25. OTHER ASSETS (continued)

Movements on the account of impairment allowance during the year are presented in the table below:

	31.12.2020	In RSD '000 31.12.2019
Balance at beginning of the year	106.162	101.119
New impairment allowances	73.724	65.650
Reversal for impairment allowance	(6.787)	(5.854)
Direct write-offs	(56.120)	(32.921)
FV adjustments		-
Foreign exchange difference	15.483	(21.832)
Balance of impairment allowances of financial assets as at 31 December	**132.462**	**106.162**
Balance of impairment allowances of non-financial assets as at 31 December	**65.227**	**66.849**
Balance as at 31 December	**197.689**	**173.011**

26. DERIVATIVE LIABILITIES

	31.12.2020	In RSD '000 31.12.2019
In RSD		
Liabilities from derivatives intended for trading	42.242	4.005
	42.242	**4.005**
In foreign currency		
Liabilities from derivatives intended for trading	304.524	246.034
	304.524	**246.034**
Balance as at 31 December	**346.766**	**250.039**

27. DEPOSITS AND OTHER LIABILITIES DUE FROM BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK

In RSD '000

	31.12.2020.			31.12.2019.		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Liabilities from deposits and borrowings						
Transaction deposits	844.906	-	**844.906**	417.668	-	**417.668**
Deposits for approved loans	86	-	**86**	85	247	**332**
Specific purpose deposits	1.647	-	**1.647**	2.225	-	**2.225**
Other deposits	5.903.209	1.378.116	**7.281.325**	2.054.192	2.726.000	**4.780.192**
Overnight deposits	1.300.000	-	**1.300.000**	-	-	**-**
Loans per repo transactions	500.155	-	**500.155**	-	-	**-**
Borrowings	3.265	2.683.382	**2.686.647**	-	600.000	**600.000**
Total	**8.553.268**	**4.061.498**	**12.614.766**	**2.474.170**	**3.326.247**	**5.800.417**
In foreign currency						
Liabilities from deposits and borrowings						
Transaction deposits	582.959	-	**582.959**	282.016	-	**282.016**
Deposits for approved loans	-	24.011	**24.011**	-	102.302	**102.302**
Specific purpose deposits	281.922	28.220	**310.142**	153.327	27.047	**180.374**
Other deposits	3.401.547	2.850.850	**6.252.397**	6.760.378	2.354.672	**9.115.050**
Overnight deposits	-	-	**-**	235.186	-	**235.186**
Borrowings	3.527.424	-	**3.527.424**	-	-	**-**
Other financial liabilities	2.977.951	51.792.253	**54.770.204**	3.117.281	53.042.416	**56.159.697**
	101.000	24.903	**125.903**	20.191	14.194	**34.385**
Total	**10.872.803**	**54.720.237**	**65.593.040**	**10.568.379**	**55.540.631**	**66.109.010**
Balance as at 31 December	**19.426.071**	**58.781.735**	**78.207.806**	**13.042.549**	**58.866.878**	**71.909.427**

27. DEPOSITS AND OTHER LIABILITIES DUE FROM BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK (continued)

Breakdown of other deposits with banks and other financial organizations and the central bank is shown in the following table:

		In RSD '000
	31.12.2020.	**31.12.2019.**
Central bank	504.383	4
Domestic banks	3.412.479	829.348
Insurance companies	3.965.100	3.110.087
Pension funds	-	-
Finance leasing companies	63.047	113.972
Auxiliary activities within financial services and insurance	9.077.888	7.025.834
Trust, investment and similar funds	-	-
Other crediting and financing service providers	12.892	9.489
Property preservation funds	-	-
Foreign banks	61.172.017	60.820.693
Balance as at 31 December	**78.207.806**	**71.909.427**

Deposits of foreign banks mostly relate to the loans of Bank from Erste Group Bank AG, Austria in the amount of RSD 13.874.464 thousand and loan from the European Bank for Reconstruction and Development of RSD 9.406.416 thousand, the loan from the European Investment Bank in the amount of RSD 13.653.154 thousand. Also, a part of liabilities to foreign banks relates to loans received from S Leasing from Bremer Bank in the amount of RSD 7.203.242 thousand, as well as loans received from Erste und Steiermaerkische Bank in the amount of RSD 4.019.847 thousand and i EIB in amount of RSD 1.623.289.

.

28. DEPOSITS AND OTHER FINANCIAL LIABILITIES DUE TO CUSTOMERS

In RSD '000

	31.12.2020.			31.12.2019.		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Liabilities from deposits and borrowings						
Transaction deposits	49.470.808	-	**49.470.808**	31.935.971	-	**31.935.971**
Savings deposits	941.234	799.683	**1.740.917**	876.333	1.225.219	**2.101.552**
Deposits placed for approved loans	384.919	1.871.968	**2.256.887**	541.032	705.632	**1.246.664**
Specific purpose deposits	398.679	40.814	**439.493**	281.468	32.441	**313.909**
Other deposits	13.043.574	102.554	**13.146.128**	8.729.186	2.145.150	**10.874336**
Other financial liablities	-	-	**-**	5	-	**5**
Total	**64.239.214**	**2.815.019**	**67.054.233**	**42.427.049**	**4.108.442**	**46.535.495**
In foreign currency						
Liabilities from deposits and borrowings						
Transaction deposits	60.755.934	-	**60.755.934**	46.269.517	-	**46.269.517**
Savings deposits	8.466.306	20.052.092	**28.518.398**	8.147.657	12.915.524	**21.063.181**
Deposits placed for approved loans	319.673	4.884.055	**5.203.728**	188.484	4.315.018	**4.503.502**
Specific purpose deposits	996.501	281.914	**1.278.415**	607.708	218.104	**825.812**
Other deposits	7.328.446	2.059.536	**9.387.982**	524.769	3.154.664	**3.679.433**
Borrowings	27.276	2.780.161	**2.807.437**	-	2.969.541	**2.969.541**
Other financial liabilities	989.576	-	**989.576**	561.472	-	**561.472**
Total	**78.883.712**	**30.057.758**	**108.941.470**	**56.299.607**	**23.572.851**	**79.872.458**
Balance as at 31 December			**175.995.703**			**126.407.953**

28. DEPOSITS AND OTHER FINANCIAL LIABILITIES DUE TO CUSTOMERS (continued)

Breakdown of other deposits per type of customer is presented in the table below:

In RSD '000

	31.12.2020.	31.12.2019.
Holding companies	32	1
Public companies	1.270.689	1.298.865
Corporate customers	76.599.278	46.003.215
Public sector	3.245.323	4.705.459
Retail customers	79.652.632	63.613.471
Non-residents	4.228.524	2.416.479
Entrepreneurs	4.852.606	3.903.183
Agricultural producers	1.361.459	614.694
Other customers	4.785.160	3.852.586
Balance as at 31 December	**175.995.703**	**126.407.953**

29. LIABILITIES FOR ISSUED SECURITIES

In RSD '000

Name	Currency	Nominal value of issued bonds	Maturity date	Interest rate	As at 31 December 2020	As at December 2019
Erste Bank ad Novi Sad	RSD	3.500.000	15.02.2021.	3m belibor+1% p.a.	3.509.426	3.512.691
Total		**3.500.000**			**3.509.426**	**3.512.691**

As at 14 February 2019, Erste Bank a.d. Novi Sad successfully completed the issuance of long-term RSD bonds, II issue. The volume of the issue was RSD 3.500.000.000. It has been issued 350.000 bonds of individual nominal value of RSD 10,000.00, ISIN: RSNOVBD53653 CFI: DBVUFR, with variable interest rate and one-time principal maturity after two (2) years and one (1) day.

The interest rate on the bonds consists of a variable and a fixed part. The variable part of the interest rate is a three-month BELIBOR, while the fixed part of the interest rate is a fixed margin of 100 basis points (100bps), ie. 1%. The amount of the variable part of the interest rate is determined at the beginning of each interest period. Interest is calculated and paid quarterly.

The principal payment is made on the maturity date. The principal maturity date is 15 February 2021. There is no depreciation plan, but the total principal is paid out at the time of maturity.

The bonds are listed on the Belgrade Stock Exchange, symbol NSBN02.

As of 31 December 2020, four interest coupons were paid (14 February 2020, 14 May 2020, 14 August 2020 and 14 November 2020), each in the amount of RSD 34.524.000. The next interest coupon is due on 14 February 2021.

After the end of the year, on maturity (15 February 2021), the nominal value of bonds and the related interest were paid.

30. SUBORDINATED LIABILITIES

In RSD '000

	31.12.2020.	31.12.2019.
In foreign currencies		
Subordinated liabilities	3.870.407	4.206.971
Balance as at 31 December	**3.870.407**	**4.206.971**

Balance of subordinated borrowings as at 31 December 2020 and 31 December 2019 is presented in more detail in the table below:

In RSD '000

Creditor	Currency	Loan amount	Maturity	Interest rate	2020	2019
Erste Group Bank AG	EUR	15.000.000	27.12.2021.	Euribor+3,65 % p.a.	335.943	671.959
Erste Group Bank AG	EUR	30.000.000	10.09.2028.	Euribor+3,38 % p.a.	3.527.406	3.527.784
Total		**45.000.000**			**3.863.349**	**4.199.743**

Subordinated liabilities relate to a subordinated long-term loan approved to the Bank by Erste GCIB Finance, Amsterdam as at 27 December 2011 in the amount of EUR 15.000.000 for a period of 10 years with a 5-year grace period and interest rate equal to 3-month EURIBOR increased by 3,65% per annum. In accordance with the Agreement, the loan principal is to be repaid in 21 equal quarterly instalment, the first of which is due upon grace period expiry of five years.

The Group may include subordinated liabilities in its supplementary capital (Note 36.9), after the National Bank of Serbia, on the basis of the submitted documentation and the Agreement, establishes that the conditions for granting approval to include subordinate liabilities in the supplementary capital of the Bank. The National Bank of Serbia, the Banking Supervision Department, submitted the said approval on 6 December 2011, and based on the Bank's request as at 7 October 2011.

On the basis of the Transfer and Transfer Agreement dated 16 December 2015, the change of the creditor was made, and the new creditor of Erste Group Bank AG, Austria. All other terms of the contract have remained unchanged.

The Group has signed on 20 August 2018 a new subordinated loan agreement with Erste Group Bank AG Vienna for the amount of EUR 30 million. Term of the loan is 10 years, the interest rate is at the level of the three-month EURIBOR, increased by 3,38% annually. In accordance with the contract, the principal is repaid on the maturity date in one amount.

The Group may include subordinated liabilities into supplementary capital after the National Bank of Serbia, on the basis of the submitted documentation and the Agreement, establishes that all conditions for giving approval for including subordinated liabilities in the supplementary capital of the Bank are fulfilled. The National Bank of Serbia, the Banking Supervision Department, submitted such approval on 11 October 2018, and based on the Bank's request of dated 24 August 2018.

31. PROVISION

In RSD '000

	31.12.2020	31.12.2019
Provisions for losses per off-balance sheet items (a)	256.154	280.891
Provisions for long-term employee benefits (b):		
– retirement benefits	184.726	86.142
– jubilee awards	141.874	130.292
Provisions for litigations (c)	725.831	261.281
Other long-term provisions	12.008	-
Balance as at 31 December	**1.320.593**	**758.606**

Changes in the provisions of off-balance sheet items

(a) According to the Group’s internal policy, provisions for commitments and other risk-weighted off balance sheet items (guarantees, acceptances, undrawn loan facilities etc.) are made when it is probable that an outflow of resources will be required to settle the obligation arising from the Group’s commitments.

Evidence based on which the Group performs the individual assessment of impairment are: payments effected on the Group’s accounts with respect to commitments arising from guarantees, bills of guarantees, etc., late payments for other liabilities, and the customers has been classified in accordance with the Bank’s internal classification criteria into default status category.

Individual assessment of impairment of off-balance sheet items is performed in the same manner as for the balance sheet assets. Commitments and other risk-weighted off-balance sheet items, for which the Group does not expect any outflow of resources and/or it estimates that in the case of an outflow of resources all receivables will be fully collected, the Group collectively assesses them for impairment, in a similar way as for balance sheet items, using the credit conversion factors for off-balance sheet items.

(b) The Group also formed provisions for long-term employee benefits that include provisions for legal retirement and jubilee awards. Liabilities on this basis are recognized in the amount of the present value of future cash flows using the accrual method.

(c) The Group also formed provisions for litigations involving the Group as a defendant, where the Group's expert team expects negative outcomes (Note 3 (e) and Note 37 b).

31. PROVISIONS (continued)

Movements on provision accounts during the year are provided below:

In RSD '000

	31.12.2020	31.12.2019
Provisions for losses per off-balance sheet exposures		
Balance at beginning of the year	280.891	240.457
Charge for the year (Note 10(a))	157.042	182.374
Reversal of unused provisions (Note 10(a))	(181.584)	(141.070)
Other movements	(195)	(870)
	256.154	**280.891**
Provisions for other long-term employee benefits		
Balance at beginning of the year		
Provisions in the period through P&L (Note 13)	216.435	191.224
Provisions in the period through OCI	35.282	24.224
Benefits paid during the year	94.414	3.794
Actuarial losses/(gains) on jubilee awards	(12.667)	(18.355)
Actuarial losses/(gains) on retirement benefits	1.154	11.295
Provisions for other long-term employee benefits	(8.019)	4.253
	326.599	**216.435**
Provision for litigation		
Balance at beginning of the year	261.280	239.812
Charge for the year (Note 16)	510.274	39.580
Used provision during the year	(46.001)	(18.112)
Other changes	279	
	725.832	**261.280**
Other long-term provisions		
Balance at beginning of the year	11.288	-
Other movements	8.995	-
used provisions - payments	(8.275)	-
	12.008	**-**
Balance as at 31 December	**1.320.593**	**758.606**

31. PROVISIONS (continued)

Data used by the actuary to calculate provisions for future liabilities based on severance pay for retirement:

- data on employees;
- total work experience as at 31 December 2020;
- year of birth and gender;
- the number of years up to the old age pension;
- mortality table for the Republic of Serbia 2010-2012;
- interest rate of 3,70%;
- average gross salary in the Republic of Serbia in the period January - May 2020 and
- the assumed salary growth of 2,50% per annum over the entire period for which funds are reserved.

	In RSD '000
Present value of employee benefits as at 31 December 2019	**216.435**
Cost of services	
a. Current service cost	24.703
b. Past service cost	94.415
c. Interest costs	10.578
d. Payments	(12.489)
Actuarial gains (-) / losses (+) for jubilee awards arising from:	**976**
a. Change in demographic assumptions	(539)
b. Change in financial assumptions	1.515
Actuarial gains (-) / losses (+) for severance payments arising from:	**(8.019)**
a. Change in demographic assumptions	(8.267)
b. Change in financial assumptions	248
Present value of employee benefits as at 31 December 2020	**326.599**

31. PROVISIONS (continued)

Changes in provisions for losses on off-balance sheet assets accounts during the year are presented in the following table:

In RSD '000

Changes in provisions for losses on off-balance sheet assets	Balance at the beginning of the period	Increase due to recognition and acquisition	Decrease due to derecognition	Increase due to credit risk change	Decrease due to credit risk change	Change due to foreign exchange differences	Other changes	Balance at period end
Stage 1	202.666	53.362	57.360	71.174	108.147	(147)	(5.736)	155.812
Stage 2	8.217	1.116	1.380	27.178	10.666	(65)	(6.888)	17.512
Stage 3	70.007	565	1.795	3.647	2.236	(1)	12.639	82.826
Total	**280.890**	**55.043**	**60.535**	**101.999**	**121.049**	**(213)**	**15**	**256.150**

The movement between stages for off-balance sheet assets is presented in the following table:

	Gross book value					
	Transfer between Stage 1 and Stage 2		Transfer between Stage 2 and Stage 3		Transfer between Stage 1 and Stage 3	
	From Stage 2 to Stage 1	From Stage 1 to Stage 2	From Stage 3 to Stage 2	From Stage 2 to Stage 3	From Stage 3 to Stage 1	From Stage 1 to Stage 3
Given guarantees and other assurances	43.083	331.498	-	14.568	-	-
Unused undertaken irrevocable liabilities	296.977	477.876	130	359	26	836
Total	**340.060**	**809.374**	**130**	**14.927**	**26**	**836**

32. OTHER LIABILITIES

In RSD '000

	31.12.2020	31.12.2019
In RSD		
Financial liabilities:		
Leasing liabilities for unpaid leased fixed assets	28.350	17.775
Liabilities for deferred interest income	-	504
Liabilities for deferred fee and commission income and other deferred income	2.130	9.966
Other deferred income and accrued expenses	242.894	193.193
	273.374	**221.438**
Non-financial liabilities:		
Trade payables	11.682	131.679
Advances received	59.116	58.230
Liabilities for salaries	5.892	13.118
Liabilities for taxes, contributions and other duties payable	125.838	99.437
Liabilities for accured fee and commission expense and other accrued expense	712.454	462.609
Liabilities for cards operations	162.882	49.261
Liabilities to retailers for POS terminals	35.473	30.691
Other liablities	79.428	127.969
	1.192.765	**972.994**
In foreign currencies		
Financial liabilities:		
Leasing liabilities for unpaid leased fixed assets	1.908.105	1.904.343
Liabilties for deferred fee and commission income and other deferred income	11.185	11.167
Other deferred income and accrued expenses	2.174	1.976
	1.921.464	**1.917.486**
Non-financial liabilities:		
Liabilities per received advances	2.676	7.563
Liabilities for accured fee and commission expense and other accrued expense	916	916
Other liabilities	19.533	33.427
	23.125	**41.906**
Balance as at 31 December	**3.410.728**	**3.153.824**

Other financial liabilities are valued at amortized cost.

32. OTHER LIABILITIES (continued)

The balance of the lease liabilities under IFRS 16 is shown in the following table (in 000 RSD):

Currency of liability	**31 December 2020**		**31 December 2019**	
	Amount in currency	**Amount in RSD**	**Amount in currency**	**Amount in RSD**
RSD	-	17.775	-	28.350
Currency clause (EUR) Immovables	8.143	957.460	7.687	856.858
Currency clause (EUR) Movable Property	209	24.550	153	17.978
Currency clause (EUR) IT equipment	209	24.549	153	17.978
EUR Facilities	8.870	1.042.997	8.383	985.727
Total	**4**	**506**	**404**	**47.542**

Practical expedients are presented in the following table (in 000 RSD):

Practical expedients – balance as at 31 December 2020	**Value**
Expenses of short term leases	168
Expenses of low value leases	7.694

33. EQUITY

(a) Structure of the Group's Equity

The total Group’s equity as at 31 December 2020 amounts to RSD 33.312.632 thousand and consists of share capital in the amount of RSD 12.909.000 thousand, share premium in the amount of RSD 2.553.944 thousand, reserves from profit and other reserves RSD 15.634.895 thousand, revaluation reserves in the amount of RSD 498.062 thousand, accumulated profit in the amount of RSD 1.597.441 thousand and minority interest in amount of RSD 119.290 thousand.

The total equity structure of the Gtoup is presented below:

In RSD '000

	31.12.2020	31.12.2019
Share capital - ordinary shares	12.909.000	12.909.000
Share premium	2.553.944	2.553.944
Reserves from profit and other reserves	15.634.895	12.955.128
Revaluation reserves	498.062	726.842
Profit	1.597.441	2.891.319
Minority interest	119.290	102.047
Balance as at 31 December	**33.312.632**	**32.138.280**

/i/ Share capital

As at 31 December 2020 the Group's subscribed and paid in capital comprised of 1.290.900 ordinary shares with the par value of RSD 10.000 per share (31 December 2019: 1.290.000 ordinary shares with the par value of RSD 10.000 per share).

In the third quarter of 2019, the Group, on the basis of the Shareholders Assembly Decision on Issuance of Ordinary Shares No. 214 / 2019-25v / 1 form 28 June 2019, realized the 31st issue of shares without public offering in order to increase the share capital.

The number of shares issued is 286.900, of which Erste Group Band AG has purchased 212.306 shares and Steiermarkische Bank has purchased 74.594 commands. The nominal value of individual shares is RSD 10.000 and the issue price RSD 18.468.

Following the successful issue, the total share capital was increased by RSD 2.869.000 thousand and amounts to RSD 12.909.000 thousand. The majority shareholder of the Bank is EGB AG with 74% and 955.266 shares, while Steiermarkische Bank has 26% and 335.634 shares.

The shareholder structure of the Bank as at 31 December 2020 is presented below:

Shareholder	Number of shares	In %
EGB CEPS HOLDING GMBH	955.266	74,00
Steiermärkische Bank und Sparkassen AG, Grac	335.634	26,00
Total	**1.290.900**	**100,00**

33. EQUITY (continued)

/ii/ Share Premium

Share premium amounting to RSD 2.553.944 thousand as at 31 December 2020 (31 December 2019 RSD 2.553.944 thousand) resulted from a positive difference between the selling price of the shares and their nominal value.

/iii/ Reserves from Profit and Other Reserves

Profit reserves formed as at 31 December 2020 amount to RSD 15.634.894 thousand. As at 31 December 2019, reserves from profit amounted to RSD 12.955.128 thousand. Pursuant to the Decision of the Shareholders Assembly of the Group dated 31 March 2020, from the realized profit for 2019, the Group made has allocated the remaining profit to the other reserves in the amount of RSD 2.679.766 thousand.

/iv/ Revaluation Reserves

Revaluation reserves, which as at 31 December 2020 amounted to RSD 498.062 thousand (31 December 2019: 726.842 thousand), were formed as a result of the decrease in the value of investments in securities available for sale at market value, adjusted for effects of deferred taxes based on the revaluation of these securities and the adjustment of liabilities based on actuarial calculation in accordance with IAS 19.

b) Performance indicators of the Bank - compliance with legal indicators

Performance indicators	**Prescribed**	**31.12.2020**	**31.12.2019**
1. Equity	Minimum EUR 10 miliona	EUR 290.935.595	EUR 283.782.619
2. Capital adequacy	Minimum 8%	18,67	20,47
3. Basic Capital adequacy	Minimum 6%	16,73	18,22
4. Basic Share capital adequacy	Minimum 4,5%	16,73	18,22
5. Investments of the Bank	Maximum 60%	9,45	9,36
6. Exposure to related parties	No limit	8,52	8,71
7. Large and largest possible loans in relation to capital	Maximum 400%	51,24	21,66
8. Liquidity:			
– liquidity indicator	Minimum 0,8	1,73	1,49
– narrower liquidity indicator	Minimum 0,6	1,69	1,38
9. Indicator of liquid assets coverage	Minimum 100%	201,23	197,37
10. Foreign exchange risk indicator	Maximum 20%	0,82	0,38
11. Exposure of the Bank to a group of related parties	Maximum 25%	15,40	12,95
12. Exposure of the Bank to a person related to a bank	No limit	6,11	4,95
13. Bank's investments in non-financial entities	Maximum 10%	0,08	0,08

34. OFF-BALANCE SHEET ITEMS

Within the other off-balance sheet positions Group records mortgages, securities from custody operations, unwinding interest.

	In RSD '000	
	31.12.2020	**31.12.2019**
Operations on behalf of third parties (a)	581.391	596.513
Guarantees and other irrevocable commitments (b)	63.725.169	61.506.339
Other off-balance sheet positions (c)	321.081.040	294.873.730
Balance as at 31 December	**385.387.600**	**356.976.582**
Bad debt transferred to off-balance sheet items	(1.292.046)	(1.355.888)
Balance as at 31 December	**384.095.554**	**355.620.694**

(a) Operations on behalf of third parties

	In RSD '000	
	31.12.2020	**31.12.2019**
Investments on behalf of third parties		
In RSD		
– short-term	18.227	18.068
– long-term	563.164	578.445
Balance as at 31 December	**581.391**	**596.513**

Short-term funds managed on behalf of third parties relate to funds of the Ministry of Agriculture in the amount of RSD 8.453 thousand and on the commission business of farmers in the amount of RSD 9.772 thousand. Long-term funds managed on behalf of third parties relate to long-term housing loans insured with National Mortgage Insurance Corporation amounting RSD 560.543 thousand and long-term loans to agricultural producers in the amount of RSD 2.164 thousand.

(b) Guarantees and other irrevocable commitments

	In RSD '000	
	31.12.2020	**31.12.2019**
In RSD		
Payment guarantees	2.823.050	2.308.362
Performance guarantees	7.784.677	7.059.307
Irrevocable commitments for undrawn loan facilities	6.136.157	4.757.890
Other off-balance sheet items	1.198.140	1.507.746
Total	**17.942.024**	**15.633.305**
In foreign currency		
Payment guarantees	3.552.057	2.958.945
Performance guarantees	10.164.451	8.559.662
Irrevocable commitments for undrawn loan facilities	28.816.036	31.775.138
Letter of credit	46.419	335.591
Other off-balance sheet items	3.204.182	2.243.698
	45.783.145	**45.873.034**
Balance as at 31 December	**63.725.169**	**61.506.339**

Irrevocable commitments relate to the undrawn loans approved that cannot be unilaterally cancelled such as: current account overdrafts approved, corporate loans, multi-purpose framework loans and other irrevocable commitments.

34. OFF-BALANCE SHEET ITEMS (continued)

Irrevocable commitments usually have fixed expiry dates or other provisions related to expiry. Since irrevocable commitments may expire before loans are drawn by customers, the total amount agreed upon does not represent definite future cash outflows.

The Group monitors maturity periods of irrevocable credit commitments and undrawn loan facilities because long term commitments bear a greater degree of credit risk than short-term commitments.

As at 31 December 2020, the Group’s provisions for guarantees and other irrevocable commitments amounted to RSD 256.154 thousand (31 December 2019: RSD 280.890 thousand).

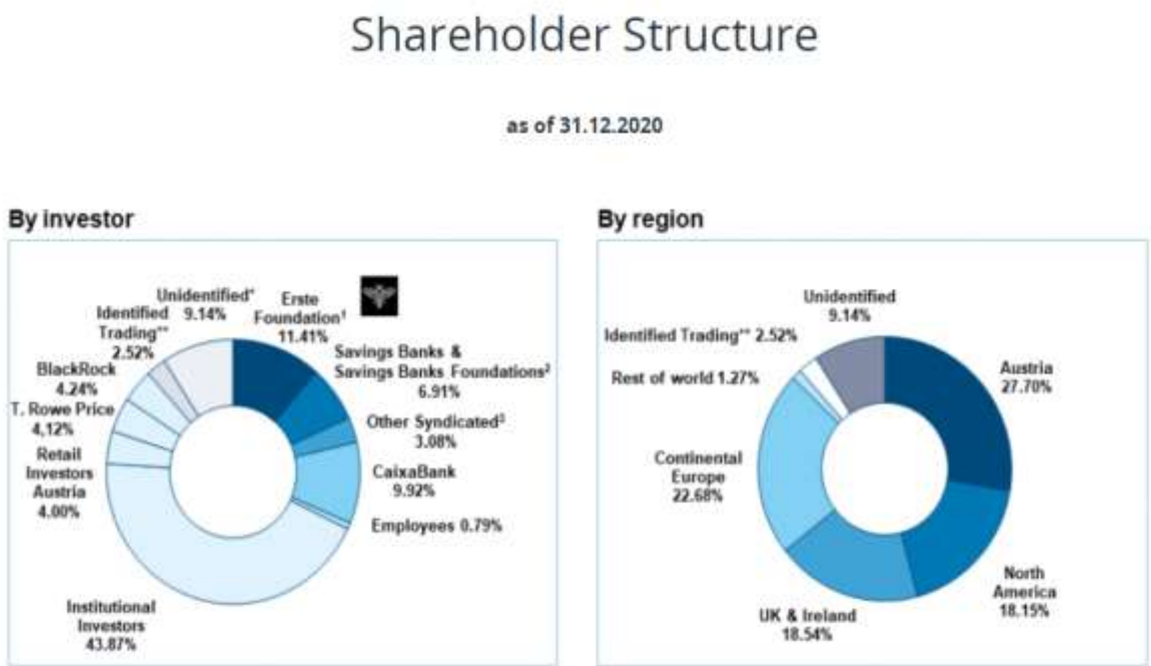
35. RELATED PARTY DISCLOSURES

As part of regular operations, the Group realises business transactions with its shareholders and other related parties.

Parties are deemed to be linked if they are jointly controlled, or one person has control over another or may have significant influence over that other entity in making financial and operational decisions

The Bank's shareholders are Erste Group Bank AG Vienna and Steiermärkische Bank und Sparkassen AG, Graz.

Shareholder structure of Erste Group is as follows:



35. RELATED PARTY DISCLOSURES (continued)

a) Balance as at 31 December 2020 and 31 December 2019, as well as income and expenses during the year, arising from transactions with legal entities within the Erste Group, are presented in the following tables:

In RSD '000

	31.12.2020		31.12.2019	
	Shareholders	**Other members of Erste Group**	**Shareholders**	**Other members of Erste Group**
Assets				
Receivables from derivatives	3.791	-	22.678	-
Loans and receivables from banks and other financial organisations	1.655.081	242.119	1.105.627	354.612
Loans and receivables due from customers	-	107.948	-	62.979
Investments in subsidiaries	-	0	-	0
Property, plant and equipment	-	895.713	-	977.116
Other assets	3.542	403	7.543	30.641
Balance as at 31 December	**1.662.414**	**1.246.183**	**1.135.848**	**1.425.348**
Liabilities				
Liabilities from derivatives	330.101	-	228.172	-
Deposits and other liabilities due to banks and other financial organizations	21.761.282	506.762	26.675.120	34.012
Deposits and liabilities due to customers	-	222.294	-	53.665
Subordinated liabilities	3.870.406	-	4.206.971	-
Provisions	6	1.664	6	60
Other liabilities	11.250	1.178.493	26.419	1.067.653
Balance as at 31 December	**25.973.045**	**1.909.213**	**31.136.688**	**1.155.390**
Off-balance sheet items				
Guarantees and other sureties issues	49.560	108.800	115.680	408.941
Irrevocable commitments	-	18.434	-	1.319
Other off-balance sheet items	-	370.965	35.022.878	172.273
Balance as at 31 December	**49.560**	**498.199**	**35.138.558**	**582.533**

35. RELATED PARTY DISCLOSURES (continued)

	31.12.2020		31.12.2019	
	Sharehold ers	**Other members of Erste Group**	**Sharehol ders**	**Other members of Erste Group**
Interest income	21.451	656	20.433	591
Interest expenses	(509.413)	(27.223)	(574.378)	(28.916)
Fee and commission income	48.932	19.580	48.739	2.957
Fee and commission expenses	(261.625)	-	(259.010)	-
Net gains on changes in FV of financial instruments	-	-	17.641	-
Net loss on changes in FV of financial instruments	(215.501)	-	-	-
Net gains on foreign exchange difference and currency clause effects	93.801	-	153.474	4.404
Net gains on impairment of financial assets not valued at FV through profit and loss	-	-	-	-
Net loss on impairment of financial assets not valued at FV through profit and loss	-	-	-	-
Other operating income	(796)	(1.083)	(171)	(65)
Depreciation expense	-	10.297	-	8.814
Other income	(441)	(103.409)	-	(104.727)
Interest income	3.248	8.032	4.930	8.275
Ostali rashodi	(167.765)	(805.753)	(134.450)	(760.173)

As at 31 December 2020 and 31 December 2019, placements to related legal entities were not impaired.

Long-term loans with related parties have maturity up to 10 years and they were taken at the rate of EURIBOR + 3,65%.

Interbank transactions (overnight and short-term borrowings) are made at prices ranging from -0,1 to 7,2% depending on the currency in which the business is performed.

Guarantee fees with affiliated entities range from 0,24 to 1,25%.

Other transactions on the money market (swap transactions, forward transactions, purchase and sale of cash), as well as those transactions for which a fee is charged or paid, are also performed at market conditions and prices out of reach.

The interest rate on deposits and other liabilities towards banks and customers ranges from 0,05% to 6,5%.

Through cross-border loans, the Group provides the opportunity for its clients to borrow directly abroad, while allowing clients to perform all activities in the process of approval and administration in the Group. This type of service provides the clients with the possibility of borrowing under more favourable conditions, and to the Group the realization of income from fees for these services. In cross-border loans, the Group is solely an agent and is not exposed to credit risk.

35. RELATED PARTY DISCLOSURES (continued)

b) In its regular course of operations, the Group enters into business relationships and arrangements with the members of the Executive Board, other key personnel and persons related to them. Balances at the end of the year and effects of those transactions are presented as follows.

In RSD '000

	Balance as at 31 December 2020	Income/ (expense) 2020	Balance as at 31 December 2019	Income/ (expenses) 2019
Current account overdrafts, credit cards and consumer loans	874	121	1.244	190
Housing loans	33.558	1.376	56.122	2.703
Accrued fees	-	-	(70)	-
Other loans and receivables	695	16	149	13
Total impairment allowances	(47)	(20)	(44)	(23)
Deposits	111.771	(1.060)	101.566	(355)
Other liabilities	324	(173)	293	(487)
Unused credit limit	410	-	1.430	-

Salaries and other benefits of the Executive Board's members and the Board of Directors' members (stated in gross amounts), during 2020 and 2019, are presented in the table below:

In RSD '000

	31.12.2020	31.12.2019
Salaries and benefits of the Management Board members	5.702	5.598
Salaries and benefits of the Executive Board members	145.800	150.657
Accrued income of the Executive Board members	82.731	91.114
Total	**234.233**	**247.369**

Transfer prices

In line with the new provisions of the Law on Profit Tax in 2013, the Rulebook on Transfer Pricing and Methods, which are applied on the principle of "out of reach of the hand", in determining the prices of transactions between affiliated parties, entered into force. In accordance with this Law and the Ordinance, banks are also obliged together with the tax balance to submit a study on transfer prices.

36. RISK MANAGEMENT

36.1. Introduction

The Group manages risks inherent in banking operations through the processes of ongoing risk identification, measurement and monitoring, restriction and risk limit definition and application of other controls.

Due to the nature of its activities, the Group is exposed to the following major risks: credit risk, liquidity risk and market risk (which includes price risk, foreign exchange risk). The Group is also exposed to operating risk and concentration risk, which particularly entails the risk of Group's exposure to a single entity or a group of related entities, interest rate risk, risk of Group's investments in other entities and own fixed assets, counterparty country risk and other risks the Group monitors on an ongoing basis.

The Group's risk management is a comprehensive process that includes identification, assessment, rating and control of all types of business risks (credit, interest rate, foreign exchange and other market risks, investment and operational risks). The aim of the risk management process is to establish an adequate system for identifying, measuring, assessing and monitoring the risks the Group is exposed to in its business operations, as well as an adequate response in order to minimize potential adverse effects to the Group’s capital and financial performance.

The Group has adopted policies and procedures that provide control and application of internal by- laws of the Group related to risk management, as well as procedures related to the Group’s regular reporting on the risk management. The processes of risk management are critical to the Group’s continuing profitability and each individual within the Group is accountable for the risk exposures relating to his/her responsibilities. This system of risk management provides timely notification of the management of all risks that are present or may occur, and provides adequate and timely response in case those risks occur.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group’s strategic planning process.

The Management Board and the Executive Board are ultimately responsible for identifying and controlling risks while the operational responsibility is delegated to the Risk Management Division. In addition, the Group has established separate independent bodies for managing and monitoring risks.

Key roles in the risk management within the Group belong to the following units/bodies:

Management Board and Executive Board

The Management Board and Executive Board are responsible for the overall risk management approach and for approving the risk management strategies and principles. Their decisions are made based on the proposals of the Credit Risk Management Division and Strategic Risk Management Department, Assets and Liabilities Management Committee and other relevant organizational units of the Group.

Assets and Liabilities Management Committee (ALCO)

Assets and Liabilities Management Committee (ALCO) monitors the Group’s exposure to risks arising from the structure of its balance sheet liabilities and receivables and off-balance sheet items, proposes management measures for management on primarily, interest rate risk, liquidity risk and foreign exchange risk, and performs other activities determined by the Group's acts.

ALCO has and advisory role and its decisions are sent in the form of proposals for approval to the Executive Board, in case such decision is necessary.

36. RISK MANAGEMENT (continued)

36.1. Introduction (continued)

Non-financial Risk Management Committee

The Role of non-financial risk management committee is to discuss, suggest decision and validate questions from Group's operational risk areas, with the application of Decision on the basis of expected profit of exposure to risk as well as implementation of corrective measures and activities of risk migration to manage non-financial risks proactively (operational risk, reputation risk, compliance risk, legal risk, information security risk).

Asset and Liability Management Unit

Asset and Liability Management Unit is organized as an independent organizational unit that is directly responsible to the Executive Board of the Group. In addition, it is primarily responsible for funding and liquidity of the Group. Asset and Liability Management Unit prepares reports related to assets and liabilities management for the purposes of the Group's units as well as a report for the Asset and Liability Management Committee.

Internal Audit

Internal Audit is established with the aim to ensure that the Group's operations take place in accordance with the standards providing the function of an independent, objective assurance and advisory activities based on best Grouping practices. Through systematic and disciplined approach, the Internal Audit helps the Group accomplish its objectives by evaluating and improving the effectiveness of risk management, control and managerial processes.

The Group's Internal Audit continuously supervises the process of risk management within the Group through check-up of adequacy of procedures, control mechanisms in place and compliance of the Group with the adopted procedures. The Internal Audit reviews results of its work with the Group's management and reports to the Audit Committee and Management Board on the findings identified and recommendations given.

Risk management and reporting

In accordance with the Law on Groups, Erste Group a.d. Novi Sad (the "Group") has established an internal organization that defines the organizational units competent and responsible for risk management, the objective of the risk management system is to identify and quantify the risks the Group is exposed to in performance of its business activities.

The functions of risk monitoring and risk management are the responsibility of the Credit Risk Management Division and Strategic Risk Management Unit, as separate organizational units within the Group. Risk management policies and strategy as well as capital management strategy are linked to the Group's overall strategy and include definition of all risk types, manners of managing those risks and the level of risk the Group is willing to accept in order to achieve is business goals. Special attention is paid to full compliance with the relevant regulations of the National Group of Serbia ("NBS").

36. RISK MANAGEMENT (continued)

36.1. Introduction (continued)

Risk management and reporting (continued)

The responsibilities of the Credit Risk Management Division and Strategic Risk Management Unit include the following:

- Identification and measurement or assessment of the Group's exposure to certain types of risks;
- Risk monitoring, including monitoring and control, analysis and reporting on the individual risk levels, their causes and consequences;
- Measurement and evaluation as well as management of the Group's risk profile and capital adequacy;
- Monitoring of parameters that affect the Group's risk exposure position, primarily by including management and optimization of the quality of assets and cost of risks;
- Development and application of quantitative risk management models as elements in the process of advanced business decision making and risk pricing;
- Development of strategies and proposed Group's exposure limits per risk types and their control;
- Quantifying the impact of changes in the economic cycle or stress events on the Group's financial position;
- Assessing risks of new product introduction and activity outsourcing;
- Development of methodologies, procedures and policies for risk management in accordance with relevant legislation, standards of Erste Group, good business practice and special needs of the Group;
- Development and implementation of various technical platforms and tools.

The risk management function, set up in the form of separate organizational units, functionally and organisationally separate from the risk-taking activities of the Group, is responsible for the risk management system at the Group. Bearing in mind the diversity of areas covered, and in order to perform their role more effectively, the risk management function is divided between the Credit Risk Management Department, the Strategic Risk Management Department, the Portfolio and Capital, and the Business Compliance and Security Management Service.

The Strategic Risk Management, Portfolio and Capital Management Division consists of the following organizational units:

- Directorate for Integrated Risk and Capital Management;
- Directorate for Model Development and Risk Management;
- Department for Market Risk and Liquidity Risk Management;
- Operational risk management and other non-financial risks management;
- Collateral Management Department.

The Sector for Credit Risk Management consists of the following organizational units:

- Directorate for risk management of legal entities;
- Directorate for managing the risks to the residents;
- Directorate for restructuring and collection of placements.

