



**CONSOLIDATED ANNUAL BUSINESS REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2018**

---

**SADRŽAJ:**

<b>1. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE BANK.....</b>	<b>1</b>
<b>2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS .....</b>	<b>4</b>
<b>3. ENVIRONMENTAL RESPONSIBILITY .....</b>	<b>17</b>
<b>4. ALL SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD .....</b>	<b>17</b>
<b>5. ANTICIPATED DEVELOPMENTS IN THE FORTHCOMING PERIOD .....</b>	<b>18</b>
<b>6. RESEARCH AND DEVELOPMENT ACTIVITIES IN 2018.....</b>	<b>19</b>
<b>7. RISK EXPOSURE .....</b>	<b>21</b>
<b>8. ALL SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES .....</b>	<b>24</b>

---

## **CONSOLIDATED ANNUAL BUSINESS REPORT**

### **1. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE BANK**

#### **• 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. 62/2013 and i 30/2018).

The report is based on the audited financial information. A more detailed presentation of the business operation of the Group on the consolidated level is provided in the Notes to consolidated financial statements as of December 31, 2018.

#### **• 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 štedionica). 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 16.2 million clients through 2,510 branches in 7 countries (Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia).

The Bank's shareholders are Erste Group Banka AG, Vienna and Steiermärkische Bank und Sparkassen AG, Graz, with 74% and 26% interests in the Bank's share capital respectively.

The Bank's headquarter is in Novi Sad, at number 5 Bulevar Oslobođenja 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, 2018 the Bank had 1,117 employees (December 31, 2017: 1.075 employees).

As of December 31, 2018 members of the Bank's Management Board were:

1. Gernot Mittendorfer, Chairman, Erste Group Bank AG, Beč
2. Suzan Tanriyar, member, Erste Group Bank AG, Beč
3. Hannes Frotzbacher, member Erste Group Bank AG, Beč
4. Georg Bucher, member, Chairman deputy, Steiermärkische Bank und Sparkassen AG, Graz
5. Dragana Plavšić, independent member, Beograd,
6. Aleksandar Vlahović, independent member, Beograd

As of December 31, 2018 members of the Bank's Executive Board were:

1. Slavko Carić, Chairman, CEO,
2. Jasna Terzić, Member of the Executive Board,
3. Aleksandra Radić, Member of the Executive Board
4. Tomislav Stena, Member of the Executive Board

As of December 31, 2018 members of the Bank's Audit Committee were:

Mario Catasta, Chairman, Erste Group Bank AG, Vienna,  
Georg Bucher, member, Steiermärkische Bank und Sparkassen AG, Graz,  
Aleksandar Vlahović, 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.

## **CONSOLIDATED ANNUAL BUSINESS REPORT**

### **1. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE BANK (continued)**

In 2014 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 11a/4 Milutina Milankovića Street.

As of December 31, 2018 the Company had 45 employees (December 31, 2017: 42 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 Mihajlićin, member, Erste Bank akcionarsko društvo, Novi Sad
3. Nikola Maslovarić, member, Erste Bank akcionarsko društvo, Novi Sad
4. Marko Markić, member, Steiermaerkische Bank und Sparkassen AG, Grac
5. Sava Dalbokov, member, Steiermaerkische Bank und Sparkassen AG, Gracz.

Members of the Company's Executive Board are:

1. Bojan Vračević, Chairman and
2. Vuk Vučević, member.

In 2014, under the Agreement on Purchase and Transfer of Equity Interest executed by and between Steiermaerkische Bank und Sparkassen AG and Erste Group Immorent International Holding GMBH Serbia d.o.o., Beograd, Erste Bank a.d. Novi Sad, Serbia acquired a 75% equity interest in the company S-Leasing d.o.o., Beograd.

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.

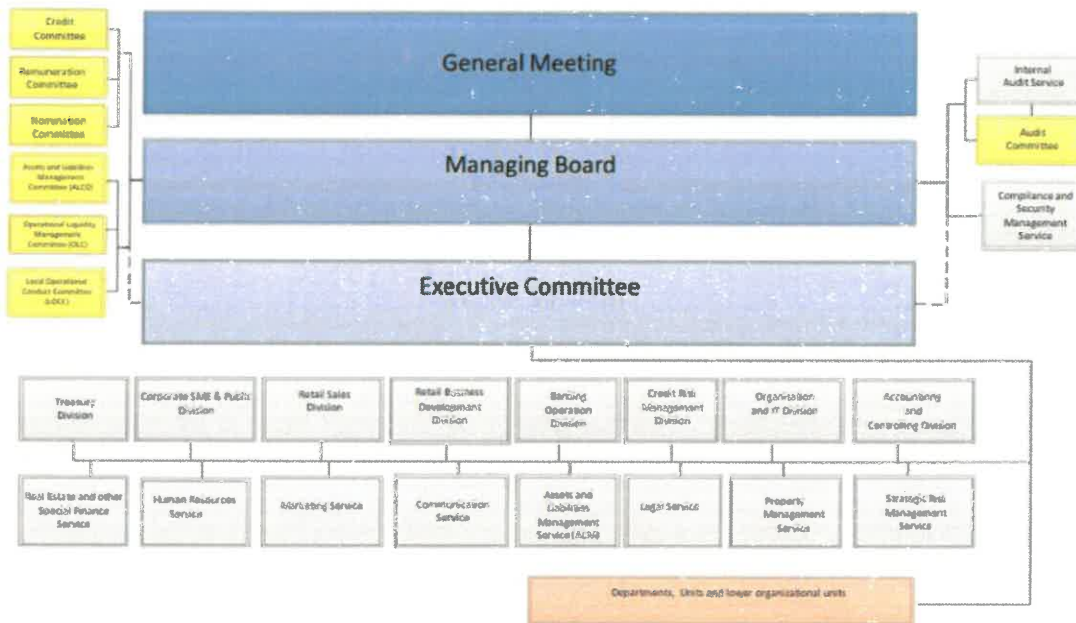
Figures in the accompanying report are stated in thousands of dinars, unless otherwise specified.

**CONSOLIDATED ANNUAL BUSINESS REPORT**

**1. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE BANK (continued)**

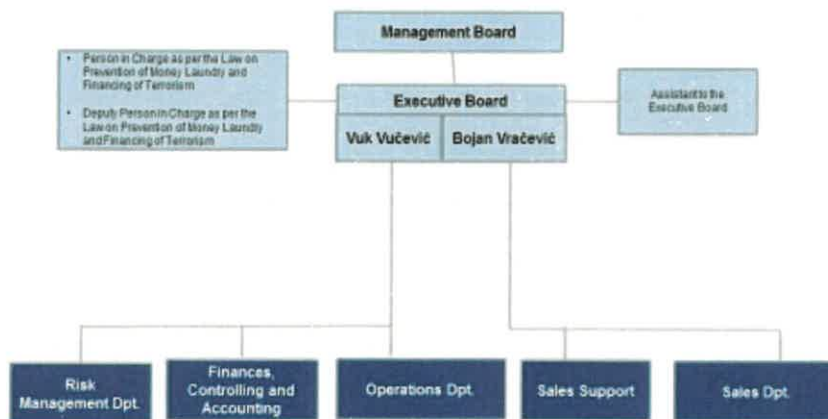
Organizational chart of the Bank is provided below:

**Organogram Erste bank a.d. Novi Sad**



Organizational chart of the Company is provided below:

**Organizational Chart**

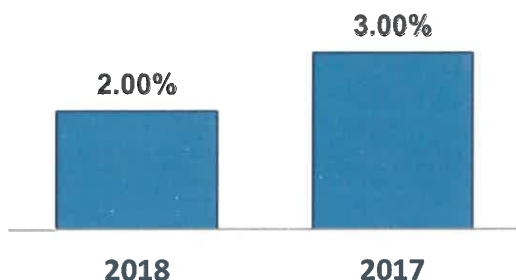


**CONSOLIDATED ANNUAL BUSINESS REPORT**

**2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS**

**Macroeconomic conditions during 2018**

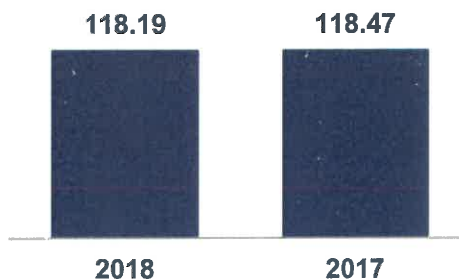
**Inflation movement**



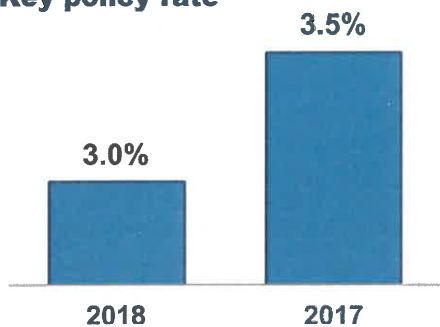
During 2018, the rate of inflation fluctuated in targeted range (3.0% ± 1,5%). The inflation rate oscillated from 2.6% to 2.0% and at the end of the year it amounted 2%, which is its average value for 2018. According to the projection, the yearly inflation will continue to move within the targeted boundaries, until the end of the projection period, ie. in the next two years.

