ERSTE BANK A.D. NOVI SAD

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
AND INDEPENDENT AUDITOR'S REPORT

CONTENTS

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 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated income statement for the year ended 31 December 2019;
- the consolidated statement of other comprehensive income for the year ended 31 December 2019;
- the consolidated balance sheet as at 31 December 2019;
- the consolidated statement of changes in equity for the year ended 31 December 2019;
- the consolidated statement of cash flows for the year ended 31 December 2019; 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 and auditing regulation effective in the Republic of Serbia. Our responsibilities under this regulation are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

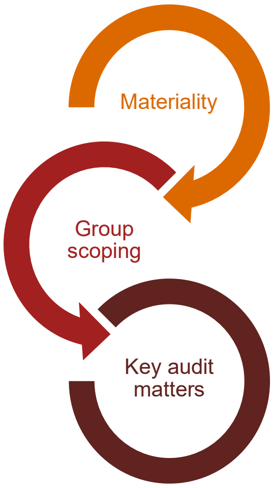
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional 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") 286,413 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 96% 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 286,413 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 tresholds 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	
As at 31 December 2019, the Group recognised the credit loss allowances for loans and advances to customers measured at amortised cost of RSD 3,331,932 thousand. 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 losses 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 expected credit loss. If a	Our audit approach was as follows: • We updated our understanding of the expected credit loss calculation methodology applied by the Group and assessed its compliance with the requirements of IFRS 9. • We have engaged credit risk specialists in the review of the methodology, testing implementation of IFRS 9 methodology components, understanding the data used for modelling and assessing its quality and appropriateness. • 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 collateral valuation.

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

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).

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.

- We assessed the process of incorporating the forward-looking information in the estimates.
- We evaluated whether key components of expected credit loss calculation are correctly incorporated in the models by reviewing the system algorythms to the extent considered necessary.
- We tested, on a sample basis, the correctness of allocation to stages according to the relevant policies and criteria.
- 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

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 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. 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 and auditing regulation effective 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 and auditing regulation effective 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, related safeguards.

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

Saša Todorović

Saša Todorović
Licensed Certified Auditor

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 10 March 2020

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2019

(in thousand RSD)

	Note	2019.	2018.
Interest income	4	9.751.454	8.542.507
Interest expense	4	(2.209.041)	(1.671.512)
Net interest income		**7.542.413**	**6.870.995**
Fee and commission income	5	2.880.288	2.552.589
Fee and commission expense	5	(1.091.039)	(947.422)
Net income from fee and commission		**1.789.249**	**1.605.167**
Net gains from change in fair value of financial instruments	6	359.648	113.756
Net gains from derecognition of financial instruments valued at fair value	7	6.090	71.924
Net gains from hedging	8	562	1.199
Net foreign exchange gains currency clause effects	9	424.677	421.095
Net loss from reduction of impairment of financial assets that are not valued at fair value through profit and loss	10	(503.048)	(163.131)
Net gains/(loss) from derecognition of financial instruments valued at amortized cost	11	(29.107)	15.095
Other operating income	12	76.897	102.838
TOTAL NET OPERATING INCOME		**9.667.381**	**9.038.938**
Cost of salaries, contributions and other personnel expenses	13	(2.337.303)	(2.179.915)
Depreciation costs	14	(573.117)	(326.514)
Other income	15	501.649	388.420
Other expenses	16	(4.306.720)	(3.729.738)
PROFIT BEFORE TAX		**2.951.890**	**3.191.191**
Income tax	17	(186.773)	(264.750)
Deferred tax gain	17	11.812	37.637
			-
PROFIT FOR THE YEAR	33	**2.776.929**	**2.964.078**
Profit that belongs to the parent entity		2.752.638	2.952.679
Profit that belongs to owners without the right of control		24.291	11.399

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

Novi Sad, March 9, 2020

Stevan Čomić
Head of Accounting and Controlling Department

Aleksandra Radić
Executive Board Member

Slavko Carić
Chairman of the Executive Board

ERSTE BANK a.d. ERSTE BANK 22 NOVI SAD

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2019

(in thousand RSD)

	Note	2019.	2018.
PROFIT FOR THE YEAR	33	**2.776.929**	**2.964.079**
Components of other comprehensive income that cannot be reclassified to profit or loss:			
Actuarial profit/(loss)		(5.658)	5.821
Positive effects of changes in value of equity securities valued through other comprehensive income		28.953	35.382
Components of other comprehensive income that can be reclassified to profit or loss:			
Positive effects of changes in value of debt securities valued through other comprehensive income		227.268	78.449
Tax loss related to other comprehensive income of the period		(37.579)	(23.475)
Total positive other comprehensive income		**212.984**	**96.177**
TOTAL RESULT FOR THE YEAR		**2.989.913**	**3.060.256**
Total result that belongs to the parent entity		2.965.781	3.048.356
Total result that belongs to owners without the right of control		24.133	11.900

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Novi Sad, March 9, 2020

Stevan Čomić Head of Accounting and Controlling Department	Aleksandra Radić Executive Board Member	Slavko Carić Chairman of the Executive Board

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2019

(in thousand RSD)

ASSETS	Note	2019.	2018.
Cash and balances with Central bank	18	21.855.352	24.641.257
Derivate receivables	19	346.899	181.204
Securities	20	41.791.566	35.153.894
Loans and receivables to banks and other financial institutions	21	1.606.479	1.492.872
Loans and receivables to customers	22	171.568.590	146.346.487
Investment in subsidiaries		118	118
Intangible assets	23	683.397	554.374
Property, plant and equipment	23	3.076.169	1.072.688
Current tax asset	17	229.409	173.326
Deferred tax asset	17	2.044	20.553
Fixed assets held for sale and assets of discontinued operations	24	12.252	12.288
Other assets	25	1.348.380	1.245.658
TOTAL ASSETS		**242.520.655**	**210.894.719**
LIABILITIES AND EQUITY			
LIABILITIES			
Derivate liabilities	26	250.039	95.518
Deposits and other liabilities from banks, other financial institutions and Central Bank	27	71.909.427	67.153.387
Deposits and other liabilities from customers	28	126.407.953	113.210.214
Liabilities for issued securities	29	3.512.691	-
Subordinated liabilities	30	4.206.971	4.566.337
Provisions	31	758.606	677.194
Current tax liabilities	17	169.499	252.560
Deferred tax liabilities	17	13.365	4.038
Other liabilities	32	3.153.824	1.085.574
TOTAL LIABILITIES		**210.382.375**	**187.044.822**
Equity	33		
Share capital and share premium		15.462.944	10.164.475
Profit		2.891.319	3.057.163
Reserves		13.681.971	10.550.345
TOTAL EQUITY		102.047	77.914
TOTAL LIABILITIES AND EQUITY		**32.138.280**	**23.849.897**
LIABILITIES AND EQUITY		**242.520.655**	**210.894.719**

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

Novi Sad, March 9, 2020

Stevan Čomić
Head of Accounting and Controlling Department

Aleksandra Radić
Executive Board Member

Slavko Carić
Chairman of the Executive Board

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2019

(in thousand RSD)

	Share capital	Share premium	Other reserves	Revaluation reserves	Retained earnings	Total	Minority interests	Total
Balance as at 31 December 2017	**10.040.000**	**124.475**	**7.679.824**	**418.346**	**2.732.925**	**20.995.570**	**64.856**	**21.060.426**
Effect of IFRS 9 transition	-	-	-	-	(271.620)	(271.620)	1.266	(270.353)
Balance as at 1 January 2018	**10.040.000**	**124.475**	**7.679.824**	**418.346**	**2.461.305**	**20.723.950**	**66.122**	**20.790.072**
Total other comprehensive income	-	-	-	95.354	-	95.354	393	95.747
Profit for the year	-	-	-	-	2.952.679	2.952.679	11.399	2.964.078
Transfer from profit to reserves	-	-	2.356.820	-	(2.356.820)	-	-	-
Other								
Balance as at 31 December 2018	**10.040.000**	**124.475**	**10.036.645**	**513.700**	**3.057.163**	**23.771.983**	**77.914**	**23.849.897**
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**
New issue of shares	2.869.000	2.429.469	-	-	-	5.298.469		5.298.469
Total other comprehensive income	-	-	-	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**

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

Novi Sad, March 9, 2020

Stevan Čomić
Director of Accounting and Controlling Department

Aleksandra Radić
Member of the Executive Board

Slavko Carić
Chairman of the Executive Board

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CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2019

(in thousand RSD)

	2019.	2018.
CASH FLOW FROM OPERATING ACTIVITIES		
Cash generated by operating activities	**18.425.746**	**15.720.034**
Interest receipts	9.432.108	8.413.348
Fee and commission receipts	2.835.384	2.560.046
Receipts of other operating income	6.122.033	4.706.550
Dividend receipts and profit sharing	36.222	40.090
Cash used in operating activities	**18.199.709**	**14.468.691**
Interest payments	2.125.774	1.626.838
Fee and commission payments	1.075.807	933.811
Payments to and on behalf of employees	2.304.585	2.161.333
Taxes, contributions and other duties paid	553.853	496.944
Payments for other operating expenses	12.139.690	9.249.764
Net cash inflows from operating activities prior to increases or decreases in loans and deposits	**226.038**	**1.251.343**
Decrease in placements and increase in deposits and other liabilities	**14.394.817**	**21.592.973**
Increase in deposits and other liabilities to banks, other financial institutions, central bank and customers	14.394.817	21.592.973
Increase in loans and decrease in deposits received and other liabilities	**24.557.021**	**44.601.520**
Increase in loans and receivables from banks, other financial organizations, central bank and customers	18.615.415	42.020.668
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	5.941.606	2.580.852
Net cash outflow from operating activities before income tax	**9.936.166**	**21.757.203**
Paid income tax	308.641	334.290
Net cash outflow from operating activities	**10.244.807**	**22.091.494**
CASH FLOW FROM INVESTMENT ACTIVITIES		
Cash inflows from investment activities	**3.016.373**	**744.770**
Inflows from investment securities	-	216.576
Other inflows from investment activities	3.016.373	528.194
Cash outflows from investment activities	**5.857.563**	**1.337.265**
Outflows from investing in investment securities	-	264.244
Outflows based sale of property, plant and equipment	716.143	9.064
Outflows based on investing in investment properties	-	594.139
Other outflows from investment activities	5.141.420	469.818
Net cash outflow of cash from investment activities	**2.841.190**	**592.495**
CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	**19.492.412**	**18.633.000**
Cash inflows based on new issue of shares	5.298.469	
Cash inflows based on subordinated liabilities	-	3.211.814
Inflows from taken loans	10.603.162	15.421.186
Other inflows from financing activities	3.590.781	-
Cash outflows from financing activities	**5.529.502**	**541.107**
Cash outflows based on subordinated liabilities	359.366	-
Cash outflows based on loans taken	5.169.624	470.815
Other outflows from financing activities	512	70.292
Net cash inflow from financing activities	**13.962.910**	**18.091.893**
TOTAL CASH INFLOWS	**55.329.348**	**56.690.778**
TOTAL CASH OUTFLOWS	**54.452.436**	**61.282.873**
NET INCREASE IN CASH	**876.913**	**-**
NET DECREASE IN CASH	**-**	**4.592.095**
CASH AT THE BEGINNING OF THE YEAR	**8.461.312**	**12.630.868**
POSITIVE FOREIGN EXCHANGE DIFFERENCES	**5.196.723**	**6.771.455**
NEGATIVE FOREIGN EXCHANGE DIFFERENCES	**4.771.781**	**6.348.916**
CASH AND CASH EQUIVALENT AT THE END OF THE YEAR	**9.763.167**	**8.461.312**

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

Novi Sad, March 9, 2020

Stevan Čomić Director of Accounting and Controlling Department	Aleksandra Radić Member of the Executive Board	Slavko Carić Chairman of the Executive Board

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

1. GENERAL INFORMATION

Erste Bank a.d., Novi Sad (hereinafter referred to as "the Bank") was founded on 25 December 1989, under the name of Novosadska banka a.d., Novi Sad. At the beginning of August 2005, subsequent to the successful finalization of privatization process, it became a member of Erste Bank Group.

In accordance with the Decision of the Business Registers Agency no. BD 101499/2005 dated 21 December 2005, the change of the previous name Novosadska banka a.d., Novi Sad to Erste Bank a.d. Novi Sad was registered.

The Bank's shareholders are EGB (Erste Group Bank) CEPS HOLDING GMBH, Vienna, with 74% interest and Steiermärkische Bank und Sparkassen AG, Graz, with 26% interest in the Bank's share capital. In order to simplify the Erste Group Bank AG, a transfer of ownership of shares, which were owned by EBG CEPS in European, banks to the Erste Group. In doing so, Erste Group became the direct shareholder of the Bank with a 74% share in the share capital. The decision of the General Assembly to amend the founding acts was made on 30 June 2015, and the change in the APR were carried out on 22 June 2015.

As of 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. while the remaining 25% are held by Steiermärkische Bank und Sparkassen AG. Moreover, in 2014 the Bank acquired a 19% equity interest in S-Rent d.o.o., Serbia.

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

The accompanying financial statements and notes to the financial statements represent the Group's consolidated financial statements. The Bank is the Parent Entity of the Group and as such, in accordance with the requirements of the Law on Banks, it is obligated to prepare consolidated financial statements as of and for the year ended 31 December 2017. The consolidated financial statements include the financial statements of the Leasing, which is 75%-owned by the Bank.

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, Bulevar Oslobođenja 5. The Bank operates through 7 business centers, 46 branches, 9 sub-branches and 4 counters.

As of 31 December 2019 the Bank had 1.154 employees (31 December 2018: 1.117 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.

The S-Leasing d.o.o. Beograd was established in June 2003. The Company is organized as a limited liability company and is registered with the Business Registers Agency Decision no. BD 33349/2005 dated 7 June 2005.

Upon entry into force of the Law on Financial Leasing, the Company is licensed to carry out financial leasing operations according to the Decision of the National Bank of Serbia no. 622 as of 25 January 2006.

In 2014, there was a change in the ownership structure of the basic capital of S-Leasing and Erste Bank stock company, Novi Sad, Serbia became the majority owner of the company with a share of 75,0%, while Steiermaerkische Bank und Sparkassen AG, Graz, Austria reduced its share to 25,0%. Share capital of the Company as at 31 December. In 2013, it consisted of the share of the founders Steiermaerkische Bank und Sparkassen AG, Graz, Austria (50,0%) and Immorent International Holding GmbH, Vienna, Austria (50,0%).

The main activity of the Company is the provision of financial leasing of movable assets to individuals and legal entities on the territory of the Republic of Serbia.

The Company's Head Office is in Belgrade, Milutina Milankovica no. 3a.

The Company had 50 employees as at 31 December 2019 (31 December 2018: 45 employees)

Company registration number is 17488104. Its tax identification number is 102941384.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Group's financial statements (the "financial statements") for 2019 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 accompanying financial statements are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of the Financial Statements of Banks ("Official Gazette of RS nos. 101/2017 and 38/2018).

The accompanying financial statements represent the consolidated financial statements of the Group. The Bank, as the parent company of the Group, has compiled and presented a separate set of separate 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 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, held for trading, financial assets available for sale and derivatives

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

The accompanying 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 new and amended IFRSs, set out below, entered into force on 1 January 2019:

- **IFRS 16: Leasing**

  In January 2016, the IASB issued IFRS 16 effective on or after 1 January 2019. IFRS 16 replaces existing lease accounting guidelines in IAS 17 Leasing, IFRIC 4 - Determining whether a contract is a lease, SIC-15 Operational Leasing - Incentives and SIC-27 Evaluation of substance of transactions involving the legal form of leasing.

  There are exceptions to the recognition of leases, such as for short-term lease agreements (shorter than 12 months) and lease agreements for low value items. The decision of the Group is to apply a threshold of USD 10.000 in identifying lease agreements for low value items. In exceptional cases, the Group will, for values between USD 5.000 and USD 10.000, consider and provide proof of recognition of an eligible asset. Short-term leasing is a lease with a term of up to 12 months or less on the first day of the lease agreement (a lease containing an option to repurchase cannot be classified as short-term lease, regardless of the term of the lease).

  For each lease agreement, it is assessed whether it contains a lease, i.e. whether the contract has the right to control the use of the identified property during the agreed period in exchange for compensation.

  In order for the contract to constitute a lease agreement, it is necessary that the lessee, in addition to the right to claim all economic benefits from the use of the identified property, also has the right to determine the use of that property during the period of use.

  In the assessment of whether the leasing contracts qualify for the recogntion of right of use assets, the Group included lease of facilities, ATMs, IT equipment (hardware, photocopiers, etc.), POS terminals and vehicles. Lease contracts which qualify for recognition of right of use assets include facilities and vehicles, as well as IT equipment previously classified as financial leasing. The values of these assets are shown in Note 23.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

A) New and amended standards and interpretations (continued)

The lessor's accounting remains similar to the current IAS 17 standard. The lessor continues to classify the lease as financial or operating leasing.

The Group performed transition to IFRS 16 using a modified retrospective approach in accordance with IFRS 16.C5 (b) whereby comparative information will not be restated. For leases previously classified as operating leases, the discount rate is determined as lessee’s incremental borrowing rate, that is, the capitalization rate that is set at the date of first application. Right of use assets are recognized in an amount equal to the lease lieabilities (IFRS 16.C8 (b) (ii)). As a result, the Group did not account for any impact on equity at initial application. All contracts previously identified as leases applying IAS 17 and IFRIC 4 will be transferred to IFRS 16. The Group did not apply IFRS 16 to any intangible asset contracts. The Group uses the exemption for short-term and small-value leases, whereby the right of use assets are not recognized.

Right of use assets recognized as at 01.01.2019. as well as the amount of leasing liabilities recognized at the same date amounted to RSD 1.379.458 thousand (Erste Bank: RSD 1.297.923 thousand, S-Leasing: RSD 81.535 thousand). This is the amount by which the Group's balance sheet total was increased.

According to an analysis of leasing agreements of the Group that qualify for recognition of right of use assets at the date of transition to IFRS 16 , 95% of leases relate to real estate.

- **IFRS 9: Financial instruments (Amendment)**

Amendments to the standards are applicable for the period beginning on or after 1 January 2019, with the possibility of early application. The amendment confirmed the following: 1) Reasonable consideration for early prepayment may be a positive or negative cash flow when considering whether a financial asset meets the SPPI criterion; 2) When a financial liability is measured using the depreciated cost method and when a modification does not result in a discontinuance of recognition, then the gain or loss should immediately be recognized in the income statement of the current period. Gain or loss is calculated as the difference between original cash flows and modified cash flows discounted at present value using the original effective interest rate. Profit or loss can not be divided into the remaining period of the financial instrument, which represents a change in relation to the practice permitted by the IAS 39 standard. This change did not have any material impact on the Group’s financial statements.

- **IFRIC Interpretation 23: Uncertainty over Income Tax Treatments**

The interpretation is applicable for a period beginning on or after 1 January 2019. IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. This change did not have any material impact on the Group's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

A) New and amended standards and interpretations (continued)

- **IAS 19: Employee benefits (Amendments)**

Amendments to the standards are applicable for the period from or after 1 January 2019. Amendments require the entity to: use updated assumptions for determining current service costs and net interest for the reminder of the period after a plan amendment, curtailment or settlement; recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling. This change did not have any material impact on the Group's financial statements

The following new standards are not considered to have significant impact on the Group’s financial statements:

- Long-term investments in associated legal entities and joint ventures - amendments to IAS 28 (published on 12 October 2017 and effective for periods beginning on or after 1 January 2019),
- Annual Cycle Improvements IFRS 2015 - 2017 - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (disclosed on 12 December 2017 and effective for periods beginning on or after 1 January 2019).

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

- **IFRS 17: Insurance Contracts**

The standard is applicable for a period beginning on or after 1 January 2022, with the possibility of early application. 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. It is not expected the requirements of this standard will have an impact on the Group's financial statements.

- **IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors (Amendments)**

Amendments to the standards are applicable for the period from or after 1 January 2020. Amendments require the entity to: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information. The Group's management does not expect that the requirements of this standard will have a significant impact on the Group's financial statements.

- **IFRS 9 IAS 39 i IFRS 7: Interest rate benchmark reform (Amendments)**

Amendments to the standards are applicable for the period from or after 1 January 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR based contracts, the reliefs will affect companies in all industries. The Group's management does not expect that the requirements of this standard will have a significant impact on the Group's financial statements.

The following new standards are not expected to have significant impact on the Group's financial statements when adopted:

- Business combinations - amendments to IFRS 3 (published 22 October 2018 and effective for periods beginning on or after 1 January 2020).

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 adjusted as appropriate so as to align its accounting policies with those applied by the Bank as the Parent Entity of 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 2019 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 2019, total assets of the Leasing amounted to RSD 11.550.406 thousand, total equity amounted to RSD 67.500 thousand while the profit amounts to RSD 408.187 thousand.

A business combination including entities or operations under joint control is a business combination in which the said entities are under joint control of the same party, both before and after the business combination, and such control is not transitory, since IFRS 3 does not apply to business combinations of entities under joint control, in accordance with IAS 8, the Group adopted an accounting policy whereby such transactions are accounted for using the pooling of interest method.

Application of the method is as follows:

- The assets and liabilities of the entity being acquired are shown at carrying value as presented in the previous financial statements of the Parent Entity;
- There are no new estimates of fair value or recognition of any new assets or liabilities, adjustments are only carried out in order to harmonize accounting policies;
- Goodwill arising on acquisition is not recognized;
- The difference between the consideration paid / transfer and "acquired" capital is shown in the equity section;
- The income statement reflects the result of all companies for the whole financial year, if the combination took place earlier at the start of the year and the deviation is immaterial;
- Comparatives are not restated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Interest Income and Expenses

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 a POCI loan (purchased or originated credit impaired), the effective interest rate is adjusted for credit risk, 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 placement 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.

2.5. Fee and Commission Income and Expenses

The Group earns/pays fee and commission income from rendering and using banking services. Fees and commissions are generally recognized on an accrual basis when the service has been provided, i.e. rendered.

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 borrowing fees that are not an integral part of the effective interest rate of the financial instrument, fees and commissions for account maintenance and other fees and commissions for domestic and international payment services, fees for guarantees, custody and other management fees, as well as insurance brokerage fees.

Loan origination fees for loans likely to be drawn down and other loan-related fees are deferred (together with any incremental costs) and recognized as adjustment to the loan effective interest rate.

/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 acquisition of shares or other securities, or the purchase / sale of a business, is recognized upon completion of the transaction.

Fee and commission expenses consist of fees and charges on the bases of domestic and foreign payment transactions, card transactions and similar expenses (Note 5).

2.6. Net gains / losses from change in financial instruments fair value

Net gains / losses arising from changes in the fair value of financial instruments comprise the effects of derivatives adjustments to fair value, other than derivatives used for hedging.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Net gains / losses from derecognition of financial instruments valued at fair value

Net gains / losses from derecognition of financial instruments valued at fair value comprise effects arising from derecognition of financial assets and financial liabilities that are valued at fair value through profit or loss, as well as financial assets at fair value through other comprehensive income.

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.

2.10. 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 adjusted 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 reduced for credit losses ("POCI"), the credit-adjusted EIR is used - the effective interest rate adjusted for credit risks. This is the rate that accurately discounts the estimated future cash flows that take into account the expected credit losses at amortised cost of a financial asset.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11.1. Methods of measuring financial instruments (continued)

a) Amortised cost and Effective interest rate (continued)

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).

Interest expenses are calculated using the effective interest rate on the amortized value of a financial liability.

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 36.10. Fair value of financial assets and liabilities.

2.11.2. Initial recognition and measurement

a) Initial recognition

Financial assets and financial liabilities are recognized in the Group's statement of the financial position on the date upon which the Group becomes counterparty to the contractual provisions of a specific financial instrument. All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date the assets is delivered to the counterparty.

b) Initial measurement

All financial instruments are initially recognized at fair value (except for financial assets and financial liabilities at fair value through profit and loss), increased by transaction costs that are directly attributable to their acquisition or issue. After initial recognition, fair value is in many cases equal to transaction costs, i.e. the price paid for acquiring or taking over financial assets or received for the takeover of financial liabilities.

"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 Bank 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 amortised cost if they are held in a business model whose objective is to collect contractual cash flows, and their contractual 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11.3.1. Financial assets at amortised cost (continued)

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.

2.11.3.2 Financial assets at fair value through other comprehensive income

Financial assets are measured at fair value through other comprehensive income if their contractual cash flows are SPPI-compliant and they are held within a business model whose objective is achieved by both to collect contractual cash flows and sell the assets.

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 bank'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 bank'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 Bank. 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 Bank are valued at fair value through profit and loss.

2.11.3.3 Financial assets at fair value through profit and loss

Financial assets that either have not passed the SPPI test or have another business model have this category of measurement of fair value through the profit and loss. These financial assets are generally sold before their maturity and their performance is estimated on the basis of fair value, and profit is realized through its realization through sale. In the business of the Group, this is a business model by which financial assets are held for trading.

The Group in its portfolio of securities has a part of debt instruments held for trading.

For debt securities valued at fair value through profit or loss, gains and losses from adjustments to fair value, or the effects of changes in fair value at subsequent valuation, are recognized in the income statement within postion "Net gains from change in fair value of financial instruments" and are not subject to impairment. Interest income on the basis of coupons from financial instruments held for trading is recognized using the effective interest method and included in the income statement within postion "Interest income".

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 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11.3.5 Equity instruments

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

The effects of changes in the fair value of equity instruments that are measured at fair value through other comprehensive income are recognized in the other comprehensive income and are never reclassified to profit or loss, not even when they are derecognised. For these instruments, the effects of impairment are not recognized through profit or loss, but all changes are recognized through other comprehensive income.

The effects of changes in the fair value of equity instruments carried at fair value through profit or loss are recorded under "Net gains / losses from change in financial instruments fair value".

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 at the reporting date, including initially recognized assets described under 1) a) ii) above.

   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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11.4. Impairment of financial instruments under IFRS 9 (continued)

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).

2.11.5. 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.

Business loan rescheduling entails alteration to the originally agreed loan terms not caused by the borrower's financial position deterioration, or mitigation of the consequences of the deteriorated financial position of the borrower, and does not represent restructuring. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11.6. Restructured Loans (continued)

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 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.

Subsequent measurement of financial liabilities depends on their classification as follows:

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 agreements to repurchase at a specified future date ('repos') are recognized in the statement of financial position.

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.

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.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least once a year, at the financial year-end.

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.

The Group has investment property held to earn rental income or capital appreciation. Investment property is measured at cost less accumulated depreciation and impairment losses, if any.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

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

Right of use assets and lease liablities are recognized on the date of the lease inception. Assets are initially measured at cost representing the initial value of the leasing liability (discounted to present value) and all leasing payments made prior to the lease date less any incentives received from the lessor.

Right of use assets are subsequently amortized, starting form the lease inception date, up 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 Bank 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.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group uses an incremental borrowing rate - the rate at which the Bank may borrow from Erste Group.

2.19. Provisions, Contingent Liabilities and Contingent Assets

A provision is an libalitiy that is uncertain in terms of amount and maturity. Reservations are made and recognized:

- when the Group has a present obligation, legal or derivative, as a result of past events
- when there is a high probability that and outflow of resources will occur and
- when the amount of the liability can be estimated with high certainty

The amount recognized as provision represents the best estimation of expenses necessary to settle the present obligation at the balance sheet date. In order to be maintained, the best possible estimates of provisions are considered, determined and, if necessary, adjusted at each reporting date. Provisions are measured at the present value of estimated future cash outflows necessary to settle the liabilities arising thereof, using the discount rate which reflects the current market estimate of the value of money.

When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are reversed by cancelation of the current year's expenses, i.e., reversed to income if the provision was made in the previous period. Provisions are taken into account in accordance with their type and they can be used only for the expenses they were initially recognized for. 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 Labor Law and Collective Bargaining Agreement the Group is obligated to pay its vesting employees retirement benefits in the amount of three average monthly salaries paid in the Republic of Serbia in the month prior to the month of the retirement according to the most recent data published by the Republic of Serbia Statistical Office or three average salaries paid by the Group in the month prior to the month of the retirement, or 3 monthly salaries of the employee prior to the month of the retirement, whichever arrangement is most favorable for the retiree.

In addition, in accordance with the Collective Bargaining Agreement, employees are entitled to jubilee awards for ten, twenty, thirty and forty consecutive years of service with the Group. Jubilee awards are paid in the respective amounts of one, two or three average salaries paid by the Group in the month prior to the date of payment, depending on duration of the continuous service with the employer.

Expenses and liabilities for the plans are not funded. Liabilities for benefits and related expenses are recognized in the amount of present value of estimated future cash flows using the actuarial projected unit credit method.

Actuarial gains and losses and past service costs are recognized in the income statement when realized/incurred, while actuarial gains and losses in respect of retirement benefits upon retirement are recognized in other comprehensive income.

(c) Short-Term Compensated Absences

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 criteria 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 arrive at the taxable profit, the accounting profit is adjusted for certain permanent differences and reduced for certain investments made during the year, as shown in the tax return. The tax return is submitted to the tax authorities within 180 days after expiry date of the financial year, i.e. until 31 December of the following year.

Taxpayers that had acquired the entitlement to a tax credit for capital expenditures up to 2014 in accordance with the Republic of Serbia Corporate Income Tax Law may reduce up to 33% of the calculated income tax. The unused portion of the tax credit may be carried forward and used against the income tax of the future periods but only for a duration of no longer than ten ensuing years, or up to the amount of the tax credit carried forward.

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 estimations and assumptions are based on information available, as of the date of preparation of the financial statements. Actual results may vary from these estimates. Estimates and assumptions are subject to constant review and when adjustments become necessary, they are stated within the income statement for periods in which they became known.

(a) SPPI assessment

The assessment of whether the contractual cash flows of financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) is subject to the application of significant judgements which rely on the guidance in IFRS 9. These judgements are crucial in the IFRS 9 classification and measurement process as they determine whether the asset must be measured at FVPL or, depending on the business model assessment, at amortised cost or at FVOCI.

When taking into consideration specific features of loans, significant areas of judgement are prepayment fees, project financing loans and benchmark test for loans with interest mismatches features.

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 the period of its update relates to variable interest rates for loans where the reference interest rate is not adjusted in terms of tenor and the update period (such as when the 3M EURIBOR is adjusted more often, i.e. every month or less, e.g. every 6 months) or is 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.

Group, sales due to increases in credit risk, sales close to assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory or tax environment, major internal reorganisation or a business combination, severe liquidity crisis, etc.) are considered as not contradicting the held to collect contractual cash flows business model.

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 term of the placement. The basic difference in relation to corporate loans is that loans are granted for the implementation of special projects, so they are approved by special (SPV) companies founded only for the purpose of realizing a specific project. The repayment itself is based exclusively on the proceeds of the project being 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 estimate of a significant increase in credit risk and the measurement of expected losses without some more detailed guidance. In terms of a significant increase in credit risk, the Group has set out specific valuation rules that include quantitative and qualitative criteria. Measurement of expected credit loss involves complex models that rely on historical default and loss rates, their extrapolation in case of insufficient data, individual estimations of credit loss-adjusted cash flows, and probability 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 unavailable, these are determined through assessments that include a certain degree of judgments in the fair value assessment. Models of estimates reflect the current market situation at the date of assessment and do not have to correspond to the market terms before or after the date of measuring. Hence, measurement techniques are revised periodically so they would best reflect current market terms.

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

(e) 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 leasees.
The lessee recognizes the Right of use within assets and the corresponding lease liabilities in the balance sheet. There are exceptions to this principle, which can be applied to short-term and low-value lease contracts. The estimates used by the Group in measuring financial lease liabilities and right of use assets relate primarily to:

- Classification of contracts which are in scope of IFRS 16
- Determination of the lease term - lengths of contracts that are in scope of IFRS 16 (including contracts with indefinite duration as well as contracts that could 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.

The determination of the incremental borrowing rate for the lease of immovable property is based on an easily observable rate. Such a rate represents property income that reflects the annual return expected on the property - a capitalization rate for the calculation of which the approach is developed by Erste Austria Real Estate. It starts from the base rate for a) the capital city or b) the countryside depending on location and it is further adjusted (increased / decreased) depending on the technical conditions of the facility, market conditions, location, purpose of the facility, the need for additional investment, etc. This gives a capitalization rate for each facility.

Average weighted incremental borrowing rate applied on 01/01/2019 for buildings amounts to 9.79% and for vehicles 1.17%.

In the fourth quarter of 2019, new simplified accounting treatment has been applied for determination of the incremental borrowing rate for assets of Erste Group, based on using financing / refinancing rates.

The incremental borrowing rate is determined based on the specific market rate for the fully secured loan and the specific margin that represents the unsecured portion of debt, that would normally be used to finance the acquisition of eligible assets.

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.

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

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

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

The quality of the single property directly affects the applicable surcharge to the existing collateralised market rate. The calculation of the surcharge for the unsecured lending portion is performed by comparing an unsecured refinancing instrument with a secured/collateralised refinancing instrument, with both instruments having similar terms. The difference between those two instruments represents the surcharge to the market rate, whose allocation should be based on the quality of the single property.

The adjustment of the accounting treatment will typically result in a lower IBR than under the methodology previously applied. The decrease of the IBR has the following impact on the financial statements:

Balance sheet total increases as the decrease of the incremental borrowing rate will lead to higher right of use assets / leasing liabilities.

Higher depreciation and lower interest expenses:
-shift from interest expenses to depreciation;
-no net P/L impact over the lease term.

