ERSTE BANK A.D. NOVI SAD

SEPARATE 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 separate financial statements present fairly, in all material respects, the financial position of Erste Bank a.d. Novi Sad (the "Bank") as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Bank's separate financial statements ("the financial statements") comprise:

- the income statement for the year ended 31 December 2019;
- the statement of other comprehensive income for the year ended 31 December 2019;
- the balance sheet as at 31 December 2019;
- the statement of changes in equity for the year ended 31 December 2019;
- the statement of cash flows for the year ended 31 December 2019; and
- the notes to the 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 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 Bank 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 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

Materiality	• Overall Bank materiality: RSD (“Serbian Dinars”) 286,413 thousand, which represents 0.90% of net assets.
Key audit matters	• 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 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.

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

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the 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 financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Bank materiality for the 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 financial statements as a whole.

Overall Bank materiality	RSD 286,413 thousand
How we determined it	0.90% of 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 be 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 financial statements of the current period. These matters were addressed in the context of our audit of the 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 Bank recognised the credit loss allowances for loans and advances to customers measured at amortised cost of RSD 3,053,641 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 Bank. The identification of loans defaulting, the assessment of significant increase in credit risk, forecasts of future cash flows, incorporation of forward-looking information and the determination of the expected credit loss allowances of loans to customers are all inherently uncertain. For loans in stage 1 credit loss allowances are generally collectively measured at an amount equal to 12-month expected credit loss. If a significant increase in credit risk has occurred, credit loss allowances are measured as lifetime expected credit loss allowances. For defaulted loans that are considered not to be individually significant, expected credit loss allowances are collectively assessed as well. 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.	Our audit approach was as follows: • We updated our understanding of the expected credit loss calculation methodology applied by the Bank 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. • We assessed the process of incorporating the forward-looking information in the estimates. • We evaluated whether key components of the 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.

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" (but does not include the financial statements and our auditor's report thereon).

Our opinion on the 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 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 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 financial statements

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

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Bank'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 Bank'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 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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
Licensed Certified Auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 10 March 2020

SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2019

(in thousand RSD)

	Note	2019	2018
Interest income	4	9.386.915	8.250.544
Interest expense	4	(2.066.080)	(1.559.142)
Net interest income		**7.320.835**	**6.691.402**
Fee and commission income	5	2.842.764	2.522.720
Fee and commission expense	5	(1.075.667)	(933.746)
Net income from fee and commission		**1.767.097**	**1.588.974**
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	424.942	422.539
Net loss from reduction of impairment of financial assets that are not valued at fair value through profit and loss	10	(507.817)	(146.249)
Net gains/(loss) from derecognition of financial instruments valued at amortized cost	11	(29.107)	15.095
Other operating income	12	36.225	40.091
TOTAL NET OPERATING INCOME		**9.378.475**	**8.798.731**
Cost of salaries, contributions and other personnel expenses	13	(2.240.274)	(2.100.577)
Depreciation costs	14	(558.283)	(320.581)
Other income	15	501.353	388.369
Other expenses	16	(4.243.629)	(3.632.699)
PROFIT BEFORE TAX		**2.873.642**	**3.133.243**
Income tax	17	(169.499)	(252.560)
Deferred tax gain	17	11.623	37.800
PROFIT AFTER TAX	34	**2.679.766**	**2.918.483**

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
Executive Board Chairman

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

(in thousand RSD)

Position	NOTE	2019	2018
PROFIT FOR THE YEAR	34	**2.679.766**	**2.918.483**
Components of other comprehensive income that can not be reclassified to profit or loss:			
Actuarial gains		(5.691)	5.832
Positive effects of changes in value of equity instruments 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 instruments valued through other comprehensive income		228.052	76.082
Tax loss related to other comprehensive income of the period		(37.697)	(23.122)
Total other comprehensive income		**213.617**	**94.174**
TOTAL RESULT FOR THE YEAR		**2.893.383**	**3.012.657**

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
Executive Board Chairman

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BALANCE SHEET AS AT 31 DECEMBER 2019

(in thousand RSD)

ASSETS	Note	2019	2018
Cash and balances with Central bank	18	21.855.375	24.641.261
Derivative receivables	19	346.899	181.204
Securities	20	41.531.585	34.891.510
Loans and receivables to banks and other financial institutions	21	1.606.876	1.700.361
Loans and receivables to customers	22	160.829.494	138.393.437
Investment in subsidiaries	23	93.560	93.560
Intangible assets	24	665.001	537.025
Property, plant and equipment	24	2.952.105	1.062.904
Current tax asset	17	229.409	173.326
Deferred tax asset	17	-	18.809
Fixed assets held for sale and assets of discontinued operations	25	11.902	11.902
Other assets	26	1.328.126	1.226.714
TOTAL ASSETS		**231.450.332**	**202.932.013**
LIABILITIES AND EQUITY			
LIABILITIES			
Derivative liabilities	27	250.039	95.518
Deposits and other liabilities from banks, other financial institutions and Central Bank	28	61.266.424	59.322.207
Deposits and other liabilities from customers	29	126.407.953	113.210.214
Liabilities for issued securities	30	3.512.691	
Subordinated liabilities	31	4.206.971	4.566.337
Provisions	32	740.087	654.200
Current tax liabilities	17	169.499	252.560
Deferred tax liabilities	17	7.265	-
Other liabilities	33	3.065.750	1.199.176
TOTAL LIABILITIES		**199.626.679**	**179.300.212**
Equity	34		
Share capital and share premium		15.462.944	10.164.475
Retained earnings		2.679.766	2.918.483
Reserves		13.680.943	10.548.843
TOTAL EQUITY		**31.823.653**	**23.631.801**
TOTAL LIABILITIES AND EQUITY		**231.450.332**	**202.932.013**

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 Executive Board Chairman

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
Balance at December 31, 2017	**10.040.000**	**124.475**	**7.679.824**	**418.025**	**2.632.237**	**20.894.561**
Effect of IFRS 9 transition	-	-	-	-	(275.417)	(275.417)
Balance at January 1, 2018	**10.040.000**	**124.475**	**7.679.824**	**418.025**	**2.356.820**	**20.619.144**
Total other comprehensive income	-	-	-	94.174	-	94.174
Profit for the year	-	-	-	-	2.918.483	2.918.483
Transfer from profit to reserves	-	-	2.356.820	-	(2.356.820)	-
Balance at December 31, 2018	**10.040.000**	**124.475**	**10.036.644**	**512.199**	**2.918.483**	**23.631.801**
Opening balance at January 1, 2019	**10.040.000**	**124.475**	**10.036.644**	**512.199**	**2.918.483**	**23.631.801**
New issue of shares	2.869.000	2.429.469	-	-	-	5.298.469
Total other comprehensive income	-	-	-	213.616	-	213.616
Profit for the year	-	-	-	-	2.679.766	2.679.766
Transfer from profit to reserves	-	-	2.918.483	-	(2.918.483)	-
Balance at December 31, 2019	**12.909.000**	**2.553.944**	**12.955.128**	**725.815**	**2.679.766**	**31.823.653**

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

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Slavko Carić
Chairman of the Executive Board

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	**12.358.020**	**11.129.949**
Interest receipts	9.080.754	8.139.427
Fee and commission receipts	2.773.935	2.519.617
Receipts of other operating income	494.110	430.815
Dividend receipts and profit sharing	36.222	40.090
Cash used in operating activities	**9.645.627**	**8.379.261**
Interest payments	2.017.349	1.535.276
Fee and commission payments	1.075.807	933.811
Payments to and on behalf of employees	2.215.241	2.078.583
Taxes, contributions and other duties paid	410.085	420.320
Payments for other operating expenses	3.927.145	3.411.270
Net cash inflows from operating activities prior to increases or decreases in loans and deposits	**2.739.394**	**2.750.688**
Decrease in placements and increase in deposits and other liabilities	**12.453.618**	**21.712.863**
Increase in deposits and other liabilities to banks, other financial institutions, central bank and customers	12.453.618	21.712.863
Increase in loans and decrease in deposits received and other liabilities	**24.310.554**	**44.808.329**
Increase in loans and receivables from banks, other financial organizations, central bank and customers	18.368.948	42.227.477
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	**9.117.542**	**20.344.777**
Paid income tax	308.641	334.290
Net cash outflow from operating activities	**9.426.183**	**20.679.068**
CASH FLOW FROM INVESTMENT ACTIVITIES		
Cash inflows from investment activities	**-**	**216.576**
Inflows from investing in investment securities	-	216.576
Cash outflows from investment activities	**709.624**	**594.139**
Outflows from investing in property, plant and equipment	709.624	-
Outflows from investing in investment properties	-	594.139
Net cash outflow of cash from investment activities	**709.624**	**377.563**
CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	**11.372.086**	**16.533.037**
Cash inflows based on new issue of shares	5.298.470	-
Cash inflows based on subordinated liabilities	-	3.211.814
Inflows from taken loans	2.482.836	13.321.223
Other inflows from financing activities	3.590.781	-
Cash outflows from financing activities	**359.366**	**68.502**
Cash outflows based on subordinated liabilities	359.366	-
Other outflows from financing activities	-	68.502
Net cash inflow from financing activities	**11.012.721**	**16.464.535**
TOTAL CASH INFLOWS	**36.430.286**	**49.592.426**
TOTAL CASH OUTFLOWS	**35.553.373**	**54.184.521**
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	Aleksandra Radić	Slavko Carić
Director of Accounting and Controlling Department	Member of the Executive Board	Chairman of the Executive Board

ERSTE BANK a.d. NOVI SAD 22

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

1. GENERAL INFORMATION

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

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

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

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

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

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

The Bank is headquartered in Novi Sad, at no. 5, Bulevar Oslobođenja St. The Bank operates through 7 business centres, 46 branches, 31 sub-branches and 3 counters.
As at 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Bank's separate financial statements (the "financial statements") as at and for the year ended 31 December 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 no. 101/2017, 38/2018 and 103/2018).

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). In these financial statements, the Bank stated its equity investment held in the subsidiary at cost.

The accompanying financial statements represent separate financial statements of the Bank in which the financial statements of S-leasing d.o.o. Beograd have not been consolidated. The Bank prepared on the same date also the consolidated financial statements in accordance with IFRS.

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 account and financial assets at fair value through other comprehensive income.

Figures in the accompanying financial statements are stated in thousands of dinars, unless otherwise specified. Dinar (RSD) represents the Bank'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 Bank will continue to operate in the foreseeable future.

In the preparation of the accompanying financial statements, the Bank 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 Bank is to apply a threshold of USD 10.000 in identifying lease agreements for low value items. In exceptional cases, the Bank 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 recognition of right of use assets, the Bank 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 24.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

A) New and amended standards and interpretations (continued)

- **IFRS 16: Leasing (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 Bank 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, Erste Bank 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 Bank did not apply IFRS 16 to any intangible asset contracts. Erste Bank 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 1.297.923 thousand. This is the amount by which the Bank's balance sheet total was increased.

According to an analysis of leasing agreements of the Bank 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 Bank'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 Bank's financial statements.

- **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 Bank's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

A) New and amended standards and interpretations (continued)

The following new standards are not considered to have significant impact on the Bank’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. 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 that the requirements of this standard will have an impact on the Bank'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 Bank's management does not expect that the requirements of this standard will have a significant impact on the Bank'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 Bank's management does not expect that the requirements of this standard will have a significant impact on the Bank's financial statements.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. 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 Bank 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 other than POCI (not purchased or originated credit impaired at the time of approval or haven't undergone significant modification of the contractual cash flows as credit impaired), the Bank estimates future cash flows considering all contractual terms of the 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.

2.3. Fee and Commission Income and Expenses

Fee and commission income and expense arising from the providing or use of banking services are recognized on an accrual basis and are determined for the period when they were realized, or when the service is provided.

Fees and commission income are earned from a diverse range of banking services provided to clients. Fee income can be divided into the following three categories:

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

Fees for the provision of services over a period of time are recorded in relevant period ie. when service is provied. These fees include borrowing fees that are not an integral part of the effective interest rate of the financial instrument, fees and commissions on account maintenance and other fees and commissions for domestic and international payment services, fees for guarantees, custody and other management fees, such as and 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 comprise fee expense from domestic and foreign payment transactions, card transaction costs and similar fees (Note 5).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. 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.

2.5. 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.

2.6. Net gain / loss on derivatives and hedge accounting

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

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

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

2.8. Foreign Exchange Translation

Financial statement items are stated using the currency of the Bank'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 translated into dinars at the official middle exchange rates determined at the Interbank Foreign Exchange Market prevailing as at 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 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.

2.9.1. 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 Bank 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.

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 37.10. Fair value of financial assets and liabilities.

2.9.2. Initial recognition and measurement

a) Initial recognition

Financial assets and financial liabilities are recognized in the Bank's statement of the financial position on the date upon which the Bank 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9.2. Initial recognition and measurement (continued)

"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 Bank immediately recognizes the difference between the transaction price and fair value ("Day 1" profit) in the income statement. In the event that the difference in the price of the transaction and the fair value is determined on the basis of non-market parameters, the gain / loss on the first day is deferred into the duration of the financial instrument.

2.9.3. Classification and subsequent measurement

Bank 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.

2.9.3.1. 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. 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 Bank's is measured at amortized cost. A part of securities consists of debt securities that are measured at amortized cost. The remaining debt securities are valued at fair value either through the profit and loss or through other comprehensive results.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9.3.2 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 Bank 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.

2.9.3.3. 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 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 bank, this is a business model by which financial assets are held for trading.

The bank 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 under "Net gains / losses from change in fair value of financial instruments" and are not subject to impairment. Interest income on the basis of coupons of financial assets held for trading is recognized using the effective interest method and included in the item "Interest income" in the income statement.

The Bank does not have debt financial instruments that have not passed the SPPI or are designed to be measured at fair value through profit and loss.

2.9.3.4 Reclassification of financial assets

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

There were no reclassifications made by the Bank during 2019.

2.9.3.5 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9.4. Impairment of financial instruments under IFRS 9

The Bank 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 Bank in accordance with the contract and the cash flows that the Bank 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 Bank 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 Bank 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) 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9.5. Derecognition of financial assets and liabilities

Financial assets cease to be recognized when the Bank 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 Bank 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 Bank is engaged around the asset. Further engagement of the Bank, 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 Bank would have to pay, depending on the amount that is lower.

In its regular operations during the term of the loan agreement, the Bank 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 Bank 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 bank.

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 favourable to the client as an alternative to refinancing.

In case of significant modifications of the contractual terms (as stated above), the Bank 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.

2.9.6. Restructured loans

Where possible, the Bank is more likely to reprogram or restructure loans than to realize collateral. This may involve extending the repayment period or any other change to the initial lending terms. Reprograms can be business or forbearance as defined by the EBA.

Business reprogram involves the change of initially contracted conditions that is not conditioned by deterioration of the borrower's financial position, i.e. mitigation of the consequences of the deteriorated financial position and does not represent restructuring. The result is a changed situation on the market (buyers, suppliers, competition) and the need to adapt the existing dynamics and loan conditions to the newly emerging situation.

Forbearance represents restructuring conditioned with:

- the debtor's inability to meet contractual obligations due to financial difficulties and
- the need for the bank to make certain concessions so that the client can service contractual obligations.

After the change of conditions, it is not considered that the loan has matured, but if after the restructuring there is evidence of the impairment of the receivable, the client is granted the status of the default. The Bank continuously controls the reprogrammed loans to ensure that all criteria are met, as well as future payments or the timely assignment of the default status to a client who does not comply with the defined criteria.

2.9.7. 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 Bank 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 Bank has the unconditional 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.

2.10. 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 Bank has an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.11. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances on the Bank's dinars 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.

2.12. 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.

2.13. Investments in Subsidiaries

Subsidiary is an entity over which the Bank has control. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

As at 31 December 2019, the Bank owns 75% of the ownership of the company S Leasing doo, Belgrade. Participation in the capital of the said dependent legal entity is stated at the cost less any allowance for impairment in the individual financial statements of the Bank.

2.14. Intangible Assets

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

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

Intangible assets with finite lives are amortized over the useful economic life. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14. Intangible Assets (continued)

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 licence	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.

2.15. Property, Plant and 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 Bank 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 Bank 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.

Investments in property, plant and equipment of others are depreciated in accordance with the duration of the rental contract.

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

2.16. Impairment of Non-Financial Assets

In accordance with the adopted accounting policy, at each reporting date, the Bank's management reviews the carrying amounts of the Bank'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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17. Accounting for leases by the Bank as a lessee

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 Bank 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 Bank 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 Bank uses an incremental borrowing rate - the rate at which the Bank may borrow from Erste Group.

2.18. Provisions, Contingent Liabilities and Contingent Assets

Provision is a liability that is uncertain in terms of maturity and amount. Provisions are recognized:

- when the Bank has a present obligation (legal or constructive) as a result of a past event;
- when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and
- and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision represents the best estimate of the expenditure required to settle the present obligation at the balance sheet date. In order to 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 for which they were initially recognized. Provisions are not recognized for future operating losses.

Contingent liabilities are not recognized in the financial statements. They are disclosed in Notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. If a future outflow of resources is probable, the provision is recognized in the financial statements. The Bank makes provisions for the expense of credit risk off-balance sheet items to the extent of the required provisions 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)

2.19. Employee Benefits

(a) Employee Taxes and Contributions for Social Security - Defined Benefit Plans

In accordance with the Republic of Serbia regulatory requirements, the Bank 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 Bank 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 Bank has no legal obligation to pay further benefits due to its employees by the Pension Fund of the Republic of Serbia upon their retirement. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

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

In accordance with the Collective Bargaining Agreement the Bank 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 Bank 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 favourable 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 Bank. Jubilee awards are paid in the respective amounts of one, two or three average salaries paid by the Bank 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 Bank 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)

2.20. Financial Guarantees

In the ordinary course of business, the Bank issues financial guarantees, consisting of payment guarantees and performance guarantees, 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 Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required settling 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, based on the type of fee. The Bank records certain types of fees on an one-off basis, while those which refere to providing service for a certain period of time are accrued evenly 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.

2.21. Repossessed Assets

The Bank 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 defence 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 Bank and to avoid further deterioration of value.

Assets acquired in such a way can be classified as:
1) Tangible assets held by the Bank 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 Bank used by the Bank are recorded at cost and depreciated in accordance with the Bank'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 Bank'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 Bank's management analyses the value of the inventory according to which the assets of the Bank 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)

2.21. Repossessed Assets (continued)

The Bank classifies fixed assets as **fixed assets held for sale** if its carrying amount can be recovered primarily through a sale transaction rather than through further use. Assets classified as held for sale must be available for immediate sale in their current condition and must be probable that the sale will occur.

When reclassifying a portion of an asset to a non-current asset held for sale the asset is valued at the lower of its carrying amount if the asset had not 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 impairment loss of is recorded in the reporting period. Impairment loss is transferred to sale expense if the asset is 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, it is not sufficient to obtain the decision to sell, 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 an asset ceases to be classified as held for sale, it is valued at the lower of the following amounts:

- its carrying amounts before the asset was classified as held for sale, adjusted for depreciation that would have been recognized had the asset not been classified as held for sale; or
- 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.

2.22. 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 Bank 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 Bank'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.

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)

2.22. 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) Taxes, Contributions and Other Duties Not Related to Operating Result

Taxes, contributions and other duties that are not related to the Bank's operating result 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.

2.23. Segment Reporting

The Bank'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.

2.24. Managed Funds

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

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation and presentation of the financial statements requires the Bank’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 bank upon the early termination. For these purposes, bank 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, eg 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 Bank 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 Bank 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, Bank 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.

Bank, 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 Bank estimates that all bank loans meet the business model holding in order to collect contracted cash flows.

Business models of the Bank:

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 Bank 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 37.

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 37.4 (sensitivity limits) and 37.10 (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 leasing users. The lessee recognizes the right of use asset and the corresponding lease liability in the balance sheet. There are exceptions to this principle, which can be applied to short-term and low-value leases. The estimates used by the Bank to measure financial leasing liabilities and right of use assets relate primarily to:

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

At the moment of initial recognition of leases, the Bank 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 Erste Bank's lending principles, the maximum lending value is 70% of the face value.