In the course of 2018 RSD appreciated against EUR and the RSD to EUR exchange rate dropped from RSD 118.47 to RSD 118.19 for EUR 1.

**RSD exchange rate**

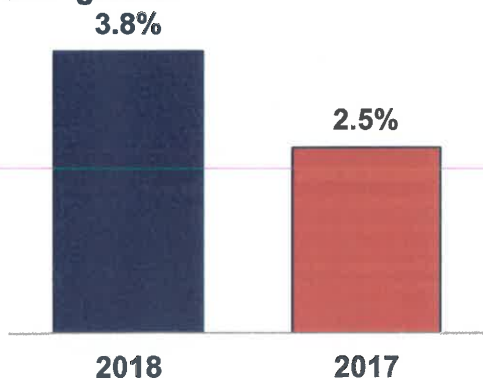


**Key policy rate**



The reference interest rate of the NBS movement during 2018 was in the range from 3.50% to 3.00% and according to the NBS decision will remain unchanged until the end of 2019.

**GWP growth**



The GDP growth rate registered a positive value of 3.8% in 2018. The projection of sustained growth of GDP in the next two years is 3.5%.

## CONSOLIDATED ANNUAL BUSINESS REPORT

### 2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)

#### The Bank operation indicators – comparative data 2017 – 2018

#### Profit and Loss Statement

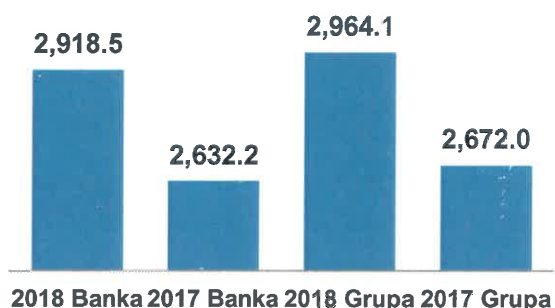
The profit and loss balance structure for the year ended as of 31 December 2018 and 2017, including the growth percentages in relation to the previous year, is as follows:

	Consolidated		Bank		% growth /(drop)	% growth /(drop)
	01.01.- 31.12.2018.	01.01.- 31.12.2017.	01.01.- 31.12.2018.	01.01.- 31.12.2017.		
<b>INCOME AND EXPENSES FROM REGULAR BUSINESS OPERATIONS</b>						
Interest income	8,542,507	7,740,108	10.37	7,498,937	10.02	
Interest expenses	(1,671,512)	(1,386,166)	20.59	(1,280,969)	21.72	
<b>Net interest income</b>	<b>6,870,995</b>	<b>6,353,942</b>	<b>8.14</b>	<b>6,217,968</b>	<b>7.61</b>	
Fee and commission income	2,552,589	2,294,654	11.24	2,258,961	11.68	
Fee and commission expenses	(947,422)	(787,891)	20.25	(771,004)	21.11	
<b>Fee and commission income</b>	<b>1,605,167</b>	<b>1,506,763</b>	<b>6.53</b>	<b>1,487,957</b>	<b>6.79</b>	
Net income from change in fair value of financial assets	113,756	186,712	(39.07)	186,712	(39.07)	
Net income from derecognition of financial instruments valued at fair value	71,924	94,592	(23.96)	94,592	(23.96)	
Net income from risk protection	1,199	2,067	(41.99)	2,067	(41.99)	
Net gain from foreign currency exchange difference and effects of contractual foreign currency clause	422,539	225,060	87.75	225,060	87.75	
Net loss from foreign currency exchange difference and effects of contractual foreign currency clause	(1,444)	(11,062)	(86.95)	-	-	
Net income from impairment decrease of financial assets not valued at fair value through profit and loss account	-	41,310	(100.00)	26,473	(100.00)	
Net loss from impairment of financial assets not valued at fair value through profit and loss account	(163,131)	-	100.00	(146,249)	100.00	
Net income from derecognition of financial instruments valued at amortized cost	15,095	-	100.00	15,095	100.00	
Other operating income	102,838	58,139	76.88	44,262	(9.42)	
<b>TOTAL NET OPERATING INCOME</b>	<b>9,038,938</b>	<b>8,457,523</b>	<b>6.87</b>	<b>8,285,091</b>	<b>6.20</b>	
Costs of salaries, contributions and other personnel expenses	(2,179,915)	(2,006,206)	8.66	(1,932,260)	8.71	
Depreciation costs	(326,514)	(293,554)	11.23	(320,581)	10.51	
Other operating income	388,420	195,943	98.23	193,231	100.99	
Other expenses	(3,729,738)	(3,472,391)	7.41	(3,632,699)	6.23	
<b>PROFIT BEFORE TAX</b>	<b>3,191,191</b>	<b>2,881,316</b>	<b>10.75</b>	<b>2,836,220</b>	<b>10.47</b>	
Income tax	(264,750)	(166,319)	59.18	(160,965)	56.90	
Deferred tax gain	37,800	39	96.823.08	37,800	100.00	
Deferred tax loss	(163)	(43,015)	(99.62)	(43,015)	(100.00)	
<b>PROFIT FOR THE YEAR</b>	<b>2,964,078</b>	<b>2,672,021</b>	<b>10.93</b>	<b>2,632,240</b>	<b>10.87</b>	

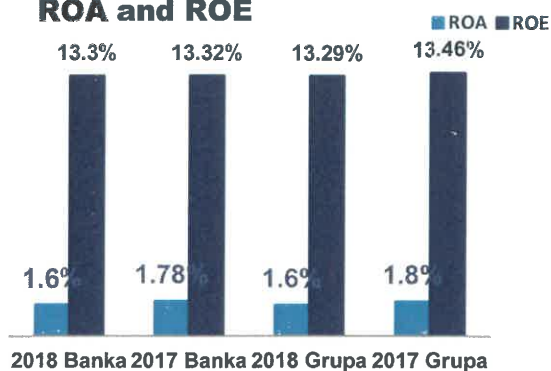
CONSOLIDATED ANNUAL BUSINESS REPORT

2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)

Profit (mil RSD)

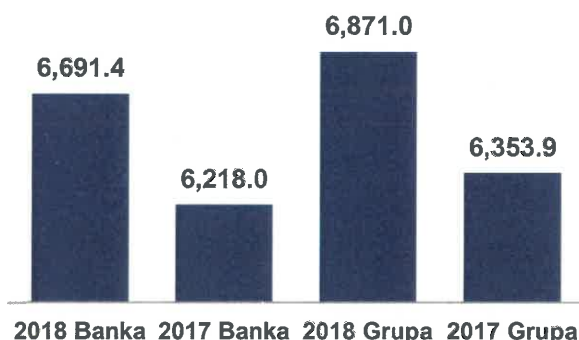


ROA and ROE



In the period from 1 January to 31 December 2018, the Bank generated net profit of RSD 2,918,483 thousand (2017: RSD 2,632,240 thousand), which is a 10.87% increase, compared to the previous year. In the period from 1 January to 31 December 2018, the Group generated net profit of RSD 2,964,078 thousand (2017: RSD 2,672,021 thousand), which is a 10.93% increase in compared to the previous year.