Discout rate – incremental borrowing rate	31.12.2019.
Average incremental borrowing rate - facilities	2,83%
Average incremental borrowng rate - vehicles	2,76%

4. INTEREST INCOME AND EXPENSES

RSD thousand

	2019	2018
Interest income		
– Finance and insurance sector	116.335	146.002
– Public non-financial sector	175.499	146.172
– Corporate customers sector	2.909.909	2.490.194
– Entrepreneurs sector	149.959	113.117
– Public sector	1.785.596	1.659.424
– Retail customers sector	4.541.409	3.941.956
– Non-residents sector	29.462	21.897
– Household and agricultural producers sector	18.521	15.046
– Other legal entities sector	24.764	8.699
Total	**9.751.454**	**8.542.507**
Interest expenses		
– Finance and insurance sector	623.795	413.503
– Public non-financial sector	12.284	14.274
– Corporate customers sector	355.674	166.803
– Entrepreneurs sector	3.308	2.652
– Public sector	226.840	210.194
– Retail customers sector	145.918	118.940
– Non-residents sector	716.226	541.449
– Household and agricultural producers sector	52	-
– Other legal entities sector	124.944	203.697
Total	**2.209.041**	**1.671.512**
Net interest income	**7.542.413**	**6.870.995**

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

RSD thousand

	2019	2018
Interest income		
Cash and cash funds held with the central bank	111.836	116.021
Securities valued at amortised cost	824.472	791.791
Bonds and other securities with fixed yield – held to maturity		-
Securities valued at FV through other comprehensive income	675.298	578.540
Bonds and other securities with fixed yield – available for sale		-
Securities valued at FV through profit and loss	238.925	264.338
Bonds and other securities with fixed yield – trading assets		-
Placements and receivables due from customers	6.941.544	5.922.295
Placements and receivables due from financial organizations	10.412	310.518
Interest-bearing swap	448.725	39.724
Other interest income	500.242	519.279
Total	**9.751.454**	**8.542.507**
Interest expenses		
Subordinated liabilities	153.729	82.512
Deposits due to banks	696.953	566.741
Deposits due to customers	1.029.132	855.699
Securities valued at amortised cost	100.354	103.989
Securities valued at FV through other comprehensive income	45.304	31.629
Securities valued at FV through profit and loss	110.453	30.889
Interest-bearing swap	73.022	-
Other liabilities of interest	94	54
Total	**2.209.041**	**1.671.512**
Net interest income	**7.542.413**	**6.870.995**

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5. FEE AND COMMISSION INCOME AND EXPENSES

		RSD thousand
	2019	**2018**
Fee and commission income		
Domestic and foreign payment transaction services	1.491.092	1.426.915
Lending activities	32.563	7.351
Deposits operation	1.005.143	814.101
Payment cards operations	43.726	52.569
Guarantees and other sureties	170.031	148.661
Other fees and commissions	137.733	102.992
Total	**2.880.288**	**2.552.589**
Fee and commission expenses		
Services of deposits	6	2
Domestic and foreign payment transaction services	644.128	571.134
Other fees and commissions	446.905	376.286
Total	**1.091.039**	**947.422**
Net fee and commission income	**1.789.249**	**1.605.167**

6. NET GAINS FROM CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS

	RSD thousand	
	2019.	**2018.**
Gains from change in fair value of financial instruments		
Gains on the fair value adjustment of derivatives	1.308.726	-
Gains on the fair value adjustments of financial assets valued at FVPL	284.824	455.935
Gains on the fair value adjustments of financial liabilities valued at FVPL	9.067	166.820
Total	**1.602.617**	**622.755**
Losses from change in fair value of financial instruments		
Losses on the fair value adjustment of derivatives	1.152.507	397.083
Losses on the fair value adjustments of financial assets valued at FVPL	90.462	105.120
Losses on the fair value adjustments of financial liabilities valued at FVPL	-	6.796
Total	**1.242.969**	**508.999**
Net gains from change in fair value of financial instruments	**359.648**	**113.756**

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

		RSD thousand
	2019.	**2018.**
Gains from derecognition of financial instruments		
Gains from derecognition of financial instruments valued at FV through profit and loss	27.173	71.685
Gains from derecognition of financial instruments valued at FV through other comprehensive income	17.721	7.724
Total	**44.894**	**79.409**
Losses from derecognition of financial instruments		
Gains from derecognition of financial instruments valued at FV through profit and loss	36.438	7.485
Gains from derecognition of financial instruments valued at FV through other comeprhensive income	2.366	-
Total	**38.804**	**7.485**
Net gains from derecognition of financial instruments valued at FV	**6.090**	**71.924**

8. NET GAINS FROM HEDGING

RSD thousand

	2019.	2018.
Gains from hedging		
Gains from changes in value of placements and receivables	1.295	1.677
Total	**1.295**	**1.677**
Losses from hedging		
Losses from changes in value of placements and receivable	733	478
Total	**733**	**478**
Net gains from hedging	**562**	**1.199**

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

RSD thousand

	2019.	2018.
Positive foreign exchange difference	4.750.230	5.782.598
Negative foreign exchange difference	(3.816.361)	(5.266.013)
Positive currency clause effects	502.164	1.009.569
Negative currency clause effects	(1.011.356)	(1.105.059)
Net Income of Foreign Exchange and currency clause effects	**424.677**	**421.095**

10. NET LOSS FROM IMPAIRMENT OF FINANCIAL ASSET NOT VALUED AT FVTPL

RSD thousand

	2019.	2018.
Gains from impairment of financial asset not valued at FVTPL		
Gains from reversal of indirect write-offs of financial asset valued at amortized cost	4.437.030	5.450.356
Gains from reversal of impairment of financial assets valued at FV through other comprehensive result	3.422	64.753
Gains from reversal of provisions for off-balance sheet items	444.478	684.607
Gains from the modification of financial instruments	19.767	2.050
Total	**4.904.697**	**6.201.766**
Losses from impairment of financial asset not valued at FVTPL		
Losses from indirect write-offs of financial asset valued at amortized cost	4.895.618	5.676.614
Losses from impairment of financial assets valued at FV through other comprehensive result	3.923	14.133
Losses from provisions for off-balance sheet items	485.783	591.889
Losses from the modification of financial instruments	22.421	82.261
Total	**5.407.745**	**6.364.897**
Net income/(expense) from impairment of financial assets and credit risk off-balance sheet items	**(503.048)**	**(163.131)**

10.a NET LOSS FROM IMPAIRMENT OF FINANCIAL ASSET NOT VALUED AT FVTPL (continued)

		RSD thousand
	2019.	**2018.**
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)	(9.005)	(5.582)
– loans and advances to banks and other financial institutions (Note 21)	(2.159)	(3.827)
- loans and advances to customers (Note 22)	(2.892.037)	(3.170.906)
– other assets (Note 25)	(65.650)	(58.772)
Total losses from impairment of financial assets and credit risk off-balance sheet items	**(2.968.851)**	**(3.239.087)**
Provisions for impairment of off-balance sheet assets (Note 31)	(182.371)	(149.162)
Total losses from impairment of financial assets and credit risk off-balance sheet items	**(3.151.222)**	**(3.388.249)**
Gains from impairment of financial assets		
Gains from reversal of indirect write-offs of placements of balance sheet items:		
– securities (Note 20)	2.110	38.225
– loans and advances to banks and other financial institutions (Note 21)	3.344	5.664
- loans and advances to customers (Note 22)	2.521.790	2.964.938
– other assets (Note 25)	5.854	36.716
Total gains from impairment of financial assets	**2.533.098**	**3.045.543**
Provisions for impairment of off-balance sheet assets (Note 31)	141.070	241.881
Total gains from impairment of financial assets	**2.674.168**	**3.287.424**
Net loss from impairment of financial asset not valued at FVTPL	**(477.054)**	**(100.825)**

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

RSD thousand

	2019.	2018.
Gains from derecognition of financial instruments valued at amortized cost		
Gains from derecognition - stage 3 and POCI	130.501	14.824
Gains from derecognition - other stages	181.840	294
Total:	**312.341**	**15.118**
Losses from derecognition of financial instruments valued at amortized cost		
Losses from derecognition - stage 3 and POCI	135.333	23
Losses from derecognition other stages	206.115	-
Total:	**341.448**	**23**
Net gains/losses from derecognition of financial instruments valued at amortized cost	**(29.107)**	**15.095**

12. OTHER OPERATING INCOME

RSD thousand

	2019.	2018.
Income from consulting services	5.651	18.656
Income from rent	7.204	6.851
Income from IT services	10.528	9.674
Other income	53.135	67.289
Dividend income and other income from shares	379	368
Total	**76.897**	**102.838**

13. COST OF SALARIES, CONTRIBUTIONS AND OTHER PERSONNEL EXPENSES

RSD thousand

	2019.	2018.
Cost of net salaries	1.468.505	1.370.409
The costs of taxes and contributions payable by employee	552.399	516.154
Redundancy costs, jubilee awards, bonuses and reimbursements	211.618	220.493
Other personnel expense	81.347	50.211
Provision for retirement benefits (Note 32)	23.435	22.648
Total	**2.337.303**	**2.179.915**

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14. DEPRECIATION COSTS

RSD thousand

	2019.	2018.
Depreciation expense:		
– Tangible assets (Note 23)	473.941	205.930
– Intangible assets (Note 23)	99.176	120.584
Total	**573.117**	**326.514**

15. OTHER INCOME

RSD thousand

	2019.	2018.
Income from collection of written receivables	417.509	320.755
Reversal of unused provision for liabilities	31	11.363
Reversal of unused other provision	2.709	4.948
Income from sale of properties and intangible assets	9.716	14.610
Other income	71.684	36.744
Total	**501.649**	**388.420**

16. OTHER EXPENSES

RSD thousand

	2019.	2018.
Professional services	2.005.174	1.226.497
Donations and sponsorships	29.068	36.643
Advertising and marketing	263.205	256.810
Post and Telecommunication services	66.827	64.000
Insurance premiums	585.194	505.220
Rental cost	72.093	333.267
Material costs	125.957	110.788
Taxes and contributions	119.652	121.985
Maintenance of tangible assets and software	442.715	404.334
Losses on sale and disposal of fixed and intangible assets	679	3.242
Payroll contributions payable by employer	309.520	302.281
Per diems and travel expenses	107.404	103.530
Education and counselling	43.743	25.094
Provision expenses for litigations (Note 30)	39.617	71.300
Other	95.872	164.746
Total	**4.306.720**	**3.729.738**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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17. INCOME TAXES

(a) Components of Income Tax

Total tax (expense)/benefit is comprised of:

RSD thousand

	2019.	2018.
Current income tax	(186.773)	(264.750)
Income from deferred tax assets and decrease of deferred tax liabilities	11.812	37.637
Total	**(174.961)**	**(227.113)**

(b) Reconciliation of the Total Tax Expense disclosed in the Income Statement and Profit Before Tax Multiplied by the Statutory Income Tax Rate

RSD thousand

	2019.	2018.
Profit before tax	**2.951.890**	**3.191.191**
Income tax at the rate of 15%	**442.783**	**478.679**
Tax effects of expenses not recognized for the tax purposes	12.391	34.330
Tax effects of non-taxable income (interest on securities issued by the Republic of Serbia, Autonomous Province, local self-government or NBS)	(268.401)	(244.465)
Tax effects of first implementation of IFRS 9	(25.249)	(41.313)
Other	13.437	(3.778)
Total expense tax reported in the Income Statement	**174.961**	**227.113**
Effective tax rate	**5,93%**	**7,12%**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

17. INCOME TAXES

(c) Deferred Tax Components

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

		2018 RSD in thousand
	Temporary difference amount	**Deferred tax amount**
Deductible temporary difference for difference between the carrying value and tax base value of fixed assets – deferred tax assets	94.198	14.130
Deductible temporary difference for adjustment of securities to fair value – deferred tax liabilities	(562.273)	(84.341)
Deductible temporary difference for prior years' tax loss carryforwards – deferred tax assets	(4.086)	(613)
Deductible temporary difference for provisions for litigation - deferred tax assets	244.714	36.707
Deductible temporary difference for provisions for jubilee awards - deferred tax assets	110.538	16.581
Deductible temporary difference based on Impairment loss that will be recognized in tax balance in the following years total - deferred tax assets	487	73
Deductible temporary difference for provisions for retirement benefits - deferred tax assets	75.784	11.368
Deductible temporary difference based on retirement provisions – actuarial gains - deferred tax assets	(42.680)	(6.402)
Temporary differences based on the effect of IFRS 9	220.336	33.050
Balance as at 31 December	**137.017**	**20.553**

17. INCOME TAXES (continued)

d) Changes in deferred taxes

	2019	RSD thousand 2018
Balance of deferred tax assets/(liabilities) as at 1 January	20.553	(2.987)
The effect of temporary tax differences credited to the Income Statement	11.811	37.636
The effect of temporary tax differences credited to the capital	(37.585)	(14.096)
Balance of deferred tax assets/(liabilities) as at 31 December	**(5.221)**	**20.553**

Creation of deferred tax liablities in the amount of RSD 5.221 thousand (and the abolition of previously recognized deferred tax assets in the amount of RSD 2.0.553 thousand) had an effect on the profit and loss in the amount of RSD 11.811 thousand and the effect through capital in the amount of RSD 37.585 thousand.

During 2019, the Group made a profit after tax in the amount of RSD 2.776.929 thousand. This amount will be allocated in accordance with the Decision at the forthcoming Group assembly meeting.

18. CASH AND BALANCES WITH CENTRAL BANK

	31.12.2019.	RSD thousand 31.12.2018.
In RSD		
Current account	4.073.621	4.730.799
Cash on hand	2.894.574	2.159.642
Deposits of surplus liquid assets	-	5.000.000
Receivables for accrued interest, fee and commission on cash and funds with NBS	-	243
	6.968.195	**11.890.684**
In foreign currency		
Cash on hand	1.667.826	1.079.670
Obligatory foreign currency reserve held with NBS	13.219.331	11.670.903
	14.887.157	**12.750.573**
Balance at date	**21.855.352**	**24.641.257**

Obligatory reserve represents the minimum reserve in RSD set aside in accordance with the National Bank of Serbia on mandatory reserves with the National Bank of Serbia "Official Gazette of the Republic of Serbia", no. 76/2018, which provides that banks calculate obligatory Reserves at the rate of 5% on the average daily balance of local currency liabilities with agreed maturity up to two years, or at the rate of 0% on the average daily balance local currency liabilities with agreed maturity of over two years, during one calendar month.

During the period the Group is required to maintain the average daily balance of required reserve on its bank account.

The calculated obligatory reserve whose level has to be maintained on the bank account for the period from 18 December 2019 to 17 January 2020 amounted RSD 9.944.420 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 no. 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 calculated foreign currency obligatory reserves for the period from 18 December 2019 to 17 January 2020 amounted EUR 112.416 thousand.

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

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19. DERIVATIVE RECEIVABLES

RSD thousand

	31.12.2019	31.12.2018
In RSD		
Financial assets at FV through profit and loss		
– FV of derivatives intended for trading (FVTPL)	14.287	10.160
	14.287	**10.160**
In foreign currency		
Financial assets at FV through profit and loss		
– FV of derivatives intended for trading (FVTPL)	332.612	171.044
	332.612	**171.044**
Balance at date	**346.899**	**181.204**

20. SECURITIES

RSD thousand

	31.12.2019	31.12.2018
In RSD		
Debt securities		
– bonds (AC)	15.348.789	9.972.528
– bonds (FVTPL)	4.144.280	4.062.753
– bonds (FVTOCI)	10.698.745	9.004.931
Equity securities		
– shares in equity (FVTPL)	27.608	28.748
	30.219.422	**23.068.960**
In foreign currency		
Debt securities		
– bonds (AC)	850.624	856.033
– bonds (FVTPL)	6.628.446	5.837.167
– government bonds (FVTPL)	-	129.811
– bonds (FVTOCI)	3.880.476	5.049.334
– government bonds (FVTOCI)	136.029	159.225
Equity securities		
– other securities available for sale - VISA shares (FVTOCI)	97.354	67.261
	11.592.929	**12.098.831**
Total	**41.812.351**	**35.167.791**
Minus: Impairment allowance (FVTPL)	(20.785)	(13.897)
Balance at date	**41.791.566**	**35.153.894**

In addition to securities intended for trading, all securities listed in the table above were allocated to the Stage 1 throughout the year. Of all the above listed securities, bonds are listed on the stock exchange, as well as Visa shares valued through equity and Jubmes shares valued through the income statement.

20. SECURITIES (Continued)

The changes in the impairment allowance accounts during the year are shown in the following table:

RSD thousand

	Balance as at 1 January 2019	Increase due to recognition and acquisition	Decrease due to derecognition	Decrease due to credit risk change	Foreign exchange differences	Balance as at 31 December 2019
Changes in impairment allowances of financial assets						
Stage 1	**13.897**	**8.991**	**1.987**	**109**	**(7)**	**20.785**
Public sector	13.897	8.991	1.987	109	(7)	20.785
TOTAL	**13.897**	**8.991**	**1.987**	**109**	**(7)**	**20.785**

21. LOANS AND RECEIVABLES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

RSD thousand

	31.12.2019			31.12.2018		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Loans	-	1.583	**1.583**	-	311	**311**
Deposits	-	-	**-**	700.243	-	**700.243**
Otrher placements	-	3	**3**	-	-	**-**
	-	**1.586**	**1.586**	**700.243**	**311**	**700.554**
Foreign currency						
Foreign currency bank account	1.127.373	-	**1.127.373**	491.306	-	**491.306**
Loans	-	88.983	**88.983**	-	44.083	**44.083**
Deposits	357.481	-	**357.481**	4.728	-	**4.728**
Other placements	32.805	-	**32.805**	255.130	-	**255.130**
	1.517.659	**88.983**	**1.606.642**	**751.164**	**44.083**	**795.247**
Gross loans and receivables	**1.517.659**	**90.569**	**1.608.228**	**1.451.407**	**44.394**	**1.495.801**
Less: Allowance for impairment			(1.749)			(2.929)
			(1.749)			**(2.929)**
Balance as at 31 December			**1.606.479**			**1.492.872**

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

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

a) Overview by types of loan users and deposits by impairment stages

RSD thousand

	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	3	-	-	-	3	(337)	-	-	-	(337)
Auxiliary activities in providing financial and insurance services	349	-	-	-	349	(1)	-	-	-	(1)
Financial leasing	1.331	-	-	-	1.331	(10)	-	-	-	(10)
	1.683	**-**	**-**	**-**	**1.683**	**(348)**				**(348)**
In foreign currency	-	-	-	-	**-**	(20)	-	-	-	(20)
Banks in the country	-	-	-	-	**-**	(446)	(293)	-	-	(739)
Financial leasing	72.075	16.811	-	-	**88.886**	(44)	-	-	-	(44)
Auxiliary activities in providing financial and insurance services	34.704	-	-	-	**34.704**	(598)	-	-	-	(598)
Foreign banks	1.482.955	-	-	-	1.482.955	(1.108)	(293)	-	-	(1.401)
	1.589.734	**16.811**			**1.606.545**	**(1.456)**	(293)	**-**	**-**	(1.749)
Balance as at 31 December	**1.591.417**	**16.811**	**-**	**-**	**1.608.228**	**(1.456)**	**(293)**	**-**	**-**	**(1.749)**

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

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

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

	Gross book value	
	Transfer between stages	
	From stage 1 to stage 2	From stage 2 to stage 1
Insurance companies	-	193
Financial leasing	16.807	-
TOTAL	**16.807**	**193**

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 of 31 December 2019 and 31 December 2018:

RSD thousand

	31.12.2019.	31.12.2018.
Without defined maturity	1.162.690	517.129
Under 30 days	352.845	700.021
From 1 to 3 months	-	-
From 3 months to 12 months	2.124	234.257
Over a year	90.569	44.394
	1.608.228	**1.495.801**

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

Changes in credit loss allowances and provisions of financial assets

RSD thousand

	Balance as at 1 January 2019	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 2019
Changes in credit loss allowances of financial assets								
Stage 1	**2.927**	**851**	**2.567**	**1.015**	**777**	**11**	**(5)**	**1.456**
Banks in the country	2.417	111	2.243	845	767	(2)	(7)	**357**
Insurance companies	1	1	1	-	2	-	3	**2**
Financial leasing	255	394	198	-	2	-	(4)	**445**
Auxiliary activities in providing financial and insurance services	33	10	-	13	-	-	-	**55**
Foreign banks	221	335	125	157	6	13	3	**597**
Stage 2	**2**	**-**	**-**	**293**	**-**	**-**	**(2)**	**293**
Insurance companies	2	-	-	-	-	-	(2)	-
Other credit and financing services	-	**-**	**-**	293	**-**	**-**	**-**	**293**
Stage 3	**-**	**-**	**-**	**-**	-	**-**	**-**	-
Other credit and financing services	-	**-**	**-**	**-**	-	**-**	**-**	-
TOTAL	**2.929**	**851**	**2.567**	**1.308**	**777**	**11**	**(7)**	**1.749**

22. LOANS AND RECEIVABLES TO CUSTOMERS

RSD thousand

	31.12.2019			31.12.2018		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Given loans	472.391	38.545.532	**39.017.923**	2.464.469	30.505.580	**32.970.049**
Other placements	3.873.771	7.273.605	**11.147.376**	3.195.885	5.333.970	**8.529.855**
	4.346.162	**45.819.137**	**50.165.299**	**5.560.354**	**35.839.550**	**41.499.904**
In foreign currency						
Given loans	2.267.918	122.150.476	**124.418.394**	10.320.621	97.479.604	**107.800.225**
Given deposits	90.755	-	**90.755**	89.432	-	**89.432**
Other placements	226.074		**226.074**	409.529	-	**409.529**
	2.584.747	**122.150.476**	**124.735.223**	**10.819.582**	**97.479.604**	**108.299.186**
Gross loans and receivables	**6.930.909**	**167.969.613**	**174.900.522**	**16.732.813**	**133.593.145**	**149.799.090**
Less: Credit Loss Allowance						
– Individual assessment			(739.675)			(1.232.329)
– Collective assessment			(2.592.257)			(2.220.274)
			(3.331.932)			**(3.452.603)**
Balance as at 31 December			**171.568.590**			**146.346.487**

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

(a) Overview by types of loan and deposits users by impairment stages

RSD thousand

	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	24.507	50.206	-	-	**74.713**	(126)	(511)	-	-	**(637)**
Other companies	2.199.839	165.104	39.412	-	**2.404.355**	(33.523)	(10.828)	(28.259)	-	**(72.610)**
Entrepreneurs	1.161.098	117.797	23.075	-	**1.301.970**	(10.009)	(8.495)	(14.910)	-	**(33.414)**
Public sector	1.024.462	-	-	-	**1.024.462**	(941)	-	-	-	**(941)**
Retail customers	30.305.504	2.941.827	909.085	22.135	**34.178.551**	(252.367)	(231.560)	(714.166)	(1.388)	**(1.199.481)**
Foreign entities	1.509	16	15	-	**1.540**	(29)	-	(13)	-	**(42)**
Farmers	114.231	19.463	137	-	**133.831**	(2.446)	(1.580)	(23)	-	**(4.049)**
Other customers	24.068	1.402	3.020	-	**28.490**	(149)	(115)	(2.151)	-	**(2.415)**
	34.855.218	**3.295.815**	**974.744**	**22.135**	**39.147.912**	**(299.590)**	**(253.089)**	**(759.522)**	**(1.388)**	**(1.313.589)**
In foreign currency										
Public enterprises	4.361.373	2.068	1.545	-	**4.364.986**	(11.086)	(102)	(1.545)	-	**(12.733)**
Other companies	79.771.854	2.794.944	521.970	100.046	**83.188.814**	(593.780)	(296.114)	(383.339)	(72.985)	**(1.346.218)**
Entrepreneurs	1.223.772	223.599	9.212	101	**1.456.684**	(6.670)	(13.746)	(7.662)	(101)	**(28.179)**
Public sector	1.396.337	-	-	-	**1.396.337**	(17.125)	-	-	-	**(17.125)**
Retail customers	42.534.723	964.152	369.548	152.034	**44.020.457**	(92.035)	(89.708)	(237.197)	(28.691)	**(447.631)**
Foreign entities	327.429	56.110	-	-	**383.539**	(4.456)	(5.712)	-	-	**(10.168)**
Farmers	109.419	15.851	44.775	-	**170.045**	(6.390)	(1.215)	(30.057)	-	**(37.662)**
Other customers	600.030	3.309	168.409	-	**771.748**	(2.935)	(126)	(115.566)	-	**(118.627)**
	130.324.937	**4.060.033**	**1.115.459**	**252.181**	**135.752.610**	**(734.477)**	**(406.723)**	**(775.366)**	**(101.777)**	**(2.018.343)**
Balance as at 31 December	**165.180.155**	**7.355.848**	**2.090.203**	**274.316**	**174.900.522**	**(1.034.067)**	**(659.812)**	**(1.534.888)**	**(103.165)**	**(3.331.932)**

Group evaluates all loans at amortized cost.

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

b) Transfer of exposure to loans and receivables from customers by impairment 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 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
Other companies	**419,269**	**217,885**	**25,199**	**-**	**191,966**	**-**
Construction	1,337	143,617	-	-	24	-
Agriculture and food industry	163,790	131	-	-	-	-
Manufacturing industry	17,640	5,199	3,603	-	14,352	-
Trade	85,688	65,000	2,089	-	168,514	-
Services and tourism	150,814	3,938	19,507	-	9,076	-
Public sector	938	-	-	-	-	-
Entrepreneurs	**171,953**	**24,689**	**7,932**	**1**	**9,627**	**-**
Retail	**1,242,193**	**508,407**	**174,827**	**80,826**	**289,152**	**56,040**
Other customers	**55**	**24**	**14,639**	**-**	**33,240**	**-**
Total	**1,834,408**	**751,005**	**222,597**	**80,827**	**523,985**	**56,040**

22. LOANS AND RECEIVABLES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

c) Maturity of loans and receivables to banks and other financial services

Maturity of loans and receivables to banks and other financial institutions based on the remaining period on the balance sheet date to the contractual maturity date, as at 31 December 2019 and 31 December 2018, is as follows:

		RSD thousand
	31.12.2019.	**31.12.2018.**
Without defined maturity	1.369.067	1.089.205
Under 30 days	285.828	590.604
From 1 to 3 months	845.748	1.202.396
From 3 to 12 months	5.709.177	13.597.731
Over 1 year	166.690.702	133.319.154
	174.900.522	**149.799.090**

22. LOANS AND RECEIVABLES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

Changes in credit loss allowances and provision of financial assets

RSD thousand

	Balance as at 1 January 2019	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 period end
Changes in credit loss allowances of financial assets										
Impairment stage 1	**927,796**	**488,406**	**253,548**	**1,385,698**	**1,007,311**	**(37)**	**13**	**(3,890)**	**(503,069)**	**1,034,032**
Public enterprises	17,894	2,174	3,008	2,560	7,855	-	-	(59)	(494)	11,212
Other companies	575,456	320,748	178,489	403,453	304,036	(36)	11	(2,895)	(186,661)	627,529
Entrepreneurs	14,141	11,407	4,108	46,616	23,212	-	1	(30)	(28,289)	16,524
Public sector	12,300	667	705	25,148	19,283	-	-	(94)	92	18,125
Retail customers	305,981	150,639	65,929	866,565	646,385	(1)	1	(779)	(252,487)	357,603
Foreign entities	346	-	-	1,358	1,603	-	-	(1)	1	101
Other customers	1,677	2,771	1,309	39,998	4,937	-	-	(32)	(35,231)	2,937
Impairment stage 2	**886,399**	**152,940**	**267,566**	**114,371**	**259,615**	**(43)**	**-**	**228**	**32,096**	**658,810**
Public enterprises	75,292	-	-	-	236	-	-	1	(74,451)	606
Other companies	327,254	27,526	32,673	13,215	166,356	(20)	-	(1,391)	139,359	306,914
Entrepreneurs	6,049	9,614	905	772	6,006	(50)	-	(52)	12,669	22,091
Public sector	358	-	356	-	-	-	-	-	(2)	-
Retail customers	477,417	115,560	233,606	89,900	85,304	27	-	1,670	(36,707)	328,957
Foreign entities	3	-	1	-	-	-	-	-	(1)	1
Other customers	28	240	25	10,484	1,713	-	-	-	(8,773)	241
Impairment stage 3	**1,518,939**	**162,873**	**360,717**	**544,407**	**299,634**	**(10,507)**	**231,100**	**969**	**210,695**	**1,535,925**
Public enterprises	8,517	-	-	114	7,129	-	-	43	-	1,545
Other companies	536,758	20,161	113,181	161,634	120,483	(5,119)	46,357	(1,076)	(1,519)	430,818
Entrepreneurs	19,216	993	-	6,928	7,882	-	12,193	24	16,637	23,723
Retail customers	872,032	141,709	247,536	364,784	112,675	(5,388)	40,447	2,213	5,468	980,160
Foreign entities	20	-	-	1	-	-	-	-	(6)	15
Other customers	82,396	10	-	10,946	51,465	-	132,103	(235)	190,115	99,664
POCI	**119,469**	**24,056**	**10,581**	**19,286**	**62,818**	**-**	**1,171**	**(679)**	**15,603**	**103,165**
Other companies	101,871	-	-	1,509	51,637	-	-	(561)	21,798	72,980
Entrepreneurs	41	101	-	-	-	-	-	-	(41)	101
Retail customers	17,557	23,955	10,581	17,777	11,181	-	1,171	(118)	(6,154)	30,084
TOTAl	**3,452,604**	**828,275**	**892,412**	**2,063,762**	**1,629,378**	**(10,587)**	**232,284**	**(3,372)**	**(244,676)**	**3,331,932**

22. LOANS AND RECEIVABLES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

d) 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 of 31 December 2019 and 31 December 2018, is significant for the following activities:

		RSD thousand
	31.12.2019.	**31.12.2018.**
Trade	12.652.527	13.754.076
Manufacturing industry	19.694.314	16.573.709
Construction	12.943.198	13.743.361
Production and supply of el. Energy	9.917.662	8.645.516
Services and tourism	24.902.151	20.089.000
Agriculture and food industry	6.458.642	6.022.829
Retail customers	78.481.231	64.189.702
Domestic and foreign banks and other financial institutions	1.608.228	1.495.801
Public sector	4.740.260	3.261.272
Non-resident corporate customers	102.856	96.073
Agricultural producers	301.447	261.011
Other customers	1.237.216	1.239.839
Entrepreneurs	3.469.018	1.922.704
	176.508.750	**151.294.891**

e) Financial leasing receivables

		RSD thousand
	31.12.2019.	**31.12.2018.**
Minimum lease payments	11.944.026	8.985.848
Minus: Receivables for undue interest	(765.237)	(537.151)
Financial leasing receivables	**11.178.789**	**8.448.697**
Due remaining minimum lease payments	11.162	13.218
Other receivables based on the financial leasing business	32.228	39.600
	11.222.180	**8.501.515**
Minus deferred income from receivables from financial leasing fees	(98.048)	(74.876)
	11.124.132	**8.426.639**
Minus: impairment allowance		
- financial lease receivables	(235.604)	(252.283)
- receivables for due interest	(10.928)	(12.833)
- other receivables from financial leasing business	(31.864)	(39.358)
	10.845.736	**(304.474)**
	10.845.736	**8.122.165**

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

RSD thousand

	Land and buildings	Equipment	Leased equipement/ Right of Use Assets	Investment property	Equipment under construction	Total Tangible assets	Intangible assets under construction	Intangible assets
COST								
Balance as at 1 January 2018	**752.646**	**1.016.006**	**254.173**	**-**	**21.164**	**2.043.989**	**-**	**1.317.059**
Additions	-	11.712	(7.083)	-	285.265	289.894	327.744	12.829
Transfers	34.947	113.213	70.571	-	(297.655)	(78.924)	-	78.931
Disposal and retirement	(11.102)	(39.798)	-	-	-	(50.900)	-	(447)
Balance as at 31 December 2018	**776.491**	**1.101.132**	**317.661**	**-**	**8.774**	**2.204.058**	**327.744**	**1.408.372**
Effects of transition to IFRS 16	**-**	**-**	**1.379.458**	**-**	**(7.959)**	**1.379.458**	**7.959-**	**-**
Balance as at 1 January 2019	**776.491**	**1.101.134**	**1.697.119**	**-**	**814**	**3.583.517**	**335.704**	**1.408.369**
Additions	-	3.700	1.049.473	-	238.145	1.291.318	222.407	5.794
Transfers	2.246	224.984	2.568	-	(229.798)	-	(95.139)	95.139
Disposal and retirement	(5.055)	(64.790)	(231.144)	-	-	(300.989)	-	-
Balance as at 31 December 2019	**773.682**	**1.265.028**	**2.518.016**	**-**	**17.120**	**4.573.846**	**455.012**	**1.509.302**
ACCUMULATED DEPRECIATION								
Balance as at 1 January 2018	**278.588**	**635.975**	**50.809**	**-**	**-**	**965.372**	**-**	**1.061.507**
Overwriting	-	**7.083**	**(7.083)**	-	-	-	-	-
Depreciation (Note 14)	18.709	120.530	66.691	-	-	205.930	-	120.584
Disposal and retirement	(3.855)	(36.080)		-	-	(39.935)	-	(349)
Balance as at 31 December 2018	**293.443**	**727.508**	**110.417**	**-**	**-**	**1.131.368**		**1.181.742**
Overwriting	-	2.458	(2.458)	-	-	-	-	-
Depreciation (Note 14)	19.338	98.873	355.730	-	-	473.941	-	99.176
Disposal and retirement	(2.261)	(63.479)	(41.892)	-	-	(107.632)	-	-
Balance as at 31 December 2019	**310.520**	**765.360**	**421.797**	**-**	**-**	**1.497.677**	**-**	**1.280.918**
NET BOOK VALUE								
– 31 December 2019	**463.162**	**499.668**	**2.096.219**	**-**	**17.120**	**3.076.169**	**455.012**	**228.385**
– 31 December 2018	**483.048**	**373.626**	**207.244**	**-**	**8.773**	**1.072.691**	**327.744**	**226.628**

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

The Group does not have any mortgaging properties to secure repayment of loan obligations. The net book value of the equipment on 31 December 2019 is mostly composed of computer and telecommunication equipment and office furniture. The net book value of intangible assets as of 31 December 2019 is mostly software and licenses. Based on the assessment of the Group's management, there are no indications that the value of fixed assets and intangible assets is impaired as at 31 December 2019.

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 purchse value of the property in the financial leasing under IAS 17 and overview of the purchase value of right of use assets under IFRS 16 is shown in the following table (in RSD thousand):

Type of property	IAS 17 - 31 December 2018	IFRS 16 - 1 January 2019	Changes during 2019		As at 31 December 2019
	Purchase value	Purchase value	Increase	Decrease	
IT equipment	317.660	317.660	-	-	317.660
Immobilities	-	1.335.898	1.051.484	(228.471)	2.158.907
Vehicles	-	43.561	3.019	(2.567)	44.013
Total:	**317.660**	**1.697.119**	**1.054.503**	**(223.602)**	**2.518.016**

The purchase value of IT equipment under financial leasing as of January 1, 2019 is RSD 317.660 thousand and has remained unchanged as at 31 December 2019.

The purchase value of the immobilities (facilities) classified as right of use assets at the date of application of IFRS 16 amounts to RSD 1.335.898 thousand. Increase in the purchase value of RSD 1.051.484 thousand refers to adjusting the value of assets in accordance with the change in the discount rate as well as indexing in accordance with the harmonized consumer price index at EU level (so called HICP index), lease price increases and new leases booked. During 2019, there were also reductions in value due to the change in contractual terms in the amount of RSD 228.471 thousand. As of December 31, 2019, the purchase value of real estate (facilities) is RSD 2.158.907 thousand.

The purchase value of the movable property (vehicles) classified as right of use assets at the date of application of IFRS 16 amounts to RSD 43.561 thousand. The purchase value of movable property (vehicles) as of December 31, 2019 amounts RSD 44.031 thousand, respectively, it was increased by RSD 3,019 thousand and relates to the new lease and is reduced by RSD 2,567 thousand and relates to the cancellation of the existing lease

The written-off value of the property in the financial leasing under IAS 17 and the written-off value of right of use assets under IFRS 16 is shown in the following table (in RSD thousand):

Type of property	IAS 17 - 31 December 2018	IFRS 16 - 1 January 2019	Changes during 2019		As at 31 December 2019
	Written-off value	Written-off value	Increase	Decrease	
IT equipment	110.417	110.417	78.665	(2.517)	186.565
Immobilities	-	-	257.247	(41.669)	215.574
Vehicles	-	-	19.818	(160)	19.658
Total:	**110.417**	**110.417**	**355.730**	**(44.346)**	**421.797**

The total written-off value of IT equipment classified as right of use assets as at 1 January 2019 amounts to RSD 110.417 thousand, while the total written-off value of IT equipment as of 31 December 2019 amounts to RSD 186.565 thousand.

The total written-off value of the immobilities (facilities) classified as right of use asset as at 31 December 2019 amounts to RSD 215.574 thousand, while the total written-off value of the movable property (vehicles) classified as right of use assets as at 31 December 2019 amounts to RSD 19.658 thousand.