Business compliance control service:

- Financial Crime Management Department;
- Department of Money Laundering Control and Prevention (AML);
- Business Regulatory Compliance Department;
- Conflict of Interest and Securities Risk Management Department;

Security risk management service:

- Information Security Risk Management Department;
- Physical Security Risk Management Department;
- Business Continuity Management Department;

The information collected from all business activities is examined and processed in order to identify, analyze and control the risks to which the Group is or may be exposed.

The Group and its operations are particularly exposed to: credit risk, concentration risk, market risk, liquidity risk, and operational risk. The obtained information is presented and explained to the Management Board, Executive Board, ALCO and the heads of all business units. Reports are sent to the competent authorities on a daily, weekly, monthly and quarterly base and at their request.

36. RISK MANAGEMENT (continued)

36.1. Introduction (continued)

Risk management and reporting (continued)

A comprehensive risk report is submitted to The Board of Directors on a quarterly basis, containing all the necessary information to assess and draw conclusions about the risks to which the Group is exposed.

36.2. Credit Risk

Credit risk represents the risk of negative effects on the Group’s financial result and capital arising from debtors’ inability to settle the matured liabilities to the Group.

The Group's credit risk depends on the creditworthiness of tis borrowers, their regularity and timeliness in liability settlement and quality of collaterals securitizing the Group's loans and receivables. Credit risk identified, measured, assessed and monitored in accordance with the Group's internal by-laws on credit risk management and relevant decisions governing the classification of the Group's balance sheet assets and off-balance sheet items and capital adequacy.

The Group's business policy requires and stipulates maximum protection of the Group against credit risk exposure and the most significant of all Grouping risks.

The Group controls and manages credit risk by establishing rigorous process for determining minimum credit capacity of the debtor in the process of loan approval as well as by regular monitoring over the entire contractual relationship duration, by defining different levels of decision making upon loan approval (reflecting the knowledge and experience of the employees) and by setting up limits to determine the risk level it is willing to accept at the level of individual borrowers, geographic regions and industries, and by monitoring such risk exposures accordingly.

By its internal by-laws, policies and procedures, which are regularly updated, at least on a yearly basis, the Group has implemented the adequate system of credit risk management so as to reduce the credit risk to an acceptable level.

The Group's Risk Management Strategy, crediting policies and credit risk management policies and procedures define the process of credit risk management at the individual loan level, and at the loan portfolio level, i.e., identification, measurement and monitoring (control) of loans, particularly those with high-risk levels.

The process of loan quality monitoring enables the Group to estimate potential losses arising from the risks the Group is exposed to and to take remedial measures.

Approval of loan products is based on credit quality of customer, type of credit product, collateral, supplementary conditions system and other factors on credit risk mitigation.

Assessment of risk of default of counterparty to the Group is based on probability of client getting in default status. For every exposure to credit risk, the Group assigns internal rating which represents unique risk measurement of counterparties’ default. Internal rating of every client is updated on at least on yearly basis. On quantitative level, internal ratings effect on demanded price of risk, thus on forming provision for those credit risks. Internal ratings take in consideration all available information needed to assess risk of client getting in default. For clients from corporate sector, internal ratings take in consideration financial power of client (indicators of profitability, adequacy of maturity structure of certain elements of assets, liabilities and equity, adequacy of cash flow, level of indebtedness, exposure to credit-currency risk, branch of economy, position on the market, specific characteristics of client and other relevant indicators. For retail sector and micro clients, internal ratings are usually based on behaviours and applicative scoring, as well as demographic and financial information. Ratings limitations are applied considering membership of economically related parties and country of main business activity.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

The Group complies with all standards of Erste Group AG from perspective of development of model of internal ratings and maintaining processes. All new models and modifications of already existing models in Group (rating models and risk parameters) as well as methodological standards are examined by group commission, known as Holding Model Committee (HMC), which secures integrity across Group as well as consistency of model and methodology. Models are approved as well by local management. Internal ratings system is in compliance with Erste Group AG system which makes a difference between „performing" and „non-performing" clients. For „performing" clients (clients that are not in default status) the Group uses scale of 8 grades (A1/A2/B1/B2/C1/C2/D1/D2), for clients from retail sector, respectively scale of 13 grades (1/2/3/4a/4b/4c/5a/5b/5c/6a/6b/7/8) for all other categories. For clients that are in default status the Group uses scale of 5 grades (R1-R5).

In order to increase the comparability of the quality of the assets of Erste Group, a new model for the assessment of the risk exposure category was developed and implemented in 2018. Based on the calibration of the internal probabilities of the default status of liabilities that are used for regulatory purposes (calculation of the provisions) on the rates of default status published by the agency's rating, an external rating is approximated for classification into a risk category purpose for each client.

For reporting purposes, internal ratings are grouped in next 4 categories of risk:

Low risk – Clients with good, longer cooperation with Group, as well as big international clients. Strong financial position without expected financial difficulties in the future. Clients from retail sector which have long history for cooperation with Group or clients that use variety of Group's products. Clients who are not late with payments of liabilities at the moment, nor in last 12 months. New agreements are generally made with clients from this category. This category includes S&P ratings from AAA to BB.

Management's attention – Clients with hardly satisfactory or not satisfactory financial situation. Maintaining credit position is very unlikely in middle term. Negative quality criteria are present. Client from retail sector with limited savings or probable to have problems in payment which set off reminders for early collection of receivables. This category includes S&P rating B.

Sub-standard – Clients sensitive to negative financial and economic influences with S&P rating worse than CCC with no outstanding debit balance.

Non-performing - Clients who have one or more criteria for default status, in accordance with the definition precisely prescribed by the internal acts of the Group and Erste Group AG: uncertain collection, payment delays with material exposure longer than 90 days, restructuring that caused loss to the Group, realization of credit loss or initiation of Grouptruptcy proceedings. In addition, restructured receivables (Non performing forbearance) (see 37.2 Credit risk - rescheduled receivables) that are not in default status are also considered problematic receivables. In order to determine the default status, the Group applies a client-level approach, including Retail clients; if the customer is in default status for one product, then the other products of that customer are also classified as - problematic receivables.

Monitoring and control of credit risk

Monitoring of credit risk

With goal of timely management of credit risk, regular client's risk analysis is carried out, which includes regular rating status, possibility of paying obligations towards Group, audit of collaterals and agreeing upon terms from contract.

Group's goal is to timely identify any kind of deterioration of portfolio which can result in material losses for Group, so Group can analyse complete status of debtor through regular re-approval. Importance of regular re-approval of credit exposure is in regular monitoring of client as well as quality of portfolio which is additional measure in optimisation of Group's credit risk exposure.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Monitoring and control of credit risk (continued)

Group carries out evaluation of credit quality as foundation of clients' information, as well as taking in consideration all information about client as well as previous credit background between Group and client.

Early Warning Signals

Systems and processes of early warning signals are used to detect early indications of unhealthy developments, to allow proactive measures of risk reductions. Group applies methods of early recognition of increased credit risk with goal to increase effectiveness of collection even in cases of deterioration of portfolio which is revealed by following all relevant information these predicting changes in variables in future period which mainly includes client's liabilities fulfilment so far.

Control function EWS in Group is organised within special part within Department for Credit Risk Management of legal entities (Department for EWS and monitoring).

Default status

Definition of default status in Group follows regulatory demands of Group, translating it to 5 group of default status:

- Default event E1 – Small chances of payment of liabilities fully due to deterioration in credit quality of debtor
- Default event E2 – Delay longer than 90 days for materially important amount of debt
- Default event E3 – Modification of original contract terms of repayment due to estimation of deterioration of economic situation of client
- Default event E4 – Credit loss
- Default event E5 - Groupruptcy

Group has set up a systemic process to provide identification and recognition of default status on client level. That means that in case of client getting in default status by any means of credit risk exposure of single placement, total balance or off-balance exposure Group has to that client, including products which are not used for crediting client are classified as default status. Aforementioned is applicable to all Retail sector clients, as well as clients from other business segments.

In case of undertaken loan commitments which are part of off-balance assets of the Group, exposure in default, represents nominal amount of liability which, in case of drawing funds or usage, leads to exposure of default risk without realisation of collateral.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Default status (continued)

In case of given financial guarantees, exposure in default status amounts to total nominal amount on which risk exists, which can occur in case of default status of total or partial exposure.

Default status can be activated on exposure level of a single placement or on the level of client, but general rule applicable in all cases is that client should have default status assigned for all singular exposures, which means client will have internal rating „R", despite the fact if default status was activated on a level of a single exposure or client level.

All Group's clients are in default status and accordingly they were assigned internal rating (R1-R5) if even a single default event was realised E1-E5.

If Group estimates that criteria which led to default status are no longer applicable and client is able to continue with repayment of debt in accordance with contract, Group will change rating of client since that client is no longer in default status.

Minimal general conditions, which have to be fulfilled before leaving default status and change of „R"rating are:

- Not a single event E1-E5 is valid at the moment and additional impairments for singular loan exposures are not expected, and
- Monitoring period is finished with success

Every default event has precisely defined minimal duration, and leaving default status is acceptable only after successful monitoring period which happens after expiration/cessation of default event E1-E5 for clients which have any kind of loan liability and which lasts 3 months after. Concretely, in order to successfully finish monitoring period, during its time is not allowed to start or be active any criteria which can start some of previously defined default events E1-E5.

During 2020, the Group did not conduct the process of early recognition of the status of non-payment of obligations to clients, due to the fact that the same was not possible during the regulatory measures to help clients in the form of two moratoriums, and recognition was carried out after their expiration. The total amount of receivables from clients whose default status was recognized during the last quarter and the E1 code was assigned was RSD 107.5 milions.

Receivables write-off

In accordance with the Rulebook on the write-off of receivables and the transfer of receivables from the balance sheet into the off-balance sheet, the Group makes a write-off of non-performing receivables after all the options for collection are exhausted. In addition, a write-off can also be considered in a situation where a subsequent judicial proceeding is not economically justified by higher costs in relation to collection, when a subsequent proceeding of any kind is not effective. The write-off of receivables is done only for non-credit placements that are impaired. For claims in a litigation or Groupruptcy that are fully impaired (for which a value adjustment of 100% has been made), and which is judged to be too long for the court process or Groupruptcy and thus represent a burden on the balance sheets of the Group, a decision on the transfer of receivables from the balance sheet to the off-balance sheet, whereby no debt is forgiven, i.e. in this case the Group does not waive the contractual and legal rights on the basis of that claim.

In addition, the Group in accordance with the Decision of the National Group of Serbia on the accounting write-off of the balance sheet assets of the Group "Official Gazette of the Republic of Serbia", no. 77/2017 dated 10 August 2017, performs an accounting write-off of problematic receivable in the case when the amount of the impairment of that receivable was recorded by the Group in favour of impairment of the value of 100% of its gross carrying amount.

COVID 19

Pandemija uzrokovana virusom COVID 19 je tokom 2020. godine izazvala neizvesnost u globalnoj ekonomiji i tržištima. Nova pravila socijalne distance i ograničavanja kretanja dovela su do usporavanja ekonomije i značajnog pada prihoda pojedinih industrija. Paketi pomoći Ministarstva Finansija i mere NBS bili su uvedeni sa ciljem da ublaže potencijalne negativne efekte izazvane pandemijom. Iako takve mere ublažavaju negativne efekte po ekonomiju, one sa druge strane otežavaju pravovremeno prepoznavanje potencijalnog pogoršanja kvaliteta portfolia Groupe, sto je dovelo do toga da standardni risk pokazatelji (dani kašnjenja, značajno povećanje kreditnog rizika, restrukturiranja, finansijski pokazatelji itd.) nisu mogli da ostvare svoju funkciju u takvim uslovima.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

COVID 19 (continued)

In order to timely identify the potential deterioration in portfolio quality, the Group undertook several activities in 2020. In March 2020, the analysis of the impact of COVID 19 on the business of clients was started by considering the long-term consequences of the pandemic on specific industries. Industries and sub-industries are categorized into those that are expected to be high, medium and low affected. Such a division has led to the formation of 4 categories - green, yellow, orange and red, which represent the degree of expected impact of the crisis on a particular (sub) industry in the next 12 months and such a list is regularly revised. For example. due to reduced traffic, passenger traffic and city hotels are marked as red sub-industries, and food retail as green. This division was the basis for strategic recommendations to certain industries, for the revision of the criteria for placing new loans as well as the reclassification of receivables to level 2 of impairment.

During 2020, the Group established a system of monitoring and reporting on relief measures granted to clients, primarily on the two moratoriums that are provided to all clients who wanted it on the basis of the so-called "opt-out" principle, as well as on placements. approved under the State Guarantee Scheme. Restructuring measures were approved during the year only in certain cases, and in accordance with the EBA and NBS regulatory frameworks.

Facilitations within the first regulatory moratorium were used by 86% of clients (of which 88% from the segment of natural persons, while in the segment of legal entities that percentage was 60% of clients).The situation during the second regulatory moratorium is somewhat different, and 76% of clients used these benefits (of which 77% from the segment of natural persons, while in the segment of legal entities this percentage was 68%).

Restructuring measures were approved during the year only in certain cases, and in accordance with the EBA and NBS regulatory frameworks.

On 31.12.2020. year, the Group had no claims in the moratorium.

The bank analyzed the effects that the moratorium had on contracted cash flows. Due to the delay in payment of principal and displacement payment terms with no interest on delayed payments, the Bank has identified losses in the amount of RSD 342,897 thousand, cumulative for both moratoria.

S-Leasing analyzed the effects that the moratorium had on contracted cash flows. The effects of the first moratorium due to the delay in the payment of the principal, after which the moratorium interest was attributed to it, are positive, while the effect of the second moratorium, in which the moratorium interest is evenly redistributed over the remaining contract life is negative. Since the net effect itself is not materially significant, it is not even recorded, and according to the projections made by S-Leasing, the cumulative effect for both moratoriums is estimated as a profit in the amount of RSD 1.272 thousand.

In order to quantify the effect of the estimated deterioration of the portfolio quality due to the pandemic, the Group has adopted criteria on the basis of which receivables from specific clients are timely recognized as receivables with a significant increase in credit risk and as such transferred to level 2 overlays.

The criteria on the basis of which clients and their claims are transferred to Level 2 are divided into 2 categories.

1. Facilities of clients who have requested relief due to a pandemic:

Clients from the corporate sector:

a) If the condition of critical (red) or high-risk (orange) industry is met, the transfer to Level 2 is performed; or

b) If the condition of medium risk (yellow) industry is met and the probability of transition to the default status of the client is 2,5% (one-year IFRS PD) or higher, the transfer to Level 2 is performed; or

c) Local criteria of the Group - possible exceptions in individual cases.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

COVID 19 (continued)

Clients from the retail sector:

d) If the probability of transition to the client's default status is 2.5% (one-year IFRS PD) or higher, the transfer to Level 2 is performed; or

e) EBS local criteria - clients are employed in industries that are classified as green.

2. Facilities of clients who did not request relief due to the pandemic:

Clients from the corporate sector:

a) If the critical (red) industry condition is met, the transfer to Level 2 is performed;

b) Local criteria of the Group - possible exceptions in individual cases.

Clients from the retail sector:

a) Common SICR criteria, however

Notes:

1) It is allowed on the basis of an individual assessment, which is adequately documented, not to apply the minimum criteria for transition to Level 2 defined by Erste Group and to maintain Level 1;

2) It is allowed to apply the transfer to Level 2 on the basis of an individual assessment, which is adequately documented.

The Group did not additionally conduct quantitative sensitivity analyzes, but they were performed at the level of the competent organizational units of the Erste Group.

The classification of the industries in which the clients are located, as well as their categorization will be monitored on a regular basis.

The rules for abolishing the criteria will be revised in 2021 when the relief measures prescribed by the NBS expire by the Decision on Interim Measures for Groups for Adequate Credit Risk Management in the Conditions of the COVID 19 Pandemic ("Official Gazette of RS", No. 150/2020).

On the end of 2020, by transferring customer receivables to level 2, due to the timely recognition of the increase in credit risk and in accordance with the above-mentioned criteria, the exposure in level 2 was increased by RSD 11 billions with effect on P&L in amount of RSD 364 milions, while the exposure in S-Leasing at level 2 increased by RSD 1.5 billion, with an effect on the Group's income statement of RSD 28.6 million.

The EBS expects an increase in default rates during 2021 when the relief measures prescribed by the NBS expire.

As a second measure to quantify the pandemic effect, in 2020 the Group revised the parameters of PD in the part related to the future outlook in the economy (Forward Looking Information) with different probabilities of potential outcomes. To calculate the expected losses, FLI is used for the first three years of calculation. In addition, certain adjustments of the PD parameter were used in the calculation, in order to overcome the shortcomings caused by the suspension of the day of delay due to the moratorium.

In the coming period, the Group will regularly monitor the development of macro indicators and macro predictions in the country and environment (forward-looking information), all with the aim of timely revision of all relevant credit risk parameters.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)
Maximum exposure to credit risk in balance sheet and off-balance sheet items.

Maximum exposure to credit risk, in gross and net amount, without collaterals, as well as other items Group does not consider to be exposed to credit risk, in accordance with balance sheet items as at 31 December 2019 is presented in the following table:

In RSD '000

	Assets exposed to credit risk				
	Gross value	**Accumulated allowance for impairment / provisions**	**Net value**	**Assets not exposed to credit risk**	**Balance sheet**
Cash and funds at Central Bank	16.324.367	-	**16.324.367**	19.078.264	**35.402.631**
Derivative receivables	408.411	-	**408.411**	-	**408.411**
Securities and pledged financial assets	54.215.110	38.059	**54.177.051**	-	**54.177.051**
Loans and receivables from banks and other financial organizations	2.947.598	2.793	**2.944.805**	-	**2.944.805**
Loans and receivables from customers	206.168.230	4.953.585	**201.214.645**	-	**201.214.645**
Investments in subsidiaries	-	-	-	118	**118**
Intangible assets	-	-	-	1.146.644	**1.146.644**
Properly, plant and equipment	-	-	-	3.187.470	**3.187.470**
Current tax assets	-	-	-	185.043	**185.043**
Deferred tax assets	-	-	-	154.981	**154.981**
Non-current assets held for sale and discontinued operations	-	-	-	12.252	**12.252**
Other assets	860.059	114.415	**745.644**	402.043	**1.147.687**
Balance sheet	**280.923.775**	**5.108.852**	**275.814.923**	**24.166.815**	**299.981.738**
Guarantees and warranties	24.370.655	150.575	**24.220.080**		**24.220.080**
Assumed contingent liabilities	39.354.514	105.575	**39.248.939**		**39.248.939**
Other off-balance exposure				321.662.431	**321.662.431**
Off-balance sheet	**63.725.169**	**256.150**	**63.469.019**	**321.662.431**	**385.131.450**
Total exposure	**344.648.944**	**5.365.002**	**339.283.942**	**345.829.246**	**685.113.188**

In accordance with Group's policy, sources of credit risk are loans portfolio and receivables from customers, Groups and other financial institutions, as well as off-balance exposure in form of financial guarantees and undertaken assumed liabilities, below in detail those exposures[1] are presented by of sector, category, status, collateral, maturity and value of collateral.

[1] Other balance sheet exposures which Bank considers to be exposed to credit risk are primarly from activities which support Bank's operations (forming of liquidity reserves, respectively managing of short-term liquidity, as well as optimisation of interest income through managing assets, liabilities and equity) and are considered to be of high risk quality

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Overview of securities:

In RSD '000

	Securities					
	Gross value			Accumulated allowance for impairment		
	AC	FVOCI	FVTPL	AC	FVOCI	FVTPL
Derivative receivables	-	-	**408.411**	**-**	**-**	**-**
Of which: Other	-	-	408.411	-	-	-
Securities	**28.012.519**	**15.199.663**	**11.002.928**	**38.059**	**19.252**	-
Of which: State bonds of the Republic of Serbia	27.517.518	15.096.119	10.738.607	38.059	19.252	
Of which: Other	495.001	103.544	264.321	-		
Total exposure	**28.012.519**	**15.199.663**	**11.411.339**	**38.059**	**19.252**	-

As at 31 December 2020, 97,67% of securities exposures refer to the exposure based on government bonds of the Republic of Serbia, which, in accordance with the valid Decision on capital adequacy of the Group, allocates a risk weight of 0%.
Credit rating of the Republic of Serbia for long-term borrowing as at 31 December 2020:
- Moody's Investors Service Ba3 / positive outlook
- Fitch Ratings BB+ / stable outlook
- Standard and Poor's BB+ / stable outlook

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Maximum exposure to credit risk, in gross and net amount, without collaterals, as well as other items Group does not consider to be exposed to credit risk, in accordance with Balance sheet items as at 31 December 2019. is presented in the following table:

In RSD '000

	Assets exposed to credit risk				
	Gross value	**Accumulated allowance for impairment / provisions**	**Net value**	**Assets not exposed to credit risk**	**Balance sheet**
Cash and funds at Central Bank	13.219.331	-	**13.219.331**	8.636.021	**21.855.352**
Derivative receivables	346.899	-	**346.899**	-	**346.899**
Securities	41.552.370	20.785	**41.531.585**	259.981	**41.791.566**
Loans and receivables from banks and other financial organizations	1.608.228	1.749	**1.606.479**	-	**1.606.479**
Loans and receivables from customers	174.900.522	3.331.932	**171.568.590**	-	**171.568.590**
Investments in subsidiaries	-	-	**-**	118	**118**
Intangible assets	-	-	**-**	683.397	**683.397**
Properly, plant and equipment	-	-	**-**	3.076.169	**3.076.169**
Current tax assets	-	-	**-**	229.409	**229.409**
Deferred tax assets	-	-	**-**	2.044	**2.044**
Non-current assets held for sale and discontinued operations	-	-	**-**	12.252	**12.252**
Other assets	1.046.447	87.587	**958.860**	389.520	**1.348.380**
Balance sheet	**232.673.797**	**3.442.053**	**229.231.744**	**13.288.911**	**242.520.655**
Guarantees and warranties	21.221.867	134.077	**21.087.790**	-	**21.087.790**
Assumed contingent liabilities	40.284.472	146.746	**40.137.726**	-	**40.137.726**
Other off-balance exposure	-	-	**-**	295.470.242	**295.470.242**
Off-balance sheet	**61.506.339**	**280.823**	**61.225.516**	**295.470.242**	**356.695.758**
Total	**294.180.136**	**3.722.876**	**290.457.260**	**308.759.153**	**599.216.413**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Review of securities:

In RSD '000

	Securities					
	Gross value			**Accumulated allowance for impairment**		
	AC	FVOCI	FVTPL	AC	FVOCI	FVTPL
Derivative receivables	-	-	**346.899**	**-**	**-**	**-**
Of which: Other	-	-	346.899	-	-	-
Securities	**16.199.413**	**14.812.604**	**10.800.334**	**20.785**	**18.534**	-
Of which: State bonds of the Republic of Serbia	16.199.413	14.715.250	10.523.380	20.785	18.534	-
Of which: Other	-	97.354	276.954	-	-	-
Total exposure	**16.199.413**	**14.812.604**	**11.147.233**	**20.785**	**18.534**	-

As at 31 December 2019, 98,33% of securities exposures refer to the exposure based on government bonds of the Republic of Serbia, which, in accordance with the valid Decision on capital adequacy of the Group, allocates a risk weight of 0%.
Credit rating of the Republic of Serbia for long-term borrowing as at 31 December 2019:
- Moody's Investors Service Ba3 / stable outlook
- Fitch Ratings BB / stable outlook
- Standard and Poor's BB / positive outlook

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Loans and receivables from customers, Groups and other financial institutions

(a) Overview by credit quality of non-problematic receivables and value of collateral of those receivables as at 31 December 2020:

In RSD '000

	Credit quality of non-problematic receivables[2]				Value of collateral*		
	High	Medium	Low	Problematic receivables[3]	Non-problematic receivables	Problematic receivables	The impact of collateral on reducing the value of impairment*
Receivables from retail customers	**74.018.439**	**12.261.892**	**2.736.896**	**1.435.320**	**40.271.807**	**228.345**	**112.90**
Housing loans	44.515.915	2.184.217	504.355	315.842	39.359.198	227.426	110.770
Consumer and cash loans	27.293.347	9.554.892	2.116.453	989.560	96.354	588	1.516
Transactions and credit cards	496.382	140.057	37.328	14.834	2.046	-	1
Other receivables	1.712.795	382.726	78.760	115.084	814.210	332	3
Receivables from corporate clients	**89.339.264**	**16.631.786**	**3.622.209**	**1.119.934**	**31.838.103**	**132.598**	**501.406**
Large enterprises	19.373.629	119.917	88.436	-	8.071.342	-	50.118
Small and middle sized enterprises	43.785.927	11.086.270	2.202.527	262.347	17.118.494	74.437	175.377
Micro sized enterprises and entrepreneurs	16.906.110	5.261.196	1.279.098	815.549	5.672.694	30.745	272.805
Agriculture	98.634	156.292	52.149	41.004	94.097	27.417	1.935
Public enterprises	9.174.965	8.111	-	1.034	881.476	-	1.171
Receivables from other clients	**5.752.349**	**1.795.957**	**42.850**	**358.932**	**1.244.701**	**128.516**	**55.348**
Total receivables	**169.110.052**	**30.689.635**	**6.401.955**	**2.914.186**	**73.354.612**	**489.459**	**669.044**

* Effect of collateral on value adjustment reduction calculated by simulating LGD parameters by excluding collateral. The simulation refers to general provisions and special provisions for individually significant clients (for impaired exposures that are not considered individually significant, the collateral does not affect the value of the LGD).

[2] Credit quality of non-problematic claims corresponds to the classification of low risk (high), special supervision (medium) and below-standard (low) defined in part 36.2 Credit risk.

[3] Problematic claims of the Bank include claims in the status of default (see "36.2 Credit Risk") and restructured claims "Non performing forbearance" (see 36.2 Credit Risk - Rescheduled Receivables) that are not in the status of default.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Loans and receivables from customers, Groups and other financial institutions

(a) Overview by credit quality of non-problematic receivables and value of collateral of those receivables as at 31 December 2019

In RSD '000

	Credit quality of non-problematic receivables[4]				Value of collateral*		The impact of collateral on reducing the value of impairment*
	High	Medium	Low	Problematic receivables[5,6]	Non-problematic receivables	Problematic receivables	
Receivables from retail customers	**64.908.588**	**10.143.409**	**1.914.480**	**1.446.272**	**35.720.447**	**344.329**	**179.927**
Housing loans	40.282.044	2.469.240	404.170	427.699	34.964.135	344.329	178.336
Consumer and cash loans	22.413.289	7.302.293	1.444.194	898.140	45.613	-	1.583
Transactions and credit cards	552.571	115.165	20.358	14.775	1.503	-	2
Other receivables	1.660.685	256.711	45.758	105.658	709.196	-	6
Receivables from corporate clients	**68.657.246**	**20.012.770**	**3.597.478**	**760.885**	**27.976.773**	**197.019**	**379.782**
Large enterprises	18.873.773	2.138.317	-	-	7.910.647	-	33.740
Small and middle sized enterprises	33.852.030	8.423.106	2.866.784	564.749	15.283.526	105.405	242.689
Micro sized enterprises and entrepreneurs	12.885.740	7.768.768	696.732	146.526	3.725.355	62.136	93.399
Agriculture	98.143	191.978	33.962	48.065	98.571	29.478	9.954
Public enterprises	2.947.559	1.490.601	-	1.545	958.673	-	-
Receivables from other clients	**4.708.033**	**116.990**	**88.890**	**153.709**	**726.450**	**73.793**	**48.618**
Total receivables	**138.273.867**	**30.273.169**	**5.600.849**	**2.360.865**	**64.423.669**	**615.141**	**608.327**

* The effect of collateral on the reduction of impairment calculated by simulating the LGD parameter by excluding collateral. The simulation refers to general provisions and special provisions for individually significant clients (for impaired exposures that are not considered individually significant collateral does not affect the value of LGD).

[4] Credit quality of non-problematic claims corresponds to the classification of low risk (high), special supervision (medium) and below-standard (low) defined in part 36.2 Credit risk.

[5] Problematic claims of the Bank include claims in the status of default (see "36.2 Credit Risk") and restructured claims "Non performing forbearance" (see 36.2 Credit Risk - Rescheduled Receivables) that are not in the status of default.

[6] Problematic claims of the Bank include receivables in default status (see 36.2 Credit risk - default status) and restructured receivables "Non performing forbearance" (see 36.2 Credit risk - rescheduled receivables) that are not in default status.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

(b) Overview of gross and net exposure to credit risk by sector and category of receivables, means of collateral, maturity and value of collateral as at 31 December 2020:

In RSD '000

	Unimpaired receivables[7]		Impaired receivables[8]			Accumulated impairment allowances				Value of collateral	
	Not past due	Past due	On individual basis	On collective basis	Total gross receivables	Impairment allowances on unimpaired receivables	On individual basis	On collective basis	Total net receivables	Unimpaired receivables	Impaired receivables
By sector											
Receivables from retail clients	**88.713.200**	**375.605**	**241.781**	**1.121.961**	**90.452.547**	**1.718.200**	**170.144**	**906.196**	**87.658.006**	**40.293.124**	**207.028**
Mortgage loans	47.182.397	46.444	229.926	61.562	**47.520.328**	373.130	159.810	37.189	**46.950.200**	39.380.515	206.108
Consumer and cash loans	38.795.573	215.300	5.621	937.759	**39.954.252**	1.294.780	4.105	759.478	**37.895.889**	96.354	588
Transactions and credit cards	672.653	1.398	14	14.536	**688.601**	14.800	13	12.188	**661.600**	2.046	-
Other receivables	2.062.578	112.464	6.220	108.104	**2.289.366**	35.490	6.217	97.342	**2.150.317**	814.210	332
Receivables from corporate clients	**109.162.009**	**431.253**	**978.094**	**141.840**	**110.713.195**	**1.017.974**	**689.454**	**112.502**	**108.893.265**	**31.838.103**	**132.598**
Large enterprises	19.519.521	62.460	-	-	**19.581.982**	86.993	-	-	**19.494.989**	8.071.342	-
Small and middle sized enterprises	56.797.080	277.644	205.423	56.925	**57.337.070**	547.845	157.218	47.925	**56.584.082**	17.118.494	74.437
Micro sized enterprises	23.382.747	63.658	744.399	71.150	**24.261.954**	320.305	505.893	53.616	**23.382.139**	5.672.694	30.745
Agriculture	294.723	12.351	28.273	12.731	**348.078**	20.845	26.344	9.926	**290.963**	94.097	27.417
Public enterprises	9.167.937	15.140	-	1.034	**9.184.111**	41.985	-	1.034	**9.141.092**	881.476	-
Receivables from other customers	**7.517.979**	**73.175**	**340.361**	**18.571**	**7.950.086**	**37.937**	**286.865**	**17.104**	**7.608.180**	**1.244.701**	**128.516**
Total exposure	**205.393.188**	**880.034**	**1.560.236**	**1.282.371**	**209.115.828**	**2.774.111**	**1.146.464**	**1.035.803**	**204.159.451**	**73.375.929**	**468.142**
Non-problematic receivables	205.322.523	879.119	-	-	**206.201.643**	2.765.825	-	-	**203.435.818**	73.354.612	-
of which: restructured	586.463	3.058	-	-	**589.522**	55.765	-	-	**533.757**	325.542	-
Problematic receivables	70.665	914	1.560.236	1.282.371	**2.914.186**	8.286	1.146.464	1.035.803	**723.633**	21.317	468.142
of which: restructured	65.773	820	767.350	256.273	**1.090.217**	7.367	489.850	194.004	**398.996**	19.701	198.980
Total exposure	**205.393.188**	**880.034**	**1.560.236**	**1.282.371**	**209.115.828**	**2.774.111**	**1.146.464**	**1.035.803**	**204.159.450**	**73.375.929**	**468.142**

[7] Bank considers as unimpaired receivables those who are not in dafault status and receivables without evidence of impairment
[8] Bank considers as impaired receivables those who are in default status and with evidence of impairment

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

(b) Overview of gross and net exposure to credit risk by sector and category of receivables, means of collateral, maturity and value of collateral as at 31 December 2019:

In RSD '000

	Unimpaired receivables[9]		Impaired receivables[10]			Accumulated impairment allowances				Values of collateral	
	Not past due	Past due	On individual basis	On collective basis	Total gross receivables	Impairment allowances on unimpaired receivables	On individual basis	On collective basis	Total net receivables	Unimpaired receivables	Impaired receivables
By sector											
Receivables from retail clients	**76.743.782**	**279.982**	**347.592**	**1.041.393**	**78.412.749**	**674.334**	**167.665**	**808.596**	**76.762.154**	**35.736.130**	**328.647**
Mortgage loans	43.126.891	50.849	332.994	72.419	**43.583.154**	189.078	154.658	45.669	**43.193.749**	34.979.818	328.647
Consumer and cash loans	31.014.282	179.133	8.248	856.252	**32.057.915**	465.278	6.666	662.357	**30.923.614**	45.613	-
Transactions and credit cards	687.116	1.231	68	14.453	**702.868**	5.520	66	11.505	**685.776**	1.503	-
Other receivables	1.915.494	48.769	6.281	98.269	**2.068.812**	14.458	6.275	89.064	**1.959.015**	709.196	-
Receivables from corporate clients	**91.312.180**	**955.270**	**659.351**	**101.533**	**93.028.335**	**995.515**	**472.040**	**82.567**	**91.478.213**	**27.976.773**	**197.019**
Large enterprises	20.948.564	63.482	-	-	**21.012.046**	110.968	-	-	**20.901.077**	7.910.647	-
Small and middle sized enterprises	44.399.019	742.901	521.206	43.542	**45.706.669**	531.024	381.098	39.917	**44.754.630**	15.283.527	105.405
Micro sized enterprises	21.214.387	136.853	99.821	46.705	**21.497.766**	329.410	62.525	34.304	**21.071.527**	3.725.355	62.136
Agriculture	313.177	10.906	37.813	10.252	**372.149**	12.294	27.906	7.312	**324.636**	98.571	29.478
Public enterprises	4.437.032	1.128	511	1.034	**4.439.705**	11.818	511	1.034	**4.426.342**	958.673	-
Receivables from other customers	**4.838.966**	**74.947**	**144.499**	**9.209**	**5.067.621**	**24.655**	**99.960**	**8.347**	**4.934.658**	**726.450**	**73.793**
Total exposure	**172.894.929**	**1.310.199**	**1.151.442**	**1.152.136**	**176.508.706**	**1.694.505**	**739.665**	**899.511**	**173.175.025**	**64.439.352**	**599.459**
Non-problematic receivables	172.838.523	1.309.362	-	-	**174.147.885**	1.690.639	-	-	**172.457.246**	64.423.669	-
of which: restructured	1.255.702	11.539	-	-	**1.267.241**	117.483	-	-	**1.149.758**	497.619	-
Problematic receivables	56.451	837	1.151.442	1.152.136	**2.360.865**	3.866	739.665	899.511	**717.823**	15.683	599.459
of which: restructured	53.801	780	419.800	265.437	**739.819**	3.819	204.479	201.135	**330.386**	15.683	258.631
Total exposure	**172.894.973**	**1.310.199**	**1.151.442**	**1.152.136**	**176.508.750**	**1.694.505**	**739.665**	**899.511**	**173.175.069**	**64.439.352**	**599.459**

[9] Group considers as unimpaired receivables those who are not in default status and receivables without evidence of impairment
[10] Group considers as impaired receivabvles those who are in default status and with evidence of impairment

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

(v) Data on exposure to credit risk by sectors and categories of receivables, according to the impairment status and number of days past due as at 31 December 2020:

In RSD '000

	Unimpaired receivables					**Impaired receivables**				
	Not in delay	**up to 30 days**	**from 31 to 60 days**	**from 61 to 90 days**	**over 90 days**	**Not in delay**	**up to 90 days**	**from 91 to 180 days**	**from 181 to 360 days**	**over 360 days**
Receivables from retail clients	**77.902.310**	**10.603.482**	**380.992**	**202.023**	**-**	**289.785**	**328.404**	**114.620**	**160.120**	**470.812**
Mortgage loans	46.517.761	682.806	26.849	1.425	-	137.381	45.807	16.293	28.514	63.493
Consumer and cash loans	29.088.687	9.484.932	253.976	183.277	-	148.748	275.628	78.898	119.584	320.522
Transactions and credit cards	657.244	1.632	10.585	4.589	-	1.631	1.105	3.473	2.308	6.033
Other receivables	1.638.618	434.112	89.582	12.732	-	2.025	5.864	15.957	9.714	80.765
Receivables from corporate clients	**105.189.899**	**3.815.406**	**449.063**	**138.888**	**-**	**61.631**	**76.472**	**630.170**	**103.276**	**248.384**
Large enterprises	19.455.344	111.951	14.686	-	-	-	-	-	-	-
Small and middle sized enterprises	53.678.850	3.120.013	213.492	62.368	-	10.536	35.549	36.168	34.050	146.047
Micro sized enterprises and entrepreneurs	22.795.811	541.417	65.673	43.501	-	49.510	38.226	592.372	68.054	67.387
Agriculture	262.645	36.458	4.890	3.081	-	1.576	2.698	1.631	1.173	33.925
Public enterprises	8.997.248	5.567	150.322	29.939	-	9	-	-	-	1.025
Receivables from other customers	**7.517.567**	**8.062**	**65.529**	**-**	**-**	**21**	**18.189**	**-**	**148.018**	**192.705**
Total exposure	**190.609.776**	**14.426.950**	**895.584**	**340.911**	**-**	**351.437**	**423.065**	**744.790**	**411.414**	**911.902**
By category of receivables										
Non-problematic receivables	190.572.912	14.400.735	889.209	338.786	-	-	-	-	-	-
of which: restructured	488.015	97.412	1.672	2.422	-	-	-	-	-	-
Problematic receivables	36.864	26.215	6.375	2.125	-	351.437	423.065	744.790	411.414	911.902
of which: restructured	34.183	24.113	6.264	2.034	-	186.755	141.533	566.448	40.949	87.939
Total exposure	**190.609.776**	**14.426.950**	**895.584**	**340.911**	**-**	**351.437**	**423.065**	**744.790**	**411.414**	**911.902**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

(v) Data on exposure to credit risk by sectors and categories of receivables, according to the impairment status and number of days past due as at 31 December 2019:

In RSD '000

	Unimpaired receivables					Impaired receivables				
	Not in delay	**up to 30 days**	**from 31 to 60 days**	**from 61 to 90 days**	**over 90 days**	**Not in delay**	**up to 90 days**	**from 91 to 180 days**	**from 181 to 360 days**	**over 360 days**
Receivables from retail clients	**67.388.496**	**9.331.086**	**240.607**	**63.576**	**-**	**323.816**	**318.413**	**137.307**	**202.680**	**406.769**
Mortgage loans	42.308.544	825.954	37.182	6.060	-	192.533	79.925	20.615	39.201	73.140
Consumer and cash loans	22.850.502	8.110.082	179.775	53.056	-	127.863	234.363	106.975	148.001	247.298
Transactions and credit cards	675.137	2.049	9.862	1.299	-	2.071	895	2.291	2.686	6.577
Other receivables	1.554.313	393.001	13.789	3.161	-	1.348	3.229	7.426	12.792	79.755
Receivables from corporate clients	**87.011.104**	**4.991.156**	**165.912**	**99.279**	**-**	**134.161**	**69.946**	**39.023**	**268.508**	**249.245**
Large enterprises	20.589.643	312.100	110.304	-	-	-	-	-	-	-
Small and middle sized enterprises	43.169.468	1.896.559	18.785	57.107	-	129.471	57.125	19.874	230.988	127.289
Micro sized enterprises and entrepreneurs	18.540.813	2.740.778	27.477	42.172	-	2.741	9.645	18.024	26.839	89.277
Agriculture	280.988	35.818	7.278	-	-	1.941	3.177	1.124	10.681	31.143
Public enterprises	4.430.192	5.900	2.068	-	-	9	-	-	-	1.536
Receivables from other customers	**4.912.615**	**1.299**	**-**	**-**	**-**	**3**	**-**	**-**	**40.812**	**112.893**
Total exposure	**159.312.215**	**14.323.541**	**406.519**	**162.855**	**-**	**457.980**	**388.360**	**176.330**	**512.000**	**768.907**
By category of receivables										
Non-problematic receivables	159.282.924	14.304.275	398.568	162.119	-	-	-	-	-	-
of which: restructured	627.048	635.211	3.421	1.561	-	-	-	-	-	-
Problematic receivables	29.334	19.267	7.951	735	-	457.980	388.360	176.330	512.000	768.907
of which: restructured	27.000	18.913	7.932	735	-	338.950	179.918	18.580	51.328	96.461
Total exposure	**159.312.258**	**14.323.541**	**406.519**	**162.855**	**-**	**457.980**	**388.360**	**176.330**	**512.000**	**768.907**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