Net interest income  
(mil RSD)



**Interest income** in 2018, at the Group level, amount to RSD 8,542,507 thousand (2017: RSD 7,740,108 thousand) which is an increase of 10,37%, compared to the previous year. Interest income of the Bank in 2018 amount to RSD 8,250,544 thousand (2017: RSD 7,498,937 thousand), and have increased by 10.02% compared to the previous year

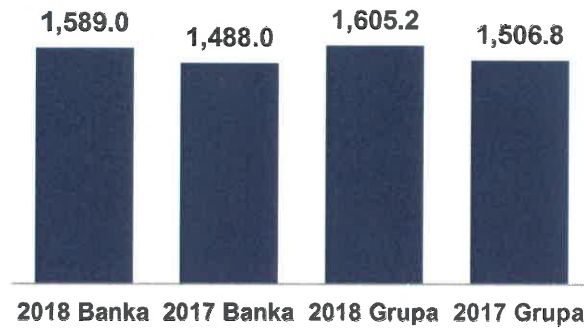
**Interest expenses** in 2018 at Group level amount to RSD 1,671,512 thousand (2017: RSD 1,386,166 thousand), is a increase of 20,59% compared to the previous year. Interest expenses of the Bank in 2018 amount to RSD 1,559,142 thousand (2017: RSD 1,280,969 thousand), and have increased by 21.72% compared to the previous year.



**CONSOLIDATED ANNUAL BUSINESS REPORT**

**2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)**

**Net fee and commission income  
(mil RSD)**



**Fee and commission income** generated in 2018, at the Group level, amount to RSD 2,552,589 thousand (2017: RSD 2,294,654 thousand), a increase of 11,24% compared to the previous year. Fee and commission income of the Bank generated in 2018, amount to RSD 2,522,720 thousand (2017: RSD 2,258,961 thousand), and have increased by 11,68% compared to the previous year.

**Fee and commission expenses** in 2018, at the Group level, amount to RSD 947,422 thousand (2017: RSD 787,891 thousand), a increase of 20.25% compared to the previous year. Fee and commission expenses of the Bank in 2018 amount to 933,746 thousand (2017: RSD 771,004 thousand), and have increased by 21.11% compared to the previous year.

Within the structure of the total income and the total expenses, in addition to the interest and fee, the foreign exchange rate differences and expenses from the impairment of financial assets not valued at fair value through profit and loss account. **Positive foreign exchange rate difference net effect** in 2018, at the Group level, amounts to RSD 421,095 thousand, thereof RSD 422,539 thousand is at the Bank level, and RSD 1.444 thousand expense at S-Leasing level. Positive net effect from the financial assets change in fair value at the Group level, amounts to RSD 113,756, all of which are at the level of the Bank.

## CONSOLIDATED ANNUAL BUSINESS REPORT

### 2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL POSITION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)

#### Balance Sheet

	Consolidated				Bank				in RSD thousand
	2018	in %	2017	% growth/drop	2018	in %	2017	% growth/drop	
<b>ASSETS</b>									
Cash and assets with the central bank	24,641,257	11.68	20,774,027	18.62	24,641,261	12.14	20,774,027	12.83	18.62
Derivative financial assets	181,204	0.09	64,664	180.22	181,204	0.09	64,664	0.04	180.22
Securities	35,153,894	16.67	32,247,845	9.01	34,891,510	17.19	32,247,845	19.92	8.20
Loans and receivables from banks and other financial institutions	1,492,872	0.71	2,198,970	(32.11)	1,700,361	0.84	2,210,553	1.37	(23.08)
Loans and receivables from customers	146,346,487	69.39	110,472,729	32.47	138,393,437	68.20	104,140,053	64.32	32.89
Investments in affiliates and joint ventures	118	0.00	118	0.00	-	-	-	0.00	-
Investments in subsidiaries	-	-	-	-	-	-	-	-	-
Intangible investments	554,374	0.26	255,553	116.93	93,560	0.05	93,560	0.06	0.00
Property, plant and equipment	1,072,688	0.51	1,078,617	(0.55)	537,025	0.26	247,298	0.15	117.16
Current tax assets	173,326	0.08	3,386	5,018.90	1,062,904	0.52	1,070,689	0.66	(0.73)
Deferred tax assets	20,553	0.01	2,261	809.02	173,326	0.09	-	0.00	0.00
Non-current assets held for sale and disposal group	12,288	0.01	12,288	0.00	18,809	0.01	-	0.00	100.00
Other assets	1,245,658	0.59	1,154,111	7.93	11,902	-	11,901	0.00	-
<b>TOTAL ASSETS</b>	<b>210,894,719</b>	<b>100</b>	<b>168,264,569</b>	<b>25.34</b>	<b>202,932,013</b>	<b>100</b>	<b>161,921,005</b>	<b>100</b>	<b>15.68</b>
									<b>25.33</b>

**CONSOLIDATED ANNUAL BUSINESS REPORT**

**2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL POSITION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)**

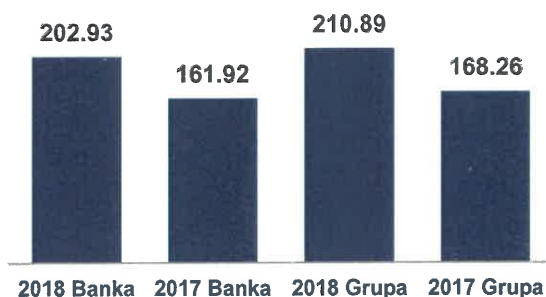
**Balance Sheet**

	Consolidated			Bank			in RSD thousand	
	2018	in %	2017	2018	in %	2017	U %	% growth / drop
<b>LIABILITIES</b>								
Derivative financial liabilities	95,518	0.05	44,458	95,518	0.05	44,458	0.03	114.85
Deposits and other liabilities to banks and other financial institutions and central banks	67,153,387	31.84	51,859,707	59,322,207	29.23	45,570,431	28.14	30.18
Deposits and other liabilities to other customers	113,210,214	53.68	91,982,128	113,210,214	55.79	91,982,128	56.81	23.08
Subordinated liabilities	4,566,337	2.17	1,354,523	4,566,337	2.25	1,354,523	0.84	237.12
Provisions	677,194	0.32	766,609	654,200	0.32	752,742	0.46	(13.09)
Current tax liabilities	252,560	0.12	160,965	252,560	0.12	160,965	0.10	56.90
Deferred tax liabilities	4,038	0.00	5,248	-	0.00	5,248	0.00	(100.00)
Other liabilities	1,085,574	0.51	1,030,505	1,199,176	0.59	1,155,947	0.71	3.74
<b>TOTAL LIABILITIES</b>	<b>187,044,822</b>	<b>88.69</b>	<b>147,204,143</b>	<b>179,300,212</b>	<b>88.35</b>	<b>141,026,442</b>	<b>87.09</b>	<b>27.14</b>
<b>CAPITAL</b>								
Share capital	10,164,475	4.82	10,164,475	10,164,475	5.01	10,164,475	6.28	0.00
Gain	3,057,163	1.45	2,732,926	2,918,483	1.44	2,632,240	1.63	10.87
Reserves	10,550,345	5.00	8,098,170	10,548,843	5.20	8,097,848	5.00	30.27
Participations excluding the control right	77,914	0.04	64,855	-	-	-	-	-
<b>TOTAL CAPITAL</b>	<b>23,849,897</b>	<b>11.31</b>	<b>21,060,426</b>	<b>23,631,801</b>	<b>11.65</b>	<b>20,894,563</b>	<b>12.90</b>	<b>13.10</b>
<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>210,894,719</b>	<b>100</b>	<b>168,264,569</b>	<b>202,932,013</b>	<b>100</b>	<b>161,921,005</b>	<b>100</b>	<b>25.33</b>

**CONSOLIDATED ANNUAL BUSINESS REPORT**

**2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL POSITION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)**

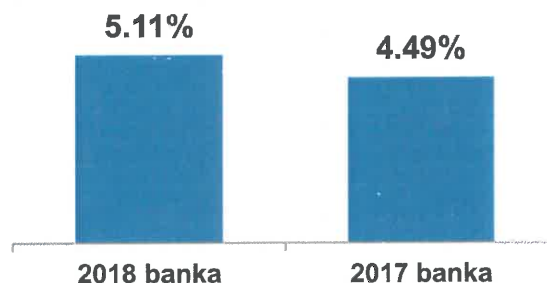
**Balance Sheet movement  
(mlrd RSD)**



The total **balance sheet sum** of the Bank as of 31 December 2018 amounts to RSD 202,932,013 thousand and it grew in 2018 by 25.33% , compared to 31 December 2017. The total balance sheet sum on the consolidated level as of 31 December 2018 amounts to RSD 210,894,719 thousand and it grew in 2018 by 25.34% in compared to 31 December 2017.

**EBS Balance sheet Assets  
Market Share**

The **market share** of the Bank's assets compared to total assets of the Serbian banking sector in 2018 is 5.11%, whereas the Bank's market share in relation to total assets of the Serbian banking sector is 4.49%, in 2017.