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (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%

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

4. INTEREST INCOME AND EXPENSES

	2019	In RSD '000 2018
Interest income		
– Banks	117.862	147.243
– Public companies	94.136	83.792
– Corporate customers	2.669.568	2.292.762
– Entrepreneurs	135.688	103.486
– Public sector	1.775.782	1.651.989
– Retail customers	4.521.384	3.925.815
– Non-residents	29.462	21.897
– Agricultural producers	18.444	14.949
– Other customers	24.589	8.611
Total	**9.386.915**	**8.250.544**
Interest expense		
– Banks	484.622	301.318
– Public companies	12.284	14.274
– Corporate customers	351.886	166.618
– Entrepreneurs	3.308	2.652
– Public sector	226.840	210.194
– Retail customers	145.918	118.940
– Non-residents	716.226	541.449
– Households and agricultural producers	52	-
– Other customers	124.944	203.697
Total	**2.066.080**	**1.559.142**
Net Interest Income	**7.320.835**	**6.691.402**

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

	2019	In RSD '000 2018
Interest income		
Cash funds held at Central Bank	110.482	115.750
Securities valued at amortised cost	824.472	791.791
Securities valued at FV through other comprehensive income	665.695	571.168
Securities valued at FV through profit and loss	238.925	264.338
Placements and advances to clients	6.943.089	5.917.178
Placements and advances to credit institutions	11.748	30.953
Interest-bearing swap valued at FV through profit and loss	92.262	-
Other interest income	500.242	559.366
Total	**9.386.915**	**8.250.544**
Interest expense		
Subordinated liabilities	153.729	82.512
Bank deposits	550.956	447.905
Customer deposits	1.036.018	862.032
Securities valued at amortised cost	100.354	103.989
Securities valued at FV through other comprehensive income	45.304	31.629
Securities at FV through profit and loss	110.453	30.889
Interest-bearing swap valued at FV through profit and loss	69.172	-
Other interest liabilities	94	187
Total	**2.066.080**	**1.559.142**
Net interest income	**7.320.835**	**6.691.402**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

5. FEE AND COMMISSION INCOME AND EXPENSES

In RSD '000

	2019	2018
Fee and commission income		
Domestic and foreign payment transaction services	1.492.831	1.445.677
Loans operations	32.713	7.351
Deposits operation	1.005.143	814.638
Payment cards operations	43.726	52.596
Guarantees and other warranties	203.446	154.338
Other fees and commissions	64.905	48.120
Total	**2.842.764**	**2.522.720**
Fee and commission expense		
Deposits operation	6	2
Domestic and foreign payment transaction services	644.128	571.134
Other fees and commissions	431.533	362.610
Total	**1.075.667**	**933.746**
Net fee and commission income	**1.767.097**	**1.588.974**

6. NET GAINS FROM CHANGES IN FV OF FINANCIAL INSTRUMENTS

In RSD '000

	2019	2018
Gains from changes in the value of assets and liabilities		
Gains from changes in value of other derivatives	1.308.726	
Gains from changes in value of financial assets valued at FV through profit and loss	284.824	455.935
Gains from changes in value of financial liabilities valued at FV through profit and loss	9.067	166.820
Total	**1.602.617**	**622.755**
Losses from changes in the value of assets and liabilities		
Losses from changes in value of other derivatives	1.152.507	397.083
Losses from changes in value of financial assets valued at FV through profit and loss	90.462	105.120
Losses from changes in value of financial liabilities valued at FV through profit and loss	-	6.796
Total	**1.242.969**	**508.999**
Net gains from changes in the FV of financial instruments	**359.648**	**113.756**

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

In RSD '000

	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 value at FV through other comprehensive income	17.721	7.724
Total	**44.894**	**79.409**
Losses from derecognition of financial instruments	36.438	-
Gains from derecognition of financial instruments valued at FV through profit and loss	2.366	7.485
Total	**38.804**	**7.485**
Net gains from derecognition of financial instruments value at FV	**6.090**	**71.924**

8. NET GAINS FROM HEDGING

In RSD '000

	2019	2018
Gains from hedging		
Gains from changes in value of placements and receivables	1.295	1.677
Gains from changes in value of derivatives	-	-
Total	**1.295**	**1.677**
Losses from hedging		
Losses from changes in value of placements and receivable	733	478
Losses from changes in value of derivatives	-	-
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

In RSD '000

	2019	2018
Positive foreign exchange difference	4.700.066	5.764.039
Negative foreign exchange difference	(3.815.219)	(5.262.263)
Positive currency clause effects	496.657	1.007.416
Negative currency clause effects	(956.562)	(1.086.653)
Net Income of Foreign Exchange and currency clause effects	**424.942**	**422.539**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

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

In RSD '000

	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	4.367.957	5.406.524
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	**4.835.624**	**6.157.934**
Losses from impairment of financial asset not valued at FVTPL		
Losses from indirect write-offs of financial asset valued at amortized cost	4.831.314	5.615.900
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	**5.343.441**	**6.304.183**
Net gains/(losses) from impairment of financial asset not valued at FVTPL	**(507.817)**	**(146.249)**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

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

In RSD '000

	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(b))	(1.203)	(3.074)
- loans and advances to customers (Note 22)	(2.790.203)	(3.111.299)
– other assets (Note 26)	(65.586)	(58.772)
Total losses from impairment of financial assets	**(2.865.997)**	**(3.178.727)**
Provisions for losses on off-balance sheet assets (Note 32)	(182.371)	(149.162)
Total losses from impairment of financial assets and credit risk off-balance sheet items	**(3.048.368)**	**(3.327.889)**
Gains from impairment of financial assets and credit risk off-balance sheet items		
Gains from reversal of direct write-offs of placements of balance sheet items:		
– securities (Note 20)	2.110	38.225
– loans and advances to banks and other financial institutions (Note 21(b))	2.451	5.373
- loans and advances to customers (Note 22)	2.392.504	2.921.396
– other assets (Note 26)	5.677	4.356
Total gains from impairment of financial assets	**2.402.742**	**2.969.350**
Provisions for losses on off-balance sheet assets (Note 32)	141.070	241.881
Total gains from impairment of financial assets and credit risk off-balance sheet items	**2.543.812**	**3.211.231**
Net loss from impairment of financial asset not valued at FVTPL	**(504.556)**	**(116.658)**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

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

In RSD '000

	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 from derecognition of financial instruments valued at amortized cost	**(29.107)**	**15.095**

12. OTHER OPERATING INCOME

In RSD '000

	2019	2018
Income from consulting services	16.332	18.656
Income from rent	7.204	6.851
Income from IT services	10.528	9.674
Other income	1.782	4.542
Dividend income and other income from shares	378	368
Total	**36.225**	**40.091**

13. COST OF SALARIES, CONTRIBUTIONS AND OTHER PERSONNEL EXPENSE

In RSD '000

	2019	2018
Net salaries and benefits	1.421.828	1.328.279
Payroll taxes and contributions charged to the employee	534.625	500.495
Retirement benefits, jubilee awards, bonuses and annual leave	200.000	217.353
Other staff costs	60.618	32.456
Provision expenses for retirement (Note 32)	23.203	21.994
Total	**2.240.274**	**2.100.577**

14. DEPRECIATION COSTS

In RSD '000

	2019	2018
Depreciation expense:		
– Tangible assets (Note 24)	463.853	203.732
– Intangible assets (Note 24)	94.430	116.849
Total	**558.283**	**320.581**

15. OTHER INCOME

In RSD '000

	2019	2018
Income from collection of written receivables	417.509	320.030
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	9.420	14.610
Other income	71.684	37.419
Total	**501.353**	**388.369**

16. OTHER EXPENSES

In RSD '000

	2019	2018
Professional services	1.999.694	1.210.838
Donations and sponsorships	28.019	36.088
Marketing and advertising	255.523	248.592
Telecommunication services and postage	63.859	61.771
Insurance premiums	584.596	504.552
Rental cost	71.804	333.410
Cost of materials	125.293	110.184
Taxes and contributions payable	118.953	121.159
Maintenance of fixed assets and software	426.556	387.650
Losses on sale and disposal of fixed and intangible assets	679	3.242
Payroll contributions payable by the employer	309.520	302.281
Per diems and travel expenses	107.121	103.398
Training and counselling	41.432	33.602
Provision expenses for litigations (Note 31)	39.062	69.000
Other	71.516	106.932
Total	**4.243.629**	**3.632.699**

17. INCOME TAXES

a) Components of Income Taxes

Total tax expense is comprised of:

		In RSD '000
	2019	**2018**
Current income tax expense	(169.499)	(252.560)
Gains on created deferred tax assets and decrease of deferred tax liabilities	11.623	37.800
Losses on decrease of deferred tax assets and created deferred tax liabilities	-	-
Total	**(157.876)**	**(214.760)**

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

		In RSD '000
	2019	**2018**
Profit before tax	**2.837.641**	**3.133.243**
Income tax at the rate of 15%	**425.646**	**469.986**
Tax effects of expenses not recognized for the tax purposes	12.254	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	(24.788)	(41.313)
Other	13.165	(3.778)
Total tax expense stated in the income statement	**157.876**	**214.760**
Effective interest rate	**5,56%**	**6,85%**

17. INCOME TAXES (continued)

(c) Deferred Tax Components

In RSD '000

	2019	
	Temporary difference amount	Deferred tax amount
Deductible temporary difference per difference between the carrying value and tax base of fixed assets – deferred tax assets	181.020	27.153
Deductible temporary difference per adjustment of securities to fair value – deferred tax liabilities	(816.913)	(122.537)
Deductible temporary difference per prior years' tax loss carryforwards – deferred tax assets	248.372	37.256
Deductible temporary difference based on provisions for litigations-deferred tax assets	126.300	18.945
Deductible temporary difference based on provisions for jubilee awards- deferred tax assets	84.525	12.679
Deductible temporary difference based on retirement provisions deferred tax assets	(36.989)	(5.548)
Temporary differences based on the effect of IFRS 9	165.253	24.788
Balance as at 31 December	**(48.432)**	**(7.265)**

In RSD '000

	2018	
	Temporary difference amount	Deferred tax amount
Deductible temporary difference per difference between the carrying value and tax base of fixed assets – deferred tax assets	93.900	14.085
Deductible temporary difference per adjustment of securities to fair value – deferred tax liabilities	(559.906)	(83.986)
Deductible temporary difference per prior years' tax loss carryforwards – deferred tax assets	227.421	34.113
Deductible temporary difference based on provisions for litigations-deferred tax assets	110.538	16.581
Deductible temporary difference based on provisions for jubilee awards- deferred tax assets	75.784	11.368
Deductible temporary difference based on retirement provisions 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	**125.393**	**18.809**

d) Movements on Deferred Taxes

In RSD '000

	2019	2018
Balance of deferred tax assets/(liabilities) as at 1 January	18.809	(5.248)
Effect of temporary tax differenced credited to the income statement	11.623	37.800
Effect of temporary tax differenced credited to equity	(37.697)	(13.743)
Deferred tax assets/(liabilities) balance as at 31 December	**(7.265)**	**18.809**

Creation of deferred tax liabiltiies in the amount of RSD 7.265 thousand (and the abolition of previously recognized deferred tax assets in the amount of RSD 18.809 thousand) had an effect on the income statement in the amount of RSD 11.623 thousand and the effect through capital in the amount of RSD 37.697 thousand.

During 2019, the Bank made a profit after tax in the amount of RSD 2.679.766 thousand. This amount will be allocated in accordance with the Decision at the forthcoming Bank assembly meeting.

18. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

In RSD '000

	31.12.2019.	31.12.2018.
In RSD		
Current account	4.073.644	4.730.803
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
	6.968.218	**11.890.688**
In foreign currencies		
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	**21.855.375**	**24.641.261**

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

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

The obligatory RSD reserve balance that had to be maintained from 18 December 2019 to 17 January 2020 amounted to 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, nos. 76/2018), which prescribes that banks calculate the obligatory foreign currency reserve at the following rates: 20% on the average daily balance of foreign currency liabilities maturing within 2 years, and exceptionally at the rate of 100% on the portion of RSD liabilities indexed to a currency clause maturing within 2 years; 13% on the average daily balance of foreign currency liabilities with maturities of over 2 years, and exceptionally at the rate of 100% on the portion of RSD liabilities indexed to a currency clause with maturities of over 2 years during a calendar month.

The obligatory foreign currency reserve balance that had to be maintained from 18 December 2019 to 17 January 2020 amounted to 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.

19. DERIVATIVE RECEIVABLES

In RSD '000

	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**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

20. SECURITIES

In RSD '000

	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)	10.438.764	8.742.547
Equity securities		
– shares in equity (FVTPL)	27.608	28.748
	29.959.441	**22.806.576**
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	**41.552.370**	**34.905.407**
Minus: Impairment allowance (AC)	(20.785)	(13.897)
Balance at date	**41.531.585**	**34.891.510**

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.

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

	Opening balance	Increase due to recognition and acquisition	Decrease due to derecognition	Increase due to credit risk change	Decrease due to credit risk change	Kursne razlike	Stanje na kraju perioda
Changes in impairment allowances of financial assets							
Stage 1	**13.897**	**8,991**	**1,987**	**14**	**123**	**(7)**	**20,785**
Public sector	13.897	8,991	1,987	14	123	(7)	20,785
TOTAL	**13.897**	**8,991**	**1,987**	**14**	**123**	**(7)**	**20,785**

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

In RSD '000

	31.12.2019			31.12.2018		
	Short-term	Short-term	Long-term	Total	Long-term	Total
In RSD						
Loans	-	1.626	**1.626**	-	489	**489**
Deposits	-	-	**-**	700.243	-	**700.243**
	-	**1.626**	**1.626**	**700.243**	**489**	**700.732**
In foreign currency						
Foreign currency accounts	1.127.373	-	**1.127.373**	491.306	-	**491.306**
Loans		88.983	**88.983**	207.018	44.083	**251.101**
Deposits placed	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**	**958.182**	**44.083**	**1.002.265**
Gross loans and receivables	**1.517.659**	**90.609**	**1.608.268**	**1.658.425**	**44.572**	**1.702.997**
Less: Impairment allowance			(1.392)			(2.636)
			(1.392)			**(2.636)**
Balance as at 31 December			**1.606.876**			**1.700.361**

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

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

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

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

In RSD '000

	Gross book value					Impairment allowance				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
In RSD										
Insurance companies	349	-	-	-	**349**	(1)	-	-	-	**(1)**
Financial leasing	1.331	-	-	-	**1.331**	(10)	-	-	-	**(10)**
Foreign banks	**1.680**	**-**	**-**	**-**	**1.680**	**(11)**	**-**	**-**	**-**	**(11)**
In foreign currency	72.118	16.811	-	-	**88.929**	(446)	(293)	-	-	**(739)**
Financial leasing	34.704	-	-	-	**34.704**	(44)	-	-	-	**(44)**
Auxiliary activities in providing financial and insurance services	1.482.955	-	-	-	**1.482.955**	(598)	-	-	-	**(598)**
Foreign banks	**1.589.777**	**16.811**	**-**	**-**	**1.606.588**	**(1.088)**	**(293)**	**-**	**-**	**(1.381)**
Balance as at 31 December 2019	**1.591.457**	**16.811**	**-**	**-**	**1.608.268**	**(1.099)**	**(293)**	**-**	**-**	**(1.392)**

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

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

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

In RSD '000

	Gross book value							
	Transfer between Stage 1 and Stage 2		Transfer between Stage 2 and Stage 3		Transfer between Stage 1 and Stage 3		POCI	
	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	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
Insurance companies	-	193	-	-	-	-	-	-
Financial leasing	16.807	-	-	-	-	-	-	-
Balance as at 31 December 2019	**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 at 31 December 2019 and 31 December 2018:

In RSD ’000

	2019	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	441.275
Over a year	90.609	44.572
Balance as at 31 December	**1.608.268**	**1.702.997**

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

Changes in credit loss allowances and provisions of financial assets

In RSD '000

	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	**2.634**	**740**	**2.441**	**170**	**10**	**11**	**(5)**	**1.099**
Banks in the country	2.126	0	2.117	-	-	(2)	(7)	-
Insurance companies	1	1	1	-	2	-	3	2
Financial leasing	255	394	198	-	2	-	(4)	445
Auxiliary activities in providing financial and insurance services	32	10	-	13	-	-	-	55
Foreign banks	220	335	125	157	6	13	3	597
Stage 2	**2**	**-**	**-**	**293**	**-**	**-**	**(2)**	**293**
Insurance companies	2	-	-	-	-	-	(2)	-
Financial leasing	-	-	-	293	-	-	-	293
TOTAL	**2.636**	**740**	**2.441**	**463**	**10**	**11**	**(7)**	**1.392**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

22. LOANS AND RECEIVABLES TO CUSTOMERS

In RSD '000

	2019			2018		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Loans	472.391	38.545.532	**39.017.923**	2.464.469	30.505.580	**32.970.049**
Other placements	116.668	13.321	**129.989**	272.499	-	**272.499**
	589.059	**38.558.853**	**39.147.912**	**2.736.968**	**30.505.580**	**33.242.548**
Foreign currency						
Loans	2.267.918	122.150.476	**124.418.394**	10.320.621	97.479.604	**107.800.225**
Deposits placed	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	**3.173.806**	**160.709.329**	**163.883.135**	**13.556.550**	**127.985.184**	**141.541.734**
Less: Credit Loss Allowance						
– Individual assessment			(658.556)			(928.023)
– Collective assessment			(2.395.085)			(2.220.274)
			(3.053.641)			**(3.148.297)**
Balance as at 31 December			**160.829.494**			**138.393.437**

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

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

In RSD '000

	Gross book value					Impairment allowance				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
In RSD										
Public enterprises	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	2.838.622	-	-	-	**2.838.622**	(6.592)	-	-	-	**(6.592)**
Other companies	72.145.647	2.273.489	403.125	100.046	**74.922.307**	(543.270)	(272.309)	(268.549)	(72.985)	**(1.157.113)**
Entrepreneurs	819.989	209.723	3.106	101	**1.032.919**	(5.179)	(12.697)	(2.873)	(101)	**(20.850)**
Public sector	1.391.752	-	-	-	**1.391.752**	(17.105)	-	-	-	**(17.105)**
Retail customers	41.857.275	953.775	307.935	152.034	**43.271.019**	(89.964)	(88.711)	(175.613)	(28.691)	**(382.979)**
Foreign entities	327.429	56.110	-	-	**383.539**	(4.456)	(5.712)	-	-	**(10.168)**
Farmers	108.187	15.851	43.578	-	**167.616**	(6.384)	(1.215)	(28.860)	-	**(36.459)**
Other customers	565.120	3.309	159.020	-	**727.449**	(2.483)	(126)	(106.177)	-	**(108.786)**
	120.054.021	**3.512.257**	**916.764**	**252.181**	**124.735.223**	**(675.433)**	**(380.770)**	**(582.072)**	**(101.777)**	**(1.740.052)**
Balance as at 31 December 2019	**154.909.239**	**6.808.072**	**1.891.508**	**274.316**	**163.883.135**	**(975.023)**	**(633.859)**	**(1.341.594)**	**(103.165)**	**(3.053.641)**

Bank evaluates all loans at amortized cost.

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22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

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

	Gross book value					
	Transfer between Stage 1 and Stage 2		Transfer between Stage 2 and Stage 3		Transfer between Stage 1 and Stage 3	
	From Stage 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	**417,165**	**217,666**	**25,176**	**-**	**191,911**	**-**
Construction	1,265	143,617	-	-	4	-
Agriculture and food industry	163,790	131	-	-	-	-
Manufacturing industry	17,393	5,153	3,580	-	14,352	-
Trade	85,492	64,977	2,089	-	168,512	-
Services and tourism	149,225	3,788	19,507	-	9,043	-
Entrepreneurs	**171,428**	**24,549**	**7,903**	**1**	**9,627**	**-**
Retail	**1,242,183**	**508,396**	**174,827**	**80,826**	**289,152**	**56,040**
Other customers	**-**	**-**	**14,639**	**-**	**33,240**	**-**
Total	**1,830,776**	**750,611**	**222,545**	**80,827**	**523,930**	**56,040**

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

c) Maturity of loans and receivables to customers

Maturities of loan and receivables due from customers per outstanding maturity as at 31 December 2019 and as at 31 December 2018 are presented in the table below:

In RSD '000

	2019	2018
Without defined maturity	1.369.067	1.089.205
Under 30 days	223.250	517.378
From 1 to 3 months	825.591	1.201.336
From 3 to 12 months	2.034.809	10.748.631
Over a year	159.430.418	127.985.184
Balance as at 31 December	**163.883.135**	**141.541.734**

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

Changes in credit loss allowances and provision of financial assets

In RSD '000

	Opening balance	Increase due to recognition and acquisition	Decrease due to derecognition	Increase due to credit risk change	Decrease due to credit risk change	Change due to modification	Decrease due to direct write-offs	Change due to foreign exchange differences	Other changes	Balance as at 31 December 2019
Changes in credit loss allowances of financial assets										
Impairment Stage 1	**840.466**	**446.182**	**252.164**	**1.357.381**	**909.556**	**(37)**	**2**	**(4.177)**	**(503.069)**	**975.023**
Public enterprises	13.062	61	3.008	592	3.420	-	-	(75)	(494)	6.718
Other companies	496.363	282.768	177.461	378.319	213.547	(36)	-	(3.149)	(186.662)	576.595
Entrepreneurs	12.870	10.292	4.009	46.364	22.133	-	1	(37)	(28.288)	15.058
Public sector	12.228	667	705	25.148	19.231	-	-	(94)	92	18.105
Retail customers	303.950	149.629	65.672	865.671	644.768	(1)	1	(789)	(252.487)	355.532
Foreign entities	346	-	-	1.358	1.603	-	-	(1)	1	101
Other customers	1.646	2.765	1.309	39.929	4.854	-	-	(32)	(35.231)	2.914
Impairment Stage 2	**876.882**	**151.011**	**267.510**	**100.362**	**259.117**	**(43)**	**-**	**175**	**32.097**	**633.859**
Public enterprises	74.954	-	-	-	-	-	-	-	(74.450)	504
Other companies	318.366	25.799	32.617	-	166.320	(20)	-	(1.440)	139.360	283.128
Entrepreneurs	6.049	9.415	905	-	5.929	(50)	-	(53)	12.669	21.196
Public sector	358	-	356	-	-	-	-	-	(2)	-
Retail customers	477.126	115.557	233.606	89.878	85.155	27	-	1.668	(36.706)	328.789
Foreign entities	3	-	1	-	-	-	-	-	(1)	1
Other customers	28	240	25	10.484	1.713	-	-	-	(8.773)	241
Impairment Stage 3	**1.311.480**	**162.873**	**359.823**	**529.052**	**270.935**	**(10.507)**	**230.917**	**(321)**	**210.692**	**1.341.594**
Other companies	409.799	20.161	112.310	146.752	103.249	(5.119)	46.357	(1.547)	(1.521)	306.609
Entrepreneurs	12.847	993	-	6.798	7.153	-	12.193	(8)	16.637	17.921
Retail customers	808.020	141.709	247.513	364.555	109.896	(5.388)	40.264	1.891	5.468	918.582
Foreign entities	20	-	-	1	-	-	-	-	(6)	15
Other customers	80.794	10	-	10.946	50.637	-	132.103	(657)	190.114	98.467
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	3.148.297	784.122	890.078	2.006.081	1.502.426	(10.587)	232.090	(5.002)	(494)	3.053.641

NOTES TO SEPARATE FINANCIAL STATEMENTS
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22. LOANS AND RECEIVABLES TO CUSTOMERS (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 at 31 December 2019 and 31 December 2018, is significant for the following activities:

In RSD '000

	2019	2018
Trade	11.149.091	12.406.952
Manufacturing industry	18.541.896	15.344.868
Construction	11.746.624	12.864.187
Production and supply of el. energy	9.911.492	8.637.329
Services and tourism	22.596.990	17.918.933
Agriculture and food industry	6.293.904	5.804.316
Retail customers	77.731.793	63.609.954
Domestic and foreign banks and other financial institutions	1.608.268	1.702.997
Public sector	2.416.214	2.501.734
Non-resident corporate customers	102.856	96.073
Agricultural producers	301.447	261.011
Other customers	755.939	278.090
Entrepreneurs	2.334.889	1.818.287
Balance as at 31 December	**165.491.403**	**143.244.731**

23. INVESTMENTS IN SUBSIDIARIES

In RSD '000

	2019	2018
S – Leasing d.o.o Serbia -75% of share	93.560	93.560
Balance as at 31 December	**93.560**	**93.560**

On 15 January 2014, on the basis of a purchase and transfer agreement concluded with Steiermarkische Bank und Sparkassen AG and Erste Group Immorent International Holding GmbH, and after the payment of the agreed amounts, the Bank acquired 75% of the share capital in the company S-leasing doo, Serbia. The acquisition of shares was made after the payment of 25% of the ownership of Steiermarkische Bank und Sparkassen AG and 50% of the ownership of Immorent AG.