(g) Data on problematic receivables as at 31 December 2020:

In RSD '000

	Gross receivables value	Accumulated impairment allowance on total receivables	Gross value of problematic receivables		Accumulated impairment allowance on total receivables	% of problematic receivables	Collateral value of problematic receivables
			Total	of which: restructured receivables			
Receivables from retail clients	**90.452.548**	**2.794.541**	**1.435.320**	**468.280**	**1.084.626**	**1,59**	**228.345**
Housing loans	47.520.328	570.128	315.842	195.973	199.489	0,66	227.426
Consumers and cash loans	39.954.252	2.058.363	989.560	272.307	769.271	2,48	588
Transactions and credit cards	688.601	27.001	14.834	-	12.227	2,15	-
Other receivables	2.289.367	139.049	115.084	-	103.639	5,03	332
Receivables from corporate clients	**97.668.427**	**1.623.086**	**1.008.640**	**616.174**	**711.906**	**1,03**	**98.698**
Sector A	7.150.834	155.400	24.488	-	23.894	0,34	375
Sectors B, C and E	22.699.901	627.841	702.421	591.846	461.243	3,09	53.489
Sector D	10.969.843	104.710	-	-	-	-	-
Sector F	15.338.150	109.571	19.211	6.048	17.343	0,13	1.181
Sector G	13.550.984	227.694	154.180	0	124.455	1,14	12.495
Sector H, I and J	12.282.653	152.533	44.268	-	36.597	0,36	12.876
Sector L, M and N	15.676.063	245.336	64.074	18.280	48.373	0,41	18.281
Receivables from other clients	**20.994.853**	**538.750**	**470.226**	**5.763**	**394.021**	**2,24**	**162.416**
Total receivables	**209.115.828**	**4.956.378**	**2.914.186**	**1.090.217**	**2.190.553**	**1,39**	**489.459**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

(g) Data on problematic receivables as at 31 December 2019:

In RSD '000

	Gross receivables value	Accumulated impairment allowance on total receivables	Gross value of problematic receivables		Accumulated impairment allowance on total receivables	% of problematic receivables	Collateral value of problematic receivables
			Total	of which: restructured receivables			
Receivables from retail clients	**78.412.749**	**1.650.597**	**1.446.272**	**517.864**	**980.127**	**1,84**	**344.329**
Housing loans	43.583.154	389.406	427.699	251.490	201.373	0,98	344.329
Consumers and cash loans	32.057.915	1.134.301	898.140	266.373	671.819	2,80	-
Transactions and credit cards	702.868	17.092	14.775	-	11.578	2,10	-
Other receivables	2.068.812	109.797	105.658	-	95.358	5,11	-
Receivables from corporate clients	**85.372.958**	**1.424.266**	**676.420**	**217.433**	**492.356**	**0,79**	**161.035**
Sector A	6.455.081	130.440	4.918	-	4.917	0,08	-
Sectors B, C and E	19.830.918	440.238	325.685	62.709	257.488	1,64	70.275
Sector D	9.914.431	150.607	-	-	-	-	-
Sector F	12.916.336	92.380	19.077	68	18.651	0,15	68
Sector G	12.586.825	284.481	268.075	135.148	180.754	2,13	65.290
Sector H, I and J	10.774.411	125.261	32.957	-	23.148	0,31	5.387
Sector L, M and N	12.894.957	200.859	25.709	19.507	7.398	0,20	20.015
Receivables from other clients	**12.723.042**	**258.817**	**238.173**	**4.522**	**170.559**	**1,87**	**109.777**
Total receivables	**176.508.750**	**3.333.681**	**2.360.865**	**739.819**	**1.643.042**	**1,34**	**615.141**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

(d) Data on changes of problematic receivables in 2020:

In RSD '000

	Gross value at beginning of year	New problematic receivables	Reduction of problematic receivables: Total	of which: collected	of which: transferred to non-problematic category	of which: write-off	Other changes	Gross value at year end	Net value at year end
Receivables from retail clients	1.446.272	449.014	541.977	181.453	282.665	77.860	82.013	1.435.320	350.694
Receivables from corporate and other clients	914.593	852.801	322.163	265.434	4.561	52.168	33.634	1.478.866	372.940
Total receivables	**2.360.865**	**1.301.815**	**864.140**	**446.886**	**287.226**	**130.029**	**115.647**	**2.914.186**	**723.633**

Data on changes of problematic receivables in 2019:

In RSD '000

	Gross value at beginning of year	New problematic receivables	Reduction of problematic receivables: Total	of which: collected	of which: transferred to non-problematic category	of which: write-off	Other changes	Gross value at year end	Net value at year end
Receivables from retail clients	1.471.080	810.293	920.554	364.115	442.095	114.344	85.452	1.446.271	466.145
Receivables from corporate and other clients	995.595	419.667	630.743	369.290	4.796	256.657	130.075	914.594	251.678
Total receivables	**2.466.675**	**1.229.960**	**1.551.297**	**733.405**	**446.891**	**371.001**	**215.527**	**2.360.865**	**717.823**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Collateral and other means of protection against credit risk

During the process of loan approval, the Group expects to collect receivable primarily from future cash flow of debtor. In addition, to reduce loss of potential default status, Group takes various security instruments (collaterals) as protection. Group takes as many collaterals as possible, whereby priority is given to collaterals that can be realised easy and simply. Possibility of taking collateral depends on current market situation and competition. The effectiveness of credit risk mitigation technique is measured and controlled by monitoring time taken for the realisation of collateral and deviation of realised and expected value of collateral.

Department for collateral management is a part of Department for strategic risks management, which is in charge of collateral management process – from preliminary analyses to realisation of collateral. Process is divided into 3 phases:

Collateral analysis phase – represents initial phase of process of collateral management. It begins with identification and analysis of potential collateral and collecting necessary information and documentation. Phase ends with record of collateral within collateral evidence system.

Collateral monitoring phase – relates to monitoring of restitution and value of collateral. One of its main functions is to record, monitor, update and control date about collaterals in collateral evidence system.

Collateral realisation phase – represents the last phase, when it comes to realisation of collateral (e.g. selling collateral in order to close loan) and closing collateral in collateral evidence system. It also includes the phase of data collection for calculation of average realisation rate and collection from them – Collateral Recovery Ratio.

Each phase is regulated by the Procedure of collateral management that defines tasks and responsibilities of organizational parts involved in the process.

In addition, Collateral management department is also in charge of process of selection, monitoring and removal of appraisers from list of appraisers that are acceptable for the Group, and defining minimum of content of estimation report, as well as control of appliance of appropriate methodology during collateral value estimation, all with goal to determine as precise value of collateral as possible. Rules for standards and methodology of estimations are considered within Collateral management Policy.

Check of value of collateral is being done periodically and it depends on type of check and collateral. Way of checking value of collateral can be split into valuation by external appraisers or state entities authorised to determine the value (revaluation, Tax statement) and internal monitoring of value of collateral by the employees in the Department of collateral management (monitoring). Dynamics of checks of collateral value is defined depending on type of collateral and in accordance with local and internal regulations.

In the process of calculation of capital requirement for credit risk, Department for strategic risk management, after checking compliance with applicable legal regulations defined in Decision on capital adequacy of Groups, determines whether particular collateral will be accepted as an instrument of credit risk reduction. Collateral items acceptable as instrument of credit risk reduction are explained in detail in Group’s separate internal procedure that defines applicable instruments

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Basic types of credit protection instruments

The Group applies primarily cash and cash equivalents deposited with the Group as instruments of material credit protection.

At the moment, the Group does not apply balance and off-balance netting as credit risk reduction technique.

Primary types of credit risk protection on the basis of guarantees and credit derivatives

Guarantees applied as immaterial credit protection are provided by:

- Government;
- Commercial Groups of sufficient credit quality and international Groups for development – exposures secured by a Groups guarantee and international Groups for developmet guarantees.

In its portfolio of acceptable means of collateral Group has no credit derivatives, thus they are not used as instruments of credit protection.

Exposures secured by mortgages on real estate

Real estate is recognized as a protection instrument when all the requirements defined by the Decision on the capital adequacy of Groups are met. The fulfilment of the prescribed requirements is a prerequisite for classifying the given exposure into a special class of exposure, exposures secured by mortgages on real estate, which are given a more favourable credit risk weight, instead of recognizing the effects of credit risk mitigation techniques. Group exposure or parts of exposure with a fully secured mortgage on a residential property in which the owner resident or has leased that real estate under an appropriate contract (or intends to reside or lease it) - assigns a risk weight of 35% or exposures fully secured to mortgages on business real estate, assigns a risk weight of 50%.

Other types of credit protection instruments

Similar means of collateral in the form of financial assets for all approaches and methods are considered cash and cash equivalents deposited with the Group when all the requirements defined by the Decision on the capital adequacy of Groups are fulfilled.

In addition to above mentioned, the Group applies following instruments of material credit protection, but they are not taken into consideration in calculation of risk-weighted assets:

- pledge on movable property;
- pledge on receivables;
- pledge on share and bonds;
- other types defined in Group’s collateral catalogue.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on the type and value [11] of collateral and guarantees by sector providers and categories of receivables as at 31 December 2020:

In RSD '000

	Means of collateral up to the receivables amount (as in KA4)		
	Deposits	**Residential real estate**	**Other real estate**
Receivables from retail clients	**41.998**	**39.480.441**	**200.495**
Household loans	4.101	39.424.900	157.622
Consumer and cash loans	35.851	44.108	16.983
Transactions and credit cards	2.046	-	-
Other receivables	-	11.433	25.891
Receivables from corporate clients	**1.794.712**	**1.234.702**	**20.291.106**
Large enterprises	60.454	56.755	6.769.773
Small and middle sized enterprises	1.374.658	251.978	10.350.065
Micro sized enterprises and entrepreneurs	359.601	902.671	2.859.266
Agriculture	-	23.297	97.346
Public enterprises	-	-	214.655
Receivables from other clients	**27.794**	**25.375**	**207.782**
Total exposure	**1.864.504**	**40.740.517**	**20.699.383**
Per category of receivables			
Non-problematic receivables	1.863.530	40.516.292	20.456.099
of which: restructured	-	179.994	145.548
Problematic receivables	974	224.226	243.284
of which: restructured	-	134.326	82.501
Total receivables	**1.864.504**	**40.740.517**	**20.699.383**

[11] The value of collateral is determined on the basis of the assessment of an authorized appraiser (or some other document relative to the type of collateral) with possible internal corrections, after which the effective rate (collateral haircut) is applied in accordance with the collateral catalog and is reduced by the previous charges.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on the type and value [12] of collateral and guarantees by sector providers and categories of receivables as at 31 December 2019:

In RSD '000

	Means of collateral up to the receivables amount (as in KA4)		
	Deposits	**Residential real estate**	**Other real estate**
Receivables from retail clients	**40.322**	**35.166.146**	**192.065**
Household loans	7.635	35.134.527	166.303
Consumer and cash loans	31.184	13.248	1.181
Transactions and credit cards	1.503	-	-
Other receivables	-	18.371	24.581
Receivables from corporate clients	**1.676.191**	**891.838**	**17.495.889**
Large enterprises	58.796	-	6.747.861
Small and middle sized enterprises	1.255.021	362.443	8.514.307
Micro sized enterprises and entrepreneurs	362.373	513.783	2.122.516
Agriculture	-	15.612	111.206
Public enterprises	-	-	-
Receivables from other clients	**63.081**	**31.461**	**573.385**
Total exposure	**1.779.593**	**36.089.444**	**18.261.339**
Per category of receivables			
Non-problematic receivables	1.779.593	35.732.165	18.014.051
of which: restructured	26.541	172.905	298.173
Problematic receivables	-	357.279	247.289
of which: restructured	-	182.248	89.879
Total receivables	**1.779.593**	**36.089.444**	**18.261.339**

[11] The value of collateral is determined on the basis of the assessment of an authorized appraiser (or some other document relative to the type of collateral) with possible internal corrections, after which the effective rate (collateral haircut) is applied in accordance with the collateral catalog and is reduced by the previous charges.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

During 2020, the Group had acquired following means of collateral through collection of receivables:

In RSD '000

Means of collateral acquired through collection of receivables	Residential real estate	Other assets acquired through payment	Total
Gross value at the beginning of the period	12.073	-	12.073
Acquired during period	-	-	-
Sold during period	-	-	-
Gross value at period end	**12.073**	**-**	**12.073**
Accumulated allowance for impairment	12.073	-	12.073
of which: Allowance for impairment during period	-	-	-
Net value at the end of period	**-**	**-**	**-**

During 2019, the Group had acquired following means of collateral through collection of receivables:

In RSD '000

Means of collateral acquired through collection of receivables	Residential real estate	Other assets acquired through payment	Total
Gross value at the beginning of the period	12.073	350	12.423
Acquired during period	-	-	-
Sold during period	-	-	-
Gross value at period end	**12.073**	**350**	**12.423**
Accumulated allowance for impairment	12.073	-	12.073
of which: Allowance for impairment during period	-	-	-
Net value at the end of period	**-**	**350**	**350**

Basic principles of takeover and management of pledged property are regulated by the Procedure on the takeover of pledged asset in enforced collection procedure. Overtaken objects are mostly real estate and movable assets.

Basic principles to overtake assets (fixed and mobile) which have to be taken in consideration include analysis of market value and potential marketability of assets taken into consideration, which must be supported with expected sales revenue, which will lead uncollected receivable to the highest level possible. Depending on the characteristics of assets, type of asset (real estate, movable property) can be further divided into primary and secondary when takeover is taken into consideration, depending on their purpose and other characteristics, such as location, type, technical standards, equipment, year of construction and similar, as well as market situation in terms of supply and demand of certain type of collaterals. All above-mentioned parameters affect the final decision on implementation of the takeover procedure.

As strategies for management of assets collected through collection of receivables, the Group applies sale, rent, development, retention, respectively combination of mentioned strategies. Suggestion of strategy must involve a real plan in terms of implementation of strategy. Estimated related expenses, income and effect on profit and loss must be taken in consideration. In case of suggesting retention strategy, cost of maintenance must be clearly presented in assets strategy.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

LTV ratio

The table below represent the so-called LTV ratio for housing loans, which represent a portion of the total retail loans approved.

In RSD '000

Value of LTV ratio*	Value of receivables secured by mortgage as at 31 December 2020	Value of receivables secured by mortgage as at 31 December 2019
Below 50%	8.576.818	7.799.915
50% to 70%	11.654.996	11.116.346
70% to 90*	21.608.166	22.403.317
90% to 100%	1.593.313	932.626
100% to 120%	3.584.764	2.025.458
120% to 150%	1.762.871	776.607
over 150%	2.701.501	2.163.954
Total exposure	**51.482.429**	**47.218.224**
Average LTV ratio	76,5%	72,7%

*The LTV indicator represents the ratio of the gross value of the receivables to the market value of the real estate (only mortgages on the apartment or private home are taken into account and reduced by the amount of previous charges) with which the receivables is secured.

Evaluation of impairment of financial assets

In accordance with IFRS 9, the Group has set up an adequate structure, tools and processes for the timely determination of credit risk losses. According to regulatory and accounting standards as well as economic considerations, the Group regularly evaluates the need and establishes impairment allowances due to credit losses in order to cover the expected economic losses from financial assets.

The Group classifies financial assets as assets subsequently measured at amortized cost (AC), at fair value through other comprehensive income (FVTOCI) or at fair value through profit and loss account (FVTPL):

(a) a business model for managing financial assets and
(b) characteristic of contracted cash flows of financial assets.

The Group seeks to classify its key portfolios (loans and receivables from customers, Groups and other financial organizations, i.e. liabilities based on financial guarantees and assumed future liabilities) as assets measured at amortized cost, while part of the securities is classified at fair through other comprehensive income (portfolio of securities available for sale, which is held for the purpose of adequate liquidity management where the business model also implies the collection of contractual cash flows and the potential sale of those financial assets) and fair value through profit and loss account (predominantly securities values for trading).

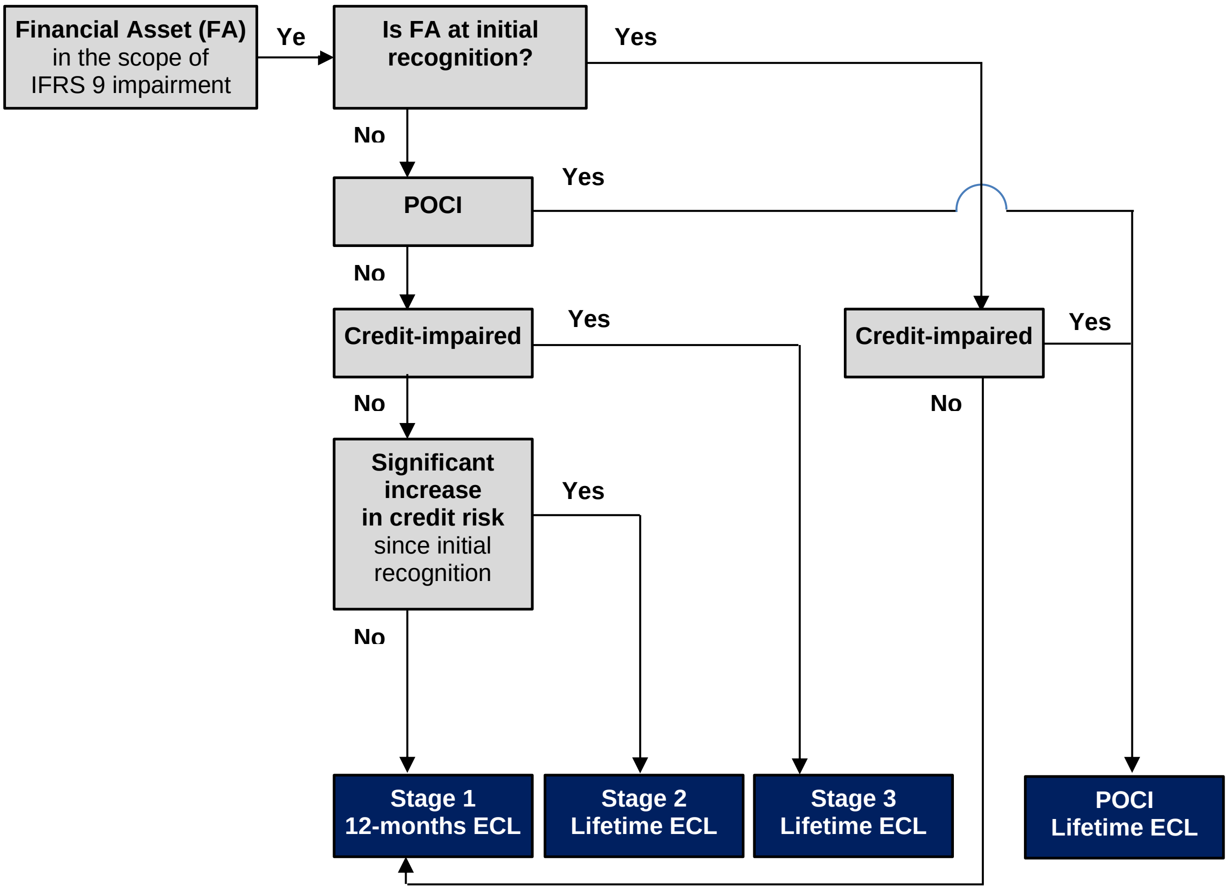
The objective of establishing an impairment allowances is to recognize expected credit losses over the life of all financial instruments, taking into account all reasonable and supporting information, including those relating to future events [IFRS 9 5.5.4.] Accordingly, financial assets that are relevant from the aspect of IFRS 9 standards and classified as AC or FVTOCI are assigned to one of the three stages, unless financial assets are recognized as POCI.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Expected credit loss / impairment is the present value of any decrease in the expected cash flow over the expected life of the financial asset. The decrease represents the difference between the cash flows owed to the Group in accordance with the contract and the cash flows that the Group expects to receive. Since the expected credit losses take into account the amount and the time of payment, the credit loss arises even when the Group expects to pay in full but later than the maturity of the contract.

The process of impairment of reserves due to credit losses:



36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Stage 1

a) Financial assets at initial recognition (other than POCI assets)

b) Financial assets meeting the requirements of low credit risk

c) Financial assets without significant increase in credit risk from initial recognition regardless of their credit quality

For Stage 1 the credit risk loss allowances are calculated as 12-months ECL

Stage 2

It includes financial assets with a significant increase in credit risk, but not credit-impaired at the reporting date, including initially recognized assets described above.

For Stage 2 the credit risk loss allowances are calculated as lifetime ECL.

Stage 3

It includes financial assets which are credit-impaired i.e. have default status at the reporting date.

For Stage 3 the credit loss allowances are calculated as lifetime ECL.

POCI assets

Financial assets impaired at initial recognition. POCI assets are not subject of a transaction between the stages, i.e. independently of the change in the credit quality of the client after the initial recognition of the POCI assets, the calculation of the expected credit losses is made throughout the life of the financial asset. Also, the expected credit losses over the life of the initial recognition date of POCI assets must be taken into account when calculating the fair value of the asset (while subsequent changes in the original expectation lead to the recognition of impairment allowances due to credit losses only if they lead to lower expectations compared with the date of creation, while those that lead to better expectations in comparison with the date of initial recognition are recognized as an increase in the gross carrying amount of the asset).

The Group uses the following qualitative and quantitative criteria that indicate a significant increase in credit risk (SICR) at the time of reporting relative to the moment of initial recognition of financial assets:

Qualitative criteria

- **Days past due (DPD) -** The Group defines more than 30 days past due with applied materiality threshold as a backstop indicator that lifetime expected credit losses should be recognised [IFRS 9 5.5.11., B5.5.19];
- **Forbearance** – Both performing and non- performing forbearance status are considered to be an indicator of significant increase in credit risk;
- **Transfer of the client to workout department** (workout department) - The transfer to workout department is considered as significant increase in credit risk since initial recognition;
- **Fraud -** in case of evidence of fraudulent activity related to financial assets that were not performed by the debtor and the debtor was not granted default status for objective reasons, financial assets should be transferred to level 2, ie expected credit losses over the life.
- **Portfolio level criteria** - The performance of the assessment of significant increase in credit risk on portfolio level is necessary if the increase in credit risk on individual instrument level is only available with a certain time lag.

Financial assets are transferred to Stage 2 if any of the qualitative criteria is activated from the moment of initial recognition until the moment of reporting and is still active.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Quantitative criteria

- **Relative change in the probability of a default status (PD) over a lifetime** - that is, a comparison of an annualized PD over the lifetime allocated on the reporting date and the adjusted annualized PD over the life of the assigned financial asset on initial recognition. Significant increase in credit risk from initial recognition is considered if the ratio is higher than the defined threshold. Defining the threshold is in the jurisdiction of the Group, and in accordance with the IFRS 9 Concept for estimating the SICR threshold.
- **Absolute change in the one-year probability of default status** - that is, a comparison of the annualized PD over the useful life at the reporting date and the adjusted annualized PD over the life of the financial asset at initial recognition. An absolute change of 1y PD above 50 bp is considered a significant increase in credit risk from initial recognition at the Group level.

Financial assets are transferred to stage 2 only if it is estimated that both relative and absolute PD changes are significant, i.e. the two changes must be greater than certain relative and absolute limits.

Transfer between stages is a symmetrical process. This means that the financial asset will be transferred from Stage 2 to Stage 1 if no SICR criteria is met.

Calculation of expected credit losses

The Group applies a collective assessment for non-performing financial assets, and the expected credit loss over its useful life is calculated in accordance with the following formula:

$$ECL_{LT} = \sum_{t=1}^{M} GCA_t \cdot PD_t \cdot LGD_t \cdot D_{t-1}$$

Where

1) ECL_{LT} is calculated lifetime expected credit loss;
2) M is the number of years since reporting date (t_0) till maturity (T) rounded up to the whole number, i.e. if the reporting date is end of May 2015 (t_0 = 31 May 2015) and maturity is at the end of October 2020 (T = 31 October 2020) then the remaining lifetime of the financial asset till maturity in years is 5.4, then M = 6;
3) t represents the year since reporting date;
4) GCA_t is the estimate of the gross carrying amount in the t-the year since reporting date;

   It is estimated as: $GCA_t = GCA_{t0} * c_t$, where GCA_{t0} is the gross carrying amount booked at reporting date and c_t is the coefficient calculated according to the "Estimation Concept for the IFRS 9 Risk Parameters EAD and CCF" which depends on repayment type and expresses the financial asset repayment during the remaining maturity;
5) PD_t is the estimate of the probability of default in the t-the year since reporting date;
6) LGD_t is the estimate of the loss given default considered in the t-the year since reporting date;
7) D_{t-1} is the discount factor applied in the t-the year since reporting date;

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

It is calculated as:

$$D_{t-1} = \frac{1}{(1+EIR)^{t-1}}$$

Lifetime ECL in case of undrawn loan commitment and financial guarantee contract is calculated according to the following formula:

$$ECL_{LT} = \sum_{t=1}^{M} EXP_t \cdot PD_t \cdot LGD_t \cdot D_{t-1}$$

Where EXP_t is the estimate of the exposure amount in the t-the year since reporting date which occurred due to drawn down of the undrawn loan commitment or due to payments under a financial guarantee.

It is estimated as: $EXP_t = \text{Off-Bal}_{t0} * CCF_t * c_t$, where

i) Off-Bal_{t0} is the off-balance amount booked at reporting date;

ii) CCF_t is credit conversion factor calculated according to the "Estimation Concept for the IFRS 9 Risk Parameters EAD and CCF";

For financial assets that are in the status of non-obligation of liabilities (assigned rating R). In the Group (based on the methodology provided by the Erste Group), for financial assets to defaulted customers, the lifetime expected credit loss is calculated as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original EIR [IFRS 9 B5.5.33].

The ECL can be estimated either on individual or collective basis.

1) The individual approach is applied in case of individually significant customers.
2) The collective assessment (or so-called rule-based approach) is applied in case of individually not significant clients

Individual approach

In case of ECL on financial assets of individually significant customers in default, the expected future cash flows have to be estimated individually by experts from work-out or late collection units.

More than one scenario of expected future cash flows shall be considered in ECL calculation to ensure the unbiased and probability weighted result.

In accordance with internal workout processes, typically the following scenarios should be accounted for:

1) Approved workout strategy which is the base scenario defined based on either going concern or gone concern / exit strategy;
2) Alternative base case, if applicable;
3) Contingency scenario (e.g. Groupruptcy / liquidation);
4) Exit scenario (e.g. NPL sale).

The calculation of lifetime ECL for financial assets of individually significant customer in default, for each scenario is done according to following formula:

$$ECL_{LT,s} = \max(0; GCA_{t_0} - \sum_{j=t_0}^{\infty} \frac{CF_j}{(1+EIR)^{(j-t_0)/365}})$$

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Where

1) $ECL_{LT,s}$ is the lifetime expected loss calculated for scenario s;
2) GCA_{t0} is the gross carrying amount booked at reporting date (t_0);
3) CF_j are expected cash flows at time j; the following cash flows are considered:
   a) Expected recovery payments – any principal and interest payments
   b) Expected collateral recoveries including costs for selling and obtaining collateral which are treated as negative payments
4) j is the date when the cash flow is expected;
5) EIR is original effective interest rate.

The final lifetime expected credit loss shall be calculated according to following formula:

$$ECL_{LT} = p_1 \cdot ECL_{LT,1} + p_2 \cdot ECL_{LT,2} + p_3 \cdot ECL_{LT,3}$$

Where

1) ECL_{LT} is the probability weighted lifetime expected loss at reporting date;
2) $ECL_{LT,s}$ is the lifetime expected loss calculated for scenario s, s= 1, 2 or 3 at reporting date;
3) p_s is the probability of occurrence for the scenario s, s = 1, 2 or at reporting date.

In case of undrawn loan commitments and financial guarantees, the lifetime ECL calculation is extended by the estimation of the expected future outflow. Afterwards, the calculation formula for one scenario is:

$$ECL_{LT,s} = \max(0; \sum_{i=t_0}^{\infty} \frac{CF_i}{(1+EIR)^{(j-t_0)/365}} - \sum_{j=t_0}^{\infty} \frac{CF_j}{(1+EIR)^{(j-t_0)/365}})$$

a) CF_i are expected cash outflows at time I, i.e. drawdown of the undrawn part of loan commitment or the usage of the financial guarantee:
b) CF_j are expected cash inflows at time j; the following cash flows are considered:
   i) Expected recovery payments – any principal and interest payments
   ii) Expected collateral recoveries including costs for selling and obtaining collateral which are treated as negative payments
c) i is the date when the cash outflow is expected;
d) j is the date when cash inflow is expected, cash outflows can be expected on different dates as cash inflows.

Rule based approach

In case of ECL on financial assets of individually not significant customers in default, the expected future cash flows can be estimated rule based. The calculation formula for lifetime ECL on financial assets of individually not significant customers in default is:

$$ECL_{LT} = GCA_{t0} \cdot LGD_{tiD}$$

Where

1) ECL_{LT} is the lifetime expected loss at reporting date;

2) GCA_{t0} is the gross carrying amount booked at reporting date (t_0);

3) LGD_{tiD} it the loss given default defined as a function of the time in default (tiD);

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

In case of undrawn loan commitments and financial guarantees, the lifetime ECL is calculated according to the formula:

$$ECL_{LT} = Off\text{-}Bal_{t0} \cdot CCF \cdot LGD_{tiD}$$

Where:

a) Off-Bal$_{t0}$ is the off-balance amount booked at reporting date (t_0);
b) CCF is the credit conversion factor calculated according to the "Estimation Concept for the IFRS 9 Risk Parameters EAD and CCF";

Risk parameters used to calculate expected credit losses

- PD – Probability of Default

PD represents the probability that the performing client will fall into the status of default in the period of 12 months, or in the lifetime of the product.

PD one-year, represents the probability of the client leaving the status of default in the next 12 months (or during the remaining period of the financial instrument if shorter than 12 months). The parameter is used to calculate the ECL for exposure in Stage 1 (Impairment Stage 1).

PD over a lifetime represents the calculated probability of the client going into the status of default during the remaining repayment period of a financial instrument. The parameter is used to calculate the ECL for exposure in Stage 2 and Stage 3.

The PD parameter (lifetime) represents the risk of the client going into default status at a certain point in time, taking into account forward-looking information (FLI components). As a result, one baseline scenario was obtained in the process of forecasting credit losses, as well as two alternative scenarios for selected macroeconomic variables (optimistic and pessimistic). Alternative scenarios were performed, together with the probabilities for their realization, as a deviation from the baseline scenario. Considering several scenarios, the "neutral" probabilities of going into default status are adjusted using macro models that link the relevant macro variables to the risk drivers.

Forward-looking information is incorporated into the process of calculating provisions for credit losses during the first three years.

FLI component calculation in 2020:

In order to improve the performance of the model, respecting the suggestions of Erste Group experts and taking into account the new situation regarding COVID-19 pandemic changes were introduced in the process of model development:

- Reducing the number of variables in the models in order to achieve greater stability
- Inclusion of the variable "Unemployment rate" in order to reflect the crisis caused by COVID-19 pandemic
- Exclusion of the variable "GDP_QQ" due to the displayed instability over time
- Exclusion of the variable "Inflation (Consumer Price Index)" due to inconsistency of influences in the models
- Moving the start of the time series of macroeconomic data from 2008 to 2009 in order to improve data quality
- In order to most adequately reflect the crisis caused by COVID-19 pandemic, the proposal of Erste Group experts is to change the probabilities for the used "Down", "Base", "UP" scenarios from 43%, 40%, 17% to 45%, 40%, 15% respectively.

ADD on component:

Given the specificity of 2020 in which default rates, due to the application of the moratorium, do not reflect the real macroeconomic situation in the country, there was a need to incorporate the "Add on" component in the calculation of the FLI component to fill the above gap.

The "Add on" component is calculated as follows:

$$Add\ on = \frac{Simulated\ DR_{2020} - Actual\ DR_{2019}}{Actual\ DR_{2019}}$$

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

The simulated default rate for 2020 was calculated using predictions for 2020 as realized values.

The implementation of new forward looking information, as well as "add on" comments in 2020, led to a change in the probability of default (PD), which resulted in an increase in the level of value adjustments in the total amount of RSD 284 millions.

Estimating the one-year and lifetime PD values is done on the available customer history data of the respective segment, using different statistical approaches depending on the client segment (migration matrix, historical average default rate, forward-looking information, etc.).

- LGD – Loss Given Default

LGD is the expected percentage loss that the Group incurs in the event that the exposure becomes a default status.

Statistical LGD calculated on the basis of the historical losses of the Group's customers is calculated for the segment of private individuals and micro clients and applies from 2018, while the annual reassessment was done in November 2019. For the Corporate Corporate segment, the Group is currently using LGD Expert Values (taking into account collateral coverage).

Statistical LGD calculated on the basis of historical losses of the Group's clients has been calculated for the segment of individuals and micro clients and has been applied since 2019, while the annual re-assessment was done in November 2020. For the Corporate segment, the Group currently uses LGD expert values (taking into account collateral coverage).

- CCF - Credit Conversion Factor

CCF represents the percentage of off-balance sheet exposure that can be transferred to the balance sheet exposure of the Group to the debtor by default. Given that the Group does not have sufficient historical data for the statistical assessment of the CCF parameter, in the ECL calculation, the regulatory values of the prescribed CRR - Foundation Approach are used.

The table below contains information about modified receivables

		In RSD '000
	Net book value of receivables prior to modification	**The effect of modification recorded through the profit and loss account**
Loans and receivables from banks and other financial organizations		
Construction	75.001	1.180
Non-profit institutions	8.172	146
Agriculture and food industry	508.215	735
Entrepreneurs	132.691	2.965
Manufacturing industry	589.330	(58)
Production and supply of electricity	992.100	3.115
Retail	1.691.804	325.475
Commerce	429.753	1.397
Services and tourism	672.639	5.237
Public enterprises	90.866	652
Balance at 31 December	**5.190.571**	**340.844**

The effects of modification as at 31 December 2020 amounted to RSD 340.844 thousand.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on changes of impaired receivables in 2020:

In RSD '000

	Gross value at beginning of period	Receivables impaired during year		Receivables which have ceased to be impaired during year		Other changes	Gross value at period end	Net value at period end
		Total	of which: impaired individually	Total	From which: impaired individually			
Receivables from retail clients	**1.388.984**	**364.453**	**7.221**	**261.286**	**92.592**	**(128.410)**	**1.363.741**	**287.401**
Household loans	405.414	23.263	6.619	112.061	91.563	(25.128)	291.488	94.490
Consumer and cash loans	864.500	308.765	548	141.544	991	(88.342)	943.380	179.797
Transactions and credit cards	14.521	5.806	-	2.411	35	(3.365)	14.550	2.349
Other receivables	104.549	26.620	54	5.270	3	(11.575)	114.324	10.765
Receivables from corporate clients	**760.885**	**818.756**	**756.804**	**99.267**	**97.437**	**(360.439)**	**1.119.934**	**317.977**
Large enterprises	-	-	-	-	-	-	-	-
Small and middle sized enterprises	564.749	102.867	87.572	95.502	95.502	(309.767)	262.347	57.203
Micro sized enterprises and entrepreneurs	146.526	711.420	669.232	1.590	-	(40.807)	815.549	256.040
Agriculture	48.065	4.469	-	2.176	1.935	(9.355)	41.004	4.734
Public enterprises	1.545	-	-	-	-	(511)	1.034	-
Receivables from other customers	**153.709**	**18.616**	**15.593**	**-**	**-**	**186.607**	**358.932**	**54.963**
Total receivables	**2.303.577**	**1.201.825**	**779.618**	**360.553**	**190.029**	**(302.242)**	**2.842.607**	**660.341**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on changes of impaired receivables in 2019:

In RSD '000

		Receivables impaired during year		Receivables which have ceased to be impaired during year				
	Gross value at beginning of period	Total	of which: impaired individually	Total	From which: impaired individually	Other changes	Gross value at period end	Net value at period end
Receivables from retail clients	**1.329.973**	**617.183**	**81.294**	**287.640**	**125.494**	**(270.532)**	**1.388.984**	**412.722**
Household loans	641.512	106.246	76.073	144.897	122.939	(197.447)	405.414	205.087
Consumer and cash loans	562.889	475.463	5.088	127.648	2.432	(46.203)	864.500	195.477
Transactions and credit cards	12.902	8.345	20	3.980	38	(2.746)	14.521	2.949
Other receivables	112.670	27.129	113	11.115	84	(24.136)	104.549	9.209
Receivables from corporate clients	**882.844**	**295.110**	**244.243**	**1.988**	**248**	**(415.082)**	**760.885**	**206.279**
Large enterprises	1.503	-	-	-	-	(1.503)	-	-
Small and middle sized enterprises	514.213	222.580	207.936	-	-	(172.044)	564.749	143.734
Micro sized enterprises and entrepreneurs	315.822	57.580	28.935	1.374	248	(225.502)	146.526	49.698
Agriculture	42.753	14.951	7.372	615	-	(9.024)	48.065	12.847
Public enterprises	8.553	-	-	-	-	(7.008)	1.545	-
Receivables from other customers	**111.093**	**50.751**	**47.879**	**-**	**-**	**(8.135)**	**153.709**	**45.400**
Total receivables	**2.323.910**	**963.044**	**373.416**	**289.628**	**125.742**	**(693.749)**	**2.303.577**	**664.401**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on changes of allowance for impairment of receivables in 2020:

In RSD '000

	Accumulated allowance for impairment at beginning of year	Allowance for impairment recognized during period	Reversal of allowance for impairment during the period	Other changes	Accumulated allowance for impairment at period end
Receivables from retail clients	**1.650.596**	**3.541.407**	**2.406.988**	**9.526**	**2.794.541**
Household loans	389.405	1.015.542	841.259	6.440	570.129
Consumer and cash loans	1.134.301	2.473.095	1.525.679	(23.355)	2.058.362
Transactions and credit cards	17.092	36.741	25.946	(886)	27.001
Other receivables	109.797	16.029	14.104	27.327	139.049
Receivables from corporate clients	**1.550.120**	**2.494.568**	**2.002.699**	**(222.059)**	**1.819.931**
Large enterprises	110.968	119.975	133.636	(10.314)	86.993
Small and middle sized enterprises	952.037	1.095.267	1.060.244	(234.071)	752.989
Micro sized enterprises and entrepreneurs	426.239	1.200.237	763.010	16.350	879.815
Agriculture	47.512	39.283	30.187	506	57.114
Public enterprises	13.364	39.806	15.621	5.471	43.019
Receivables from other customers	**132.964**	**79.113**	**66.361**	**196.189**	**341.906**
Total exposure	**3.333.681**	**6.115.088**	**4.476.047**	**(16.344)**	**4.956.378**
Per category of receivable:					
Non-problematic receivables:	1.690.639	4.593.864	3.641.512	122.833	2.765.824
Of which: restructured	117.483	39.948	84.836	(16.831)	55.765
Problematic receivables	1.643.042	1.521.224	834.535	(139.177)	2.190.554
Of which: restructured	409.432	728.619	382.892	(63.940)	691.220
Total exposure	**3.333.681**	**6.115.088**	**4.476.047**	**(16.344)**	**4.956.378**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on changes of allowance for impairment of receivables in 2019:

In RSD '000

	Accumulated allowance for impairment at beginning of year	Allowance for impairment recognized during period	Reversal of allowance for impairment during the period	Other changes	Accumulated allowance for impairment at period end
Receivables from retail clients	**1.627.750**	**2.689.716**	**2.299.957**	**(366.913)**	**1.650.596**
Household loans	708.416	695.769	668.224	(346.556)	389.405
Consumer and cash loans	784.474	1.928.223	1.576.732	(1.663)	1.134.301
Transactions and credit cards	15.765	33.556	32.494	265	17.092
Other receivables	119.095	32.168	22.507	(18.959)	109.797
Receivables from corporate clients	**1.709.801**	**1.951.646**	**1.916.634**	**(194.693)**	**1.550.120**
Large enterprises	84.617	207.228	199.309	18.432	110.968
Small and middle sized enterprises	830.255	1.033.889	1.052.755	140.648	952.037
Micro sized enterprises and entrepreneurs	646.164	648.521	596.484	(271.963)	426.239
Agriculture	47.097	49.408	47.972	(1.020)	47.512
Public enterprises	101.668	12.599	20.113	(80.790)	13.364
Receivables from other customers	**117.980**	**155.131**	**151.263**	**11.116**	**132.964**
Total exposure	**3.455.532**	**4.796.492**	**4.367.853**	**(550.490)**	**3.333.681**
Per category of receivable:					
Non-problematic receivables:	1.804.149	3.414.224	3.401.226	(126.508)	1.690.639
Of which: restructured	134.831	150.290	195.847	28.210	117.483
Problematic receivables	1.651.383	1.382.268	966.628	(423.981)	1.643.042
Of which: restructured	367.444	317.875	196.316	(79.570)	409.432
Total exposure	**3.455.532**	**4.796.492**	**4.367.853**	**(550.490)**	**3.333.681**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on accrued income from interest and collected interest for the year ended 31 December 2020

In RSD '000

	Interest income	Interest collected	Interest income on impaired receivables	Collected interest on impaired receivables
Receivables from retail clients	**4.452.637**	**3.016.366**	**84.962**	**36.198**
Household loans	1.445.585	1.064.942	11.675	6.660
Consumer and cash loans	2.869.704	1.857.456	69.675	27.980
Transactions and credit cards	104.169	66.533	1.811	891
Other receivables	33.179	27.435	1.801	666
Receivables from corporate clients	**3.484.258**	**2.368.099**	**62.742**	**11.954**
Large enterprises	459.288	376.751	231	-
Small and middle sized enterprises	1.840.152	1.323.264	19.763	7.168
Micro sized enterprises and entrepreneurs	933.683	479.706	41.556	3.778
Agriculture	19.664	13.151	1.192	1.009
Public enterprises	231.470	175.228	-	-
Receivables from other customers	**2.238.247**	**1.898.184**	**5.715**	**3.122**
Total receivables	**10.175.142**	**7.282.649**	**153.418**	**51.274**
Per category of receivable:				
Non-problematic receivables	10.015.853	7.228.624	-	-
Of which: restructured	32.795	14.918	-	-
Problematic receivables	159.289	54.025	153.418	51.274
Of which: restructured	74.825	14.972	69.779	12.832
Total receivables	**10.175.142**	**7.282.649**	**153.418**	**51.274**

According to the decision of the NBS on temporary measures to preserve the stability of the financial system, during the moratorium, the payment of interest on placements was postponed, and revenues were calculated in the amount of interest from annuities according to the initial repayment plan. All deferred interest was then allocated in proportion to the remaining duration of the placement. The balance of deferred interest due to moratorium on 31.12.2020 is RSD 1.990.367 one thousand.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on accrued income from interest and collected interest for the year ended 31 December 2019

In RSD '000

	Interest income	Interest collected	Interest income on impaired receivables	Collected interest on impaired receivables
Receivables from retail clients	**4.162.705**	**4.120.580**	**128.843**	**94.570**
Household loans	1.277.671	1.280.476	29.523	33.005
Consumer and cash loans	2.739.046	2.697.447	92.259	58.015
Transactions and credit cards	111.420	111.139	2.845	1.774
Other receivables	34.568	31.517	4.216	1.777
Receivables from corporate clients	**3.062.956**	**2.721.447**	**59.212**	**26.226**
Large enterprises	498.574	462.982	-	-
Small and middle sized enterprises	1.486.796	1.391.115	42.006	19.438
Micro sized enterprises and entrepreneurs	892.514	684.434	15.091	4.692
Agriculture	22.105	21.039	2.081	938
Public enterprises	162.966	161.877	34	1.158
Receivables from other customers	**1.882.041**	**1.654.659**	**3.551**	**879**
Total receivables	**9.107.701**	**8.496.686**	**191.606**	**121.675**
Per category of receivable:				
Non-problematic receivables	8.916.123	8.361.856	-	-
Of which: restructured	67.882	34.955	-	-
Problematic receivables	191.578	126.240	191.606	121.675
Of which: restructured	59.043	36.387	59.659	32.434
Total receivables	**9.107.701**	**8.488.096**	**191.606**	**121.675**

Interest income from loans is recognized in accordance with IFRS 9, in effective interest rate, which represents rate that discounts estimated future payments through expected life cycle of loan to net present value of loan.