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

As disclosed in Note 2.22. in accordance with its accounting policies, the Bank measures assets, classified as assets intended for sale, at the lower of the following two amounts:

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

RSD thousand

	2019	2018
Fixed assets intended for sale and assets from discounted operations	12.252	12.288
Balance as at 31 December	**12.252**	**12.288**

As at 31 December 2019, 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 space of 374 m2
- Stara Pazova, Vojka – land space 1.849 m2
- Vladimirci, Krnule:
  - Land space 3.000 m2
  - Land space 15.206 m2
  - Land space 2.330 m2
- Nova Varoš, Bela Reka – land space 1.489 m2
- Čajetina, Šljivovica
  - Land space 11.030 m2
  - Land space 6.526 m2
  - Land space 736 m2
  - Land space 3.555 m2
  - Land space 602 m2
  - Land space 1.000 m2
- Pančevo, Dolovo
  - Land space 6.222 m2
  - Land space 5.208 m2
  - Land space 806 m2

25. OTHER ASSETS

		RSD thousand
	2019	**2018**
In RSD		
Financial assets:		
– Receivables for accrued fees and commissions	98.055	20.725
– Trade receivables	3.418	2.045
– Other receivables from standard operations	31.727	30.547
– Other financial receivables from operations	208.618	148.537
– Deferred insurance premium costs	527.909	542.704
– Deferred coupon interest in purchasing bonds	229.756	241.286
– Other accruals	45.365	-
Non-financial assets:		
– Advances given	9.581	8.687
– Receivables from employees	19.043	3.535
– Receivables from prepaid taxes and contributions	1.114	1.148
– Inventories	72.262	70.805
– Other receivables	(2.293)	(3.347)
– Other investments	27.005	27.006
– Other accruals	68.974	126.593
	1.340.534	**1.220.271**
In foreign currency		
Financial assets:		
– Receivables for accrued fees and commissions	156	6
– Trade receivables	15.136	20.136
– Other receivables from standard operations	22	15
– Other financial receivables from operations	59.432	47.756
– Deferred coupon interest in purchasing bonds	35.046	32.888
– Other accruals	43.117	4.807
Non-financial assets:		
– Advances given	27.134	25.817
– Receivables from employees	465	13
– Other receivables	349	64.063
	180.857	**195.501**
Gross other assets	**1.521.391**	**1.415.772**
Less: Impairment allowance	(173.011)	(170.114)
Balance as at 31 December	**1.348.380**	**1.245.658**

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:

RSD thousand

	31.12.2019	31.12.2018
Balance at beginning of the year	101.119	107.871
Effects of transition to IFRS 9	-	15.265
New impairment allowances	65.650	58.772
Reversal for impairment allowance	(5.854)	(36.716)
FV adjustments	(32.921)	-
Foreign exchange difference	(21.832)	(11.152)
Balance of impairment allowances of financial assets at 31 December	**106.162**	**101.119**
Balance of impairment allowances of non-financial assets as at 31 December	**66.849**	**68.995**
Balance as at 31 December	**173.011**	**170.114**

26. DERIVATIVE LIABILITIES

RSD thousand

	31.12.2019	31.12.2018
In RSD		
Liabilities from derivatives intended for trading	4.005	766
	4.005	**766**
In foreign currency		
Liabilities from derivatives intended for trading	246.034	94.752
	246.034	**94.752**
Balance as at 31 December	**250.039**	**95.518**

27. DEPOSITS AND OTHER LIABILITIES TO BANKS, OTHER FINANCIAL INSTITUTIONS AND CENTRAL BANK

RSD thousand

	31.12.2019			31.12.2018		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Deposits and borrowings						
Transaction deposits	417.668	-	**417.668**	428.583	-	**428.583**
Deposits placed for loan approved	85	247	**332**	87	516	**603**
Earmarked deposits	2.225	-	**2.225**	22.602	-	**22.602**
Other deposits	2.054.192	2.726.000	**4.780.192**	3.661.470	520.000	**4.181.470**
Loans receivables	-	600.000	**600.000**	-	600.000	**600.000**
Total	**2.474.170**	**3.326.247**	**5.800.417**	**4.112.742**	**1.120.516**	**5.233.258**
In foreign currencies						
Deposits and borrowings						
Transaction deposits	282.016	-	**282.016**	630.522	-	**630.522**
Deposits placed for loan approved	-	102.302	**102.302**	-	189.110	**189.110**
Earmarked deposits	153.327	27.047	**180.374**	191.079	24.230	**215.309**
Other deposits	6.760.378	2.354.672	**9.115.050**	6.757.163	2.508.694	**9.265.857**
Overnight deposits	235.186	-	**235.186**	2.434.808	-	**2.434.808**
Borrowings	3.117.281	53.042.416	**56.159.697**	3.322.541	45.824.921	**49.147.462**
Other financial liabilities	20.191	14.194	**34.385**	37.061	-	**37.061**
Total	**10.568.379**	**55.540.631**	**66.109.010**	**13.373.174**	**48.546.955**	**61.920.129**
Balance as at 31 December	**13.042.549**	**58.866.878**	**71.909.427**	**17.485.916**	**49.667.471**	**67.153.387**

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

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

		RSD thousand
	31.12.2019	**31.12.2018**
Central bank	4	1.091
Domestic banks	829.348	3.932.397
Insurance companies	3.110.087	3.010.514
Finance lessors	113.972	422.805
Auxiliary activities within financial services and insurance	7.025.834	4.953.979
Other crediting and financing service providers	9.489	26.459
Foreign banks	60.820.693	54.806.142
Balance as at 31 December	**71.909.427**	**67.153.387**

Liabilities towards foreign banks mainly relate to loans received from Erste Group Bank AG, Austria in the amount of RSD 22.750.845 thousand, as well as loans received from the European Investment Bank of RSD 12.508.601 thousand.

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28. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

RSD thousand

	31.12.2019			31.12.2018		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Liabilities arising from deposits and loans						
Transactional deposits	31.935.971	-	**31.935.971**	24.684.911	-	**24.684.911**
Saving deposits:	876.333	1.225.219	**2.101.552**	182.118	730.609	**912.727**
Deposits based on given loans	541.032	705.632	**1.246.664**	182.118	730.609	**912.727**
Earmarked deposits	281.468	32.441	**313.909**	4.040.575	18.750	**4.059.325**
Other deposits	8.729.186	2.145.150	**10.874.336**	10.201.291	5.220	**10.206.511**
Other financial liabilities	5	-	**5**	-	-	**-**
Total	**42.427.049**	**4.108.442**	**46.535.495**	**39.701.902**	**1.521.009**	**41.222.911**
In foreign currency						
Liabilities arising from deposits and loans						
Transactional deposits	46.269.517	-	**46.269.517**	44.155.303	-	**44.155.303**
Saving deposits:	8.147.657	12.915.524	**21.063.181**	130.160	3.736.187	**3.866.347**
Deposits based on given loans	188.484	4.315.018	**4.503.502**	748.927	282.420	**1.031.347**
Earmarked deposits	607.708	218.104	**825.812**	208.591	631.219	**839.810**
Other deposits	524.769	3.154.664	**3.679.433**	-	2.354.677	**2.354.677**
Borrowings	-	2.969.541	**2.969.541**	373.221	-	**373.221**
Other financial liabilities	561.472	-	**561.472**	373.221	-	**373.221**
Total	**56.299.607**	**23.572.851**	**79.872.458**	**53.582.446**	**18.404.857**	**71.987.303**
Balance as at 31 December						
			126.407.953			**113.210.214**

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

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

		RSD in thousand
	2019	**2018**
Holding companies	1	4
Public companies	1.298.865	3.706.090
Corporate customers	46.003.215	37.428.545
Public sector	4.705.459	4.224.630
Retail customers	63.613.471	53.657.942
Non-residents	2.416.479	2.318.467
Entrepreneurs	3.903.183	2.853.351
Agricultural producers	614.694	514.419
Other customers	3.852.586	8.506.766
Balance as at 31 December	**126.407.953**	**113.210.214**

29. LIABILITIES FOR ISSUED SECURITIES

RSD thousand

Entity	Currency	Face value of bonds issued	Maturiry date	Interest rate	Balance as at 31 December 2019	Balance as at 31 December 2018
Erste Bank ad Novi Sad	RSD	3.500.000	15.02.2021.	3m belibor +1% p,a,	3.512.691	-
Ukupno		**3.500.000**			**3.512.691**	-

On February 14, 2019 Erste Bank A.D. Novi Sad successfully completed the issuance of long-term RSD bonds. The volume of the issuance was RSD 3,500,000,000.00. 350.000 bonds of individual nominal value of RSD 10.000 have been issued. 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 portion. 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 February 15, 2021. There is no depreciation plan, but the total principal is paid out at the time of maturity.

The bonds are included in trading on the Belgrade Stock Exchange, symbol NSBN02.

As of 31 December 2019, three interest coupons were paid (May 14, 2019, August 14, 2019 and November 14, 2019), each in the amount of RSD 34,524,000.00. The next interest coupon is due on February 14, 2020.

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30. SUBORDINATED LIABILITIES

RSD thousand

	31.12.2019.	31.12.2018.
In foreign currencies		
Subordinated liabilities	4.206.971	4.566.337
	4.206.971	**4.566.337**

The balance of subordinated borrowings as of 31 December 2019 and 31 December 2018 is presented in more detail in the table below, without deferred interest per subordinated liabilities:

RSD in thousand

Creditor	Currency	Loan amount	Maturity	Interest rate	31.12.2019.	31.12.2018.
Erste Group Bank AG	EUR	15.000.000	27.12.2021.	Euribor+3,65% p.a.	671.959	1.013.097
Erste Group Bank AG	EUR	30.000.000	10.09.2028.	Euribor+3,38% p.a.	3.527.784	3.545.838
Total		**45.000.000**			**4.199.743**	**4.558.935**

Subordinated liabilities relate to a subordinated long-term loan approved to the Bank by Erste GCIB Finance, Amsterdam on 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.

The Group may include subordinated liabilities in its supplementary capital (Note 35.9), 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 Group. The National Bank of Serbia, the Banking Supervision Department, submitted the said approval on 6 December 2011, and based on the Group's request of 7 October 2011.

On the basis of the Transfer and Transfer Agreement on 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 Group are fulfilled. The National Bank of Serbia, the Banking Supervision Department, submitted such approval on 11 October 2018, and based on the Group's request as of 24 August 2018. "

31. PROVISIONS

RSD thousand

	31.12.2019	**31.12.2018**
Provisions for losses per off-balance sheet items (a)	280.891	240.457
Provisions for long-term employee benefits (b):		
– retirement benefits	86.142	77.170
– jubilee awards	130.292	114.054
Provisions for litigations (c)	261.281	239.812
Other long-term provisions	-	5.701
Balance as at 31 December	**758.606**	**677.194**

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 Group’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 has formed provisions for long-term employee benefits that include provisions for legal retirement on 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.

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31. PROVISIONS (continued)

Movements on provision accounts during the year are provided below:

RSD thousand

	2019	2018
Provisions for losses per off-balance sheet exposures		
Balance at the beginning of the year	240.457	326.073
Provisions for the year (Note 10)	182.374	149.162
Reversal of unused provisions (Note 10)	(141.070)	(241.881)
Other movements	(870)	7.102
	280.891	**240.457**
Provisions for other long-term employee benefits		
Balance at the beginning of the year	191.224	188.221
Provisions in the period through P&L (Note 13)	24.224	22.648
Provisions in the period through OCI	3.794	-
Benefits paid during the year	(18.355)	(17.059)
Actuarial losses/(gains) on jubilee awards	11.295	2.806
Actuarial losses/(gains) on retirement benefits	4.253	(5.392)
	216.435	**191.224**
Provisions for litigations		
Balance, beginning of year	239.812	185.274
Provisions for the year	39.580	71.300
Released during the year	(18.112)	(16.762)
	261.280	**239.812**
Other long-term provisions		
Balance at the beginning of the year	-	67.043
Used provisions - payments	-	(31.115)
Other changes	-	(30.227)
	-	**5.701**
Balance as at 31 December	**758.606**	**677.194**

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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 2019;
- 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 4,2%;
- average gross salary in the Republic of Serbia in the period January - May 2017 and
- the assumed salary growth of 2,7% per annum over the entire period for which funds are reserved.

	RSD thousand
Present value of employee benefits as at 31 December 2018	**191.224**
Cost of services	
a. Current service cost	18.512
b. Past service cost	3.929
c. Interest costs	5.578
d. Payments	(18.146)
Actuarial gains (-) / losses (+) for jubilee awards arising from:	**11.125**
a. Change in demographic assumptions	(641)
b. Change in financial assumptions	11.766
c. Change in experiential assumptions	-
Actuarial gains (-) / losses (+) for severance payments arising from:	**4.214**
a. Change in demographic assumptions	(13.716)
b. Change in financial assumptions	17.930
c. Change in experiential assumptions	-
Present value of employee benefits as at 31 December 2019	**216.436**

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 thousand

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 of impairment 1	156.420	130.751	58.145	38.626	67.171	(805)	2.990	202.666
Stage of impairment 2	10.232	3.499	3.526	4.208	3.571	(25)	(2.600)	8.217
Stage of impairment 3	73.805	489	6.102	4.798	2.555	(49)	(379)	70.007
Total	240.457	134.739	67.773	47.632	73.297	(879)	11	280.890

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

	Gross book value					
	Transfer between stages 1 and 2		Transfer between stages 2 and 3		Transfer between stage 1 and 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
Given guarantees and other assurances	50.917	158.681	-	-	-	-
Unused undertaken irrevocable liabilities	42.529	14.160	248	19	801	205
Total	**93.446**	**172.841**	**248**	**19**	**801**	**205**

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32. OTHER LIABILITIES

		U RSD thousand
	31.12.2019	**31.12.2019**
In RSD		
Financial liabilities:		
Liabilities for unpaid amounts of leased assets	17.775	-
Liabilities for deferred interest income	504	-
Liabilities for deferred income from fees and other deferred income	9.966	-
Other accruals and deferrals	193.193	211.599
	221.438	**211.599**
Non-financial liabilities:		
Trade payables	131.679	12.096
Advances received	58.230	31.503
Liabilities for net salaries and benefits	13.118	11
Liabilities for taxes, contributions and other duties	99.437	86.515
Deferred liabilities for fees and other accrued expenses	462.609	203.716
Liabilities for card operations	49.261	125
Liabilities towards users of POS terminals	30.691	22.096
Other liabilities	127.969	101.621
	972.994	**457.683**
In foreign currency		
Financial liabilities:		
Liabilities for unpaid amounts of leased assets	1.904.343	169.995
Liabilities for deferred income from fees and other deferred income	11.167	--
Other accruals and deferrals	1.976	115.493
	1.917.486	**285.488**
Non-financial liabilities:		
Fee and commission liabilities	-	60
Advances received	7.563	11.441
Deferred liabilities for fees and other accrued expenses	916	11.310
Other liabilities	33.427	107.993
	41.906	**130.804**
Balance as at 31. December	**3.153.824**	**1.085.574**

Other financial liabilities are valued at amortized cost.

32. OTHER LIABILITIES (continued)

The balance of the lease liabilities under IAS 17 / IFRS 16 is shown in the following table (in 000 RSD):

Overview of lease liablities balances IAS 17 / IFRS 16						
Type of liability	31 December 2018		1 January 2019		31 December 2019	
	Amount in currency	Amount in RSD	Amount in currency	Amount in RSD	Amount in currency	Amount in RSD
RSD	-	-		54.965	-	17.775
Currency clause (EUR) Immovables	-	-	4.410	521.210	8.143	957.460
Currency clause (EUR) Movable Property	- -	-	369	43.561	209	24.549
Valutna klauzula (EUR) IT equipment	1.438	169.995	-	-	4	506
EUR Facilities	-	-	6.428	759.722	8.870	1.042.997
Total:	**1.438**	**169.995**	**11.207**	**1.379.458**	**17.222**	**2.043.287**

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

Practical expedients – balance as at 31 December 2019	Value
Expenses of short term leases	773
Expenses of low value leases	13.585

33. EQUITY

(a) Structure of the Group's' Equity

The total equity of the Group as at 31 December 2019 amounts to RSD 32.138.280 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 12.955.128 thousand, revaluation reserves in the amount of RSD 725.815 thousand and profit for the current period in the amount of RSD 2.679.766 thousand.

The total equity structure of the **Group** is presented as follows:

		RSD thousand
	2019	**2018**
Share capital - ordinary shares	12.909.000	10.040.000
Share premium	2.553.944	124.475
Special Reserves for Estimated Losses	12.955.128	10.036.645
Revaluation reserves	726.842	513.700
Retained earnings	2.891.319	3.057.163
Owners without rights of control	102.047	77.914
Balance as at 31 December	**32.138.280**	**23.849.897**

33. EQUITY (continued)

/i/ Share Capital

As of 31 December 2019 the Bank's subscribed and paid in capital comprised 1.290.000 ordinary shares with the par value of RSD 10.000 per share (31 December 2018: 1.004.000 ordinary shares with the par value of RSD 10.000 per share).

In the third quarter of 2019, the Bank, on the basis of the Shareholders Assembly Decision on Issuance of Ordinary Shares (No. 214 / 2019-25v / 1) on June 28, 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 shares. 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.

shareholder structure of the Bank as of 31 December 2019 is presented below:

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

/ii/ Share Premium

Share premium amounting to RSD 2.553.944 thousand as at 31 December 2019 (31 December 2018 RSD 124.475 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 2019 amount to RSD 12.955.128 thousand. As at 31 December 2018, reserves from profit amounted to RSD 10.036.645 thousand. Pursuant to the Decision of the Shareholders Assembly of the Group from 29 March 2019, and based on the realized profit for 2018, the Group made a distribution of the remaining profit in the amount of RSD 2.918.483. thousand.

/iv/ Revaluation reserves

Revaluation reserves amounting to RSD 725.815 thousand as of 31 December 2019 (31 December 2018: RSD 513.700 thousand), were formed as a result of the market value adjustment of the securities available for sale, adjusted for the effects of deferred taxes arising from revaluation of these securities and the adjustment of liabilities based on the actuary calculation in accordance with IAS 19.

33. EQUITY (continued)

(b) Performance indicators of the Group - compliance with legal indicators.

Performance indicators	Prescribed	31.12.2019.	31.12.2018.
1. Equity	Minimum EUR 10 million	EUR 283.782.619	EUR 211.699.569
2. Capital adequacy	Minimum 8%	20,47	17,11
3. Basic Capital adequacy	Minimum 6%	18,22	14,46
4. Basic Share capital adequacy	Minimum 4,5%	18,22	14,46
5. Investments of the Bank	Maximum 60%	9,36	4,47
6. Exposure to related parties	no limit	8,71	8,54
7. Large and largest possible loans in relation to capital	Maximum 400%	21,66	120,25
8. Liquidity:			
– liquidity indicator	Minimum 0,8	1,49	1,36
– narrower liquidity indicator	Minimum 0,5	1,38	1,28
9. Indicator of liquid assets coverage	Minimum 100%	197,37	175,08
10. Foreign exchange risk indicator	Maximum 20%	0,38	2,58
11. Exposure of the Bank to a group of related parties	Maximum 25%	12,95	16,46
12. Exposure of the Bank to a person related to a bank	no limit	4,95	5,49
13. Bank's investments in non-financial entities	Maximum 10%	0,08	0,11

34. OFF-BALANCE SHEET ITEMS

The Group records mortgages, securities from custody operations and unwinding interest within the framework of other off-balance sheet items.

	2019	RSD thousand 2018
Managed funds (a)	596.513	617.999
Guarantees and other irrevocable commitments (b)	61.506.339	52.151.249
Other off-balance sheet items	294.873.730	229.166.521
Balance as at 31 December	**356.976.582**	**281.935.769**
Bad debt transferred to off-balance sheet items	(1.355.888)	(1.855.746)
Balance as at 31 December	**355.620.694**	**280.080.023**

(a) Managed funds

	31.122019	RSD thousand 31.12.2018
Investments on behalf of third parties		
In RSD		
– short-term	18.068	15.635
– long-term	578.445	602.364
Balance as at 31 December	**596.513**	**617.999**

Short-term funds managed on behalf of third parties relate to funds of the Ministry of Agriculture in the amount of RSD 8.411 thousand. Long-term funds managed on behalf of third parties relate to long-term housing loans insured with National Mortgage Insurance Corporation amounting RSD 575.804 and long-term loans to agricultural producers in the amount of RSD 2.272 thousand.

(b) Guarantees and Other Irrevocable Commitments

	31.122019	RSD thousand 31.12.2018
In RSD		
Payment guarantees	2.308.362	1.568.688
Performance guarantees	7.059.307	5.821.541
Irrevocable commitments for undrawn loan facilities	4.757.890	5.081.218
Other off-balance items	1.507.746	505.121
	15.633.305	**12.976.568**
In foreign currencies		
Payment guarantees	2.958.945	2.751.967
Performance guarantees	8.559.662	4.557.711
Irrevocable commitments for undrawn loan facilities	31.775.138	30.159.391
Letters of credit	335.591	404.196
Other off-balance items	2.243.698	1.301.416
	45.873.034	**39.174.681**
Balance as at 31 December	**61.506.339**	**52.151.249**

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

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34. OFF-BALANCE SHEET ITEMS (continued)

Irrevocable commitments are usually indexed to 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 credit commitments and undrawn loan facilities because longer term commitments bear a greater degree of credit risk than short-term commitments.

As at 31 December 2019, the Group's provisions for guarantees and other irrevocable commitments amounted to RSD 282.002 thousand (31 December 2018: RSD 240.457 thousand).

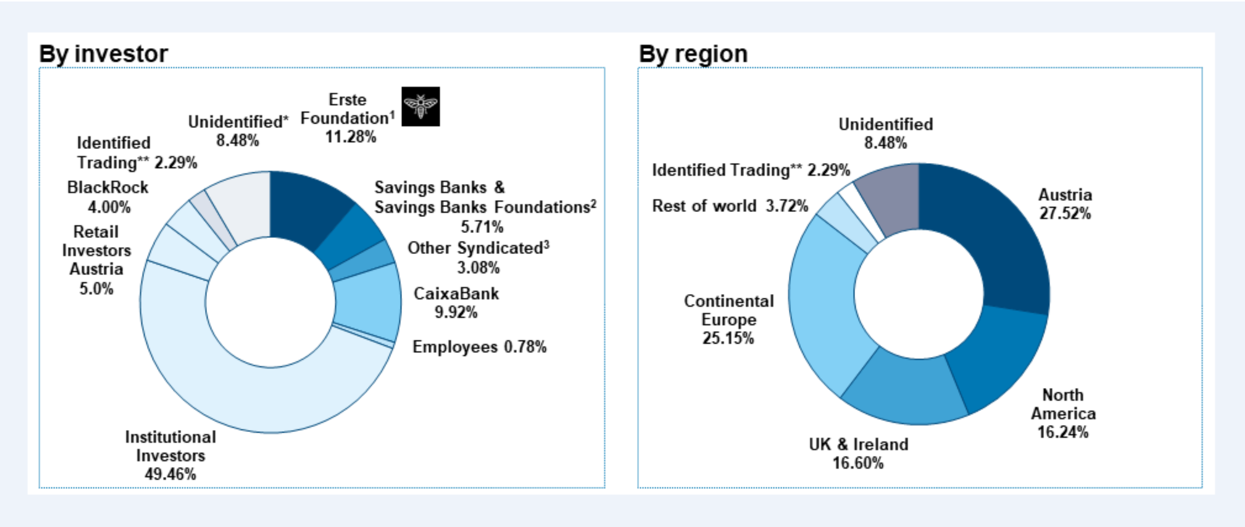
35. RELATED PARTY DISCLOSURES

In its regular business the Group has transactions with its shareholders and other related parties.

Other parties are considered as the related parties if they are under common control, or if one party controls other, or if it can make the significant impact on the other party while making financial and business decisions.

Shareholders of the Bank are Erste Group AG Wien and Steirmärkische Bank and Sparkassen AG, Graz.

Shareholders structure of Erste Group is presented below:



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35. RELATED PARTY DISCLOSURES (continued)

Balances of receivables and payables as of 31 December 2019 and 31 December 2018 as well as income and expenses arising from transactions with entities within Erste Group are provided in tables below:

RSD thousand

	31.12.2019.		31.12.2018.	
	Shareholders	**Other members of Erste Group**	**Shareholders**	**Other members of Erste Group**
Receivables				
Derivative receivables	22.678	-	11.394	-
Loans and receivables from banks and other financial institutions	1.105.627	354.612	472.578	2.124
Loans and receivables from customers	-	62.979	-	43
Property. Plant and equipment	-	977.116		
Other assets	7.543	30.641	65.509	28.085
	1.135.848	**1.425.348**	**549.481**	**30.253**
Liabilities				
Financial liabilities at fair value through profit and loss, held for trading	228.172	-	84.446	-
Deposits and liabilities due to banks and other financial institutions	26.675.120	34.012	28.462.572	65.665
Deposits and liabilities due to customers	-	53.665	-	123.558
Subordinated liabilities	4.206.971	-	4.566.337	-
Provisions	6	60	108	8
Other liabilities	26.419	1.067.653	64.171	5.670
	31.136.688	**1.155.390**	**33.177.634**	**194.901**
Off-balance sheet items				
Guarantees and other warranties	115.680	408.941	972.578	187.038
Irrevocable commitments	-	1.319	-	1.550
Other off-balance sheet items	35.022.878	172.273	14.689.057	236.389
	35.138.558	**582.533**	**15.661.635**	**424.977**

35. RELATED PARTY DISCLOSURES (continued)

RSD thousand

	31.12.2019.		31.12.2018.	
	Shareholders	Other members of Erste Group	Shareholders	Other members of Erste Group
Interest income	20.433	591	12.446	28
Interest expense	(574.378)	(28.916)	(431.220)	(145)
Fees and commission income	48.739	2.957	42.839	3.378
Fees and commission expense	(259.010)	-	(192.700)	-
Net gains on changes in FV of financial instruments	17.641	-	-	-
Net loss on changes in FV of financial instruments	-	-	(61.205)	-
Net gains on foreign exchange difference and currency clause effects	153.474	4.404	63.288	1.847
Net gains on impairment of financial assets not valued at FV through profit and loss	-	-	151	82
Net loss on impairment of financial assets not valued at FV through profit and loss	(171)	(65)	(81)	-
Other operating income	-	8.814	1	12.969
Depreciation costs	-	(104.727)		
Other income	4.930	8.275	2.310	10.012
Other expenses	(134.450)	(760.173)	(178.609)	(679.486)

As at 31 December 2019 and 31 December 2018 loans due from related parties were not impaired.

Long-term loans with related parties have maturity up to 10 years at the rate 3MEURIBOR + 3,65%.

Interbank transactions (overnight and short-term borrowings) are made at prices ranging from -0,20 to 8.2% 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, sales of cash), as well as those transactions for which the fee is charged or paid, are also performed at market conditions and prices „out of reach of the hand".

The interest rate on deposits and other liabilities towards banks and customers ranges from 0,15% to 0,5%.

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 favorable 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)

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:

RSD thousand

	Balance as at 31 December 2019	Income/(Expenses) 31.12.2019.	Balance as at 31 December 2018	Income/(Expenses) 31.12.2018.
Current account overdrafts, credit cards, cash and consumer loans	1.244	190	1.473	186
Housing loans	56.122	2.703	63.303	3.538
Accrued fees	(70)	-	(77)	-
Other placements and receivables	149	13	321	42
Total impairment allowances	(44)	(23)	(21)	132
Deposits	101.566	(355)	39.005	(236)
Other liabilities	293	(487)	286	(715)
Unused credit limit	1.430	-	700	-

Salaries and other benefits of the Executive Board's members and the Management Board's members (stated in gross amounts), during 2019 and 2018, are presented in the table below:

RSD thousand

	31.12.2019.	31.12.2018.
Salaries and benefits of the Management Board members	5.598	5.168
Salaries and benefits of the Executive Board members	150.657	137.053
Accrued income of the Executive Board members	91.114	92.302
Total	**247.369**	**234.523**

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 equity price risk, foreign exchange risk and commodity risk). The Group is also exposed to operating risk and concentration risk, which particularly entails the risk of the 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 all internal acts of the Group in relation to risk management, as well as regular reporting to the Group in relation to risk management. Risk management processes are vital to the continuous profitable business operations of the Group and each individual within the Group is, within his/her remit, accountable for risk exposure. Such risk management system allows timely and full reporting to the governing bodies on all risks that occur or may occur and enables adequate and prompt response to such risks.

An independent risk management process does not cover business risks which comprise changes in the environment, technology and industry. The Group monitor these risks through the 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.

The key roles in risk management belong to the following units:

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 Liability Management Committee

Assets and Liability Management Committee (ALMC) has overall responsibility for the development of a comprehensive risk management strategy and implementation of the principles, framework, policies and limits. ALMC is responsible for fundamental findings in respect of risks and for managing and monitoring of relevant decisions related to risk, principally for interest rates, foreign exchange and other market risks.

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

36. RISK MANAGEMENT (continued)

36.1. Introduction (continued)

The Committee for the management of non-financial risks

The aim of the Committee for the management of non-financial risks is to consider, propose decisions and validate issues in the area of operational risk management of the Group, with the application of the Decision on the basis of expected profit of exposure to risk and the implementation of corrective measures and actions to mitigate risks to manage non-financial risks (operational risk, reputational risk, compliance risk, legal risk, information security) in a proactive manner.

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 Groups 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 practices. Through systematic and disciplined approach, internal audit helps the Group accomplish its objectives by evaluating and improving the effectiveness of risk management, control and managerial processes.

Risk management processes throughout the Group are audited at least annually by the internal audit function, which examines both the adequacy of the procedures and the Group’s compliance with such procedures. Internal audit discusses the results of all assessments with the Group and S-Leasing management and reports its findings and recommendations to the Audit Committee and the Management Board.

Risk Management and Reporting System

In accordance with the Law on Banks in the Group was established internal organisation which defines the organizational unit within its authority and responsibility has the task of risk management. The objective of risk management system is to identify and quantify the risks to which the Group is exposed in the course of its business activities.

The functions of monitoring and risk management are the responsibility of the Risk Management Division as a separate organizational unit within the Group. Risk management policies, risk management strategies as well as strategies for managing capital are linked to the Group 's strategy, and include defining the types of risks, the management of these risks and the level of risk that the Group is willing to accept in order to achieve their business goals. Special attention is paid to full compliance with the relevant regulations of the National Bank of Serbia (NBS).

36. RISK MANAGEMENT (continued)

36.1. Introduction (continued)

Risk Management and Reporting System (continued)

The responsibilities of the Risk Management Division include the following:

- Identification and measurement or assessment of Group's exposure to certain types of risks;
- Risk monitoring, including its monitoring and control, analysis and reports on the amount of individual risks, their causes and consequences;
- Measurement and evaluation as well as management of the Group's risk profile and capital adequacy;
- Tracking of parameters that influence the position of the Group's exposure to risks, primarily including management and optimization of asset quality and the cost of risk;
- Development and application of quantitative risk management models as elements in the process of advanced business decision making and pricing risk;
- Strategies development and limit proposals for the Group's exposure to the individual types of risks and their control;
- Quantifying the impact of changes in the economic cycle or stress events on the Group's financial position;
- Risk assessment of new products introduction and outsourcing activities;
- Development of methodologies, procedures and policies for risk management in accordance with relevant legislation, standards of Erste Group, good business practice and the 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, in order to increase the performance of their roles, the risk management function is divided between the departments managing the strategic risks and Credit Risk Management Division, which consists of the following organizational units:

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:

- Department of Corporate risk management;
- Department of Retail risk management;
- Restructuring and workout/Collections Department.

The Business Compliance and Security Management Service consists of the following organizational units:

- Central Compliance Department;
- Department of Money Laundering Control and Prevention;
- Financial Crime Management Department;
- Security risk management department.

Information gathered from all business activities are examined and processed in order to identify, analyse 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, operational risk. The obtained information is presented and explained to the Board of Directors, Executive Committee, Asset and Liability Committee and the heads of all business units. Reports are sent to the authorities on a daily, weekly, monthly and quarterly basis, and in accordance with their requirements.

Comprehensive report on risks are quarterly presents to the Board of Directors that includes all relevant information needed to estimate the risks the Group is exposed to.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk

Credit risk is the risk that credit beneficiaries will not be able to fulfil contractual obligations to the Group, whether fully or partially that will generate the loss for the Group.

The Group's credit risk is caused by the debtor's credit capacity, good credit history, as well as quality of collateral, and is being identified, estimated and monitored in accordance with the internal by-laws for credit risk management, as well as in accordance with decisions that regulate the classification of the balance sheet assets and off-balance sheet items and capital adequacy.

By its business policy, the Group requires and assesses the maximum credit risk protection, as most important risk in banking.

The Group controls and manages credit risk by establishing rigorous process for determining minimal credit capacity of the debtor in the process of credit approval, as well as by regular monitoring during credit contract life, by defining the different level of decision during loan approval (which reflects knowledge and experience) and by establishing limits, by which the level of acceptable risk is determined on the individual client basis, geographical basis and industries, and risk monitoring accordingly.

By its internal by-laws, policies and procedures, the Group has implemented the adequate system of credit risk management so as to reduce the credit risk to an acceptable level.

In accordance with the Group's Risk management policy, Credit Policy and Procedures for managing the credit risk, the process of credit risk management for individual placements and risks at the portfolio level, i.e., the procedures of identification, measurement and monitoring (control) of placements, especially those with increased risk levels, has been defined.

The process of monitoring the quality of loan enables the Group to assess the potential losses as a result of which is exposed to risk and to take corrective measures.

Approval of loan products is based on the credit quality of the customer, the type of credit product, collateral, additional system requirements and other factors to minimize credit risk.

Assessment of risk of default by the counterparty of the Group is based on the likelihood of the client entering the status of default (PD). For each credit risk exposure, the credit decision is determined by the Group's internal rating, which is a unique measure of the risk of occurrence of the status of the counterparties. The internal rating of each client is updated on a regular basis, at least once a year. At the quantitative level, the internal ratings affect the cost of the required risk, and not the formation of provisions for credit risks. Internal ratings take into account all the available information needed for risk assessment of the client's entry in the status of default (default-a). For clients from the corporate segment, internal ratings take into account the financial strength of the client (profitability ratios, the adequacy of the maturity structure of certain elements of assets and liabilities, the adequacy of cash flows, indebtedness, credit-exposure to foreign exchange risk, the industry in which the borrower operates, the position of the debtor market, the specific characteristics of the debtor and other relevant indicators). For the retail segment and micro clients, internal ratings are based mainly on behavioral and application scoring, but also used demographic and financial information. It is used to restrict the rating depending on the membership in the group of economically related parties and the main economic activity of the country.

36. RISK MANAGEMENT (continued)

36.2. Credit risk (continued)

The Group complies with all standards of Erste Group AG from the perspective of the internal rating model development and maintenance process. All new models and modifications of existing models within the Group (rating models and risk parameters) and methodological standards are reviewed by the Commission's group, the so-called. Holding Model Committee (HMC), which ensures the integrity throughout the Group as well as the consistency of the model and methodology. Models are also approved by local management. The internal rating system complies with Erste Group AG's system, which distinguishes between "performing" and "non-performing" clients. For the "performing" clients (clients that are not in the status of default) The Group uses a scale score of 8 (A1/A2/B1/B2/C1/C2/D1/D2) for customers from the retail segments, or a 13 rating scale (1/2/3/4a/4b/4c/5a/5b/5c/6a/6b/7/8) for all other categories. For customers in the status of default The Group uses a scale score of 5 (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.