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

In RSD '000

	Land and buildings	Equipment	Leased equipement/ Right of Use Assets	Investment property	Investments in progress	Total fixed assets	Intangible assets in progress	Intangible assets
Cost								
Balance as at 1 January 2018	**752.646**	**995.763**	**254.173**	**-**	**21.163**	**2.023.745**	**-**	**1.287.670**
Additions	-	7.083	(7.083)	-	285.265	285.265	327.744	-
Transfers	34.947	113.213	70.571	-	(297.655)	(78.925)	-	78.929
Disposal and retirement	(11.102)	(38.891)	-	-	-	(49.993)	-	(447)
Balance as at 31 December 2018	**776.491**	**1.077.167**	**317.661**	**-**	**8.773**	**2.180.092**	**327.744**	**1.366.152**
Effects of transition to IFRS 16	**-**	**-**	**1.297.923**	-	**(7.959)**	**1.289.963**	**7.959**	**-**
Balance as at 1 January 2019	**776.490**	**1.077.165**	**1.615.583**	-	**814**	**3.470.052**	**335.704**	**1.366.152**
Additions	-	2.458	1.005.447	-	238.145	1.246.050	222.407	-
Transfers	2.246	224.984	2.568	-	(229.798)	-		
Disposal and retirement	(5.055)	(62.133)	(229.392)	-	-	(296.580)	(95.139)	95.139
Balance as at 31 December 2019	**773.682**	**1.242.476**	**2.394.207**	**-**	**17.120**	**4.427.485**	**455.012**	**1.461.291**
Accumulated depreciation/amortisation								
Balance as at 1 January 2018	**278.588**	**623.658**	**50.809**	**-**	**-**	**953.055**	**-**	**1.040.372**
Rebooking	-	7.083	(7.883)	-	-		-	
Depreciation (Note 14)	18.709	118.332	66.691			203.732		116.849
Disposal and retirement	(3.854)	(35.747)	-	-	-	(39.601)	-	(349)
Balance as at 31 December 2018	**293.443**	**713.326**	**110.417**	**-**	**-**	**1.117.186**	**-**	**1.156.872**
Rebooking		2.458	(2.458)	-	-			
Depreciation (Note 14)	19.338	96.782	347.733	-	-	463.853	-	94.430
Disposal and retirement	(2.261)	(61.508)	(41.890)	-	-	(105.659)	-	-
Balance as at 31 December 2019	**310.520**	**751.060**	**413.800**	**-**	**-**	**1.475.380**	**-**	**1.251.302**
NET BOOK VALUE								
– 31 December 2019	**463.162**	**491.416**	**1.980.407**	**-**	**17.120**	**2.952.105**	**455.012**	**209.989**
– 31 December 2018	**483.048**	**363.841**	**207.244**	**-**	**8.773**	**1.062.906**	**327.744**	**209.280**

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

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

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

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

Overview of the purchase value of 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	-	(2.564)	315.096
Immobilities	-	1.254.362	1.007.458	(226.719)	2.035.101
Vehicles	-	43.561	3.019	(2.567)	44.013
Total:	**317.660**	**1.615.583**	**1.010.477**	**(231.850)**	**2.394.210**

The purchase value of IT equipment under financial leasing as of January 1, 2019 is RSD 317.660 thousand and has decreased as at 31 December 2019 and amounts to RSD 315.096 thousand.

The purchase value of the immobilities (facilities) classified as right of use assets at the date of application of IFRS 16 amounts to RSD 1.254.362 thousand. Increase in the purchase value of RSD 1.007.458 thousand refers to remesurement due to change in incrmeental borrowing 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 and lease cancelations in the amount of RSD 226.719 thousand. As of December 31, 2019, the purchase value of real estate (facilities) is RSD 2.035.101 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 to RSD 44.013 thousand, ie. it is increased by RSD 3.019 thousand due to new leases and decreased by RSD 2.567 due to cancelations of existing leases.

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	-	-	249.251	(41.669)	207.582
Vehicles	-	-	19.818	(160)	19.658
Total:	**110.417**	**110.417**	**347.734**	**(44.346)**	**413.805**

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 as of 31 December 2019 amounts to RSD 413.805 thousand.

The total written-off value of the immobilities (facilities) classified as right of use asset as at 31 December 2019 amounts to RSD 207.582 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.

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

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

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

		In RSD ’000
	2019	**2018**
Fixed assets intended for sale and assets from discounted operations	11.902	11.902
Balance as at 31 December	**11.902**	**11.902**

As at 31 December 2019, the Bank 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

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

26. OTHER ASSETS

		In RSD ’000
	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 receivables	196.033	134.806
– Prepaid insurance premiums	527.909	542.704
– Coupon interest when buying bonds	229.756	241.286
– Other deferred assets	44.497	126.133
Non-financial assets:		
– Advances given	7.253	113
– Receivables from employees	18.907	3.506
– Receivables from prepaid taxes and contributions	693	727
– Inventories	67.823	69.447
– Other receivables	(2.293)	(3.347)
– Other investments	27.005	27.006
– Other deferred assets	68.974	39.189
	1.319.757	**1.195.698**
In foreign currency		
Financial assets:		
– Receivables for accrued fees and commissions	156	6
– Trade receivables	8.525	18.631
– Other receivables from standard operations	22	15
– Other receivables	59.432	47.756
– Coupon interest when buying bonds	35.046	32.888
– Other deferred assets	43.117	4.807
Non-financial assets:		
– Advances given	5.085	3.655
– Receivables from employees	465	13
– Other receivables	349	64.063
	152.197	**171.834**
Gross other assets	**1.471.954**	**1.367.532**
Less: Impairment allowance	(143.828)	(140.818)
Balance as at 31 December	**1.328.126**	**1.226.714**

Other financial assets are valued at amortized cost.

26. OTHER ASSETS (continued)

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

		In RSD '000
	2019	**2018**
Balance at beginning of the year	71.823	46.522
Effects of transition to IFRS 9	-	15.265
New impairment allowances	65.586	58.772
Reversal for impairment allowance	(5.677)	(4.356)
Direct write-offs	(32.921)	(32.921)
FV adjustments	-	-
Foreign exchange difference	(21.832)	(11.459)
Balance of impairment allowances of financial assets as at 31 December	**76.979**	**71.823**
Balance of impairment allowances of non-financial assets as at 31 December	**66.849**	**68.995**
Balance as at 31 December	**143.828**	**140.818**

27. DERIVATIVE LIABILITIES

		In RSD '000
	2019	**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**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

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

In RSD '000

	2019			2018		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Liabilities from deposits and borrowings						
Transaction deposits	441.246	-	**441.246**	432.278	-	**432.278**
Deposits for approved loans	85	247	**332**	87	516	**603**
Specific purpose deposits	2.225	-	**2.225**	22.602	-	**22.602**
Other deposits	2.289.196	2.726.000	**5.015.196**	3.789.470	520.000	**4.309.470**
Borrowings	-	600.000	**600.000**	-	600.000	**600.000**
Total	**2.732.752**	**3.326.247**	**6.058.999**	**4.244.437**	**1.120.516**	**5.364.953**
In foreign currency						
Liabilities from deposits and borrowings						
Transaction deposits	302.140	-	**302.140**	630.522	-	**630.522**
Deposits for approved loans	-	102.302	**102.302**	-	189.110	**189.110**
Specific purpose 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	-	45.252.182	**45.252.182**	-	41.184.587	**41.184.587**
Other financial liabilities	20.191	-	**20.191**	37.061	-	**37.061**
Total	**7.471.222**	**47.736.203**	**55.207.425**	**10.050.633**	**43.906.621**	**53.957.254**
Balance as at 31 December	**10.203.974**	**51.062.450**	**61.266.424**	**14.295.070**	**45.027.137**	**59.322.207**

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

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

In RSD '000

	2019	2018
Central bank	4	1.091
Domestic banks	829.348	3.932.397
Insurance companies	3.110.087	3.010.514
Finance leasing companies	392.678	554.500
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	49.898.984	46.843.267
Balance as at 31 December	**61.266.424**	**59.322.207**

Deposits of foreign banks mostly relate to the loans from Erste Group Bank AG, Austria in the amount of RSD 22.750.845 thousand and the loan from the European Investment Bank in the amount of RSD 12.508.601 thousand.

NOTES TO SEPARATE FINANCIAL STATEMENTS
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29. DEPOSITS AND OTHER FINANCIAL LIABILITIES DUE TO CUSTOMERS

In RSD '000

	2019			2018		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Liabilities from deposits and borrowings						
Transaction deposits	31.935.971	-	**31.935.971**	24.684.911	-	**24.684.911**
Savings deposits	876.333	1.225.219	**2.101.552**	593.007	766.430	**1.359.437**
Deposits placed for approved loans	541.032	705.632	**1.246.664**	182.118	730.609	**912.727**
Specific purpose deposits	281.468	32.441	**313.909**	4.040.575	18.750	**4.059.325**
Other deposits	8.792.240	2.145.150	**10.937.394**	10.201.291	5.220	**10.206.511**
Other financial liablities	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 from deposits and borrowings						
Transaction deposits	46.269.517	-	**46.269.517**	44.155.303	-	**44.155.303**
Savings deposits	8.147.657	12.915.524	**21.063.181**	7.966.244	11.400.354	**19.366.598**
Deposits placed for approved loans	188.484	4.315.018	**4.503.502**	130.160	3.736.187	**3.866.347**
Specific purpose deposits	607.708	218.104	**825.812**	748.927	282.420	**1.031.347**
Other deposits	524.769	3.154.664	**3.679.433**	208.591	631.219	**839.810**
Borrowings	-	2.969.541	**2.969.541**	-	2.354.677	**2.354.677**
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**

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

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

In RSD '000

	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**

30. LIABILITIES FOR ISSUED SECURITIES

In RSD '000

Name	Currency	Nominal value of issued bonds	Maturity date	Interest rate	As at 31 December 2019	As at 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**	-

As at February 14, 2019, Erste Bank a.d. Novi Sad successfully completed the issuance of long-term RSD bonds, II issue. The volume of the issue was RSD 3,500,000,000.00. It has been issued 350,000 bonds of individual nominal value of RSD 10,000.00, ISIN: RSNOVBD53653 CFI: DBVUFR, with variable interest rate and one-time principal maturity after two (2) years and one (1) day.

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

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

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

As of 31 December 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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31. SUBORDINATED LIABILITIES

In RSD '000

	2019	2018
In foreign currencies		
Subordinated liabilities	4.206.971	4.566.337
Balance as at 31 December	**4.206.971**	**4.566.337**

Balance of subordinated borrowings as at 31 December 2019 and 31 December 2018 is presented in more detail in the table below:

In RSD '000

Creditor	Currency	Loan amount	Maturity	Interest rate	2019	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
Balance as at 31 December		**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 as at 27 December 2011 in the amount of EUR 15.000.000 for a period of 10 years with a 5-year grace period and interest rate equal to 3-month EURIBOR increased by 3,65% per annum. In accordance with the Agreement, the loan principal is to be repaid in 21 equal quarterly instalment, the first of which is due upon grace period expiry of five years.

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

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

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

32. PROVISIONS

In RSD '000

	2019	2018
Provisions for losses per off-balance sheet items (a)	280.891	240.457
Provisions for long-term employee benefits (b):		
– retirement benefits	84.525	75.784
– jubilee awards	126.300	110.538
Provisions for litigations (c)	248.371	227.421
Balance as at 31 December	**740.087**	**654.200**

Changes in the provisions of off-balance sheet items

(a) According to the Bank'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 Bank's commitments.

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

Individual assessment of impairment of off-balance sheet items is performed in the same manner as for the balance sheet assets. Commitments and other risk-weighted off-balance sheet items, for which the Bank 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 Bank 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 Bank also formed provisions for long-term employee benefits that include provisions for legal retirement and jubilee awards. Liabilities on this basis are recognized in the amount of the present value of future cash flows using the accrual method.

(c) The Bank also formed provisions for litigations involving the Bank as a defendant, where the Bank's expert team expects negative outcomes.

32. PROVISIONS (continued)

Movements on provision accounts during the year are provided below:

In RSD '000

	2018	2018
Provisions for losses per off-balance sheet exposures		
Balance at beginning of the year	240.457	326.073
Charge for the year (Note 10(a))	182.374	149.162
Reversal of unused provisions (Note 10(a))	(141.070)	(241.881)
Other movements	(870)	7.102
Total	**280.891**	**240.457**
Provisions for other long-term employee benefits		
Balance at beginning of the year	186.322	184.444
Provisions in the period through P&L (Note 13)	23.203	21.994
Provisions in the period through OCI	3.794	-
Benefits paid during the year	(18.042)	(16.827)
Actuarial losses/(gains) on jubilee awards	11.295	2.543
Actuarial losses/(gains) on retirement benefits	4.253	(5.832)
Total	**210.825**	**186.322**
Provision for litigation		
Balance at beginning of the year	227.421	175.183
Charge for the year (Note 16)	39.062	69.000
Used provision during the year	(18.112)	(16.762)
Total	**248.371**	**227.421**
Other long-term provisions		
Balance at beginning of the year	-	67.042
Charge for the year	-	(35.927)
Used provision during the year	-	(31.115)
Total	-	**-**
Balance as at 31 December	**740.087**	**654.200**

32. 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 2,90%;
- average gross salary in the Republic of Serbia in the period January - May 2019 and
- the assumed salary growth of 2,80% per annum over the entire period for which funds are reserved.

	In RSD '000
Present value of employee benefits as at 31 December 2018	**186.322**
Cost of services	
a. Current service cost	17.762
b. Past service cost	3.794
c. Interest costs	5.441
d. Payments	(18.042)
Actuarial gains (-) / losses (+) for jubilee awards arising from:	
a. Change in demographic assumptions	(33)
b. Change in financial assumptions	11.328
c. Change in experiential assumptions	-
Actuarial gains (-) / losses (+) for severance payments arising from:	
a. Change in demographic assumptions	(13.422)
b. Change in financial assumptions	17.694
c. Change in experiential assumptions	-
Present value of employee benefits as at 31 December 2019	**210.825**

32. PROVISIONS (continued)

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

In RSD '000

Changes in provisions for losses on off-balance sheet assets	Balance at the beginning of the period	Increase due to recognition and acquisition	Decrease due to derecognition	Increase due to credit risk change	Decrease due to credit risk change	Change due to foreign exchange differences	Other changes	Balance at period end
Stage 1	156.420	130.751	58.145	38.626	67.171	(805)	2.990	202.666
Stage 2	10.232	3.499	3.526	4.208	3.571	(25)	(2.600)	8.217
Stage 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 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
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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33. OTHER LIABILITIES

		In RSD '000
	2019	**2018**
In RSD		
Financial liabilities:		-
Leasing liabilities for unpaid leased fixed assets	17.775	-
Liabilities for deferred interest income	504	2.955
Liabilities for deferred fee and commission income and other deferred income	9.966	8.472
Other deferred income and accrued expenses	187.180	87.954
	215.425	**99.381**
Non-financial liabilities:		
Trade payables	8.326	4.281
Advances received	7.949	4.043
Liabilities for salaries	1.830	-
Liabilities for taxes, contributions and other duties payable	95.557	77.205
Liabilities for accured fee and commission expense and other accrued expense	462.609	372.164
Liabilities for cards operations	49.261	119.584
Liabilities to retailers for POS terminals	30.691	22.096
Other liablities	127.969	84.137
	784.192	**683.510**
In foreign currencies		
Financial liabilities:		
Leasing liabilities for unpaid leased fixed assets	2.011.084	169.995
Liabilties for deferred fee and commission income and other deferred income	11.167	2.688
Other deferred income and accrued expenses	1.976	19.584
	2.024.227	**192.267**
Non-financial liabilities:		
Commitments and Fees	-	59
Liabilities per received advances	7.563	11.441
Liabilities for accured fee and commission expense and other accrued expense	916	93.222
Other liabilities	33.427	119.296
	41.906	**224.018**
Balance as at 31 December		
	3.065.750	**1.199.176**

Other financial liabilities are valued at amortized cost.

NOTES TO SEPARATE FINANCIAL STATEMENTS
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33. 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	-	-	3.720	439.675	7.111	836.290
Currency clause (EUR) Movable Property	-	-	369	43.561	209	24.550
Valutna klauzula (EUR) IT equipment	1.438	169.995	1.438	169.995	912	107.247
EUR Facilities	-	-	6.428	759.722	8.870	1.042.997
Total:	**1.438**	**169.995**	**11.954**	**1.467.918**	**17.102**	**2.028.859**

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	1.040
Expenses of low value leases	6.592

34. EQUITY

(a) Structure of the Bank's Equity

The total Bank’s equity as at 31 December 2019 amounts to RSD 31.823.653 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 Bank is presented below:

		In RSD ’000
	2019	**2018**
Share capital - ordinary shares /i/	12.909.000	10.040.000
Share premium /ii/	2.553.944	124.475
Reserves from profit /iii/	12.955.128	10.036.645
Revaluation reserves /iv/	725.815	512.198
Profit for the year	2.679.766	2.918.483
Balance as at 31 December	**31.823.653**	**23.631.801**

/i/ Share Capital

As at 31 December 2018 the Bank's subscribed and paid in capital comprised of 1.290.900 ordinary shares with the par value of RSD 10.000 per share (31 December 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 of 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 commands. The nominal value of individual shares is RSD 10,000.00 and the issue price RSD 18,468.00

Following the successful issue, the total share capital was increased by RSD 2,869,000 thousand and amounts to RSD 12,909,000 thousand. The majority shareholder of the Bank is EGB AG with 74% and 955,266 shares, while Steiermarkische Bank has 26% and 335,634 shares.

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

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

34. EQUITY (continued)

/ii/ Share Premium

Share premium amounting to RSD 2.553.944 thousand as at 31 December 2019 (31 December 2018 RSD 124.476 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 Bank dated 29 March 2019, from the realized profit for 2018, the Bank made has allocated the remaining profit to the other reserves in the amount of RSD 2.918.483 thousand.

/iv/ Revaluation Reserves

Revaluation reserves, which as at 31 December 2019 amounted to RSD 725.815 thousand (31 December 2018: 512.198 thousand), were formed as a result of the decrease in the value of investments in securities available for sale at market value, adjusted for effects of deferred taxes based on the revaluation of these securities and the adjustment of liabilities based on actuarial calculation in accordance with IAS 19.

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

Performance indicators	**Prescribed**	**31.12.2019.**	**31.12.2018.**
1. Equity	Minimum EUR 10 million	EUR 282.190.908	EUR 210.633.447
2. Capital adequacy	Minimum 8%	21,40	17,78
3. Basic Capital adequacy	Minimum 6%	19,03	15,02
4. Basic Share capital adequacy	Minimum 4,5%	19,03	15,02
5. Investments of the Bank	Maximum 60%	9,04	4,46
6. Exposure to related parties	no limit	10,82	12,28
7. Large and largest possible loans in relation to capital	Maximum 400%	23,85	124,11
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%	192,57	175,30
10. Foreign exchange risk indicator	Maximum 20%	0,11	2,55
11. Exposure of the Bank to a group of related parties	Maximum 25%	13,02	16,54
12. Exposure of the Bank to a person related to a bank	no limit	4,98	5,49
13. Bank's investments in non-financial entities	Maximum 10%	0,08	0,11

35. OFF-BALANCE SHEET ITEMS

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

In RSD '000

		2018
Operations on behalf of third parties (a)	596.513	617.999
Guarantees and other irrevocable commitments (b)	61.506.339	52.151.249
Other off-balance sheet positions	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) Operations on behalf of third parties

In RSD '000

	2019	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 thousand and long-term loans to agricultural producers in the amount of RSD 2.272 thousand.

(b) Guarantees and other irrevocable commitments

In RSD '000

	2019	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 sheet items	1.507.746	505.121
Total	**15.633.305**	**12.976.568**
In foreign currency		
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
Letter of credit	335.591	404.196
Other off-balance sheet items	2.243.698	1.301.416
Total	**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, multi-purpose framework loans and other irrevocable commitments.