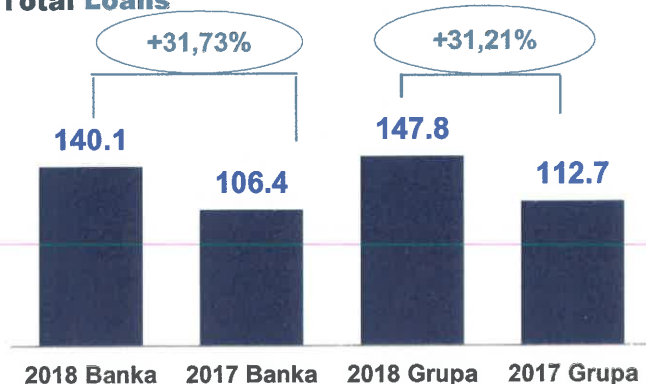


**Cash and assets with the central bank** in 2018, at the Group level, amount to RSD 24,641,261 thousand, and the total amounts relates to the Bank. Cash and assets with the central bank increased by 18.62% in 2018 in relation to 2017.

**Derivative financial assets** in 2018, at the Group level, amount to RSD 181,204 thousand, and the total amount relates to the Bank. Derivative financial assets, as of 31 December 2018, increased by 180.22% in relation to the same date in 2017.

Securities in 2018, at the Group level, amount to RSD 35,153,894 thousand, and the majority relates to the Bank. Securities, as of 31 December 2018, increased by 9.01% in relation to the same date in 2017.

**Total Loans**



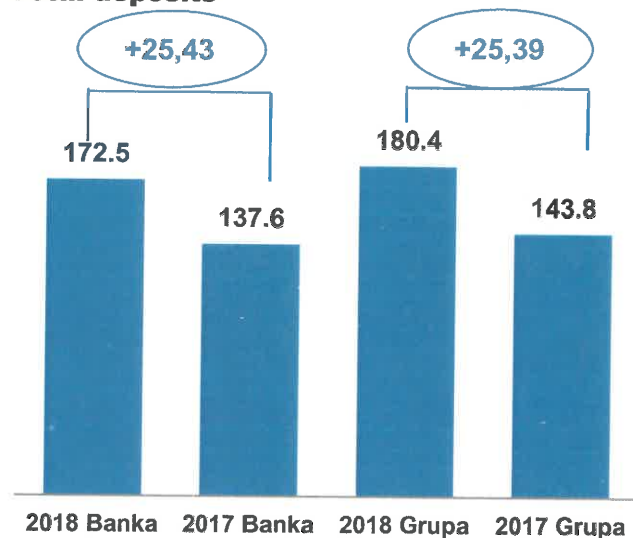
**Loans and receivables from banks and other financial organisations** in 2018, at the Group level, amount to RSD 1.492.872 thousand, and the most significant amount relates to the Bank. Loans and receivables from banks and other financial organisations as of 31 December 2018 decreased by 32.11% in relation to the same date in 2017.

Loans and receivables from customers on the consolidated level amount to RSD 146,346,487 thousand, thereof, at the Bank level, they amount to RSD 138,393,437 thousand, and at S-Leasing level, they amount to RSD 7,953,050 thousand. Loans and receivables from customers on the consolidated level on 31 December 2018 have reported an increase of 32.47% compared to the same date in 2017. Loans and receivables from customers of the Bank on 31 December 2018 have reported an increase of 32.89% compared to the same date in 2017.

**CONSOLIDATED ANNUAL BUSINESS REPORT**

**2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL POSITION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)**

**Total deposits**



**Deposits and other liabilities to banks and other financial organisations** on the consolidated basis, as of 31 December 2018, amount to RSD 67,153,387 thousand, of which RSD 59,322,207 thousand relate to the Bank and RSD 7,831,180 thousand relate to S-Leasing. Deposits and other liabilities to other customers on the consolidated level, as of 31 December 2018, have increased by 29.49% in relation to the same date in 2017. Deposits and other liabilities to other customers of the Bank, as of 31 December 2018, have increased by 30.18% in relation to the same date in 2017. Deposits and other liabilities to banks and other financial organisations of the Bank in RSD account for 9.04% of the deposit balance as of 31 December 2018 (and they grew by 4.27% in relation to 2017), whereas in foreign currencies they account for 90.96% of the deposit balance (and increased by 33.47% in relation to 2017).

**Deposits and other liabilities due to customers** amounted to RSD 113,210,214 thousand on the consolidated level as of 31 December 2018, where total amount relates to the Bank. Deposits and other liabilities due to customers increased by 23.08% compared to 31 December 2017. The Bank's RSD deposits and other liabilities due to customers comprised 36.41% of the total balance of these deposits as of 31 December 2018 (recording a growth of 42,20% compared to 2017), while foreign currency deposits comprised 63.59% of the total balance of these deposits (recording a growth of 14.28% compared to 2017).

The maturity structure of the consolidated statement of financial position (balance sheet) as of December 31, 2018 is favourable. The Group has permanent and long-term sources of funding fixed and non-current assets.

The Group's total equity amounted to RSD 23,849,897 thousand as of December 31, 2018, recording an increase of 13.25% compared to 31 December 2017. The Bank's total equity amounted to RSD 23,631,801 thousand as of 31 December 2018. In 2018 the Bank's total equity recorded a growth of 13.10% compared to the previous year.

**CONSOLIDATED ANNUAL BUSINESS REPORT**

**2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL POSITION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)**

RSD and FX Group sub-balances as of 31 December 2018 and 2017 are presented as follows:

	Consolidated			Bank						
	2018.	in %	2017.	in %	2017.	in %	2018.	in %	2017.	% growth / drop
<b>Assets</b>										
Assets in RSD	70,775,068	33.56	54,866,330	32.61	70,633,753	34.81	55,131,926	34.05	70,633,753	28.12
Assets in foreign currency	140,119,651	66.44	113,398,239	67.39	132,298,260	65.19	106,789,079	65.95	132,298,260	23.89
<b>Total assets</b>	<b>210,894,719</b>	<b>100</b>	<b>168,264,569</b>	<b>100</b>	<b>202,932,013</b>	<b>100</b>	<b>161,921,005</b>	<b>100</b>	<b>202,932,013</b>	<b>25.33</b>
<b>Liabilities</b>										
Liabilities in RSD	72,178,194	34.22	57,073,957	31.45	72,021,177	35.49	56,876,420	35.13	72,021,177	26.63
Liabilities in foreign currency	138,716,525	65.78	111,190,612	68.55	130,910,836	64.51	105,044,585	64.87	130,910,836	24.62
<b>Total liabilities</b>	<b>210,894,719</b>	<b>100</b>	<b>168,264,569</b>	<b>100</b>	<b>202,932,013</b>	<b>100</b>	<b>161,921,005</b>	<b>100</b>	<b>202,932,013</b>	<b>25.33</b>

## CONSOLIDATED ANNUAL BUSINESS REPORT

### 2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL POSITION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)

The Group's RSD asset sub-balance comprises 33.56% of the total assets, recording a growth of 29.00% in 2018, whereas the RSD liability and equity sub-balance at the Group level comprised 34.22% of the total liabilities and equity, recording a growth of 26.46% in 2018. However, the Group's foreign currency asset subtotal is still more significant as it comprised 66.44% of the total assets and increased by 23.56% compared to the previous year. The Group's foreign currency liability and equity sub-balance was equally more significant, comprising 65.78% of the total liabilities and equity as of December 31, 2018 and recording an increase of 24.76% compared to the previous year.

The Bank's RSD assets sub-balance comprises 34.81% of its total assets, having risen by 28.12% in 2018, while its RSD liabilities and equity sub-balance comprises 35.49% of the Bank's total liabilities and equity, having risen by 26.63% in 2018. However, the Bank's foreign currency asset sub-balance is still more significant as it comprises 65.19% of the total assets with a 23.89% increase compared to the previous year. The Bank's foreign currency liability and equity sub-balance is equally more significant, comprising 64.51% of the total liabilities and equity as of 31 December 2018 and recording an increase of 24.62% compared to the previous year.

#### Equity

The Group capital as of 31 December 2018 amounts to RSD 23,849,897 thousand (31 December 2017: 21,060,426 thousand). The Bank capital as of 31 December 2018 amounts to RSD 23,631,801 thousand (31 December 2017: RSD 20,894,563 thousand).