Compared to the method used until 2017 based on internal ratings, the most visible is migration from the low risk category into the category of special supervision (from 8% of the portfolio to 18%, i.e. increase of this category by around RSD 15 billion), while the less significant migration from the category below the standard. Category of problematic receivables is not covered by this change. Considering that the newly developed model was implemented in 2018, the comparison between years is not relevant.

For reporting purposes, internal ratings are grouped into the following 4 categories of risk:

Low risk – clients with established good and longer cooperation with the Group, as well as many internationally recognized customers. Strong financial position with no anticipated financial difficulties in the future. Clients from the retail segment who have a long history of cooperation with the Group or clients who use a wide range of products. Clients who do not have delays in the payment of dues currently or in the past 12 months. At the same time, new contracts are generally signed with customers from this category. This category includes S&P ratings from AAA to BB

Management attention - clients with barely satisfactory or unsatisfactory financial situation. Maintenance of credit positions very uncertain in the medium term. Negative qualitative criteria are present. Clients from the retail segment with limited savings or likely problems in paying that trigger reminders for early payment. 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 recorded one or more criteria for the activation of the default status, in accordance with the definition laid down in the precise internal regulations of the Group and Erste Group AG: uncertain payments, late payments with a materially significant exposure for more than 90 days, a restructuring that has caused a loss for the Group, realization of credit loss or the initiation of bankruptcy proceedings. In order to determine the default status, The Group applies a client level approach, including retail clients; if the client is in the default status for one product, then all other products from the client are classified as problematic claims.

Monitoring and control of credit risk

Monitoring credit risk

With the aim of timely credit risk management a regular analysis of the risk of the client is performed, which includes regular status ratings, serviceability of obligations towards the Group, reviewing collaterals and compliance with contractual terms.

The Group aims to promptly identify any deterioration in the quality of the loan portfolio, which may result in material losses for the Group, therefore, the Group, through the process of regular re-approval, analyses the overall status of the debtor. The importance of regular re-approval of credit exposure is in the regular client monitoring and portfolio quality, and represents an additional measure to optimize credit risk exposure of the Group.

36. RISK MANAGEMENT (continued)

36.2. Credit risk (continued)

Monitoring and control of credit risk (continued)

The Group conducts evaluation of credit quality based on customer information, also taking into account all the client information and previous credit history between the group and the client.

Early Warning Signals

Systems and processes are used to detect early warning indications of negative developments, in order to provide proactive measures to reduce the risk. The Group applies methods of early detection of increased credit risk in order to increase successful collection even in case of deterioration of the credit portfolio quality, which is revealed by monitoring all relevant information and predicting changes in variables in the future which primarily includes the client's behavior up to that point in settling obligations and monitoring of market information.

EWS control function within the Group is organized within a separate organizational unit within the Directorate of credit risk management of legal entities (Department of EWS and monitoring).

Default status

Definition of the default status within the Group follows the regulatory requirements of the Group by translating them into five groups of events of default status:

- Default event E1 - Small chance of settling the obligations entirely due to the decrease of credit quality of borrowers
- Default event E2 - A delay longer than 90 days after a materially significant amount of debt
- Default event E3 - Modifications to the originally agreed terms of repayment due to the assessment of the worsening economic situation of the client
- Default event E4 - Credit loss
- Default event E5 - Bankruptcy

The Group has established a systematic process to ensure identification and recognition of status of default on client level. This means that in case a default status of any credit risk exposure of individual investments of a client, the total balance sheet or off-balance sheet exposure that the Group has for the client, including products that are not related to lending, are classified in the default status. The foregoing is applicable to all clients from the retail banking segment, as well as clients from other corporate segments.

In the case of undertaken loan commitments that are part of the Group's off-balance sheet assets, the exposure in the status of default is presented in the nominal amount of the liability, which, in case of the withdrawal of funds, or the activation, leads to risk exposure based on the default status without the realization of collaterals.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Default status (continued)

In the case of given financial guarantees, exposure in the status of default represents the total nominal amount based on which there is a risk that may arise in the event of the occurrence of default status of partial or total guaranteed exposure.

Default events can be activated either at the level of exposure of individual investments or on the client level, but the general rule that applies to all cases, requires that the client is granted the status of default for all individual exposures, and be given an internal rating of "R", regardless whether the default event triggered at individual exposures level or at the client level.

All clients of the Group are located in the status of default and therefore they are given the appropriate internal rating (R1 - R5) if there has been a realization of at least one of the default events E1 - E5.

If the Group estimates that criteria, which led to default status, are no longer applicable and the client is able to continue to repay the debt in accordance with the defined terms of the contract, the Group will change the rating of the client due to the fact that the client is no longer in the status of default.

Minimum general requirements that must be met before leaving the status of default and the "R" rating are the following:

- none of the default events E1 - E5 are valid with the client and additional losses in not expected on its individual credit exposures and
- the monitoring period is successfully over.

Each event has a default precisely defined minimum duration and termination of the default status is acceptable only after the successful completion of the monitoring period which automatically follows the expiry / termination of default events E1 - E5 in clients who have any type of credit obligations and which lasts 3 months thereafter. Specifically, in order to successfully complete the monitoring period, during this time, the client is not allowed to start or have any criteria that may initiate by one of the predefined default events E1 - E5.

Write off of receivables

The Group, in accordance with the Regulations on the write-off of receivables and the transfer of receivables from the balance sheet to the off-balance sheet, performs write-offs of bad debts after they have exhausted all the possibilities for recovery. In addition, write-offs can be taken into consideration in a situation where further court proceedings are not economically viable due to higher costs compared to the collection amount, where further action of any kind is not effective. Write-off of receivables is performed only for doubtful loans that are impaired. For claims under litigation or bankruptcy which are fully impaired (for which a correction of 100% has been performed), and for which it is assessed that the litigation or bankruptcy will take too long and therefore will be a burden to the Group's balance sheet records, a decision is made on the transfer of receivables from the balance sheet to the off balance sheet but the debt is not forgiven, more precisely the Group does not waive contractual and legal rights for the claim.

In addition, the Group in accordance with the Decision of the National Bank of Serbia on the accounting write-off of the balance sheet assets of the Bank "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 bank in favor of impairment of the value of 100% of its gross carrying amount.

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36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Maximum exposure to credit risk in balance sheet and off-balance sheet items.
Overview of the maximum exposure to credit risk is shown in both gross and net amounts, without taking into account collaterals and other items that the Group does not consider as exposed to credit risk in accordance with the positions of the balance sheet as at 31 December 2019 is presented in the table below:

RSD thousand

	Assets at based on which the Group is exposed to credit risk				
	Gross amount	Accumulated allowance for impairment / provisions	Net amount	The assets based on which the Group is not exposed to credit risk	Value from the balance sheet
Cash and assets with the central bank	13.219.331	-	**13.219.331**	8.636.021	**21.855.352**
Financial assets at fair value through the profit and loss account	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 institutions	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 associates and joint ventures	-	-	**-**	118	**118**
Intangible assets	-	**-**	**-**	683.397	**683.397**
Property, plant and equipment	-	**-**	**-**	3.076.169	**3.076.169**
Current tax assets	-	**-**	**-**	229.409	**229.409**
Deferred tax assets	-	**-**	**-**	2.044	**2.044**
Fixed assets held for sale and assets from discontinued operations	-	**-**	**-**	12.252	**12.252**
Other assets	1.046.447	87.587	**958.860**	389.520	**1.348.380**
On-Balance exposure	**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 future liabilities	40.284.472	146.746	**40.137.726**	-	**40.137.726**
Other off-balance sheet exposure	-	-	**-**	295.470.242	**295.470.242**
Off-Balance exposure	**61.506.339**	**280.823**	**61.225.516**	**295.470.242**	**356.695.758**
Total exposure	**294.180.136**	**3.722.876**	**290.457.260**	**308.759.153**	**599.216.413**

In accordance with Bank's policy, sources of credit risk are loans portfolio and receivables from customers, banks 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 primarily 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

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36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Overview of securities:

RSD thousand

	Securities											
	Gross value			Of which: impaired			Accumulated value adjustments			Of which: impairment losses on impaired receivables		
	AC	FVOCI	FVTPL	AC	FVOCI	FVTPL	AC	FVOCI	FVTPL	AC	FVOCI	FVTPL
Derivative receivables	-	-	**346.899**	-	-	-	-	-	-	-	-	-
Of which: Other	-	-	346.899	-	-	-	-	-	-	-	-	-
Financial assets available for sale	**16.199.413**	**14.812.604**	**10.800.334**	-	-	-	**20.785**	**18.534**	-	-	-	-
Of which: Government bonds of the Republic of Serbia	16.199.413	14.812.604	10.800.334	-	-	-	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, 98,29% 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 bank, 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 / stable outlook

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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 of 31 December 2018 is presented in the following table:

RSD thousand

	Assets at based on which the Group is exposed to credit risk				
	Gross amount	**Accumulated allowance for impairment / provisions**	**Net amount**	**The assets based on which the Group is not exposed to credit risk**	**Value from the balance sheet**
Cash and assets with the central bank	16.671.146	-	**16.671.146**	7.970.111	**24.641.257**
Financial assets at fair value through the profit and loss account	181.204	-	**181.204**	-	**181.204**
Securities	35.167.790	13.896	**35.153.894**	-	**35.153.894**
Loans and receivables from banks and other financial institutions	1.495.801	2.929	**1.492.872**	-	**1.492.872**
Loans and receivables from customers	149.799.090	3.452.603	**146.346.487**	-	**146.346.487**
Investments in associates and joint ventures	-	-	**-**	118	**118**
Intangible assets	-	-	**-**	-	**-**
Property, plant and equipment	-	-	**-**	554.374	**554.374**
Investment property	-	-	**-**	1.072.688	**1.072.688**
Current tax assets	-	-	**-**	173.326	**173.326**
Deferred tax assets	-	-	**-**	20.553	**20.553**
Fixed assets held for sale and assets from discontinued operations	-	-	**-**	12.288	**12.288**
Other assets	902.898	83.132	**819.766**	425.892	**1.245.658**
On-Balance exposure	**204.217.929**	**3.552.560**	**200.665.369**	**10.229.350**	**210.894.719**
Guarantees and warranties	15.104.103	125.850	**14.978.253**		**14.978.253**
Assumed future liabilities	37.047.146	114.563	**36.932.583**		**36.932.583**
Other off-balance sheet exposure	-	-	**-**	229.784.520	**229.784.520**
Off-Balance exposure	**52.151.249**	**240.413**	**51.910.836**	**229.784.520**	**281.695.356**
Total exposure	**256.369.178**	**3.792.973**	**252.576.205**	**240.013.870**	**492.590.075**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Overview of securities:

RSD thousand
Securities

	Gross value			Of which: impaired			Accumulated value adjustments			Of which: impairment losses on impaired receivables		
	AC	**FVOCI**	**FVTPL**	**AC**	**FVOCI**	**FVTPL**	**AC**	**FVOCI**	**FVTPL**	**AC**	**FVOCI**	**FVTPL**
Derivative receivables	-	-	**181.204**	-	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Of which: Other	-	-	181.204	-	-		-	-	-	-	-	-
Financial assets available for sale	**10.828.561**	**14.280.751**	**10.058.479**	**-**	**-**	**-**	**13.897**	**18.055**	-	-	-	-
Of which: Government bonds of the Republic of Serbia	10.828.561	14.153.255	9.774.867	-	-	**-**	13.897	**18.055**	-	-	-	-
Of which: Other	-	127.496	283.612	-	-	**-**	-	-	-	-	-	-
Total exposure	**10.828.561**	**14.280.751**	**10.239.683**	**-**	**-**	**-**	**13.897**	**18.055**	-	-	-	-

As at 31 December 2018, 98,32% 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 bank, allocates a risk weight of 0%.
Credit rating of the Republic of Serbia for long-term borrowing as at 31 December 2018:
- Moody's Investors Service Ba3 / stable outlook
- Fitch Ratings BB / stable outlook
- Standard and Poor's BB / stable outlook

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Loans and receivables from customers, banks and other financial institutions

(a) Overview by credit quality of receivables and non-problematic value of collaterals by which they are insured as at 31 December 2019:

RSD thousand

	The credit quality of non-problematic receivables[2]				Value of collaterals*		
	High	Medium	Low	Problematic receivables[3]	Non-problematic receivables	Problematic receivables	The impact of collateral on reducing the value of impairment
Receivables from retail clients	**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
Transactional and Credit Card	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 entities	18.873.773	2.138.317	-	-	7.910.647	-	33.740
Small and medium-sized entities	33.852.030	8.423.106	2.866.784	564.749	15.283.526	105.405	242.689
Micro enterprises and entrepreneurs	12.885.740	7.768.768	696.732	146.526	3.725.355	62.136	93.399
Agricultural producers	98.143	191.978	33.962	48.065	98.571	29.478	9.954
Public companies	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**

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[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 33.2 Credit risk.

[3] Problematic claims of the Group include claims in the status of default (see "33.2 Credit Risk") and restructured claims "Non performing forbearance" (see 33.2 Credit Risk - Rescheduled Receivables) that are not in the status of default.

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36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

* 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).

Loans and receivables from customers, banks and other financial institutions

(a) Overview by credit quality of receivables and non-problematic value of collaterals by which they are insured as at 31 December 2018:

RSD thousand

	The credit quality of non-problematic receivables[4]				Value of collaterals*		
	High	Medium	Low	Problematic receivables[5]	Non-problematic receivables	Problematic receivables	The impact of collateral on reducing the value of impairment
Receivables from retail clients	**51.269.379**	**9.264.156**	**2.120.818**	**1.471.081**	**29.519.378**	**411.675**	**260.548**
Housing loans	32.061.933	2.140.156	587.349	730.266	28.861.166	411.183	258.370
Consumer and Cash Loans	17.135.887	6.604.159	1.408.994	613.057	75.166	492	1.377
Transactional and Credit Card	534.743	145.417	31.733	13.214	796	-	18
Other receivables	1.536.815	374.424	92.742	114.544	582.250	-	784
Receivables from corporate clients	**60.670.371**	**19.208.458**	**1.914.432**	**884.484**	**24.155.754**	**357.224**	**309.474**
Large entities	14.902.132	888.985	-	1.503	5.127.413	-	22.185
Small and medium-sized entities	31.549.540	12.142.542	180.152	515.855	14.034.811	198.189	165.109
Micro enterprises and entrepreneurs	11.199.950	5.506.303	1.647.172	315.822	3.975.964	144.847	106.834
Agricultural producers	83.329	122.907	87.108	42.753	104.176	14.187	15.346
Public companies	2.935.420	547.721	-	8.552	913.390	-	-
Receivables from other clients	**4.283.530**	**97.071**	**1**	**111.110**	**478.841**	**20.311**	**13.519**
Total receivables	**116.223.280**	**28.569.685**	**4.035.251**	**2.466.675**	**54.153.973**	**789.209**	**583.541**

[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 33.2 Credit risk.

[5] Problematic claims of the Group include claims in the status of default (see "33.2 Credit Risk") and restructured claims "Non performing forbearance" (see 33.2 Credit Risk - Rescheduled Receivables) that are not in the status of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

(a) Overview of the gross and net credit exposure by sectors and categories of receivables, according to the type of impairment, the maturity and the value of collaterals as at 31 December 2019:

RSD thousand

	Non-impaired receivables[6]		Impaired receivables [7]			Accumulated impairment				Value of collaterals	
	Not due	Due	Individually impaired	Collectively impaired	Total gross receivables	Impairment of non-impaired receivables	Individually impaired	Collectively impaired	Total net receivables	Non-impaired receivables	Impaired receivables
By sectors											
Receivables from retail	**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**
Housing 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	-
Transactional and Credit Card	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 entities	20.948.564	63.482	-	-	**21.012.046**	110.968	-	-	**20.901.077**	7.910.647	-
Small and medium-sized entities	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 enterprises and entrepreneurs	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
Agricultural producers	313.177	10.906	37.813	10.252	**372.149**	12.294	27.906	7.312	**324.636**	98.571	29.478
Public companies	4.437.032	1.128	511	1.034	**4.439.705**	11.818	511	1.034	**4.426.342**	958.673	-
From other clients	**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**

[6] By non-impaired receivables, the Group considers receivables which are not in the default status and receivables without indicators of impairment

[7] By impaired receivables, the Group considers receivables which are in default status with impairment indicator

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

(b) Overview of the gross and net credit exposure by sectors and categories of receivables, according to the type of impairment, the maturity and the value of collaterals as at 31 December 2018:

RSD thousand

	Non-impaired receivables[8]		Impaired receivables [9]			Accumulated impairment				Value of collaterals	
	Not due	Due	Individually impaired	Collectively impaired	Total gross receivables	Impairment of non-impaired receivables	Individually impaired	Collectively impaired	Total net receivables	Non-impaired receivables	Impaired receivables
By sectors											
Receivables from retail	**62.539.842**	**255.620**	**584.519**	**745.454**	**64.125.435**	**774.890**	**323.762**	**529.098**	**62.497.685**	**29.594.299**	**336.754**
Housing loans	34.833.317	44.876	570.399	71.112	**35.519.704**	350.333	311.149	46.934	**34.811.288**	28.936.086	336.262
Consumer and Cash Loans	25.042.051	157.158	4.653	558.236	**25.762.098**	396.235	3.276	384.962	**24.977.623**	75.166	492
Transactional and Credit Card	710.442	1.763	284	12.618	**725.107**	6.801	267	8.697	**709.342**	796	-
Other receivables	1.954.032	51.823	9.183	103.488	**2.118.526**	21.520	9.070	88.504	**1.999.431**	582.250	-
Receivables from corporate clients	**81.547.398**	**247.503**	**791.262**	**91.582**	**82.677.745**	**1.033.143**	**604.210**	**72.450**	**80.967.942**	**24.157.396**	**355.582**
Large entities	15.769.332	21.785	1.503	-	**15.792.620**	83.114	1.503	-	**15.708.003**	5.127.413	-
Small and medium-sized entities	43.738.471	135.403	474.209	40.004	**44.388.087**	406.803	387.812	35.642	**43.557.831**	14.036.453	196.548
Micro enterprises and entrepreneurs	18.281.584	71.842	270.339	45.483	**18.669.248**	432.208	182.463	31.493	**18.023.084**	3.975.964	144.847
Agricultural producers	278.566	14.778	39.039	3.714	**336.097**	17.902	26.262	2.933	**289.000**	104.176	14.187
Public companies	3.479.446	3.695	6.171	2.382	**3.491.693**	93.116	6.171	2.382	**3.390.025**	913.390	-
From other clients	**4.306.085**	**74.534**	**99.151**	**11.942**	**4.491.712**	**18.212**	**87.827**	**11.941**	**4.373.731**	**478.841**	**20.311**
Total exposure	**148.393.325**	**577.656**	**1.474.932**	**848.978**	**151.294.891**	**1.826.244**	**1.015.800**	**613.489**	**147.839.359**	**54.230.536**	**712.647**
Non-problematic receivables	148.252.318	575.898	-	-	**148.828.216**	1.804.149	-	-	**147.024.067**	54.153.973	-
of which: Restructured	826.053	2.128	-	-	**828.181**	134.831	-	-	**693.350**	136.046	-
Problematic receivables	141.009	1.758	1.474.931	848.977	**2.466.675**	22.095	1.015.799	613.489	**815.292**	76.562	712.647
of which: Restructured	126.375	1.637	359.976	200.533	**688.521**	20.347	208.393	138.704	**321.077**	64.430	188.620
Total exposure	**148.393.327**	**577.656**	**1.474.931**	**848.977**	**151.294.891**	**1.826.244**	**1.015.799**	**613.489**	**147.839.359**	**54.230.536**	**712.647**

[8] By non-impaired receivables, the Group considers receivables which are not in the default status and receivables without indicators of impairment
[9] By impaired receivables, the Group considers receivables which are in default status with impairment indicator

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

(c) 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:

RSD in thousand

	Non-impaired receivables					Impaired receivables				
	not in delay	within 30 days	from 31 to 60 days	from 61 to 90 years	over 90 days	not in delay	do 90 dana	from 91 to 180 days	from 181 to 360 days	over 360 days
Receivables from retail	**67.388.496**	**9.331.086**	**240.607**	**63.576**	**-**	**323.816**	**318.413**	**137.307**	**202.680**	**406.769**
Housing 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
Transactional and Credit Card	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 entities	20.589.643	312.100	110.304	-	-	-	-	-	-	-
Small and medium-sized entities	43.169.468	1.896.559	18.785	57.107	-	129.471	57.125	19.874	230.988	127.289
Micro enterprises and entities	18.540.813	2.740.778	27.477	42.172	-	2.741	9.645	18.024	26.839	89.277
Agricultural producers	280.988	35.818	7.278	-	-	1.941	3.177	1.124	10.681	31.143
Public companies	4.430.192	5.900	2.068	-	-	9	-	-	-	1.536
From other clients	**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**

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for the year ended 31 December 2019

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

(c) 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 2018:

RSD in thousand

	Non-impaired receivables					Impaired receivables				
	not in delay	**within 30 days**	**from 31 to 60 days**	**from 61 to 90 years**	**over 90 days**	**not in delay**	**do 90 dana**	**from 91 to 180 days**	**from 181 to 360 days**	**over 360 days**
Receivables from retail	**54.369.627**	**8.070.199**	**289.631**	**66.005**	**-**	**290.756**	**317.736**	**154.531**	**174.328**	**392.621**
Housing loans	34.090.385	703.854	78.011	5.943	-	183.591	85.825	36.396	51.372	284.328
Consumer and Cash Loans	18.028.473	6.939.069	178.846	52.821	-	98.776	218.913	101.427	105.706	38.068
Transactional and Credit Card	691.412	2.839	14.770	3.185	-	2.651	1.673	3.815	3.391	1.372
Other receivables	1.559.358	424.437	18.005	4.055	-	5.739	11.325	12.892	13.860	68.853
Receivables from corporate clients	**79.754.713**	**2.002.442**	**32.475**	**5.271**	**-**	**256.129**	**114.313**	**36.194**	**74.435**	**401.772**
Large entities	15.778.264	12.853	-	-	-	-	-	-	-	1.503
Small and medium-sized entities	42.467.437	1.388.274	13.571	4.593	-	252.790	100.678	22.052	4.073	134.619
Micro enterprises and entities	17.785.980	553.102	13.666	678	-	1.291	13.634	12.437	69.952	218.508
Agricultural producers	243.654	44.452	5.238	0	-	2.048	-	1.671	410	38.623
Public companies	3.479.379	3.761	-	-	-	-	-	35	-	8.517
From other clients	**4.379.528**	**1.090**	**-**	**-**	**-**	**20**	**-**	**-**	**-**	**111.073**
Total exposure	**138.503.869**	**10.073.731**	**322.106**	**71.276**	**-**	**546.906**	**432.049**	**190.725**	**248.763**	**905.466**
By category of receivables	-	-	-	-	-	-	-	-	-	
Non-problematic receivables	138.426.323	10.038.728	292.715	70.448	-	-	-	-	-	-
of which: restructured	747.772	73.810	6.599	-	-	-	-	-	-	-
Problematic receivables	77.545	35.003	29.391	828	-	546.906	432.049	190.725	248.763	905.466
of which: restructured	63.520	34.276	29.388	828	-	229.206	173.423	27.730	79.325	50.824
Total exposure	**138.503.869**	**10.073.731**	**322.106**	**71.276**	**-**	**546.906**	**432.049**	**190.725**	**248.763**	**905.466**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

RSD thousand

	The gross value of receivables	Accumulated allowance for impairment of total receivables	The gross value of problematic receivables		Accumulated allowance for impairment of problematic receivables	% problematic receivables	The value of collaterals of problematic receivables
			Total	of which: restructured receivables			
Retail receivables	**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
Consumer and Cash Loans	32.057.915	1.134.301	898.140	266.373	671.819	2,80	-
Transactional and Credit Card	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	-
Sector B, C, 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, J	10.774.411	125.261	32.957	-	23.148	0,31	5.387
Sector L, M, 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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

(d) Data on problematic receivables as at 31 December 2018:

RSD thousand

	The gross value of receivables	Accumulated allowance for impairment of total receivables	The gross value of problematic receivables		Accumulated allowance for impairment of problematic receivables	% problematic receivables	The value of collaterals of problematic receivables
			Total	of which: restructured receivables			
Retail receivables	**64.125.435**	**1.627.750**	**1.471.081**	**499.895**	**874.953**	**2,29**	**411.675**
Housing loans	35.519.704	708.416	730.266	275.681	375.028	2,06	411.183
Consumer and Cash Loans	25.762.098	784.474	613.057	220.280	393.240	2,38	492
Transactional and Credit Card	725.107	15.765	13.214	-	8.982	1,82	-
Other receivables	2.118.526	119.095	114.544	3.934	97.703	5,41	-
Receivables from corporate clients*	**76.656.046**	**1.518.084**	**802.409**	**184.035**	**617.563**	**1,05**	**340.213**
Sector A	6.010.305	94.362	51.801	35.639	32.288	0,86	46.268
Sector B, C, E	16.388.959	464.187	321.573	72.262	253.415	1,96	155.779
Sector D	8.644.393	145.921	-	-	-	-	-
Sector F	13.577.949	121.893	28.532	11.260	18.098	0,21	11.260
Sector G	13.693.369	409.739	361.245	60.354	287.896	2,64	108.320
Sector H, I, J	9.344.879	115.533	32.228	-	23.875	0,34	13.230
Sector L, M, N	8.996.192	166.449	7.031	4.521	1.992	0,08	5.356
Receivables from other clients	**10.513.411**	**309.698**	**193.186**	**4.591**	**158.867**	**1,84**	**37.322**
Total receivables	**151.294.891**	**3.455.532**	**2.466.675**	**688.521**	**1.651.383**	**1,63**	**789.209**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

RSD thousand

	Gross value at beginning of year	New problematic receivables	Decrease of problematic receivables				Other changes[10]	Gross value at end of year	Net value at end of year
			Total	of which: charged	of which: transferred to the category of non-problematic receivables	of which: written off			
Retail receivables	1.471.080	810.293	920.554	364.115	442.095	114.344	85.452	1.446.271	466.145
Receivables from corporate 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**

Data on problematic receivables as at 31 December 2018:

RSD thousand

	Gross value at beginning of year	New problematic receivables	Decrease of problematic receivables				Other changes[11]	Gross value at end of year	Net value at end of year
			Total	of which: charged	of which: transferred to the category of non-problematic receivables	of which: written off			
Retail receivables	1.583.972	751.397	917.067	343.974	194.314	378.779	52.779	1.471.081	596.129
Receivables from corporate clients	2.288.205	439.360	848.205	431.310	9.909	406.986	(883.765)	995.595	219.164
Total receivables	**3.872.176**	**1.190.757**	**1.765.272**	**775.284**	**204.223**	**785.765**	**(830.986)**	**2.466.676**	**815.293**

[10] Other changes relate to foreign exchange differences and increased exposure based on existing of problematic claims.
[11] Other changes relate to foreign exchange differences and increased exposure based on existing of problematic claims.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Collaterals and other means of protection against credit risk

During the process of credit approval, the Group expects to collect primarily from future cash flows of borrowers. As a supplement to this form of collection, and to reduce the potential losses due to the occurrence of the status of default of the debtor, the Group takes various security instruments (collaterals) as protection. The Group takes as much collaterals as possible, whereby the preferred collateral that can be quickly and easily realized. The possibility of taking collateral depends on current market situation and business competition. The effectiveness of credit risk mitigation technique is measured and controlled by monitoring the time taken for the realization of collateral and the deviation of realized value of collateral and the expected amount.

In the context of strategic risk management departments, the Department for collateral management, which is responsible for the entire collateral management process - from the preliminary analysis to the completion of its implementation. The process is divided into 3 phases:

Analysis phase of collaterals represents the initial phase of the process of collateral management. It begins with the identification and analysis of potential collateral and collecting necessary information and documentation, and ends with the records of the collateral in the system for recording collateral.

Monitoring phase of collaterals refers to monitoring of restitution and value of collaterals. One of its main function is to record, monitor, update and control data on collaterals in the system for recording collateral.

Realization phase of collaterals represents the last phase of the process, when it comes to the realization of collateral (e.g. its sales in order to close placements) and the closing of collateral in the system for recording collateral. It also includes the phase of data collection for the calculation of the average Collateral Recovery Ratio.

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

In addition to the process, the Collateral management department is responsible for the process of selection, monitoring and removal of appraisers from the list of acceptable appraisers by the Group, and to define the minimum content of the report on valuation, as well as control the application of appropriate methodology in the valuation of collateral, in order to provide a more accurate value of collaterals. Detailed rules for standards and valuation methodology are included in the Policy of the collateral management.

In addition to the process, the Collateral management department is responsible for the process of selection, monitoring and removal of appraisers from the list of acceptable appraisers by the Group, and to define the minimum content of the report on valuation, as well as control the application of appropriate methodology in the valuation of collateral, in order to provide a more accurate value of collaterals. Detailed rules for standards and valuation methodology are included in the Policy of the collateral management.

Reviewing the value of collaterals is done periodically, depending on the method of the verification and the type of collateral. Reviewing the value of collaterals can be separated into valuation by an external appraisers or government body authorized to determine the value (re-evaluation, Tax statement) and the internal monitoring of collaterals' value by the employees in the Department of collateral management (monitoring). The dynamics of the review of the value of collateral is defined depending on the type of collateral, and in accordance with local and internal regulations.

Within the process of calculating the capital requirement for credit risk, the Department for Management of strategic risk, after checking the compliance with applicable legal regulations defined by the Decision on capital adequacy of banks, determines whether a particular instrument is accepted as collateral to mitigate credit risk. Items of collateral which are eligible as instruments for credit risk mitigation are explained in detail in a special internal procedure of the Group which defines applicable instruments to mitigate credit risk as well as conditions for the recognition of credit risk mitigation 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 banks of sufficient credit quality and international banks for development– exposures secured by a bank and international bank for development guarantees

In its portfolio of acceptable means of collateral the 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 banks 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 favorable 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 bank when all the requirements defined by the Decision on the capital adequacy of banks are fulfilled.
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In addition to the above mentioned, the Group applies the following credit protection instruments, but they were not taken into account in the calculation of risk-weighted assets:

- pledge on movable property;
- pledge on receivables;
- pledge on shares and bonds;
- other types as defined in the Group Catalogue of collaterals.

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for the year ended 31 December 2019

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:

RSD thousand

	Type of collateral up to amount of receivables (as it is in KA4)		
	Deposits	Residential real estate	Other real estate
Receivables from retail	**40.322**	**35.166.146**	**192.065**
Houseing loans	7.635	35.134.527	166.303
Consumer and Cash Loans	31.184	13.248	1.181
Transactional and Credit Card	1.503	-	-
Other receivables	-	18.371	24.581
Receivables from corporate clients	**1.676.191**	**891.838**	**17.495.889**
Large entities	58.796	-	6.747.861
Small and medium-sized entities	1.255.021	362.443	8.514.307
Micro enterprises and entities	362.373	513.783	2.122.516
Agricultural producers	-	15.612	111.206
Public companies	-	-	-
Receivables from other clients	**63.081**	**31.461**	**573.385**
Total exposure	**1.779.593**	**36.089.444**	**18.261.339**
According to categories 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 exposure	**1.779.593**	**36.089.444**	**18.261.339**

[12] The value of collaterals is determined based on estimation of authorized estimator (or based on some other document according to the type of collateral), with possible internal correction, after which the effective rate (collateral haircut) is used in accordance with the catalog of collateral and decreased for the previous load.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on the type and value of collateral and guarantees by sector providers and categories of receivables as at 31 December 2018:

RSD thousand

	Type of collateral up to amount of receivables (as it is in KA4)				
	Deposits	**Residential real estate**	**Other real estate**	**Other assets**	**Guarantees issued by the state**
Receivables from retail	**36.299**	**29.153.427**	**232.835**	**508.492**	-
Housing loans	9.528	29.096.641	166.179	-	-
Consumer and Cash Loans	25.974	31.196	18.488	-	-
Transactional and Credit Card	796	-	-	-	-
Other receivables	-	25.590	48.168	508.492	-
Receivables from corporate clients	**2.145.490**	**620.412**	**15.120.891**	**6.152.762**	**473.424**
Large entities	-	-	4.412.124	715.289	-
Small and medium-sized entities	1.549.212	320.516	8.079.022	4.284.251	-
Micro enterprises and entities	596.278	291.554	2.521.325	711.654	-
Agricultural producers	-	8.343	108.419	1.601	-
Public companies	-	-	-	439.966	473.424
Receivables from other clients	**44.788**	**25.401**	**335.903**	**93.059**	-
Total exposure	**2.226.577**	**29.799.241**	**15.689.629**	**6.754.312**	**473.424**
According to categories of receivables					
Non-problematic receivables	2.226.577	29.377.787	15.332.057	6.744.128	473.424
of which: restructured	-	131.917	4.129	-	-
Problematic receivables	-	421.453	357.572	10.184	-
of which: restructured	-	135.694	117.355	-	-
Total exposure	**2.226.577**	**29.799.241**	**15.689.629**	**6.754.312**	**473.424**

[1] The value of collaterals is determined based on estimation of authorized estimator (or based on some other document according to the type of collateral), with possible internal correction, after which the effective rate (collateral haircut) is used in accordance with the catalog of collateral and decreased for the previous load.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

During 2019, the Group had the following assets acquired through collection of receivables.

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

During 2018, the Group had the following assets acquired through collection of receivables.

			RSD thousand
Types of assets acquired through collection of receivables	**Residential real estate**	**Other assets acquired through collection**	**Total**
Gross amount at the beginning of the period*	12.073	350	12.423
Acquired during the period	-	-	-
Sold during the period	-	-	-
Gross amount at the end of the period	12.073	350	12.423
Accumulated impairment	12.073	1	12.074
of which: allowance for impairment during the period	-	1	1
Net value at period end	**-**	**349**	**349**

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. In case when the Group make a decision on overtake the asset, analysis are done with the net present value method. 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 presents the so-called "LTV" ratio for housing loans, which represent a part of total retail loans.

		RSD thousand
Value of the LTV indicator	**The value of receivables secured by mortgages on real estate as at 31 December 2019**	**The value of receivables secured by mortgages on real estate as at 31 December 2018**
below 50%	7.799.915	8.644.820
from 50% to 70%	11.116.346	8.665.114
from 70% to 90%	22.403.317	18.080.378
from 90% to 100%	932.626	975.676
from 100% to 120%	2.025.458	1.387.649
from 120% to 150%	776.607	971.580
over 150%	2.163.954	2.591.991
Total exposure	**47.218.224**	**41.317.208**
Average LTV	**72,7%**	**71,8%**

*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 receivable is secured.

Assessment 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, banks 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 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).