35. OFF-BALANCE SHEET ITEMS (continued)

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

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

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

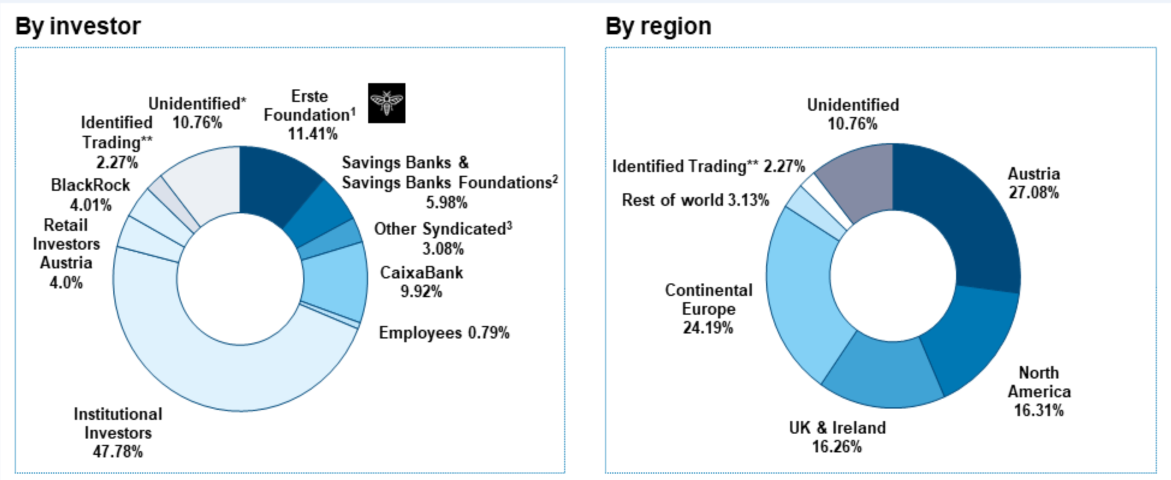
36. RELATED PARTY DISCLOSURES

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

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

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

Shareholder structure of Erste Group is as follows:



36. RELATED PARTY DISCLOSURES (continued)

a) Balance as at 31 December 2019 and 31 December 2018, as well as income and expenses during the year, arising from transactions with legal entities within the Erste Group, are presented in the following tables:

In RSD '000

	2019		2018	
	Shareholders	**Other members of Erste Group**	**Shareholders**	**Other members of Erste Group**
Assets				
Financial assets at fair value through profit and loss held for trading	22.678	-	11.394	-
Loans and receivables from banks and other financial organisations	1.105.627	354.612	472.578	209.121
Loans and receivables due from customers	-	63.022	-	43
Investments in subsidiaries	-	93.560	-	93.560
Property, plant and equipment	-	977.116	-	-
Other assets	7.543	31.029	65.509	27.461
Balance as at 31 December	**1.135.848**	**1.519.339**	**549.481**	**330.186**
Liabilities				
Financial liabilities at fair value through profit and loss held for trading	228.172	-	84.446	-
Deposits and other liabilities due to banks and other financial organizations	26.675.120	312.718	28.462.572	197.360
Deposits and liabilities due to customers	-	53.665	-	123.558
Subordinated liabilities	4.206.971	-	4.566.337	-
Provisions	6	642	108	620
Other liabilities	26.419	1.173.614	64.171	169.282
Balance as at 31 December	**31.136.688**	**1.540.639**	**33.177.634**	**490.820**
Off-balance sheet items				
Guarantees and other sureties issues	115.680	408.941	972.578	187.038
Irrevocable commitments	-	2.976	-	32.621
Other off-balance sheet items	35.022.878	1.289.405	14.689.057	828.019
Balance as at 31 December	**35.138.558**	**1.701.322**	**15.661.635**	**1.047.678**

36. RELATED PARTY DISCLOSURES (continued)

In RSD '000

	2019		2018	
	Shareholders	Other members of Erste Group	Shareholders	Other members of Erste Group
Interest income	13.018	2.136	5.718	1.268
Interest expenses	(574.378)	(35.895)	(431.220)	(6.466)
Fee and commission income	48.739	38.415	42.839	28.381
Fee and commission expenses	(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	4.493	63.288	2.750
Net gains on impairment of financial assets not valued at FV through profit and loss	-	-	151	-
Net loss on impairment of financial assets not valued at FV through profit and loss	(126)	(290)	-	(114)
Other operating income	-	18.910	-	24.830
Depreciation expense	-	(102.506)	-	-
Other income	4.930	8.287	2.310	10.035
Other expenses	(86.284)	(748.698)	(139.564)	(667.692)

As at 31 December 2019 and 31 December 2018, placements to related legal entities were not impaired.

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

Interbank transactions (overnight and short-term borrowings) are made at prices ranging from -0,20 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%.

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

Through cross-border loans, the Bank 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 Bank. This type of service provides the clients with the possibility of borrowing under more favourable conditions, and to the bank the realization of income from fees for these services. In cross-border loans, the Bank is solely an agent and is not exposed to credit risk.

36. RELATED PARTY DISCLOSURES (Continued)

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

In RSD ’000

	Balance as at 31 December 2019	Income/ (expense) 2019	Balance as at 31 December 2018	Income/ (expenses) 2018
Current account overdrafts, credit cards and consumer loans	1.244	190	1.473	186
Housing loans	56.122	2.703	63.303	3.538
Accrued fees	(70)	-	(77)	-
Other loans and receivables	149	13	249	56
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 Board of Directors’ members (stated in gross amounts), during 2019 and 2018, are presented in the table below:

In RSD ’000

	31.12.2019.	31.12.2018.
Salaries and benefits of the Management Board members	5.598	5.618
Salaries and benefits of the Executive Board members	138.553	124.587
Accrued income of the Executive Board members	91.114	92.302
Total	**235.265**	**222.507**

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.

37. RISK MANAGEMENT

37.1. Introduction

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

The Bank'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 Bank is exposed to in its business operations, as well as an adequate response in order to minimize potential adverse effects to the Bank's capital and financial performance.

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

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

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

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

Management Board and Executive Board

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

Assets and Liabilities Management Committee (ALCO)

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

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

37. RISK MANAGEMENT (continued)

37.1. Introduction (continued)

Non-financial Risk Management Committee

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

Asset and Liability Management Unit

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

Internal Audit

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

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

Risk management and reporting

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

The functions of risk monitoring and risk management are the responsibility of the Credit Risk Management Division and Strategic Risk Management Unit, as separate organizational units within the Bank. Risk management policies and strategy as well as capital management strategy are linked to the Bank's overall strategy and include definition of all risk types, manners of managing those risks and the level of risk the Bank 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").

37. RISK MANAGEMENT (continued)

37.1. Introduction (continued)

Risk management and reporting (continued)

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

- Identification and measurement or assessment of the Bank'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 risk profile and capital adequacy;
- Monitoring of parameters that affect the Bank'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 exposure limits per risk types and their control;
- Quantifying the impact of changes in the economic cycle or stress events on the Bank'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;
- 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 Bank, is responsible for the risk management system at the Bank. Bearing in mind the diversity of areas covered, and in order to perform their role more effectively, the risk management function is divided between the Credit Risk Management Department, the Strategic Risk Management Department, the Portfolio and Capital, and the Business Compliance and Security Management Service.

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

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

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

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

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 the Bank is or may be exposed to.

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

A comprehensive report on risks that includes all the information necessary for the assessment and conclusion on the risks the Bank is exposed to is submitted to the Management Board on a quarterly basis.

37. RISK MANAGEMENT (Continued)

37.2. Credit Risk

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

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

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

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

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

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

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

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

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

37. RISK MANAGEMENT (continued)

37.2. Credit Risk (continued)

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

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

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 in next 4 categories of risk:

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

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

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

Non-performing - Clients who have recorded one or more criteria for the activation of default status, in accordance with the definition of precisely prescribed by the internal acts of the Bank and Erste Group AG: uncertain collection, late payment with a material bearing exposure for more than 90 days, the restructuring that caused the loss to the Bank, the realization of a credit loss or the initiation of bankruptcy proceedings. In order to determine the default settlement status, the Bank applies an approach at the client level, including Retail clients; if the client is in the status of default of one product, then the other products of that client are classified as problematic receivables.

Monitoring and control of credit risk

Monitoring of credit risk

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

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

37. RISK MANAGEMENT (continued)

37.2. Credit Risk (continued)

Monitoring and control of credit risk (continued)

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

Early Warning Signals

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

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

Default status

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

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

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

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

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Default status (continued)

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

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

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

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

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

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

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

Receivables write-off

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

In addition, the Bank 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 favour of impairment of the value of 100% of its gross carrying amount.

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Maximum exposure to credit risk in balance sheet and off-balance sheet items.

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

In RSD '000

	Assets exposed to credit risk			**Assets not exposed to credit risk**	**Balance sheet**
	Gross value	**Accumulated allowance for impairment / provisions**	**Net value**		
Cash and funds at Central Bank	13.219.331	-	**13.219.331**	8.636.044	**21.855.375**
Derivative receivables	346.899	-	**346.899**	-	**346.899**
Securities	41.552.370	20.785	**41.531.585**	-	**41.531.585**
Loans and receivables from banks and other financial organizations	1.608.268	1.392	**1.606.876**	-	**1.606.876**
Loans and receivables from customers	163.883.135	3.053.641	**160.829.494**	-	**160.829.494**
Investments in subsidiaries	-	-	-	93.560	**93.560**
Intangible assets	-	-	-	665.001	**665.001**
Properly, plant and equipment	-	-	-	2.952.105	**2.952.105**
Current tax assets	-	-	-	229.409	**229.409**
Non-current assets held for sale and discontinued operations	-	-	-	11.902	**11.902**
Other assets	1.046.447	87.587	**958.860**	369.266	**1.328.126**
Balance sheet	**221.656.450**	**3.163.405**	**218.493.045**	**12.957.287**	**231.450.332**
Guarantees and warranties	21.221.867	134.077	**21.087.790**		**21.087.790**
Assumed contingent liabilities	40.284.472	146.746	**40.137.726**		**40.137.726**
Other off-balance exposure				295.470.242	**295.470.242**
Off-balance sheet	**61.506.339**	**280.823**	**61.225.516**	**295.470.242**	**356.695.758**
Total exposure	**283.162.789**	**3.444.228**	**279.718.561**	**308.427.529**	**588.146.090**

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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37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Overview of securities:

Securities In **RSD '000**

	Gross value			Accumulated allowance for impairment		
	AC	FVOCI	FVTPL	AC	FVOCI	FVTPL
Derivative receivables	-	-	**346.899**	**-**	**-**	**-**
Of which: Other	-	-	346.899	-	-	-
Securities	**16.199.413**	**14.552.623**	**10.800.334**	**20.785**	**18.201**	-
Of which: State bonds of the Republic of Serbia	16.199.413	14.455.269	10.523.380	20.785	18.201	
Of which: Other	-	97.354	276.954	-		
Total exposure	**16.199.413**	**14.552.623**	**11.147.233**	**20.785**	**18.201**	-

As at 31 December 2019, 98,33% of securities exposures refer to the exposure based on government bonds of the Republic of Serbia, which, in accordance with the valid Decision on capital adequacy of the 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 / positive outlook
- Fitch Ratings BB+ / stable outlook
- Standard and Poor's BB+ / stable outlook

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Maximum exposure to credit risk, in gross and net amount, without collaterals, as well as other items Bank does not consider to be exposed to credit risk, in accordance with Balance sheet items as at 31 December 2018. is presented in the following table:

In RSD '000

	Assets exposed to credit risk			Assets not exposed to credit risk	Balance sheet
	Gross value	Accumulated allowance for impairment / provisions	Net value		
Cash and funds at Central Bank	16.671.146	-	**16.671.146**	7.970.115	**24.641.261**
Derivative receivables	181.204	-	**181.204**	-	**181.204**
Securities	34.905.406	13.896	**34.891.510**	-	**34.891.510**
Loans and receivables from banks and other financial organizations	1.702.997	2.636	**1.700.361**	-	**1.700.361**
Loans and receivables from customers	141.541.734	3.148.297	**138.393.437**	-	**138.393.437**
Investments in subsidiaries	-	-	-	93.560	**93.560**
Intangible assets	-	-	-	537.025	**537.025**
Properly, plant and equipment	-	-	-	1.062.904	**1.062.904**
Current tax assets	-	-	-	173.326	**173.326**
Deferred tax assets	-	-	-	18.809	**18.809**
Non-current assets held for sale and discontinued operations	-	-	-	11.902	**11.902**
Other assets	902.898	83.132	**819.766**	406.948	**1.226.714**
Balance sheet	**195.905.385**	**3.247.961**	**192.657.424**	**10.274.589**	**202.932.013**
Guarantees and warranties	15.104.103	125.850	**14.978.253**	-	**14.978.253**
Assumed contingent liabilities	37.047.146	114.563	**36.932.583**	-	**36.932.583**
Other off-balance exposure	-	-	-	229.784.520	**229.784.520**
Off-balance sheet	**52.151.249**	**240.413**	**51.910.836**	**229.784.520**	**281.695.356**
Total exposure	**248.056.634**	**3.488.374**	**244.568.260**	**240.059.109**	**484.627.369**

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Review of securities:

Securities In **RSD '000**

	Gross value			Accumulated allowance for impairment		
	AC	FVOCI	FVTPL	AC	FVOCI	FVTPL
Derivative receivables	-	-	**181.204**	**-**	**-**	**-**
Of which: Other	-	-	181.204	-	-	-
Securities	**10.828.561**	**14.281.107**	**10.058.479**	**13.897**	**17.699**	-
Of which: State bonds of the Republic of Serbia	10.828.561	14.153.611	9.774.867	13.897	17.699	
Of which: Other	-	127.496	283.612	-		
Total exposure	**10.828.561**	**14.281.107**	**10.239.683**	**13.897**	**17.699**	-

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 / positive outlook

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37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Loans and receivables from customers, banks and other financial institutions

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

In RSD '000

	Credit quality of non-problematic receivables[2]				Value of collateral*		The impact of collateral on reducing the value of impairment*
	High	Medium	Low	Problematic receivables[3]	Non-problematic receivables	Problematic receivables	
Receivables from retail customers	**64.259.813**	**10.111.030**	**1.907.808**	**1.384.660**	**35.054.203**	**344.329**	**179.927**
Housing loans	40.282.044	2.469.240	404.170	427.699	34.964.135	344.329	178.336
Consumer and cash loans	22.413.289	7.302.293	1.444.194	898.140	45.613	-	1.583
Transactions and credit cards	552.571	115.165	20.358	14.775	1.503	-	2
Other receivables	1.011.910	224.332	39.086	44.046	42.952	-	6
Receivables from corporate clients	**62.629.490**	**16.137.071**	**3.556.119**	**631.633**	**19.877.473**	**186.445**	**379.782**
Large enterprises	17.743.981	1.898.934	-	-	6.806.657	-	33.740
Small and middle sized enterprises	29.591.051	6.489.380	2.834.656	461.044	10.030.643	101.128	242.689
Micro sized enterprises and entrepreneurs	12.284.206	7.556.779	687.501	123.721	2.942.833	55.839	93.399
Agriculture	96.911	191.978	33.962	46.868	97.339	29.478	9.954
Public enterprises	2.913.340	-	-	-	-	-	-
Receivables from other clients	**4.625.401**	**13.610**	**88.890**	**145.878**	**594.134**	**73.793**	**48.618**
Total receivables	**131.514.704**	**26.261.711**	**5.552.818**	**2.162.170**	**55.525.809**	**604.567**	**608.327**

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

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

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

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

(a) Overview by credit quality of non-problematic receivables and value of collateral of those receivables as at 31 December 2018:

In RSD '000

	Credit quality of non-problematic receivables[4]				Value of collateral*		The impact of collateral on reducing the value of impairment*
	High	Medium	Low	Problematic receivables[5]	Non-problematic receivables	Problematic receivables	
Receivables from retail customers	**50.784.578**	**9.239.424**	**2.106.999**	**1.407.069**	**29.010.886**	**411.675**	**260.548,01**
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
Transactions and credit cards	534.743	145.417	31.733	13.214	796	-	18
Other receivables	1.052.014	349.692	78.923	50.532	73.758	-	784
Receivables from corporate clients	**55.754.682**	**16.761.302**	**1.857.073**	**746.771**	**18.013.177**	**347.040**	**309.474**
Large enterprises	14.337.001	559.918	-	-	4.412.124	-	22.185
Small and middle sized enterprises	28.480.689	10.226.911	146.934	416.083	9.753.703	195.046	165.109
Micro sized enterprises and entrepreneurs	10.664.809	5.322.890	1.623.031	289.502	3.271.351	137.806	106.834
Agriculture	81.728	122.907	87.108	41.151	102.575	14.187	15.346
Public enterprises	2.190.455	528.676	-	35	473.424	-	-
Receivables from other clients	**4.420.931**	**66.732**	**1**	**99.169**	**385.782**	**20.311**	**13.519**
Total receivables	**110.960.191**	**26.067.459**	**3.964.073**	**2.253.009**	**47.409.845**	**779.025**	**583.541**

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

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

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

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

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

In RSD '000

	Unimpaired receivables[6]		Impaired receivables[7]			Accumulated impairment allowances				Value of collateral	
	Not past due	Past due	On individual basis	On collective basis	Total gross receivables	Impairment allowances on unimpaired receivables	On individual basis	On collective basis	Total net receivables	Unimpaired receivables	Impaired receivables
By sector											
Receivables from retail clients	**76.057.408**	**278.531**	**341.432**	**985.940**	**77.663.311**	**672.095**	**161.505**	**753.178**	**76.076.533**	**35.069.886**	**328.647**
Mortgage loans	43.126.891	50.849	332.994	72.419	43.583.154	189.078	154.658	45.669	43.193.749	34.979.818	328.647
Consumer and cash loans	31.014.282	179.133	8.248	856.252	32.057.915	465.278	6.666	662.357	30.923.614	45.613	-
Transactions and credit cards	687.116	1.231	68	14.453	702.868	5.520	66	11.505	685.776	1.503	-
Other receivables	1.229.120	47.318	121	42.816	1.319.374	12.219	115	33.646	1.273.394	42.952	-
Receivables from corporate clients	**81.414.026**	**908.653**	**585.897**	**45.735**	**82.954.312**	**915.422**	**398.586**	**31.098**	**81.609.206**	**19.877.473**	**186.445**
Large enterprises	19.602.632	40.283	-	-	19.642.915	104.261	-	-	19.538.654	6.806.657	-
Small and middle sized enterprises	38.190.769	724.317	455.166	5.877	39.376.130	470.804	315.058	4.241	38.586.027	10.030.643	101.128
Micro sized enterprises	20.396.442	132.044	92.918	30.803	20.652.207	320.847	55.622	20.742	20.254.997	2.942.833	55.839
Agriculture	311.945	10.906	37.813	9.055	369.720	12.288	27.906	6.115	323.411	97.339	29.478
Public enterprises	2.912.237	1.103	-	-	2.913.340	7.222	-	-	2.906.118	-	-
Receivables from other customers	**4.653.137**	**74.764**	**143.004**	**2.874**	**4.873.779**	**22.669**	**98.465**	**2.012**	**4.750.632**	**594.134**	**73.793**
Total exposure	**162.124.572**	**1.261.949**	**1.070.333**	**1.034.550**	**165.491.403**	**1.610.186**	**658.556**	**786.289**	**162.436.371**	**55.541.492**	**588.885**
By category of receivables											
Non-problematic receivables	162.068.121	1.261.111	-	-	163.329.233	1.606.322	-	-	161.722.911	55.525.809	-
of which: restructured	1.255.702	11.539	-	-	1.267.241	117.483	-	-	1.149.758	497.619	-
Problematic receivables	56.451	837	1.070.333	1.034.550	2.162.170	3.866	658.556	786.289	713.459	15.683	588.885
of which: restructured	53.801	780	419.800	262.720	737.101	3.819	204.479	198.418	330.386	15.683	256.444
Total exposure	**162.124.572**	**1.261.949**	**1.070.333**	**1.034.550**	**165.491.403**	**1.610.188**	**658.556**	**786.289**	**162.436.370**	**55.541.492**	**588.885**

6 Bank considers as unimpaired receivables those who are not in default status and receivables without evidence of impairment

7 Bank considers as impaired receivabvles those who are in default status and with evidence of impairment

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

(b) Overview of gross and net exposure to credit risk by sector and category of receivables, means of collateral, maturity and value of collateral as at 31 December 2018:

In RSD '000

	Unimpaired receivables[8]		Impaired receivables[9]			Accumulated impairment allowances				Value of collateral	
	Not past due	Past due	On individual basis	On collective basis	Total gross receivables	Impairment allowances on unimpaired receivables	On individual basis	On collective basis	Total net receivables	Unimpaired receivables	Impaired receivables
By sector											
Receivables from retail clients	**62.017.914**	**254.196**	**577.586**	**688.375**	**63.538.071**	**772.569**	**316.829**	**472.019**	**61.976.653**	**29.085.807**	**336.754**
Mortgage 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
Transactions and credit cards	710.442	1.763	284	12.618	**725.107**	6.801	267	8.697	**709.342**	796	-
Other receivables	1.432.104	50.399	2.250	46.409	**1.531.162**	19.199	2.137	31.426	**1.478.400**	73.758	-
Receivables from corporate clients	**74.160.978**	**213.721**	**710.418**	**34.711**	**75.119.828**	**939.559**	**523.366**	**21.785**	**73.635.118**	**18.014.819**	**345.398**
Large enterprises	14.875.285	21.634	-	-	**14.896.919**	74.602	-	-	**14.822.317**	4.412.124	-
Small and middle sized enterprises	38.753.126	103.050	407.977	6.464	**39.270.617**	335.197	321.580	3.999	**38.609.842**	9.755.345	193.405
Micro sized enterprises	17.540.021	70.710	263.401	26.101	**17.900.233**	423.850	175.525	16.421	**17.284.437**	3.271.351	137.806
Agriculture	276.965	14.778	39.039	2.112	**332.894**	17.894	26.262	1.331	**287.407**	102.575	14.187
Public enterprises	2.715.582	3.549	-	35	**2.719.165**	88.016	-	35	**2.631.115**	473.424	-
Receivables from other customers	**4.413.192**	**74.489**	**99.151**	**1**	**4.586.833**	**16.978**	**87.827**	**1**	**4.482.026**	**385.782**	**20.311**
Total exposure	**140.592.084**	**542.405**	**1.387.155**	**723.087**	**143.244.731**	**1.729.105**	**928.023**	**493.805**	**140.093.798**	**47.486.408**	**702.463**
By category of receivables											
Non-problematic receivables	140.451.075	540.647	-	-	**140.991.722**	1.707.010	-	-	**139.284.712**	47.409.845	-
of which: restructured	826.053	2.128	-	-	**828.181**	134.831	-	-	**693.350**	136.046	-
Problematic receivables	141.009	1.758	1.387.155	723.087	**2.253.009**	22.095	928.023	493.805	**809.086**	76.562	702.463
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	**140.592.084**	**542.405**	**1.387.155**	**723.087**	**143.244.731**	**1.729.105**	**928.023**	**493.805**	**140.093.798**	**47.486.408**	**702.463**

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

[9] Bank considers as impaired receivabvles those who are in default status and with evidence of impairment

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

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

In RSD '000

	Unimpaired receivables					Impaired receivables				
	Not in delay	up to 30 days	from 31 to 60 days	from 61 to 90 days	over 90 days	Not in delay	up to 90 days	from 91 to 180 days	from 181 to 360 days	over 360 days
Receivables from retail clients	**66.740.704**	**9.298.926**	**232.327**	**63.576**	**-**	**324.221**	**318.413**	**137.307**	**202.623**	**345.214**
Mortgage loans	42.308.544	825.954	37.182	6.060	-	192.533	79.925	20.615	39.201	73.140
Consumer and cash loans	22.850.502	8.110.082	179.775	53.056	-	127.863	234.363	106.975	148.001	247.298
Transactions and credit cards	675.137	2.049	9.862	1.299	-	2.071	895	2.291	2.686	6.577
Other receivables	906.521	360.841	5.509	3.161	-	1.753	3.229	7.426	12.735	18.200
Receivables from corporate clients	**77.855.445**	**4.351.936**	**18.572**	**96.727**	**-**	**132.128**	**65.522**	**38.142**	**267.580**	**128.260**
Large enterprises	19.556.674	86.241	-	-	-	-	-	-	-	-
Small and middle sized enterprises	37.309.304	1.550.827	400	54.555	-	128.891	54.318	19.874	230.295	27.665
Micro sized enterprises and entrepreneurs	17.801.039	2.674.381	10.894	42.172	-	1.298	8.028	17.143	26.604	70.648
Agriculture	280.988	34.586	7.278	-	-	1.940	3.177	1.124	10.681	29.947
Public enterprises	2.907.440	5.900	-	-	-	-	-	-	-	-
Receivables from other customers	**4.727.062**	**839**	**-**	**-**	**-**	**1**	**-**	**-**	**40.812**	**105.065**
Total exposure	**149.323.211**	**13.651.701**	**250.899**	**160.303**	**-**	**456.350**	**383.936**	**175.449**	**511.015**	**578.539**
By category of receivables										
Non-problematic receivables	149.294.283	13.632.434	242.948	159.567	-	-	-	-	-	-
of which: restructured	627.048	635.211	3.421	1.561	-	-	-	-	-	-
Problematic receivables	28.928	19.267	7.951	735	-	456.350	383.936	175.449	511.015	578.539
of which: restructured	27.000	18.913	7.932	735	-	338.950	179.918	18.580	51.328	93.744
Total exposure	**149.323.211**	**13.651.701**	**250.899**	**160.303**	**-**	**456.350**	**383.936**	**175.449**	**511.015**	**578.539**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

(v) Data on exposure to credit risk by sectors and categories of receivables, according to the impairment status and number of days past due as at 31 December 2018:

In RSD '000

	Unimpaired receivables					Impaired receivables				
	Not in delay	**up to 30 days**	**from 31 to 60 days**	**from 61 to 90 days**	**over 90 days**	**Not in delay**	**up to 90 days**	**from 91 to 180 days**	**from 181 to 360 days**	**over 360 days**
Receivables from retail clients	**53.883.141**	**8.039.249**	**283.715**	**66.005**	**-**	**290.756**	**317.736**	**154.531**	**173.586**	**329.351**
Mortgage 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
Transactions and credit cards	691.412	2.839	14.770	3.185	-	2.651	1.673	3.815	3.391	1.372
Other receivables	1.072.872	393.487	12.089	4.055	-	5.739	11.325	12.892	13.118	5.583
Receivables from corporate clients	**72.758.121**	**1.598.396**	**17.504**	**678**	**-**	**253.611**	**104.442**	**36.194**	**74.409**	**276.473**
Large enterprises	14.886.797	10.122	-	-	-	-	-	-	-	-
Small and middle sized enterprises	37.842.370	1.013.805	-	-	-	250.767	97.522	22.052	4.047	40.052
Micro sized enterprises and entrepreneurs	17.067.771	530.016	12.266	678	-	795	6.919	12.437	69.952	199.399
Agriculture	242.053	44.452	5.238	-	-	2.048	-	1.671	410	37.021
Public enterprises	2.719.131	-	-	-	-	-	-	35	-	-
Receivables from other customers	**4.487.368**	**312**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**99.151**
Total exposure	**131.128.631**	**9.637.957**	**301.219**	**66.683**	**-**	**544.369**	**422.178**	**190.725**	**247.995**	**704.975**
By category of receivables										
Non-problematic receivables	131.051.085	9.602.953	271.828	65.855	-	-	-	-	-	-
of which: restructured	747.772	73.810	6.599	-	-	-	-	-	-	-
Problematic receivables	77.545	35.003	29.391	828	-	544.369	422.178	190.725	247.995	704.975
of which: restructured	63.520	34.276	29.388	828	-	229.206	173.423	27.730	79.325	50.824
Total exposure	**131.128.631**	**9.637.957**	**301.219**	**66.683**	**-**	**544.369**	**422.178**	**190.725**	**247.995**	**704.975**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

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

In RSD '000

	Gross receivables value	Accumulated impairment allowance on total receivables	Gross value of problematic receivables		Accumulated impairment allowance on total receivables	% of problematic receivables	Collateral value of problematic receivables
			Total	of which: restructured receivables			
Receivables from retail clients	**77.663.311**	**1.586.780**	**1.384.660**	**517.864**	**918.549**	**1,78**	**344.329**
Housing loans	43.583.154	389.406	427.699	251.490	201.373	0,98	344.329
Consumers and cash loans	32.057.915	1.134.301	898.140	266.373	671.819	2,80	-
Transactions and credit cards	702.868	17.092	14.775	-	11.578	2,10	-
Other receivables	1.319.374	45.980	44.046	-	33.780	3,34	-
Receivables from corporate clients	**77.336.354**	**1.237.299**	**558.345**	**214.715**	**377.642**	**0,72**	**152.078**
Sector A	6.293.914	124.275	8	-	7	0,00	-
Sectors B, C and E	18.416.786	386.106	279.973	59.991	211.794	1,52	67.395
Sector D	9.908.261	150.536	-	-	-	-	-
Sector F	11.746.633	72.662	6.960	68	6.534	0,06	68
Sector G	11.179.581	236.567	234.335	135.148	147.015	2,10	65.080
Sector H, I and J	8.139.446	86.678	16.811	-	10.039	0,21	28
Sector L, M and N	11.651.734	180.475	20.259	19.507	2.253	0,17	19.507
Receivables from other clients	**10.491.737**	**230.953**	**219.165**	**4.522**	**152.520**	**2,09**	**108.160**
Total receivables	**165.491.403**	**3.055.033**	**2.162.170**	**737.101**	**1.448.711**	**1,31**	**604.567**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

(g) Data on problematic receivables as at 31 December 2018

In RSD '000

	Gross receivables value	Accumulated impairment allowance on total receivables	Gross value of problematic receivables		Accumulated impairment allowance on total receivables	% of problematic receivables	Collateral value of problematic receivables
			Total	of which: restructured receivables			
Receivables from retail clients	**63.538.071**	**1.561.417**	**1.407.069**	**499.895**	**810.941**	**2,21**	**411.675**
Housing loans	35.519.704	708.416	730.266	275.681	375.028	2,06	411.183
Consumers and cash loans	25.762.098	784.474	613.057	220.280	393.240	2,38	492
Transactions and credit cards	725.107	15.765	13.214	-	8.982	1,82	-
Other receivables	1.531.162	52.762	50.532	3.934	33.691	3,30	-
Receivables from corporate clients	**70.249.478**	**1.319.365**	**684.969**	**184.035**	**504.635**	**0,98**	**332.853**
Sector A	5.804.316	85.503	46.276	35.639	26.763	0,80	46.268
Sectors B, C and E	15.220.370	410.804	275.286	72.262	208.520	1,81	153.471
Sector D	8.636.316	145.703	-	-	-	-	-
Sector F	12.717.164	99.737	18.169	11.260	7.736	0,14	11.260
Sector G	12.399.231	348.895	323.052	60.354	249.703	2,61	108.320
Sector H, I and J	7.285.901	79.373	17.624	-	11.888	0,24	9.013
Sector L, M and N	8.186.180	149.350	4.563	4.521	26	0,06	4.521
Receivables from other clients	**9.457.183**	**270.151**	**160.971**	**4.591**	**128.347**	**1,70**	**34.498**
Total receivables	**143.244.731**	**3.150.933**	**2.253.009**	**688.521**	**1.443.923**	**1,57**	**779.025**

* Sector A – Electricity, gas, steam and air conditioning
Sectors B, C and E - Construction
Sector D – Agriculture, forestry, fishing
Sector F - Mining, processing industry, water supply, waste water management and similar activities
Sector G – Retail and wholesale, repair of motor vehicles and motor bikes
Sectors H, I and J – Traffic and storage, accommodation and food services, information and communication
Sectors L, M and N – Real estate business, professional, scientific and technical activities, administrative and support service activities, arts

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

(a) Data on changes of problematic receivables in 2019:

In RSD '000

	Gross value at beginning of year	New problematic receivables	Reduction of problematic receivables				Other changes	Gross value at year end	Net value at year end
			Total	of which: collected	of which: transferred to non-problematic category	of which: write-off			
Receivables from retail clients	1.407.069	810293	918.534	363.238	442.095	113.201	85.831	1.384.659	466.110
Receivables from corporate and other clients	845.940	405.226	572.961	354.786	4.796	213.379	99.306	777.511	247.349
Total receivables	**2.253.009**	**1.215.519**	**1.491.495**	**718.024**	**446.891**	**326.580**	**185.137**	**2.162.170**	**713.459**

Data on changes of problematic receivables in 2018:

In RSD '000

	Gross value at beginning of year	New problematic receivables	Reduction of problematic receivables				Other changes	Gross value at year end	Net value at year end
			Total	of which: collected	of which: transferred to non-problematic category	of which: write-off			
Receivables from retail clients	1.519.460	751.397	916.352	343.259	194.314	378.779	52.564	1.407.069	596.128
Receivables from corporate and other clients	2.084.864	433.393	792.368	414.786	9.909	367.673	(879.949)	845.940	212.957
Total receivables	**3.604.324**	**1.184.790**	**1.708.720**	**758.045**	**204.223**	**746.452**	**(827.385)**	**2.253.009**	**809.086**

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Collateral and other means of protection against credit risk

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

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

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

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

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

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

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

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

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

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Basic types of credit protection instruments

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

At the moment, the Bank 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 banks guarantee and international banks for developmet guarantees.

In its portfolio of acceptable means of collateral bank 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 favourable credit risk weight, instead of recognizing the effects of credit risk mitigation techniques. Bank 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.

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

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

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)9
Data on the type and value [10] of collateral and guarantees by sector providers and categories of receivables as at 31 December 2019:

In RSD '000

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

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

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Data on the type and value [11] of collateral and guarantees by sector providers and categories of receivables as at 31 December 2018:

In RSD '000

	Means of collateral up to the receivables amount (as in KA4)			
	Deposits	**Residential real estate**	**Other real estate**	**Guarantees issued by the Government**
Receivables from retail clients	**36.299**	**29.153.427**	**232.835**	**-**
Household loans	9.528	29.096.641	166.179	-
Consumer and cash loans	25.974	31.196	18.488	-
Transactions and credit cards	796	-	-	-
Other receivables	-	25.590	48.168	-
Receivables from corporate clients	**2.145.490**	**620.412**	**15.120.891**	**473.424**
Large enterprises	-	-	4.412.124	-
Small and middle sized enterprises	1.549.212	320.516	8.079.022	-
Micro sized enterprises and entrepreneurs	596.278	291.554	2.521.325	-
Agriculture	-	8.343	108.419	-
Public enterprises	-	-	-	473.424
Receivables from other clients	**44.788**	**25.401**	**335.903**	**-**
Total exposure	**2.226.577**	**29.799.241**	**15.689.629**	**473.424**
Per category of receivables				
Non-problematic receivables	2.226.577	29.377.787	15.332.057	473.424
of which: restructured	-	131.917	4.129	-
Problematic receivables	-	421.453	357.572	-
Of which: restructured	-	135.694	117.355	-
Total receivables	**2.226.577**	**29.799.241**	**15.689.629**	**473.424**

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

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

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

In RSD '000

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

During 2018, the Bank had acquired following means of collateral through collection of receivables:

In RSD '000

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

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

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

As strategies for management of assets collected through collection of receivables, the Bank 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.

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

LTV ratio

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

In 'RSD 000

Value of LTV ratio*	Value of receivables secured by mortgage as at 31 December 2019	Value of receivables secured by mortgage as at 31 December 2018
Below 50%	7.799.915	8.644.820
50% to 70%	11.116.346	8.665.114
70% to 90*	22.403.317	18.080.378
90% to 100%	932.626	975.676
100% to 120%	2.025.458	1.387.649
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 ratio	**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 receivables is secured.

Evaluation of impairment of financial assets

In accordance with IFRS 9, the Bank 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 Bank regularly evaluates the need and establishes impairment allowances due to credit losses in order to cover the expected economic losses from financial assets.

The Bank 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 Bank 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 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.

NOTES TO SEPARATE FINANCIAL STATEMENTS
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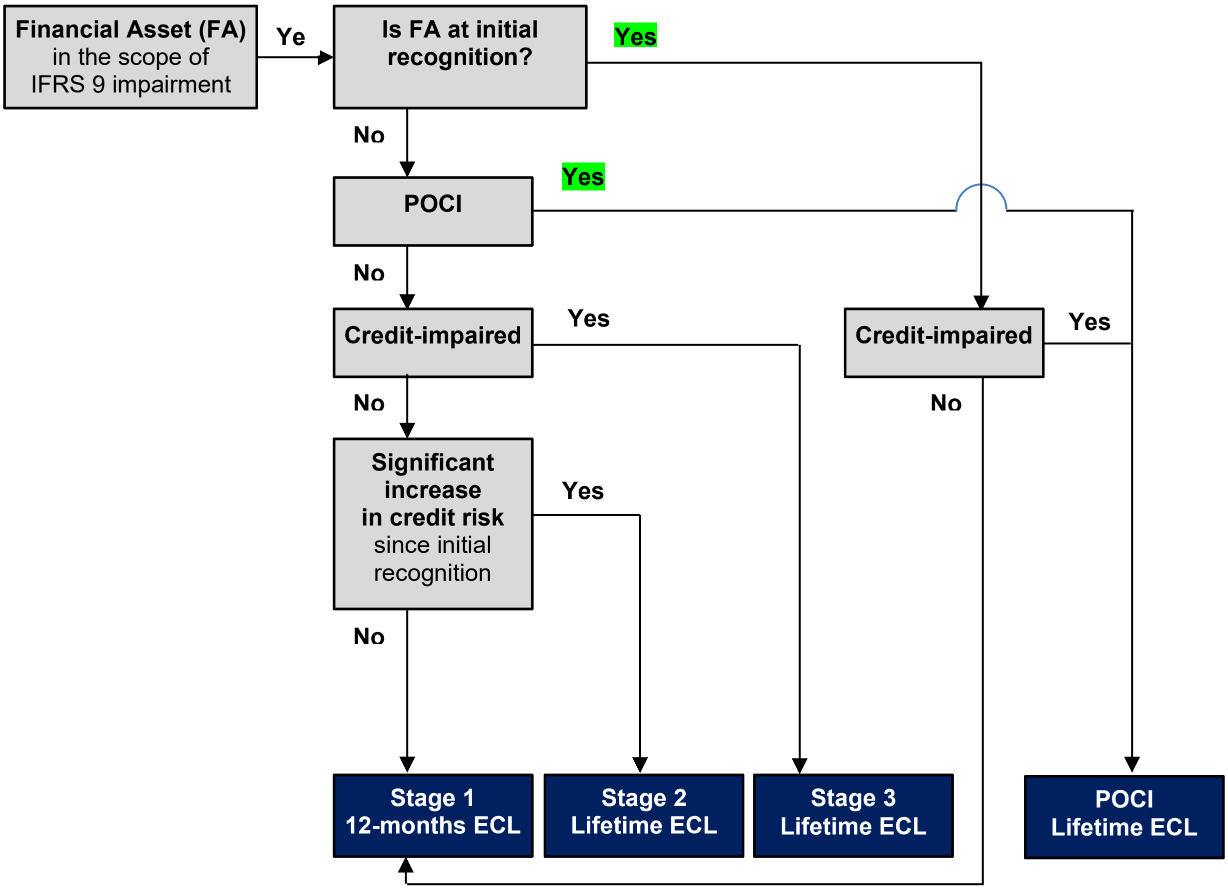
37. RISK MANAGEMENT (continued)

37.2 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 Bank in accordance with the contract and the cash flows that the Bank 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 Bank expects to pay in full but later than the maturity of the contract.

The process of impairment of reserves due to credit losses:



37. RISK MANAGEMENT (continued)

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

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

Stage 2

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

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

Stage 3

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

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

POCI assets

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

The Bank 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 Bank defines more than 30 days past due with applied materiality threshold as a backstop indicator that lifetime expected credit losses should be recognised [IFRS 9 5.5.11., B5.5.19];
- **Forbearance** – Both performing and non- performing forbearance status are considered to be an indicator of significant increase in credit risk;
- **Transfer of the client to workout department** (workout department) - The transfer to workout department is considered as significant increase in credit risk since initial recognition;
- **Fraud** – In case 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.

37. RISK MANAGEMENT (continued)

37.2 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** - 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 May 2015) and maturity is at the end of October 2020 (T = 31 October 2020) then the remaining lifetime of the financial asset till maturity in years is 5.4, then M = 6;
3) t represents the year since reporting date;
4) GCA_t is the estimate of the gross carrying amount in the t-the year since reporting date;

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

It is calculated as:

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

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

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

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

37. RISK MANAGEMENT (continued)

37.2 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 Bank (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:

$$\mathrm{ECL}_{\mathrm{LT,s}} = \max(0; \mathrm{GCA}_{t_0} - \sum_{j=t_0}^{\infty} \frac{\mathrm{CF}_j}{(1+\mathrm{EIR})^{(j-t_0)/365}})$$

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.

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

$$\mathrm{ECL}_{\mathrm{LT}} = p_1 \cdot \mathrm{ECL}_{\mathrm{LT,1}} + p_2 \cdot \mathrm{ECL}_{\mathrm{LT,2}} + p_3 \cdot \mathrm{ECL}_{\mathrm{LT,3}}$$

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.

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

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";

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.).