The Bank total capital structure is presented as follows:

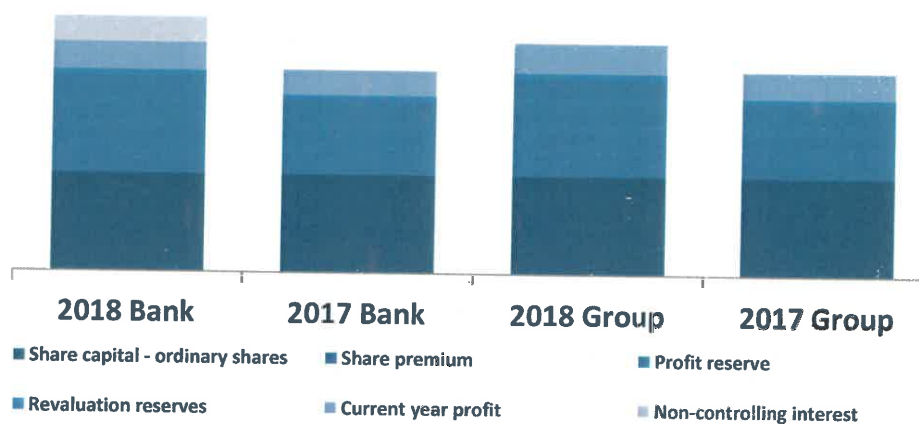
	Consolidated		in RSD thousand Bank	
	2018.	2017.	2018.	2017.
Share capital – ordinary shares	10,040,000	10,040,000	10,040,000	10,040,000
Issue premium	124,475	124,475	124,475	124,475
Other reserves	10,036,645	7,679,824	10,036,645	7,679,824
Revaluation reserves	513,700	418,346	512,198	418,024
Current year profit	3,057,163	2,732,925	2,918,483	2,632,240
Participation without control right	77,914	64,856	-	-
<b>Balance as at December, 31</b>	<b>23,849,897</b>	<b>21,060,426</b>	<b>23,631,801</b>	<b>20,894,563</b>

## CONSOLIDATED ANNUAL BUSINESS REPORT

### 2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL POSITION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)

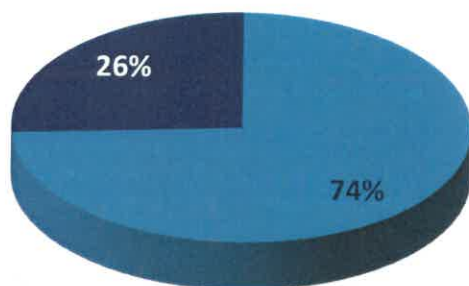
#### Equity (continued)

### Bank's equity structure



As of 31 December 2018, the Bank subscribed and paid-in capital includes 1,004,000 ordinary shares of individual nominal value of RSD 10,000 (31 December 2017: 1,004,000 ordinary shares of individual nominal value of RSD 10,000). During 2018 and 2017, there were no changes in the share capital.

### Share capital structure



- Erste Group Banka AG
- Steiermärkische Bank und Sparkassen AG

The Bank's major shareholder is je Erste Group Bank AG, Vienna, with the participation of 74% in the share capital as of 31 December 2016.

The Bank shareholder structure as of 31 December 2018 and 2017 is as follows:

Name of shareholder	Number of shares	Share in %
Erste Group Banka AG, Beč	742,960	74.00
Steiermärkische Bank und Sparkassen AG, Grac	261,040	26.00
<b>Total</b>	<b>1,004,000</b>	<b>100.00</b>

S-Leasing capital is 75% in the ownership of Erste bank ad Novi Sad and 25% of Steiermaerkische Bank und Sparkassen AG, Graz, Austria.



## CONSOLIDATED ANNUAL BUSINESS REPORT

### 2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL POSITION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)

- **Corporate Social Responsibility**

The corporate social responsibility is presented for the Bank as the Group holder.

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 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 committed 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 2015–2019, 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 clear guidelines for actual programmes, projects, and initiatives:

FIELD	OBJECTIVE	PRIORITY TOPICS
<b>Corporate management</b>	Further improvement of the existing practice of good corporate governance	Transparent management practices Prevention of conflicts of interest Development of CSR through joint initiatives
<b>Responsibility to clients</b>	Even more strongly integration of social responsibility into the core business	Responsible financing Financial inclusion Responsible communication with clients
<b>Responsibility in work environment</b>	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
<b>Responsibility in the supply chain</b>	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
<b>Responsibility to local communities</b>	Further development of local communities in all relevant aspects	Investing in the development of the potential members of the communities in which the Bank operates Promotion of corporate and individual philanthropy
<b>Responsibility to the environment</b>	Contribution to the preservation of the environment by minimizing the negative and maximize the positive impact that the Bank achieves	Responsible resource management Responsible financing Raising the awareness of employees about environmental protection

## CONSOLIDATED ANNUAL BUSINESS REPORT

### 2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL POSITION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'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 from 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 our wish to be a reliable partner to both the corporate and retail customers, given our long-term commitment to the Serbian market, we see our role as that of an active and continuous contribution to the development of the society and culture. Erste Bank pays special attention to the programs of investments in the community. During the course of 2017, Erste Bank supported various different cultural and artistic programs, science popularization, scientific programs, promotion of entrepreneurship (social and micro entrepreneurship), program Superste.net, as well as or through voluntary actions allocated funds in the amount of about RSD 30 million.

One of the most important programs of the Bank in 2016 was the launch of "Step by Step" program for educational, financial and mentoring support to start-ups, social enterprises and civil society. This is the first step in the implementation of social banking "Step by Step" in Serbia, which the Erste Group launched in Central and Eastern Europe (CEE) and Austria in 2016, to support customers who are traditionally under-covered by banking services: new businesses, including start-ups, social enterprises, civil society organizations, and persons at risk of poverty. Since the implementation of the project up to 2018, through the program "Step by Step" more than 100 new entrepreneurs obtained business advice and financial support, 185 new jobs have been opened and new loans have been approved in amount of approximately EUR 1 milion. All program beneficiaries have conducted online educational programme on the for this purpose developed platform and 88% of them were mentored while 44% of them were provided assistance in business plan creation. During two years of project implementation, support was provided to start-ups all over the country – 17% start-ups from villages and towns, 60% from cities and 28% from Belgrade. Related businesses are various: trade, IT , production businesses, transport, construction, tourism, consultancy services etc.

Through the Superste.net donation program in 2018, 15 projects were financially supported and mentored; only the fund for the realization of projects was RSD 6.6 million. Traditionally, the program is intended for groups and individuals who want to realize socially responsible ideas and programs, projects inspired by problems in society, with the aim of improving the entire community.

The media and the public have recognized the significance of the topics that Erste Bank was dedicated to in 2018, as well as the number of publications in the media. About Erste Bank there were 2341 media publications in the period from January to December 2018 and 313 related to social responsibility programs conducted by the Bank (according to clipping reports and analyzes by Executive Group and Ninamedie).

Reporting on social responsibility for us is an integral part of a wider process in which we are committed in the long term. Our goal is to present to our numerous stakeholders, in a clear and transparent manner, all the activities and initiatives that we have implemented over a year, as well as to announce the forthcoming plans and programs. Since 2008, we have regularly published annual reports on social responsibility, and since 2011 we have been the first bank and one of the first companies in Serbia based on internationally recognized frameworks GRI (Global Reporting Initiative). Since 2013, the Bank has expanded and improved the Social Responsibility Report by introducing indicators that GRI defined exclusively for the financial sector. By relying on the GRI Financial Services Sector Supplement (FSSS), the Corporate Responsibility Report of the Bank has become an important source of information for international financial institutions with which the Bank cooperates. Since 2018, the Bank has implemented the latest GRI reporting principles and reporting in accordance with United Nations Sustainable Development Goals.

All Erste Bank reports on corporate social responsibility can be found at the following link: [http://www.erstebank.rs/rs/O\\_nama/Drustveno\\_odgovorno\\_poslovanje](http://www.erstebank.rs/rs/O_nama/Drustveno_odgovorno_poslovanje). The Corporate Social Responsibility Report of Erste Bank for 2018 will be published by the end of July 2019 on the Bank's website.

## CONSOLIDATED ANNUAL BUSINESS REPORT

### 3. ENVIRONMENTAL RESPONSIBILITY

In accordance with its long-term strategy regarding environmental responsibility, the Bank is committed to undertake defined responsible practices in this field and to its continuous improvement. Despite the fact that the Bank is not a major polluter in terms of direct impact of its business on the environment, Erste Bank has been monitoring and measuring its impact in accordance with the global trends for years now, with the aim of early identifications and minimization year in year out.