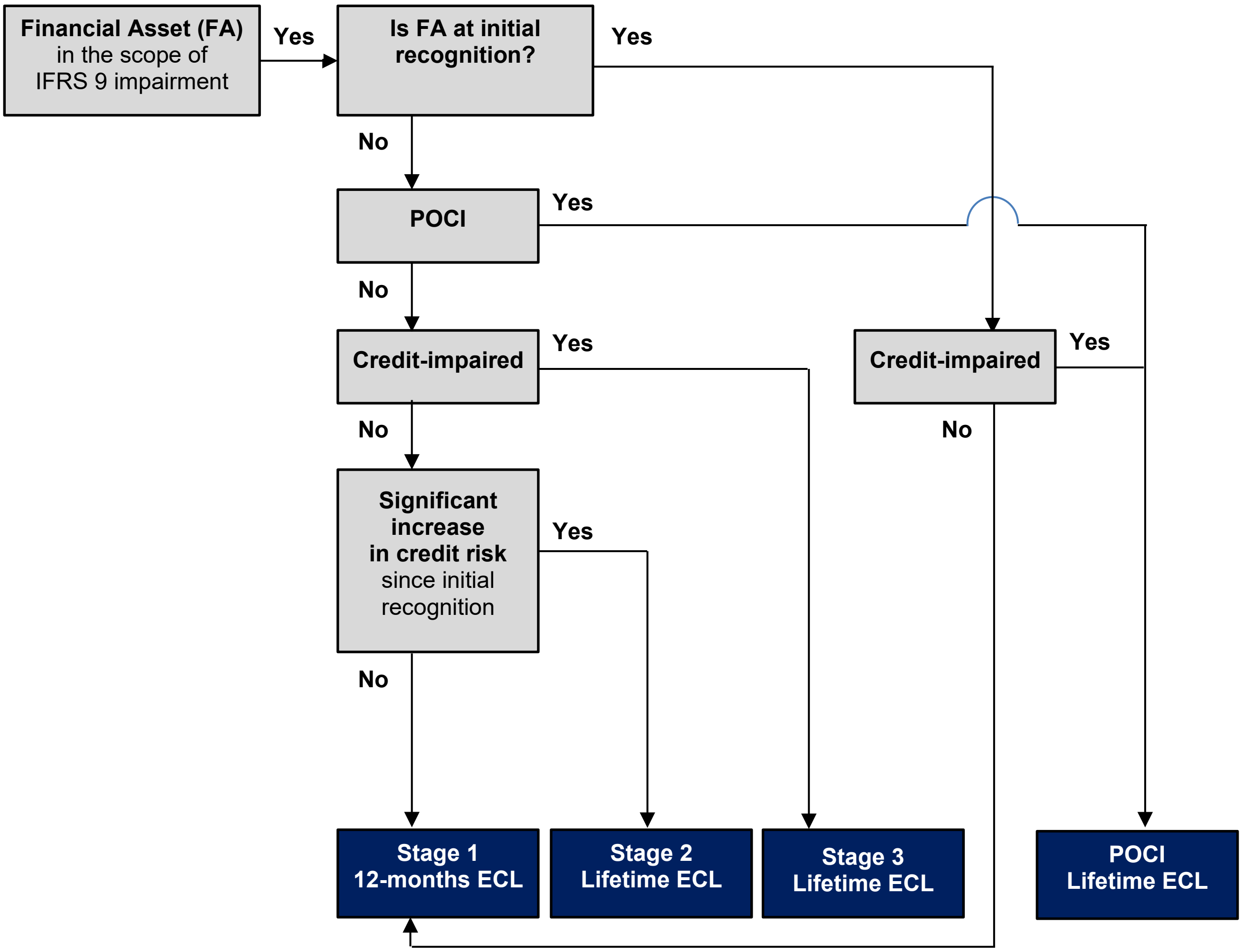
The objective of establishing an impairment allowances is to recognize expected credit losses over the life of all financial instruments, taking into account all reasonable and supporting information, including those relating to future events [IFRS 9 5.5.4.] Accordingly, financial assets that are relevant 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 forming impairment applied within the Group is shown here:



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 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** - Status forbearance, assigned to a client, whether non-performing forbearance or performing forbearance, is considered as a significant increase in credit risk from the initial recognition.
- **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 that fraud is identified on asset level then lifetime expected credit losses should be recognised; it means financial asset is transferred either into Stage 3 in case of default or at least into Stage 2.
- **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 bank, and in accordance with the IFRS 9 Concept for estimating the SICR threshold.
- **Absolute change in the one-year probability of default status** - a comparison of 1Y PD assigned at initial recognition and 1Y PD assigned at the reporting date. 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

In the Bank (based on the methodology provided by the Erste Group), for financial assets to non-defaulted customers, the collective assessment is applied and the lifetime expected credit loss is calculated according to 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 = 31.5.2015) 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-th 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-th year since reporting date;
6) LGD_t is the estimate of the loss given default considered in the t-th year since reporting date;
7) D_{t-1} is the discount factor applied in the t-th year since reporting date;

   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-th year since reporting date which occurred due to drawn down of the undrawn loan commitment or due to payments under a financial guarantee.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

i) $Off\text{-}Bal_{t0}$ 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. bankruptcy / 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:

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

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.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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.
4) 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:

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

Where

a) $ECL_{LT,s}$ is the lifetime expected loss calculated for scenario s;
b) 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:
c) 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
d) i is the date when the cash outflow is expected.

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);

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) $Off\text{-}Bal_{t0}$ 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”.

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36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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.

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 bank incurs in the event that the exposure becomes a default status.

The statistical LGD calculated on the basis of historical losses of the Group's clients is calculated for the segment of individuals and micro clients and applies as of 2018 whileannual recalculation was done in November 2019. . For the legal entities – Corporate segment, the Group is currently using the expert values of LGD (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 bank 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:

RSD thousand

	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		
Insurance companies	82.686	-
Agriculture and food industry	566.785	2.378
Entrepreneurs	114.528	1.245
Manufacturing industry	1.482.605	7.159
Production and supply of electricity	1.362.646	(17.184)
Customers	100.324	9.267
Retail	635.228	(746)
Services and tourism	879.107	529
Construction	631.331	(49)
Non-profit institutions	8.831	54
Balance as at 31 December	**5.864.072**	**2.654**

The effects of modification as of 31 December 2019 amounted to RSD 2.654 thousand**.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Information on changes of impaired receivables in 2019:

RSD thousand

	Gross value at the beginning of the period	Receivables that are impaired during the year		Receivables that have ceased to be impaired during the year		Other changes	Gross value at period end	Net value at period end
		Total	of which: impaired on an individual basis	Total	of which: were impaired on an individual basis			
Receivables from retail	**1.329.973**	**617.183**	**81.294**	**287.640**	**125.494**	**(270.532)**	**1.388.984**	**412.722**
Housing 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
Transactional and Credit Card	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 entities	1.503	-	-	-	-	(1.503)	-	-
Small and medium-sized entities	514.213	222.580	207.936	-	-	(172.044)	564.749	143.734
Micro enterprises and entities	315.822	57.580	28.935	1.374	248	(225.502)	146.526	49.698
Agricultural producers	42.753	14.951	7.372	615	-	(9.024)	48.065	12.847
Public companies	8.553	-	-	-	-	(7.008)	1.545	-
From other clients	**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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Information on changes of impaired receivables in 2018:

RSD thousand

	Gross value at the beginning of the period	Receivables that are impaired during the year		Receivables that have ceased to be impaired during the year		Other changes	Gross value at period end	Net value at period end
		Total	of which: impaired on an individual basis	Total	of which: were impaired on an individual basis			
Receivables from retail	**1.429.904**	**572.985**	**68.632**	**215.514**	**76.720**	**(457.401)**	**1.329.973**	**477.112**
Housing loans	719.877	99.870	66.279	88.124	71.266	(90.111)	641.512	283.429
Consumer and Cash Loans	524.184	422.265	2.184	102.907	400	(280.653)	562.889	174.650
Transactional and Credit Card	19.890	11.294	86	5.561	-	(12.722)	12.902	3.938
Other receivables	165.953	39.556	83	18.923	5.054	(73.915)	112.670	15.095
Receivables from corporate clients	**1.607.122**	**320.533**	**282.519**	**77.637**	**76.516**	**(967.174)**	**882.844**	**206.184**
Large entities	416.685	-	-	48.378	48.378	(366.804)	1.503	-
Small and medium-sized entities	774.044	274.469	266.545	11.739	11.064	(522.561)	514.213	90.760
Micro enterprises and entities	354.509	44.101	15.974	17.110	17.074	(65.678)	315.822	101.866
Agricultural producers	59.547	1.963	-	410	-	(18.348)	42.753	13.558
Public companies	2.336	-	-	-	-	6.217	8.553	-
From other clients	**681.084**	-	-	-	-	**(569.991)**	**111.093**	**11.324**
Total receivables	**3.718.109**	**893.518**	**351.151**	**293.151**	**153.236**	**(1.994.566)**	**2.323.910**	**694.621**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Information on changes of impaired receivables in 2019:

RSD in thousand

	Accumulated allowance for impairment at the beginning of year	Allowances for impairment recognized during the period	Reversal of impairment during the period	Other changes	Accumulated allowance for impairment at the end of 2018
Receivables from retail	**1.627.750**	**2.689.716**	**2.299.957**	**(366.913)**	**1.650.596**
Housing 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
Transactional and Credit Card	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 entities	84.617	207.228	199.309	18.432	110.968
Small and medium-sized entities	830.255	1.033.889	1.052.755	140.648	952.037
Micro enterprises and entities	646.164	648.521	596.484	(271.963)	426.239
Agricultural producers	47.097	49.408	47.972	(1.020)	47.512
Public companies	101.668	12.599	20.113	(80.790)	13.364
From other clients	**117.980**	**155.131**	**151.263**	**11.116**	**132.964**
Total receivables	**3.455.532**	**4.796.492**	**4.367.853**	**(550.490)**	**3.333.681**
By category of receivables					
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 receivables	**3.455.532**	**4.796.492**	**4.367.853**	**(550.490)**	**3.333.681**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Information on changes of impaired receivables in 2018:

RSD in thousand

	Accumulated allowance for impairment at the beginning of year	Transition effects	Accumulated allowance for impairment at the beginning of year	Allowances for impairment recognized during the period	Reversal of impairment during the period	Other changes	Accumulated allowance for impairment at the end of 2018
Receivables from retail	**1.646.118**	**122.924**	**1.769.042**	**2.758.172**	**2.570.290**	**(329.174)**	**1.627.750**
Housing loans	661.516	51.724	713.240	808.584	791.343	(22.065)	708.416
Consumer and Cash Loans	772.357	69.087	841.444	1.823.772	1.654.238	(226.503)	784.474
Transactional and Credit Card	29.018	930	29.948	50.324	54.347	(10.160)	15.765
Other receivables	183.228	1.184	184.411	75.492	70.362	(70.446)	119.095
Receivables from corporate clients	**1.979.048**	**(595.381)**	**1.383.667**	**2.689.926**	**2.459.556**	**95.764**	**1.709.801**
Large entities	422.593	(313.218)	109.374	231.429	398.652	142.465	84.617
Small and medium-sized entities	1.034.698	(277.179)	757.519	1.540.132	1.362.681	(104.715)	830.255
Micro enterprises and entities	425.470	(52.383)	373.087	824.283	603.823	52.617	646.164
Agricultural producers	54.331	1.963	56.294	63.716	54.890	(18.022)	47.097
Public companies	41.956	45.436	87.393	30.367	39.511	23.419	101.668
From other clients	**646.467**	**(238.947)**	**407.520**	**64.480**	**228.456**	**(125.563)**	**117.980**
Total receivables	**4.271.634**	**(711.405)**	**3.560.229**	**5.512.579**	**5.258.303**	**(358.973)**	**3.455.532**
By category of receivables							
Non-problematic receivables	1.598.252	209.538	1.807.790	3.768.455	3.758.497	(13.598)	1.804.149
of which : restructured	26.501	7.307	33.808	134.210	28.128	(5.058)	134.831
Problematic receivables	2.673.382	(920.943)	1.752.439	1.744.125	1.499.806	(345.375)	1.651.383
of which : restructured	1.194.383	(879.729)	314.655	412.009	205.915	(153.304)	367.444
Total receivables	**4.271.634**	**(711.405)**	**3.560.229**	**5.512.579**	**5.258.303**	**(358.973)**	**3.455.532**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Information on the calculated interest income and the interest collected as at 31 December 2019

RSD in thousand

	Income from Interest	Collected interest	Interest income on impaired receivables	Collected interest on impaired receivables
Receivables from retail	**4.162.705**	**4.120.580**	**128.843**	**94.570**
Housing 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
Transactional and Credit Card	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 entities	498.574	462.982	-	-
Small and medium-sized entities	1.486.796	1.391.115	42.006	19.438
Micro enterprises and entities	892.514	684.434	15.091	4.692
Agricultural producers	22.105	21.039	2.081	938
Public companies	162.966	161.877	34	1.158
From other clients	**1.882.041**	**1.654.659**	**3.551**	**879**
Total receivables	**9.107.701**	**8.496.686**	**191.606**	**121.675**
By category of receivables				
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, which represents the rate that discounts the estimated future payments or receipts through the expected life of the placements, or, where appropriate, in a shorter period of time, to the net book value of financial assets or financial liabilities.

When determining the effective interest rate, all contractual terms relating to that financial instrument, but not future credit losses, shall be taken into account.

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).

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36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Information on the calculated interest income and the interest collected as at 31 December 2018

RSD in thousand

	Income from Interest	Collected interest	Interest income on impaired receivables	Collected interest on impaired receivables
Receivables from retail	**3.487.438**	**3.425.001**	**116.093**	**73.105**
Housing loans	1.046.191	1.023.106	35.777	18.490
Consumer and Cash Loans	2.252.674	2.216.150	70.104	48.827
Transactional and Credit Card	121.438	121.327	3.269	2.313
Other receivables	67.136	64.418	6.943	3.475
Receivables from corporate clients	**2.853.338**	**2.276.950**	**293.267**	**41.914**
Large entities	479.866	312.768	141.358	13.734
Small and medium-sized entities	1.484.373	1.299.208	127.823	23.097
Micro enterprises and entities	724.725	542.131	21.716	4.521
Agricultural producers	19.493	15.843	2.287	562
Public companies	144.881	107.000	83	-
From other clients	**1.876.962**	**1.688.517**	**139.555**	**858**
Total receivables	**8.217.738**	**7.390.468**	**548.915**	**115.877**
By category of receivables				
Non-problematic receivables	7.660.649	7.265.413	-	-
of which: restructured	16.750	14.801	-	-
Problematic receivables	557.089	125.055	548.915	115.877
of which: restructured	43.574	32.777	36.472	25.170
Total receivables	**8.217.738**	**7.390.468**	**548.915**	**115.877**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Restructured loans

Where possible, the Group seeks to restructure loans rather than realize collaterals. This may involve extending the payment or any other modification of the initial conditions of lending. Reprogramming can be a business restructuring or forbearance restructuring.

Business reprogramming includes changes to the initial contractual terms, in favour of client which are not conditioned by the worsening financial position of the debtor, or the mitigation of the deteriorating financial position. It is the result of a changed situation on the market (customers, suppliers, competitors) and the need for the existing dynamics and conditions of the loan to be adjusted to the new situation.

Forbearance presents a restructuring caused by:

- the debtors' inability to meet their initial contractual obligations due to financial difficulties and
- the Groups need to make certain compromises so the client could orderly service his contractual obligations.

Performing forbearance - is the starting category within the forbearance principle and is granted in case of a defined deterioration in the financial position of the client, or his creditworthiness, registered delay over 30 days in the last 3 months before applying for reprogramming or other non-compliance with contractual terms towards the Group. The minimum validity period of this status is 2 years, during which in last 12 months the client must pay a min 6,7% of the total debt yearly (also include for Corporate) with DPD not grater than 30 days and at the end of the period must not have due obligation.

Performing forbearance under probation - the special subcategories within the Performing Forbearance status in which the client moves from Non performing forbearance or Defaulted forbearance status after the expiry of the monitoring period with minimal duration of 1 year, in which conditions must be met cumulatively: the maximum delay during the monitoring period, no days of delay at the end of the monitoring period and recorded positive financial developments (only for Corporate clients) which indicates that the ability of the borrower to regularly meet contractual obligations in the future. Performing Forbearance under probation lasts for a minimum of 2 years, provided that all conditions are fulfilled for the client to leave from the Forbearance status (the client has no arrears longer than 30 days in the last 12 months consecutively, at the end of the period no obligations are due, the installment is not less than 50% of the initial installment for retail clients and the client (valid for Corporate) has paid a minimum of 6.7% of the principal over the last 12 months).

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Restructured loans (continued)

Non performing forbearance status is granted in the following cases:

- the client does not carry out the final restructuring after a period of 18 m from giving the status of "temporary measures";
- the occurrence of any events of default which are not related to restructuring during the performing forbearance status;
- delays over 30 days with a client who is Performing Forbearance under probation status;
- If a client under Performing Forbearance under probation status, is granted a new reprogramming in the second year of the status

Monitoring period for clients with NPF status lasts for one year after which, in case of fulfilment of the defined conditions, it moves into the Performing forbearance under probation status.

Distress reprogramming / restructuring (defaulted forbearance) is a form of restructuring in which the client receives the status of default. This way, the entire scope of exposure (or its biggest part) and is always conditioned by a significant deterioration in the creditworthiness of the client. Distress reprogramming is granted every time a client has rating of R at the time of approval of reprogramming, when the client is not employed (only for individuals), and when the client is approved with a second reprogramming, and it's been less than 2 years from the initial authorization of rescheduling.

Temporary measures - temporary measures do not imply the final restructuring but a middle step to the final implementation of the restructuring. It usually occurs in situations when there is a larger number of lenders with a specific client and a longer period of time is required due to internal processes and procedures of each creditor, in order to define the final model of the restructuring (example – in situations resorting in stand-still agreements or moratorium as a transitional solution to the final restructuring). The duration of interim measures is limited to 18 months.

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36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

Information on restructured receivables as at 31 December 2019:

RSD in thousand

	The gross value of total receivables	Accumulated allowance for impairment of total receivables	The gross value of restructured receivables		Accumulated allowance for impairment restructured receivables	% of restructured receivables	Value of the collaterals of restructured receivables
			Total	of 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
Consumer and Cash Loans	32.057.915	1.134.301	471.642	266.373	196.211	1,47	-
Transactional and Credit Card	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
Sector B, C, 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, J	8.333.333	96.138	151.375	-	27.271	1,82	139.371
Sector L, M, 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**

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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.

Information on restructured receivables as at 31 December 2018:

RSD in thousand

	The gross value of total receivables	Accumulated allowance for impairment of total receivables	The gross value of restructured receivables		Accumulated allowance for impairment restructured receivables	% of restructured receivables	Value of the collaterals of restructured receivables
			Total	of which: problematic receivables			
Receivables from retail clients	**64.125.435**	**1.627.750**	**813.432**	**499.895**	**255.885**	**1,27**	**243.998**
Housing loans	35.519.704	708.416	419.107	275.681	123.422	1,18	240.473
Consumer and Cash Loans	25.762.098	784.474	387.735	220.280	130.566	1,51	3.525
Transactional and Credit Card	725.107	15.765	-	-	-	-	-
Other receivables	2.118.526	119.095	6.589	3.934	1.897	0,31	-
Receivables from corporate clients	**76.656.046**	**1.518.084**	**694.730**	**184.035**	**242.520**	**0,91**	**145.097**
Sector A	6.010.305	94.362	58.976	35.639	30.818	0,98	58.976
Sector B, C, E	16.388.959	464.187	551.525	72.262	150.750	3,37	70.340
Sector D	8.644.393	145.921	-	-	-	-	-
Sector F	13.577.949	121.893	11.260	11.260	1.287	0,08	11.260
Sector G	13.693.369	409.739	60.583	60.354	59.328	0,44	-
Sector H, I, J	9.344.879	115.533	-	-	-	0,00	-
Sector L, M, N	8.996.192	166.449	12.386	4.521	337	0,14	4.521
Receivables from other clients	**10.513.411**	**309.698**	**8.541**	**4.591**	**3.871**	**0,08**	**-**
Total receivables	**151.294.891**	**3.455.532**	**1.516.702**	**688.521**	**502.275**	**1,00**	**389.095**

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36. RISK MANAGEMENT (continued

36.2 Credit Risk (continued)

Information on changes in restructured receivables in 2019:

RSD in thousand

	Gross amount at beginning of the period	Receivables restructured during the period	Receivables which ceased to be considered as restructured during the period	Other changes	Gross amount at period end	Net amount at period end
Receivables from retail clients	**813.432**	**380.702**	**198.995**	**(95.727)**	**899.411**	**589.047**
Housing 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 entities	-	-	-	-	-	-
Small and medium-sized entities	128.967	273.203	7.865	(73.015)	321.290	210.564
Micro enterprises and entities	566.613	198.665	230	14.698	779.746	676.923
Agricultural producers	7.690	1.823	2.521	(379)	6.613	3.609
Receivables from 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)

Information on changes in restructured receivables in 2018:

RSD in thousand

	Gross amount at beginning of the period	Receivables restructured during the period	Receivables which ceased to be considered as restructured during the period	Other changes	Gross amount at period end	Net amount at period end
Receivables from retail clients	**742.951**	**395.125**	**203.457**	**(121.187)**	**813.431**	**557.547**
Housing loans	442.664	142.234	122.419	(43.925)	419.107	295.685
Consumer and Cash Loans	280.277	251.516	71.865	(71.640)	387.735	257.169
Other receivables	20.010	1.375	9.173	(5.622)	6.589	4.692
Receivables from corporate clients	**1.067.513**	**499.208**	**600.945**	**(262.506)**	**703.271**	**456.880**
Large entities	416.085	-	416.085	-	-	-
Small and medium-sized entities	454.198	13.812	162.634	(176.408)	128.967	28.938
Micro enterprises and entities	188.832	480.343	17.293	(85.269)	566.613	424.051
Agricultural producers	8.398	5.053	4.932	(828)	7.690	3.891
Receivables from other clients	**295.341**	**-**	**295.341**	**-**	**-**	**-**
Total receivables	**2.105.805**	**894.333**	**1.099.743**	**(383.693)**	**1.516.702**	**1.014.427**

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36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Information on the structure of restructured receivables by restructuring measures in 2019:

RSD in thousand

	Capitalization of delay	Grace period	Extension of the repayment period	Change of interest rate	A partial write-off	Other measures	Total
Receivables from retail	**540.612**	**16.503**	**657.120**	**839.483**	**47.573**	**52.780**	**899.411**
Housing 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
Other receivables	-	-	-	-	-	-	-
Receivables from corporate clients	**784.476**	**862.358**	**1.079.466**	**105.469**	**7.134**	**1.890**	**1.107.648**
Small and medium-sized entities	198.022	159.748	321.290	35.686	7.134	-	321.290
Micro enterprises and entities	581.673	702.610	753.499	64.126	-	-	779.746
Agricultural producers	4.781	-	4.677	5.657	-	1.890	6.613
Receivables from other clients	-	-	-	-	-	-	-
Total Receivables	**1.325.088**	**878.860**	**1.736.586**	**944.952**	**54.708**	**54.669**	**2.007.060**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Information on the structure of restructured receivables by restructuring measures in 2018:

RSD in thousand

	Capitalization of delay	Grace period	Extension of the repayment period	Change of interest rate	A partial write-off	Other measures	Total
Receivables from retail	**555.768**	**16.405**	**609.978**	**745.356**	**74.342**	**706**	**813.432**
Housing loans	313.874	13.624	217.478	353.850	72.669	-	419.107
Consumer and Cash Loans	237.743	2.782	385.912	384.917	1.673	706	387.735
Other receivables	4.152	-	6.589	6.589	-	-	6.589
Receivables from corporate clients	**637.157**	**563.700**	**677.661**	**136.983**	**15.774**	**2.058**	**703.271**
Small and medium-sized entities	66.301	74.113	128.967	71.312	15.774	-	128.967
Micro enterprises and entities	565.533	489.097	543.046	58.471	-	-	566.613
Agricultural producers	5.323	490	5.647	7.200	-	2.058	7.690
Receivables from other clients	**-**	**-**	**-**	**-**	**-**	**-**	-
Total Receivables	**1.192.925**	**580.105**	**1.287.639**	**882.339**	**90.115**	**2.764**	**1.516.702**

Review by reschedule measure is presented according to each of applied measures, regardless of whether any other measure was applied.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Loan Concentration Risk

The concentration risk is the risk of incurring losses due to an excessive volume of Group's placements into a certain group of debtors or individual debtor. The concentration occurs when a significant number of debtors belong to the similar industry or the same geographical area or when they have similar economic characteristics, they are exposed to the same factors that affect the income and expenditures, which may affect their ability to settle their contractual obligations in case of changes in economic, political or some other circumstances that affect them equally. In order to minimize the credit risk, safety measures are established through defining levels of exposures and credit limits and regular monitoring of compliance with the established limits. Also, on a regular annual basis the Group carries out a detailed and comprehensive analysis of concentrations of credit (and other) risks across different dimensions (exposure classes, economic sectors, collateral, products, etc.).

The Group manages the concentration risk of the credit portfolio through the framework set by the Concentration risk management policy (with belonging Procedure), regulatory limits are defined by the Decision on Risk Management of the Bank, internally defined limits and limits defined by the Policy for determining exposure limits (with belonging Procedure).

Using the Concentration risk management policy the Group has defined monitoring exposures to credit risk by each of the following categories: concentrations by classes of exposure (Basel exposure classes), concentration by clients rating, concentration by corporate clients, real estate and micro clients, by industry sector, concentration by exposures to individual clients in the overall loan portfolio, the portfolio of corporate clients, banks and states, concentration of collaterals, concentration by currency and by product. For the purposes of determining the concentration of credit risk the Herfindahl-Hirschman Index (HHI) and Moody's matrix are being used.

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

- Exposure to a single entity or group of related entities that cannot be higher than 25% of the Group's capital,
- The sum of large exposures, which cannot be higher than 400% of the Group capital.

In addition, for monitoring purposes the Group has retained as an internal limit an indicator that was previously defined by regulations, and by which exposure to related entities of the Group cannot be higher than 20% of the Group capital.

By the Policy for managing credit risks, the Group has defined monitoring concentrations of credit risk for corporate customers, financial institutions and states at the following levels: maximum limit of exposure, maximum exposure limit based on rating and operating maximum limit of exposure.

In addition, in accordance with the directives of the Decision on concentration risk management based on the bank's exposure to certain types of products (Official Gazette of the RS, No. 103/2018), as at 31 December 2019, the Group is fully compliant with the regulatory requirements prescribed by that decision.

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36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Information on sectoral and the geographical concentration of exposure as at 31 December 2019:

RSD in thousand

	Belgrade region		Region of Vojvodina		Region: Sumadija and West Serbia		Region: South and East Serbia		Region Kosovo and Metohija		Foreign countries	
	Non-problematic receivables	Problematic receivables	Non-problematic receivable	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 customers	**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**
Housing 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	-
Consumer 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	-	-
Transactional and Credit Card	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**	**0**	**0**	**0**
Sector A	432.711	895	5.608.236	4.020	362.922	2	46.295	-	-	-	-	-
Sector 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)

Information on sectoral and the geographical concentration of exposure as at 31 December 2018:

RSD in thousand

	Belgrade region		Region of Vojvodina		Region: Sumadija and West Serbia		Region: South and East Serbia		Region Kosovo and Metohija		Foreign countries	
	Non-problematic receivables	Problematic receivables	Non-problematic receivable	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 customers	**25.056.522**	**392.841**	**24.429.738**	**639.934**	**7.822.263**	**309.810**	**4.732.607**	**126.879**	**607.413**	**1.595**	**5.812**	**21**
Housing loans	17.477.059	181.397	12.525.772	337.304	3.163.098	152.208	1.544.658	59.358	73.100	-	5.752	-
Consumer and Cash Loans	6.699.115	168.470	10.681.938	261.830	4.271.747	123.773	2.989.795	57.489	506.444	1.495	-	-
Transactional and Credit Card	138.638	2.657	419.509	6.666	100.812	2.661	48.333	1.187	4.601	41	-	-
Other receivables	741.710	40.317	802.519	34.133	286.606	31.167	149.820	8.845	23.268	60	60	21
Receivables from corporate clients*	**36.842.654**	**151.955**	**26.938.521**	**309.931**	**7.285.484**	**315.672**	**4.784.708**	**24.851**	**2.269**	**-**	**-**	**-**
Sector A	508.668	1.350	5.217.815	39.820	175.430	2	56.592	10.629	-	-	-	-
Sector B, C and E	3.350.292	28.485	6.731.416	59.057	3.030.183	232.702	2.955.494	1.330	-	-	-	-
Sector D	5.704.542	-	244.235	-	2.046.669	-	648.947	-	-	-	-	-
Sector F	8.714.226	11.138	4.283.686	5.785	415.354	5.297	136.151	6.313	-	-	-	-
Sector G	5.555.903	97.427	6.021.970	199.369	1.066.586	59.447	685.394	5.003	2.269	-	-	-
Sector H, I and J	6.527.501	11.422	2.181.681	1.378	451.436	18.224	152.034	1.204	-	-	-	-
Sector L, M and N	6.481.522	2.134	2.257.718	4.524	99.825	-	150.096	373	-	-	-	-
Receivables from other clients	5.527.936	95.914	3.248.141	59.839	490.296	33.819	232.019	3.613	-	-	821.834	-
Total exposure	**67.427.113**	**640.711**	**54.616.399**	**1.009.704**	**15.598.043**	**659.300**	**9.749.333**	**155.344**	**609.683**	**1.595**	**827.645**	**21**

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 foreign exchange credit risk. The Group overcomes risks which are related to credit risk using the same control processes and procedures which are used for credit risk.

Counterparty risk

The Group operates with derivative financial instruments which gives way to the exposure to counterparty risk, i.e. the risk of default of the counterparty in the transaction before the final settlement of cash flows arising from the transaction.

Credit risk of derivatives is limited by determining the maximum limit for each derivative financial instrument, based on its type, maturity and credit quality of the client.

36.3. Liquidity Risk and Funding Management

Liquidity risk is defined by the Decision of the National Bank 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 with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

This incorporates an assessment of expected cash flows in Dinars and foreign currency and the availability of high grade collateral which could be used to secure 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 regulations approved by the Managing Committee and Executive Committee and 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. The audit of policies, procedures and regulations are carried out in when needed, but at least once a year.

Liquidity risk management process is organized through the Asset and Liability Management Committee, Market Risk Management Department and Asset and Liability Management Department.

The Assets and Liability Committee and the Operating Liquidity Committee (OLC Committee) are responsible for monitoring liquidity risk, managing the liquidity risk and for recommending to the Executive Board the measures and activities to maintain the liquidity, adjustment of the maturity structure, financing plan for reserves and other measures important for the financial stability of the Group. The department for asset and liability management and department for market risk management and liquidity risk management monitors the liquidity ratio (LIK) on daily basis so that the daily liquidity ratio is within the limits prescribed by the Business plan in case of extraordinary circumstances (liquidity crisis) ("PFNS"). Apart from this, PFNS defines other indicators and their limits as well as personnel/department in charge of their monitoring and reporting. The trend of these indicators is presented semi-weekly on OLC meetings, or more often in case of overriding the PFNS limits or change in liquidity status.

The Group maintains a portfolio comprised of liquid securities and diversified assets that can be easily modified in cash in case of non-predictable and negative oscillations in cash flow of the Group. The Group maintains the required level of local and foreign currency reserves, in accordance with the demands of National Bank of Serbia.

The level of liquidity is expressed using the liquidity ratio which is determined as the proportion of the sum of the liquid assets of the first (cash, gold and other noble metals, assets on accounts with other banks with available credit rating which corresponds to the level of credit quality 3 or better determined in accordance with the decision on capital adequacy (investment grade); deposits with the National Bank of Serbia, receivables in the process of realization, irrevocable lines of credit granted to the Group, stock and quoted debt securities, 90% of the fair value of securities denominated in dinars, without a currency clause, issued by the Republic of Serbia and with a minimum maturity of three months or 90 days, and classified as securities held for trading or securities available for sale) and second level (other receivables due within a month) and the sum of liabilities on demand without determined maturity date (40% Bank's demand deposits, 20% on demand deposits from other depositors, 10% savings deposits, 5% guarantees and other forms of guarantees and 20% undrawn irrevocable credit lines) and liabilities with fixed maturity up to a month.

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Funding Management (continued)

In addition to the broader liquidity indicator, the Group also monitors the narrow liquidity indicator.

The narrow liquidity indicator represents the ratio of liquid receivables of the Group of the first order, on the one hand and the sum of on demand liabilities of the bank or without a contracted maturity and liabilities of the Group with a fixed maturity within the next month following the date of the calculation, on the other hand.

During 2019 and 2018 the Group had daily liquidity ratios above the legally prescribed level.

	31.12.2019.	31.12.2018.
Average during period	1,36	1,46
Highest	1,68	1,84
Lowest	1,13	1,18
On day	1,49	1,36

Narrower liquidity ratio during 2019 and 2018

Average during period	31.12.2019.	31.12.2018.
Highest		
Lowest	1,21	1,36
On day	1,55	1,77
Average during period	0,96	1,09
Highest	1,38	1,28

As of 30 June 2017, on the basis of the Decision on the Group's liquidity management, adopted by the National Bank of Serbia, the banks are obliged to calculate and report on the value of the Indicator of Coverage with liquid assets (hereinafter PPLA) on a monthly basis. PPLA represents the ratio of the bank's liquidity layer to the bank 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 indicator of liquid assets coverage, 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 PPLA.

The Department for Market Risk Management and Liquidity Risk within the Strategic Risk Management Department is responsible for calculating the indicators. On 31 December 2019 and on 31 December 2018 Bank had PPLA ratio above prescribed limit.

	31.12.2019.	31.12.2018.
Indicator of liquid assets coverage	197,37%	175,08%

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 interbank 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 period of survival was adopted. The Group has defined internal limits for SPAs. 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.

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36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Funding Management (continued)

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 to 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 bank, 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 internal limits are reviewed annually.

The Group's Executive Board is informed of its liquidity risk exposure through a monthly report on liquidity risk.

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36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Funding Management (continued)

Maturity Analysis of Financial Liabilities

The table below presents the ageing analysis of the Group's financial liabilities as at 31 December 2019 and 31 December 2018 based on of contractual, not discounted payments.

The Group expects that most customers will not withdraw deposits on the due date set in the contract.

Analysis of financial liabilities by maturity

RSD thousand

	From 0-1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	31.12.2019
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**

RSD thousand

	From 0-1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	31.12.2018
Borrowings, deposits and securities	24.995.249	19.780.510	43.697.271	62.909.431 `	29.803.446	181.185.907
Subordinated liabilities	-	154.260	337.745	1.189.948	4.123.778	5.805.731
Total	**24.995.249**	**19.934.770**	**44.035.016**	**64.099.379**	**33.927.224**	**186.991.638**

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36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Funding Management (continued)

Maturity Analysis of Financial Liabilities **(continued)**

The table below presents the ageing analysis of guarantees, letters of credit and other irrevocable commitments:

RSD thousand

	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	31.12.2019
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**

RSD thousand

	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	31.12.2018
Contingent liabilities	652.361	372.586	1.956.337	5.386.834	6.323.218	412.768	15.104.104
Irrevocable commitments and letters of credit	20.355.235	59.408	556.434	3.032.060	7.266.143	5.777.865	37.047.145
Total	**21.007.596**	**431.994**	**2.512.771**	**8.418.894**	**13.589.361**	**6.190.633**	**52.151.249**

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Funding Management (continued)

***Maturity Analysis of 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 Bank has used the funds of the European Investment Bank ("EIB") and German Development Bank ("KfW") and European bank 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.

By signing a contract with the German Development Bank, KfW, at the end of 2012, the Group provided funds in the amount of 10 million Euros for financing micro, small and medium enterprises and energy efficiency / renewable energy projects.

By signing a contract with the German Development Bank, KfW, signed in 2014, the Group 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 Group signed a new contract with KfW in the amount of 23 million euros for financing energy efficiency and renewable energy.

In mid-December 2018, the Group signed a new contract with the German Development Bank, KfW, to finance renewable energy sources for small and medium-sized enterprises in the total amount of 10 million euros.