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

- LGD – Loss Given Default

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

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

- CCF - Credit Conversion Factor

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

The table below contains information about modified receivables:

In RSD ’000

	Net book value of receivables prior to modification	**The effect of modification recorded through the profit and loss account**
Loans and receivables from banks and other financial organizations		
Insurance companies	82.686	0
Agriculture and food industry	631.331	2.378
Entrepreneurs	8.831	1.245
Manufacturing industry	566.785	7.159
Production and supply of electricity	114.528	(17.184)
Retail	1.482.605	9.267
Commerce	1.362.646	(746)
Services and tourism	100.324	529
Construction	635.228	(49)
Non-profit institutions	879.107	54
Balance at 31 December	**5.864.072**	**2.654**

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

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Data on changes of impaired receivables in 2019:

In RSD ’000

	Gross value at beginning of period	Receivables impaired during year		Receivables which have ceased to be impaired during year		Other changes	Gross value at period end	Net value at period end
		Total	of which: impaired individually	Total	From which: impaired individually			
Receivables from retail clients	**1.265.961**	**617.183**	**81.294**	**287.640**	**125.494**	**(268.132)**	**1.327.372**	**412.688**
Household loans	641.512	106.246	76.073	144.897	122.939	(197.447)	405.414	205.087
Consumer and cash loans	562.889	475.463	5.088	127.648	2.432	(46.203)	864.500	195.477
Transactions and credit cards	12.902	8.345	20	3.980	38	(2.746)	14.521	2.949
Other receivables	48.658	27.129	113	11.115	84	(21.736)	42.937	9.175
Receivables from corporate clients	**745.129**	**280.669**	**244.243**	**1.988**	**248**	**(392.177)**	**631.633**	**201.949**
Large enterprises	-	-	-	-	-	-	-	-
Small and middle sized enterprises	414.441	212.109	207.936	-	-	(165.506)	461.044	141.745
Micro sized enterprises and entrepreneurs	289.502	53.610	28.935	1.374	248	(218.017)	123.721	47.357
Agriculture	41.151	14.951	7.372	615	-	(8.619)	46.868	12.847
Public enterprises	35	-	-	-	-	(35)	-	-
Receivables from other customers	**99.152**	**50.751**	**47.879**	**-**	**-**	**(4.025)**	**145.878**	**45.400**
Total receivables	**2.110.242**	**948.603**	**373.416**	**289.628**	**125.742**	**(664.335)**	**2.104.882**	**660.037**

37. RISK MANAGEMENT (continued)

3.2 Credit Risk (continued)

Data on changes of impaired receivables in 2018:

In RSD ’000

	Gross value at beginning of period	Receivables impaired during year		Receivables which have ceased to be impaired during year		Other changes	Gross value at period end	Net value at period end
		Total	of which: impaired individually	Total	From which: impaired individually			
Receivables from retail clients	**1.365.392**	**572.985**	**68.632**	**215.222**	**76.720**	**(457.194)**	**1.265.961**	**477.112**
Household 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
Transactions and credit cards	19.890	11.294	86	5.561	-	(12.721)	12.902	3.938
Other receivables	101.442	39.556	83	18.631	5.054	(73.708)	48.658	15.095
Receivables from corporate clients	**1.481.793**	**314.566**	**282.519**	**76.931**	**76.516**	**(974.300)**	**745.129**	**199.978**
Large enterprises	416.685	-	-	48.378	48.378	(368.307)	-	-
Small and middle sized enterprises	676.790	271.256	266.545	11.064	11.064	(522.541)	414.441	88.863
Micro sized enterprises and entrepreneurs	330.450	41.347	15.974	17.079	17.074	(65.216)	289.502	97.557
Agriculture	57.867	1.963	-	410	-	(18.270)	41.151	13.558
Public enterprises	-	-	-	-	-	35	35	-
Receivables from other customers	**603.071**	-	-	-	-	**(503.919)**	**99.152**	**11.324**
Total receivables	**3.450.256**	**887.551**	**351.151**	**292.153**	**153.236**	**(1.935.412)**	**2.110.242**	**688.414**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

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

In RSD '000

	Accumulated allowance for impairment at beginning of year	Allowance for impairment recognized during period	Reversal of allowance for impairment during the period	Other changes	Accumulated allowance for impairment at period end
Receivables from retail clients	**1.561.417**	**2.687.518**	**2.296.719**	**(365.437)**	**1.586.779**
Household loans	708.416	695.769	668.224	(346.556)	389.405
Consumer and cash loans	784.474	1.928.223	1.576.732	(1.663)	1.134.301
Transactions and credit cards	15.765	33.556	32.494	265	17.092
Other receivables	52.762	29.970	19.269	(17.483)	45.980
Receivables from corporate clients	**1.484.710**	**1.842.217**	**1.802.265**	**(179.556)**	**1.345.106**
Large enterprises	74.602	193.768	183.597	19.488	104.261
Small and middle sized enterprises	660.775	955.338	971.843	145.833	790.103
Micro sized enterprises and entrepreneurs	615.795	635.299	584.875	(269.009)	397.211
Agriculture	45.487	49.407	47.783	(801)	46.309
Public enterprises	88.051	8.404	14.166	(75.067)	7.222
Receivables from other customers	**104.806**	**153.411**	**150.693**	**15.624**	**123.147**
Total exposure	**3.150.933**	**4.683.145**	**4.249.676**	**(529.369)**	**3.055.033**
Per category of receivable:					
Non-problematic receivables:	1.707.010	3.317.446	3.292.115	(126.019)	1.606.322
Of which: restructured	134.831	150.290	195.847	28.210	117.483
Problematic receivables:	1.443.923	1.365.699	957.562	(403.349)	1.448.711
Of which: restructured	367.444	315.151	196.295	(79.584)	406.715
Total exposure	**3.150.933**	**4.683.145**	**4.249.676**	**(529.369)**	**3.055.033**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Data on changes of allowance for impairment of receivables in 2018:

In RSD '000

	Accumulated allowance for impairment at beginning of year	Transition effects	Accumulated allowance for impairment at beginning of year	Allowance for impairment recognized during period	Reversal of allowance for impairment during the period	Other changes	Accumulated allowance for impairment at period end
Receivables from retail clients	**1.575.591**	**127.777**	**1.703.368**	**2.754.945**	**2.567.668**	**(329.228)**	**1.561.417**
Household loans	661.516	51.724	713.240	808.584	791.343	(22.064)	708.416
Consumer and cash loans	772.357	69.087	841.444	1.823.772	1.654.238	(226.503)	784.474
Transactions and credit cards	29.018	930	29.948	50.324	54.347	(10.160)	15.765
Other receivables	112.701	6.037	118.737	72.265	67.739	(70.501)	52.762
Receivables from corporate clients	**1.795.620**	**(595.196)**	**1.200.424**	**2.596.005**	**2.381.902**	**70.183**	**1.484.710**
Large enterprises	416.013	(313.218)	102.794	223.262	388.602	137.147	74.602
Small and middle sized enterprises	897.300	(278.328)	618.972	1.463.520	1.304.922	(116.795)	660.775
Micro sized enterprises and entrepreneurs	394.882	(50.782)	344.100	817.633	596.329	50.391	615.795
Agriculture	52.642	1.971	54.613	63.666	54.722	(18.069)	45.487
Public enterprises	34.783	45.161	79.945	27.925	37.328	17.509	88.051
Receivables from other customers	**567.633**	**(238.949)**	**328.684**	**63.696**	**227.245**	**(60.329)**	**104.806**
Total exposure	**3.938.845**	**(706.369)**	**3.232.476**	**5.414.647**	**5.176.815**	**(319.374)**	**3.150.933**
Per category of receivable:							
Non-problematic receivables:	1.528.115	215.980	1.744.095	3.674.670	3.698.243	(13.512)	1.707.010
Of which: restructured	26.501	7.307	33.808	134.210	28.128	(5.058)	134.831
Problematic receivables:	2.410.729	(922.349)	1.488.381	1.739.977	1.478.573	(305.861)	1.443.923
Of which: restructured	1.194.383	(879.729)	314.655	412.009	205.915	(153.304)	367.444
Total exposure	**3.938.845**	**(706.369)**	**3.232.476**	**5.414.647**	**5.176.815**	**(319.374)**	**3.150.933**

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

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

In RSD '000

	Interest income	Interest collected	Interest income on impaired receivables	Collected interest on impaired receivables
Receivables from retail clients	**4.142.176**	**4.100.722**	**128.810**	**94.516**
Household loans	1.277.671	1.280.476	29.523	33.005
Consumer and cash loans	2.739.046	2.697.447	92.259	58.015
Transactions and credit cards	111.420	111.139	2.845	1.774
Other receivables	14.039	11.659	4.183	1.723
Receivables from corporate clients	**2.714.995**	**2.381.289**	**57.966**	**23.714**
Large enterprises	457.924	425.527	-	-
Small and middle sized enterprises	1.296.173	1.205.551	41.179	18.645
Micro sized enterprises and entrepreneurs	860.880	653.442	14.698	4.132
Agriculture	22.028	20.986	2.055	937
Public enterprises	77.989	75.783	34	-
Receivables from other customers	**1.881.986**	**1.645.593**	**3.551**	**408**
Total receivables	**8.739.156**	**8.127.604**	**190.327**	**118.638**
Per category of receivable:				
Non-problematic receivables	8.548.857	8.004.401	-	-
67.882	67.882	34.955	-	-
Problematic receivables	190.299	123.203	190.327	118.638
59.043	59.043	36.387	59.659	32.434
Total receivables	**8.739.156**	**8.127.604**	**190.327**	**118.638**

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

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

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

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Data on accrued income from interest and collected interest for the year ended 31 December 2018

In RSD '000

	Interest income	Interest collected	Interest income on impaired receivables	Collected interest on impaired receivables
Receivables from retail clients	**3.470.905**	**3.408.932**	**115.660**	**73.069**
Household 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
Transactions and credit cards	121.438	121.327	3.269	2.313
Other receivables	50.603	48.349	6.510	3.439
Receivables from corporate clients	**2.569.117**	**2.007.551**	**291.905**	**40.538**
Large enterprises	452.422	286.939	141.290	13.734
Small and middle sized enterprises	1.327.685	1.146.957	126.981	22.154
Micro sized enterprises and entrepreneurs	695.484	513.304	21.283	4.090
Agriculture	19.395	15.763	2.268	560
Public enterprises	74.131	44.588	83	-
Receivables from other customers	**1.874.601**	**1.678.472**	**139.544**	**54**
Total receivables	**7.914.623**	**7.094.955**	**547.109**	**113.661**
Per category of receivable:				
Non-problematic receivables	7.358.907	6.972.116	-	-
Of which: restructured	16.750	14.801	-	-
Problematic receivables	555.716	122.839	547.109	113.661
Of which: restructured	43.574	32.777	36.472	25.170
Total receivables	**7.914.623**	**7.094.955**	**547.109**	**113.661**

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Restructured Loans

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

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

Forbearance represents restructuring caused by:

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

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

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

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

***Restructured Loans* (continued)**

Non-performing forbearance is granted in following situations:

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

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

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

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

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

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

Data on restructured loans as at 31 December 2019:

In RSD '000

	Gross value of total receivables	Accumulated allowance for impairment	Gross restructured loans		Accumulated allowance for impairment for rescheduled receivables	% of restructured receivables	Value of collateral of restructured loans
			Total	from which: problematic receivables			
Receivables from retail clients	**77.663.311**	**1.586.779**	**899.411**	**517.864**	**311.722**	**1,16**	**346.753**
Housing loans	43.583.154	389.405	427.769	251.490	115.511	0,98	346.753
Consumers and cash loans	32.057.915	1.134.301	471.642	266.373	196.211	1,47	-
Transactions and credit cards	702.868	17.092	-	-	-	-	-
Other receivables	1.319.374	45.980	-	-	-	0,00	-
Receivables from corporate clients *	**77.336.354**	**1.237.300**	**1.085.352**	**214.715**	**207.277**	**1,40**	**421.653**
Sector A	6.293.914	124.275	206.906	-	21.934	3,29	197.528
Sectors B, C and E	18.416.786	386.106	565.226	59.991	82.506	3,07	58.058
Sector D	9.908.261	150.536	-	-	-	-	-
Sector F	11.746.633	72.662	68	68	-	0,00	68
Sector G	11.179.581	236.567	142.269	135.148	73.764	1,27	7.121
Sector H, I and J	8.139.446	86.678	151.375	-	27.271	1,86	139.371
Sector L, M and N	11.651.734	180.475	19.507	19.507	1.801	0,17	19.507
Receivables from other clients	**10.491.737**	**230.953**	**19.579**	**4.522**	**5.201**	**0,19**	**1.339**
Total receivables	**165.491.403**	**3.055.033**	**2.004.342**	**737.101**	**524.199**	**1,21**	**769.745**

NOTES TO SEPARATE FINANCIAL STATEMENTS
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37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

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

Data on restructured loans as at 31 December 2018:

In RSD '000

	Gross value of total receivables	Accumulated allowance for impairment	Gross restructured loans		Accumulated allowance for impairment for rescheduled receivables	% of restructured receivables	Value of collateral of restructured loans
			Total	from which: problematic receivables			
Receivables from retail clients	**63.538.071**	**1.561.417**	**813.431**	**499.895**	**255.885**	**1,28**	**243.998**
Housing loans	35.519.704	708.416	419.107	275.681	123.422	1,18	240.473
Consumers and cash loans	25.762.098	784.474	387.735	220.280	130.566	1,51	3.525
Transactions and credit cards	725.107	15.765	-	-	-	-	-
Other receivables	1.531.162	52.762	6.589	3.934	1.897	0,43	-
Receivables from corporate clients *	**70.249.478**	**1.319.365**	**694.730**	**184.035**	**242.520**	**0,99**	**145.097**
Sector A	5.804.316	85.503	58.976	35.639	30.818	1,02	58.976
Sectors B, C and E	15.220.370	410.804	551.525	72.262	150.750	3,62	70.340
Sector D	8.636.316	145.703	-	-	-	-	-
Sector F	12.717.164	99.737	11.260	11.260	1.287	0,09	11.260
Sector G	12.399.231	348.895	60.583	60.354	59.328	0,49	-
Sector H, I and J	7.285.901	79.373	-	-	-	0,00	-
Sector L, M and N	8.186.180	149.350	12.386	4.521	337	0,15	4.521
Receivables from other clients	**9.457.183**	**270.151**	**8.541**	**4.591**	**3.871**	**0,09**	**-**
Total receivables	**143.244.731**	**3.150.933**	**1.516.702**	**688.521**	**502.275**	**1,06**	**389.095**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

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

In RSD '000

	Gross value at the beginning of period	Restructured receivables during period	The receivables during the period ceased to be considered as restructured	Other changes	Gross value at year end	Net value at year end
Receivables from retail clients	**813.432**	**380.702**	**198.995**	**(95.727)**	**899.411**	**589.047**
Household loans	419.107	153.949	114.865	(30.422)	427.769	312.258
Consumer and cash loans	387.735	226.753	81.469	(61.378)	471.642	276.788
Other receivables	6.589	-	2.662	(3.927)	-	-
Receivables from corporate clients	**703.271**	**470.974**	**10.616**	**(58.697)**	**1.104.931**	**891.097**
Large enterprises	-	-	-	-	-	-
Small and middle sized enterprises	128.967	273.203	7.865	(73.015)	321.290	210.564
Micro sized enterprises and entrepreneurs	566.613	195.947	230	14.698	777.028	676.923
Agriculture	7.690	1.823	2.521	(379)	6.613	3.609
Public enterprises	-	-	-	-	-	-
Other clients	**-**	**-**	**-**	**-**	**-**	**-**
Total receivables	**1.516.702**	**851.676**	**209.611**	**(154.424)**	**2.004.342**	**1.480.143**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Data on changes on restructured loans as at 31 December 2018:

In RSD '000

	Gross value at the beginning of period	Restructured receivables during period	The receivables during the period ceased to be considered as restructured	Other changes	Gross value at year end	Net value at year end
Receivables from retail clients	**742.951**	**395.125**	**203.457**	**(121.187)**	**813.431**	**557.547**
Household 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 enterprises	416.085	-	416.085	-	-	-
Small and middle sized enterprises	454.198	13.812	162.634	(176.408)	128.967	28.938
Micro sized enterprises and entrepreneurs	188.832	480.343	17.293	(85.269)	566.613	424.051
Agriculture	8.398	5.053	4.932	(828)	7.690	3.891
Public enterprises	-	-	-	-	-	-
Other clients	**295.341**	**-**	**295.341**	**-**	**-**	**-**
Total receivables	**2.105.805**	**894.333**	**1.099.743**	**(383.693)**	**1.516.702**	**1.014.427**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

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

In RSD '000

	Delay capitalisation	Grace period	Extension of maturity date	Change of interest rate	Partial write off	Other measures	Total
Receivables from retail clients	**540.612**	**16.503**	**657.120**	**839.483**	**47.573**	**52.780**	**899.411**
Household loans	268.428	12.290	187.977	370.952	46.129	52.162	427.769
Consumer and cash loans	272.184	4.213	469.143	468.531	1.444	618	471.642
Other receivables	-	-	-	-	-	-	-
Receivables from corporate clients	**784.476**	**859.641**	**1.079.466**	**105.469**	**7.134**	**1.890**	**1.104.931**
Small and middle sized enterprises	198.022	159.748	321.290	35.686	7.134	-	321.290
Micro sized enterprises and entrepreneurs	581.673	699.893	753.499	64.126	-	-	777.028
Agriculture	4.781	-	4.677	5.657	-	1.890	6.613
Total receivables	**1.325.088**	**876.143**	**1.736.586**	**944.952**	**54.708**	**54.669**	**2.004.342**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Data on structure of restructured receivables according to measures of reschedule during 2018:

In RSD '000

	Delay capitalisation	Grace period	Extension of maturity date	Change of interest rate	Partial write off	Other measures	Total
Receivables from retail clients	**555.768**	**16.405**	**609.978**	**745.356**	**74.342**	**706**	**813.432**
Household 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 middle sized enterprises	66.301	74.113	128.967	71.312	15.774	-	128.967
Micro sized enterprises and entrepreneurs	565.533	489.097	543.046	58.471	-	-	566.613
Agriculture	5.323	490	5.647	7.200	-	2.058	7.690
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.

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Loan concentration risk

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

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

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

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

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

In addition, the Bank for monitoring an internal limit retained indicator that was previously defined by the regulations, and by whom exposures to related parties may not be higher than 20% of its capital.

Policy for determining exposure limits - the framework for customers / groups of customers, the Bank has defined monitoring concentrations of credit risk for corporate customers, financial institutions and the state at the following levels: maximum limit of exposure, the maximum exposure limit based on the rating and operating maximum limit of exposure.

In addition, in accordance with the provisions of the Decision on Concentration Risk Management Based on the Bank's Exposure to Certain Product Types (“Official Gazette of the RS”, No. 103/2018), on 31 December 2019, the Bank is fully compliant with the regulatory requirements prescribed by that decision.

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Data on concentration per sector and geographical region of exposure at during 2019:

In RSD '000

	Belgrade region		Vojvodina		Sumadija and Western Serbia		South and East Serbia		Kosovo and Metohija		Foreign countries	
	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables
Receivables from retail clients	**30.082.216**	**368.548**	**30.080.422**	**623.442**	**9.265.147**	**268.714**	**6.181.082**	**118.655**	**664.365**	**5.285**	**5.420**	**16**
Household loans	21.705.411	101.401	15.474.514	194.038	3.742.728	93.174	2.134.252	39.086	93.184	-	5.366	-
Consumers and cash loans	7.978.483	254.545	13.574.916	401.419	5.196.412	162.221	3.865.004	74.851	544.961	5.102	-	-
Transactions and credit cards	133.249	2.638	407.856	7.059	96.508	3.603	46.568	1.402	3.913	73	-	-
Other receivables	265.074	9.963	623.136	20.926	229.499	9.716	135.258	3.316	22.308	110	53	16
Receivables from corporate clients *	**37.417.027**	**174.845**	**27.233.834**	**81.027**	**7.609.152**	**262.983**	**4.514.488**	**39.490**	**3.509**	**0**	**0**	**0**
Sector A	406.000	-	5.479.134	5	362.922	2	45.850	-	-	-	-	-
Sectors B, C and E	3.336.064	8.642	8.990.665	55.417	3.362.236	210.884	2.447.848	5.030	-	-	-	-
Sector D	5.635.118	-	1.297.581	-	2.322.193	-	653.369	-	-	-	-	-
Sector F	8.351.312	6.486	2.990.369	405	131.695	-	266.298	68	-	-	-	-
Sector G	4.648.881	130.102	4.698.483	22.501	890.738	47.339	705.671	34.392	1.474	-	-	-
Sector H, I and J	6.254.604	10.108	1.539.832	1.946	214.679	4.757	111.484	-	2.035	-	-	-
Sector L, M and N	8.785.048	19.507	2.237.769	752	324.689	-	283.969	-	-	-	-	-
Receivables from other clients	**5.936.575**	**10.559**	**1.873.788**	**173.993**	**554.662**	**11.378**	**321.737**	**23.235**	**-**	**-**	**1.585.810**	**-**
Total exposure	**73.435.818**	**553.952**	**59.188.043**	**878.462**	**17.428.961**	**543.075**	**11.017.307**	**181.380**	**667.874**	**5.285**	**1.591.229**	**16**

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37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Data on concentration per sector and geographical region of exposure during 2018:

In RSD '000

	Belgrade region		Vojvodina		Sumadija and Western Serbia		South and East Serbia		Kosovo and Metohija		Foreign countries	
	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables
Receivables from retail clients	**24.625.959**	**365.289**	**24.364.097**	**629.006**	**7.804.462**	**289.593**	**4.723.259**	**121.565**	**607.413**	**1.595**	**5.812**	**21**
Household 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	-
Consumers 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	-	-
Transactions and credit cards	138.638	2.657	419.509	6.666	100.812	2.661	48.333	1.187	4.601	41	-	-
Other receivables	311.147	12.765	736.878	23.205	268.805	10.950	140.472	3.531	23.268	60	60	21
Receivables from corporate clients *	**33.342.020**	**99.528**	**25.161.948**	**299.154**	**6.676.498**	**269.348**	**4.381.774**	**16.939**	**2.269**	**-**	**-**	**-**
Sector A	470.575	-	5.055.444	35.645	175.430	2	56.592	10.629	-	-	-	-
Sectors B, C and E	3.157.734	17.909	6.263.079	56.446	2.895.858	200.932	2.628.412	-	-	-	-	-
Sector D	5.698.595	-	244.235	-	2.044.539	-	648.947	-	-	-	-	-
Sector F	7.981.417	6.198	4.252.743	5.661	340.370	-	124.465	6.311	-	-	-	-
Sector G	4.772.514	67.393	5.612.401	196.676	1.026.814	58.983	662.180	-	2.269	-	-	-
Sector H, I and J	5.416.041	7.989	1.595.996	204	138.485	9.431	117.755	-	-	-	-	-
Sector L, M and N	5.845.143	39	2.138.050	4.524	55.001	-	143.423	-	-	-	-	-
Receivables from other clients	**4.722.125**	**83.367**	**3.144.141**	**50.707**	**422.642**	**23.835**	**185.471**	**3.062**	**-**	**-**	**821.834**	**-**
Total exposure	**62.690.104**	**548.183**	**52.670.185**	**978.867**	**14.903.602**	**582.775**	**9.290.503**	**141.567**	**609.683**	**1.595**	**827.645**	**21**

37. RISK MANAGEMENT (continued)

37.2 Credit Risk (continued)

Credit-related Risks

Credit risk includes residual risk, dilution risk, settlement / delivery risk, counterparty risk and credit and foreign exchange risk. Bank risks related to credit risk beyond the same control processes and policies used for credit risk.