When determining the effective interest rate, all terms from contract related to that financial instrument are taken into account, but not future credit losses.

With impaired loans, income is recognized in amount of income specified using the effective interest rate on the net book value (book value minus amount of impairment).

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Restructured Loans

Where possible, the Group seeks to reschedule or restructure loans rather than foreclose collaterals. This may involve extending the payment terms or any other modification to the original loan agreement provisions. Rescheduling or restructuring may be business rescheduling or forbearance restructuring.

Business loan rescheduling entails alteration to the originally agreed loan terms in such way to provided to the client more favourable terms, not caused by the borrower's financial position deterioration, or mitigation of the consequences of the deteriorated financial position of the borrower. It is rather a result of a changed market situation (customers, suppliers, competitors) and the need to adjust the loan repayment schedule and terms to the newly arisen situation.

Forbearance represents restructuring caused by:

- the borrower's inability to fulfil its initial contractual obligations due to financial difficulties and
- the need of the Group to make certain concessions to enable the borrower to orderly service its liabilities.

Performing forbearance – represents starting category within forbearance principle and its granted in case of defined deterioration of client's financial position, i.e. his creditworthiness registered delay in payment of over 30 days in last 3 months before submission of request to reschedule loan or other non-compliance with terms from contract. Minimal period of validity of this status is 2 years during which in the last 12 months client has to repay min 6,7 % of total debt per year (applies to Corporate) with delays in repayment not logner than 30 days, and on the period end can't have matured debt.

Performing forbearance under probation – is a specific category within Forbearance status where client get transferred to from none performing forbearance or default forbearance status after monitoring period of minimum 1 year expires, in which following conditions must be met cumulatively: maximum delays during the monitoring period, no delays at the end of the monitoring period and recorded positive financial development (Corporate clients only, which indicates the debtor's ability to duly fulfill contractual obligations in the future. Performing Forbearance under probation lasts at least 2 years, provided that all conditions for the client to withdraw from the status of Forbearance (the client has no arrears more than 30 days in the last 12 months consecutively, at the end of the period has no due obligations, the installment is not less than 50% of the initial installment for retail clients and the client (valid for Corporate) has paid the minimum 6.7% of the principal in the last 12 months).

Non-performing forbearance is granted in following situations:

- client fails to implement the final rescheduling after a period of 18 m from giving the status of "interim measures";
- the occurrence of any events of default which are not related to rescheduling during the forbearance performing status;
- delays over 30 days for client that is in Performing Forbearance under probation status
- If client who is in Performing Forbearance under probation status gets a new reschedule in 2nd year of status.

Monitoring period for clients with NPF status lasts for one year after that, in case of fulfilment of defined terms, client gets into Performing forbearance under probation status.

Distressed reprogram / re-structuring (defaulted forbearance) is a form of restructuring that gives the client the status of default. This way covers the overall exposure (or its major part) and is always activated by a significant deterioration of the client's creditworthiness. Distress reprogram is granted whenever the client has a rating R at the moment of approval of the reprogram, when the client is not in employment (applies only to natural persons), and when the client is granted another reprogram, and less than 2 years have passed since the approval of the initial reprogram.

Temporary measures – these measures do not include final reschedule but mid step to it. It usually occurs in situations when there is a growing number of lenders with a specific client and requires a longer period of time due to internal processes and procedures of each creditor in order to define the final model of the restructuring (example - the situation when the resorts stand-still agreements or moratorium as a transitional solution to the final restructuring). The duration of interim measures is limited to 18 month.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

The Group continually reviews restructured loans to ensure the fulfilment of all criteria, as well as future payments or timely assignment of default status of a client who fails to comply with defined criteria.

Data on restructured loans as at 31 December 2020:

In RSD '000

	Gross value of total receivables	Accumulated allowance for impairment	Gross restructured loans		Accumulated allowance for impairment for rescheduled receivables	% of restructured receivables	Value of collateral of restructured loans
			Total	from which: problematic receivables			
Receivables from retail clients	**90.452.548**	**2.794.541**	**822.499**	**468.280**	**329.484**	**0,91**	**285.824**
Housing loans	47.520.328	570.129	379.451	195.973	132.227	0,80	285.824
Consumers and cash loans	39.954.252	2.058.362	443.048	272.307	197.257	1,11	-
Transactions and credit cards	688.601	27.001	-	-	-	-	-
Other receivables	2.289.367	139.049	-	-	-	-	-
Receivables from corporate clients *	**100.731.232**	**1.664.242**	**808.356**	**616.174**	**410.457**	**0,80**	**239.933**
Sector A	8.809.684	158.963	22.154	-	6.832	0,25	22.154
Sectors B, C and E	27.419.673	719.807	589.419	589.164	363.950	2,15	50.918
Sector D	12.892.411	191.755	2.682	2.682	2.682	0,02	1.853
Sector F	13.777.594	89.642	6.048	6.048	4.624	0,04	1.181
Sector G	12.352.339	174.624	17.342	-	3.801	0,14	6.192
Sector H, I and J	11.490.407	129.599	150.677	-	18.929	1,31	139.356
Sector L, M and N	13.989.125	199.851	20.034	18.280	9.639	0,14	18.280
Receivables from other clients	**17.932.048**	**497.594**	**48.883**	**5.763**	**7.045**	**0,27**	**18.464**
Total receivables	**209.115.828**	**4.956.378**	**1.679.739**	**1.090.217**	**746.986**	**0,80**	**544.222**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

The Group continually reviews restructured loans to ensure the fulfilment of all criteria, as well as future payments or timely assignment of default status of a client who fails to comply with defined criteria.

Data on restructured loans as at 31 December 2019:

In RSD '000

	Gross value of total receivables	Accumulated allowance for impairment	Gross restructured loans		Accumulated allowance for impairment for rescheduled receivables	% of restructured receivables	Value of collateral of restructured loans
			Total	from which: problematic receivables			
Receivables from retail clients	**78.412.749**	**1.650.596**	**899.411**	**517.864**	**311.722**	**1,15**	**346.753**
Housing loans	43.583.154	389.405	427.769	251.490	115.511	0,98	346.753
Consumers and cash loans	32.057.915	1.134.301	471.642	266.373	196.211	1,47	-
Transactions and credit cards	702.868	17.092	-	-	-	-	-
Other receivables	2.068.812	109.797	-	-	-	0,00	-
Receivables from corporate clients *	**87.604.307**	**1.451.774**	**1.088.069**	**217.432**	**209.994**	**1,24**	**423.840**
Sector A	7.663.089	130.982	206.906	-	21.934	2,70	197.528
Sectors B, C and E	24.747.325	548.041	565.226	59.991	82.506	2,28	58.058
Sector D	10.753.820	179.563	2.717	2.717	2.717	0,03	2.187
Sector F	11.749.061	73.865	68	68	-	0,00	68
Sector G	12.705.946	242.709	142.269	135.148	73.764	1,12	7.121
Sector H, I and J	8.333.333	96.138	151.375	-	27.271	1,82	139.371
Sector L, M and N	11.651.734	180.475	19.507	19.507	1.801	0,17	19.507
Receivables from other clients	**10.491.693**	**231.310**	**19.579**	**4.522**	**5.201**	**0,19**	**1.339**
Total receivables	**176.508.750**	**3.333.681**	**2.007.060**	**739.819**	**526.916**	**1,14**	**771.932**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on restructured loans as at 31 December 2020:

In RSD '000

	Gross value at the beginning of period	Restructured receivables during period	The receivables during the period ceased to be considered as restructured	Other changes	Gross value at year end	Net value at year end
Receivables from retail clients	**899.411**	**140.253**	**164.049**	**(53.116)**	**822.499**	**496.155**
Household loans	427.769	16.511	48.116	(16.713)	379.451	247.224
Consumer and cash loans	471.642	123.742	115.933	(36.402)	443.048	248.930
Receivables from corporate clients	**1.107.649**	**50.178**	**306.239**	**5.651**	**857.239**	**436.598**
Small and middle sized enterprises	321.290	12.001	121.898	6.526	217.919	164.958
Micro sized enterprises and entrepreneurs	779.746	38.177	183.376	(261)	634.286	268.762
Agriculture	6.613	-	965	(614)	5.034	2.877
Total receivables	**2.007.060**	**190.431**	**470.288**	**(47.465)**	**1.679.739**	**932.752**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on changes on restructured loans as at 31 December 2019:

In RSD '000

	Gross value at the beginning of period	Restructured receivables during period	The receivables during the period ceased to be considered as restructured	Other changes	Gross value at year end	Net value at year end
Receivables from retail clients	**813.432**	**380.702**	**198.995**	**(95.727)**	**899.411**	**589.047**
Household loans	419.107	153.949	114.865	(30.422)	427.769	312.258
Consumer and cash loans	387.735	226.753	81.469	(61.378)	471.642	276.788
Other receivables	6.589	-	2.662	(3.927)	-	-
Receivables from corporate clients	**703.271**	**473.691**	**10.616**	**(58.697)**	**1.107.648**	**891.097**
Large enterprises	-	-	-	-	-	-
Small and middle sized enterprises	128.967	273.203	7.865	(73.015)	321.290	210.564
Micro sized enterprises and entrepreneurs	566.613	198.665	230	14.698	779.746	676.923
Agriculture	7.690	1.823	2.521	(379)	6.613	3.609
Other clients	**-**	**-**	**-**	**-**	**-**	**-**
Total receivables	**1.516.702**	**854.393**	**209.611**	**(154.424)**	**2.007.060**	**1.480.143**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on structure of restructured receivables according to measures of reschedule during 2020:

In RSD '000

	Delay capitalisation	Grace period	Extension of maturity date	Change of interest rate	Partial write off	Other measures	Total
Receivables from retail clients	**515.707**	**14.675**	**603.387**	**776.567**	**38.690**	**49.801**	**822.499**
Household loans	229.036	11.397	162.236	336.664	37.961	49.801	379.451
Consumer and cash loans	286.671	3.278	441.151	439.903	729	-	443.048
Receivables from corporate clients	**820.219**	**609.316**	**830.499**	**68.870**	**2.632**	**1.609**	**857.239**
Small and middle sized enterprises	214.776	9.766	217.919	53.617	2.632	-	217.919
Micro sized enterprises and entrepreneurs	601.249	599.550	609.450	10.899	-	-	634.286
Agriculture	4.194	-	3.130	4.354	-	1.609	5.034
Total receivables	**1.335.926**	**623.991**	**1.433.885**	**845.437**	**41.322**	**51.410**	**1.679.739**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on structure of restructured receivables according to measures of reschedule during 2019:

In RSD '000

	Delay capitalisation	Grace period	Extension of maturity date	Change of interest rate	Partial write off	Other measures	Total
Receivables from retail clients	**540.612**	**16.503**	**657.120**	**839.483**	**47.573**	**52.780**	**899.411**
Household loans	268.428	12.290	187.977	370.952	46.129	52.162	427.769
Consumer and cash loans	272.184	4.213	469.143	468.531	1.444	618	471.642
Receivables from corporate clients	**784.476**	**862.358**	**1.079.466**	**105.469**	**7.134**	**1.890**	**1.107.648**
Small and middle sized enterprises	198.022	159.748	321.290	35.686	7.134	-	321.290
Micro sized enterprises and entrepreneurs	581.673	702.610	753.499	64.126	-	-	779.746
Agriculture	4.781	-	4.677	5.657	-	1.890	6.613
Total receivable	**1.325.088**	**878.860**	**1.736.586**	**944.952**	**54.708**	**54.669**	**2.007.060**

An overview by restructuring measures is presented according to each of the applied measures regardless of whether any other measure has been applied.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Loan concentration risk

Concentration risk represents a risk of incurring losses arising from the Group's large exposure to a certain group of borrowers or a single borrower. Credit risk concentration arises when a significant number of borrowers belong to the same industry or the same geographic area, or have similar economic characteristic, are exposed to the same factors affecting their income and expenses, which may influence their contractual liability settlement in the event of changes in the economic, political or other circumstances that affect them equally. In order to create and maintain a safer loan portfolio and minimize the concentration risk, the Group defines safety measures by determining maximum exposure levels and credit limits and by regular monitoring of the compliance with the limits set. Moreover, on a regular annual basis the Group performs detailed and comprehensive analyses of credit risk (and other risk) concentration per different dimensions (exposure classes, industries, collaterals, products, etc.).

Group manages concentration risk in credit portfolio through framework defined in Policy of concentration risk management, regulatory limit defined in Decision about Group’s risks management, internally defined limits and limits defined in Policy for exposure risks determination.

The Group has defined monitoring of credit risk exposure in Policy of risk concentration management by following categories: concentration per class of exposure (Basel II exposure classes), concentration by client’s rating, concentration of legal entities, Real estate and micro clients in industry sectors, concentration of exposure toward individual clients in total credit portfolio, portfolio of clients of legal entities, Groups and governments, concentration of collateral, concentration per currencies and concentration per products. For purposes of determining the concentration of credit risk the Group use Herfindahl-Hirschman Index (HHI) and Moody’s matrix.

According to the Decision of the Group's risk management, the Group analyses the exposure to credit risk through the following two indicators:

- Exposure to a single entity or group of related entities, which may not be higher than 25% of its capital,
- The sum of large exposures, which may not be higher than 400% of its capital.

In addition, the Group for monitoring an internal limit retained indicator that was previously defined by the regulations, and by whom exposures to related parties may not be higher than 20% of its capital.

Policy for determining exposure limits - the framework for customers / groups of customers, the Group has defined monitoring concentrations of credit risk for corporate customers, financial institutions and the state at the following levels: maximum limit of exposure, the maximum exposure limit based on the rating and operating maximum limit of exposure.

In addition, in accordance with the provisions of the Decision on Concentration Risk Management Based on the Group's Exposure to Certain Product Types (“Official Gazette of the RS”, No. 103/2018), on 31 December 2019, the Group is fully compliant with the regulatory requirements prescribed by that decision.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on concentration per sector and geographical region of exposure at during 2020:

In RSD '000

	Belgrade region		Vojvodina		Sumadija and Western Serbia		South and East Serbia		Kosovo and Metohija		Foreign countries	
	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables
Receivables from retail clients	**34.107.221**	**399.262**	**36.057.458**	**597.487**	**10.566.140**	**303.355**	**7.558.601**	**126.804**	**722.541**	**8.376**	**5.267**	**36**
Household loans	22.924.163	76.962	17.813.686	135.427	3.958.797	78.748	2.394.591	24.705	108.288	-	4.962	-
Consumers and cash loans	10.101.062	282.072	17.126.528	417.991	6.231.392	190.326	4.916.836	91.152	588.875	8.020	-	-
Transactions and credit cards	128.380	2.955	395.585	6.933	97.373	3.305	47.824	1.550	4.605	91	-	-
Other receivables	953.616	37.274	721.660	37.137	278.578	30.977	199.350	9.396	20.773	265	304	36
Receivables from corporate clients *	**51.284.647**	**770.888**	**31.700.018**	**114.252**	**8.924.626**	**83.348**	**4.749.455**	**40.153**	**1.046**	**-**	**-**	**-**
Sector A	687.921	15.006	5.880.537	5.090	507.087	4.391	50.802	-	-	-	-	-
Sectors B, C and E	4.522.116	600.694	10.839.514	59.181	4.290.836	38.169	2.345.015	4.378	-	-	-	-
Sector D	6.088.857	-	1.557.810	-	2.261.162	-	1.062.014	-	-	-	-	-
Sector F	11.063.153	11.138	3.555.655	667	321.164	3.352	378.969	4.053	-	-	-	-
Sector G	6.423.055	64.479	5.659.022	36.520	625.623	22.774	688.061	30.406	1.046	-	-	-
Sector H, I and J	9.383.015	23.892	2.253.660	5.102	485.962	14.435	115.749	838	-	-	-	-
Sector L, M and N	13.116.531	55.679	1.953.820	7.691	432.793	226	108.845	477	-	-	-	-
Receivables from other clients	**14.393.421**	**29.834**	**3.111.056**	**165.462**	**776.595**	**259.717**	**468.826**	**15.212**	**-**	**-**	**1.774.725**	**-**
Total exposure	**99.785.289**	**1.199.984**	**70.868.532**	**877.201**	**20.267.361**	**646.420**	**12.776.882**	**182.169**	**723.586**	**8.376**	**1.779.992**	**36**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on concentration per sector and geographical region of exposure during 2019:

In RSD '000

	Belgrade region		Vojvodina		Sumadija and Western Serbia		South and East Serbia		Kosovo and Metohija		Foreign countries	
	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables
Receivables from retail clients	**30.613.047**	**395.399**	**30.171.861**	**634.517**	**9.307.553**	**287.689**	**6.204.232**	**123.367**	**664.365**	**5.285**	**5.420**	**16**
Household loans	21.705.411	101.401	15.474.514	194.038	3.742.728	93.174	2.134.252	39.086	93.184	-	5.366	-
Consumers and cash loans	7.978.483	254.545	13.574.916	401.419	5.196.412	162.221	3.865.004	74.851	544.961	5.102	-	-
Transactions and credit cards	133.249	2.638	407.856	7.059	96.508	3.603	46.568	1.402	3.913	73	-	-
Other receivables	795.905	36.814	714.575	32.001	271.905	28.691	158.408	8.028	22.308	110	53	16
Receivables from corporate clients *	**42.452.234**	**216.646**	**29.049.228**	**97.098**	**8.194.971**	**309.440**	**4.996.599**	**53.234**	**3.509**	**-**	**-**	**-**
Sector A	432.711	895	5.608.236	4.020	362.922	2	46.295	-	-	-	-	-
Sectors B, C and E	3.620.715	17.586	9.616.773	59.230	3.510.693	242.314	2.757.052	6.555	-	-	-	-
Sector D	5.639.876	-	1.297.581	-	2.323.605	-	653.369	-	-	-	-	-
Sector F	9.279.039	8.101	3.039.768	426	230.342	3.353	348.111	7.196	-	-	-	-
Sector G	5.498.502	157.051	5.089.578	25.076	976.667	47.345	752.530	38.602	1.474	-	-	-
Sector H, I and J	8.163.090	11.736	1.987.490	4.140	442.512	16.199	146.326	881	2.035	-	-	-
Sector L, M and N	9.818.301	21.277	2.409.801	4.205	348.230	226	292.917	-	-	-	-	-
Receivables from other clients	**7.820.131**	**16.924**	**2.039.896**	**180.718**	**650.137**	**17.283**	**388.893**	**23.249**	**-**	**-**	**1.585.810**	**-**
Total exposure	**80.885.412**	**628.969**	**61.260.984**	**912.333**	**18.152.661**	**614.412**	**11.589.724**	**199.850**	**667.874**	**5.285**	**1.591.229**	**16**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Credit-related Risks

Credit risk includes residual risk, dilution risk, settlement / delivery risk, counterparty risk and credit and foreign exchange risk. Group risks related to credit risk beyond the same control processes and policies used for credit risk.

Counterparty Risk

The Group operates with derivative financial instruments, which leads to its exposure to counterparty risk, the risk of counterparty non-fulfilment of obligations in the transaction before the final alignment of cash flows from the same transaction.

Derivatives' credit risk is limited by determining the maximum far value for each derivative financial instrument, having in mind their type, maturity and credit quality of clients. For repo / reverse repo transactions, different types of limits have been established (nominal product limit, nominal limit to the other counterparty, limit to the other counterparty in accordance with the client's maturity and credit quality), and credit risk is limited by daily collateral valuation and establishment process for margin call.

36.3. Liquidity Risk and Financial Assets Management

Liquidity risk is defined by the Decision of the National Group on liquidity risk management ("Official Gazette of the Republic of Serbia", No. 103/2016).

Liquidity risk is the risk that the Group would not be able to discharge its liabilities when they fall due. To reduce or to limit this risk, management has arranged diversified funding sources, manages assets considering their liquidity, and monitors Group's future cash flows and liquidity on a daily basis.

This involves estimating expected RSD and foreign currency cash flows on daily basis and availability of highly liquid buffers that may be used to ensure additional funding, if required. The Group manages its assets and liabilities in such a way that it can meet its due liabilities at all time, as well as to have customers disposing their funds held with the Group in accordance with agreed terms.

Liquidity risk management in the Group is defined by policies, procedures and rulebooks approved by the Management Board and Executive Board, which are in compliance with the risk management strategy at the level of Erste Group, as well as with all relevant laws and regulations of the Republic of Serbia. Policies, procedures and regulations are reviewed when necessary or at least once a year.

Liquidity risk management process is organized through the Asset and Liability Management Committee ("ALCO"), Market and Liquidity Risk Management Department and Asset and Liability Management Unit.

ALCO and Operating Liquidity Management Committee ("OLC") are responsible for liquidity risk monitoring, management and recommending to the Executive Board measures and activities for liquidity maintenance, maturity matching, planning of funding reserves and other measures relevant to the financial stability of the Group. ALM Unit and Market and Liquidity Risk Management Department monitor the liquidity ratio on a daily basis, so that it is maintained within the limits prescribed by NBS and the Group's Liquidity Risk Management Policy and Contingency (Liquidity Crisis) Financing Plan ("LCFP"). In addition to monitoring this ratio, the liquidity risk management policy and LCFP define other ratios and their limits and persons/units in charge of monitoring of and reporting on those ratios. A brief summary of the liquidity ratios is presented every two-week at OLC meetings, and more frequently in case limits are exceeded or liquidity status is changed.

The Group maintains a portfolio consisted of highly liquid securities and diversified assets that can be easily converted into cash in the event of unforeseen and negative oscillations in cash flows of the Group. In addition, the Group maintains the required level of obligatory dinar and foreign currency reserves, in accordance with the requirements of the National Group of Serbia.

Liquidity level is expressed using the liquidity ration that represents the sum of first-class assets(cash balances, gold and other precious metals, funds held on accounts with other Groups with assigned credit rating of a selected credit rating agency corresponding to credit rating quality 3 or higher, as determined in accordance with the Decision on Capital Adequacy, (investment rank), deposit held with NBS, cheques and other monetary receivables in settlement, irrevocable lines of credit approved to the Group, shares and debt instruments quoted on the stock exchange, 90% of the fair value of securities denominated in RSD with no currency clause index, issued by the Republic of Serbia with minimum maturities of 3 months, i.e., 90 days, classified by the Group as trading securities or securities available for sale) and second-class assets (other receivables maturing within a month) relative to the sum of liabilities per demand deposits or those without specified maturity (40% demand deposits due to Groups, 20% demand deposits due to other depositors, 10% savings deposits, 5% guarantees and other sureties and 20% of undrawn irrevocable loan facilities) and liabilities with fixed contractual maturities within a month.

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

In addition to broader liquidity indicators, the Group monitors and narrows the liquidity ratio.

The narrow liquidity ratio is the ratio of liquid assets of the First-Tier Group, on the one hand, and collects the Group's obligation to see or without the agreed maturity and obligations of the Group with the agreed maturity within the next month from the date of calculation of the indicator, on the other.

During 2020 and 2019 the Group had daily liquidity ratios above the legally prescribed level.

	31 December 2020	31 December 2019
Average during period	1,37	1,36
Highest	1,87	1,68
Lowest	1,12	1,13
On day	1,73	1,49

Narrower liquidity ratio during 2020 and 2019

	31 December 2020	31 December 2019
Average during period	1,29	1,21
Highest	1,82	1,55
Lowest	1,09	0,96
On day	1,69	1,38

As at 30 June 2017, on the basis of the Decision on the Group's liquidity management, adopted by the National Group of Serbia, the Groups are obliged to calculate and report on liquidity coverage ratio (hereinafter LCA) on a monthly basis. LCA represents the ratio of the Group's liquidity layer to the Group and the net outflow of liquid assets that would arise during the next 30 days from the date of calculating this indicator under the assumed stress conditions. The Group is obliged to keep LCA, in all currencies, at a level not lower than 100%.

A set of policies and other internal acts adopted by the Managing and Executive Boards describe in more detail the issues of jurisdiction, methodology of calculation, limits and escalation. In addition to the defined regulatory limit, the Group has established and monitors the internal limits for LCA.

The Department for Market Risk Management and Liquidity Risk within the Strategic Risk Management Department is responsible for calculating the indicators. As at 31 December 2020 and 31 December 2019 Group had Indicator of liquid assets coverage ratio above prescribed limit.

	31 December 2020	31 December 2019
Indicator of liquid assets coverage	201,23%	197,37%

In addition to calculating regulatory and internal indicators, the Group conducts a regular stress test for liquidity risk. Survival Period Analysis is done on a weekly basis. Three types of crisis (name crisis, market crisis and combined crisis) have been defined with two degrees of seriousness (mild and serious). Each of the crises has an assumed duration.

The worst scenario to be followed assumes a very limited access to the interGroup market and the capital market, and at the same time large outflows from client deposits. In addition, the simulation assumes greater use of guarantees and credit lines. At the beginning of 2018, a new methodology for the analysis of the survival period was adopted. The Group has defined internal limits for SPA. The methodology used for the Survival Period Analysis (SPA) in EBS is based on the Approach of the Hazardous Zone. The hazardous zone model is used as a model of risk financing in system stress tests. The assumption is that liquidity risk is a secondary risk, which can easily be expanded and increase any crisis arising from other risk categories. Approach of the Hazardous Zone implies that while the crisis develops and becomes more serious, there are critical points where each financial market is closed and is no longer available to the subject.

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

As an additional way of managing liquidity risk, the Group produces a monthly report on the liquidity gap, in which positions are allocated either according to the agreed maturity or with assumptions for the allocation of positions that have no agreed maturity. The Market and Liquidity Risk Management Department is responsible for regular monitoring and reporting. The Group's Executive Board has adopted internal limits on the liquidity gap for both the absolute cash flow indicator and the cumulative cash flow indicator. The methodology for preparing the report is defined through a separate internal act.

The Group, in accordance with the requirements of the parent Group, and based on EU regulations, monitors and reports the indicator of the NSFR (Net Stable Funding ratio). The indicator is defined as the relationship between elements that provide stable financing and elements that require stable funding, and serves to monitor structural liquidity risks, with a focus on long-term financing for the purpose of limitation of the use of short-term financing and financing incompatibility. The Group has defined the internal limits for the NSFR indicator.

The amount of internal limits is reviewed annually.

The Group's Executive Board is informed of liquidity risk exposures through a monthly report on liquidity risk indicators.

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

Maturity Analysis of the Group's Financial Liabilities

The following table shows the Group's most significant financial liabilities by maturity, as at 31 December 2020 and 31 December 2019 and is based on contractual undiscounted repayments.

The Group expects that most of its depositors will not demand payment of deposits at the contractually defined maturity dates.

In RSD '000

	Within a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2020
Liabilities per borrowings, deposits and securities	20.112.434	29.713.590	58.946.410	103.806.427	45.134.074	**257.712.935**
Subordinated liabilities	-	83.986	252.572	-	3.533.849	**3.870.407**
Total	**20.112.435**	**29.797.576**	**59.198.982**	**103.806.427**	**48.667.923**	**261.583.342**

In RSD '000

	Within a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2019
Liabilities per borrowings, deposits and securities	14.938.301	20.356.934	61.390.689	75.182.099	38.357.915	210.225.938
Subordinated liabilities	-	120.336	357.130	827.650	3.951.083	5.256.198
Total	**14.938.301**	**20.477.269**	**61.747.819**	**76.009.749**	**42.308.998**	**215.482.136**

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

***Maturity Analysis of the Group's Financial Liabilities* (continued)**

The table below provides the Group's guarantees, letters of credit and other irrevocable commitments per maturities:

In RSD '000

	Up to 14 days	From 15 days to a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2020
Contingent liabilities	426.385	772.921	3.917.595	11.417.337	7.303.074	694.153	24.531.465
Irrevocable commitments and letters of credit	26.221.740	831.699	720.607	4.047.232	4.742.941	2.629.485	39.193.704
Total	**26.648.125**	**1.604.620**	**4.638.202**	**15.464.569**	**12.046.015**	**3.323.638**	**63.725.169**

In RSD '000

	Up to 14 days	From 15 days to a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2019
Contingent liabilities	176.368	61.611	317.299	5.612.291	12.928.675	2.301.992	21.398.236
Irrevocable commitments and letters of credit	22.325.690	107	239.735	2.071.048	7.107.841	8.363.682	40.108.103
Total	**22.502.058**	**61.718**	**557.034**	**7.683.339**	**20.036.516**	**10.665.674**	**61.506.339**

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

***Maturity Analysis of the Group's Financial Liabilities* (continued)**

The Group expects that not all contingencies and commitments would be withdrawn prior to expiry of their maturity.

For financing small and medium enterprises and small and medium infrastructure projects implemented by municipalities, the Group has used the funds of the European Investment Group ("EIB"), German Development Group ("KfW") and European Group for Reconstruction and Development ("EBRD").

The Group has signed four contracts with the EIB for the financing of small and medium-sized enterprises, as well as small and medium-size infrastructure projects implemented by municipalities, in 2010, 2012, 2015 and 2018 in the total amount of 175 million euros. In 2020, the Group signed a new agreement with the EIB for a total amount of EUR 30 million for the purpose of financing small and medium-sized enterprises and medium-sized enterprises in order to respond to the situation caused by the COVID 19 crisis.

By signing a contract with the German Development bank, KfW, signed in 2014, the Bank provided funds for the financing of micro, small and medium enterprises and energy efficiency / renewable energy projects in the amount of a total of EUR 20 million.

At the end of 2017, the Bank signed a new contract with KfW in the amount of EUR 23 million for financing energy efficiency and renewable energy.

In mid-December 2018, the Bank signed a new contract with the German Development Group, KfW, to finance renewable energy sources for small and medium-sized enterprises in the total amount of EUR 10 million.

In mid-June 2019, the Bank signed a contract with the European bank for Reconstruction and Development for the financing of micro, small and medium-sized enterprises totalingn EUR 40 million.

On 3 December 2015, the Bank signed a long-term loan agreement with Erste Group Group AG for the financing of loans to legal entities in the amount of EUR 100 million. At the end of 2017, a new long-term loan contract was signed for an amount of EUR 53 million.

In June 2018, the Bank signed a new contract with Erste Group AG for the purpose of financing loans to legal entities in the total amount of EUR 65 million.

At the end of June 2018, the Bank signed an agreement with the EBRD for the financing of energy efficiency projects in the housing sector. The total amount of the contract is RSD 600 million.

In July 2017, the bank signed a contract with the National Bank of Serbia as an state agent, for the use of funds from the Apex Loan for Small and Medium Enterprises and other priorities III / B.

During 2020 Bank is signed two long-term contracts with EBRD for the purpose of financing micro, small and medium companies in amount of 2,16 billion and EUR 40 million.

The balance of loans taken from foreign credit institutions by the Bank during the year 2020 amounts to RSD 41.923.286. thousand (2019. godine: RSD 45.252.182 thousand) (note 27).

During 2017, S-Leasing signed contracts with Erste Bank and the EIB as a co-borrower. Of the total approved EUR 50 million, S-Leasing was granted a share of EUR 5 million as a co-borrower.

During 2018, S-leasing signed a new contract with the EIB as a co-borrower. Of the total approved EUR 60 million, S-leasing as a co-borrower received a share of EUR 10 million.

During 2020, S-Leasing signed three contracts with Steiermarkishe Bank und Sparkassen in the amounts of 11 million, 14 million and 17 million euros.

In addition to the above, S-leasing has 5 active contracts signed with Nord Bank.

The balance of liabilities based on loans from foreign credit institutions at the end of 2020 amounts to RSD 12.846.918 thousand (2019: RSD 10.907.515 thousand)

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

***Maturity Analysis of the Group's Financial Liabilities* (continued)**
Liquidity Gap Analysis – Financial Assets and Liabilities

In RSD '000

	Up to 14 days	15 days up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total 2020
ASSETS							
Cash and cash funds held at Central Bank	35.402.631						35.402.631
Derivative receivables	22.265			6.157	180.679	199.310	408.411
Securities and pledged financial assets	130.795	-	4.244.882	3.464.642	29.382.913	16.953.819	54.177.051
Loans and receivables due from Groups and other financial institutions	2.886.964		5	35.234	22.602		2.944.805
Loans and receivables due from customers	1.637.678	161.367	3.018.423	15.692.262	64.832.014	115.872.901	201.214.645
Other assets	889.108	128	1.785	10.601	220.318	24.405	1.146.345
Total assets	**40.969.441**	**161.495**	**7.265.095**	**19.208.896**	**94.638.526**	**133.050.435**	**295.293.888**
LIABILITIES AND EQUITY							
Derivative liabilities	42.262	-	-	4.917	151.259	148.328	346.766
Deposits and liabilities due to Groups and other financial institutions and NBS	5.724.506	1.177.932	2.722.932	13.055.486	40.572.315	14.954.635	78.207.806
Deposits and other liabilities to customers	121.312.356	1.570.081	17.187.041	17.397.517	13.297.543	5.231.165	175.995.703
Liabilities for issued securities	9.426	-	3.500.000	-	-	-	3.509.426
Subordinated liabilities	7.057	-	-	335.944	-	3.527.406	3.870.407
Other liabilities	215.654	-	1.215	41.329	631.307	1.203.149	2.092.654
Total liabilities	**127.311.261**	**2.748.013**	**23.411.188**	**30.835.193**	**54.652.423**	**25.064.683**	**264.022.761**
Total equity	**-**	**-**	**-**	**-**	**-**	**33.312.632**	**33.312.632**
Total liabilities and equity	**127.311.261**	**2.748.013**	**23.411.188**	**30.835.193**	**54.652.423**	**58.377.315**	**297.335.393**
Liquidity GAP as at 31 December 2020	**(86.341.820)**	**(2.586.518)**	**(16.146.093)**	**(11.626.297)**	**39.986.103**	**74.673.120**	
Liquidity GAP as at 31 December 2019	**(80.512.424)**	**11.393.240**	**(8.670.147)**	**(16.265.081)**	**33.646.793**	**56.967.124**	

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

***Maturity Analysis of the Group's Financial Liabilities* (continued)**

***Liquidity Gap Analysis – Financial Assets and Liabilities* (continued)**

The previous table presents an analysis of the maturities for the Group's assets and liabilities on the basis of agreed payment terms. The contractual maturities of assets and liabilities are determined on the basis of the remaining period at the balance sheet date in relation to the contractual maturity. The table does not include potential liabilities and irrevocable obligations that are shown in the table above. The maturity structure of assets and liabilities as at 31 December 2018 is based on agreed discounted amounts.

The maturity mismatch is the result of a growth in the volume of demand deposits compared to the planned assets for up to 14 days. The Group monitors maturity compliance using statistical patterns of deferred demand deposits at expected maturities.

36. RISK MANAGEMENT (continued)

36.4. Market Risks

Market risk is the risk that changes in the value of balance sheet and off-balance sheet items arising from movements in market prices will have negative effects on the Group’s financial result and equity.

The Group’s operations are, among other risks, exposed to market risks, including foreign exchange risk, price risk on debt and equity securities and merchant Grouping risk.

The general price risk on debt securities is the risk of debit securities price changes due to changes in the general level of interest rates.

To calculate the capital requirements of the general price risk, the Group applies the maturity method.