In mid-June 2019, the Group signed a contract with the European Bank for Reconstruction and Development, EBRD, for the financing of micro, small and medium-sized enterprises in the total amount of 40 million euros.

On 3 December 2015, the Group signed a long-term loan agreement with Erste Group Bank 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 53 million euros.

In June 2018, the Group 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 Group signed an agreement with the EBRD for the financing of energy efficiency projects in the housing sector. The total amount of the contract is 600 million dinars.

In July 2017, the Group signed a contract with the National Bank of Serbia as the state agent for the use of funds from the Apex Loan for Small and Medium Enterprises and other priorities III / B.

The balance of loans received from foreign credit institutions during the year 2019 amounts to 54.042.416 thousand dinars (2018: 41.184.587 thousand dinars) (note 27).

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36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management (continued)

Maturity Analysis of Financial Liabilities (continued)

Liquidity Gap Analysis – Financial Assets and Liabilities

RSD thousand

	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	31.12.2019
ASSETS							
Cash and assets with the central bank	8.636.021	13.219.331	-	-	-	-	21.855.352
Derovative receivables	14.746	-	-	-	147.091	185.062	346.899
Securities	1.444.654	-	1.234.614	2.249.007	25.853.637	11.009.654	41.791.566
Loans and receivables form banks and other financial institutions	1.515.728	-	-	17.492	73.259	-	1.606.479
Loans and receivables from customers	1.305.311	218.222	2.312.250	13.856.809	45.381.617	108.494.382	171.568.590
Other financial assets	458.330	-	14	230.583	186.282	492.053	1.367.262
Total assets	**13.374.790**	**13.437.553**	**3.546.878**	**16.353.891**	**71.641.886**	**120.181.151**	**238.536.148**
LIABILITIES AND EQUITY							
Derivative liabilities	4.027	-	-	-	113.334	132.678	250.039
Deposits and other liabilities to banks and other financial organisations and central bank	4.426.448	129.000	4.893.484	15.599.571	26.623.699	20.237.225	71.909.427
Deposits and other liabilities to other customers	89.218.418	1.915.313	7.896.671	16.063.208	6.196.172	5.118.171	126.407.953
Liabilities for issued securities	-	-	-	-	3.512.691	-	3.512.691
Subordinated liabilities	7.228	-	-	-	671.959	3.527.784	4.206.971
Other financial liabilities	298.867	-	934	43.158	734.149	1.275.237	2.352.344
Total Liabilities	**93.954.988**	**2.044.313**	**12.791.089**	**31.705.937**	**37.852.004**	**30.291.095**	**208.639.425**
Total equity	**-**	**-**	**-**	**-**	**-**	**32.231.840**	**32.138.280**
Total liabilities and equity	**93.954.988**	**2.044.313**	**12.791.089**	**31.705.937**	**37.852.004**	**62.522.935**	**240.871.265**
Maturity mismatch as at:							
31 December 2019	**(80.580.198)**	**11.393.240**	**(9.244.211)**	**(15.352.046)**	**33.789.882**	**57.658.216**	
31 December 2018	**(58.673.076)**	**(5.320.193)**	**(9.389.150)**	**(2.191.160)**	**30.632.525**	**43.846.916**	

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management (continued)

Maturity Analysis of Financial Liabilities (continued)

Liquidity Gap Analysis – Financial Assets and Liabilities (continued)

The previous table presents an analysis of the maturities of assets and liabilities of the Group based on the contractual terms of payment. The contractual maturities of assets and liabilities are determined on the basis of the remaining period on the balance sheet date in relation to the agreed maturity. The table does not include potential obligations and assumed irrevocable liabilities shown in the previous table. The maturity structure of assets and liabilities as at 31 December 2019 is based on contracted discounted amounts.

Manual mismatch is the result of a growth in the volume of demand deposits in relation to the investedfunds up to 14 days. The Group monitors maturity compliance using statistical models for scheduling demand deposits in the expected maturity.

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 banking 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 Bank 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 Bank'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 Bank'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 two types of limits:
• VaR limit
• Limits of sensitivity (PVBP, CR01)
• Stop loss limit

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 thousand	**31 December 2019**	**31 December 2018**
Interest risk	26.549	17.931
Foreign currency risk	6.483	9.540
Total	**26.210**	**18.355**

The VaR calculation is carried out in a technical solution implemented at the Erste Group level.

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 (continued)

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 bank book).

VaR and sensitivity limits are approved by the Group's Executive Board, on the proposal of the Strategic Risk Management Department, and Erste Group's Market Risk Committee.

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 Equity Management Division. Exposure is monitored on a daily basis.

In case of exceeding the internally prescribed limits, the process of escalation and measures for returning to the limits of the limits are defined.

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 banking 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.

The Assets and Liabilities Management Committee manages the assets and liabilities maturity based on: Group Guidelines, Macroeconomic Analysis and Forecasting, Forecasting Liquidity Conditions, Analysis and Forecasting Market Rates 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 banking 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 banking book due to a change in the credit rating of 1 base point.

In addition to indicators measuring the impact of changes in interest rates on the economic value of capital, the Group has defined indicators through which the impact of changes in interest rates on net interest income is assessed. It uses shocks of +/- 200 basis points (with and without application of interest rates floor), shocks caused by market interest rate volatility, as well as 6 scenarios prescribed by the EBA guidelines.

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 modeled by statistical methodology.

The limits are reviewed annually. The Group's Executive Board is informed of interest rate risk exposures by means of a monthly report on market risk indicators in the banking book.

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36. RISK MANAGEMENT (continued)

36.4. Market Risk (continued)

36.4.1 *Interest Rate Risk* (continued)

The following table shows the Group's exposure to risk from changes of interest rates (Repricing Gap) on 31 December 2019. Assets and liabilities and currency swaps from off-balance sheet items are presented after the date of re-pricing of interest or maturity date, depending on which date is earlier.

RSD in thousand

Category	Within a month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over a year	Total non-interest bearing	Total
Cash	-	-	-	-	-	5.394.907	5.394.907
Obligatory reserve	4.075.861	-	-	-	-	13.219.331	17.295.192
Securities	11.016.280	-	1.359.011	-	29.295.671	-	41.670.961
Loans to banks	418.734	-	-	-	-	-	418.734
Loans to customers	31.461.592	69.934.609	38.396.369	3.864.617	28.395.322	-	172.052.510
Other assets	-	-	-	-	-	5.688.350	5.688.350
Total balance sheet assets	**46.972.466**	**69.934.609**	**39.755.381**	**3.864.617**	**57.690.993**	**24.302.588**	**242.520.655**
FX Swaps	13.060.962	4.113.878	-	-	-	-	17.174.840
Total assets	**60.033.429**	**74.048.487**	**39.755.381**	**3.864.617**	**57.690.993**	**24.302.588**	**259.695.495**
Liabilities to financial institutions	8.886.775	38.834.783	6.207.310	2.224.882	15.979.885	-	72.133.636
AVISTA deposits	7.230.910	14.461.820	21.692.730	9.323.757	36.634.746	-	89.343.963
Term deposits	5.571.824	9.094.989	8.291.269	12.671.212	11.103.418	-	46.732.712
Other liabilities	-	-	-	-	-	2.172.064	2.172.064
Equity	**-**	**-**	**-**	**-**	**-**	**32.138.280**	**32.138.280**
Total balance sheet liabilities	**21.689.510**	**62.391.592**	**36.191.310**	**24.219.851**	**63.718.049**	**34.310.344**	**242.520.655**
FX Swaps	12.350.369	4.115.428	-	-	-	-	16.465.797
Total liabilities and equity	**34.039.879**	**66.507.020**	**36.191.310**	**24.219.851**	**63.718.049**	**34.310.344**	**258.986.452**
Net interest risk exposure as at 31 December 2019	**25.993.550**	**7.541.468**	**3.564.071**	**(20.355.234)**	**(6.027.056)**	**(10.007.755)**	**709.043**
Net interest risk exposure as at 31 December 2018	**73.641.238**	**266.131**	**(46.506.257)**	**(16.633.738)**	**(2.692.916)**	**(8.065.110)**	**9.348**

36. RISK MANAGEMENT (continued)

36.4. Market Risk (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 to the Group's income and expenses.

The following table presents the Group´s income statement's sensitivity to the reasonably possible changes of interest rates (1%) with other variables held constant. The income statement's sensitivity represents the effect of predicted changes in interest rates on net interest income in one year on financial assets and liabilities based on interest rates as at 31 December 2019 and 31 December 2018.

RSD in thousand

Currency	Change in percentage	Income statement sensitivity 2019	Change in percentage	Income statement sensitivity 2018
Increase of percentage:				
RSD	1%	135.580	1%	170.598
EUR	1%	309.620	1%	134.422
Decrease of percentage:				
RSD	1%	(155.746)	1%	(174.829)
EUR	1%	(539.742)	1%	(461.982)

36. RISK MANAGEMENT (continued)

36.4. Market Risk (continued)

36.4.2. *Foreign Exchange Risk*

Foreign currency risk is the risk of change of the value of financial instruments and occurrence of adverse effect to the Group's financial result and equity due to the fluctuations in foreign exchange rates. The banking 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 comparing to the dinar (foreign currency losses) on the Group's financial result, as well as on customers' ability to repay loans in foreign currency.

For the purposes of protection against the foreign currency 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 currency risk and contracts the foreign currency clause with its customers.

The Asset and Liability Management Unit and Treasury Department monitor daily movements of the overall foreign currency risk, as well as risk by specific currencies. The Risk control unit daily monitors movements in indicators of foreign exchange risk. The positions are monitored on a daily basis to ensure positions are maintained within established limits.

In accordance with the National Bank of Serbia's requirements, the Group regularly maintains its foreign currency position - foreign exchange risk indicator within maximal regulatory limits, determined in proportion to capital, in accordance to which the Group is obligated to ensure that its total net open foreign currency position does not exceed 20% of its regulatory capital.

In 2019, 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 on 31 December 2019 and 31 December 2018 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.

Foreign Exchange Risk (continued)

RSD thousand

Currency	Changes in the exchange rate (depreciation in %) 2019	Effect to the income statement before taxation 2019	Changes in the exchange rate (depreciation u %) 2018	Effect to the income statement before taxation 2018
EUR	2%	(2.358)	2%	11.714
CHF	2%	(51)	2%	(127)
USD	2%	35	2%	307

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36. RISK MANAGEMENT (continued)

36.4. Market Risk (continued)

36.4.2. *Foreign Exchange Risk*

The following table presents the Group's exposure to foreign exchange risk as at 31 December 2019. The table includes assets and liabilities at their carrying amounts.

RSD thousand

	EUR	USD	CHF	Other currencies	Total in foreign currencies	Total in RSD	Total
ASSETS							
Cash and cash funds held at Central Bank	14.553.284	90.078	162.567	81.228	**14.887.157**	6.968.195	**21.855.352**
Derivative receivables	332.612	-	-	-	**332.612**	14.287	**346.899**
Securities	11.334.351	257.487	-	-	**11.591.838**	30.199.728	**41.791.566**
Loans and receivables due from banks and other financial institutions	1.254.117	74.561	62.509	213.673	**1.604.860**	1.619	**1.606.479**
Loans and receivables due from customers	133.273.620	443.603	18.914	-	**133.736.137**	37.832.453	**171.568.590**
Investments in subsidiaries	-	-	-	-	**-**	118	**118**
Intangible assets	-	-	-	-	**-**	683.397	**683.397**
Property, plant and equipment	-	-	-	-	**-**	3.076.169	**3.076.169**
Current tax assets	-	-	-	-	**-**	229.409	**229.409**
Deferred tax assets	-	-	-	-	**-**	2.044	**2.044**
Fixed assets held for sale and assets of discontinued operations	-	-	-	-	**-**	12.252	**12.252**
Other assets	123.183	246	3.229	18	**126.676**	1.221.704	**1.348.380**
Total assets	**160.871.167**	**865.975**	**247.219**	**294.919**	**162.279.280**	**80.241.375**	**242.520.655**
LIABILITIES AND EQUITY							
Derivative liabilities	246.034	-	-	-	**246.034**	4.005	**250.039**
Deposits and liabilities due to banks and other financial institutions and NBS	65.832.098	4.762	4.574	8.993	**65.850.427**	6.059.000	**71.909.427**
Deposits and liabilities due to customers	74.683.146	3.136.380	1.779.241	560.730	**80.159.497**	46.248.456	**126.407.953**
Subordinated liabilities	-	-	-	-	**-**	3.512.691	**3.512.691**
Provisions	4.206.971	-	-	-	**4.206.971**	-	**4.206.971**
Current tax liabilities	170.739	1.072	-	-	**171.811**	586.795	**758.606**
Deferred tax liabilities	-	-	-	-	**-**	169.499	**169.499**
Other liabilities	-	-	-	-	**-**	13.365	**13.365**
Total liabilities	2.244.139	4.560	1.535	688	**2.250.922**	902.902	**3.153.824**
Total equity	**147.383.127**	**3.146.774**	**1.785.350**	**570.411**	**152.885.662**	**57.496.713**	**210.382.375**
Total liabilities and equity	-	-	-	-	-	32.138.280	**32.138.280**
Net foreign currency position as at:	**147.383.127**	**3.146.774**	**1.785.350**	**570.411**	**152.885.662**	**89.634.993**	**242.520.655**
31 December 2019	**13.488.040**	**(2.280.799)**	**(1.538.131)**	**(275.492)**	**9.393.618**		
31 December 2018	**4.807.863**	**(1.928.248)**	**(1.265.700)**	**(210.789)**	**1.403.126**		

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 2018, 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 Bank of Serbia (see Note 23 (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 in fixed assets.

In accordance with the National Bank 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 Bank 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 banks.

The Group monitors its exposure on geographic basis by applying the limits determined by the parent bank and based on country ratings. After approval by the parent bank, the limits are also adopted locally by the 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 continually carries out training of all employees in the area of operational risk by raising awareness of employees about the risk, improving quantitative and qualitative tools for identifying and measuring risk exposure (such as self-assessment, key indicators of operational risk, scenario analysis, etc.), and it establishes and promotes the adequate preventive and corrective measures in order to reduce the exposure to operational risk to an acceptable level.

The Group has defined and regularly reviewed and updated internal acts which regulate the management area the Group's exposure to operational risk, taking into account the compliance with the applicable regulatory framework and Group standards.

The Group, through the Program of insurance from operational risks insured against classical risk and specific banking risks. Classical risks include damage to property, burglary, theft (valuable property) and general responsibility. Specific risks include the Group's internal and external fraud, technological risks and civil liability.

The Group performs continuous estimation of the risks arising in the process of introducing new products / services, projects and risk assessment resulting from entrusting third parties. Improvement of internal control mechanisms is a necessary element in all activities of operational risk management.

The Group calculates capital requirements under Pillar 1 for operational risk using the basic indicator approach while under Pillar 2 it applies advanced approach by using an internal model.

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 Bank 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 Bank of Serbia and delivers quarterly reports on achieved values of ratios.

The Law on Banks and relevant decisions of the National Bank of Serbia stipulate that banks must maintain a minimum amount of capital of EUR 10 million in dinar equivalent according to the official middle exchange rate, an indicator of capital adequacy of at least 8%, an indicator of the capital adequacy of at least 6% and an indicator of the adequacy of the basic share capital of at least 4,5%, as well as to harmonize the scope and structure of its operations with the indicators of operations prescribed by the Decision on risk management ("Official Gazette of the Republic of Serbia" No. 45/2011, 94/2011, 119/2012, 123/2012 and 23/2013 - other decisions, 43/2013 and 92/2013, 33/2015, 61/2015, 61/2016, 103/2016, 119/2017 76/2018 & 57/2019) and the Decision on capital adequacy ("Official Gazette of the RS", no. 103/2016, 103/2018 & 88/2019).

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

Regulatory prescribed minimum capital adequacy ratios, including the protection classes of equity as at 31 December 2019, were as follows:

- indicator of the adequacy of the basic share capital 10,28% (4,5% regulatory minimum, increased by 2,5% of the protective layer for the preservation of capital, 1% of the protective layer of capital for a systemically important bank and 2,24% of the protective layer of capital for the structural systemic risk)
- indicator of the capital adequacy ratio 11,84 % and
- an indicator of capital adequacy of 13,78%.

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 fulfill the additional regulatory minimum capital requirement, defined in the process of the Supervisory Review and Evaluation Process (SREP), which the National Bank of Serbia for 2018 has defined in the form of a minimum requirement for capital.

The aforementioned Decision of the National Bank of Serbia on the adequacy of the Group's capital determines the method of calculating the capital of the bank and the indicators of its adequacy. The total capital of the bank 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 bank'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), determine available internal capital and makes a distribution, and develop a strategy and plan for capital management in accordance with the risk management of the Group.

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 bank 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 Banking Law and the Decision on recovery plans for banks and banking groups ("Official Gazette of RS", no. 71/2015), the Group has prepared and submitted to the National Bank of Serbia Recovery Plan, which is the main pillar for strengthening the financial resistance of the Group and achieving stability in situations of serious financial distress. . 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 Bank of Serbia in accordance with the Decision on the Minimum Capital Requirement and Related Obligations of the Bank ("Official Gazette of the Republic of Serbia" No. 30/2015 and 78/2017) and the Decision on Information and Data submitted to the National Bank of Serbia for the purpose of drafting and updating the plan of restructuring of the bank and banking 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 2019 and 31 December 2018, as well as the capital adequacy ratio:

		RSD thousand
	31.12.2019.	**31.12.2018.**
Basic capital		
Basic share capital		
The amount of the basic share capital paid	12.909.000	10.040.000
Related emission premium with basic equity instruments	2.553.944	124.475
Profit from the current period that meets the requirements for inclusion in the share capital	1.297.500	1.014.238
Revaluation reserves and other unrealized gains	853.900	602.586
Unrealized losses	(128.085)	(90.388)
Other reserves	12.955.128	10.036.645
Additional value adjustments	(26.210)	(24.616)
Other intangible assets before deduction for related deferred tax liabilities	(683.396)	(554.374)
Gross amount of receivables from - private individual (other than farmers and entrepreneurs) where the level of credit indebtedness of 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	(29.530)	-
Gross amount of receivables - private individuals (except farmers and entrepreneurs) based on approved consumer loans, cash loans or other loans with a maturity of more than 2920 days	(9.430)	-
	29.692.821	**21.148.566**
Supplementary capital		
Subordinated obligations	3.677.972	3.873.180
	3.677.972	**3.873.180**
Capital:	**33.370.793**	**25.021.746**
Risky balance and off-balance assets		
Capital requirement for credit risk, counterparty risk and risk of delivery / delivery on the basis of free delivery	11.481.342	10.255.358
Capital requirement for price risk	210.080	161.078
Capital requirement for foreign exchange risk	10.100	51.123
Capital requirement for operational risk	1.282.829	1.199.624
Capital requirement for the risk of adjusting credit exposure	54.852	34.384
Adequacy of basic share capital	**18,22**	**14,46**
Adequacy of share capital	**18,22**	**14,46**
Capital adequacy	**20,47**	**17,11**

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 bank:

RSD thousand

	31.12.2019.	31.12.2018.
Investments in entities in the financial sector in which the bank does not have significant investments		
The limit to which investments in entities in the financial sector in which the bank does not have a significant investment are not deducted from the capital (10% of the basic share capital)	2.969.282	2.114.857
Investments in the basic share capital of entities in the financial sector in which the bank does not have a significant investment	(105.590)	(76.475)
Investments in additional share capital of entities in the financial sector in which the bank does not have significant investments	-	-
Investments in supplementary capital of entities in the financial sector in which the bank does not have significant investments	-	-
Remains up to the limit	**2.863.692**	**2.038.382**
Investments in entities in the financial sector in which the bank has significant investments		
The limit to which investments in entities in the financial sector in which the bank has significant investments are not deducted from the capital (10% of the basic share capital)	2.969.282	2.114.857
Investments in the basic share capital of entities in the financial sector in which the bank has significant investments	-	-
Remains up to the limit	**2.969.282**	**2.114.857**
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)	2.969.282	2.114.857
Deferred tax assets that depend on future profitability and arise from temporary differences	(123.676)	(111.910)
Remains up to the limit	**2.845.606**	**2.002.947**
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 bank has significant investments are not deducted from equity (17,65% of the basic share capital)	5.241.704	3.729.094
Deferred tax assets that depend on future profitability and arise from temporary differences and investments in financial sector entities in which the bank has significantly invested	(123.676)	(111.910)
Remains up to the limit	**5.118.028**	**3.617.184**

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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:

RSD thousand

	31.12.2019.		**31.12.2018.**	
	Risk assets	**Capital requirement**	**Risk assets**	**Capital requirement**
Total risk assets	162.990.030	13.039.202	146.276.728	11.702.138
Risk-weighted exposure to credit risk	143.516.777	11.481.342	128.191.971	10.255.358
Standardized approach	143.516.777	11.481.342	128.191.971	10.255.358
IRB approach	-		-	-
Exposure to risk of settlement/delivery (except for free delivery)	-		-	-
Exposure to market risks	2.752.246	220.180	2.652.507	212.201
Exposure to operational risk	16.035.357	1.282.829	14.995.301	1.199.624
Exposure to the risk of adjusting credit exposure	685.650	54.852	429.794	34.384

36. RISK MANAGEMENT (Continued)

36.9. Capital Management (continued)

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.

With the Decision on Amendment of the Decision on the Classification of Balance Sheet and Off-Balance Sheet Items of the bank ("Official Gazette of the Republic of Serbia" No. 103/2018) and the Decision on Amendments to the Decision on Capital Adequacy ("Official Gazette of the Republic of Serbia" No. 103/2018) effective from the 1 January 2019, the entire concept of calculating the reserve for estimated losses, as well as the treatment of the necessary reserves for estimated losses as deductions from the basic share capital is completely abolished.

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 bank, and the amount of exposure for the calculation of the leverage indicator, amounted to 11,38% as at 31 December 2019.

36. RISK MANAGEMENT (Continued)

36.10. Fair value of the 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).

RSD thousand

	31.12.2019	**31.12.2018**
CVA	16.395	12.398
DVA	1.892	(1.882)

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 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 2
Instruments for which there are market quotations, but whose market cannot 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 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 Level3.

36. RISK MANAGEMENT (Continued)

36.10. Fair value of the financial assets and liabilities (continued)

The following table shows fair value of financial instruments designated at fair value in financial statements:

RSD in thousand

	Level 1	Level 2	Level 3	31.12.2019. Total	Level 1	Level 2	Level 3	31.12.2018. Total
FINANCIAL ASSETS	**2.126.889**	**23.816.052**	**26.544**	**25.969.485**	**4.173.541**	**20.081.753**	**265.138**	**24.520.432**
Securities	**2.126.889**	**23.816.052**	**26.544**	**25.969.485**	**4.173.541**	**19.900.549**	**265.138**	**24.339.228**
Debt securities								
Republic of Serbia Treasury bills	1.779.125	23.459.504	-	**25.238.629**	3.851.416	19.840.314	236.389	**23.928.119**
Government bonds of Republic of Montenegro	249.346			**249.346**	254.864	**-**	**-**	**254.864**
EBRD bonds	**-**	-	-	**-**	**-**	60.235	-	**60.235**
Equity securities								
Quoted shares	98.418	-	**-**	**98.418**	67.261		**1.596**	**68.857**
Shares that are not quoted	**-**	-	26.544	**26.544**	**-**	-	27.153	**27.153**
Derivatives	**-**	356.548	-	**356.548**	**-**	181.204	-	**181.204**
FINANCIAL LIABILITIES	**-**	256.908	**-**	**256.908**	**-**	**95.518**	**-**	**95.518**
Derivative liabilities	-	256.908	-	**256.908**	-	95.518	-	**95.518**

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36. RISK MANAGEMENT (Continued)

36.10. Fair Value of Financial Assets and Liabilities (Continued)

Changes in the level of financial instruments valued at fair value-

RSD thousand

	31.12.2019.			31.12.2018.		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Securities						
Transfer from Level 1	-	-	-	-	1.937.833	-
Transfer from Level 2	1.064	235.327		-	-	1.596
Transfer from Level 3	(1.104.998)	3.032.390		-	357.069	-
Total	**(1.103.934)**	**3.267.717**		**-**	**2.294.902**	**1.596**

Reclassification between levels 1 and 2, arranged by categories of measurements and instruments

RSD thousand

	31.12.2019.		31.12.2018.	
	From Level 1 to Level 2	From Level 1 to Level 2	From Level 2 to Level 1	From Level 2 to Level 1
Financial assets FVOCI				
Bonds	-	-	1.136.866	1.136.866
Financial assets AC				
Bonds	195.549	-	-	-
Financial assets FVPL				
Bonds	-	-	559.991	559.991
Total	**195.549**	-	**1.696.857**	**1.696.857**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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

RSD thousand

	01.01.2019.	Transfer in level FV 3	Transfer from level FV 3	31.12.2019.
Assets				
Other financial assets FVPL	238.530	-	(238.530)	**-**
Non-traded financial assets FVPL				
Equity instruments	28.749	-	(2.205)	**26.544**
Financial assets FVOCI				
Equity instruments	67.261	-	(67.261)	**67.261**
Total	**334.540**	**-**	**(307.996)**	**26.544**

	01.01.2018	Transfer in level FV 3	Transfer from level FV 3	31.12.2018.
Assets				
Other financial assets FVPL	355.122	-	(116.592)	**238.530**
Non-traded financial assets FVPL				
Equity instruments	27.757	992	-	**28.749**
Financial assets FVOCI				
Equity instruments	-	67.261	-	**67.261**
Debt securities	1.183.740	-	(1.183.740)	**-**
Total	**1.566.619**	**68.253**	**(1.300.332)**	**334.540**

Income and expense for other financial assets at FV level 3

RSD thousand

	31.12.2019.	31.12.2018.
Assets		
Financial assets FVPL		
Debt securities	-	1.134
Total	**-**	**1.134**

36. RISK MANAGEMENT (continued)

36.10. Fair Value of Financial Assets and Liabilities (continued)

As at December 31, 2019, all bonds that were valued at fair value (bonds of the Republic of Serbia and bonds of the Republic of Montenegro) were allocated to FV 1 or FV 2.

All RS bonds that are deployed to the FV level 2, which are valued at market value, were valued by quoting from Reuters.

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.

RSD thousand

	31.12.2019.		**31.12.2018.**	
FINANCIAL ASSETS	**Carrying value**	**Carrying value**	**Fair value**	**Fair value**
Securities held to maturity	16.942.830	16.942.830	10.828.561	8.284.452
Loans and receivables due from banks	1.606.479	1.606.479	1.486.073	2.175.924
Loans and receivables due from customers	171.568.590	178.941.823	152.730.529	119.632.896
Construction objects	12.252	25.251	776.491	752.646
Fixed assets intended for sale			**24.272**	24.273
FINANCIAL LIABILITIES				
Deposits due to banks	71.909.427	74.683.537	68.809.379	53.866.328
Deposits due to customers	126.407.953	127.326.120	113.915.305	92.617.344

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 2019, there were no reclassifications within the financial asset position.

37. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating Lease Commitments

The Group, as permitted by the standard, does not apply IFRS 16 to leases contracts with short-term (leases with a shorter duration of 12 months) and low value lease agreements.

In applying IFRS 16, the Group out-scope lease agreements with the following characteristics:

1. *Short-term leasing agreements which represents a lease which with the first day of the lease lasts up to 12 months or less (a lease containing a purchase option does not have the character of a short-term lease, regardless of the term of the lease)*
2. Low value leasing agreement is the leasing of an asset 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 for non-cancellable liabilities under IFRS 16 exemptions related to low value leasing agreements are presented as follows:

RSD in thousand

	31.12.2019.	**31.12.2018.**
Within a year	15.441	24.209
From 1 to 5 years	91.806	28.714
	107.247	**52.923**

(b) Litigations

As at 31 December 2019, the Group had 1.556 initiated litigations in the total amount of RSD 1.827.627 thousand in which it had the status of the respondent (31 December 2018: RSD 1.839.945 thousand). Penalty interest from litigations led against the Group amounts to RSD 152.514 thousand (31 December 2018: RSD 110.498 thousand).

Based on the assessment of Group’s legal representatives for the above mentioned disputes, on day 31 December 2019 the Group made a provision in the amount of RSD 261.281 thousand (RSD 239.812 thousand as at 31 December 2018) 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.

(c) Taxation Risks

The Republic of Serbia tax legislation is in the process of ongoing reviews and changes occur frequently. 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 RECEIVABLES AND LIABILITIES BALANCES

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 items statements (OIS) as of 31 October 2019 in total amount of RSD 166.159.340 thousand. Confirmed receivables amounted to RSD 128.507.696 thousand.

The amount of disputed receivables amounted to RSD 10.652 thousand and the Group is in contact with clients in order to resolve conflicts.

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 bank a.d. Novi Sad

a) *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.

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. In addition, there are clients performing public activity or participating in the work of the public sector.

Commercial Project Financing (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)

This segment includes clients with consolidated annual turnover above EUR 50 million.

Financial Markets Segment (GM)

This segment involves activities comprised of trading and market service rendering. Trading and market services are activities related to the risk assumption and management within the Group's trading book for the purposes of market creation, short-term liquidity management, custody operations, commercial operations and all other activities performed in the capital market. Specific income and gains on the fair value adjustment that are not directly related to the client transactions (which may also be operations of matching assets and liabilities) and general risk premiums as fees for the work done also belong to this segment.

Other

This segment encompasses all the activities of asset and liability management and internal service rendering on a non-profit basis. It also includes the Group's available capital (defined as the difference between the total average capital in accordance with IFRS and average economic capital allocated to the operating segments).

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39. Segment reporting (continued)

Busines segmentation consolidated

	Customers		Small and medium-sized enterprises		Commercial project financing		Large corporate clients		Financial markets		Other		TOTAL	
in 000 RSD	**12.2019**	**12.2018**	**12.2019**	**12.2018**	**12.2019**	**12.2018**	**12.2019**	**12.2018**	**12.2019**	**12.2018**	**12.2019**	**12.2018**	**12.2019**	**12.2018**
B. Profit & loss account														
Net interest income	4,583,501	4,295,795	1,596,379	1,495,724	588,330	499,011	438,012	309,431	215,487	146,752	215,172	(20,777)	7,636,882	6,725,936
Dividend income		-		-		-		-		-	378	368	378	368
Net result from equity method investments		-		-		-		-		-	4,393	-	4,393	-
Rental income from investment properties & other operating leases		-		2,944		-	-	3,910		-	6,913	(778)	6,913	6,075
Net fee and commission income	1,208,451	1,199,357	458,793	357,117	54,074	18,526	193,258	146,931	44,251	34,607	(225,181)	(175,877)	1,733,646	1,580,661
Net trading result	186,471	160,480	69,234	40,312	21,975	10,047	24,548	10,089	379,495	384,838	(50,813)	(399)	630,910	605,368
Gains/losses from financial instruments measured at fair value through profit or loss		-		-		-		-		-	(2,795)	(55)	(2,795)	(55)
Other administrative expenses	(5,268,526)	(4,486,352)	(1,004,665)	(876,014)	(140,319)	(125,277)	(265,296)	(260,541)	(139,359)	(132,690)	(93,889)	13,695	(6,912,054)	(5,867,178)
Gains/losses from derecognition of financial assets measured at amortised cost	(24,275)	294		-		-		-		-	-	-	(24,275)	294
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss		-		-		-		-		-	15,355	7,724	15,355	7,724
Gains/losses from reclassification out of the amortised cost to the fair value through profit or loss category		-		-		-		-		-	-	-	-	
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	(307,009)	15,577	84,418	(139,156)	6,897	(65,884)	122,610	319,246	(343)	-	(5,247)	74,503	(98,674)	204,286
Other operating result	8,762	8,073	10,704	27,266	53	-	111	21,462	(10,215)	(3,936)	(43,738)	(122,087)	(34,322)	(69,221)
Pre-tax result from continuing operations	387,374	1,193,224	1,214,863	908,194	531,012	336,424	513,243	550,528	489,315	429,572	(179,451)	(223,684)	2,956,357	3,194,257
Taxes on income	(21,552)	(89,420)	(78,319)	(46,596)	(29,543)	(24,968)	(28,555)	(28,757)	(27,224)	(37,086)	10,199	(286)	(174,994)	(227,113)
Profit or loss for the year	365,822	1,103,804	1,136,545	861,598	501,469	311,455	484,689	521,770	462,092	392,486	(169,253)	(223,970)	2,781,363	2,967,143
Net result attributable to non-controlling interests		-		-		-		-		-	(24,302)	(0)	(24,302)	(11,399)
Net result attributable to the owners of the parent	365,822	1,103,804	1,136,545	861,598	501,469	311,455	484,689	521,770	462,092	392,486	(193,555)	(223,970)	2,757,061	2,955,744
											-		-	
Operating Income	5,978,423	5,655,632	2,124,406	1,896,097	664,380	527,584	655,818	470,361	639,233	566,198	(49,138)	(370,476)	10,013,122	8,745,396
Operating Expenses	(5,268,526)	(4,486,352)	(1,004,665)	(876,014)	(140,319)	(125,277)	(265,296)	(260,541)	(139,359)	(132,690)	(93,889)	13,695	(6,912,054)	(5,867,178)
Operating Result	709,896	1,169,280	1,119,742	1,020,083	524,061	402,307	390,522	209,819	499,874	433,508	(143,027)	(356,780)	3,101,068	2,878,218
A. Balance sheet											-		0	
Total assets (period end balance)	86,562,722	69,625,501	52,125,990	46,828,713	16,798,434	15,126,331	21,844,800	18,561,289	11,727,405	10,434,674	53,665,636	50,419,112	242,724,988	210,995,621
Total liabilities (period end balance)	79,067,108	66,768,395	36,431,138	28,181,750	8,551,233	9,036,024	21,197,378	19,622,682	2,962,485	2,705,221	62,272,138	60,728,528	210,481,480	187,042,600
Equity	7,142,024	5,560,807	4,614,623	4,662,977	1,590,069	1,638,707	2,812,505	1,675,091	671,623	855,858	15,412,665	9,559,581	32,243,508	23,953,021
C. Key indicators/parameters														
Cost/Income Ratio	88%	79%	47%	46%	21%	24%	40%	55%	22%	23%	-191%	4%	69%	67%
Loans/Deposits Ratio (net)	104%	101%	203%	232%	200%	167%	99%	96%	0%	0%	28%	7%	126%	120%
Return on the average allocated equity	5%	20%	25%	18%	32%	19%	17%	31%	69%	46%	-1%	-2%	9%	12%

40. ADDITIONAL CASH FLOW INFORMATION

	31.12.2019	31.12.2018
Cash	4.562.400	2.798.893
Gyro account	4.073.644	8.681.382
Loans to banks	1.127.123	1.150.593
Balance as at 31 December	**9.763.167**	**12.630.868**

The mandatory reserves with the National Bank of Serbia are not available for day-to-day operations and therefore are not part of cash and cash equivalents (Note 18).

41. EVENTS AFTER THE REPORTING PERIOD

Late in 2019 the news first emerged from China about the COVID-19 (Coronavirus). The situation at year end was that a limited number of cases of an unknown virus had been reported to the World Health Organization. In the first few months of 2020, the virus spread globally and its negative impact gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event. While this is still an evolving situation at the time of issuing these consolidated financial statements, the date there has been no discernible impact on the Group's operations, however the future effects cannot be predicted. Management will continue to monitor the potential impact that will take all steps possible to mitigate any effects.

There were no events after the balance sheet date that would require corrections or disclosures in the consolidated financial statements for 2019.