Counterparty Risk

The Bank operates with derivative financial instruments, which leads to its exposure to counterparty risk, the risk of counterparty non-fulfilment of obligations in the transaction before the final alignment of cash flows from the same transaction.

Derivatives' credit risk is limited by determining the maximum far value for each derivative financial instrument, having in mind their type, maturity and credit quality of clients.

37.3. Liquidity Risk and Financial Assets 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 Bank would not be able to discharge its liabilities when they fall due. To reduce or to limit this risk, management has arranged diversified funding sources, manages assets considering their liquidity, and monitors Bank's future cash flows and liquidity on a daily basis.

This involves estimating expected RSD and foreign currency cash flows on daily basis and availability of highly liquid buffers that may be used to ensure additional funding, if required. The Bank 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 Bank in accordance with agreed terms.

Liquidity risk management in the Bank is defined by policies, procedures and rulebooks approved by the Management Board and Executive Board, which are in compliance with the risk management strategy at the level of Erste Group, as well as with all relevant laws and regulations of the Republic of Serbia. Policies, procedures and regulations are reviewed when necessary or at least once a year.

Liquidity risk management process is organized through the Asset and Liability Management Committee ("ALCO"), Market and Liquidity Risk Management Department and Asset and Liability Management Unit.

ALCO and Operating Liquidity Management Committee ("OLC") are responsible for liquidity risk monitoring, management and recommending to the Executive Board measures and activities for liquidity maintenance, maturity matching, planning of funding reserves and other measures relevant to the financial stability of the Bank. ALM Unit and Market and Liquidity Risk Management Department monitor the liquidity ratio on a daily basis, so that it is maintained within the limits prescribed by NBS and the Bank's Liquidity Risk Management Policy and Contingency (Liquidity Crisis) Financing Plan ("LCFP"). In addition to monitoring this ratio, the liquidity risk management policy and LCFP define other ratios and their limits and persons/units in charge of monitoring of and reporting on those ratios. A brief summary of the liquidity ratios is presented every two-week at OLC meetings, and more frequently in case limits are exceeded or liquidity status is changed.

The Bank maintains a portfolio consisted of highly liquid securities and diversified assets that can be easily converted into cash in the event of unforeseen and negative oscillations in cash flows of the Bank. In addition, the Bank maintains the required level of obligatory dinar and foreign currency reserves, in accordance with the requirements of the National Bank of Serbia.

Liquidity level is expressed using the liquidity ration that represents the sum of first-class assets(cash balances, gold and other precious metals, funds held on accounts with other banks with assigned credit rating of a selected credit rating agency corresponding to credit rating quality 3 or higher, as determined in accordance with the Decision on Capital Adequacy, (investment rank), deposit held with NBS, cheques and other monetary receivables in settlement, irrevocable lines of credit approved to the Bank, shares and debt instruments quoted on the stock exchange, 90% of the fair value of securities denominated in RSD with no currency clause index, issued by the Republic of Serbia with minimum maturities of 3 months, i.e., 90 days, classified by the Bank as trading securities or securities available for sale) and second-class assets (other receivables maturing within a month) relative to the sum of liabilities per demand deposits or those without specified maturity (40% demand deposits due to banks, 20% demand deposits due to other depositors, 10% savings deposits, 5% guarantees and other sureties and 20% of undrawn irrevocable loan facilities) and liabilities with fixed contractual maturities within a month.

37. RISK MANAGEMENT (continued)

37.3. Liquidity Risk and Financial Assets Management (continued)

In addition to broader liquidity indicators, the Bank monitors and narrows the liquidity ratio.

The narrow liquidity ratio is the ratio of liquid assets of the First-Tier Bank, on the one hand, and collects the bank's obligation to see or without the agreed maturity and obligations of the bank with the agreed maturity within the next month from the date of calculation of the indicator, on the other.

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

	31 December 2019	31 December 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

	31 December 2019	31 December 2018
Average during period	1,21	1,36
Highest	1,55	1,77
Lowest	0,96	1,09
On day	1,38	1,28

As at 30 June 2017, on the basis of the Decision on the Bank's liquidity management, adopted by the National Bank of Serbia, the banks are obliged to calculate and report on liquidity coverage ratio (hereinafter LCA) on a monthly basis. LCA 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 Bank is obliged to keep LCA, in all currencies, at a level not lower than 100%.

A set of policies and other internal acts adopted by the Managing and Executive Boards describe in more detail the issues of jurisdiction, methodology of calculation, limits and escalation. In addition to the defined regulatory limit, the Bank has established and monitors the internal limits for LCA.

The Department for Market Risk Management and Liquidity Risk within the Strategic Risk Management Department is responsible for calculating the indicators. As at 31 December 2019 and 31 December 2018 Bank had Indicator of liquid assets coverage ratio above prescribed limit.

	31 December 2019	31 December 2018
Indicator of liquid assets coverage	192,57%	175,30%

In addition to calculating regulatory and internal indicators, the Bank 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 Bank 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.

As an additional way of managing liquidity risk, the Bank produces a monthly report on the liquidity gap, in which positions are allocated either according to the agreed maturity or with assumptions for the allocation of positions that have no agreed maturity. The Market and Liquidity Risk Management Department is responsible for regular monitoring and reporting. The Bank'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.

37. RISK MANAGEMENT (continued)

37.3. Liquidity Risk and Financial Assets Management (continued)

The bank, 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 Bank has defined the internal limits for the NSFR indicator.

The amount of internal limits is reviewed annually.

The Bank's Executive Board is informed of liquidity risk exposures through a monthly report on liquidity risk indicators.

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37. RISK MANAGEMENT (continued)

37.3. Liquidity Risk and Financial Assets Management

Maturity Analysis of the Bank's Financial Liabilities

The following table shows the Bank's most significant financial liabilities by maturity, as at 31 December 2019 and 31 December 2018 and is based on contractual undiscounted repayments.

The Bank expects that most of its depositors will not demand payment of deposits at the contractually defined maturity dates.

Analysis of financial liabilities by maturity

In RSD '000

	Within a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2019
Liabilities per borrowings, deposits and securities	13.482.152	19.774.683	58.723.247	67.659.673	38.781.214	198.420.968
Subordinated liabilities	-	120.336	357.130	827.650	3.951.083	5.256.198
Total	**13.482.152**	**19.895.018**	**59.080.377**	**68.487.322**	**42.732.296**	**203.677.166**

In RSD '000

	Within a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2018
Liabilities per borrowings, deposits and securities	24.206.650	19.532.494	41.336.021	58.475.939	29.803.446	173.354.550
Subordinated liabilities	-	154.260	337.745	1.189.948	4.123.778	5.805.731
Total	**24.206.650**	**19.686.754**	**41.673.766**	**59.665.886**	**33.927.224**	**179.160.281**

NOTES TO SEPARATE FINANCIAL STATEMENTS
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37. RISK MANAGEMENT (continued)

37.3. Liquidity Risk and Financial Assets Management

Maturity Analysis of the Bank's Financial Liabilities **(continued)**

The table below provides the Bank's guarantees, letters of credit and other irrevocable commitments per maturities:

In RSD '000

2019	Up to 14 days	From 15 days to a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2018
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**

In RSD '000

2018	Up to 14 days	From 15 days to a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 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**

37. RISK MANAGEMENT (continued)

37.3. Liquidity Risk and Financial Assets Management

***Maturity Analysis of the Bank's Financial Liabilities* (continued)**

The Bank 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"), German Development Bank ("KfW") and European Bank for Reconstruction and Development ("EBRD").

The Bank 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 Bank 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 Bank provided funds for the financing of micro, small and medium enterprises and energy efficiency / renewable energy projects in the amount of a total of EUR 20 million.

At the end of 2017, the Bank signed a new contract with KfW in the amount of 23 million euros for financing energy efficiency and renewable energy.

In mid-December 2018, the Bank 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 Bank signed a contract with the European Bank for Reconstruction and Development for the financing of micro, small and medium-sized enterprises totalingn 40 million euros.

On 3 December 2015, the Bank 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 Bank signed a new contract with Erste Group AG for the purpose of financing loans to legal entities in the total amount of EUR 65 million.

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

In July 2017, the Bank 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 45.252.182 thousand dinars (2018: 41.184.587 thousand dinars) (note 28).

NOTES TO SEPARATE FINANCIAL STATEMENTS
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37. RISK MANAGEMENT (continued)

37.3. Liquidity Risk and Financial Assets Management

***Maturity Analysis of the Bank's Financial Liabilities* (continued)**

Liquidity Gap Analysis – Financial Assets and Liabilities

In RSD '000

	Up to 14 days	15 days up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total 2019
ASSETS							
Cash and cash funds held at Central Bank	8.636.044	13.219.331		-			21.855.375
Derivative receivables	14.746				147.091	185.062	346.899
Securities	1.444.654		1.234.614	2.249.007	25.593.656	11.009.654	41.531.585
Loans and receivables due from banks and other financial institutions	1.516.125	-		17.492	73.259		1.606.876
Loans and receivables due from customers	1.305.311	218.222	2.312.250	10.375.321	38.124.008	108.494.382	160.829.494
Other assets	437.610	-	14	230.583	41.778	492.053	1.202.038
Total assets	**13.354.490**	**13.437.553**	**3.546.878**	**12.872.403**	**63.979.792**	**120.181.151**	**227.372.267**
LIABILITIES AND EQUITY							
Derivative liabilities	4.027	-	-	-	113.334	132.678	250.039
Deposits and liabilities due to banks and other financial institutions and NBS	4.426.448	129.000	4.319.420	13.042.160	19.112.171	20.237.225	61.266.424
Deposits and other liabilities to 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 liabilities	210.793	-	934	32.116	726.672	1.269.137	2.239.652
Total liabilities	**93.866.914**	**2.044.313**	**12.217.025**	**29.137.484**	**30.332.999**	**30.284.995**	**197.883.730**
Total equity	**-**	**-**	**-**	**-**	**-**	31.823.653	**31.823.653**
Total liabilities and equity	**93.866.914**	**2.044.313**	**12.217.025**	**29.137.484**	**30.332.999**	**53.916.796**	**221.515.531**
Liquidity GAP as at 31 December 2019	**(80.512.424)**	**11.393.240**	**(8.670.147)**	**(16.265.081)**	**33.646.793**	**66.264.355**	
Liquidity GAP as at 31 December 2018	**(57.841.339)**	**(5.420.370)**	**(9.065.439)**	**(2.422.587)**	**29.678.572**	**44.065.012**	

37. RISK MANAGEMENT (continued)

37.3. Liquidity Risk and Financial Assets Management

***Maturity Analysis of the Bank's Financial Liabilities* (continued)**

***Liquidity Gap Analysis – Financial Assets and Liabilities* (continued)**

The previous table presents an analysis of the maturities for the Bank's assets and liabilities on the basis of agreed payment terms. The contractual maturities of assets and liabilities are determined on the basis of the remaining period at the balance sheet date in relation to the contractual maturity. The table does not include potential liabilities and irrevocable obligations that are shown in the table above. The maturity structure of assets and liabilities as at 31 December 2018 is based on agreed discounted amounts.

The maturity mismatch is the result of a growth in the volume of demand deposits compared to the planned assets for up to 14 days. The Bank monitors maturity compliance using statistical patterns of deferred demand deposits at expected maturities.

37. RISK MANAGEMENT (continued)

37.4. 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 Bank's financial result and equity.

The Bank'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 Bank 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 Bank is defined by policies, procedures and rulebooks approved by the Management Board and Executive Board, which are in compliance with the risk management strategy at the level of Erste Group, as well as with all relevant laws and regulations of the Republic of Serbia. Policies, procedures and regulations are reviewed when necessary or at least once a year.

Market risk management process is organized through the Asset and Liability Management Committee ("ALCO"), Market and Liquidity Risk Management Department and Asset and Liability Management Unit.

Identification, measurement, analysis and reporting of market risk exposures are managed by a separate organizational unit, i.e., Market and Liquidity Risk Management Department. ALM Unit and Market Risk Management Department monitor foreign exchange ratio on a daily basis with ALM Unit reporting to ALCO on a monthly basis.

Furthermore, the Market and Liquidity Risk Management Department monitors and manages market risks through control of the set trading book limits, changes to the currently effective and definition of new limits and through assessment of the relevant risks arising from the introduction of new products and complex transactions.

There are three types of limits:
• VaR limit
• Limits of sensitivity (PVBP, CR01)
• Stop loss litmits

Value at Risk (VaR) measures the maximum expected loss of value of risk assets or portfolios during a predetermined holding period for a given confidence interval. The calculation of VaR is carried out using the historical simulation method with a one-sided confidence level of 99%, a one-day holding period and a two-year simulation period.

Exposure monitoring is done on a daily basis.

VaR in RSD '000	As at 31 December 2019	As at 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.

37. RISK MANAGEMENT (continued)

37.4. 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 Bank's Executive Board, on the proposal of the Strategic Risk, Portfolio and Capital Management Sectors and the Erste Group Market Risk Board. Exposure and compliance with limits is monitored on two levels, by the Market and Liquidity Risk Management Division and by the Group Trading Book Risk Management.

Stop loss limits have been established for the month-to-date (MtD) and year-to-date (YtD) results of the Financial Markets Sector. The difference between the maximum MtD / YtD and the current MtD / YtD shall be correlated with the limit and shall not exceed the defined limit. Stop loss limits are approved by the Bank's Executive Board at the proposal of the Strategic Risk, Portfolio and Capital Management Sector. Exposure is monitored on a daily basis.

In case of exceeding internally prescribed limits, the process of escalation and measures for returning to the limits of the limits are defined. The amount of the limit is reviewed annually.

The Bank's Executive Board is informed of market risk exposures by means of a monthly report on market risk indicators in the trading book.

37.4.1 Interest Rate Risk

Interest risk is the risk of an adverse impact on the Bank’s financial result and capital due to changes in market interest rates. The Bank 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 Bank considers RSD and EUR to be materially significant currencies.

In determining interest rates the Bank considers market interest rates and their movements to which the Bank’s interest rates are regularly adjusted. Interest rate changes result in increases or decreases in interest margins. Interest risk management has as its goal optimization of this influence, increasing the net interest revenue on one end and economic value of equity on the other.

ALCO manages maturity matching of assets and liabilities based on the Group’s guidelines, macroeconomic analyses and forecasts, forecasts of the liquidity, analyses and forecasts of interest rate market trends for different segments of assets and liabilities

The Bank 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 that measure the impact of interest rate changes on the economic value of equity, the Bank has defined indicators through which to assess the impact of interest rate changes on net interest income. It uses shocks of +/- 200 basis points (with and without floor interest rates), shocks caused by market interest rate volatility, as well as 6 scenarios prescribed by the EBA guidelines.

37. RISK MANAGEMENT (continued)

37.4. Market Risks (continued)

In order to identify the interest rate risk and to calculate indices, all positions are grouped into predefined time bases based on the remaining maturity or subsequent interest rate determination. Balance sheet positions that have no agreed maturity (mostly demand deposits) are modelled by statistical methodology.

The limits are reviewed annually.

The Bank's Executive Board is informed about interest rate risk exposures through a monthly report on market risk indicators in the banking book.

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

37. RISK MANAGEMENT (continued)

37.4. Market Risks (continued)

37.4.1 Interest Rate Risk (continued)

The following table shows the bank's exposure to the interest rate risk (Repricing Gap) as at 31 December 2019. Assets, liabilities, and currency swaps as off-balance sheet items are categorized by the earlier of interest repricing date and maturity date.

In RSD '000

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 due from banks	395.300	-	-	-	-	-	395.300
Loans due from customers	30.860.433	69.237.921	37.392.446	2.018.055	21.419.550	-	160.928.405
Other assets	-	-	-	-	-	5.765.566	5.765.566
Total balance sheet assets	**46.347.873**	**69.237.921**	**38.751.458**	**2.018.055**	**50.715.221**	**24.379.805**	**231.450.332**
FX Swaps	13.060.962	4.113.878	-	-	-	-	17.174.840
Total assets	**59.408.836**	**73.351.799**	**38.751.458**	**2.018.055**	**50.715.221**	**24.379.805**	**248.625.173**
Liabilities to financial institutions	8.886.775	38.240.429	5.490.260	281.071	8.327.585	-	61.226.121
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						3.138.065	
Equity	-	-	-	-	-	31.009.472	31.009.472
Total balance sheet liabilities and equity	**21.689.510**	**61.797.238**	**35.474.260**	**22.276.040**	**56.065.748**	**34.147.536**	**231.450.332**
FX Swaps	12.350.369	4.115.428	-	-	-	-	16.465.797
Total liabilities and equity	**34.039.879**	**65.912.666**	**35.474.260**	**22.276.040**	**56.065.748**	**34.147.536**	**247.916.129**
Net interest risk exposure as at 31 December 2019	**25.368.957**	**7.439.133**	**3.277.198**	**(20.257.985)**	**(5.350.528)**	**(9.767.732)**	**709.043**
Net interest risk exposure as at 31 December 2018	**74.317.239**	**125.249**	**(46.515.296)**	**(16.573.389)**	**(3.303.774)**	**(8.050.029)**	**-**

37. RISK MANAGEMENT (continued)

37.4. Market Risks (continued)

37.4.1 Interest Rate Risk (continued)

Interest rate risk is also monitored by sensitivity analysis - scenario analysis, i.e. by observing the effect of interest rate fluctuations on the Bank's income and expenses.

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

In RSD '000

Currency	Changes in percentage points	Income statement sensitivity 2019	Changes in percentage points	Income statement sensitivity 2018
Increase in percentage:				
RSD	1%	159.926	1%	170.200
EUR	1%	356.306	1%	121.740
Decrease in percentage:				
RSD	1%	(143.463)	1%	(174.928)
EUR	1%	(493.890)	1%	(460.959)

37. RISK MANAGEMENT (continued)

37.4. Market Risks (continued)

37.4.2. Foreign Exchange Risk

Foreign exchange risk is the risk of change of the value of financial instruments and adverse effects on the Bank's financial result and equity due to the fluctuations in foreign exchange rates. Banking operations in different foreign currencies cause the exposure to fluctuation in foreign exchange rates.

The Bank manages foreign exchange risk striving to prevent adverse effects of changes of cross- currency rates and foreign exchange rates to RSD (foreign exchange losses) on the Bank's financial result, as well as on the customers' ability to repay loans in foreign currencies.

For the purposes of protection against the foreign exchange risk, the Bank monitors the changes in foreign currency exchange rate on the financial market on a daily basis, carries out the policy of low-level exposure to foreign exchange risk and contracts loans with a foreign currency clause index with its customers.

The Asset and Liability Management Unit and Treasury Department monitor daily movements of the overall foreign exchange risk, as well as risk per specific currency. The Market and Liquidity Risk Management Department daily monitor movements of the foreign exchange ratio and internally set foreign currency positions per currency. Positions are monitored on a daily basis to ensure that positions are maintained within established limits.

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

In 2019, the Bank 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 Bank's foreign currency exposure indicator was not more than 20% higher than the Bank's capital.

The following table shows the currencies in which the Bank has significant exposure as at 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.

Risk of changing foreign exchange rates

In RSD '000

Currency	**Changes in currency rate (depreciation in %) 2019**	**Effect on profit and loss before taxes 2019**	**Changes in currency rate (depreciation in %) 2018**	**Effect on profit and loss before taxes 2018**
EUR	2%	(563)	2%	11.714
CHF	2%	(51)	2%	(127)
USD	2%	(35)	2%	307

37. RISK MANAGEMENT (continued)

37.4. Market Risks (continued)

37.4.2. Foreign Exchange Risk (continued)

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

	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**	6.968.218	**21.855.375**
Derivative receivables	332.612	-	-	-	**332.612**	14.287	**346.899**
Securities	11.334.351	257.487	-	-	**11.591.838**	29.939.747	**41.531.585**
Loans and receivables due from banks and other financial institutions	1.254.514	74.561	62.509	213.673	**1.605.257**	1.619	**1.606.876**
Loans and receivables due from customers	122.538.219	443.603	15.219	-	**122.997.041**	37.832.453	**160.829.494**
Investments in subsidiaries	-	-	-	-	-	93.560	**93.560**
Intangible assets	-	-	-	-	-	665.001	**665.001**
Property, plant and equipment	-	-	-	-	-	2.952.105	**2.952.105**
Current tax assets	-	-	-	-	-	229.409	**229.409**
Deferred tax assets	-	-	-	-	-	11.902	**11.902**
Fixed assets held for sale and assets of discontinued operations	121.678	246	3.229	18	**125.171**	1.202.955	**1.328.126**
Other assets	**150.134.658**	**865.975**	**243.524**	**294.919**	**151.539.076**	**79.911.256**	**231.450.332**
Total assets							
LIABILITIES AND EQUITY	246.034	-	-	-	**246.034**	4.005	**250.039**
Derivative liabilities	55.189.095	4.762	4.574	8.993	**55.207.424**	6.059.000	**61.266.424**
Deposits and liabilities due to banks and other financial institutions and NBS	74.683.146	3.136.380	1.779.241	560.730	**80.159.497**	46.248.456	**126.407.953**
Deposits and liabilities due to customers	-	-	-	-	**-**	3.512.691	**3.512.691**
Subordinated liabilities	4.206.971	-	-	-	**4.206.971**	-	**4.206.971**
Provisions	163.262	1.072	-	-	**164.334**	575.753	**740.087**
Current tax liabilities	-	-	-	-	**-**	169.499	**169.499**
Deferred tax liabilities	-	-	-	-	**-**	7.265	**7.265**
Other liabilities	2.241.129	4.560	.535	688	**2.247.912**	817.838	**3.065.750**
Total liabilities	**136.729.637**	**3.146.774**	**1.785.350**	**570.411**	**142.232.172**	**57.394.507**	**199.626.679**
Total equity	-	-	-	-	-	31.823.653	**31.823.653**
Total liabilities and equity	**136.729.637**	**3.146.774**	**1.785.350**	**570.411**	**142.232.172**	**89.218.160**	**231.450.332**
Net foreign currency position as at:							
– 31 December 2019	**13.405.021**	**(2.280.799)**	**(1.541.826)**	**(275.492)**	**9.306.904**		
– 31 December 2018	**4.792.161**	**(1.928.248)**	**(1.265.700)**	**(210.789)**	**1.387.424**		

37. RISK MANAGEMENT (continued)

37.5. Bank's Risk Concentration

This is a risk of the Bank's exposures to a single entity or a group of related entities and exposures to an entity related to the Bank.