At the strategic level, in addition to the current CSR Strategy, the Bank relies on relevant documents such as the Waste Management Procedure, Erste Group Energy Management Policy and Basic Environmental Management Principles, and the focus of the Bank's activities is to reduce negative impacts and to promote good environmental friendly practice in everyday business.

Within the Bank's most significant impact on the environment, responsible use of resources is a primary aspect. In addition to being dedicated to reducing energy consumption and reducing emissions, the Bank has also developed a comprehensive measurement system for all important parameters in this area.

At the end 2015 it was implemented "Credit360" software with the aim to improve the process of collecting and managing the data on the Bank's environmental impact on the Group's environment, and with the full implementation of this software continued in 2018.

From year to year, Erste Bank seeks to make its contribution 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 acceptable criteria.

In accordance with this goal, the Bank has so far arranged 20 branches as well as a business space that is used within the "Sirius" complex in Belgrade and a business space within the building of Aleksandar building in Novi Sad.

In addition to accurately monitoring and measuring all the key parameters related to resource consumption, the Bank recognized the topic of responsible waste management as one of the relevant ones. In this way, the Bank tries to positively influence sustainability by sorting and transferring recyclables.

Reducing paper consumption is defined as a specific goal, given the nature of our core business. Significant amounts of paper waste arise as a result of our everyday activities, which is why the Bank focused its initiatives primarily on reducing paper use, introducing certified paper for use, and recycling.

In the year 2018 in the field of environment we recorded the following impact:

- The recorded total CO<sub>2</sub> emission: 2,842 tCO<sub>2</sub>e  
(this information relates to the aggregate emission of the greenhouse gases in tons – CO<sub>2</sub> equivalent)
- Total energy consumption (kWh/a): 4,471,599.73  
Electricity: 2,587,448.04 kWh/a  
Heating and air conditioning: 1,884,151.69 kWh/a
- Water consumption (m<sup>3</sup>) 9.608
- Total amount of generated waste (t) 12,346

### 4. ALL SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

There were no events after the balance sheet date that would require corrections or disclosures in the financial statements for 2018.

## CONSOLIDATED ANNUAL BUSINESS REPORT

### 5. ANTICIPATED DEVELOPMENTS IN THE FORTHCOMING PERIOD

Erste Group is committed to becoming a leading banking group providing services to individuals and legal entities in Serbia. This goal is being achieved through the following three priorities set by the management of Erste Group Holding: high data quality, business growth in the segment of cooperation with individuals and legal entities and clear Group management.

In the Retail segment, The Bank has been developing a long-term collaboration with the customers by means of an ongoing improvements to the products and services, powerful presence in the domestic market through its network of branches and alternative distribution channels, with a focus on fulfilling the needs and achieving greater customer satisfaction along with realization of profit and intention to remain among 5 top banks within the retail operations segment in order to become the first-choice bank.

In terms of operations with corporate clients, the Bank intends to continue to be a reliable and long-lasting partner with its clients, which can be achieved with high quality and diversification of financial services and professional attitude towards customers in this segment, which will lead to achieving the highest possible profitability with lower risk.

The Bank continuously, through the Risk Management Strategy, but also other business strategies, defines the target the risk exposure profile and portfolio structure with the primary purpose of the sustainability of operations in the long run, compliance with local regulatory requirements and compliance with the standards of Erste Group.

The success of the Bank largely depends on the trust that our customers, shareholders, our employees and the public have in the capacity and integrity of the work of the Bank and the Erste Group. This confidence is based on compliance of operations with all applicable legal, regulatory and internal regulations, as well as the standards of Erste Group but also on respect for marketing standards and rules of conduct in all business activities of the Bank.

The bank takes care of the professional training and development of their employees, especially those who perform tasks of identifying, measuring and monitoring risk, taking into account the extent, type and risk exposure operations performed by the Bank, and the Bank's risk profile.

The Erste Bank ad Novi Sad will continue to provide comprehensive support to the population and the economy of Serbia in the realization of their financial needs and goals. Business Principles which include a focus on continuous improvement of client service and constant improvement of internal organization and efficiency, and in the future will form the basis of the Bank.

Irrespective of the customer segment, mission, vision and values of the Bank are completely uniform in its work is managed by:

The Banks mission:

Building long-term partnerships, we are "the Bank of first choice 'for our customers and employees.

We create sustainable value for our customers, employees and shareholders by providing universal financial services. Together, we actively contribute to the development of local communities and society as a whole which makes our business sustainable.

The Bank's Vision:

Leading bank of Serbia embracing European values.

Our values:

#### RESPONSIBILITY

We assume responsibility for the development of the Bank and ourselves.

#### SUPPORT

We listen, we understand, we help.

#### TRUST

We keep our promises and build good quality relationships.

#### INNOVATIVENESS

We encourage novelty and constantly upgrade and improve the existing.

#### CREATION

We create value for our clients, shareholders and ourselves.

The Strategy is thoroughly and precisely implemented by means of the Action Plan, annual budgets, crediting policies, rulebooks on tariffs and pricelists and other Bank's documents.

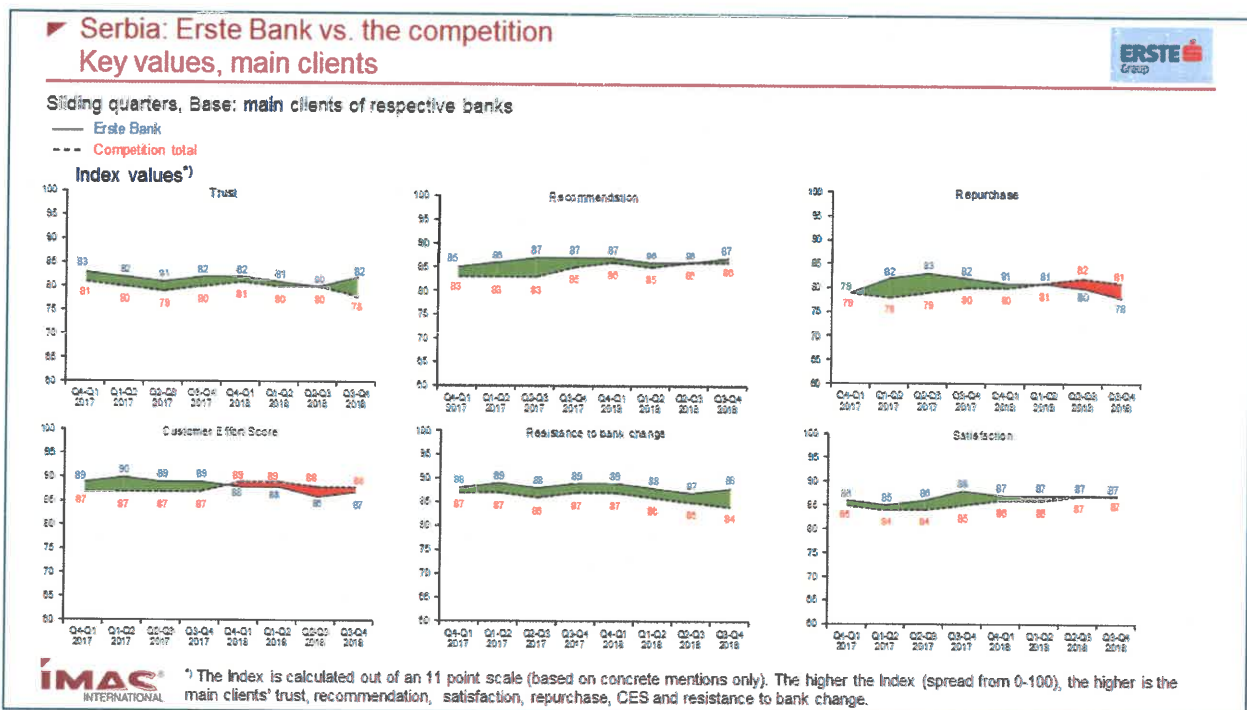
## CONSOLIDATED ANNUAL BUSINESS REPORT

### 6. RESEARCH AND DEVELOPMENT ACTIVITIES IN 2018

Research and development activities are presented in this report at the level of the Bank as the parent entity and leader of the Group.

During 2018 the Bank regularly conducted qualitative and quantitative research on the quality of services rendered by the Bank and the separate business units of the Bank and analysed the results obtained. The Bank hired an independent market research agency to perform measurement and assessment of the customer satisfaction level and loyalty as well as of the quality of the processes within the Bank.