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 2019 and 31 December 2018 for certain foreign currencies are:

RSD in thousand

	December 31, 2019	December 31, 2018
EUR	117,5928	118,1946
USD	104,9186	103,3893
CHF	108,4004	104,9779

Novi Sad, March 9, 2020

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

Stevan Čomić Head of Accounting and Controlling Department	Aleksandra Radić Executive Board Member	Slavko Carić Chairman of the Executive Board

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SUPPLEMENTARY SCHEDULES

DISCLOSURE OF DATA AND INFORMATION BY BANKS

In accordance with the Decision on Disclosure of Data and Information by banks, 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 2019;
- 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 bank (ANNEX 1).
- PI-AKB form (APPENDIX 4) - overview of calculated capital requirements as at 31 December 2018.

DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

Appendix 1 – The form PI- KAP

Data on the Group's capital position

RSD thousand

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.	*Profit from preceding years free of any future liabilities, to be allocated to CET 1 capital according to the decision of the bank's assembly*	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 bank's assembly	205.830	Section 10, paragraph 1.
3	Profit of the current year or profit from the preceding year which the bank'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 capita	1.091.670	Section 10, paras 2 and 3
4	Revaluation reserves and other unrealised losses	725.815	Section 7, paragraph 1, item 4)
5	Reserves from profit and other bank reserves, except for reserves for general banking risks	12.955.128	Section 7, paragraph 1, item 5)
6	Reserves for general banking 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)	30.441.387	

DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

Appendix 1 – The form PI- KAP

Data on the Group's capital position

RSD thousand

No	Item	Amount	DCA reference*
	Common Equity Tier 1 capital: regulatory adjustments and deductibles		
9	Additional value adjustments (-)	(26.210)	Section 12, paragraph 5
10	Intangible assets, including goodwill (net of deferred tax liabilities) (-)	(683.396)	Section 13, paragraph 1, item 2)
11	Deferred tax assets that rely on future profitability of the bank, 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 bank'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 bank(-)	-	Section 13, paragraph 1, item 5)
17	Direct, indirect and synthetic holdings by a bank of own Common Equity Tier 1 instruments, including own CET 1 instruments that a bank 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 bank, designed to inflate artificially the capital of the bank (-)	-	Section 13, paragraph 1, item 7)
19	Applicable amount of direct, indirect and synthetic holdings by the bank of the CET1 instruments of financial sector entities where the bank 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 bank 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 bank 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 bank's future profitability arising from temporary differences (amount above 10% of bank'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 BANKS (continued)

Appendix 1 – The form PI- KAP

Data on the Group's capital position **RSD thousand**

No	Item	Amount	DCA reference*
23	Sum of deferred tax assets and holdings of financial sector entities where the bank 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 bank 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 bank 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 bank's Additional Tier 1 items that exceeds Additional Tier 1 capital of the bank (-)	-	Section 13, paragraph 1, item 10)
27	Gross amount of receivables on debtors - private individual (except farmers and entrepreneurs) on the basis of approved consumer loans, cash loans or other loans recorded 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 banks where the level of the borrower's credit indebtedness before granting the loan was higher than the percentage determined in accordance with the decision governing the classification of the bank's balance sheet assets and off-balance sheet items, or that percentage would be higher due to the loan approval, 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 (-)	(29.530)	Section 13, paragraph 1, item 13)
28	Gross amount of receivables on debtors – private individuals (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 for banks, which, on the basis of the criteria of the agreed maturity, fulfill the condition for the application of the deductible item from the basic share capital prescribed by the decision regulating the adequacy of the bank'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 (-)	(9.430)	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 bank	-	Section 13, paragraph 1, item 13)
30	Total regulatory adjustments and deductibles from CET1 capital (sum of rows from 9 to 27)	(748.566)	-
31	Common Equity Tier 1 capital (difference between 8 and 28)	29.692.821	-
	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 (30+31)	-	
	Additional Tier 1 capital: deductibles	-	
	Additional Tier 1 capital: deductibles		
35	Direct, indirect and synthetic holdings by a bank of own Additional Tier 1 instruments, including the instruments that a bank 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 bank of the Additional Tier 1 instruments of financial sector entities with which the bank has reciprocal cross holdings, designed to inflate artificially the capital of the bank (-)	-	Section 26, paragraph 1, item 2)

37	Applicable amount of direct, indirect and synthetic holdings by a bank of the Additional Tier 1 instruments of financial sector entities where the bank does not have a significant investment in those entities (-)	-	Section 26, paragraph 1, item 3)
38	Direct, indirect and synthetic holdings by a bank of the Additional Tier 1 instruments of financial sector entities where the bank 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 bank (-)	-	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 32 and 38)	-	
42	Tier 1 capital (sum of rows 29 and 39)	**29.692.821**	

DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

Appendix 1 – The form PI- KAP

Data on the Group's capital position

(in thousand RSD)

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	**3 677 972**	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 41 to 43)	**3 677 972**	
	Tier 2 capital: deductibles		
47	Direct, indirect and synthetic holdings by a bank of own Tier 2 instruments and subordinated liabilities, including instruments that the bank 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 bank has reciprocal cross holdings, designed to inflate artificially the capital of the bank (-)	-	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 bank does not have a significant investment in those entities (-)	-	Section 30, paragraph 1, item 3)
50	Direct, indirect and synthetic holdings by the bank of the Tier 2 instruments and subordinated liabilities of financial sector entities where the bank 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 45 to 48)	-	
52	Tier 2 capital (difference between 44 and 49)	3.677.972	
53	Total capital (sum of rows 40 and 50)	33.370.793	
54	Total risk-weighted assets	162.990.030	Section 3, paragraph 2
	Capital adequacy ratios and capital buffers		
55	Common Equity Tier 1 capital ratio (%)	18,22	Section 3, paragraph 1, item 1)
56	Tier 1 capital ratio (%)	18,22	Section 3, paragraph 1, item 2)
57	Total capital ratio (%)	20,47	Section 3, paragraph 1, item 3)
58	Total requirements for capital buffers (%)***	5,97	Section 433
59	Common Equity Tier 1 capital available for capital buffers coverage (%)****	10,22	

DISCLOSURE OF DATA AND INFORMATION BY BANKS (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 Bank	The subordinated loan granted by Erste Group Bank AG, Vienna	Minority interest in a subsidiary S-Leasing
1.	Issuer	Erste Bank ad Novi Sad	Erste Group Bank Ceps Holding GmbH, Vienna	Erste Group Bank 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 Banks	*Core capital instrument*	*Supplementary capital instrument*	*Core 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 150.188 thousand RSD recognised as supplementary capital which fulfill requirements in accordance with Decision on Capital Adequacy.	Amount of 3.527.784 thousand RSD recongized as supplementary capital which fulfill 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	*11.978,42 RSD*	-	-
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 07/12/2019	*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	-	-	*With maturity date*
10.2.	Subsequent call dates, if applicable	-	-	-
	Coupons / dividends			

DISCLOSURE OF DATA AND INFORMATION BY BANKS (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 Bank	The subordinated loan granted by Erste Group Bank AG, Vienna	Minority interest in a subsidiary S-Leasing
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-convertible*	*Non-convertible*	*Non-convertible*
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 BANKS (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)

RSD thousand

Designation of item	Item	Consolidated balance sheet as disclosed in financial reports	Consolidated balance sheet under regulatory method and scope of consolidation
A	**ASSETS**		
A.I	Cash and assets with the central bank	21.855.352	21.855.352
A.II	Pledged financial assets	-	-
A.III	Financial assets recognised at fair value through income statement and held for trading	346.899	346.899
A.IV	Financial assets initially recognised at fair value through income statement	41.791.566	41.791.566
A.V	Financial assets available for sale	1.606.479	1.606.479
A.VI	Financial assets held to maturity	171.568.590	171.568.590
A.VII	Loans and receivables from banks and other financial organisations	-	-
A.VIII	Loans and receivables from clients	-	-
A.IX	Change in fair value of hedged items	118	118
A.X	Receivables arising from hedging derivatives		
A.XI	Investments in associated companies and joint ventures	683.397	683.397
A.XII	Investments into subsidiaries	3.076.169	3.076.169
A.XIII	Intangible assets	-	-
A.XIV	Property, plant and equipment	229.409	229.409
A.XV	Investment property	2.044	2.044
A.XVI	Current tax assets	12.252	12.252
A.XVII	Deferred tax assets	1.348.380	1.348.380
A.XX	**TOTAL ASSETS (AOP items from 0001 to 0019 in the balance sheet)**	242.520.655	242.520.655
P	**LIABILITIES**		
PO	**LIABILITIES**		
PO.I	Financial liabilities recognised at fair value through income statement and held for trading	250.039	250.039
PO.II	Financial liabilities initially recognised at fair value through income statement	71.909.427	71.909.427
PO.III	Liabilities arising from hedging derivatives	126.407.953	126.407.953
PO.IV	Deposits and other liabilities to banks, other financial organisations and central bank	-	-
PO.V	Deposits and other liabilities to other clients	-	-
PO.VI	Change in fair value of hedged items	3.512.691	3.512.691
PO.VII	Own securities issued and other borrowings	4.206.971	4.206.971
PO.VIII	Subordinated liabilities	758.606	758.606
PO.IX	Provisions	-	-
PO.X	Liabilities under assets held for sale and discontinued operations	169.499	169.499
PO.XI	Current tax liabilities	13.365	13.365
PO.XII	Deferred tax liabilities	3.153.824	3.153.824
PO.XIV	**TOTAL LIABILITIES (AOP items from 0401 to 0413 in the balance sheet)**	**210.382.375**	**210.382.375**

DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

ANNEX 3 - Form PI-UPK

RSD thousand

Designation of item	Item	Consolidated balance sheet as disclosed in financial reports	Consolidated balance sheet under regulatory method and scope of consolidation
	CAPITAL		
PO.XV	Share capital	15.462.944	15.462.944
PO.XVI	Own shares	-	-
PO.XVII	Profit	2.891.319	2.891.319
PO.XVIII	Loss	-	-
PO.XIX	Reserves	13.681.971	13.681.971
PO.XX	Unrealized losses	-	-
PO.XXII	**TOTAL CAPITAL (result of adding up and/or subtracting the following balance sheet items: 0415-0416+0417-0418+0419-0420+0421) ≥ 0**	102.047	102.047
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**	32.138.280	32.138.280
PO.XV	Share capital	-	-
PO.XXIV	**TOTAL LIABILITIES (result of adding up and/or subtracting the following balance sheet items: 0414+0422-0423)**	242.520.655	242.520.655
В.П.	**OFF-BALANCE SHEET ITEMS**		
В.П.А.	Off-balance sheet assets	356.052.776	356.052.776
В.П.П.	Off-balance sheet liabilities	356.052.776	356.052.776

DISCLOSURE OF DATA AND INFORMATION BY BANKS (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)

RSD thousand

Designation of item	Item	Balance sheet	Reference
A	**ASSETS**		
A.I	Cash and assets with the central bank	21.855.352	
A.II	Pledged financial assets		
A.III	Financial assets recognised at fair value through income statement and held for trading	346.899	
A.IV	Financial assets initially recognised at fair value through income statement	41.791.566	
A.V	Financial assets available for sale	1.606.479	
A.VI	Financial assets held to maturity	171.568.590	
A.VII	Loans and receivables from banks and other financial organisations		
A.VIII	Loans and receivables from clients		
A.IX	Change in fair value of hedged items	118	
A.X	Receivables arising from hedging derivatives		
A.XI	Investments in associated companies and joint ventures	683.397	d
A.XII	Investments into subsidiaries	3.076.169	
A.XIII	Intangible assets	-	
A.XIV	Property, plant and equipment	229.409	
A.XV	Investment property	2.044	
A.XVI	Current tax assets	12.252	
A.XVII	Deferred tax assets	1.348.380	
A.XX	**TOTAL ASSETS (AOP items from 0001 to 0019 in the balance sheet)**	**242.520.655**	
P	**LIABILITIES**		
PO	**LIABILITIES**		
PO.I	Financial liabilities recognised at fair value through income statement and held for trading	250.039	
PO.II	Financial liabilities initially recognised at fair value through income statement	71.909.427	
PO.III	Liabilities arising from hedging derivatives	126.407.953	
PO.IV	Deposits and other liabilities to banks, other financial organisations and central bank	-	
PO.V	Deposits and other liabilities to other clients	-	
PO.VI	Change in fair value of hedged items	3.512.691	
PO.VII	Own securities issued and other borrowings	4.206.971	
PO.VIII	Subordinated liabilities	3.768.261	d
PO.IX	Provisions	758.606	
PO.X	Liabilities under assets held for sale and discontinued operations	-	
PO.XI	Current tax liabilities	169.499	
PO.XII	Deferred tax liabilities	13.365	
PO.I	Financial liabilities recognised at fair value through income statement and held for trading	3.153.824	
PO.XIV	**TOTAL LIABILITIES (AOP items from 0401 to 0413 in the balance sheet)**	**210.382.375**	

DISCLOSURE OF DATA AND INFORMATION BY BANKS (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)

RSD thousand

Designation of item	Item	Balance Sheet	Reference
	CAPITAL		
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	2.891.319	
PO.XVIII	Loss	-	
PO.XIX	Reserves	13.681.971	
	Of which Other reserves	12.955.128	g
	Òf which Revalorization reserves and other unrelized gains	853.900	v
	Of which unrealized losses	-128.085	v
PO.XX	Unrealized losses	-	
PO.XXI	Participation without the right of control	102.047	
PO.XXII	**TOTAL CAPITAL (result of adding up and/or subtracting the following balance sheet items: 0415-0416+0417-0418+0419-0420+0421) ≥ 0**	-	
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**	32.138.280	
PO.XXIV	**TOTAL LIABILITIES (result of adding up and/or subtracting the following balance sheet items: 0414+0422-0423)**	-	
В.П.	**OFF-BALANCE SHEET ITEMS**	**242.520.655**	
В.П.А.	Off-balance sheet assets	356.052.776	
В.П.П.	Off-balance sheet liabilities	356.052.776	

DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

APPENDIX 4 – The form PI-ABK
Data on capital requirements and capital adequacy of the Group:

RSD thousand

No	Name	Amount
I	**CAPITAL**	**33.370.793**
1.	**TOTAL COMMON EQUITY TIER 1 CAPITAL**	**29.692.821**
2.	**TOTAL ADDITIONAL TIER 1 CAPITAL**	**-**
3.	**TOTAL TIER 2 CAPITAL**	**3.677.972**
II	**CAPITAL REQUIREMENTS**	**13.039.202**
1.	**CAPITAL REQUIREMENT FOR CREDIT RISK, COUNTERPARTY RISK, DILUTION RISK AND SETTLEMENT/DELIVERY RISK TO FREE DELIVERIES**	**11.481.342**
1.1.	Standardised Approach (SA)	***143.516.777***
1.1.1.	*Exposures to central governments and central banks*	-
1.1.2.	*Exposures to territorial autonomies or local government units*	***1.237.974***
1.1.3.	*Exposures to public administrative bodies*	***1.530.509***
1.1.4.	*Exposures to multilateral development banks*	-
1.1.5.	*Exposures to international organisations*	-
1.1.6.	*Exposures to banks*	***785.207***
1.1.7.	*Exposures to companies*	***72.189.141***
1.1.8.	*Retail exposures*	***45.080.972***
1.1.9.	*Exposures secured by mortgages on immovable property*	***18.378.757***
1.1.10.	*Exposures in default*	***691.583***
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 banks 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*	***151.967***
1.1.17.	*Other items*	***3.470.667***
1.2.	*Internal Ratings Based Approach (IRB)*	**-**
1.2.1.	*Exposures to central governments and central banks*	**-**
1.2.2.	*Exposures to banks*	**-**
1.2.3.	*Exposures to 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 bank 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 BANKS (continued)

APPENDIX 4 – The form PI-ABK

Data on capital requirements and capital adequacy of the Group: **RSD thousand**

No	Name	Amount
2	**CAPITAL REQUIREMENT FOR SETTLEMENT/DELIVERY RISK IN RESPECT OF UNSETTLED TRANSACTIONS**	**220.180**
3	**CAPITAL REQUIREMENT FOR MARKET RISKS**	**220.180**
3.1.	Capital requirements for position, foreign exchange risk and commodities risk calculated under the Standardised Approach	**210.080**
3.1.1.	*Capital requirement for position risk of debt securities*	**-**
	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*	**10.100**
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**	**1.282.829**
4.1.	**Capital requirement for operational risk calculated under the Basic Indicator Approach**	**1.282.829**
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**	**54.852**
III	**COMMON EQUITY TIER 1 CAPITAL RATIO (%)**	**18,22**
IV	**TIER 1 CAPITAL RATIO (%)**	**18,22**
V	**TOTAL CAPITAL RATIO (%)**	**20,47**

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 Banking 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)
ICAAP	Internal capital adequacy assessment process
IRB	Internal Ratings Based Approach
LGD	Loss Given Default
LTV indicator	Loan To Value
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
MVoE	Market Value of Equity
NSFR	Net Stable Funding Ratio
OCI	Other Comprehensive Income
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 DECEMBER 31, 2019

CONTENT:

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 30/2018).

The report is based on the audited financial information. A more detailed presentation of the business operations of the Group on the consolidated level is provided in Notes to consolidated financial statements as of December 31, 2019.

- **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, subsequently 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 47,200 employees, serving around 16.7 million clients through 2,385 branches in 7 countries (Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia).

The Bank's shareholders are Erste Group Bank 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, Bulevar Oslobođenja Street, number 5. 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, 2019, the Bank had 1,154 employees (December 31, 2018: 1,117 employees).

As of December 31, 2019, 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, Steiermärkische Bank und Sparkassen AG, Graz
5. Goran Pecikoza, independent member, Belgrade
6. Aleksandar Vlahović, independent member, Belgrade

As of December 31, 2019, members of the Bank's Executive Board were:

1. Slavko Carić, Chairman of the Executive Board,
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, 2019, 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.

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 main 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 Belgrade, Milutina Milankovića Street, number 3a/7.

As of December 31, 2019, the Company had 50 employees (December 31, 2018: 45 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 a.d., Novi Sad
2. Vladan Mihajličin, member, Erste Bank a.d., Novi Sad
3. Georg Haslinger, member, Erste Group Bank AG Vienna
4. Marko Markić, member, Steiermaerkische Bank und Sparkassen AG, Graz
5. Daniel Kozel, member, Steiermaerkische Bank und Sparkassen AG, Graz

Members of the Company's Executive Board are:

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

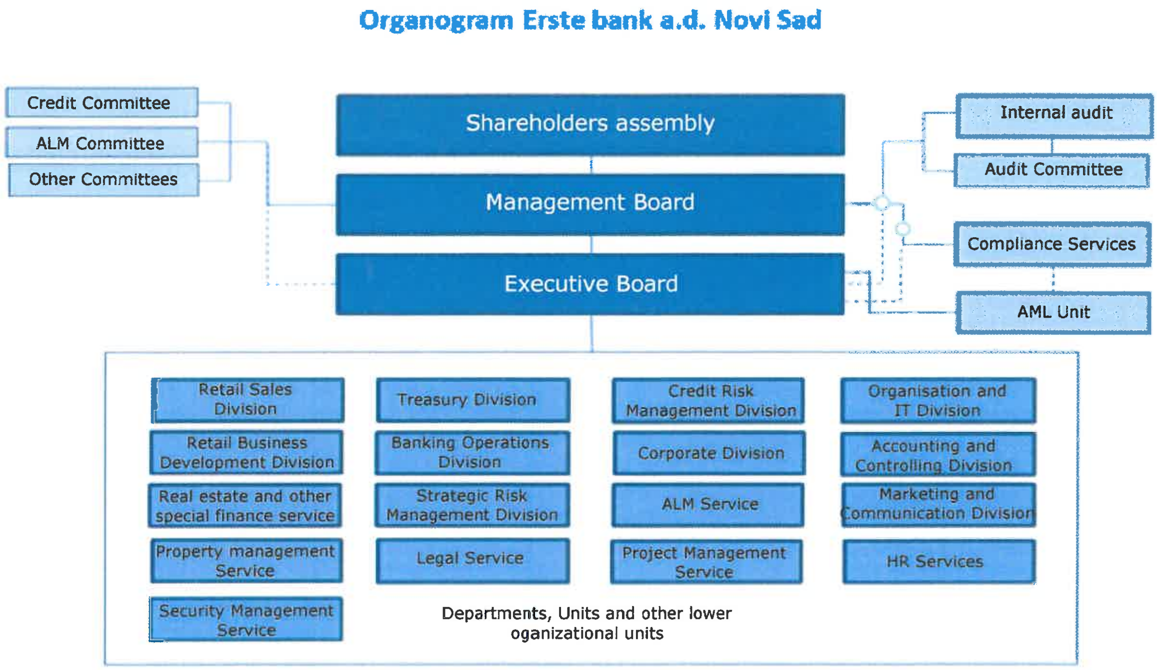
In 2014, based on Agreement on Purchase and Transfer of Equity Interest with Steiermaerkische Bank und Sparkassen AG and Erste Group Immorent International Holding GMBH, Erste Bank a.d. Novi Sad, Serbia acquired a 75% equity interest in the company S-Leasing d.o.o., Beograd.

The consolidated annual business report includes financial information of Erste Bank a.d. Novi Sad and financial information of S-Leasing d.o.o. Beograd. As the parent company of the subsidiary, S-Leasing d.o.o. Beograd, Erste Bank a.d. Novi Sad, prepares the consolidated annual business report.

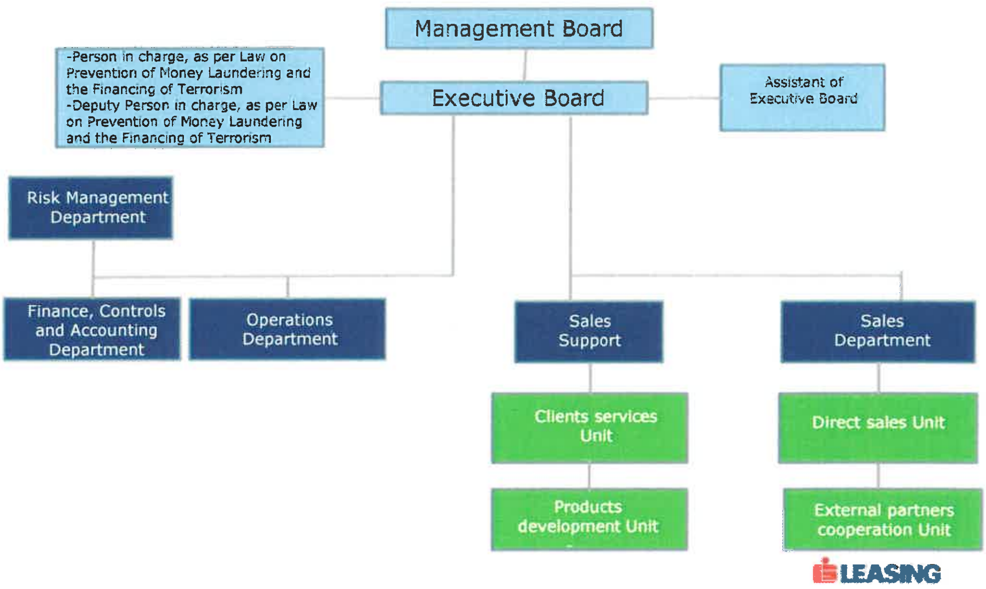
Figures in the accompanying report are stated in thousands of dinars, unless otherwise specified.

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

Organizational chart of the Bank is provided below:



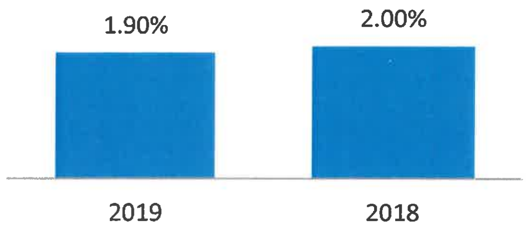
Organizational chart of the Company is provided below:



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 2019

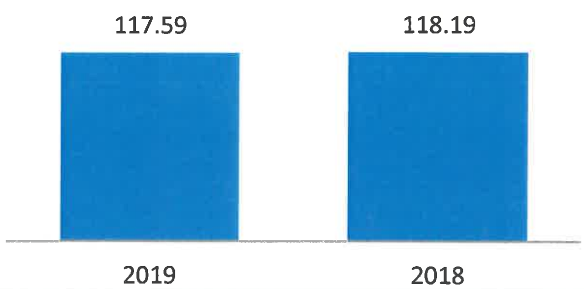
Inflation movement



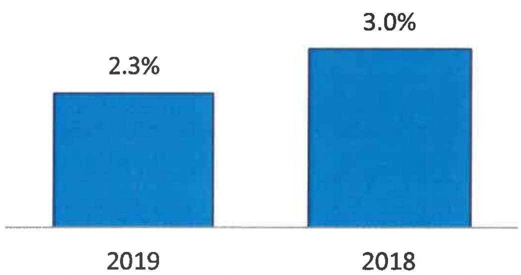
During 2019, the rate of inflation fluctuated in targeted range (3.0% ± 1.5%). The inflation rate oscillated from 1.0% to 3.1% and at the end of the year it amounted 1.9%, which is its average value for 2019. According to the projection, the yearly inflation will continue to move within the targeted boundaries, until the end of the projection period, i.e. in the next year.

In the course of 2019 RSD appreciated against EUR and the RSD to EUR exchange rate dropped from RSD 118.19 to RSD 117.59 for EUR 1.

RSD/EUR exchange rate



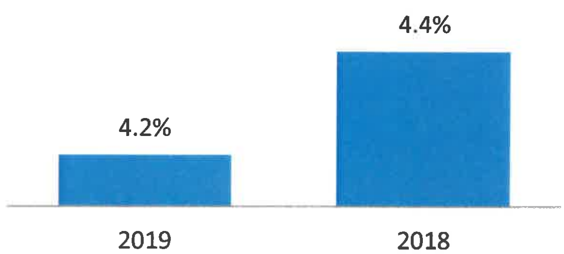
Key policy rate



The reference interest rate of the NBS movement, during 2019, was in the range from 3.00% to 2.25%.

In 2019, GDP growth rates is slightly lower than in 2018. The projection of sustainable growth of GDP in the following year is around 4%.

GDP growth



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's performance indicators – comparative data 2019 – 2018

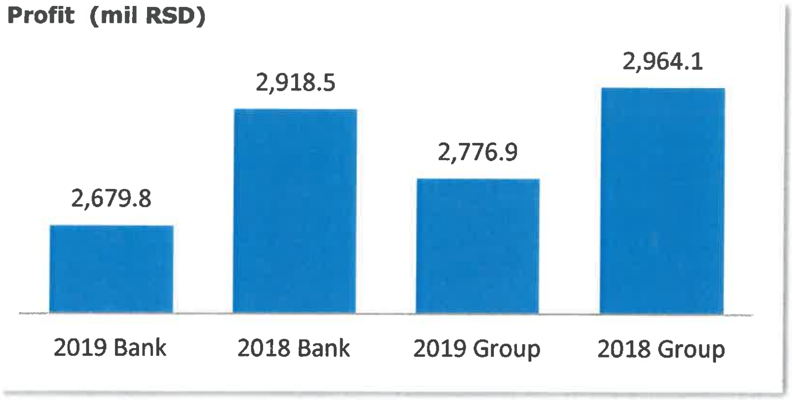
Profit and Loss Account

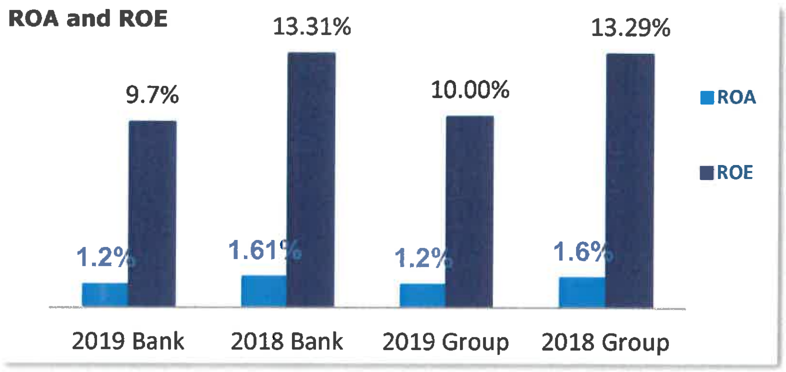
The profit and loss account structure for the year ended as of 31 December 2019 and 2018, including the growth percentages in relation to the previous year, are as follows:

in RSD thousand

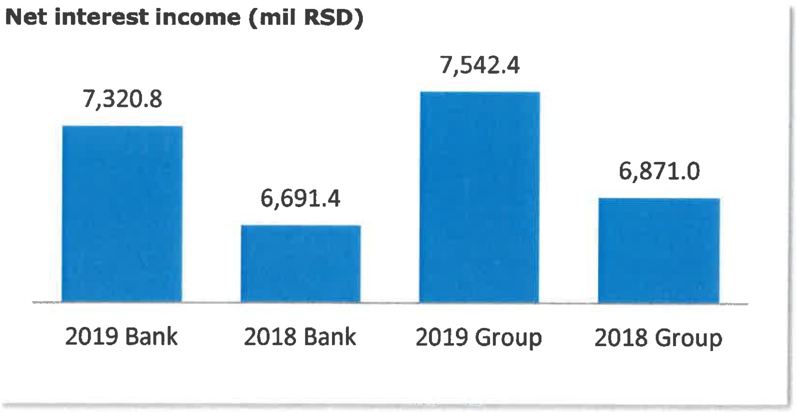
	Consolidated			Bank		
	01.01.-31.12.2019.	01.01.-31.12.2018.	% growth/drop	01.01.-31.12.2019.	01.01.-31.12.2018.	% growth/ drop
INCOME AND EXPENSES FROM REGULAR BUSINESS OPERATIONS						
Interest income	9,751,454	8,542,507	14.15	9,386,915	8,250,544	13.77
Interest expenses	(2,209,041)	(1,671,512)	32.16	(2,066,080)	(1,559,142)	32.51
Net interest income	**7,542,413**	**6,870,995**	**9.77**	**7,320,835**	**6,691,402**	**9.41**
Fee and commission income	2,880,288	2,552,589	12.84	2,842,764	2,522,720	12.69
Fee and commission expenses	(1,091,039)	(947,422)	15.16	(1,075,667)	(933,746)	15.20
Net fee and commission income	**1,789,249**	**1,605,167**	**11.47**	**1,767,097**	**1,588,974**	**11.21**
Net income from change in fair value of financial assets	359,648	113,756	216.16	359,648	113,756	216.16
Net income from derecognition of financial instruments valued at fair value	6,090	71,924	(91.53)	6,090	71,924	(91.53)
Net income from risk protection	562	1,199	(53.13)	562	1,199	(53.13)
Net gain from foreign currency exchange difference and effects of contractual foreign currency clause	424,677	421,095	0.85	424,942	422,539	0.57
Net loss from impairment of financial assets not valued at fair value through profit and loss account	(503,048)	(163,131)	208.37	(507,817)	(146,249)	247.23
Net gain from derecognition of financial instruments valued at amortized cost	-	15,095	100.00	-	15,095	100.00
Net loss from derecognition of financial instruments valued at amortized cost	(29,107)	-	100.00	(29,107)	-	100.00
Other operating income	76,897	102,838	(25.23)	36,225	40,091	(9.64)
TOTAL NET OPERATING INCOME	**9,667,381**	**9,038,938**	**6.95**	**9,378,475**	**8,798,731**	**6.59**
Costs of salaries, contributions and other personnel expenses	(2,337,303)	(2,179,915)	7.22	(2,240,274)	(2,100,577)	6.65
Depreciation costs	(573,117)	(326,514)	75.53	(558,283)	(320,581)	74.15
Other operating income	501,649	388,420	29.15	501,353	388,369	29.09
Other expenses	(4,306,720)	(3,729,738)	15.47	(4,243,629)	(3,632,699)	16.82
PROFIT BEFORE TAX	**2,951,890**	**3,191,191**	**(7.50)**	**2,837,642**	**3,133,243**	**(9.43)**
Income tax	(186,773)	(264,750)	(29.45)	(169,499)	(252,560)	(32.89)
Deferred tax gain	11,812	37,800	(68.75)	11,623	37,800	(69.25)
Deferred tax loss	-	(163)	(100.00)	-	-	-
PROFIT FOR THE YEAR	**2,776,929**	**2,964,078**	**(6.31)**	**2,679,766**	**2,918,483**	**(8.18)**

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)





In the period from 1 January to 31 December 2019, the Bank generated net profit of RSD 2,679,766 thousand (2018: RSD 2,918,483 thousand), which represents an 8.18% decrease, compared to the previous year. In the period from 1 January to 31 December 2019, the Group generated net profit of RSD 2,776,929 thousand (2018: RSD 2,964,078 thousand), which is a 6.31% decrease in compared to the previous year.

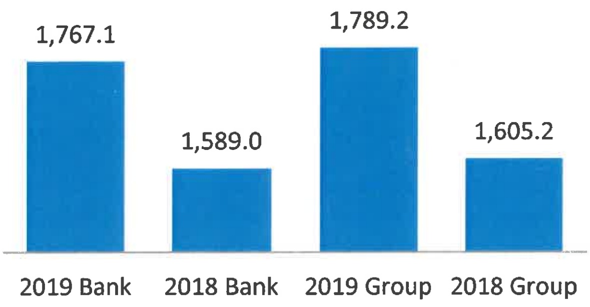


Interest income in 2019, at the Group level, amounted to RSD 9,751,454 thousand (2018: RSD 8,542,507 thousand) and marked an increase of 14.15%. compared to the previous year. Interest income of the Bank in 2019 amounted to RSD 9,386,915 thousand (2018: RSD 8,250,544 thousand) and have increased by 13.77% compared to the previous year.

Interest expenses in 2019 at Group level amounted to RSD 2,209,041 thousand (2018: RSD 1,671,512 thousand) and marked an increase of 32.16% compared to the previous year. Interest expenses of the Bank in 2019 amounted to RSD 2,066,080 thousand (2018: RSD 1,559,142 thousand) and have increased by 32.51% compared to the previous year.

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 comission income (mil RSD)



Fee and commission income generated in 2019, at the Group level, amounted to RSD 2,880,288 thousand (2018: RSD 2,552,589 thousand), and has increased by 12.84% compared to the previous year. Fee and commission income of the Bank generated in 2019, amounted to RSD 2,842,764 thousand (2018: RSD 2,522,720 thousand) and has increased by 12.69% compared to the previous year.

Fee and commission expenses in 2019, at the Group level, amounted to RSD 1,091,039 thousand (2018: RSD 947,422 thousand), and have increased by 15.16% compared to the previous year. Fee and commission expenses of the Bank in 2019 amounted to 1,075,667 thousand (2018: RSD 933,746 thousand) and have increased by 15.20% compared to the previous year.

Within the structure of the total income and the total expenses, in addition to the interest and fee, the most significant share have: the foreign exchange rate differences, net income from change in fair value of financial assets 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 2019, at the Group level, amounted to RSD 424,677 thousand, thereof RSD 424,942 thousand is income at the Bank level, and RSD 265 thousand expense at S-Leasing level. **Positive net effect from the financial assets change in fair value** at the Group level, amounted to RSD 359,648, all recorded at the level of the Bank. Net loss from impairment of financial assets not valued at fair value through profit and loss account in 2019 amounted to RSD 503,048 thousand at consolidated level and the major part of this amount appertains to the Bank.