Maturity method is based on the classification of all net positions in debt securities into maturity classes or zones according to the outstanding maturity and coupon (interest) rate as per the table prescribed by the NBS Decision governing the Group's capital adequacy.

The Group calculates capital requirements for market risks arising from items of trading book using the methodology and guidelines prescribed by the NBS Decision governing the Group's capital adequacy.

Market risk management in the Group is defined by policies, procedures and rulebooks approved by the Management Board and Executive Board, which are in compliance with the risk management strategy at the level of Erste Group, as well as with all relevant laws and regulations of the Republic of Serbia. Policies, procedures and regulations are reviewed when necessary or at least once a year.

Market risk management process is organized through the Asset and Liability Management Committee (“ALCO”), Market and Liquidity Risk Management Department and Asset and Liability Management Unit.

Identification, measurement, analysis and reporting of market risk exposures are managed by a separate organizational unit, i.e., Market and Liquidity Risk Management Department. ALM Unit and Market Risk Management Department monitor foreign exchange ratio on a daily basis with ALM Unit reporting to ALCO on a monthly basis.

Furthermore, the Market and Liquidity Risk Management Department monitors and manages market risks through control of the set trading book limits, changes to the currently effective and definition of new limits and through assessment of the relevant risks arising from the introduction of new products and complex transactions.

There are three types of limits:
• VaR limit
• Limits of sensitivity (PVBP, CR01)
• Stop loss litmits

Value at Risk (VaR) measures the maximum expected loss of value of risk assets or portfolios during a predetermined holding period for a given confidence interval. The calculation of VaR is carried out using the historical simulation method with a one-sided confidence level of 99%, a one-day holding period and a two-year simulation period.

Exposure monitoring is done on a daily basis.

VaR In RSD '000	As at 31 December 2020	As at 31 December 2019
Interest rate risk	10.455	26.549
Foreign exchange risk	4.221	6.483
Total	14.676	33.032

The VaR calculation is carried out in a technical solution implemented at the Erste Group level. Compared to the end of 2019, there was a significant decline in VaR indicators due to the restructuring of the portfolio of government bonds of the Republic of Serbia in the trading book, denominated in RSD currency, in favor of bonds with a shorter remaining maturity.

Two sensitivity limits, PVBP and CR01 are set.

Price Value of a Basis Point (PVBP) is the assumed change in the price of trading book positions due to the parallel shift of the yield curve by 1 basis point. The limit is defined by currencies (RSD, EUR, USD, and OTH) and at the total level.

36. RISK MANAGEMENT (continued)

36.4. Market Risks

Credit PV01 (CR01) is the assumed change in the value of securities due to the parallel shift of the credit spread by one basis point. Exposure is monitored at the level of an individual issuer for the entire portfolio of securities (trading book and Group book)

VaR and sensitivity limits are approved by the Group's Executive Board, on the proposal of the Strategic Risk, Portfolio and Capital Management Sectors and the Erste Group Market Risk Board. Exposure and compliance with limits is monitored on two levels, by the Market and Liquidity Risk Management Division and by the Group Trading Book Risk Management.

Stop loss limits have been established for the month-to-date (MtD) and year-to-date (YtD) results of the Financial Markets Sector. The difference between the maximum MtD / YtD and the current MtD / YtD shall be correlated with the limit and shall not exceed the defined limit. Stop loss limits are approved by the Group's Executive Board at the proposal of the Strategic Risk, Portfolio and Capital Management Sector. Exposure is monitored on a daily basis.

The Group conducts stress testing of the trading book portfolio on a monthly basis. Historical and standard (one-factor) scenarios are defined.

In case of exceeding internally prescribed limits, the process of escalation and measures for returning to the limits of the limits are defined. The amount of the limit is reviewed annually.

The Group's Executive Board is informed of market risk exposures by means of a monthly report on market risk indicators in the trading book.

36.4.1 Interest Rate Risk

Interest risk is the risk of an adverse impact on the Group’s financial result and capital due to changes in market interest rates. The Group is exposed to this risk based on items from the Grouping book, and it assesses the aforementioned risk in the aggregate and per each significant foreign currency for whose definition it has established criteria. In accordance with these criteria, the Group considers RSD and EUR to be materially significant currencies.

In determining interest rates the Group considers market interest rates and their movements to which the Group’s interest rates are regularly adjusted. Interest rate changes result in increases or decreases in interest margins. Interest risk management has as its goal optimization of this influence, increasing the net interest revenue on one end and economic value of equity on the other.

ALCO manages maturity matching of assets and liabilities based on the Group’s guidelines, macroeconomic analyses and forecasts, forecasts of the liquidity, analyses and forecasts of interest rate market trends for different segments of assets and liabilities

The Group has set up a set of indicators and limits of sensitivity for monitoring and managing the exposure to interest rate risk in the Grouping book.

Basis point 01 (BP01) - change in the value of balance positions due to changes in interest rates for one base point (exposure is monitored on the total and the level of individual currencies, for defined time limits).

Economic Value of Equity (EVE) - a shock of +/- 200 basis points (with and without application of interest rate floor) for each individual currency and summing up the worst scenarios. For discounting a risk free curve is used.

In addition to the EVE 1 indicator, the EVE 2 indicator has been established and regularly monitored and reported. EVE 2 is based on 6 different (parallel and non-parallel) scenarios defined by the EBA guidelines.

Market Value of Equity (MVoE) - a shock of +/- 200 basis points for each individual currency and summing up the worst scenarios. For discounting a risk free curve is used for margins.

EVE and MVoE ratios are calculated as a relationship of sensitivity and capital.

CR01 - change in value of portfolio of securities in the Grouping book due to a change in the credit rating of 1 base point.

In addition to indicators that measure the impact of interest rate changes on the economic value of equity, the Group has defined indicators through which to assess the impact of interest rate changes on net interest income. It uses shocks of +/- 200 basis points (with and without floor interest rates), shocks caused by market interest rate volatility, as well as 6 scenarios prescribed by the EBA guidelines.

36. RISK MANAGEMENT (continued)

36.4. Market Risks

By establishing separate indicators, the risk of options as well as the base risk are assessed.

In order to identify the interest rate risk and to calculate indices, all positions are grouped into predefined time bases based on the remaining maturity or subsequent interest rate determination. Balance sheet positions that have no agreed maturity (mostly demand deposits) are modelled by statistical methodology.

Given that interest rate risk indicators are calculated using behavioral models, the Group has also defined indicators that assess the risk of these models, changes in assumptions and scenarios for the calculation of interest rate risk indicators. The difference between the initial calculations and the calculations in accordance with the changed assumptions shows the impact of the applied models.

The Group prepares a report on the interest rate gap on a regular basis, which presents an overview of interest-sensitive balance sheet and off-balance sheet positions in the Grouping book, by time baskets. For fixed interest rate positions, the risk of maturity mismatch is determined, and for variable interest rate items, the expected interest rate re-determination interval is determined. The relative interest rate gap is determined for the most important currencies and for all currencies together, by comparing the difference between interest rate sensitive assets and interest rate sensitive liabilities (by time baskets) on the one hand and total assets on the other hand.

The limits are reviewed annually.

The Group's Executive Board is informed about interest rate risk exposures through a monthly report on market risk indicators in the Grouping book.

36. RISK MANAGEMENT (continued)

36.4. Market Risks

36.4.1. Interest Rate Risk (continued)

The following table shows the Group's exposure to the interest rate risk (Repricing Gap) as at 31 December 2020. Assets, liabilities, and currency swaps as off-balance sheet items are categorized by the earlier of interest repricing date and maturity date.

In RSD '000

Position	Up to 14 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2020
Cash and cash funds held at Central Bank	-	-	-	-	-	9.124.847	9.124.847
Derivative receivables	12.663.126	-	-	-	-	15.024.363	27.687.489
Securities	10.975.678	2.953.704	188.222	990.996	38.975.715	-	54.084.316
Loans and receivables due from Banks and other financial institutions	5.429	-	-	-	-	-	5.429
Loans and receivables due from customers	67.257.129	69.670.559	24.764.011	4.594.641	34.863.200	-	201.149.540
Other assets	-	-	-	-	-	7.930.117	7.930.117
Total balance assets	**90.901.361**	**72.624.264**	**24.952.233**	**5.585.637**	**73.838.916**	**32.079.327**	**299.981.738**
FX Swap	7.517.504	1.859.372	2.494.995	191.327	-	-	12.063.198
Total assets	**98.418.865**	**74.483.636**	**27.447.228**	**5.776.965**	**73.838.916**	**32.079.327**	**312.044.936**
Liabilities to financial institutions	9.619.640	24.147.292	21.397.416	3.161.086	16.236.998	-	74.562.432
Overnight deposits	9.668.230	19.336.461	29.004.691	11.733.823	49.203.504	-	118.946.709
Term deposits	4.989.393	18.839.683	8.905.699	14.500.997	18.580.019	-	65.815.791
Other liabilities	-	-	-	-	-	7.344.174	7.344.174
Total equity	-	-	-	-	-	33.312.632	33.312.632
Total balance liabilities and equity	**24.277.263**	**62.323.436**	**59.307.806**	**29.395.906**	**84.020.521**	**40.656.806**	**299.981.738**
FX Swap	7.523.082	1.761.836	2.400.454	198.850	-	-	11.884.222
Total liabilities and equity	**31.800.345**	**64.085.272**	**61.708.260**	**29.594.756**	**84.020.521**	**40.656.806**	**311.865.960**
Net foreign currency risk on December 31, 2020	**66.618.520**	**10.398.364**	**(34.261.032)**	**(23.817.791)**	**(10.181.605)**	**(8.577.479)**	**178.975**
Net foreign currency risk on December 31, 2019	**25.368.957**	**7.439.133**	**3.277.198**	**(20.257.985)**	**(5.350.528)**	**(9.767.732)**	**709.043**

36. RISK MANAGEMENT (continued)

36.4. Market Risks (continued)

36.4.1. Interest Rate Risk (continued)

Interest rate risk is also monitored by sensitivity analysis - scenario analysis, i.e. by observing the effect of interest rate fluctuations on the Group's income and expenses.

The following table presents the income statement's sensitivity to the reasonably anticipated changes of interest rates (1%) with other variables held constant. The income statement's sensitivity represents the effect of assumed changes in interest rates on the net interest income in one year and on financial assets and liabilities based on interest rates as at 31 December 2020 and 31 December 2019.

In RSD '000

Currency	Changes in percentage points	Income statement sensitivity 2020	Changes in percentage points	Income statement sensitivity 2019
Increase in percentage:				
RSD	1%	168.140	1%	135.580
EUR	1%	510.298	1%	309.620
Decrease in percentage:				
RSD	1%	(152.854)	1%	(155.746)
EUR	1%	(731.349)	1%	(539.742)

36. RISK MANAGEMENT (continued)

36.4. Market Risks (continued)

36.4.2. *Foreign Exchange Risk*

Foreign exchange risk is the risk of change of the value of financial instruments and adverse effects on the Group's financial result and equity due to the fluctuations in foreign exchange rates. Grouping operations in different foreign currencies cause the exposure to fluctuation in foreign exchange rates.

The Group manages foreign exchange risk striving to prevent adverse effects of changes of cross- currency rates and foreign exchange rates to RSD (foreign exchange losses) on the Group's financial result, as well as on the customers' ability to repay loans in foreign currencies.

For the purposes of protection against the foreign exchange risk, the Group monitors the changes in foreign currency exchange rate on the financial market on a daily basis, carries out the policy of low-level exposure to foreign exchange risk and contracts loans with a foreign currency clause index with its customers.

The Asset and Liability Management Unit and Treasury Department monitor daily movements of the overall foreign exchange risk, as well as risk per specific currency. The Market and Liquidity Risk Management Department daily monitor movements of the foreign exchange ratio and internally set foreign currency positions per currency. Positions are monitored on a daily basis to ensure that positions are maintained within established limits.

In accordance with the National Group of Serbia's requirements, the Group regularly maintains its foreign currency position - foreign exchange risk indicator within maximum regulatory limits, determined relative to the capital, based on which the Group is obligated to ensure that its total net open foreign currency position does not exceed 20% of its regulatory capital.

In 2020, the Group continuously monitored the compliance of foreign exchange risk indicators, whereby the above indicator was at a level within the prescribed limit. At the end of each working day, the Group's foreign currency exposure indicator was not more than 20% higher than the Group's capital.

The following table shows the currencies in which the Group has significant exposure as at 31 December 2020 and 31 December 2019 of its monetary assets and liabilities that are not traded.

The above analysis calculates the result of reasonably possible currencies exchange rates relative to the RSD with constant maintenance of other variables. Negative amounts in the table represent a potential decrease in the performance balance, i.e. gain or capital, while positive amounts represent potential increases.

Risk of changing foreign exchange rates

Currency	Changes in currency rate (depreciation in %) 2020	Effect on profit and loss before taxes 2020	Changes in currency rate (depreciation in %) 2019	Effect on profit and loss before taxes 2019
EUR	2%	(5.378)	2%	(2.358)
CHF	2%	(76)	2%	(51)
USD	2%	391	2%	(35)

36. RISK MANAGEMENT (continued)

36.4. Market Risks (continued)

36.4.2. *Foreign Exchange Risk*

The following table presents the Group's exposure to foreign exchange risk as at 31 December 2020. The table includes assets and liabilities at their carrying amounts.

In RSD '000

	EUR	USD	CHF	Other currencies	Total in foreign currencies	Total in RSD	Total
ASSETS							
Cash and cash funds held at Central Bank	17.254.548	84.313	430.089	70.084	**17.839.034**	17.563.597	**35.402.631**
Pledged financial resources	-	-	-	-	-	4.622.478	**4.622.478**
Derivative receivables	386.166	-	-	-	**386.166**	22.245	**408.411**
Securities	10.362.923	243.928	-	-	**10.606.851**	38.947.722	**49.554.573**
Loans and receivables due from Groups and other financial institutions	1.478.855	1.109.016	58.425	293.492	**2.939.788**	5.017	**2.944.805**
Loans and receivables due from customers	151.931.511	369.719	7.684	-	**152.308.914**	48.905.731	**201.214.645**
Investments in subsidiaries	-	-	-	-	-	118	**118**
Intangible assets	-	-	-	-	-	1.146.644	**1.146.644**
Property, plant and equipment	-	-	-	-	-	3.187.470	**3.187.470**
Current tax assets	-	-	-	-	-	185.043	**185.043**
Deferred tax assets	-	-	-	-	-	154.981	**154.981**
Fixed assets held for sale and assets of discontinued operations	-	-	-	-	-	12.252	**12.252**
Other assets	11.374	1.507	-	52.380	**65.261**	1.082.426	**1.147.687**
Total assets	**181.425.377**	**1.808.483**	**496.198**	**415.956**	**184.146.014**	**115.835.724**	**299.981.738**
LIABILITIES AND EQUITY							
Derivative liabilities	304.524	-	-	-	**304.524**	42.242	**346.766**
Deposits and liabilities due to Groups and other financial institutions and NBS	65.566.678	7.101	4.797	14.464	**65.593.040**	12.614.766	**78.207.806**
Deposits and liabilities due to customers	101.720.267	4.304.898	2.220.753	695.552	**108.941.470**	67.054.233	**175.995.703**
Liabilities arising from securities	-	-	-	-	-	3.509.426	**3.509.426**
Subordinated liabilities	3.870.407	-	-	-	**3.870.407**	-	**3.870.407**
Provisions	118.943	1.631	-		**120.574**	1.200.019	**1.320.593**
Deferred tax liabilities	-	-	-	-	-	7.677	**7.677**
Other liabilities	1.953.436	2.273	12.331	160	**1.968.200**	1.442.528	**3.410.728**
Total liabilities	**173.534.255**	**4.315.903**	**2.237.881**	**710.176**	**180.798.215**	**85.870.891**	**266.669.106**
Total equity	-	-	-	-	-	33.312.632	**33.312.632**
Total liabilities and equity	**173.534.255**	**4.315.903**	**2.237.881**	**710.176**	**180.798.215**	**119.183.523**	**299.981.738**
Net foreign currency position as at:							
– 31 December 2020	**7.891.122**	**(2.507.420)**	**(1.741.683)**	**(294.220)**	**3.347.799**		
– 31 December 2019	**13.488.040**	**(2.280.799)**	**(1.538.131)**	**(275.492)**	**9.393.618**		

36. RISK MANAGEMENT (continued)

36.5. Group’s Risk Concentration

This is a risk of the Group's exposures to a single entity or a group of related entities and exposures to an entity related to the Group.

Monitoring the exposure risk is mandatory part of the procedures in the loan approval stage in the sense that a committee that approves a loan has at its disposal information on the total Group's exposure to a customer or a group of related customers relative to the Group's capital.

During 2020, the Group maintained the exposure risk indicators within the prescribed values. By implementing appropriate activities stipulated by the relevant procedures and decisions on loan approval, the Group kept the adequacy of its loans and receivables and investments in line with the performance indicators prescribed by the National Group of Serbia (see Note 34(b)) and with the internal limits.

In accordance with the Risk management policies, the Group’s management approves the exposures and limits, i.e. the loan concentration on certain legal entities or a group of related entities, and parties related to the Group.

The procedures of exposure risk management are the subject of internal audit.

36.6. Group's Investment Risks

The Group’s investment risks include the Group’s equity investments held in other entities and investments made into the Group's own fixed assets.

In accordance with the National Group of Serbia legislation, the level of the Group’s investment and the level of regulatory capital is being monitored in order to ensure that the Group’s investments in a single non-financial sector entity do not exceed 10% of its capital, while the total investments of the Group in non-financial entities and in tangible assets cannot exceed 60% of its regulatory capital.

The Group’s investment risk exposure arising on investments into other legal entities and property and equipment is monitored by the organizational unit or the Group’s body competent for procurement of tangible assets and investing in legal entities familiar with the current exposure and the amount of capital for the purposes of acting in timely manner in accordance with the prescribed limits.

During 2019, the Group maintained the investment risk indicators within the prescribed values and it ensured that investments were reconciled with the indicators prescribed by the National Group of Serbia.

36.7. Country Risk

Country risk is the risk related to the country of origin of a counterparty the Group is exposed to and includes adverse effects which may influence the financial result and capital of the Group, as the Group might not be able to collect receivables from this counterparty, as a result of political, economic or social situation in the country of its origin.

The Group mostly approves funds to the customers from the Republic of Serbia, while it is exposed to the country risk in the portion of assets it keeps on the accounts with foreign Groups.

The Group monitors its exposure on geographic basis by applying the limits determined by the parent Group and based on country ratings. The limits, after approval by the parent Group, are also adopted locally by a defined level of decision making.

The Group’s exposure to the country risk is low, due to insignificant participation of non-residents in the total loan portfolio of the Group.

36. RISK MANAGEMENT (continued)

36.8. Operational Risk

Operational risk is the risk of the adverse effects on the Group’s financial result and equity due to failures in the employees’ performance, inadequate internal procedures and processes, inadequate information and other systems in the Group or unforeseen external events.

The Group has established a comprehensive system of managing operational risk through the identification and recording, evaluation and monitoring of operational risks in all material products, activities, processes and systems. Operational risk management is the responsibility of all employees of the Group.

Committee for Operational Risk Management of the Group, in addition to an independent department for operational risk management and other control functions, actively contributes to the improvement of operational risk management function.

Reporting system for operational risk events is used for early identification of operational risk events, while the approximation process provides completeness, coherence and comprehensiveness of operational risk events that have occurred in the Group. Operational risk events are collected in a single database and further analysed and monitored.

The Group manages the risk by increasing the awareness of the employees of operational risk management, implementation of the solid system of controls and monitoring and adequate prevention and detection of corrective measures in order to decrease the level of operational risk to the acceptable level.

The Group actively monitors, analyzes and adapts to current changes in the environment initiated by the emerging global Covid19 pandemic. In this regard, all extraordinary related losses are regularly collected and updated within the loss database based on operational risks and included in regular management reporting. Additionally, regular operational risk assessments include the impact of the Covid19 situation in each segment (self-assessment of the operational risk management system, Scenario analysis, RMA, etc.).

The Group has defined and regularly reviews and updates internal acts which govern the Group's exposure to operational risk, taking into account the compliance with the applicable regulatory framework and Group standards.

The Group is insured from the usual risks and specific Grouping risks through the Program of insurance from operational risks. The usual risks include damages to property, burglary, theft (valuable property) and general responsibility. Specific risks include the Group’s internal and external frauds, technological risks and civil responsibility.

Continuous assessment of risk arising in the process of introducing new products / services as well as activities, that occur when entrusting third parties is carried out. Improvement of internal control mechanisms is necessary element in all operational risk management activities.

The Group calculates capital requirements under Pillar 1 for operational risk using the basic indicator approach under Pillar 2 while applying advanced approach using an internal model.

Business Continuity Management in Covid 19

The Republic of Serbia shows certain characteristics of the developing market. On March 12, 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, Serbian authorities have implemented a number of measures in an attempt to curb the spread and impact of COVID-19, such as travel bans and restrictions, quarantines, restrictions on business activities, including closure. The above measures were gradually relaxed during 2020 and 2021. These measures, among other things, severely limited economic activity in Serbia and had a negative impact, and could continue to negatively affect companies, market participants, the Group's clients, as well as the Serbian and global economy indefinitely.

It is estimated that the total economic activity in the Republic of Serbia in 2020, measured by the real movement of gross domestic product (GDP), recorded a decline of 1.1% compared to 2019. The annual inflation rate is 1.2%.

Management takes the necessary measures to ensure the sustainability of the Group's operations and to support its customers and employees.

Due to the pandemic situation caused by the COVID-19 virus, the Group has ensured the continuity of its functions from home for more than 70% of its employees, combined work from administrative facilities for functions that are not able to perform their business remotely due to needs and working conditions. as well as working in shifts, reducing working hours and introducing physical security workers in the Group's sales facilities. The Group additionally informed clients about the possibilities of using ATM zones, m-Grouping and net-Grouping solutions, which would avoid unnecessary crowds and service queues in the Group's branches.

36. RISK MANAGEMENT (continued)

Business Continuity Management in Covid 19 (continued)

In accordance with the newly established work scenarios, the Group has implemented process technical measures in order to protect access to sensitive information through remote access: VPN connection, user authorization, log monitoring system, etc. Due to the need for internal controls within the Group and the impossibility of field trips and the need to avoid contact with employees, the Group's control functions have been provided with additional monitoring and control tools: video surveillance system recordings, identification card access logs, action logs in the Group's information system, etc.

In accordance with the newly established work scenarios, the Group has implemented process technical measures in order to protect access to sensitive information through remote access: VPN connection, user authorization, log monitoring system, etc. Due to the need for internal controls within the Group and the impossibility of field trips and the need to avoid contact with employees, additional monitoring and control tools were made available to the Group's control functions: video surveillance system recordings, identification card access logs, action logs in the Group's information system, etc.

The future effects of the current economic situation and the above measures are difficult to predict, and current management expectations and estimates may differ from actual results.

For the purpose of measuring expected credit losses (“ECL”), the Group uses corroborating projected information, including forecasts of macroeconomic variables (Note 37.2). As with any economic forecast, however, projections and the probabilities of their occurrence are subject to a high degree of inherent uncertainty and therefore actual outcomes may differ significantly from those projected.

In March 2020, the International Accounting Standards Board (IASB) stressed in its educational materials that appropriate judgment must be applied in determining the effects of COVID-19 on expected credit losses in accordance with IFRS 9, given the significant uncertainty that exists, and especially when assessing future macroeconomic conditions. Worsened economic forecasts have caused and are likely to continue to cause an increase in expected credit losses and hence higher volatility in profit or loss.

36.9. Capital Management

The Group permanently manages its capital, which is a broader concept than “capital” on the face of the balance sheet, in order to:

- comply with the capital requirements set by the National Group of Serbia;
- to ensure that the level and composition of capital that can support the expected growth in placements;
- ensure the possibility of a long-term going concern of operations with providing of profit to shareholders and benefits to other stakeholders; and
- provide a solid capital base to support the development of its business.

The Group manages the capital structure and performs adjustments in accordance with changes in economic conditions and risk related to the Group’s operations. The Group’s management monitors regularly the Group’s capital adequacy ratios and other ratios established by the National Group of Serbia and delivers quarterly reports on the achieved values of ratios.

The Law on Groups and relevant decisions of the National Group of Serbia, which are fully compliant with the requirements of Basel 3 standards as of June 30, 2017, stipulates that Groups must maintain a minimum capital of dinar equivalent of 10 million euros at the official middle exchange rate, as and to harmonize the scope and structure of its operations with the business indicators prescribed by the Decision on Risk Management ("Official Gazette of RS", No. 45/2011, 94/2011, 119/2012, 123/2012 and 23/2013 - other decision, 43 / 2013 and 92/2013, 33/2015, 61/2015, 61/2016, 103/2016, 119 / 2017,76 / 2018,57 / 2019, 88/2019, 27/2020 and 67/2020) and the Decision on capital adequacy ("Official Gazette of RS", No. 103/2016,, 103 / 2018,88 / 2019, 67/2020, 98/2020 and 137/2020).

Regulatory prescribed minimum capital adequacy ratios, including the protection classes of equity as at 31 December 2020, were as follows:

- indicator of the adequacy of the basic share capital 16,73%
- indicator of the capital adequacy ratio 16,73% and
- indicator of capital adequacy of -18,67%.

In addition to the requirements defined in the form of minimum indicators of capital adequacy and protective capital layers, the Group is also required to fulfil the additional regulatory minimum capital requirement, defined in the process of the Supervisory Review and Evaluation Process (SREP), which the National Group of Serbia for 2020 has defined in the form of guidelines on a minimum requirement for capital.

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

The aforementioned Decision of the National Group of Serbia on the adequacy of the Group's capital determines the method of calculating the capital of the Group and the indicators of its adequacy. The total capital of the Group consists of basic and supplementary capital and defined deductible items, while risky balance and off-balance sheet assets are determined in accordance with the prescribed risk weight for all types of assets.

The capital of the Group is the sum of the basic and additional capital, where the basic capital makes the sum of the basic share capital and additional share capital. The capital adequacy ratio of the Group is equal to the ratio of the Group's capital and the collection of credit risk weighted assets, the capital requirement for price risk from the activities in the book of trade multiplied by the reciprocal value of the capital adequacy ratio (prescribed 8%), the capital requirement for foreign exchange risk multiplied by the reciprocal value of the capital adequacy ratio, the capital requirement for the risk of adjusting the credit exposure multiplied by the reciprocal value of the capital adequacy ratio, the capital requirement for operational risk multiplied by the reciprocal value of the capital adequacy ratios and the risk weighted exposure for the risk of the counterparty.

The Group conducts a process of internal capital adequacy assessment process (ICAAP), determines available internal capital and makes its distribution, and develops a strategy and plan for capital management in accordance with the Decision on Risk Management.

The Framework for Integrated Risk and Capital Management as a concept established in the Group, as its key component, has the Internal Capital Adequacy Assessment Process (ICAAP). This framework is defined to support the Group's management in the risk management process to which the Group is exposed, as well as in its internal capital, in order to achieve the Group's satisfactory level of capital in accordance with its risk profile.

The framework for integrated risk and capital management is a comprehensive system that is necessary to meet regulator's expectations, but also to provide effective internal management instruments. It consists of the following:

- Risk Appetite Statement (RAS), limits and risk management strategies;
- Comprehensive risk exposure analysis including an assessment of the material significance of risk, analysis and risk management of concentration and stress testing;
- Determining Risk-bearing Capacity Calculation (RCC);
- Planning key risk indicators;
- Planning of recovery and restructuring.

In accordance with the Law on Groups and the Decision on Group and Grouping group Recovery Plans ("Official Gazette of the Republic of Serbia" No. 71/2015), the Group regularly prepares and provides the National Group of Serbia with the Recovery Plan, which represents the main pillar for preserving the financial resilience of the Group, as well as achieving stability in situations of serious financial disturbances. In addition, the Group, for the purpose of preparing the Plan for Restructuring and defining Minimum Capital Requirements and similar obligations of the Group, shall submit data to the National Group of Serbia in accordance with the Decision on the Minimum Capital Requirement and Related Obligations of the Group ("Official Gazette of the Republic of Serbia" No. 30/2015 and 78/2017) and the Decision on Information and Data submitted to the National Group of Serbia for the purpose of drafting and updating the plan of restructuring of the Group and Grouping group ("Official Gazette of the Republic of Serbia" No. 78/2015, 78/2017 and 46/2018).

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

The table below summarizes the structure of the Group's capital as at 31 December 2020 and 31 December 2019 as well as the capital adequacy ratio:

		In RSD '000
	31.12.2020	**31.12.2019**
Basic capital		
Basic share capital		
The amount of the basic share capital paid	12.909.000	12.909.000
Related emission premium with basic equity instruments	2.553.944	2.553.944
Profit from the current period that meets the requirements for inclusion in the share capital	254.488	1.297.500
Revaluation reserves and other unrealized gains	642.678	853.900
Unrealized losses	(144.747)	(128.085)
Other reserves	15.634.894	12.955.128
Additional value adjustments	(26.958)	(26.210)
Other intangible assets before deduction for related deferred tax liabilities	(1.146.644)	(683.396)
Gross amount of receivables from a debtor - natural person (other than farmers and entrepreneurs) where the level of credit indebtedness of that debtor was higher than the percentage determined in accordance with the decision governing the classification of the balance sheet assets and off-balance sheet items of the Group or will be higher due to loan approval	(22.526)	(29.530)
Gross amount of claims on debtors - natural persons (except farmers and entrepreneurs) based on approved consumer loans, cash loans or other loans with a maturity of more than 2920 days	(8.759)	(9.430)
Total	(5.813)	-
Supplementary capital	**30.639.556**	**29.692.821**
Subordinated obligations		
Basic capital	3.568.709	3.677.972
	3.568.709	**3.677.972**
Capital:	**34.208.265**	**33.370.793**
Risky balance and off-balance assets		
Capital requirement for credit risk, counterparty risk and risk of delivery / delivery on the basis of free delivery	13.032.542	11.481.342
Capital requirement for price risk	169.187	210.080
Capital requirement for foreign exchange risk	-	10.100
Capital requirement for operational risk	1.395.833	1.282.829
Capital requirement for the risk of adjusting credit exposure	56.605	54.852
Adequacy of basic share capital	**16,73**	**18,22**
Adequacy of share capital	**16,73**	**18,22**
Capital adequacy	**18,67**	**20,47**

The Group is in compliance with all regulatory requirements regarding capital adequacy at all levels.

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

The following table gives an overview of the limits for applying exceptions to deductible items from the basic share capital defined by the Decision on the capital adequacy of the Group:

In RSD '000

	31.12.2020	31.12.2019
Investments in entities in the financial sector in which the Group does not have significant investments		
The limit to which investments in entities in the financial sector in which the Group does not have a significant investment are not deducted from the capital (10% of the basic share capital)	3.067.349	2.969.282
Investments in the basic share capital of entities in the financial sector in which the Group does not have a significant investment	(111.469)	(105.590)
Investments in additional share capital of entities in the financial sector in which the Group does not have significant investments	-	-
Investments in supplementary capital of entities in the financial sector in which the Group does not have significant investments	-	-
Remains up to the limit	**2.955.880**	**2.863.692**
Investments in entities in the financial sector in which the Group has significant investments		
The limit to which investments in entities in the financial sector in which the Group has significant investments are not deducted from the capital (10% of the basic share capital)	3.067.349	2.969.282
Investments in the basic share capital of entities in the financial sector in which the Group has significant investments	-	-
Remains up to the limit	**3.067.349**	**2.969.282**
Deferred tax assets		
The limit to which deferred tax assets, that are dependent on future profitability and arise from temporary differences, do not deduct from the capital (10% of the basic share capital)	3.067.349	2.969.282
Deferred tax assets that depend on future profitability and arise from temporary differences	(250.608)	(123.676)
Remains up to the limit	**2.816.741**	**2.845.606**
Combined limit for deferred tax assets and significant investments		
The limit for deferred tax assets, that are dependent on future profitability and arising from temporary differences and investments in financial sector entities in which the Group has significant investments are not deducted from equity (17,65% of the basic share capital)	5.386.517	5.241.704
Deferred tax assets that depend on future profitability and arise from temporary differences and investments in financial sector entities in which the Group has significantly invested	(250.608)	(123.676)
Remains up to the limit	**5.135.909**	**5.118.028**

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

An overview of the Group's exposure to risks and capital requirements is given in the table below:

In RSD '000

	31.12.2020		31.12.2019	
	Risk assets	**Capital requirement**	**Risk assets**	**Capital requirement**
Total risk assets	183.177.092	14.654.167	162.990.030	13.039.202
Risk-weighted exposure to credit risk	162.906.777	13.032.542	143.516.777	11.481.342
Standardized approach	162.906.777	13.032.542	143.516.777	11.481.342
IRB approach	-	-	-	
Exposure to risk of settlement/delivery (except for free delivery)	-	-	-	
Exposure to market risks	2.114.843	169.187	2.752.246	220.180
Exposure to operational risk	17.447.909	1.395.833	16.035.357	1.282.829
Exposure to the risk of adjusting credit exposure	707.563	56.605	685.650	54.852

The classification of debtors' claims into categories A to D is performed on the basis of the following groups of criteria:

- assessment of the financial condition, i.e. the creditworthiness of the borrower;
- timely settlement of debtor's obligations;
- other specific criteria (restructured receivables, newly established companies and claims based on project financing, promptness of the loan dossier, real estate acquired through collecting receivables, etc.)
- the quality of collateral.

Leverage indicator

The leverage indicator of the Group, which represents the ratio of the share capital, which is obtained as the sum of the basic share capital and additional basic capital in accordance with the decision regulating the capital adequacy of the Group, and the amount of exposure for the calculation of the leverage indicator, amounted to 10,25% as at 31 December 2020.

36. RISK MANAGEMENT (Continued)

36.10. Fair Value of Financial Assets and Liabilities

The fair value calculation in EBS is based primarily on external source data (listing of dealers for government bonds and available stock prices from the stock exchange). OTC derivatives are valued using the model. By using the model, bonds are also valued if there is no adequate number of quotations or quotations are not up-to-date.

Evaluation model

Bonds

Bonds for which quotations are not available in an adequate number or quotation are not sufficiently up to date are discounted by future cash flows using a predefined curve for the respective currency.

OTC derivatives

Valuation is aimed at discounting future cash flows using defined yield curves for a particular product and a specific currency. The derivative value thus obtained is adjusted for the Credit Valuation Adjustment (CVA) and the Debt Valuation Adjustment (DVA), as the credit default of the other counterparty and its own credit risk are not taken into account. CVA refers to credit risk adjustment of other agreements of the parties, while DVA refers to adjusting for own credit risk. The value of these adjustments depends on PD, LGD and exposure (NPV).

In RSD '000

	31 December 2020	31 December 2019
CVA	16.666	16.395
DVA	(2.705)	(1.892)

Hierarchy of instruments that are valued at fair value

In accordance with IFRS 13, the EBS quarterly allocates appropriate levels to all positions in assets and liabilities that are valued at fair value or whose fair value must be disclosed in notes to the financial statements. Levels are allocated depending on how the market value of the instrument is derived. There are 3 levels.

Level FV 1
The fair value of financial instruments assigned to Level 1 hierarchy is determined on the basis of market quotations. The fair value determined on the basis of quotations can be Level 1 if the frequency and scope of trading is satisfactory and there is price consistency.

Level 1 classifies derivatives traded on an organized market, as well as stocks and bonds for which there is an active market.

Level FV 2
Instruments for which there are market quotations, but whose market can not be considered active due to limited liquidity, are classified as Level 2. If market quotations are not available, fair value is determined using a valuation model (discounting future cash flows), and all parameters for the model (yield curves, spurs) are available on the market, Level 2 is also assigned.

OTC derivatives and less liquid stocks and bonds are classified as Level 2 instruments.

Level FV 3
Instruments whose fair value is determined on the basis of quotations that are not sufficiently up-to-date or by using a model whose all inputs are not commercially available are classified as Level 3 hierarchy. Market unavailable parameters are most often related to credit spreads that are derived from internally calculated measures – PD and LGD.

Shares for which there are no quotations, illiquid bonds, as well as loans and deposits are classified as Level 3.

36. RISK MANAGEMENT (Continued)

36.10. Fair Value of Financial Assets and Liabilities

The following table shows fair values of financial instruments recognized at fair value in the financial statements:

	Na dan 31.12.2020				Na dan 31.12.2019			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS	**8.947.668**	**18.321.321**	**26.490**	**27.295.479**	**2.130.637**	**41.178.729**	**26.544**	**43.335.910**
Securities	**8.947.668**	**17.899.878**	**26.490**	**26.874.036**	**2.130.637**	**40.822.181**	**26.544**	**42.979.362**
Debit securities								
Republic of Serbia Treasury bills	8.596.124	17.899.118		**26.495.242**	1.772.922	40.822.181	-	**42.595.103**
Government bonds of Republic of Montenegro	248.000			**248.000**	260.297	**-**	**-**	**260.297**
Equity securities					**-**	**-**	**-**	**-**
Quoted shares	103.544	760		**104.304**				
Shares that are not quoted			26.490	**26.490**	**97.418**	-	-	**97.418**
Derivative receivables		421.443		**421.443**			26.544	**26.544**
FINANCIAL LIABILITIES	**-**	**349.511**	**-**	**349.511**	**-**	**256.908**	**-**	**256.908**
Derivative liabilities	-	349.511	-	**349.511**	-	256.908	-	**256.908**

36. RISK MANAGEMENT (Continued)

36.10. Fair Value of Financial Assets and Liabilities

Changes in the level of financial instruments valued at fair value

In RSD '000

	31.12.2020			31.12.2019		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Securities						
Transfer from Level 1	-	760	-	-	-	-
Transfer from Level 2	5.003.472	-	-		-	-
Transfer from Level 3			-	1.064	237.456	-
Acquisition, sale and derecogntion	(1.403.899)	8.002.823		(1.104.998)	3.032.390	
Total	**3.599.573**	**8.003.583**	**-**	**(1.103.934)**	**3.267.717**	**-**

Reclassification between levels 1 and 2, arranged by categories of measurements and instruments

In RSD '000

	31.12.2020.		31.12.2019.	
	From Level 1 to Level 2	**From Level 2 to Level 1**	**From Level 1 to Level 2**	**From Level 2 to Level 1**
Financial assets FVOCI				
Bonds	-	4.338.183	-	-
Financial assets FVPL				
Bonds	760	665.289	-	-
Financial assets AC				
Bonds	-	9.192.410	-	195.549
Total	**760**	**14.195.882**	**-**	**195.549**

36. RISK MANAGEMENT (Continued)

36.10. Fair Value of Financial Assets and Liabilities (Continued)

Development of the fair value of financial instruments at FV level 3

In RSD '000

	1 January 2020	Transfer to level FV 3	Transfer from level FV 3	December 31, 2020
Assets				
Other financial assets FVPL				
Equity instruments	26.544	-	(54)	**26.490**
Total	**26.544**	**-**	**(54)**	**26.490**

	1 January 2020	Transfer to level FV 3	Transfer from level FV 3	December 31, 2020
Assets				
Other financial assets FVPL	238.530	-	(238.530)	**-**
Non traded financial assets non FVPL				
Equity instruments	28.749	-	(2.205)	**26.544**
Financial assets FVOCI	-	-	-	**-**
Equity instruments	67.261	-	(67.261)	**-**
Total	**334.540**	**-**	**(307.996)**	**26.544**

36. RISK MANAGEMENT (Continued)

36.10. Fair Value of Financial Assets and Liabilities (Continued)

As at 31 December 2020, all bonds held by the Group in its portfolio (bonds of the Republic of Serbia, bonds of the Republic of Montenegro and corporate bonds issued by Energoprojekt Holding) were classified to level FV 1 or level FV 2.

Bonds of the Republic of Serbia and bonds of the Republic of Montenegro, which are valued at market value, are mostly valued through quotation from Reuters, while a smaller part of the portfolio of RS bonds is valued by discounting - using the RS government curve from Reuters.

The corporate bond is allocated to a portfolio of securities held to maturity.