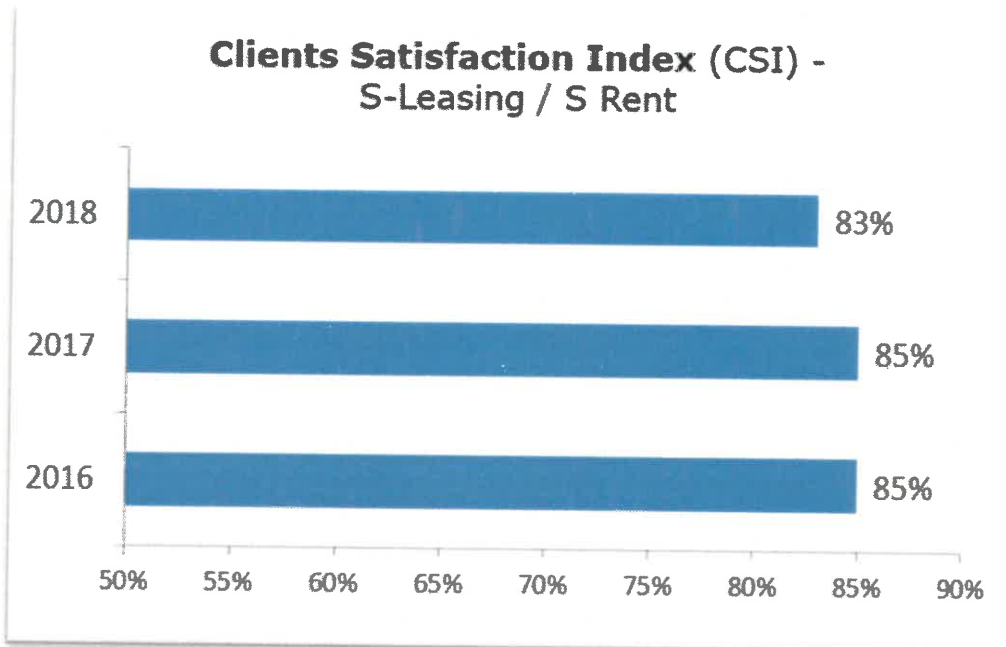
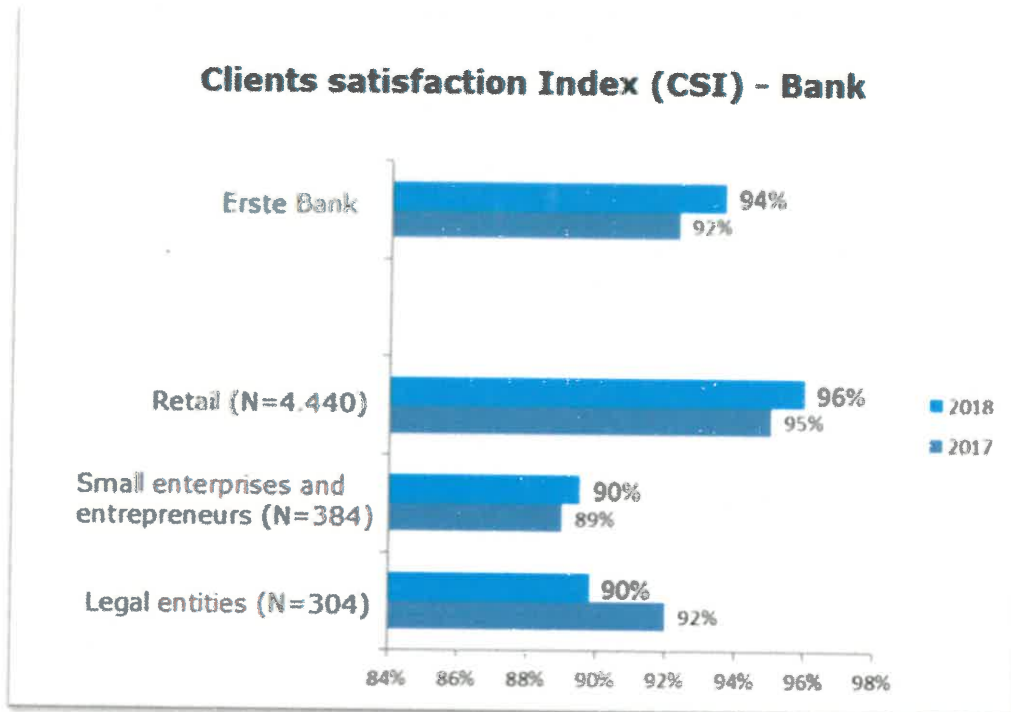
Through the "Banking Market Monitor" survey, Erste Bank measures 6 key quality parameters of service both to its clients and clients of competing banks. The service quality parameters that are measured are: trust, satisfaction, recommendation, ease of doing business with the bank, re-purchase and the probability of a bank change. On 4 observed parameters of service quality, Erste Bank recorded a result that was above or at the same level as competitors average, while in the domain of ease of doing business with the bank and re-purchase it is 1pp and 3pp below the competitors average. In this way, Erste Bank constantly measures its performance in relation to the market, and through its activities to improve the client's experience, it works to strengthen its position among the bank's leaders in the domain of customer satisfaction.



According to the "Customer Satisfaction Survey" (CSS), the Bank's clients showed exceptionally high loyalty and satisfaction levels in respect of cooperation with the Bank. The customer satisfaction index (CSI) equalled 93.62% for the Bank in 2018. This result includes assessments of customers from all operating segments of the Bank per more than 40 features (professional competence, professionalism and courtesy of the staff, location and tidiness of branch offices, working hours, products, prices, transparency, speed and efficiency in performing transactions, contact centre, availability, etc.).

Erste Bank also undertakes Customer Satisfaction Survey by service immediately after a certain event (event-triggered research). The events we are looking at are account opening (dinar and foreign exchange), deposit, credit card approval, housing loan approval and loan approval for Micro clients. Within one week after the client has been provided one of the above products / services, we give them the opportunity to immediately, directly show their (un) satisfaction with the service and thus help us improve our quality of service. On a weekly basis, Erste Bank monitors customer responses and reacts in an adequate manner.

6. RESEARCH AND DEVELOPMENT ACTIVITIES IN 2018 (continued)



The Bank responsibly provides systemic support to its customers through an advanced system of complaint management and resolution at the Bank level, for which top priorities are the speed and quality of complaint/grievance resolution. In 2018, the Bank is distinguished from the competition by the speed of resolving objections. Based on the analysis and measurements in 2018, 93.13% of the complaints were resolved within 7 days.

The goal of the Bank is to constantly improve the quality of the service, according to which the Bank was recognized as the leading Bank in the banking market of Serbia.

## CONSOLIDATED ANNUAL BUSINESS REPORT

### 6. RESEARCH AND DEVELOPMENT ACTIVITIES IN 2018 (continued)

SPEED OF RESOLVING CUSTOMER GREIVANCES AND COMPLAINTS TO THE SERVICES RENDERED AT THE BANK LEVEL				
IN THE PERIOD FROM 01.01. TO 31.12.2018.				
Within 24h	Within 7 days	Within 30 days	Over 30 days	Total
81.55%	11.60%	6.22%	0.63%	100%

*Note: S-Leasing / S-Rent registered 3 written complaints in 2018*

With the continuous study of needs and expectations of customers, within its organization, the Bank systematically measures and improve customer satisfaction and uses it as a permanent tool for improving the quality of internal processes and service.

### 7. RISK EXPOSURE

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 Bank/Group. Risk management policies and strategy as well as capital management strategy are linked to the Bank's/Group's overall strategy and include definition of all risk types, manners of managing those risks and the level of risk the Bank/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 Bank of Serbia ("NBS").

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

- Identification and measurement or assessment of the Bank / 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 Bank's/Group's risk profile and capital adequacy;
- Monitoring of parameters that affect the Bank's/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 Bank's/Group's exposure limits per risk types and their control;
- Quantifying the impact of changes in the economic cycle or stress events on the Bank's/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 Bank/Group;
- Development and implementation of various technical platforms and tools.

The Bank/Group adequately identifies risks it is exposed to and, in accordance with the identification, manages those risks in an attempt to avoid the risks or reduce them to acceptable levels.

Risk management in the Bank / Group in 2018 was successfully implemented, primarily reflected in an improved portfolio rating distribution and a reduced amount of reduced impairment allowance charge, then compliance with defined risk management policies and procedures and their ongoing improvement, in the constant focus of the Management and Executive Board on high-quality risk management, the use of cutting edge technology in the Bank's/Group's operations and its regular upgrade and the culture of risk management adopted by all the employees of the Bank/Group.