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

in RSD thousand

	Consolidated					Bank				
	2019	**in %**	**2018**	**in %**	**% growth /drop**	**2019**	**in %**	**2018**	**in %**	**% growth /drop**
ASSETS										
Cash and assets with the central bank	21,855,352	9.01	24,641,257	11.68	(11.31)	21,855,375	9.44	24,641,261	12.14	(11.31)
Derivative financial assets	346,899	0.14	181,204	0.09	91.44	346,899	0.15	181,204	0.09	91.44
Securities	41,791,566	17.23	35,153,894	16.67	18.88	41,531,585	17.94	34,891,510	17.19	19.03
Loans and receivables from banks and other financial institutions	1,606,479	0.66	1,492,872	0.71	7.61	1,606,876	0.69	1,700,361	0.84	(5.50)
Loans and receivables from customers	171,568,590	70.74	146,346,487	69.39	17.23	160,829,494	69.49	138,393,437	68.20	16.21
Investments in affiliates and joint ventures	118	0.00	118	0.00	0.00	-	-	-	0.00	0.00
Investments in subsidiaries	-	-	-	-	-	93,560	0.04	93,560	0.05	0.00
Intangible assets	683,397	0.28	554,374	0.26	23.27	665,001	0.29	537,025	0.26	23.83
Property, plant and equipment	3,076,169	1.27	1,072,688	0.51	186.77	2,952,105	1.28	1,062,904	0.52	177.74
Current tax assets	229,409	0.09	173,326	0.08	32.36	229,409	0.10	173,326	0.09	32.36
Deferred tax assets	2,044	0.00	20,553	0.01	(90.05)	-	0.00	18,809	0.01	(100.00)
Fixed assets held for sale and assets of discontinued operations	12,252	0.01	12,288	0.01	(0.29)	11,902	0.01	11,902	0.00	0.00
Other assets	1,348,380	0.56	1,245,658	0.59	8.25	1,328,126	0.57	1,226,714	0.60	8.27
TOTAL ASSETS	**242,520,655**	**100**	**210,894,719**	**100**	**15.00**	**231,450,332**	**100**	**202,932,013**	**100**	**14.05**

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)

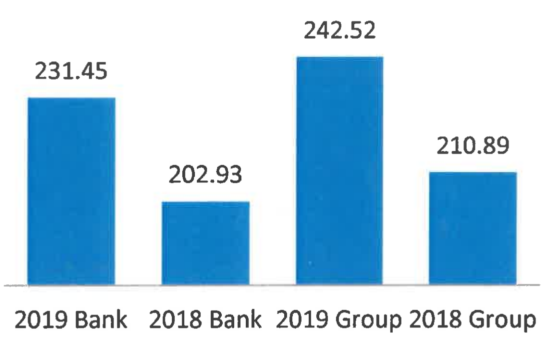
Balance Sheet

in RSD thousand

	Consolidated					Bank				
	2019	**in %**	**2018**	**in %**	**% growth /drop**	**2019**	**in %**	**2018**	**in %**	**% growth /drop**
LIABILITIES										
Derivative financial liabilities	250,039	0.10	95,518	0.05	161.77	250,039	0.11	95,518	0.05	161.77
Deposits and other liabilities to banks and other financial institutions and central banks	71,909,427	29.65	67,153,387	31.84	7.08	61,266,424	26.47	59,322,207	29.23	3.28
Deposits and other liabilities to other customers	126,407,953	52.12	113,210,214	53.68	11.66	126,407,953	54.62	113,210,214	55.79	11.66
Liabilities for issued securities	3,512,691	1.45	-	0.00	100.00	3,512,691	1.52	-	0.00	100.00
Subordinated liabilities	4,206,971	1.73	4,566,337	2.17	(7.87)	4,206,971	1.82	4,566,337	2.25	(7.87)
Provisions	758,606	0.31	677,194	0.32	12.02	740,087	0.32	654,200	0.32	13.13
Current tax liabilities	169,499	0.07	252,560	0.12	(32.89)	169,499	0.07	252,560	0.12	(32.89)
Deferred tax liabilities	13,365	0.01	4,038	0.00	230.98	7,265	0.00	-	0.00	100.00
Other liabilities	3,153,824	1.30	1,085,574	0.51	190.52	3,065,750	1.32	1,199,176	0.59	155.65
TOTAL LIABILITIES	**210,382,375**	**86.75**	**187,044,822**	**88.69**	**12.48**	**199,626,679**	**86.25**	**179,300,212**	**88.35**	**11.34**
CAPITAL										
Share capital	15,462,944	6.38	10,164,475	4.82	52.13	15,462,944	6.68	10,164,475	5.01	52.13
Gain	2,891,319	1.19	3,057,163	1.45	(5.42)	2,679,766	1.16	2,918,483	1.44	(8.18)
Reserves	13,681,971	5.64	10,550,345	5.00	29.68	13,680,943	5.91	10,548,843	5.20	29.69
Non-controlling interest	102,047	0.04	77,914	0.04	30.97	-	-	-	-	-
TOTAL CAPITAL	**32,138,280**	**13.25**	**23,849,897**	**11.31**	34.75	**31,823,653**	**13.75**	**23,631,801**	**11.65**	34.66
TOTAL LIABILITIES AND CAPITAL	**242,520,655**	**100**	**210,894,719**	**100**	**15.00**	**231,450,332**	**100**	**202,932,013**	**100**	**14.05**

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)

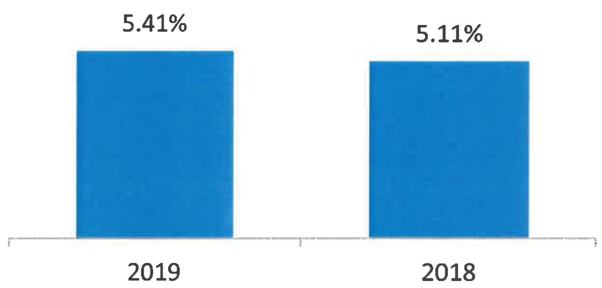
Balance sheet assets movement (bil RSD)



The total **balance sheet sum** of the Bank as of 31 December 2019 amounted to RSD 231,450,332 thousand and has marked an increase of 14.05% compared to 31 December 2018. The total balance sheet sum on the consolidated level as of 31 December 2019 amounted to RSD 242,520,655 thousand and it has increased by 15.00% compared to 31 December 2018.

The market share of the Bank's assets in total assets of the Serbian banking sector in 2019 was 5.41%, whereas the Bank's market share in relation to total assets of the Serbian banking sector in 2018 was 5.11%.

EBS Market Share per balance sheet assets

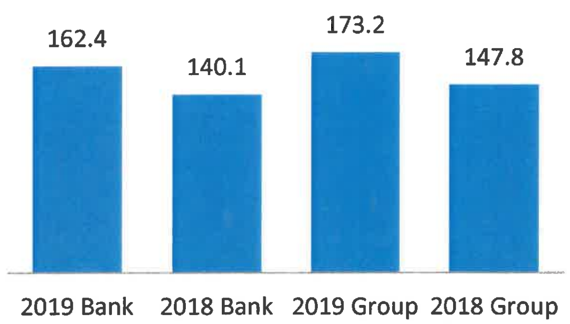


Cash and assets with the central bank in 2019, at the Group level, amounted to RSD 21,855,352 thousand, and the total amount relates to the Bank. Cash and assets with the central bank decreased by 11.31% in 2019 in relation to 2018.

Derivative financial assets in 2019, at the Group level, amounted to RSD 346,899 thousand, and the total amount relates to the Bank. Derivative financial assets, as of 31 December 2019, increased by 91.44% in relation to the same date in 2018.

Securities in 2019, at the Group level, amounted to RSD 41,791,566 thousand, and the majority relates to the Bank. Securities, as of 31 December 2019, increased by 18.88% in relation to the same date in 2018.

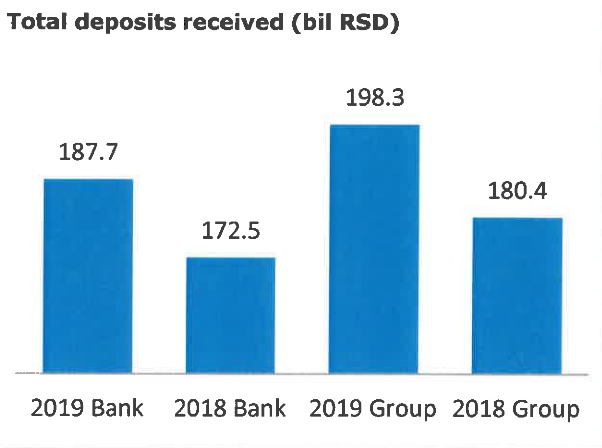
Total loans granted (bil RSD)



Loans and receivables from banks and other financial organisations in 2019, at the Group level, amounted to RSD 1,606,479 thousand, and the most significant amount relates to the Bank. Loans and receivables from banks and other financial organisations as of 31 December 2019 have increased by 7.61% in relation to the same date in 2018.

Loans and receivables from customers on the consolidated level amounted to RSD 171,568,590 thousand, thereof, at the Bank level, they amounted to RSD 160,829,494 thousand, and at S-Leasing level, they amounted to RSD 10,739,096 thousand. Loans and receivables from customers on the consolidated level on 31 December 2019 have marked an increase of 17.23% compared to the same date in 2018. Loans and receivables from customers of the Bank on 31 December 2019 have increased by 16.21% compared to the same date in 2018.

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)



Deposits and other liabilities to banks and other financial organisations on the consolidated basis, as of 31 December 2019, amounted to RSD 71,909,427 thousand, of which RSD 61,266,424 thousand relate to the Bank and RSD 10,643,003 thousand relate to S-Leasing. Deposits and other liabilities to other customers on the consolidated level, as of 31 December 2019, have increased by 7.08% in relation to the same date in 2018. Deposits and other liabilities to other customers of the Bank, as of 31 December 2019, have increased by 3.28% in relation to the same date in 2018. Deposits and other liabilities to banks and other financial organisations of the Bank in RSD account for 9.81% of total deposits balance as of 31 December 2019 and have increased by 11.98% in relation to 2019. On the other hand, deposits in foreign currencies account for 90.19% of total deposits balance and have increased by 2.41% in relation to 2018.

Deposits and other liabilities due to customers amounted to RSD 126,407,953 thousand on the consolidated level as of 31 December 2019, thereof total amount relates to the Bank. Deposits and other liabilities due to customers increased by 11.66% compared to 31 December 2018. The Bank's RSD deposits and other liabilities due to customers comprised 36.76% of the total balance of these deposits as of 31 December 2019 and recorded a growth of 12.73% compared to 2018. On the other hand, foreign currency deposits comprised 63.24% of the total balance of these deposits and recorded a growth of 11.05% compared to 2018.

The maturity structure of the consolidated statement of financial position (balance sheet) as of December 31, 2019 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 32,138,280 thousand as of December 31, 2019, recording an increase of 34.75% compared to 31 December 2018. The Bank's total equity amounted to RSD 31,823,653 thousand as of 31 December 2019. In 2019 the Bank's total equity recorded a growth of 34.66% compared to the previous year.

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 2019 and 2018 are presented as follows:

	Consolidated					Bank				
	2019	**in %**	**2018**	**in %**	**% growth / drop**	**2019**	**in %**	**2018**	**in %**	**% growth / drop**
Assets										
Assets in RSD	80,241,375	33.09	70,775,068	33.56	13.38	79,911,256	34.53	70,633,753	34.81	13.13
Assets in foreign currency	162,279,280	66.91	140,119,651	66.44	15.81	151,539,076	65.47	132,298,260	65.19	14.54
Total assets	**242,520,655**	**100**	**210,894,719**	**100**	**15.00**	**231,450,332**	**100**	**202,932,013**	**100**	**14.05**
Liabilities										
Liabilities in RSD	89,634,993	36.96	72,178,194	34.22	24.19	89,218,160	38.55	72,021,177	35.49	23.88
Liabilities in foreign currency	152,885,662	63.04	138,716,525	65.78	10.21	142,232,172	61.45	130,910,836	64.51	8.65
Total liabilities	**242,520,655**	**100**	**210,894,719**	**100**	**15.00**	**231,450,332**	**100**	**202,932,013**	**100**	**14.05**

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 33.09% of the total assets, recording a growth of 13.38% in 2019, whereas the RSD liability and equity sub-balance at the Group level comprised 36.96% of the total liabilities and equity, recording a growth of 24.19% in 2019. However, the Group's foreign currency asset subtotal is still more significant as it comprised 66.91% of the total assets and increased by 15.81% compared to the previous year. The Group's foreign currency liability and equity sub-balance was more significant as well, comprising 63.04% of the total liabilities and equity as of December 31, 2019 and recording an increase of 10.21% compared to the previous year.

The Bank's RSD assets sub-balance comprises 34.53% of its total assets, having risen by 13.13% in 2019, while its RSD liabilities and equity sub-balance comprises 38.55% of the Bank's total liabilities and equity, having risen by 23.88% in 2019. However, the Bank's foreign currency asset sub-balance is still more significant as it comprises 65.47% of the total assets with a 14.54% increase compared to the previous year. The Bank's foreign currency liability and equity sub-balance is more significant as well, comprising 61.45% of the total liabilities and equity as of 31 December 2019 and recording an increase of 8.65% compared to the previous year.

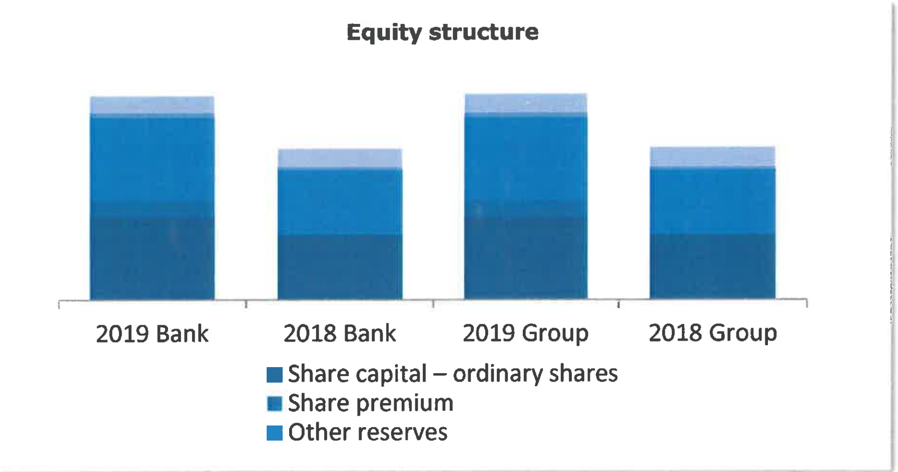
Equity

The Group capital as of 31 December 2019 amounted to RSD 32,138,280 thousand (31 December 2018: 23,849,897 thousand). The Bank's capital as of 31 December 2019 amounted to RSD 31,823,653 thousand (31 December 2018: RSD 23,631,801 thousand).

The total capital structure is presented as follows:

in RSD thousand

	Consolidated		Bank	
	2019	**2018**	**2019**	**2018**
Share capital – ordinary shares	12,909,000	10,040,000	12,909,000	10,040,000
Share premium	2,553,944	124,475	2,553,944	124,475
Other reserves	12,955,128	10,036,645	12,955,128	10,036,645
Revaluation reserves	726,843	513,700	725,815	512,198
Current year profit	2,891,319	3,057,163	2,679,766	2,918,483
Non-controlling interest	102,047	77,914	-	-
Balance as at December 31	**32,138,280**	**23,849,897**	**31,823,653**	**23,631,801**



As of 31 December 2019, the Bank subscribed and paid-in capital includes 1,290,900 ordinary shares of individual nominal value of RSD 10,000 (31 December 2018: 1,004,000 ordinary shares of individual nominal value of RSD 10,000).

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)

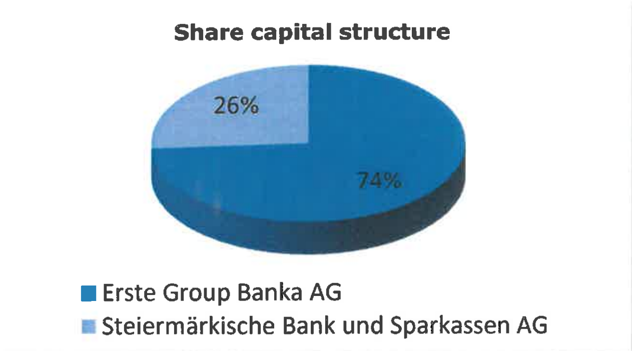
Equity (continued)

The total capital of the Bank as at 31 December 2019 amounted to RSD 31,823,653 thousand and consisted 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 in the amount of RSD 12,955,128 thousand, revaluation reserves in the amount of RSD 725,815 thousand and profit for the current period in the amount of RSD 2,679,766 thousand.

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

The number of issued shares was 286,900, of which Erste Group Band AG has purchased 212,306 shares and Steiermarkische Bank has purchased 74,594 shares. The nominal value of individual shares is RSD 10,000 and the issue price RSD 18,468.

After the successful shares issue, the total share capital was increased by RSD 2,869,000 thousand and amounted to RSD 12,909,000 thousand, of which EGB AG owns 74% with 955,266 shares and Steiermarkische Bank 26% with 335,634 shares.



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

The Bank's shareholders structure as of 31 December 2019 and 2018 is as follows:

Name of shareholder	Number of shares	Share in %
Erste Group Bank AG, Vienna	955,266	74.00
Steiermärkische Bank und Sparkassen AG, Graz	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.

- **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 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. Today, we operate in the same spirit.

For Erste Bank corporate social responsibility is a strategic framework for bank management and investment in long-term and stable relations with all key stakeholders by taking in consideration their needs and suggestions. The Bank is truly committed to actively contribute to the development and welfare of the society of which we are an inseparable part. This is evidenced by Bank's current Social Corporate Responsibility Strategy, grounded 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 established on the following principles: relation with operation, balance, holistic approach and integrated approach. The strategy is implemented through five basic areas with clearly defined objectives, followed by a key topic in the focus, as well as some additional topics providing clear guidelines for specific programmes, projects, and initiatives:

AREA	OBJECTIVE	PRIORITY TOPICS
Corporate management GRI 102 General data GRI 200 Economy 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 Financial inclusion 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 has 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 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
Responsibility to the environment	Contribution to the preservation of the environment by minimizing the negative and maximizing the positive impact that the Bank makes	Responsible resource management Responsible financing Raising the awareness of employees about environmental protection

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 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 stimulating the corporate social responsibility in Serbia, such as the United Nations Global Compact COP for Serbia, the Corporate Social Responsibility Forum, 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 in 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 year 2019, Erste Bank supported various cultural and artistic programs, science popularization, scientific programs, promotion of entrepreneurship (social and micro entrepreneurship), donation program Superste.net and allocated funds in the amount of about RSD 27.6 million.

As a financial institution, Erste Bank considers increasing financial literacy in society and financial education as its primary responsibility. In March 2019, we launched a comprehensive, free and non-commercial financial education program #ErsteZnali, with the aim of making good financial decisions for Serbian citizens. Last year, RSD 2.925 million was invested in the implementation of the program. The first of several activities was the online financial education platform ErsteZnali.rs, which has recorded 145,000 unique visits since March last year. A series of educational workshops, "Seven Steps of Good Finance", was organized across Serbia, with 360 citizens participating. With the support of the Bank, "Creative Centre" has published a book, "Guardians of the Dragon's Treasure", designed for the financial education of children.

One of the Bank's most important corporate social responsibility programs, now integrated in its day-to-day operations, is the "Step by Step" program. It is a program of educational, financial and mentoring support for start-ups, social enterprises and civil society organizations. This was the first step in implementation of social banking program in Serbia, launched by the Erste Group in Central and Eastern Europe (CEE) and Austria in 2016 to support clients who have traditionally been under-covered by banking services: new businesses, including start-ups in entrepreneurship, social enterprises, civil society organizations, as well as persons at risk of poverty. From the start of this program to the end of 2019, 165 start-ups, social enterprises and civil society organizations received financial, educational and mentoring support, it was created 280 and maintained 51 jobs, and loans granted in the amount of EUR 1.3 million. All program beneficiaries have conducted online educational programme on a platform created for this special purpose. In 2019, due to the high client response and increased demand 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.

Through the Superste.net donation program in 2019, 11 projects were financially supported and mentored. The fund for the realization of projects was RSD 5.1 million. An additional RSD 5.066 million was invested in the implementation of the program (mentoring support, organization of numerous events and workshops). Traditionally, the program was intended to formal and informal groups, young activists who want to realize socially responsible ideas and programs, projects inspired by the contemporary challenges of the society in which they live, with the aim of improving the quality of life in their communities.

The number of publications in the media testify about the importance of the topics addressed by Erste Bank last year. About Erste Bank there were 2,272 media releases in the period from January to December 2019, of which 215 were related to the Bank's socially responsible programs (according to Executive Group and Ninamedia clipping reports and analysis).

Reporting on social responsibility for us is an integral part of a wider process to 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 who based their report 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 the Bank cooperates with. Since 2018, the Bank has implemented the latest GRI reporting standards 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: **https://www.erstebank.rs/en/about-us/corporate-social-responsibility**. The Corporate Social Responsibility Report of Erste Bank for 2019 will be published by the end of July 2020 on the Bank's website.

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. Even though 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 key risks with the aim to minimize negative and maximize the positive impacts on the environment.

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

Considering that responsible use of resources is the primary aspect within the Bank's most significant environmental impacts, the Bank has established systems for accurate monitoring of energy consumption and in 2015 put into use "cr360" software, which processes environmental impact in accordance with world standards.

From year to year, Erste Bank strives 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 friendly criteria.

In accordance with aforementioned, the Bank has so far arranged 23 branches, as well as office space it uses within the Sirius complex in Belgrade and office space within the Alexander Building in Novi Sad, and more recently, the Bank has been supplied with electricity produced from renewable energy sources. In addition to accurately monitoring and measuring all key parameters related to resource consumption, the Bank seeks to positively influence sustainability by sorting and delivering waste for recycling.
Significant amounts of paper waste arise as a result of our everyday activities and the Bank has focused its initiatives primarily on reducing paper use, introducing certified paper for use, as well as on recycling.

In the year 2019, in the field of environment we recorded the following impact:

- The recorded total C02 emission: 1,514 tCO2e
  (this information relates to the aggregate emission of the greenhouse gases in tons — CO2 equivalent)
- Total energy consumption (kWh/a): 4,476,268
  Electricity: 2,638,182 kWh/a
  Heating and air conditioning: 1,838,086 kWh/a
- Total amount of generated waste (t) 19.98

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 the year 2019.

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: high data quality, business growth in retail and corporate segment as well as clear management.

In the Retail segment, the Bank has been developing a long-term collaboration with the customers through an ongoing improvements of products and services, powerful presence in the domestic market through its network of branches and alternative distribution channels, with the aim of meeting customer needs and increased employee satisfaction, which should be reflected in improvement of customer's experience, continuous and healthy growth, as well as increasing profitability.

With respect to corporate clients, the Bank intends to continue to be a reliable and long-lasting partner to its clients, which can be achieved through high quality and diversification of financial services, as well as professional attitude towards clients in this segment, which will lead to the higher profitability and lower risk.

The Bank continuously, through its Risk Management Strategy and other business strategies, defines a targeted risk exposure profile and portfolio structure with the primary objective of long-term sustainability, compliance with domestic regulatory requirements and compliance with Erste Group standards.

The success of the Bank depends on the confidence that our clients, shareholders, our employees and the public have in the capacity and integrity of work of the Bank, or Erste Group. This trust is based on the compliance of the business with all applicable legal, regulatory and internal regulations, as well as the Erste Group standards, but also on the respect of market 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 risks, considering the extent, type and risk exposure related to 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 will form the basis of the Bank's business operations in the future.

The Bank's mission:

We are committed to improving the quality of people's and communities life by fostering financial stability, security and prosperity – honesty, fairy and with respect.

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 precisely implemented through detailed Action Plan, annual budgets, crediting policies, rulebooks on tariffs and pricelists and other Bank's documents.

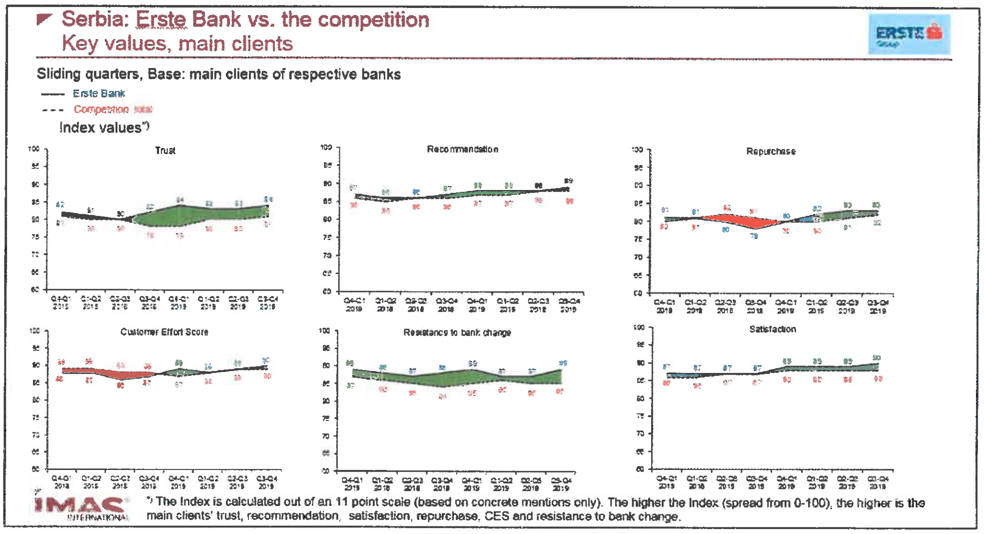
CONSOLIDATED ANNUAL BUSINESS REPORT

6. RESEARCH AND DEVELOPMENT ACTIVITIES IN 2019

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 2019 the Bank regularly conducted qualitative and quantitative research on the quality of services rendered on the market, by the Bank itself 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.

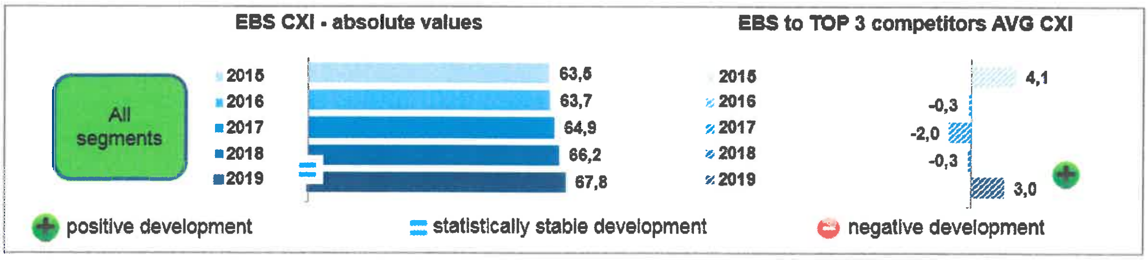
Through the "Banking Market Monitor" survey, Erste Bank measures 6 key quality parameters of service both to its clients and clients of competing banks. The service quality parameters that are measured are: trust, satisfaction, recommendation, ease of doing business with the bank, re-purchase and the probability of a bank change. For all observed parameters of service quality, Erste Bank recorded a result that was above or at the same level as 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 tends to strengthen its position among the bank's leaders in the domain of customer satisfaction.



According to the results obtained through Banking Market Monitor, Erste Bank calculates customer satisfaction indices - CXI (Customer Experience Index) and NPS (Net Promoter Score). Observed at the Bank level (retail, micro, entrepreneurs and SME segments included) Erste Bank marked and increase of CXI and scored +3 compared to Top 3 competitors. While, according to the NPS index, marked +1 compared to results of the Top 3 competitors. The index is stable compared to last year, i.e. there were no changes in the area of recommendation by the clients.

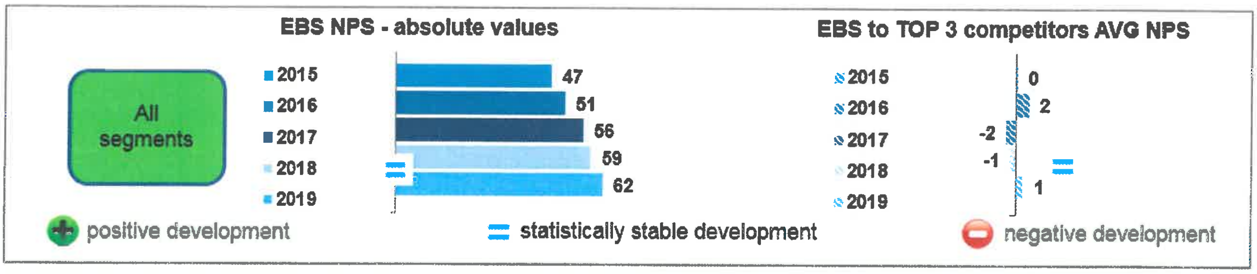
Erste Bank also undertakes Customer Satisfaction Survey immediately after a certain event (event-triggered research). The events we are considering are account opening (dinar and foreign exchange), deposit placement, cash loan approval, housing loan approval and loan approval for micro clients and entrepreneurs. Within one week after the client has been provided with one of the abovementioned services, we give them the opportunity to immediately and 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.

Customer Experience Index –

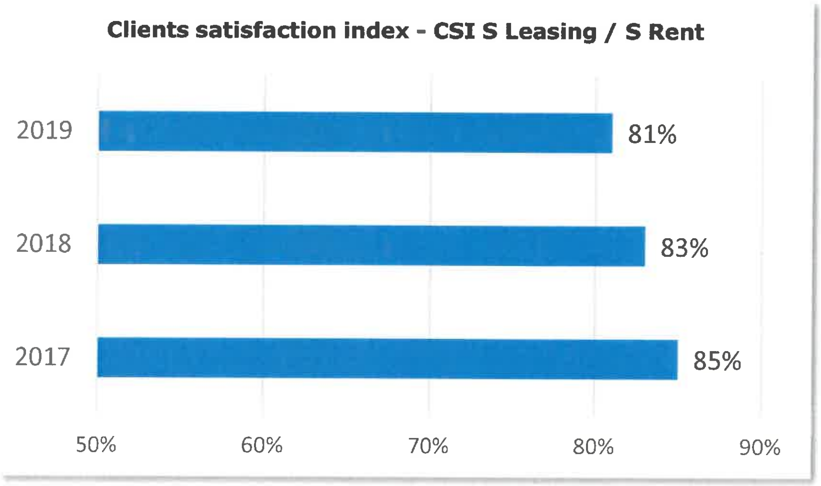


6. RESEARCH AND DEVELOPMENT ACTIVITIES IN 2019 (continued)

Net Promoter Score -



Every year, a "Customer Satisfaction Survey" is conducted by S Leasing and S-Rent, in order to ensure high customer satisfaction at the company level.



The Bank responsibly provides systemic support to its customers through an advanced system of complaint management and resolution, for which top priority is quality of complaints resolution. In 2019, the Bank is distinguished from the competition by the speed of resolving objections. Based on the analysis and measurements in 2019, 90.08% 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.

SPEED OF RESOLVING CUSTOMER GRIEVANCES AND COMPLAINTS TO THE SERVCES RENDERED AT THE BANK LEVEL IN THE PERIOD FROM 01.01. TO 31.12.2019.				
Within 24h	Within 7 days	Within 30 days	Over 30 days	Total
75.52%	14.56%	8.82%	1.10%	100%

Note: S-Leasing / S-Rent registered 2 written complaints in 2019

With the continuous study of needs and expectations of customers, within its organization, the Bank 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

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 is 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 according to that manages those risks trying to avoid the risks or reduce them to acceptable levels.

Risk management in the Bank / Group in 2019 was successfully implemented, primarily reflected in an improved portfolio rating distribution and a reduced amount of credit loss allowance, as well as compliance with defined risk management policies and procedures and their ongoing improvement, 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.

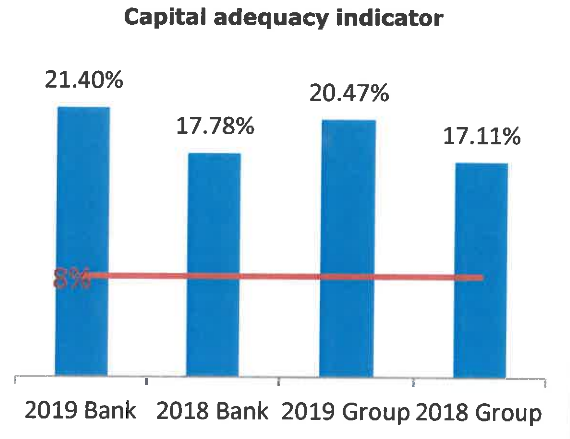
An assessment of the material significance of the risks that the Bank may have been exposed in 2019 has shown that the following risks are material:

- 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).

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 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.

7. RISK EXPOSURE (continued)



The capital adequacy ratio was calculated as a ratio of regulatory capital and risk assets as at 31 December 2019. 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 base 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 fulfil 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 2019 amounted to 21.40%. On a consolidated level, the capital adequacy ratio on December 31, 2019 amounted 20.47%.

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 2019, the Bank had an indicator of daily liquidity and liqidity coverage ratio above the legal requirement.

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

Risk of interest rate change management - 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 hand. The Assets and Liabilities Management Committee manages the assets and liabilities maturity based on: Erste Group AG's guidelines, macroeconomic analysis and forecasting, liquidity conditions forecasts, analysis and forecasts of 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 2019. The foreign exchange risk indicator of the Bank as at 31 December 2019 amounted to 0.11% of the Bank's capital, which is quite below the prescribed maximum of 20% of the capital. The foreign currency risk index on a consolidated level as at 31 December 2019 amounted to 0.38% of the Group's capital.

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 aforementioned Law. During 2019, the Bank and the Group were in full compliance with the prescribed values.

Indicators	Prescribed	Realised - Group	Realised - Bank
1. Capital	Minimum EUR 10 million	EUR 283,782,619	EUR 282,190,908
2. Capital adequacy	Minimum 8%	20.47	21.40
3. Capital adequacy – share capital	Minimum 4.5%	18.22	19.03
4. Capital adequacy – basic capital	Minimum 6%	18.22	19.03
5. Bank's investments	Maximum 60%	9.36	9.04
6. Exposure to related parties	No limit	8.71	10.82
7. Big and largest possible loans in relation to capital	Maximum 400%	21.66	23.85
8. Liquidity:			
– liquidity indicator	Minimum 0.8	1.49	1.49
– narrower liquidity indicator	Minimum 0.5	1.38	1.38
9. Liquidity coverage ratio	Minimum 100%	197.37	192.57
10. Foreign exchange risk indicator	Maximum 20%	0.38	0.11
11. Exposure of the Bank to the group of related parties	Maximum 25%	12.95	13.02
12. Exposure of the Bank to related party to a Bank	No limit	4.95	4.98
13. Bank's investments in non-financial sector 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 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, 2019, the sum of the Bank's net exposures to the entities related to the Bank, amounted to 10.82% of the Bank's capital. The sum of the Group's net exposures to the entities related to the Group amounted to 8.71%.

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

Novi Sad, March 9, 2019
Approved by the Management of Erste Bank a.d. Novi Sad

Stevan Čomić Head of the Accounting and Controling Division	Aleksandra Radić Executive Board Member	Slavko Carić Chairman of the Executive Board

ERSTE BANK a.d. ERSTE BANK 22 NOVI SAD