The table below shows the comparison, by classes, the carrying amount and fair value of financial instruments that are not recognized at fair value in the financial statements. The table does not include the fair value of non-financial assets and non-financial liabilities.

In RSD '000

	31 December 2020		31 December 2019	
FINANCIAL ASSETS	**Carrying value**	**Carrying value**	**Carrying value**	**Carrying value**
Securities valued at amortized cost	27.974.460	27.974.460	16.942.830	16.942.830
Loans and receivables due from Banks	2.944.805	2.933.026	1.606.479	1.606.479
Loans and receivables due from customers	201.214.645	213.227.159	171.568.590	178.941.823
Fixed assets intended for sale	12.252	12.252	12.252	25.252
FINANCIAL LIABILITIES				
Deposits due to Banks	78.207.806	81.492.534	71.909.427	74.683.537
Deposits due to customers	175.995.703	176.875.682	126.407.953	127.326.120

The calculation of the fair value of financial instruments that are not recognized at fair value in the financial statements is carried out using the QRM as a standard of Erste Group.

The fair value of loans to customers and credit institutions is calculated by discounting future cash flows taking into account the effects of interest and credit spreads. The effect of interest rate changes is calculated on the basis of market interest rates, while changes in credit are derived from PDs and LGDs used for internal risk quantification. For the purposes of calculating fair value, loans are grouped into homogeneous portfolios based on the rating method, rating and residual maturity.

The fair value of the deposit is assessed on the basis of market conditions as well as its own credit risk. For demand deposits, book value is the lowest possible fair value.

In 2020, there were no reclassifications within the financial asset position.

Due to the influence of COVID 19, there were no changes in the process of calculating PV, nor in the process of assigning PV levels.

37. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating Lease Commitments

The Group, as permitted by the standard, does not apply the provisions of IFRS 16 to following leases: leases of low value assets and short-term leases (leases with a shorter duration of 12 months).

In applying IFRS 16, the Group does not consider the following categories in determining the subject of a lease:

1. Short-term lease, which is a lease that lasts up to 12 months or less with the first day of the lease (the lease containing the option of redemption does not have the character of a short-term lease, regardless of the term of the lease).
2. Low value lease is the leasing of assets whose value, when the asset is new, does not exceed the established threshold regardless of the age of the property at the time of the lease.

The future minimum payments of non-cancellable liabilities under IFRS 16 exemptions related to low value leasing are presented as follows:

In RSD '000

	31 December 2020	**31 December 2019**
Within a year	20.659	15.441
From 1 to 5 years	28.523	91.806
	47.542	**107.247**

(b) Litigation

As at 31 December 2020, the Group had 5.981 initiated litigations in the total amount of RSD 1.909.159 thousand in which it had the status of the sued party (31 December 2019: RSD 1.827.627 thousand). The default interest based on disputes against the Group amounts to RSD 325.247 thousand (31 December 2019: RSD 152.514 thousand).

Based on the assessment of the legal representatives of the Group in the above mentioned disputes, the Group made a provision in the amount of RSD 725.831 thousand (RSD 261.281 thousand as at 31 December 2019), for disputes that are expected to fall at the Group's expense on this date. The Group's management estimates that materially significant losses will not arise on the basis of the outcome of the court disputes in excess of the amount for which the provision was made.

A large number of litigations relate to client claims challenging the Group's right to charge a loan processing fee and a housing loan insurance premium. As the current case law in relation to these disputes is more in favor of clients in the first instance, and based on procedural laws it is possible to execute by invalid first instance judgments, the Group set aside provisions in the amount of 100% of total exposure to current disputes in the amount of RSD 526.771. one thousand.

37. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(c) Taxation Risks

The Republic of Serbia tax legislation is in the process of ongoing reviews and changes occur frequently. In the Republic of Serbia, tax liabilities do not become obsolete for a period of 5 years. In different circumstances, tax authorities may apply different approaches to certain matters and entities may be assessed additional taxes, penalties and interest. The Group's management believes that the Group's tax liabilities recorded in these financial statements are appropriately stated in accordance with the effective regulations.

38. RECONCILIATION OF OUTSTANDING BALANCES OF RECEIVABLES AND LIABILITIES

In accordance with Article 18 of the Law on Accounting, the Group reconciled its balances of payables and receivables with its debtors and creditors and has valid documentation thereof.

The Group sent its customers outstanding item statements (OIS) as at 31 October 2020 in total amount of RSD 200.284.531 thousand. Confirmed receivables amounted to RSD 141.904.259 thousand.

The amount of disputed receivables amounted to RSD 21.609 thousand and the Group is in contact with clients in order to resolve conflicts. According to the decision of the NBS on temporary measures.

The Group is still working on reconciliation of OIS for which replies were not received.

39. SEGMENT REPORTING

Management of the Group views operating segments in accordance with the methodology and segmentation defined at the entire Erste Group level and, on such basis, makes decisions in respect of, allocates resources to and assesses performance of individual segments. The report on segment results is aligned with FINREP methodology for financial reporting used within Erste Group where there are departures in certain items from the result as stated under the local NBS methodology.

a) Structure of Operating Segments

Segment report is comprised of six basic segments reflecting the governance structure of Erste Group a.d., Novi Sad.

b) Definition of Operating Segments

Retail Segment

This segment comprises business activities within the scope of responsibilities of the Sales Managers from the Sales Network of the Retail Department. Target customers are mostly individuals, entrepreneurs and freelance professionals. Operations of the segment are mostly managed by the Group, which is focused on the simplicity of products offered – investment products, current accounts, savings, credit cards and additional products such as leases, insurance, and social security products.

Corporate

A segment that represents business with legal entities with different sizes of annual turnover as well as with the public sector.

Small and Medium Enterprises (SME)

This segment includes legal entities within the scope of responsibilities local corporate commercial centres, mostly comprised of companies with annual turnover of EUR 1 million to EUR 50 million.

Commercial Reals Estate Funding (CRE)

This segment refers to operations involving investments in real estate for the purpose of generating income from lease out of certain properties or entire real estate complexes, development and construction of properties and complexes for realization of capital gains through the sale of individual constructed properties and property complexes , services of asset management, construction services and construction for the Group's own purposes.

Large Corporate Clients (LC)

It includes clients whose consolidated annual turnover exceeds EUR 50 million as well as large companies / groups of companies with significant operations in key markets where the Erste Group operates.

Public sector

It represents a business that encompasses three sets of clients: the public sector, public enterprises, and nonprofits. Also, most municipalities by affiliation (segmentation) belong to the business of the Public Sector.

39. SEGMENT REPORTING

Alignment of assets and liabilities (ALM), CC and Free Capital

Consistency of assets and liabilities- Alm

It covers all asset and liability management activities. In addition, it includes financial transactions, hedging, investing in securities rather than trading them, managing own securities as well as foreign exchange positions.

Corporate Center (CC)

Represents activities in the area of internal service delivery on a non-profit basis.

Free capital

Free capital is defined as the difference between total IFRS recognized capital and average economic capital allocated to business segments.

Market Segment

It represents activities that consist of trading and providing market services as well as doing business with financial institutions.
Trading and market services include activities related to the management and risk-taking within the Group's trading book, as well as activities related to the use of the Group's trading book for market creation, short-term liquidity management and securities custody.

Financial institutions are companies that provide financial services to their clients or members and participate as professional active participants in financial markets for the purpose of trading on behalf of their clients (Groups, central Groups, development Groups, investment Groups, investment funds, brokers, insurance companies, pensions). funds, etc.). Transactions related to serving financial institutions as clients include all custody transactions, commercial transactions, all activities on the capital market, as well as deposit transactions with these clients, all of which belong to the segment of financial institutions.

39. SEGMENT REPORTING

Business segmentation standalone	Customers		Smal and medium - sized enterprises		Financial markets		ALM/CC/fcap		Group	
in '000 RSD	12.2020	12.2019	12.2020	12.2019	12.2020	12.2019	12.2020	12.2019	12.2020	12.2019
B. Profit & loss account										
Net interest income	4.846.186	4.583.501	2.976.905	2.329.165	212.262	237.201	151.044	215.080	8.186.157	7.636.882
Dividend income	-	-	-	-	-	-	424	378	424	378
Net result from equity methodinvestments	-	-	-	-	-	-	-	-	5.145	4.393
Rental income from investment properties & other operating leases	-	-	-	-	-	-	6.735	7.203	5.956	6.913
Ner fee and commission income	1.270.957	1.208.451	692.216	665.172	131.110	108.156	-202.181	(225.181)	1.892.102	1.733.646
Net trading result	187.877	186.471	114.568	109.186	205.122	386.331	-43.069	(50.813)	464.498	630.910
Gains/losses from financial instruments measured at fair value through profit or loss	-	-	-	-	-	-	(358)	(2.795)	(358)	(2.795)
Other administrative expences	(5.453.703)	(5.268.526)	(1.192.893)	(1.169.586)	(179.663)	(216.008)	(274.173)	(104.987)	(7.093.389)	(6.912.054)
Gains/losses from derocognition of financial assets measured at amortised cost	(10.776)	(24.275)	-	-	-	-	-	-	(10.776)	(24.275)
Gains/losses from derocognition of financial instruments not measured at fair value throught profit or loss	-	-	-	-	-	-	21	15.355	21	15.355
Gains/losses from reclassification out of the amortised cost to the fair value through profit or loss	-	-	-	-	-	-	-	-	-	-
Gains/losses from reclassification out of fair value through other comprehensive income to the fair value through profit or loss category	-	-	-	-	-	-	-	-	-	-
Impairment result from financial instruments	(1.270.855)	(307.009)	(303.077)	195.772	3.910	(165)	(17.231)	(5.107)	(1.585.537)	(98.674)
Other operating result	11.565	8.762	(5.970)	(1.114)	(72)	(9.924)	(548.277)	(33.054)	(549.357)	(34.322)
Pre-tax result from continuing operations	**(418.749)**	**387.374**	**2.281.748**	**2.128.594**	**372.670**	**505.591**	**(927.063)**	**(183.919)**	**1.314.888**	**2.956.357**
Taxes on income	(41.035)	(21.552)	190.187	(118.427)	36.519	(28.129)	(90.847)	10.233	94.543	(174.994)
Profit or loss for the year	**(459.784)**	**365.822**	**2.471.934**	**2.010.168**	**409.189**	**477.462**	**(1.017.910)**	**(173.686)**	**1.409.430**	**2.757.061**
Ner result attributable to non-controlling interests									(17.543)	(24.302)
Ner result attributable to the owners of the parent	**(459.784)**	**365.822**	**2.471.934**	**2.010.168**	**409.189**	**477.462**	**(1.017.910)**	**(173.686)**	**1.409.430**	**2.757.061**
Operating Income	6.305.020	5.978.423	3.783.689	3.103.522	548.494	731.688	(87.404)	(56.127)	10.553.925	10.013.122
Operating Expences	(5.453.703)	(5.268.526)	(1.192.893)	(1.169.586)	(179.663)	(216.008)	(274.173)	(104.987)	(7.093.389)	(6.912.054)
Operating Result	**851.317**	**709.896**	**2.590.795**	**1.933.937**	**368.832**	**515.680**	**(361.577)**	**(161.113)**	**3.460.536**	**3.101.068**
A. Balance sheet										
Total assets (period end balance)	99.392.063	86.562.722	106.490.139	77.966.347	13.541.120	12.979.876	81.405.829	53.941.387	300.128.233	242.724.988
Total liabilities (period end balance)	101.996.058	79.067.108	85.473.093	44.515.951	15.469.935	13.484.063	64.483.873	62.559.558	266.704.277	210.481.480
Equity	7.286.030	7.142.024	10.399.127	8.555.903	852.411	724.730	14.868.622	15.400.995	33.423.955	32.243.508
C. Key indicators/parameters										
Cost/Income Ratio	86%	88%	32%	38%	33%	30%	-314%	-187%	67%	69%
Loans/Deposits Ratio (net)	93%	104%	149%	177%	2%	1%	15%	12%	106%	126%
Return on the average allocated equity	-6%	5%	24%	23%	48%	66%	-7%	-1%	4%	9%

40. ADDITIONAL INFORMATION ON CASH FLOWS

	2020	**2019**
Cash	5.427.612	4.562.401
Bank account	13.650.670	4.073.644
Foreign currency accounts with foreign banks	1.673.333	1.127.123
Balance as at 31 December	**20.751.615**	**9.763.167**

Obligatory reserves held with the National Group of Serbia is not available for everyday business transactions of the Group and that is why it is not a part of cash flows (Note 18).

41. EVENTS AFTER THE REPORTING PERIOD

In accordance with the plan defined during the regular budget cycle, during the first quarter of 2021, the Group, based on the Decision of the General Meeting of Shareholders on the issuance of ordinary shares, realized the issue of shares to increase the share capital.

The payment was made on 10 February 2021. The number of issued shares is 120.400, and the distribution is intended for existing shareholders, in proportion to their existing participation. The nominal value of individual shares is RSD RSD 10.000, and the issue price is RSD 19.600.

During 2020, the COVID-19 virus continued to spread globally and its negative impact gained in importance.

At the end of 2020, the National Bank of Serbia passed a Decision on temporary measures for banks in order to adequately manage credit risk in the context of the COVID-19 pandemic (hereinafter: the Decision) which prescribes measures and activities to provide relief to debtors. Obligations include obligations of the debtor on the basis of loans and other credit products. The reliefs are in the form of reprogramming and refinancing of loans, which imply a change in the terms of the loan in the form of a grace period in the repayment of all obligations to the Bank lasting six months.

Pursuant to this Decision, the Group received a total of 2.576 requests, of which 1.771 were approved requests. The total number of credit lots is 5.552, whose exposure amounts to RSD 6.041.967 thousand. Out of that, the Bank approved reliefs, in accordance with the criteria from the Decision, for 2.922 credit lots, whose exposure amounts to RSD 4.332.077 thousand. The estimated effect of losses based on modifications is RSD 7.122.thousand.

As for the loan processing fee litigations, after the reporting period, the Group received a total of 1.152 lawsuits in the average amount of RSD 80 thousand per case for disputes related to the loan processing fee. The Group estimates that no material losses will be incurred based on the outcome of litigation that is in excess of the amount for which the provision was made.

There were no other events after the balance sheet date that would require adjustments or disclosures in the consolidated financial statements as of 31. December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2020

42. EXCHANGE RATES

The official middle exchange rates of the National Bank of Serbia were determined at the interbank foreign exchange market meeting. Exchange rates used for the calculation of the foreign exchange position of the balance sheet as at 31 December 2020 and 31 December 2019 for certain foreign currencies are:

in RSD

	31.12.2020.	**31.12.2019.**
EUR	117,5802	117,5928
USD	95,6637	104,9186
CHF	108,4388	108,4004

Novi Sad, 10 March 2021

Approved by the management of Erste Bank a.d. Novi Sad

Stevan Čomić Head of Accounting and Controlling Department	Suzan Tanriyar Executive Board Member	Slavko Carić Executive Board Chairman

ERSTE BANK a.d. ERSTE BANK 21 NOVI SAD

SUPPLEMENTARY SCHEDULES

DISCLOSURE OF DATA AND INFORMATION BY GROUPS

In accordance with the Decision on Disclosure of Data and Information, detailed information on the Group's capital is given in the following enclosures:

- PI-KAP form (APPENDIX 1) - detailed structure of regulatory capital of the Group as at 31 December 2020;
- PI-FIKAP form (APPENDIX 2) - basic characteristics of regulatory capital elements;
- PI-UPK form (APPENDIX 3) - Balance sheet of the Group compiled in accordance with IAS / IFRS standards and disaggregated positions that can be linked through the references to the equity positions of the Capital report made in accordance with the Decision regulating the reporting on the capital adequacy of the Group (ANNEX 1).
- PI-AKB form (APPENDIX 4) - overview of calculated capital requirements as at 31 December 2020.

DISCLOSURE OF DATA AND INFORMATION BY GROUPS (continued)

Appendix 1 – The form PI- KAP

Data on the Group's capital position

In RSD '000

No	Item	Amount	DCA reference
	Common Equity Tier 1: elements		
1	CET1 capital instruments and the related share premium accounts	15.462.944	
1.1.	*of which: shares and other capital instruments which fulfil the requirements as laid out in Section 8 of the DCA*	12.909.000	Section 7, paragraph 1, item 1) and Section 8
1.2.	*of which: relevant share premium with the instruments referred to in item 1.1, i.e. the amount paid above par value of those instruments*	2.553.944	Section 7, paragraph 1, item 2)
2	Profit from preceding years free of any future liabilities, to be allocated to CET 1 capital according to the decision of the Group's assembly	254.488	Section 10, paragraph 1
3	Profit of the current year or profit from the preceding year which the Group's assembly still has not decided to allocate in CET 1 capital which fulfil the requirements as laid out in Section 10, paras 2 and 3 on inclusion into CET 1 capital	-	Section 10, paras 2 and 3
4	Revaluation reserves and other unrealised losses	497.932	Section 7, paragraph 1, item 4)
5	Reserves from profit and other Group reserves, except for reserves for general Grouping risks	15.634.894	Section 7, paragraph 1, item 5)
6	Reserves for general Grouping risks	-	Section 7, paragraph 1, paragraph 6)
7	Non-controlling participations (minority interests) allowed in CET1**	-	
8	Common Equity Tier 1 capital before regulatory adjustments and deductibles (sum of rows from 1 to 7)	31.850.257	

DISCLOSURE OF DATA AND INFORMATION BY GROUPS (continued)

Appendix 1 – The form PI- KAP

Data on the Group's capital position

In RSD '000

No	Item	Amount	DCA reference
	Common Equity Tier 1: elements		
9	Additional value adjustments (-)	(26.958)	Section 12, paragraph 5
10	Intangible assets, including goodwill (net of deferred tax liabilities) (-)	(1.146.644)	Section 13, paragraph 1, item 2)
11	Deferred tax assets that rely on future profitability of the Group, excluding those arising from temporary differences (net of related deferred tax liability where the conditions referred to in Section 14, paragraph 1 of the DCA are met)	-	Section 13, paragraph 1, item 3)
12	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value, including projected cash flows	-	Section 12, paragraph 1, item 1)
13	IRB Approach: Negative amount of difference resulting from the calculation in accordance with Section 134 of the DCA (-)		Section 13, paragraph 1, item 4)
14	Any increase in equity that results from securitisation exposures (-)	-	Section 11
15	Gains or losses on Group's liabilities valued at fair value resulting from changes in own credit standing	-	Section 12, paragraph 1, item 2)
16	Defined benefit pension fund assets on the balance sheet of the Group(-)	-	Section 13, paragraph 1, item 5)
17	Direct, indirect and synthetic holdings by a Group of own Common Equity Tier 1 instruments, including own CET 1 instruments that a Group is under an actual or contingent obligation to purchase by virtue of an existing contractual obligation (-)	-	Section 13, paragraph 1, item 6)
18	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have a reciprocal cross holding with the Group, designed to inflate artificially the capital of the Group (-)	-	Section 13, paragraph 1, item 7)
19	Applicable amount of direct, indirect and synthetic holdings by the Group of the CET1 instruments of financial sector entities where the Group does not have a significant investment in those entities (-)	-	Section 13, paragraph 1, item 8)
20	Applicable amount of direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the Group has a significant investment in those entities (-)	-	Section 13, paragraph 1, item 9)
21	Exposure amount of the following items which qualify for a risk weight of 1,250%, where the Group deducts that exposure amount from the amount of CET1 items as an alternative to applying a risk weight of 1,250%	-	Section 13, paragraph 1, item 11)
21.1.	*of which: holdings in entities outside the financial sector in the amount of over 10% of capital of those entities, i.e. holdings that allow exerting a significant impact on managing of a legal entity or on the business policy of that legal entity (-)*	-	Section 13, paragraph 1, item 11), indent one
21.2.	*of which: securitisation positions (-)*	-	Section 13, paragraph 1, item 11), indent two
21.3.	*of which: free deliveries (-)*	-	Section 13, paragraph 1, item 11), indent three
22	Deferred tax assets that rely on the Group's future profitability arising from temporary differences (amount above 10% of Group's CET1 capital referred to in Section 21, paragraph 2, reduced by the amount of related tax liabilities where the requirements referred to in Section 14, paragraph 1 of the DCA are met (-)	-	Section 21, paragraph 1, item 1)

DISCLOSURE OF DATA AND INFORMATION BY GROUPS (continued)

Appendix 1 – The form PI- KAP

Data on the Group's capital position

In RSD '000

No	Item	Amount	DCA reference
23	Sum of deferred tax assets and holdings of financial sector entities where the Group has a significant investment referred to in Section 21, paragraph 1 of the DCA in such entities, which exceeds the threshold referred to in Section 21, paragraph 3 of the DCA (-)	-	Section 21, paragraph 1
23.1.	*of which: Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the Group has a significant investment in those entities*	-	Section 21, paragraph 1, item 2)
23.2.	*of which: Deferred tax assets arising from temporary differences*	-	Section 21, paragraph 1, item 1)
24	Losses for the current and previous years, and unrealised losses (-)	-	Section 13, paragraph 1, item 1)
25	Any tax charge relating to CET1 elements foreseeable at the moment of its calculation, except where the Group suitably adjusts the amount of CET1 elements insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (-)	-	Section 13, paragraph 1, item 12)
26	Amount of items required to be deducted from the Group’s Additional Tier 1 items that exceeds Additional Tier 1 capital of the Group (-)	-	Section 13, paragraph 1, item 10)
27	Gross amount of claims on debtors - natural persons (except farmers and entrepreneurs) on the basis of approved consumer loans, cash loans or other loans, which are shown in the accounts 102, 107 and 108 in accordance with the decision prescribing the Chart of Accounts and the contents of the account in the Chart of Accounts for Groups for which the borrower's credit indebtedness was higher than the percentage determined in accordance with the decision governing the classification of the Group's balance sheet assets and off-balance sheet items, or that percentage would be higher due to the credit approval, with this deduction being applied without whether or not, after the approval of the loan, the debt ratio of the borrower has become lower than that percentage (-)	(22.526)	Section 13, paragraph 1, item 13)
28	Gross amount of claims on debtors - natural persons (other than farmers and entrepreneurs) on the basis of approved consumer loans, cash loans or other loans, except for the loans shown in item 1.1.1.27 of this form, which are shown in accounts 102, 107 and 108 in accordance with the decision prescribing the Chart of Accounts and the contents of the account in the Chart of Accounts which, on the basis of the criteria of the agreed maturity, fulfill the condition for the application of the deductible item from the share capital, prescribed by the decision regulating the adequacy of the Group's capital Of which: Loans with a contractual maturity of more than 2920 days - if these loans are approved between January 1 and December 31, 2019 (-)	(8.759)	Section 13, paragraph 1, item 14)
29	Amount of required reserve for estimated losses on balance-sheet assets and off-balance sheet items of the Group	(5.813)	Section 13, paragraph 1, item 13)
30	Total regulatory adjustments and deductibles from CET1 capital (sum of rows from 9 to 27)	(1.210.700)	
31	Common Equity Tier 1 capital (difference between 8 and 28)	30.639.556	

DISCLOSURE OF DATA AND INFORMATION BY GROUPS (continued)

Appendix 1 – The form PI- KAP

Data on the Group's capital position

In RSD '000

No	Item	Amount	DCA reference
	Additional Tier 1 capital: elements		
32	Shares and other capital instruments which fulfil the requirements as laid out in Section 23 of the DCA and related share premium	-	Section 22, paragraph 1, items 1) and 2)
33	Capital instruments issued by subsidiaries, which are recognised as Additional Tier 1 capital**	-	
34	Additional Tier 1 capital before deductibles (32+33)	-	
	Additional Tier 1 capital: deductibles	-	
35	Direct, indirect and synthetic holdings by a Group of own Additional Tier 1 instruments, including the instruments that a Group is obliged to purchase as a result of existing contractual obligations (-)	-	Section 26, paragraph 1, item 1)
36	Direct, indirect and synthetic holdings by a Group of the Additional Tier 1 instruments of financial sector entities with which the Group has reciprocal cross holdings, designed to inflate artificially the capital of the Group (-)	-	Section 26, paragraph 1, item 2)
37	Applicable amount of direct, indirect and synthetic holdings by a Group of the Additional Tier 1 instruments of financial sector entities where the Group does not have a significant investment in those entities (-)	-	Section 26, paragraph 1, item 3)
38	Direct, indirect and synthetic holdings by a Group of the Additional Tier 1 instruments of financial sector entities where the Group has a significant investment in those entities, excluding underwriting positions held for five working days or fewer (-)	-	Section 26, paragraph 1, item 4)
39	Amount of items required to be deducted from Tier 2 items that exceed the Tier 2 capital of the Group (-)	-	Section 26, paragraph 1, item 5)
40	Total deductibles from Additional Tier 1 capital (sum of rows from 33 to 37)	-	
41	Additional Tier 1 capital (difference between 34 and 40)	-	
42	Tier 1 capital (sum of rows 31 and 41)	30.639.556	

DISCLOSURE OF DATA AND INFORMATION BY GROUPS (continued)

Appendix 1 – The form PI- KAP

Data on the Group's capital position

In RSD '000

No	Item	Amount	DCA reference
	Tier 2: elements		
43	Shares and other Tier 2 capital instruments and subordinated liabilities which fulfil the requirements as laid out in Section 28 of the DCA and related share premium accounts related to instruments	3.568.709	Section 27, paragraph 1, items 1) and 2)
44	Capital instruments issued by subsidiaries, which are recognised as Tier 2 capital**	-	
45	Credit risk adjustments that meet the requirements for the inclusion in Tier 2 capital	-	Section 27, paragraph 1, items 3) and 4)
46	Tier 2 capital before deductibles (sum of rows from 43 to 45)	3.568.709	
	Tier 2 capital: deductibles		
47	Direct, indirect and synthetic holdings by a Group of own Tier 2 instruments and subordinated liabilities, including instruments that the Group is obliged to purchase as a result of existing contractual obligations (-)	-	Section 30, paragraph 1, item 1)
48	Direct, indirect and synthetic holdings of the Tier 2 instruments and subordinated liabilities of financial sector entities with which the Group has reciprocal cross holdings, designed to inflate artificially the capital of the Group (-)	-	Section 30, paragraph 1, item 2)
49	Applicable amount of direct, indirect and synthetic holdings of the Tier 2 instruments and subordinated liabilities of financial sector entities where a Group does not have a significant investment in those entities (-)	-	Section 30, paragraph 1, item 3)
50	Direct, indirect and synthetic holdings by the Group of the Tier 2 instruments and subordinated liabilities of financial sector entities where the Group has a significant investment in those entities, excluding underwriting positions held for fewer than five working days (-)	-	Section 30, paragraph 1, item 4)
51	Total deductibles from Tier 2 capital (sum of rows from 47 to 50)	-	
52	Tier 2 capital (difference between 46 and 50)	3.568.709	
53	Total capital (sum of rows 42 and 52)	34.208.265	
54	Total risk-weighted assets	183.177.092	Section 3, paragraph 2,
	Capital adequacy ratios and capital buffers		
55	Common Equity Tier 1 capital ratio (%)	**16,73**	Section 3, paragraph 1, item 1)
56	Tier 1 capital ratio (%)	**16,73**	Section 3, paragraph 1, item 2)
57	Total capital ratio (%)	**18,67**	Section 3, paragraph 1, item 3)
58	Total requirements for capital buffers (%)	**6,00**	Section 433
59	Common Equity Tier 1 capital available for capital buffers coverage (%)	**8,73**	

DISCLOSURE OF DATA AND INFORMATION BY GROUPS (continued)

Appendix 2 – The form PI-FIKAP

Data on the basic characteristics of financial instruments that are included in the calculation of the Group's capital

No	Instrument features	The share capital of the Group	The subordinated loan granted by Erste Group Group Ceps Holding GmbH, Vienna	The subordinated loan granted by Erste Group Group Ceps Holding GmbH, Vienna
1.	**Issuer**	Erste Group a.d. Novi Sad	Erste Group Group Ceps Holding GmbH, Vienna	Erste Group Group Ceps Holding GmbH, Vienna
1.1.	**Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)**	ISIN: RSNOVBE23514, CFI ESVTFR		
	Regulatory treatment			
2.	**Treatment in accordance with the Decision on Capital Adequacy of Groups**	*Core capital instrument*	Supplementary capital instrument	Supplementary capital instrument
3.	**Eligible at solo/(sub-)consolidated/ solo&(sub-) consolidated**	*Individual and group*	Individual and group	Individual and group
4.	**Instrument type**	*Ordinary shares*	Subordinated debt issued in the form of financial instrument	Subordinated debt issued in the form of financial instrument
5.	**Amount recognised in regulatory capital (in RSD thousand, as of most recent reporting date)**	Amount of 15.462.944 thousand RSD is recognized for the purposes of calculating regulatory capital (nominal value plus share premium in the amount of 2.553.944 thousand RSD).	Amount of 41.303 thousand RSD recognized as supplementary capital which fulfil requirements in accordance with Decision on Capital Adequacy	Amount of 3.527.406 thousand RSD recognized as supplementary capital which fulfil requirements in accordance with Decision on Capital Adequacy
6.	**Nominal amount of instrument**	12.909.000 thousand RSD	EUR 15.000.000	EUR 30.000.000
6.1.	**Issue price**	RSD 11.978,42	-	-
6.2.	**Redemption price**	-	-	-
7.	**Accounting classification**	*Share capital*	Liability – depreciated amount	Liability – depreciated amount
8.	**Original date of issuance**	1st issue: 4.012.090 thousand RSD 23/11/2004 2nd issue: 1.369.980 thousand RSD 15/06/2006 3rd issue: 1.735.310 thousand RSD 28/12/2006 4th issue: 2.922.620 thousand RSD 19/12/2007 5th issue: 2.869.000 thousand RSD 12/07/2019	27.12.2011.	10.09.2018.
9.	**Perpetual or dated**	*No maturity date*	With maturity date	With maturity date
9.1.	***Original maturity date***	*No maturity date*	27.12.2021.	10.09.2028.
10.	**Issuer call subject to prior supervisory approval**	*No*	*No*	*No*
10.1.	**Optional call date, contingent call dates and redemption amount**	-	-	-
10.2.	**Subsequent call dates, if applicable**	-	-	-
	Coupons / dividends			

DISCLOSURE OF DATA AND INFORMATION BY GROUPS (continued)

Appendix 2 – The form PI-FIKAP

Data on the basic characteristics of financial instruments that are included in the calculation of the Group's capital

No	Instrument features	The share capital of the Group	The subordinated loan granted by Erste Group Group Ceps Holding GmbH, Vienna	The subordinated loan granted by Erste Group Group Ceps Holding GmbH, Vienna
11.	Fixed or floating dividend/coupon	Variable	Variable	Variable
12.	Coupon rate and any related index	-	Referring to interest on subordinated loan	Referring to interest on subordinated loan
13.	Existence of a dividend stopper	-	-	-
14.1.	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Full discretion	No discretion	No discretion
14.2.	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Full discretion	No discretion	No discretion
15.	Existence of step up or other incentive to redeem	No	No	No
16.	Noncumulative or cumulative dividend/coupon	*Non-cumulative*	*Non-cumulative*	*Non-cumulative*
17.	Convertible or non-convertible	*Non-cumulative*	*Non-cumulative*	*Non-cumulative*
18.	If convertible, conversion trigger(s)			
19.	If convertible, fully or partially			
20.	If convertible, conversion rate			
21.	If convertible, mandatory or optional conversion			
22.	If convertible, specify instrument type convertible into			
23.	If convertible, specify issuer of instrument it converts into			
24.	Write-down features	*No*	No	No
25.	If write-down, write-down trigger(s)			
26.	If write-down, full or partial			
27.	If write-down, permanent or temporary			
28.	If temporary write-down, description of write-up mechanism			
29.	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated debt issued in the form of financial instrument	Other	Other
29.	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Minority participations	Other	Other
30.	Non-compliant transitioned features	*No*	No	No
31.	If yes, specify non-compliant features		-	-

DISCLOSURE OF DATA AND INFORMATION BY GROUPS (continued)

ANNEX 3 - Form PI-UPK

Disaggregation of the elements in the balance sheet of the Group with references to the positions of regulatory capital (Appendix 1)

In RSD '000

Designation of item	Item	Balance sheet as disclosed in financial reports	Balance sheet under regulatory method and scope of consolidation
A	**ASSETS**		
A.I	Cash and assets with the central Bank	35.402.631	35.402.631
A.II	Pledged financial assets	4.622.478	4.622.478
A.III	Derivative receivables	408.411	408.411
A.IV	Securities	49.554.573	49.554.573
A.V	Loans and receivables from Banks and other financial organisations	2.944.805	2.944.805
A.VI	Loans and receivables from clients	201.214.645	201.214.645
A.VII	Change in fair value of hedged items	-	-
A.VIII	Receivables arising from hedging derivatives	-	-
A.IX	Investments in associated companies and joint ventures	118	118
A.X	Investments into subsidiaries		
A.XI	Intangible assets	1.146.644	1.146.644
A.XII	Property, plant and equipment	3.187.470	3.187.470
A.XIII	Investment property	-	-
A.XIV	Current tax assets	185.043	185.043
A.XV	Deferred tax assets	154.981	154.981
A.XVI	Fixed assets intended for sale and assets of discounted operations	12.252	12.252
A.XVII	Other assets	1.147.687	1.147.687
A.XX	**TOTAL ASSETS (AOP items from 0001 to 0019 in the balance sheet)**	299.981.738	299.981.738
P	**LIABILITIES AND EQUITY**		
PO	**LIABILITIES**		
PO.I	Derivative liabilities	346.766	346.766
PO.II	Deposits and other liabilities to Banks, other financial organisations and central Bank	78.207.806	78.207.806
PO.III	Deposits and other liabilities to other clients	175.995.703	175.995.703
PO.IV	Liabilities arising from hedging Derivatives	-	-
PO.V	Change in fair value of hedged items	-	-
PO.VI	Liabilities from securities	3.509.426	3.509.426
PO.VII	Subordinated liabilities	3.870.407	3.870.407
PO.VIII	Provisions	1.320.593	1.320.593
PO.IX	Liabilities under assets held for sale and discontinued operations	-	-
PO.X	Current tax liabilities	-	-
PO.XI	Deferred tax liabilities	7.677	7.677
PO.XII	Subordinated liabilities	3.410.728	3.410.728
PO.XIV	**TOTAL LIABILITIES (AOP items from 0401 to 0413 in the balance sheet)**	266.669.106	266.669.106

DISCLOSURE OF DATA AND INFORMATION BY GROUPS (continued)

ANNEX 3 - Form PI-UPK (continued)

In RSD '000

Designation of item	Item	Balance sheet as disclosed in financial reports	Balance sheet under regulatory method and scope of consolidation
	EQUITY		
PO.XV	Share capital	15.462.944	15.462.944
PO.XVI	Own shares	-	-
PO.XVII	Profit	1.597.441	1.597.441
PO.XVIII	Loss	-	-
PO.XIX	Reserves	16.132.957	16.132.957
PO.XX	Unrealized losses	-	-
PO.XXI	Participation without the right of control	119.290	119.290
PO.XXII	**TOTAL CAPITAL (result of adding up and/or subtracting the following balance sheet items: 0415-0416+0417-0418+0419-0420+0421) ≥ 0**	33.312.632	33.312.632
PO.XXIII	**TOTAL CAPITAL SHORTFALL (result of adding up and/or subtracting the following balance sheet items: 0415-0416+0417-0418+0419-0420+0421) < 0**	-	-
PO.XXIV	**TOTAL LIABILITIES (result of adding up and/or subtracting the following balance sheet items: 0414+0422-0423)**	299.981.738	299.981.738
В.П.	**OFF-BALANCE SHEET ITEMS**		
В.П.А.	Off-balance sheet assets	383.663.157	383.663.157
В.П.П.	Off-balance sheet liabilities	383.663.157	383.663.157

DISCLOSURE OF DATA AND INFORMATION BY GROUPS (continued)

ANNEX 3 - Form PI-UPK

Disaggregation of the elements in the balance sheet of the Group with references to the positions of regulatory capital (Appendix 1)

In RSD '000

Designation of item	Item	Balance sheet	Reference
A	**ASSETS**		
A.I	Cash and assets with the central Bank	35.402.631	
A.II	Pledged financial assets	4.622.478	
A.III	Derivative receivables	408.411	
A.IV	Securities	49.554.573	
A.V	Loans and receivables from Banks and other financial organisations	2.944.805	
A.VI	Loans and receivables from clients	201.214.645	
A.VII	Change in fair value of hedged items	-	
A.VIII	Receivables arising from hedging derivatives	-	
A.IX	Investments in associated companies and joint ventures	118	
A.X	Investments into subsidiaries	-	
A.XI	Intangible assets	1.146.644	d
A.XII	Property, plant and equipment	3.187.470	
A.XIII	Investment property	-	
A.XIV	Current tax assets	185.043	
A.XV	Deferred tax assets	154.981	
A.XVI	Fixed assets intended for sale and assets of discounted operations	12.252	
A.XVII	Other assets	1.147.687	
A.XX	**TOTAL ASSETS (AOP items from 0001 to 0019 in the balance sheet)**	299.981.738	
P	**LIABILITIES AND EQUITY**		
PO	**LIABILITIES**		
PO.I	Derivative liabilities	346.766	
PO.II	Deposits and other liabilities to Banks, other financial organisations and central Bank	78.207.806	
PO.III	Deposits and other liabilities to other clients	175.995.703	
PO.IV	Liabilities arising from hedging Derivatives	-	
PO.V	Change in fair value of hedged items	-	
PO.VI	Liabilities from securities	3.509.426	
PO.VII	Subordinated liabilities	3.870.407	
	Of which subordinated liabilities that are included in the Group's supplementary capital	3.568.709	đ
PO.VIII	Provisions	1.320.593	
PO.IX	Liabilities under assets held for sale and discontinued operations	-	
PO.X	Current tax liabilities	-	
PO.XI	Deferred tax liabilities	7.677	
PO.XII	Other liabilities	3.410.728	
PO.XIV	**TOTAL LIABILITIES (AOP item from 0401 to 0413 in the balance sheet)**	266.669.106	

DISCLOSURE OF DATA AND INFORMATION BY GROUPS (continued)

ANNEX 3 - Form PI-UPK

Disaggregation of the elements in the balance sheet of the Group with references to the positions of regulatory capital (Appendix 1)

In RSD '000

Designation of item	Item	Balance sheet	Reference
	EQUITY		
PO.XV	Share capital	15.462.944	
	Of which nominal value of paid shares, except cumulative preference shares	12.909.000	a
	Of which premium emission based on share capital, except cumulative preference share	2.553.944	b
PO.XVI	Own shares	-	
PO.XVII	Profit	1.597.441	
PO.XVIII	Loss	-	
PO.XIX	Reserves	16.132.957	
	Of which Other reserves	15.634.894	g
	Of which Revalorization reserves and other unrealized gains	642.678	v
	Of which unrealized losses	(144.747)	v
PO.XX	Unrealized losses	-	
PO.XXI	Učešća bez prava kontrole	119.290	
PO.XXII	**TOTAL CAPITAL (result of adding up and/or subtracting the following balance sheet items: 0415-0416+0417-0418+0419-0420+0421) ≥ 0**	33.312.632	
PO.XXIII	**TOTAL CAPITAL SHORTFALL (result of adding up and/or subtracting the following balance sheet items: 0415-0416+0417-0418+0419-0420+0421) < 0**	-	
PO.XXIV	**TOTAL LIABILITIES (result of adding up and/or subtracting the following balance sheet items: 0414+0422-0423)**	299.981.738	
В.П.	**OFF-BALANCE SHEET ITEMS**		
В.П.А.	Off-balance sheet assets	383.663.157	
В.П.П.	Off-balance sheet liabilities	383.663.157	

DISCLOSURE OF DATA AND INFORMATION BY GROUPS (continued)

APPENDIX 4 – The form PI-ABK

Data on capital requirements and capital adequacy of the Group:

In RSD '000

No	Name	Amount
I	**CAPITAL**	34.208.265
1.	**TOTAL COMMON EQUITY TIER 1 CAPITAL**	30.639.556
2.	**TOTAL ADDITIONAL TIER 1 CAPITAL**	-
3.	**TOTAL TIER 2 CAPITAL**	3.568.709
II	**CAPITAL REQUIREMENTS**	14.654.167
1.	**CAPITAL REQUIREMENT FOR CREDIT RISK, COUNTERPARTY RISK, DILUTION RISK AND SETTLEMENT/DELIVERY RISK TO FREE DELIVERIES**	13.032.542
1.1.	Standardised Approach (SA)	162.906.777
1.1.1.	Exposures to central governments and central Banks	-
1.1.2.	Exposures to territorial autonomies or local government units	958.924
1.1.3.	Exposures to public administrative bodies	1.359.904
1.1.4.	Exposures to multilateral development Groups	-
1.1.5.	Exposures to international organisations	-
1.1.6.	Exposures to Groups	1.346.844
1.1.7.	Exposures to companies	83.206.934
1.1.8.	Retail exposures	50.210.111
1.1.9.	Exposures secured by mortgages on immovable property	20.646.907
1.1.10.	Exposures in default	687.669
1.1.11.	Exposures associated with particularly high risk	-
1.1.12.	Exposures in the form of covered bonds	-
1.1.13.	Exposures in the form of securitisation positions	-
1.1.14.	Exposures to Groups and companies with a short-term credit assessment	-
1.1.15.	Exposures in the form of units in open-ended investment funds	-
1.1.16.	Equity exposures	157.800
1.1.17.	Other items	4.331.684
1.2.	Internal Ratings Based Approach (IRB)	-
1.2.1.	Exposures to central governments and central Banks	-
1.2.2.	Exposures to Groups	-
1.2.3.	Exposures to companies	-
1.2.4.	Retail exposures	-
1.2.4.1.	of which: Exposures secured by mortgages on immovable property	-
1.2.4.2.	of which: Qualifying revolving retail exposures	-
1.2.4.3.	of which: Exposures to small and medium-sized enterprises classified as retail exposures	-
1.2.5.	Equity exposures	-
1.2.5.1.	Approach applied:	-
1.2.5.1.1.	Simple Risk-Weight Approach	-
1.2.5.1.2.	PD/LGD Approach	-
1.2.5.1.3.	Internal models approach	-
1.2.5.2.	Types of equity exposures	-
1.2.5.2.1.	Exchange traded equity exposures	-
1.2.5.2.2.	Non-exchange traded equity exposures in sufficiently diversified portfolios	-
1.2.5.2.3.	Other equity exposures	-
1.2.5.2.4.	Equity exposures to which a Group applies the Standardised Approach	-
1.2.6.	Exposures in the form of securitisation positions	-
1.2.7.	Exposures arising from other assets	-

DISCLOSURE OF DATA AND INFORMATION BY GROUPS (continued)

APPENDIX 4 – The form PI-ABK (continued)

Data on capital requirements and capital adequacy of the Group (continued):

In RSD '000

No	Name	Amount
2	**CAPITAL REQUIREMENT FOR SETTLEMENT/DELIVERY RISK IN RESPECT OF UNSETTLED TRANSACTIONS**	-
3	**CAPITAL REQUIREMENT FOR MARKET RISKS**	169.187
3.1.	Capital requirements for position, foreign exchange risk and commodities risk calculated under the Standardised Approach	169.187
3.1.1.	Capital requirement for position risk of debt securities	169.187
	of which capital requirement for position risk in respect of securitisation items	-
3.1.2.	Capital requirements for position risk arising from equity securities	-
3.1.3.	Additional capital requirement for large exposures from the trading book	-
3.1.4.	Capital requirement for foreign exchange risk	-
3.1.5.	Capital requirement for commodities risk	-
3.2.	Capital requirements for position, foreign exchange and commodities risk calculated under the internal models approach	-
4	**CAPITAL REQUIREMENTS FOR OPERATIONAL RISK**	1.395.833
4.1.	Capital requirement for operational risk calculated under the Basic Indicator Approach	1.395.833
4.2.	Capital requirement for operational risk calculated under the Standardised Approach/Alternative Standardised Approach	-
4.3.	Capital requirement for operational risk calculated under the Advanced Approach	-
5	**CAPITAL REQUIREMENTS FOR CREDIT VALUATION ADJUSTMENT RISK**	56.605
III	**COMMON EQUITY TIER 1 CAPITAL RATIO (%)**	16,73
IV	**TIER 1 CAPITAL RATIO (%)**	16,73
V	**TOTAL CAPITAL RATIO (%)**	18,67

APPENDIX

Used abbreviations:

AC	Amortized cost
AFS	Available for sale
ALCO	Asset and Liability Management Committee
ALM	Asset and Liabilities Management
AML	Anti-Money Laundering
bps	Basis points
CCF	Credit Conversion Factor
CR01	Credit Price Value
CRR	Capital Requirements Regulation
CVA	Credit Value Adjustments
DTA	Deferred tax asset
DVA	Debit Value Adjustment
EAD	Exposure at Default
EBA	European Grouping Authority
EIR	Effective interest rate
EVE	Economic Value Of Equity
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
FV	Fair value
FX	Foreign exchange
GCA	Gross Carrying Amount
HFT	Held for trading
HTM	(Held to maturity) - A portfolio of securities held to maturity
ICAAP	(Internal capital adequacy assessment process) - The process of internal capital adequacy assessment
IRB	(Internal Ratings Based Approach) - An approach based on internal rating
LCR	Liquidity coverage ratio
LGD	(eng. Loss Given Default) - Loss due to the occurrence of default status
LTV ratio	(eng. Loan To Value) - The ratio of the gross value of the receivable and the market value of the real estate by which the receivable is secured
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
MVoE	(Market Value of Equity) - Market value of capital
NBS	National Bank of Serbia
NPL	Uncollectible receivables
NSFR	(Net Stable Funding Ratio) - An indicator of net stable sources of financing, and is an indicator of structural liquidity that aims to prevent structural mismatches in the structure of balance sheet assets and liabilities over a period of 1 year
OAK	Decision on capital adequacy
OCI	(eng Other Comprehensive Income) – Other result
OTC derivatives	Over the Counter Derivatives
PD	Probability of Default
POCI	Purchased or originated credit impaired
PVBP	Price Value Basis Point
RCC	Risk-bearing Capacity Calculation
REPO	Repurchase Agreement
RSD	Dinar of the Republic of Serbia

SICR	Significant increase in credit risk
SME	Small and Medium Size Enterprises
SPA	Survival Period Analysis
SPPI	Solely payments of Principal and Interest
SREP	Supervisory Review and Evaluation Process
VaR	Value-at-Risk

CONSOLIDATED ANNUAL BUSINESS REPORT FOR THE YEAR ENDED **31** DECEMBER 2020

CONTENT:

1. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE GROUP 3

2. AUTHENTIC PRESENTATION OF THE GROUP'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE GROUP AND DATA RELEVANT FOR THE ASSESSMENT OF THE GROUP'S ASSETS 6

3. RESPONSIBILITY TO THE ENVIRONMENT 18

4. ALL SIGNIFICANT BUSINESS EVENTS THAT HAPPENED AFTER THE END OF THE BUSINESS YEAR FOR WHICH THE REPORT IS PREPARED 19

5. DESCRIPTION OF EXPECTED DEVELOPMENT IN THE NEXT PERIOD 20

6. RESEARCH AND DEVELOPMENT ACTIVITIES FOR THE PERIOD COMPLETED ON DECEMBER 31, 2020 21

7. RISK EXPOSURE..23

8. ALL MAJOR TRANSACTIONS WITH RELATED PARTIES 26

1. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE GROUP

- Introduction

The consolidated annual business report includes information on Erste Bank a.d. Novi Sad (the "Bank") and its subsidiary S-Leasing doo Beograd. The consolidated annual business report of the Bank and the subsidiary (collectively: "the Group") has been prepared in accordance with Article 29 of the Law on Accounting (Official Gazette of RS, no. 73/2019).

The report is based on the audited financial information. A more detailed presentation of the business opration of the Group on the consolidated level is provided in the Notes to consolidated financial statements as of December 31, 2020.

- About the Bank

Erste Bank a.d. Novi Sad (the ''Bank'') is the oldest financial institution in the country. It was founded in 1864 as the first savings bank (Novosadska stedionica). At the beginning of August 2005, subsequent to the successful finalization of privatization process, Novosadska banka a.d. Novi Sad became a member of Erste Bank Group, established in 1819. as the first savings bank in Austria. Since 1997. Erste Group has been growing into one of the largest companies for financial services in the Central and Eastern Europe with about 47,300 employees, serving around 16.1 million clients through 2.577 branches in 7 countries (Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia).

The Bank's shareholders are Erste Group Banka AG, Vienna and Steiermarkische Bank und Sparkassen AG, Graz, with 74% and 26% interests in the Bank's share capital respectively.

The Bank's headquarter is in Movi Sad, at number 5 Bulevar Oslobodenja Street. The Bank operates through 7 business centres, 46 branches, 31 sub-branches and 4 counters.

The Bank's corporate ID number is 08063818, and its tax ID number (fiscal code) is 101626723.

As of December 31, 2020 the Bank had 1,212 employees (December 31, 2019: 1.154 employees).

As of December 31, 2020 members of the Bank's Management Board were:
1. Ingo Bleier, Chairman, Erste Group Bank AG, Vienna
2. David O'Mahony, member, Erste Group Bank AG, Vienna
3. Hannes Frotzbacher, member, Erste Group Bank AG, Vienna
4. Georg Bucher, member, Chairman deputy, Steiermarkische Bank und Sparkassen AG, Gratz
5. Goran Pecikoza, non-executive member, Belgrade
6. Aleksandar Vlahović, non-executive member, Belgrade

As of December 31, 2020 members of the Bank's Executive Board were:

1. Slavko Carić, Chairman
2. Jasna Terzić, Member of the Executive Board
3. Suzan Tanriyar, Member of the Executive Board
4. Tomislav Stena, Member of the Executive Board

As of December 31, 2020 members of the Bank's Audit Committee were:

Mario Catasta, Chairman, Erste Group Bank AG, Vienna,
Georg Bucher, member, Steiermarkische Bank und Sparkassen AG, Grac,
Aleksandar Vlahovic, independent member, Belgrade

S - Leasing doo Beograd (the ''Company'') was established in June 2003 as a limited liability company. The Company was registered with the Commercial Court of Belgrade on June 18, 2003 and re-registered with the Serbian Business Registers Agency under Decision number BD 33349/2005 dated June 7, 2005.

Prior to the Law on Financial Leasing effective date, the Company was issued an operating license for performance of finance leasing activities under Decision of the National Bank of Serbia number 622 dated January 25, 2006.

1. BUSINESS ACTIVITIES ORGANIZATIONAL STRUCTURE OF THE GROUP (countinued)

In 2013 the equity ownership structure of S-Leasing underwent a change with Erste Bank a.d., Novi Sad, Serbia becoming the majority owner of the Company holding a 75.0% equity interest therein, while Steiermaerkische Bank und Sparkassen AG, Graz, Austria decreased its equity interest in the Company to 25.0%. As of December 31, 2013 the Company's permanent investments comprised capital contribution investments of the founders Steiermaerkische Bank und Sparkassen AG, Graz, Austria (50.0%) and Immorent International Holding GmbH, Vienna, Austria (50.0%).

The Company's principal business activity involves services of finance lease over movable assets to individuals and legal entities in the territory of the Republic of Serbia.

The Company's headquarter is in Beograd, at number lla/4 Milutina Milankovica Street.

As of December 31, 2020 the Company had 50 employees (December 31, 2019: 50 employees).

The Company's corporate ID number is 17488104, and its tax ID number (fiscal code) is 102941384.

Members of the Company's Management Board are:
1. Slavko Carić, Chairman, Erste Bank akcionarsko društvo, Novi Sad
2. Vladan Mihajličin, member, Erste Bank akcionarsko društvo, Novi Sad
3. Georg Haslinger, member, Erste Group Bank AG Vienna
4. Marko Markić, member, Steiermaerkische Bank und Sparkassen AG, Grac
5. Daniel Kozel, member, Steiermaerkische Bank und Sparkassen AG, Grac

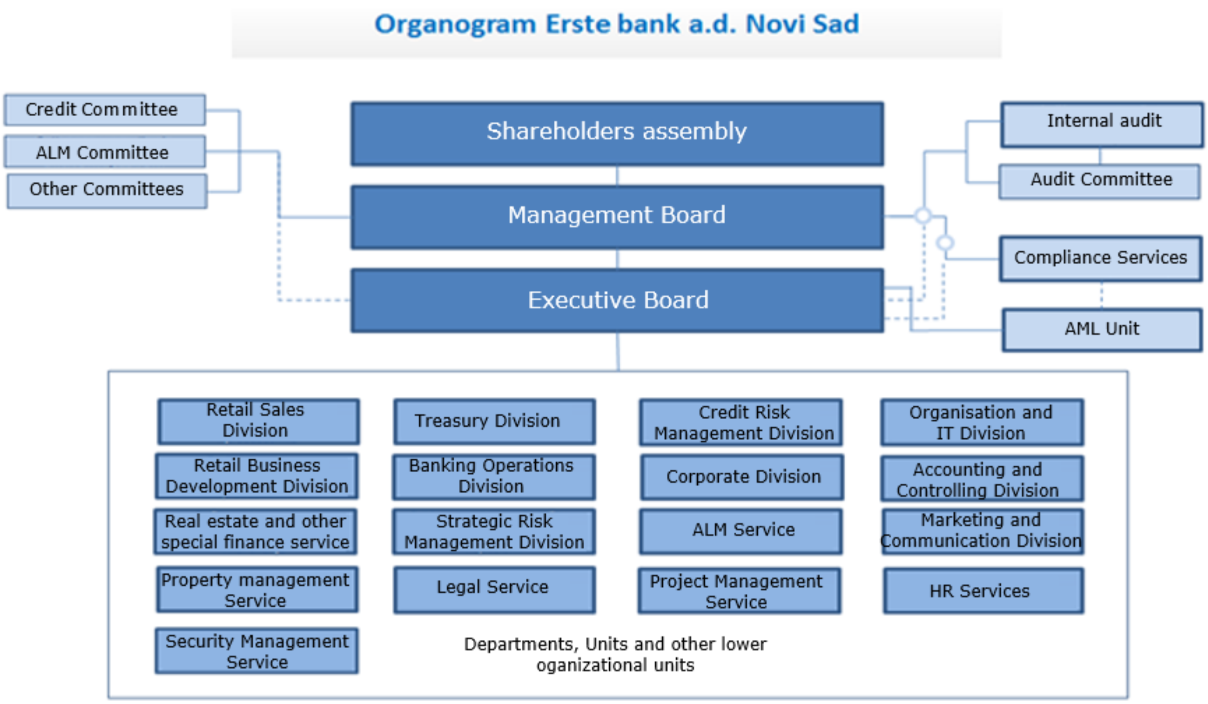
Members of the Company's Executive Board are:
1. Bojan Vračević, Chairman and
2. Vuk Vučević, member

The consolidated annual business report included the separate financial information of Erste Bank a.d. Novi Sad and financial information of S-Leasing d.o.o. Beograd. As the parent entity of the subsidiary S-Leasing d.o.o., Beograd, Erste Bank a.d. Novi Sad, prepares the consolidated annual business report.

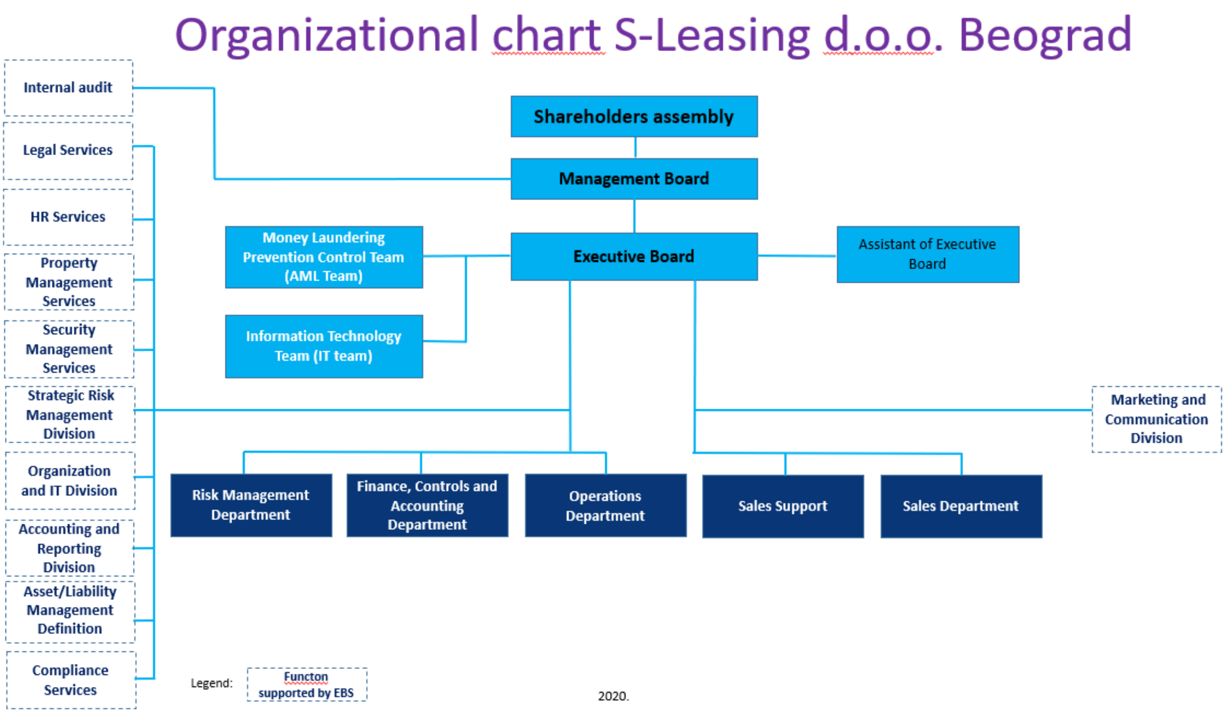
Figures in the accompanying report are stated in thousands of dinars, unless otherwise specified.

1. BUSINESS ACTIVITIES ORGANIZATIONAL STRUCTURE OF THE GROUP (countinued)

Organizational chart of the Bank is provided below:

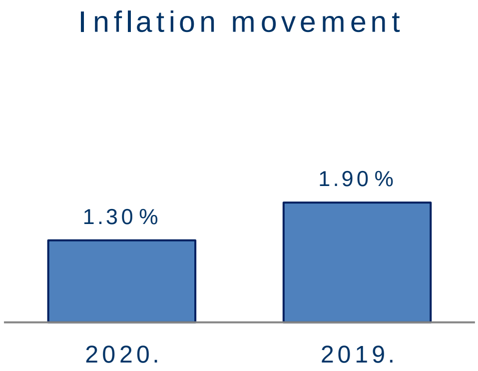


Organizational chart of the S-Leasing is provided below:

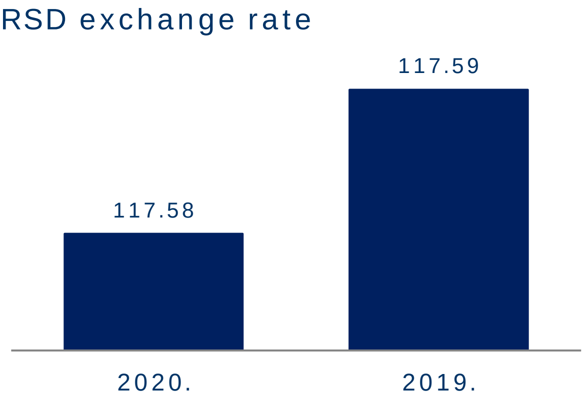


2. AUTHENTIC PRESENTATION OF THE **GROUP'S DEVELOPMENT AND PERFORMANCE,** PARTICULARLY THE FINANCIAL POSITION OF THE GROUP AND DATA RELEVANT FOR THE **ASSESSMENT OF THE GROUP'S ASSETS**

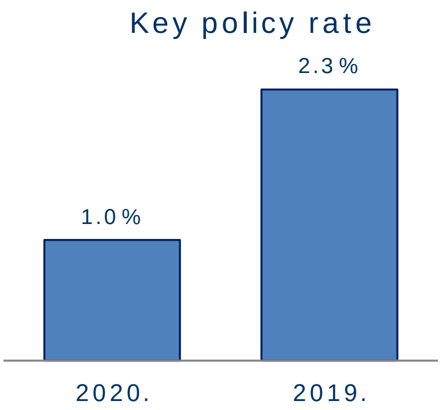
Macroeconomic conditions during 2020



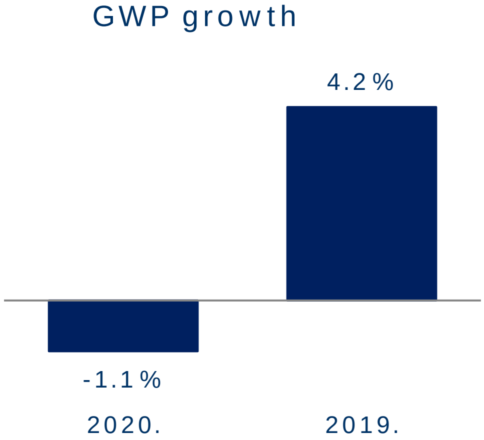
Inflation at the beginning of 2020 was within the target (3 ± 1.5%), in the period March-May it recorded values below the target. Although it returned to the target values in June, at the end of the year it still recorded values below the target of 1.3%. The inflation rate fluctuated during the year in the range of 2.0% to 0.6%, and at the end of the year it amounted to 1.3%, while its average value for 2020 was 1.6%. According to the projection, year-on-year inflation will last until the end of the projection period, ie. in the coming year, continue to move within the goal limits.



In 2020, the dinar appreciated against the euro, so that the dinar exchange rate was reduced from 117.59 at the beginning of the year to 117.58 at the end of 2020.



During 2020, the NBS reference interest rate ranged from 1.75% to 1%.



The GDP growth rate recorded a decline compared to the end of 2019, when it amounted to 4.2% and a negative value on December 31, 2020 of -1.1%. GDP is expected to return to pre-crisis levels by the end of the year 2021 and sustainable growth of around 4% in the medium term.

2. AUTHENTIC PRESENTATION OF THE **GROUP'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL POSITION OF THE GROUP AND DATA RELEVANT FOR THE ASSESSMENT OF THE GROUP'S** ASSETS (continued)

The Bank operation indicators – comparative data 2020 - 2019

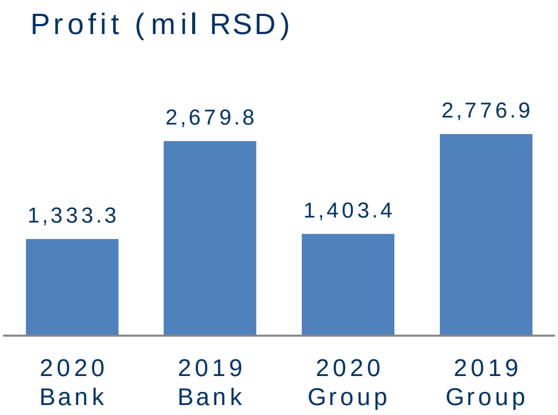
Profit and Loss Statement

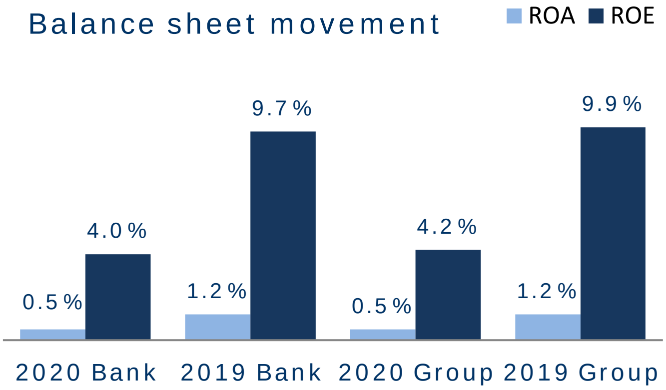
The profit and loss balance structure for the year ended as of 31 December 2020 and 2019, including the growth percentages in relation to the previous year, is as:

(in thousand RSD)

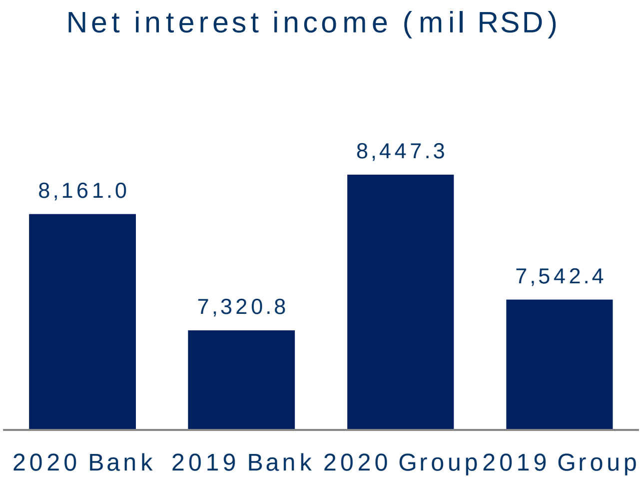
	Consolidated			Bank		
	01.01-31.12.2020.	01.01-31.12.2019.	% growth (drop)	01.01-31.12.2020.	01.01-31.12.2019.	% growth (drop)
INCOME AND EXPENSES FROM REGULAR BUSINESS OPERATIONS						
Interest income	10.597.399	9.751.454	8,68	10.152.958	9.386.915	8,16
Interest expenses	(2.150.123)	(2.209.041)	(2,67)	(1.991.968)	(2.066.080)	(3,59)
Net interest income	8.447.276	7.542.413	12,00	8.160.990	7.320.835	11,48
Fee and commission income	3.093.884	2.880.288	7,42	3.060.988	2.842.764	7,68
Fee and commission expenses	(1.170.712)	(1.091.039)	7,30	(1.154.532)	(1.075.667)	7,33
Net income from fee and commission	1.923.172	1.789.249	7,48	1.906.456	1.767.097	7,89
Net gains from change in fair value of financial instruments	-	359.648	(100,00)	-	359.648	(100,00)
Net loss from change in fair value of financial instruments	(112.198)	-	100,00	(112.198)	-	100,00
Net gains from derecognition of financial instruments valued at fair value	44.600	6.090	632,35	44.600	6.090	632,35
Net gains from hedging	773	562	37,54	773	562	37,54
Neto prihod od kursnih razlika i efekata ugovorene valutne klauzule	630.309	424.677	48,42	630.521	424.942	48,38
Net foreign exchange gains currency clause effects	(2.092.167)	(503.048)	315,90	(2.022.337)	(507.817)	298,24
Net loss from reduction of impairment of financial assets that are not valued at fair value through profit and loss	15.048	-	100,00	15.048	-	100,00
Net gains from derecognition of financial instruments valued at amortized cost	-	(29.107)	(100,00)	-	(29.107)	(100,00)
Other operating income	67.622	76.897	(12,06)	25.722	36.225	(28,99)
TOTAL NET OPERATING INCOME	8.924.435	9.667.381	(8)	8.649.575	9.378.475	(7,77)
Cost of salaries, contributions and other personnel expenses	(2.608.529)	(2.337.303)	11,60	(2.507.490)	(2.240.274)	11,93
Depreciation costs	(639.010)	(573.117)	11,50	(622.542)	(558.283)	11,51
Other income	254.108	501.649	(49,35)	251.730	501.353	(49,79)
Other expenses	(4.622.399)	(4.306.720)	7,33	(4.557.002)	(4.243.629)	7,38
PROFIT BEFORE TAX	1.308.605	2.951.890	(55,67)	1.214.271	2.837.642	(57,21)
Income tax	(24.951)	(186.773)	(87)	-	(169.499)	(100,00)
Deferred tax gain	119.775	11.812	914,01	118.991	11.623	923,75
PROFIT AFTER TAX	1.403.429	2.776.929	(49,46)	1.333.262	2.679.766	(50,25)

2. AUTHENTIC PRESENTATION OF THE **GROUP'S DEVELOPMENT AND PERFORMANCE,** PARTICULARLY THE FINANCIAL POSITION OF THE GROUP AND DATA RELEVANT FOR THE **ASSESSMENT OF THE GROUP'S ASSETS** (continued)





In the period from 1 January to 31 December 2020, the Bank generated net profit of RSD 1.333.262 thousand (2019: RSD 2.679.766 thousand), which is a 50.25% increase, compared to the previous year. In the period from 1 January to 31 December 2020, the Group generated net profit of RSD 1.403.429 thousand (2019: RSD 2.776.929 thousand), which is a 49.46% increase in compared to the previous year.



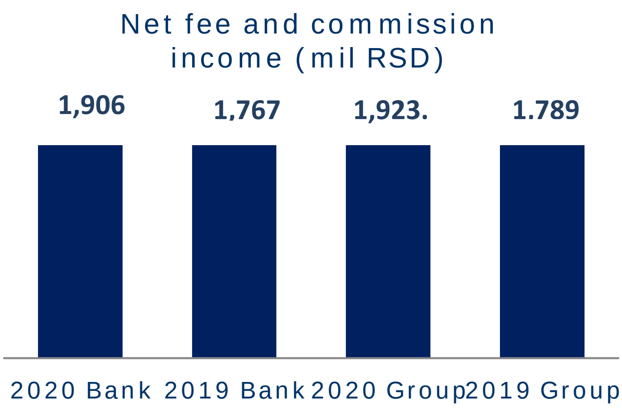
Interest income in 2020, at the Group level, amount to RSD 10.597.399 thousand (2019: RSD 9.751.454 thousand) which is an increase of 8,68%. compared to the previous year. Interest income of the Bank in 2020 amount to RSD 10.152.958 thousand (2019: RSD 9.386.915 thousand), and have increased by 8.16% compared to the previous year

Interest expenses in 2020 at Group level amount to RSD 2.150.123 thousand (2019: RSD 2.209.041 thousand), is a decrease of 2,67% compared to the previous year. Interest expenses of the Bank in 2020 amount to RSD 1.991.968 thousand (2019: RSD 2.066.080 thousand), and have increased by 3.59% compared to the previous year.

2. AUTHENTIC PRESENTATION OF THE **GROUP'S DEVELOPMENT AND PERFORMANCE,** PARTICULARLY THE FINANCIAL POSITION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE **GROUP'S ASSETS** (continued)

Fee and commission income in 2020, at the Group level, amounts to RSD 3,093,884 thousand (2019: RSD 2,880.28 thousand), and compared to the previous year recorded an increase of 7.42%. The Bank's fee and commission income in 2020 amounted to RSD 3,060,988 thousand (2019: RSD 2,842,764 thousand), and compared to the previous year it recorded an increase of 7.68%.

Expenses from fees and commissions in 2020, at the Group level, amount to RSD 1,170,712 thousand (2019: RSD 1,091,039 thousand), and compared to the previous year, they recorded an increase of 7.30%. Expenses from fees and commissions of the Bank in 2020 amount to RSD 1,154,532 thousand (2019: RSD 1,075,667 thousand), and compared to the previous year, they recorded an increase of 7.33%.



In the structure of total income and total expenses, in addition to interest and fees, the largest share belongs to income from exchange rate differences, other operating income, ie expenses based on impairment of financial assets that are not measured at fair value through profit or loss, salary costs, depreciation and other expenses.

Net impairment losses on financial assets not measured at fair value through profit or loss in 2020, at the Group level, amount to RSD 2,092,167 thousand, of which RSD 2,022,337 thousand relates to the Bank and RSD 69,830 thousand to S Leasing. The positive net effect of exchange rate differences in 2020, at the Group level, amounts to RSD 630,309 thousand, of which RSD 630,521 thousand is income at the Bank level, and RSD 212 thousand is expenditure at the S Leasing level. The positive net effect based on the change in the fair value of financial instruments at the Group level amounts to RSD 1,589,119 thousand, of which the entire amount relates to the Bank.

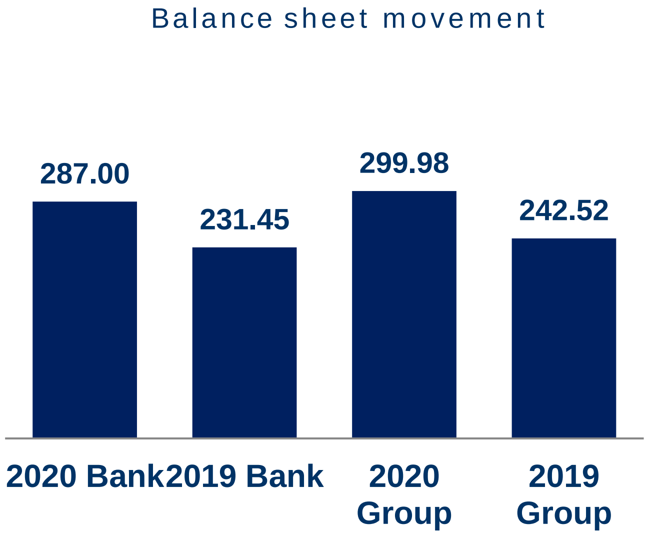
2. AUTHENTIC PRESENTATION OF THE **GROUP'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE** FINANCIAL POSITION OF THE BANK **AND DATA RELEVANT FOR THE ASSESSMENT OF THE GROUP'S ASSETS** (continued)

Balance sheet

(in thousand RSD)

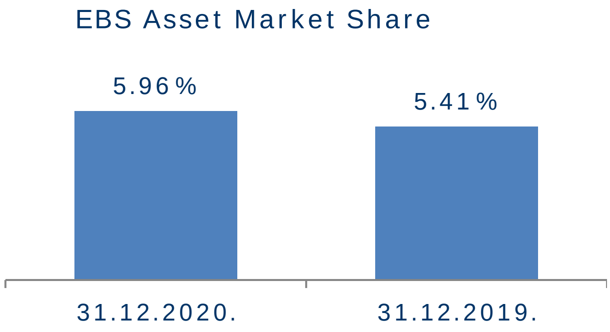
	Consolidated					Bank				
	31.12.2020	**In %**	**31.12.2019**	**In %**	**% growth (drop)**	**31.12.2020**	**In %**	**31.12.2019**	**In %**	**% growth (drop)**
ASSETS										
Cash and balances with Central bank	35.402.631	11,80	21.855.352	9,01	61,99	35.402.648	12,34	21.855.375	9,44	61,99
Pledged funds	4.622.478	1,54	-	0,00	100,00	4.622.478	1,61	-	0,00	100,00
Derivative receivables	408.411	0,14	346.899	0,14	17,73	408.411	0,14	346.899	0,15	17,73
Securities	49.554.573	16,52	41.791.566	17,23	18,58	49.554.573	17,27	41.531.585	17,94	19,32
Loans and receivables to banks and other financial institutions	2.944.805	0,98	1.606.479	0,66	83,31	3.180.869	1,11	1.606.876	0,69	97,95
Loans and receivables to customers	201.214.645	67,08	171.568.590	70,74	17,28	188.082.044	65,53	160.829.494	69,49	16,94
Investments in affiliates and joini ventures	118	0,00	118	0,00	0,00	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	93.560	0,03	93.560	0,04	0,00
Intangible assets	1.146.644	0,38	683.397	0,28	67,79	1.129.945	0,39	665.001	0,29	69,92
Property, plant and equipment	3.187.470	1,06	3.076.169	1,27	3,62	3.043.349	1,06	2.952.105	1,28	3,09
Current tax asset	185.043	0,06	229.409	0,09	(19,34)	185.043	0,06	229.409	0,10	(19,34)
Deferred tax asset	154.981	0,05	2.044	0,00	7.482,24	151.941	0,05	-	0,00	100,00
Fixed assets held for sale and assets of discontinued operations	12.252	0,00	12.252	0,01	0,00	11.902	0,00	11.902	0,00	0,00
Other assets	1.147.687	0,38	1.348.380	0,56	(14,88)	1.137.029	0,40	1.328.126	0,57	(14,39)
TOTAL ASSETS	299.981.738	100	242.520.655	100	23,69	287.003.792	100	231.450.332	100	24,00
LIABILITIES										
Derivative liabilities	346.766	0,12	250.039	0,10	38,68	346.766	0,12	250.039	0,11	38,68
Deposits and other liabilities due to banks, other financial institutions and Central Bank	78.207.806	26,07	71.909.427	29,65	8,76	65.806.844	22,93	61.266.424	26,47	7,41
Deposits and other financial liabilities due to customers	175.995.703	58,67	126.407.953	52,12	39,23	175.995.703	61,32	126.407.953	54,62	39,23
Liabilities for issued securities	3.509.426	1,17	3.512.691	1,45	(0,09)	3.509.426	1,22	3.512.691	1,52	(0,09)
Subordinated liabilities	3.870.407	1,29	4.206.971	1,73	(8,00)	3.870.407	1,35	4.206.971	1,82	(8,00)
Provisions	1.320.593	0,44	758.606	0,31	74,08	1.288.223	0,45	740.087	0,32	74,06
Current tax liabilities	-	-	169.499	0,07	(100,00)	-	-	169.499	0,07	(100,00)
Deferred tax liabilities	7.677	0,00	13.365	0,01	(42,56)	-	-	7.265	0,00	(100,00)
Other liabilities	3.410.728	1,14	3.153.824	1,30	8,15	3.257.391	1,13	3.065.750	1,32	6,25
TOTAL LIABILITIES	266.669.106	88,90	210.382.375	86,75	26,75	254.074.760	88,53	199.626.679	86,25	27,27
CAPITAL										
Share capital and share premium	15.462.944	5,15	15.462.944	6,38	0,00	15.462.944	5,39	15.462.944	6,68	0,00
Retained earnings	1.597.441	0,53	2.891.319	1,19	(44,75)	1.333.262	0,46	2.679.766	1,16	(50,25)
Reserves	16.132.957	5,38	13.681.971	5,64	17,91	16.132.826	5,62	13.680.943	5,91	(17,92)
Participations excluding the control right	119.290	0,04	102.047	0,04	16,90	-	-	-	-	-
TOTAL CAPITAL	33.312.632	11,10	32.138.280	13,25	3,65	32.929.032	11,47	31.823.653	13,75	3,47
TOTAL LIABILITIES AND CAPITAL	299.981.738	100	242.520.655	100	23,69	287.003.792	100	231.450.332	100	24,00

2. AUTHENTIC PRESENTATION OF THE GROUP'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE GROUP AND DATA RELEVANT FOR THE ASSESSMENT OF THE GROUP'S ASSETS (continued)



Total balance sheet amount of the Bank as at 31 December 2020 amounts to RSD 287,003,792 thousand and records a growth in 2020 of 24% compared to 31 December 2019. The total balance sheet amount on a consolidated basis as at 31 December 2020 amounts to RSD 299,981,738 thousand and records an increase in 2020 of 23.69% compared to 31 December 2019.

Market share of the Bank's assets in relation to the total assets of the Serbian banking market in the period ended 31 December 2020 is 5.96%, while the Bank's market share in relation to the total assets of the Serbian banking market in the same period in 2019 was 5.41 %.

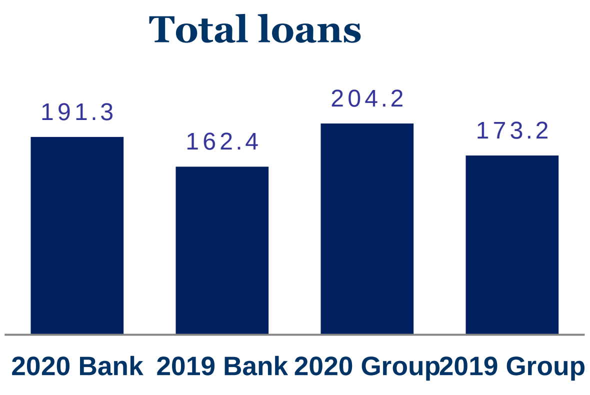


Cash and assets with the central bank in 2020, at the Group level, amount to RSD 35,402,631 thousand, of which RSD 35,402,684 thousand is related to Bank. Cash and funds with the central bank recorded a growth of 61.99% in 2020 compared to 2019.