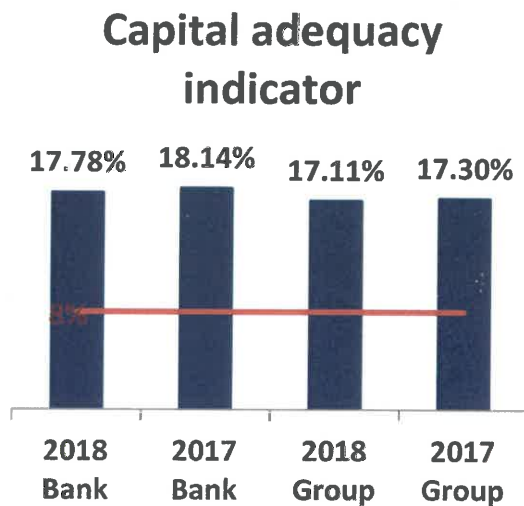
An assessment of the material significance of the risks that the Bank may have been exposed in 2018 has shown that the following risks are material:

- Credit risk (including counterparty risk, concentration risk, residual risk and credit and foreign exchange risk);
- Market risk in the trading book;
- Interest rate risk in the banking book;
- Foreign exchange risk;
- Operational risk;
- Liquidity risk;
- Strategic risk
- Reputational risk;
- Macroeconomic risk (transversal risk that reflects on all previously mentioned types of risks).

**7. RISK EXPOSURE**

Bank / Group conducts a quarterly assessment of internal capital adequacy in accordance with the relevant methodologies and standards in the calculation of capital requirements for materially significant risks (apart from those risks included in the risk management framework through a precisely established monitoring and limitation system or through stress testing) and internal capital of the Bank / Group, is available to absorb these risks.

In addition, based on NBS Decision on Capital Adequacy the Bank/Group calculates capital requirements and capital when computing the capital adequacy ratio. Regarding the aforesaid, the capital requirements for credit risk, counterparty risk, settlement/delivery risk and risk of adjusting credit exposure is calculated using the standard approach, while the capital requirements for price risk and operational risk are determined using the current maturity exposure and basic indicator approaches, respectively.



**The capital adequacy ratio** was calculated as a ratio of regulatory capital and risk assets as at 31 December 2018. The Bank / Group is obliged to maintain the minimum capital adequacy ratios prescribed by the National Bank of Serbia (8% for capital adequacy, 6% for capital adequacy and 4.5% for the share capital adequacy), as well as fulfilling the requirement for combined layer of capital. In addition to the requirements defined in the form of minimum indicators of capital adequacy and protective capital layers, the Bank / Group is also required to fulfill the additional regulatory minimum capital requirement, defined in the process of the Supervisory Review and Evaluation Process (SREP). In addition to the requirements defined in the form of minimum indicators of capital adequacy and protective capital layers, the Bank / Group is also required to fulfill the additional regulatory minimum capital requirement, defined in the process of the Supervisory Review and Evaluation Process (SREP). The Bank's capital adequacy ratio as at 31 December 2018 amounts to 17.78%. On a consolidated basis, the capital adequacy ratio on December 31, 2018 is 17.11%.

The Group's liquidity is monitored and controlled through the provision of the Bank / Group's continuing ability to provide liquid funds for the payment of client deposits, financing of assets and operational growth, and the settlement of other contractual obligations. During 2018, the Bank had an indicator of daily liquidity and a indicator of coverage with liquid assets above the legally prescribed level.

The Bank / Group manages its assets and liabilities in a manner that ensures that it fulfills all its obligations at any time, and that its customers can access to their funds at the Bank / Group in accordance with the agreed maturity dates.

Risk management of interest rate changes, The Bank / Group aims to optimize the relationship of these effects in terms of impact on net interest income from one, and the economic value of capital on the other. The Assets and Liabilities Management Committee manages the assets and liabilities maturity based on: Erste Group AG's guidelines, macroeconomic analysis and forecasting, forecasting liquidity conditions, analyzing and forecasting market interest rate trends for different segments of assets and liabilities.

The foreign exchange position of the Bank / Group as a risk that there will be a change in the value of financial instruments and negative effects on the Bank's financial result and capital due to the change in the foreign exchange rate, was below the maximum level of open foreign exchange position in 2018. The foreign exchange risk indicator of the Bank as at 31 December 2018 amounts to 2.55% of the Bank's capital, which is well below the prescribed maximum of 20% of the capital. The foreign currency risk index on a consolidated basis at 31 December 2018 amounts to 2.58% of the Group's capital.



## CONSOLIDATED ANNUAL BUSINESS REPORT

### 7. RISK EXPOSURE (continued)

#### The Bank's/Group's performance and adequacy indicators - compliance with the legally prescribed ratios

The Bank is required to maintain the scope and structure of its business operations and risk-weighted assets in compliance with the ratios prescribed by the Law on Banks and relevant decisions enacted by the National Bank of Serbia based on the aforesaid Law. During 2018 the Bank and the Group were in full compliance with the prescribed values.

Indicators	Prescribed	Realised - Grup	Realised - ERSTE Bank
1. Capital	Minimum EUR 10 miliona	EUR 211,699,569	EUR 210,633,447
2. Capital adequacy	Minimum 8%	17.11	17.78
2. Capital adequacy - share capital	Minimum 4,5%	14.46	15.02
3. Capital adequacy - basic capital	Minimum 6%	14.46	15.02
5. Bank's investments	Maksimum 60%	4.47	4.46
6. Exposure to related parties	No limit	8.54	12.28
7. Big and largest possible loans in relation to capital	Maksimum 400%	120.25	124.11
8. Liquidity: - liquidity indicator	Minimum 0,8	1.36	1.36
- narrower liquidity indicator	Minimum 0,5	1.28	1.28
9. Liquidity coverage ratio	Minimum 100%	175.08	175.30
10. Foreign exchange risk indicator	Maksimum 20%	2.55	2.55
11. Exposure of the Bank to the group of related parties	Maksimum 25%	16.46	16.54
12. Exposure of the Bank to related party to a bank	No limit	5.49	5.49
13. Bank's investments in non-financial sector entities	Maksimum 10%	0.11	0.11

**CONSOLIDATED ANNUAL BUSINESS REPORT**

**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 Bank/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 December 31, 2018, the sum of the Bank's net exposures to the entities related to the Bank, amounted to 12.28% of the Bank's capital. The sum of the Group's net exposures to the entities related to the Group amounted to 8.54%.

The Bank/Group did not grant terms to its related parties that are any more favourable than those approved to the individuals/entities at arm's length, in accordance with Article 37. of the Law on Banks.

Novi Sad, March 11, 2019

Approved by the Management of Erste Bank a.d. Novi Sad



Stevan Čomić  
Head of the Accounting and  
Controlling Division



Aleksandra Radić  
Executive Board Member



Slavko Carić  
Executive Board Chairman



## INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED ANNUAL REPORT

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

We have audited the consolidated financial statements of Erste Bank a.d. Novi Sad ("the Bank") and its subsidiary (the "Group") for the year ended 31 December 2018 disclosed in the consolidated annual report and issued the opinion dated 11 March 2019.

### **Report on consolidated annual report**

We have verified that the other information included in the consolidated annual report of the Group for the year ended 31 December 2018 is consistent with the consolidated financial statements referred to above. Management is responsible for the accuracy of the consolidated annual report of the Group. Our responsibility is to express an opinion on the consistency of the consolidated annual report of the Group with the consolidated financial statements based on our verification procedures.

### **Auditor's responsibility**

We conducted our verification procedures in accordance with the Law on Auditing and auditing regulation effective in the Republic of Serbia. This regulation requires that we plan and perform the verification procedures to obtain reasonable assurance about whether the other information included in the consolidated annual report which describes matters that are also presented in the consolidated financial statements is, in all material respects, consistent with the relevant consolidated financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

### **Opinion**

In our opinion, the other information included in the consolidated annual report of the Group for the year ended 31 December 2018 is consistent, in all material respects, with the consolidated financial statements.

*Saša Todorović*

Saša Todorović  
Licensed Auditor



*PricewaterhouseCoopers d.o.o. Beograd*

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 11 March 2019

PricewaterhouseCoopers d.o.o., Omladinskih brigada 88a, 11070 Belgrade, Republic of Serbia  
T: +381 11 3302 100, F: +381 11 3302 101, [www.pwc.rs](http://www.pwc.rs)

This version of our report/ the accompanying documents is a translation from the original, which was prepared in Serbian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.