Pledged financial assets in 2020, at the Group level, amount to RSD 4,622,478 thousand, and the total amount relates to the Bank. In the previous year, the Bank did not have any pledged financial resources.

Receivables from derivatives in 2020, at the Group level, amount to RSD 408,411 thousand, and the total amount relates to the Bank. Receivables from derivatives increased by 17.73% as of December 31, 2020, compared to the same date in 2019.

Securities in 2020, at the Group level, amount to RSD 49,554,573 thousand, and the total amount relates to the Bank. As of December 31, 2020, the securities increased by 18.58% compared to the same date in 2019.



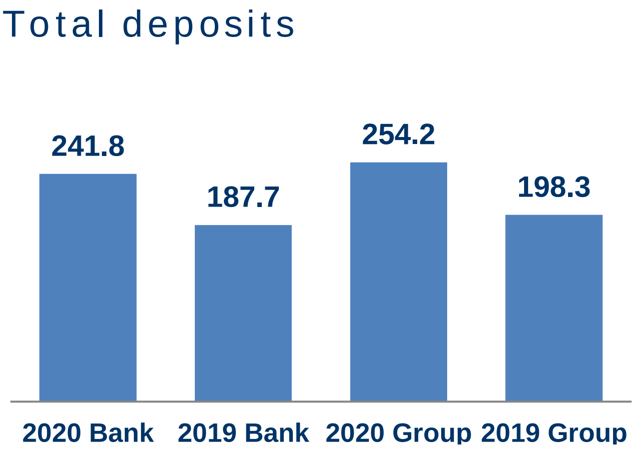
Loans and receivables from banks and other financial organizations in 2020, at the Group level, amount to RSD 2,944,805 thousand, and the most significant part of this amount relates to the Bank. Loans and receivables from banks and other financial organizations as of December 31, 2020 increased by 0.66% compared to the same date in 2019.

Loans and receivables from customers on a consolidated basis as at 31 December 2020 amount to RSD 201,214,645 thousand, of which at the level of the Bank they amount to RSD 188,082,044 thousand, and at the level of S-Leasing they amount to RSD 13,132,601 thousand.

Loans and receivables from customers on a consolidated basis as of December 31, 2020 recorded an increase of 17.28% compared to the same date in 2019. Loans and receivables from the Bank's customers, as at 31 December 2020, increased by 16.94% compared to 2019.

2. AUTHENTIC PRESENTATION OF THE GROUP'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE GROUP AND DATA RELEVANT FOR THE ASSESSMENT OF THE GROUP'S ASSETS (continued)

Deposits and other liabilities to banks and other financial organizations on a consolidated basis as at 31 December 2020 amount to RSD 78,207,806 thousand, of which at the level of the Bank they amount to RSD 65,806,844 thousand, while at the level of S-Leasing they amount to RSD 12,400. 962 thousand. Deposits and other liabilities to banks and other financial organizations on a consolidated basis as of December 31, 2020 recorded an increase of 8.76% compared to the same date in 2019. Deposits and other liabilities to banks and other financial organizations of the Bank, as at 31 December 2020, increased by 7.41% compared to the same date in 2019.



Deposits and other liabilities to other customers on a consolidated basis as at 31 December 2020 amount to RSD 175,995,703 thousand, and the entire amount relates to the Bank. Deposits and other liabilities to other customers on a consolidated basis as of December 31, 2020 recorded an increase of 39.23% compared to the same date in 2019.

The maturity structure of the consolidated balance sheet as at 31 December 2020 is favorable. Permanent and long-term sources finance fixed assets and long-term assets.

The total capital of the Group as at 31 December 2020 amounts to RSD 33,312,632 thousand and records an increase of 3.65% compared to the same date in 2019. The total capital of the Bank amounts to RSD 32,929,032 thousand as at 31 December 2020. The total capital of the Bank in 2020 increased by 3.47% compared to the previous year.

2. AUTHENTIC PRESENTATION OF THE GROUP'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE GROUP AND DATA RELEVANT FOR THE ASSESSMENT OF THE GROUP'S ASSETS (continued)

RSD and FX Group sub-balances as of 31 December 2020 and 2019 are presented as follows:

	Consolidated					Bank				
	31.12.2020	In %	31.12.2019	In %	% growth (drop)	31.12.2020	In %	31.12.2019	In %	% growth (drop)
Assets										
Assets in RSD	115.835.724	38,61	80.241.375	33,09	44,36	115.754.369	40,33	79.911.256	34,53	44,85
Assets in foreign currency	184.146.014	61,39	162.279.280	66,91	13,47	171.249.423	59,67	151.539.076	65,47	13,01
Total assets	299.981.738	100	242.520.655	100	23,69	287.003.792	100	231.450.332	100	24,00
Liabilities										
Liabilities in RSD	119.183.523	39,73	89.634.993	36,96	32,97	119.040.898	41,48	89.218.160	38,55	33,43
Liabilities in foreign currency	180.798.215	60,27	152.885.662	63,04	18,26	167.962.894	58,52	142.232.172	61,45	18,09
Total liabilities	299.981.738	100	242.520.655	100	23,69	287.003.792	100	231.450.332	100	24,00

The dinar sub-balance of the Group's assets accounts for 38.61% of total assets and recorded a growth of 44.36% in 2020, while the dinar sub-balance of the Group's liabilities accounts for 39.73% of the Group's total liabilities and recorded a growth of 32.97% in 2020. However, the foreign currency sub-balance of the Group's assets is still more significant and accounts for 61.39% of assets and recorded an increase of 13.47% compared to the previous year, while the foreign exchange sub-balance of the Group's liabilities is also more significant and accounts for 60.27% of liabilities as at 31 December 2020, and recorded a growth of 18.26% compared to the previous year.

The dinar sub-balance of the Bank's assets accounts for 40.33% of total assets and recorded a growth of 44.85% in 2020, while the dinar sub-balance of the Bank's liabilities accounts for 41.48% of the Bank's total liabilities and recorded a growth of 33.43% in 2020. However, the foreign currency sub-balance of the Bank's assets is still more significant and accounts for 59.67% of assets and recorded an increase of 13.01% compared to the previous year, while the foreign currency sub-balance of the Bank's liabilities is also more significant and accounts for 58.52% of liabilities as at 31. December 2020, and recorded a growth of 18.09% in relation

2. AUTHENTIC PRESENTATION OF THE GROUP'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE GROUP AND DATA RELEVANT FOR THE ASSESSMENT OF THE GROUP'S ASSETS (continued)

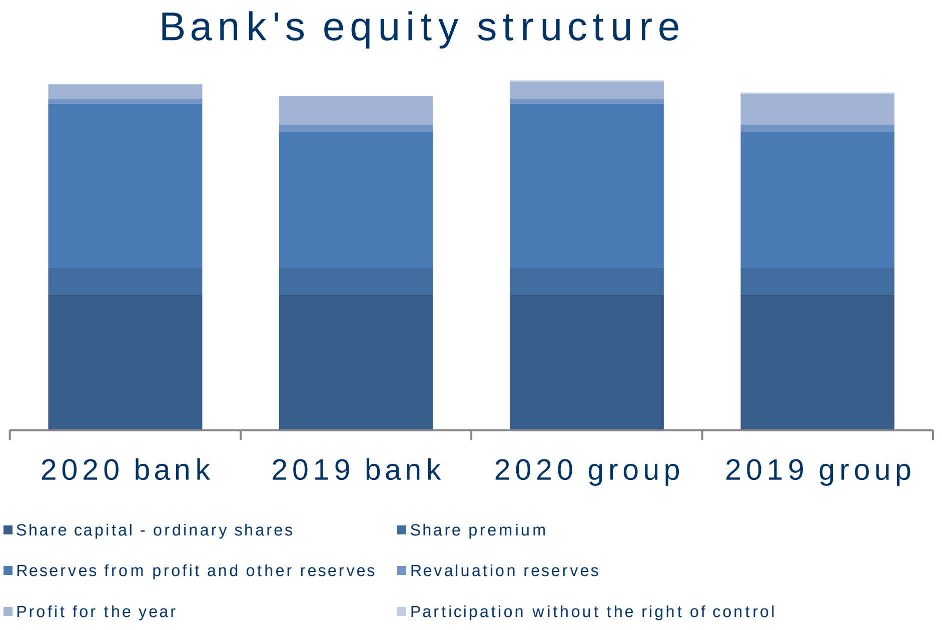
Equity

The Group's capital as at 31 December 2020 amounts to RSD 33,312,632 thousand (31 December 2019: RSD 32,138,280 thousand). The Bank's capital as at 31 December 2020 amounts to RSD 32,929,032 thousand (31 December 2019: RSD 31,823,653 thousand).

The Bank total capital structure is presented as follows:

In RSD thousand

	Consolidated		Bank	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Share capital - ordinary shares	12.909.000	12.909.000	12.909.000	12.909.000
Issue premium	2.553.944	2.553.944	2.553.944	2.553.944
Special reserve for estimated losses	15.634.895	12.955.128	15.634.894	12.955.128
Revaluation reserves	498.063	726.842	497.932	725.815
Profit for the year	1.597.441	2.891.319	1.333.262	2.679.766
Participation without control right	119.290	102.047	-	-
Balance as at December, 31	33.312.632	32.138.280	32.929.032	31.823.653

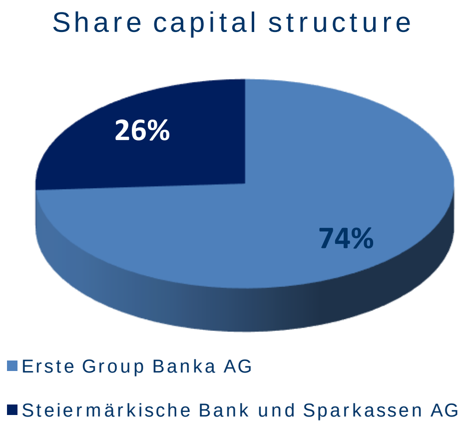


As at 31 December 2020, the subscribed and paid-in capital of the Bank consists of 1,290,900 ordinary shares, with an individual nominal value of 10,000 dinars (31 December 2019: 1,290,900 ordinary shares with an individual nominal value of 10,000 dinars).

The total capital of the Bank as at 31 December 2020 amounts to RSD 32,929,032 thousand and consists of share capital in the amount of RSD 12,909,000 thousand, issue premiums in the amount of RSD 2,553,944 thousand, profit reserves and other RSD reserves. 15,634,894 thousand, revaluation reserves in the amount of RSD 497,932 thousand and profit for the current period in the amount of RSD 1,333,262 thousand.

2. AUTHENTIC PRESENTATION OF THE GROUP'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE GROUP AND DATA RELEVANT FOR THE ASSESSMENT OF THE GROUP'S ASSETS (continued)

Equity (continued)



The majority shareholder of the Bank is Erste Group Bank AG, Vienna with a 74% share in the share capital as of December 31, 2020.

The Bank shareholder structure 31 December 2020 and 2019 is as follows:

Name of shareholder	Number of shares	Share in %
Erste Group Banka AG, Bee	955.266	74,00
Steiermärkische Bank und Sparkassen AG, Grac	335.634	26,00
Total	1.290.900	100.00

S-Leasing capital is 75% in the ownership of Erste bank ad Novi Sad and 25% of Steiermaerkische Bank und Sparkassen AG, Graz, Austria.

2. AUTHENTIC PRESENTATION OF THE GROUP'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE GROUP AND DATA RELEVANT FOR THE ASSESSMENT OF THE GROUP'S ASSETS (continued)

Društveno odgovorno poslovanje je prikazano za Banku.

Erste Bank a.d. Novi Sad is the member of Erste Group, the financial institution with almost 200-year long tradition, for which, from the very beginning, the corporate social responsibility has been an integral part of its philosophy and long-term business strategy. We were established in 1819 as the first savings bank in Austria, with twofold objective - to enable "ordinary" people access to financial services and to support social activities in the community we operate in. We operate in such spirit even today.

For Erste Bank corporate social responsibility (CSR) is a strategic framework for the management of the company, based on the investment in long-term and stable relations with all key stakeholders by taking in consideration their needs and suggestions. The Bank is truly commited actively contribute to the development and welfare of the society of which we are an inseparable part of. This is in line with Bank's current Social Corporate Responsibility Strategy, based on proactive two-way communication.

The current Social Corporate Responsibility Strategy of Erste Bank a.d. Novi Sad is adopted for the period 2015 to the end of -2021, and it is set up on the following principles: relation with operation, balance, holistic approach and integrated approach. The strategy is implemented through five basic fields with clearly defined objectives, followed by a key topic in the focus, as well as some additional topics providing dear guidelines for actual programmes, projects, and initiatives:

FIELD	OBJECTIVE	PRIORITY TOPICS
Corporate management GRI 102 General information GRI 200 Economic Topics	**Further improvement of the existing practice of good corporate governance**	**Transparent management practices** **Prevention of conflicts of interest** **Development of CSR through joint initiatives**
Responsibility to clients	**Even more strongly integration of social responsibility into the core business**	**Responsible financing** **FinanciaMnclusion** **Responsible communication with clients**
Responsibility in work environment	**Further development of a stimulating work environment, based on the rights and needs of employees**	**The development and training of employees** **Safety and Health at Work** **Social support to employees**
Responsibility in the supply chain	**To minimize the negative and maximize the positive impact that the Bank achieves on the society and the environment through the supply chain**	**The application of criteria in assessing the social environment of suppliers** **Application of environmental criteria in the evaluation of suppliers**
Responsibility to local communities	**Further development of local communities in**	**Investing in the development of the potential members of the communities in which the Bank operates**
Odgovornost **prema životnoj** sredini	**all relevant aspects**	**Promotion of corporate and individual philanthropy**

2. AUTHENTIC PRESENTATION OF THE GROUP'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE GROUP AND DATA RELEVANT FOR THE ASSESSMENT OF THE GROUP'S ASSETS (continued)

- Corporate Social Responsibility (continued)

Values that are deeply rooted in our business and values we stand for are: support, responsibility, trust, innovativeness and creation.

A specificity of our engagement represents efforts we are putting in promotion of the concept of corporate social responsibility in Serbia, both on our own example and through intensive collaboration with our partners form the public and non-profit sectors. In accordance with such policy, our Bank is one of the founders and an active member of the initiatives advocating the corporate social responsibility in Serbia, such as the United Nations Global Compact COP for Serbia, the Corporate Social Responsibility Forum, Corporate Social Responsibility Task Force with the Association of Banks of Serbia, etc.

In addition to the fact that we want to be a reliable partner to the economy and the population, since we are long-term committed to the Serbian market, we see our role in active and constant contribution to the development of society and culture. Erste Bank pays special attention to community investment programs. During 2019 and 2020, through sponsorship of various programs in the field of culture and art, popularization of science, sports, promotion of entrepreneurship (primarily social and micro entrepreneurship) and the Superste.net donation program, Erste Bank invested in communities in which approximately 48 7 million dinars.

As a financial institution, Erste Bank considers increasing financial literacy in society and financial education to be its primary responsibility. In March 2019, we launched a comprehensive, free and non-commercial financial education program #ErsteZnali, with the goal of making good financial decisions for the citizens of Serbia. Approximately 13 million dinars were invested in the realization of the program during 2019 and 2020. The first in a series of activities was the online platform for financial education ErsteZnali.rs, which in the first year of its existence recorded approximately 260,000 unique visits. A series of educational workshops "Seven steps of good finances" was organized throughout Serbia, in which 360 citizens participated. With the support of the Bank, the "Creative Center" published the book "Guardians of the Dragon's Treasure" intended for the financial education of children.

In March 2020, Erste Bank, in cooperation with the well-known YouTuber Dario Kesegi, launched the educational series #ErsteZnali in order to raise the level of financial literacy of young people and encourage them to be more informed about finances and better manage their money. The following topics were covered: budget, savings, electronic banking and fraud protection.

One of the most important socially responsible programs of the bank, which is now integrated into everyday business, is "Step by Step". It is a program of educational, financial, and mentoring support to startups, social enterprises and civil society organizations. This was the first step in the implementation of the social banking program in Serbia, launched by the Erste Group in Central and Eastern Europe (CEE) and Austria, back in 2016 to support clients who are traditionally underrepresented in banking services: new businesses, including beginners in entrepreneurship, social enterprises, civil society organizations, as well as people at risk of poverty. From the beginning of the implementation of this program until the end of the fourth quarter of 2020, 310 startup companies, social enterprises and civil society organizations received financial, educational and mentoring support, created more than 350 and saved more than 100 jobs, and placed loans in the amount of more than three million euros. All users of our program have undergone online training on a platform created especially for these needs. During 2019, due to the great response of clients and increased needs for mentoring services, with the support of USAID, the number of mentors participating in the program doubled, and new areas of mentoring support were introduced.

The fact that the media and the public recognized the importance of the topics to which Erste Bank was dedicated last year is evidenced by the number of publications in the media. A total of 4,300 media releases were recorded about Erste Bank in the period January 2019 - December 2020 (according to clipping reports and analyzes of the Executive Group and Ninamedia).

For us, reporting on social responsibility is an integral part of the broader process to which we are committed in the long run. Our goal is to present to our numerous stakeholders in a clear and transparent way all the activities and initiatives that we have implemented during one year, as well as to announce the upcoming plans and programs. Since 2008, we have been regularly publishing annual reports on social responsibility, and since 2011 we have been the first Bank and one of the first companies in Serbia to base the report on the internationally recognized GRI (Global Reporting Initiative) framework. Since 2013, the Bank has expanded and improved its CSR report by introducing indicators defined by GRI exclusively for the financial sector. Relying on the GRI Financial Services Sector Supplement (FSSS), the Bank's Corporate Social Responsibility Report has become a relevant source of data for the international financial institutions with which the Bank cooperates. Since 2018, the Bank has implemented the latest GRI standards as well as reporting according to the United Nations Sustainable Development Goals.

2. AUTHENTIC PRESENTATION OF THE GROUP'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE GROUP AND DATA RELEVANT FOR THE ASSESSMENT OF THE GROUP'S ASSETS (continued)

- Corporate Social Responsibility (continued)

All Erste Bank reports on corporate social responsibility can be found at the link: https://www.erstebank.rs/sr/o-nama/drustveno-odgovorno-poslovanje.

The report on corporate social responsibility of Erste Bank for 2020 will be published by the end of July 2021 on the bank's website.

3. RESPONSIBILITY TO THE ENVIRONMENT

With its long-term strategic approach to environmental protection, the Bank is committed to consistently implement defined responsible practices in this area, but also to continuously improve them.
As a service company, the Bank is not among the major polluters of the environment, but it strives to consider the key risks of our business to the environment, with the aim of reducing the negative impacts and maximizing the positive ones.

The focus of the Bank's activities is on reducing negative impacts and improving good environmentally friendly practices in day-to-day operations, where, at the strategic level, in addition to the current CSR Strategy, the Bank relies on relevant documents such as Waste Management Procedure and Environmental Management Principles.

Given that responsible use of resources is the primary aspect of the Bank's most significant environmental impacts, the Bank has established systems for accurate monitoring of energy consumption, and since 2015 through the implemented software "cr360" which processes environmental impact in accordance with international standards .

From year to year, Erste Bank strives to significantly contribute to the efficient and rational use of water, energy and other resources, as well as the use of renewable and recycled materials by adapting and building its business facilities in accordance with environmentally friendly criteria.
In accordance with this goal, the Bank has so far arranged 23 branches as well as business premises used within the "Sirius" complex in Belgrade and business premises within the Aleksandar building in Novi Sad, and recently, the Bank is supplied with electricity produced from renewable energy sources. In addition to accurately monitoring and measuring all key parameters related to resource consumption, the Bank strives to have a positive impact on sustainability by sorting and handing over waste for recycling.
As significant amounts of paper waste are generated as a result of our day-to-day activities, the Bank has focused its initiatives primarily on reducing the use of paper, the introduction of certified paper into use, as well as recycling.

In 2020, in the period from 01.01.2020. until 31.12.2020.in the field of environment we have recorded the following impact:

- Total energy consumption 4,177,589 (kWh / a).

  Electricity 2,282,749 kWh / a

  Heating and cooling 1,894,840 kWh / a

- The total amount of generated waste is 25.83 tons.

4. ALL SIGNIFICANT BUSINESS EVENTS THAT HAPPENED AFTER THE END OF THE BUSINESS YEAR FOR WHICH THE REPORT IS PREPARED

In accordance with the plan defined during the regular budget cycle, during the first quarter of 2021, the Bank, based on the Decision of the General Meeting of Shareholders on the issuance of ordinary shares, realized the issue of shares to increase the share capital.

The payment was made on February 10, 2021. The number of issued shares is 119,850, and the distribution is intended for existing shareholders, in proportion to their existing participation. The nominal value of individual shares is RSD RSD 10,000.00, and the issue price is RSD 19,600.00

During 2020, the COVID-19 virus continued to spread globally and its negative impact gained in importance.

At the end of 2020, the National Bank of Serbia passed a Decision on temporary measures for banks in order to adequately manage credit risk in the context of the COVID-19 pandemic (the "Decision") which prescribes measures and activities to provide relief to debtors. Obligations include obligations of the debtor on the basis of loans and other credit products. The reliefs are in the form of reprogramming and refinancing of loans, which imply a change in the terms of the loan in the form of a grace period in the repayment of all obligations to the Bank lasting six months.

Pursuant to this Decision, the Bank received a total of 2,522 requests, of which 1,753 were approved requests. The total number of credit lots is 5,448, whose exposure amounts to RSD 5,843,166 thousand. Out of that, the Bank approved reliefs, in accordance with the criteria from the Decision, for 2,827 credit parties, whose exposure amounts to RSD 4,150,429 thousand. The estimated effect of losses based on modifications is RSD 7,122 thousand.

Following claims processing fee disputes, after the reporting period, the Group received a total of 1,152 claims. The Group estimates that no material losses will be incurred based on the outcome of litigation that is in excess of the amount for which the provision was made.

There were no other events after the balance sheet date that would require adjustments or disclosures in the consolidated financial statements as of 31 December 2020.

5. DESCRIPTION OF EXPECTED DEVELOPMENT IN THE NEXT PERIOD

Erste Bank a.d. Novi Sad as bank group (the "Group") wants to remain one of the leading bank in Serbia that provides financial services to individuals and legal entities. The Group intends to achieve this goal through three priorities defined by the Erste Group, namely: high data quality, business growth in the retail and legal entities segment, as well as clear management and governance.

In the retail segment, Group develops long-term cooperation with customers by continuous improvement of products and services, strong presence in the domestic market through a network of branches and alternative distribution channels, in order to meet customer needs and greater employee satisfaction, which should be reflected in customer development. experience, continuous and healthy growth, as well as increasing profitability.

In terms of business with legal entities, the Group intends to continue to be a reliable and long-lasting partner with its clients, which can be achieved by high quality and diversification of financial services, as well as professional relationship with clients in this segment, which will lead to greater profitability. with the lowest possible risk.

The Group continuously, through the Risk Management Strategy, but also other business strategies, defines the target profile of risk exposure and portfolio structure with the primary goal of long-term business sustainability, compliance with domestic regulatory requirements and compliance with Erste Group standards.

The success of the Group largely depends on the trust that our clients, shareholders, our employees and the public have in the work capacity and integrity of the Group, ie the Erste Group. This trust is based on the compliance of operations with all applicable legal, regulatory and internal regulations, as well as the standards of the Erste Group, but also on compliance with market standards and rules of conduct in all business activities of the Group.

The Group takes care of professional training and advanced training of its employees, especially those who perform risk identification, measurement and monitoring, taking into account the scope, type and risk exposure of the Group's operations, as well as the risk profile of the Group.

Erste Bank a.d. Novi Sad will continue to provide comprehensive support to the population and economy of Serbia in achieving their financial needs and goals. Business principles, which include focusing on continuous improvement of customer service, and constant improvement of internal organization and efficiency, will continue to be the basis of the Group's operations.

Group mission:

We are committed to improving the quality of life of people and communities by fostering financial stability, security and prosperity - honestly, fairly and with respect.

Our values:

RESPONSIBILITY
- we take responsibility for the development of the Group and ourselves

SUPPORT
- we listen, understand and help

TRUST
- we keep our word and build quality relationships

INNOVATION
- we encourage the new and constantly improve the existing ones

CREATION
- we create value for our clients, shareholders and ourselves

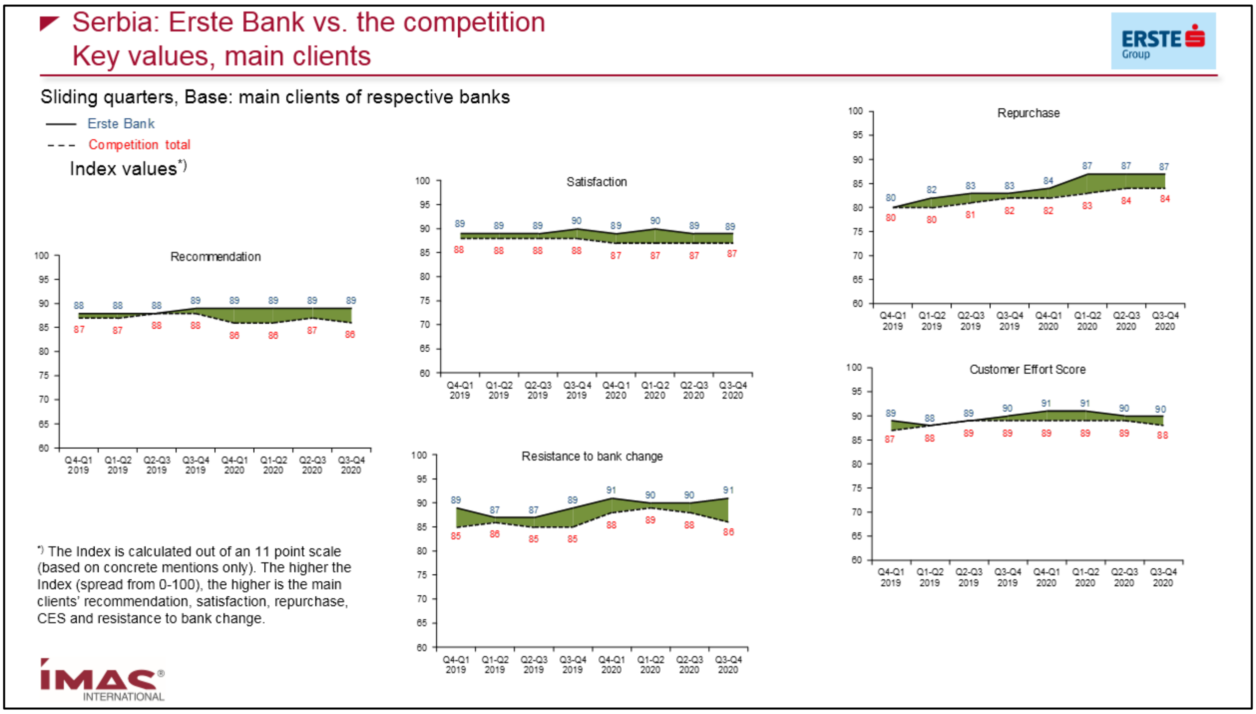
Detailed and precise implementation of the Strategy is done through the Action Plan, annual budgets, Credit Policies, Price Regulations, etc. Group documents.

6. RESEARCH AND DEVELOPMENT ACTIVITIES FOR THE PERIOD COMPLETED ON DECEMBER 31, 2020

The company's activities in the field of research and development are presented for the Bank, as the holder of the Group.

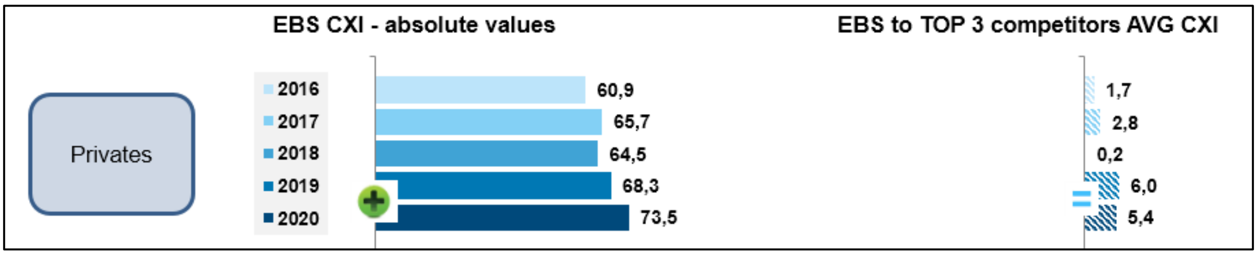
During 2020, the Bank continued to conduct regular market research and analyze the results of quantitative and qualitative research on the level of quality of service both at the market level and at the level of the Bank and special business units of the bank. With the engagement of independent market research agencies, measurements and analyzes of the level of satisfaction and loyalty of clients of Erste Bank and other banks are conducted, as well as the quality of processes in Erste Bank.

Through the "Banking Market Monitor" survey, Erste Bank measures 6 key service quality parameters for both its clients and the clients of competing banks. The parameters of service quality that are measured are: trust, satisfaction, recommendation, ease of doing business with the bank, repurchase and the probability of changing the bank. On all 6 observed service quality parameters, Erste Bank records a result that is above the competition average. In this way, Erste Bank constantly measures its performance in relation to the market, and through the activities it carries out to improve the customer experience, it works to strengthen its position among the leading banks in the field of customer satisfaction.



Based on the results obtained through the **"Banking Market Monitor"** survey, Erste Bank calculates the Customer Experience Index - CXI. Observed at the bank level (included retail segment), Erste Bank maintained its first place in the market by CXI in 2020 and maintained an advantage of +5.4 over the Top 3 competitors.

Customer Experience Index –



6. RESEARCH AND DEVELOPMENT ACTIVITIES FOR THE PERIOD COMPLETED ON DECEMBER 31, 2020 (continued)

Erste Bank also conducts a Customer Satisfaction Survey with the service provided immediately after a certain event (event-triggered research). The events we observe are the opening of accounts (dinar and foreign currency), the making of deposits, the approval of cash loans, the approval of housing loans and the approval of loans for small businesses and entrepreneurs. Within a week after the client is provided with one of the above products / services, we provide them with the opportunity to immediately, directly express their (dis) satisfaction with the service and thus help us improve our quality of service. On a weekly basis, Erste Bank monitors customer responses and responds adequately.

The Bank provides support to its clients through its advanced complaint management and resolution system in which the quality of complaint resolution is paramount. In 2020, the Bank will stand out from the competition in terms of the speed of resolving complaints. Based on the analysis and measurements during 2020, 90.78% of complaints were resolved within 7 days. The goal of the Bank is to constantly improve the quality of service, according to which the Bank is recognized as the leading Bank in the banking market of Serbia.

SPEED OF RESOLVING COMPLAINTS ON SERVICE AT THE BANK LEVEL IN THE PERIOD FROM 01.01. TO 31.12.2020.				
Up to 24h	Up to 7 days	Up to 30 days	Over 30 days	Total
71,70%	19,08%	6,70%	2,52%	100%

Note: within S Leasing / S Rent there were no written complaints in 2020.

In addition to continuously studying the needs and expectations of customers, the Bank within its organization systematically measures and improves customer satisfaction and uses it as a permanent tool for improving the quality of internal processes and service.

7. RISK EXPOSURE

Risk monitoring and management functions are the responsibility of the Credit Risk Management Division and the Strategic Risk, Portfolio and Capital Management Division, as separate organizational units in the Group. Risk management policies, risk management strategy and capital management strategy are related to the Group's strategy, and include defining the type of risk, ways of managing these risks and the degree of risk that the Group is willing to accept in order to achieve its business goals. Special attention is paid to full compliance with the relevant regulations of the National Group of Serbia (NBS).

The responsibilities of the Credit Risk Management Division and the Strategic Risk Management Division, portfolio and capital include the following:

- Identifying and measuring or assessing the Group's exposure to certain types of risks;
- Monitoring of risks, including their supervision and control, preparation of analyzes and reports on the amount of individual risks, their causes and consequences;
- Measurement or assessment as well as management of the Group's risk profile and capital adequacy;
- Monitoring the parameters that affect the position of the Group's exposure to risks, primarily including the management and optimization of asset quality and cost of risk;
- Development and application of quantitative models for risk management as elements in the process of advanced business decision-making and pricing of risk;
- Development of strategies and proposals for the Group's exposure limits by individual types of risks and their control;
- Quantifying the impact of changes in the economic cycle or stressful events on the financial position of the Group;
- Risk assessment of the introduction of new products and externalization of activities;
- Development of methodologies, procedures and policies for risk management in accordance with applicable legislation, Erste Group standards, good business practice and special needs of the Group;
- Development and implementation of various technical platforms and tools;

The Group adequately identifies the risks to which it is exposed and accordingly conducts its management activities, trying to avoid them or reduce them to acceptable levels.

Risk management in the Bank in the period from 01.01. to 31.12.2020. was implemented successfully, which is primarily reflected in the timely allocation of additional provisions for expected losses that will occur due to the COVID19 crisis, then compliance with regulatory requirements for a moratorium, defined policies and procedures for risk management and their continuous improvement, constant focus Executive Board on quality risk management, use of modern technology in the work of the Group and its continuous improvement, as well as the adopted culture of risk management by employees of the Group.

According to the latest conducted analysis of materiality assessment, the Group is exposed to the following material risks in its operations:

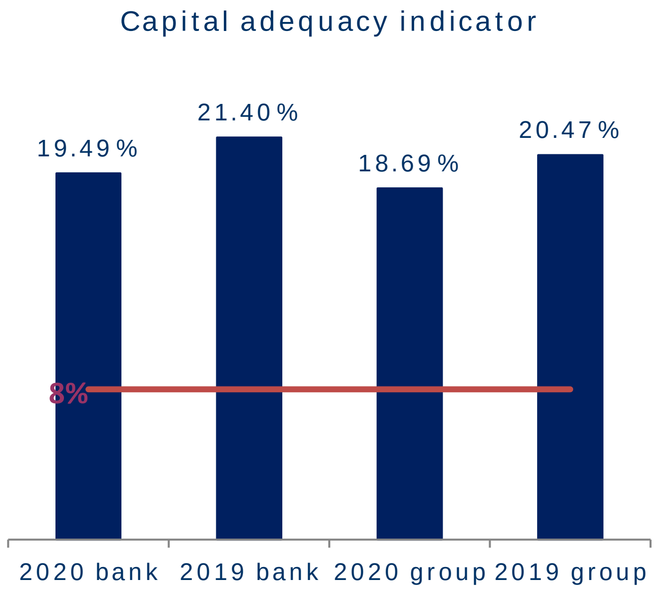
- Credit risk (including default risk, credit interest rate risk, credit risk concentration risk and credit and foreign exchange risk);
- Market risk in the trading book;
- Interest rate risk in the banking book;
- Operational risk;
- Liquidity risk;
- Strategic risk;
- Compliance Risk;
- Reputational risk;
- Macroeconomic risk (transverse risk that is reflected in all the above types of risk).

Regardless of the fact that the Group calculates capital requirements under Pillar 1 and Pillar 2 for foreign exchange risk, counterparty risk and residual risk, they are not assessed as material risks in the last conducted assessment of the material significance of the risk.

7. RISK EXPOSURE (continued)

For material risks (except for those risks that are included in the risk management framework through a precisely established monitoring system and limits or through stress testing), the Group conducts quarterly assessment of internal capital adequacy in accordance with relevant methodologies and standards when calculating capital requirements and internal capital. It is available to the bank to absorb these risks.

In addition, the Group continuously calculates capital requirements and capital based on the NBS decision in the field of capital adequacy when calculating capital adequacy ratios. In accordance with the above, the capital requirement for credit risk, counterparty risk and settlement / delivery risk based on free deliveries is calculated according to the standardized approach as well as the capital requirement for price risk using maturity methods and the capital requirement for operational risk using the basic approach. indicators and capital requirements for credit exposure risk adjustment using a standardized approach.



Capital adequacy was calculated as the ratio of regulatory capital and risk assets, as of December 31, 2020. The Group is obliged to maintain the minimum capital adequacy ratios prescribed by the National Bank of Serbia (8% for capital adequacy, 6% for core capital adequacy and 4.5% for core capital adequacy), as well as to meet the requirements for a combined capital buffer. . In addition to the requirements defined in the form of minimum capital adequacy ratios and capital buffers, the Group is required to meet an additional regulatory minimum capital requirement, defined in the process of comprehensive supervisory review and evaluation (SREP). The Group's capital adequacy ratio as at 31 December 2020 is 19.49%. On a consolidated basis, the capital adequacy ratio on December 31, 2020 is 18.67%.

The Group's liquidity is monitored and controlled by ensuring the Group's continuing ability to provide liquidity for the payment of customer deposits, financing the growth of assets and operating operations, as well as for settling other contractual obligations. The Group is in the period from 01.01. to 31.12.2020. had an indicator of daily liquidity and an indicator of coverage by liquid assets above the legally prescribed level.

The Bank / Group manages its assets and liabilities in a way that ensures that it fulfills all its obligations at all times, as well as that its clients dispose of their funds in accordance with the agreed deadlines.

Interest rate risk management The Bank / Group aims to optimize the ratio of these effects in terms of the impact on net interest income on the one hand, and the economic value of capital on the other. The Assets and Liabilities Management Committee manages the maturity matching of assets and liabilities based on: Erste Group AG guidelines, macroeconomic analyzes and forecasts, liquidity forecasting, analysis and forecasting of market interest rate trends for different asset and liability segments.

The Group's foreign exchange position as a risk that there will be a change in the value of financial instruments and negative effects on the Group's financial result and capital due to changes in the exchange rate, in 2020 was below the maximum prescribed level of open foreign exchange position. The Group's foreign exchange risk indicator as at 31 December 2020 amounts to 0.83% of the Bank's capital, which is significantly below the prescribed maximum of 20% of capital. The foreign exchange risk indicator on a consolidated basis as at 31 December 2020 amounts to 0.82% of the Group's capital.

7. RISK EXPOSURE (continued)

Group's performance indicators - compliance with legal indicators

The Group is obliged to harmonize the scope and structure of its operations and risky placements with the business indicators prescribed by the Law on Banks and relevant decisions of the National Bank of Serbia adopted on the basis of the said Law. In the period from January 1 to December 31, 2020, the Group continuously achieved the prescribed business indicators.

Performance indicators	Prescribed	31.12.2020.	31.12.2019.
1. Equity	Minimum EUR 10 miliona	EUR 290.935.595	EUR 283.782.619
2. Capital adequacy	Minimum 8%	18,67	20,47
3. Basic Capital adequacy	Minimum 6%	16,73	18,22
4. Basic Share capital adequacy	Minimum 4,5%	16,73	18,22
5. Investments of the Group	Maximum 60%	9,45	9,36
6. Exposure to related parties	No limit	8,52	8,71
7. Large and largest possible loans in relation to capital	Maximum 400%	51,24	21,66
8. Liquidity:			
− liquidity indicator	Minimum 0,8	1,73	1,49
− narrower liquidity indicator	Minimum 0,6	1,69	1,38
9. PPLA	Minimum 100%		197,37
10. Foreign exchange risk indicator	Maximum 20%	0,82	0,38
11. Exposure of the Group to a group of related parties	Maximum 25%	15,40	12,95
12. Exposure of the Group to a person related to a bank	No limit	6,11	4,95
13. Bank's investments in non-financial entities	Maximum 10%	0,08	0,08

8. ALL SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

In its regular course of business, the Group performs transactions with its shareholders and other related parties. The Group enters into transactions with its parent entity - the majority shareholder Erste Group Bank AG, other shareholder and other members of Erste Group. As of 31 December 2020, the sum of the Group's net exposures to the entities related to the Group, amounted to 8,52% of the Group's capital.

The Group did not grant terms to its related parties that are more favourable than those approved to other individuals/entities at arm's length, in accordance with Article 37. of the Law on Banks.

Novi Sad, 10 March 2021

Approved by the management of Erste Bank a.d. Novi Sad

Stevan Čomić Head of Accounting and Controlling Department	Suzan Tanriyar Executive Board Member	Slavko Carić Executive Board Chairman