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 Bank's exposure to a customer or a group of related customers relative to the Bank's capital.

During 2018, the Bank maintained the exposure risk indicators within the prescribed values. By implementing appropriate activities stipulated by the relevant procedures and decisions on loan approval, the Bank 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 34(b)) and with the internal limits.

In accordance with the Risk management policies, the Bank'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 Bank.

The procedures of exposure risk management are the subject of internal audit.

37.6. Bank's Investment Risks

The Bank's investment risks include the Bank's equity investments held in other entities and investments made into the Bank's own fixed assets.

In accordance with the National Bank of Serbia legislation, the level of the Bank's investment and the level of regulatory capital is being monitored in order to ensure that the Bank's investments in a single non-financial sector entity do not exceed 10% of its capital, while the total investments of the Bank in non-financial entities and in tangible assets cannot exceed 60% of its regulatory capital.

The Bank's investment risk exposure arising on investments into other legal entities and property and equipment is monitored by the organizational unit or the Bank'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 Bank 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.

37.7. Country Risk

Country risk is the risk related to the country of origin of a counterparty the Bank is exposed to and includes adverse effects which may influence the financial result and capital of the Bank, as the Bank 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 Bank 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 Bank monitors its exposure on geographic basis by applying the limits determined by the parent bank and based on country ratings. The limits, after approval by the parent bank, are also adopted locally by a defined level of decision making.

The Bank's exposure to the country risk is low, due to insignificant participation of non-residents in the total loan portfolio of the Bank.

37. RISK MANAGEMENT (continued)

37.8. Operational Risk

Operational risk is the risk of the adverse effects on the Bank's financial result and equity due to failures in the employees' performance, inadequate internal procedures and processes, inadequate information and other systems in the Bank or unforeseen external events.

The Bank 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 Bank.

Committee for Operational Risk Management of the Bank, 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 Bank. Operational risk events are collected in a single database and further analysed and monitored.

The Bank manages the risk by increasing the awareness of the employees of operational risk management, implementation of the solid system of controls and monitoring and adequate prevention and detection of corrective measures in order to decrease the level of operational risk to the acceptable level.

The Bank has defined and regularly reviews and updates internal acts which govern the Bank's exposure to operational risk, taking into account the compliance with the applicable regulatory framework and Group standards.

The Bank is insured from the usual risks and specific banking risks through the Program of insurance from operational risks. The usual risks include damages to property, burglary, theft (valuable property) and general responsibility. Specific risks include the Bank's internal and external frauds, technological risks and civil responsibility.

Continuous assessment of risk arising in the process of introducing new products / services as well as activities, that occur when entrusting third parties is carried out. Improvement of internal control mechanisms is necessary element in all operational risk management activities.

The Bank calculates capital requirements under Pillar 1 for operational risk using the basic indicator approach under Pillar 2 while applying advanced approach using an internal model.

37.9. Capital Management

The Bank 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 Bank manages the capital structure and performs adjustments in accordance with changes in economic conditions and risk related to the Bank's operations. The Bank's management monitors regularly the Bank's capital adequacy ratios and other ratios established by the National Bank of Serbia and delivers quarterly reports on the 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 and 57/2019) and the Decision on capital adequacy ("Official Gazette of the RS", no. 103/2016, 103/2018 and 88/2019).

37. RISK MANAGEMENT (continued)

37.9. 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 10,24% (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 11,74 %
- indicator of capital adequacy of 13,74%.

In addition to the requirements defined in the form of minimum indicators of capital adequacy and protective capital layers, the Bank is also required to fulfil the additional regulatory minimum capital requirement, defined in the process of the Supervisory Review and Evaluation Process (SREP), which the National Bank of Serbia for 2019 has defined in the form of guidelines on a minimum requirement for capital.

The aforementioned Decision of the National Bank of Serbia on the adequacy of the bank'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 bank 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 Bank 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 Bank conducts a process of internal capital adequacy assessment process (ICAAP), determines available internal capital and makes its distribution, and develops a strategy and plan for capital management in accordance with the Decision on Risk Management.

The Framework for Integrated Risk and Capital Management as a concept established in the Bank, as its key component, has the Internal Capital Adequacy Assessment Process (ICAAP). This framework is defined to support the bank'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 Bank's satisfactory level of capital in accordance with its risk profile.

The framework for integrated risk and capital management is a comprehensive system that is necessary to meet regulator's expectations, but also to provide effective internal management instruments. It consists of the following:

- Risk Appetite Statement (RAS), limits and risk management strategies;
- Comprehensive risk exposure analysis including an assessment of the material significance of risk, analysis and risk management of concentration and stress testing;
- Determining Risk-bearing Capacity Calculation (RCC);
- Planning key risk indicators;
- Planning of recovery and restructuring.

In accordance with the Law on Banks and the Decision on Bank and Banking group Recovery Plans ("Official Gazette of the Republic of Serbia" No. 71/2015), the Bank regularly prepares and provides the National Bank of Serbia with the Recovery Plan, which represents the main pillar for preserving the financial resilience of the Bank, as well as achieving stability in situations of serious financial disturbances. In addition, the Bank, for the purpose of preparing the Plan for Restructuring and defining Minimum Capital Requirements and similar obligations of the Bank, 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).

37. RISK MANAGEMENT (continued)

37.9. Capital Management (continued)

The table below summarizes the structure of the Bank’s capital as at 31 December 2019 and 31 December 2018 as well as the capital adequacy ratio:

In RSD ’000

	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	1.091.670	870.617
Revaluation reserves and other unrealized gains	725.815	602.586
Unrealized losses	-	(90.388)
Other reserves	12.955.128	10.036.645
Additional value adjustments	(25.950)	(24.354)
Other intangible assets before deduction for related deferred tax liabilities	(665.000)	(537.025)
Gross amount of receivables from a debtor - natural person (other than farmers and entrepreneurs) where the level of credit indebtedness of that debtor was higher than the percentage determined in accordance with the decision governing the classification of the balance sheet assets and off-balance sheet items of the bank or will be higher due to loan approval	(29.530)	-
Gross amount of claims on debtors - natural persons (except farmers and entrepreneurs) based on approved consumer loans, cash loans or other loans with a maturity of more than 2920 days	(9.430)	-
Total	**29.505.647**	**21.022.556**
Supplementary capital		
Subordinated obligations	3.677.972	3.873.180
	3.677.972	**3.873.180**
Capital:	**33.183.619**	**24.895.736**
Risky balance and off-balance assets		
Capital requirement for credit risk, counterparty risk and risk of delivery / delivery on the basis of free delivery	10.885.127	9.779.033
Capital requirement for price risk	210.080	161.078
Capital requirement for foreign exchange risk	2.920	50.741
Capital requirement for operational risk	1.251.550	1.175.138
Capital requirement for the risk of adjusting credit exposure	54.852	34.384
Adequacy of basic share capital	**19,03**	**15,02**
Adequacy of share capital	**19,03**	**15,02**
Capital adequacy	**21,40**	**17,78**

The Bank is in compliance with all regulatory requirements regarding capital adequacy at all levels.

37. RISK MANAGEMENT (continued)

37.9. 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:

In RSD '000

	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)	2.950.565	2.102.256
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	**2.844.975**	**2.025.781**
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)	2.950.565	2.102.256
Investments in the basic share capital of entities in the financial sector in which the bank has significant investments	(93.560)	(93.560)
Remains up to the limit	**2.857.005**	**2.008.696**
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)	2.950.565	2.102.256
Deferred tax assets that depend on future profitability and arise from temporary differences	(120.820)	(109.197)
Remains up to the limit	**2.829.745**	**1.993.059**
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)	5.192.516	3.690.648
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	(214.380)	(202.757)
Remains up to the limit	**4.978.136**	**3.487.891**

37. RISK MANAGEMENT (continued)

37.9. Capital Management (continued)

An overview of the Bank's exposure to risks and capital requirements is given in the table below:

In RSD '000

	31.12.2019.		31.12.2018.	
	Risk assets	**Capital requirement**	**Risk assets**	**Capital requirement**
Total risk assets	**155.056.599**	**12.404.528**	**140.004.668**	**11.200.373**
Risk-weighted exposure to credit risk	136.064.082	10.885.127	122.237.912	9.779.033
Standardized approach	136.064.082	10.885.127	122.237.912	9.779.033
IRB approach	-	-	-	-
Exposure to risk of settlement/delivery (except for free delivery)		-	-	-
Exposure to market risks	2.662.496	213.000	2.647.743	211.819
Exposure to operational risk	15.644.371	1.251.550	14.689.219	1.175.138
Exposure to the risk of adjusting credit exposure	685.650	54.852	429.794	34.384

37. RISK MANAGEMENT (continued)

37.9. 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.

In accordance 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 Bank, 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 11,81% as at 31 December 2018.

37. RISK MANAGEMENT (Continued)

37.10. Fair Value of Financial Assets and Liabilities

The fair value calculation in EBS is based primarily on external source data (listing of dealers for government bonds and available stock prices from the stock exchange). OTC derivatives are valued using the model. By using the model, bonds are also valued if there is no adequate number of quotations or quotations are not up-to-date.

Evaluation model

Bonds

Bonds for which quotations are not available in an adequate number or quotation are not sufficiently up to date are discounted by future cash flows using a predefined curve for the respective currency.

OTC derivatives

Valuation is aimed at discounting future cash flows using defined yield curves for a particular product and a specific currency. The derivative value thus obtained is adjusted for the Credit Valuation Adjustment (CVA) and the Debt Valuation Adjustment (DVA), as the credit default of the other counterparty and its own credit risk are not taken into account. CVA refers to credit risk adjustment of other agreements of the parties, while DVA refers to adjusting for own credit risk. The value of these adjustments depends on PD, LGD and exposure (NPV).

In RSD ’000

	31 December 2019	**31 December 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 can not be considered active due to limited liquidity, are classified as Level 2. If market quotations are not available, fair value is determined using a valuation model (discounting future cash flows), and all parameters for the model (yield curves, spurs) are available on the market, Level 2 is also assigned.

OTC derivatives and less liquid stocks and bonds are classified as Level 2 instruments.

Level 3
Instruments whose fair value is determined on the basis of quotations that are not sufficiently up-to-date or by using a model whose all inputs are not commercially available are classified as Level 3 hierarchy. Market unavailable parameters are most often related to credit spreads that are derived from internally calculated measures – PD and LGD.

Shares for which there are no quotations, illiquid bonds, as well as loans and deposits are classified as Level 3.

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

37. RISK MANAGEMENT (Continued)

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

The following table shows fair values of financial instruments recognized at fair value in the financial statements:

In RSD '000

	31.12.2019.				**31.12.2018.**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS	**2.130.637**	**41.178.729**	**26.544**	**43.335.910**	**3.911.157**	**20.081.753**	**265.138**	**24.258.048**
Securities	**2.130.637**	**40.822.181**	**26.544**	**42.979.362**	**3.911.157**	**19.900.549**	**265.138**	**24.076.844**
Debit securities								
Republic of Serbia Treasury bills	1.772.922	40.822.181	-		3.589.032	19.840.314	236.389	**23.665.736**
Government bonds of Republic of Montenegro	260.297	-	-		254.864	-	-	**254.864**
EBRD bonds	-	-	-			60.235		**60.235**
Equity securities					-		-	-
Quoted shares	97.418	-	-		67.261	-	1.596	**68.857**
Shares that are not quoted			26.544				27.153	**27.153**
Derivative receivables		356.548			-	181.204	-	**181.204**
FINANCIAL LIABILITIES	-	**256.908**	-		-	**95.518**	-	**95.518**
Derivative liabilities	-	256.908	-		-	95.518	-	**95.518**

37. RISK MANAGEMENT (Continued)

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

Changes in the level of financial instruments valued at fair value

In RSD '000

	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	-	-	-	-	-	1.596
Transfer from Level 3	1.064	237.456	-	-	357.069	-
Acquisition, sale and derecogntion	(1.104.998)	3.032.390	-	(5.065.549)	1.442.098.	238.530
Total	**(1.103.934)**	**3.267.717**	**-**	**(5.065.549)**	**3.737.000**	**240.126**

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

In RSD '000

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

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

37. RISK MANAGEMENT (Continued)

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

Development of the fair value of financial instruments at FV level 3

In RSD '000

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

	01.01.2018.	Transfer to 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 non FVPL				
Equity instruments	27.757	992	-	**28.749**
Financial assets FVOCI				
Equity instruments	-	67.261	-	**67.261**
Debt instruments	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

In RSD '000

	31.12.2019.	31.12.2018.
Assets		
Non-trading financial assets – FVPL		
Debt securities	-	1.134
Total	**-**	**1.134**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

37. RISK MANAGEMENT (Continued)

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

As at 31 December 2019, all bonds that were valued at fair value (bonds of the Republic of Serbia and bonds of the Republic of Montenegro) were classified 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.

In RSD '000

	31 December 2019		31 December 2018	
FINANCIAL ASSETS	**Carrying value**	**Carrying value**	**Fair value**	**Fair value**
Securities held to maturity	16.178.627	16.178.627	10.828.561	8.284.452
Loans and receivables due from banks	1.606.876	1.606.876	1.702.612	2.210.681
Loans and receivables due from customers	160.829.494	167.741.209	144.777.479	113.300.220
Construction objects	11.902	22.654	787.592	474.059
Fixed assets intended for sale			23.886	23.886
FINANCIAL LIABILITIES	61.266.424	63.629.950	-	-
Deposits due to banks	126.407.953	127.326.120	60.987.717	47.579.668
Deposits due to customers	16.178.627	16.178.627	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.

38. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating Lease Commitments

The Bank, as permitted by the standard, does not apply the provisions of IFRS 16 to following leases: leases of low value assets and short-term leases (leases with a shorter duration of 12 months).

In applying IFRS 16, the Bank does not consider the following categories in determining the subject of a lease:

1. Short-term lease, which is a lease that lasts up to 12 months or less with the first day of the lease (the lease containing the option of redemption does not have the character of a short-term lease, regardless of the term of the lease).
2. Low value lease is the leasing of assets whose value, when the asset is new, does not exceed the established threshold regardless of the age of the property at the time of the lease.

The future minimum payments of non-cancellable liabilities under IFRS 16 exemptions related to low value leasing are presented as follows:

In RSD '000

	31 December 2019	31 December 2018
Within a year	15.441	24.209
From 1 to 5 years	91.806	28.714
	107.247	**52.923**

(b) Litigation

As at 31 December 2019, the Bank had 1.535 initiated litigations in the total amount of RSD 1.454.715 thousand in which it had the status of the sued party (31 December 2018: 1.466.684 thousand). The default interest based on disputes against the Bank amounts to RSD 123.231 thousand (31 December 2018: RSD 110.498 thousand).

Based on the assessment of the legal representatives of the Bank in the above mentioned disputes, the Bank made a provision in the amount of RSD 248.372 thousand (RSD RSD 227.421 thousand as at 31 December 2018), for disputes that are expected to fall at the Bank's expense on this date. The Bank'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 the Republic of Serbia, tax liabilities do not become obsolete for a period of 5 years. In different circumstances, tax authorities may apply different approaches to certain matters and entities may be assessed additional taxes, penalties and interest. The Bank's management believes that the Bank's tax liabilities recorded in these financial statements are appropriately stated in accordance with the effective regulations.

39. RECONCILIATION OF OUTSTANDING BALANCES OF RECEIVABLES AND LIABILITIES

In accordance with Article 18 of the Law on Accounting, the Bank reconciled its balances of payables and receivables with its debtors and creditors and has valid documentation thereof.

The Bank sent its customers outstanding item statements (OIS) as at 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 Bank is in contact with clients in order to resolve conflicts.

The Bank is still working on reconciliation of OIS for which replies were not received.

40. SEGMENT REPORTING

Management of the Bank 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.

b) *Definition of Operating Segments*

Retail Segment

This segment comprises business activities within the scope of responsibilities of the Sales Managers from the Sales Network of the Retail Department. Target customers are mostly individuals, entrepreneurs and freelance professionals. Operations of the segment are mostly managed by the Bank, 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 Reals Estate Funding (CRE)

This segment refers to operations involving investments in real estate for the purpose of generating income from lease out of certain properties or entire real estate complexes, development and construction of properties and complexes for realization of capital gains through the sale of individual constructed properties and property complexes, services of asset management, construction services and construction for the Bank’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 Bank'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 Bank'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).

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2019

40. SEGMENT REPORTING

Business segmentation standalone

	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	1,324,536	1,279,315	588,330	499,011	438,012	309,431	215,487	146,752	215,080	(20,777)	7,364,947	6,509,527
Dividend income		-		-		-		-		-	378	368	378	368
Net result from equity method investments		-		-		-				-	-	-		-
Rental income from investment properties & other operating leases		-		2,944		-		3,910		-	7,203	(2)	7,203	6,851
Net fee and commission income	1,208,451	1,199,357	481,744	380,423	54,074	18,526	193,258	146,931	44,251	34,607	(225,181)	(175,877)	1,756,597	1,603,966
Net trading result	186,471	160,480	69,499	41,756	21,975	10,047	24,548	10,089	379,495	384,838	(50,813)	(399)	631,175	606,812
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)	(840,620)	(732,015)	(140,319)	(125,277)	(265,296)	(260,541)	(139,359)	(132,690)	(104,987)	1,131	(6,759,107)	(5,735,744)
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)	16,572	66,443	(155,586)	6,897	(65,884)	122,610	322,533	(343)	-	(5,107)	90,464	(116,509)	208,099
Other operating result	8,762	7,078	(987)	33,408	53		111	18,175	(10,215)	(3,936)	(33,054)	(129,324)	(35,330)	(74,599)
Pre-tax result from continuing operations	**387,374**	**1,193,224**	**1,100,615**	**850,244**	**531,012**	**336,424**	**513,243**	**550,528**	**489,315**	**429,572**	**(183,919)**	**(226,749)**	**2,837,641**	**3,133,243**
Taxes on income	(21,552)	(89,420)	(61,234)	(46,596)	(29,543)	(24,968)	(28,555)	(28,757)	(27,224)	(37,086)	10,233	12,375	(157,875)	(214,453)
Profit or loss for the year	**365,822**	**1,103,804**	**1,039,381**	**803,648**	**501,469**	**311,455**	**484,689**	**521,770**	**462,092**	**392,486**	**(173,686)**	**(214,374)**	**2,679,766**	**2,918,790**
Net result attributable to non-controlling interests		-		-		-		-		-	-	(0)		(0)
Net result attributable to the owners of the parent	**365,822**	**1,103,804**	**1,039,381**	**803,648**	**501,469**	**311,455**	**484,689**	**521,770**	**462,092**	**392,486**	**(173,686)**	**(214,374)**	**2,679,766**	**2,918,790**
											-			
Operating Income	5,978,423	5,655,632	1,875,779	1,704,437	664,380	527,584	655,818	470,361	639,233	566,198	(56,127)	(178,815)	9,757,506	8,745,396
Operating Expenses	(5,268,526)	(4,486,352)	(840,620)	(732,015)	(140,319)	(125,277)	(265,296)	(260,541)	(139,359)	(132,690)	(104,987)	1,131	(6,759,107)	(5,735,744)
Operating Result	**709,896**	**1,169,280**	**1,035,159**	**972,422**	**524,061**	**402,307**	**390,522**	**209,819**	**499,874**	**433,508**	**(161,113)**	**(177,684)**	**2,998,399**	**3,009,652**
A. Balance sheet											0			
Total assets (period end balance)	86,562,722	69,625,501	40,575,584	38,264,274	16,798,434	15,126,331	21,844,800	18,561,289	11,727,405	10,434,674	53,941,387	50,919,944	231,450,332	202,932,013
Total liabilities (period end balance)	79,067,108	66,768,395	25,288,918	19,928,967	8,551,233	9,036,024	21,197,378	19,622,682	2,962,485	2,705,221	62,559,558	61,806,452	199,626,680	179,867,741
Equity	7,142,024	5,560,807	4,206,437	4,351,321	1,590,069	1,638,707	2,812,505	1,675,091	671,623	855,858	15,400,995	8,982,488	31,823,652	23,064,272
C. Key indicators/parameters														
Cost/Income Ratio	88%	79%	45%	43%	21%	24%	40%	55%	22%	23%	-187%	1%	69%	66%
Loans/Deposits Ratio (net)	104%	101%	161%	190%	200%	167%	99%	96%	0%	0%		7%	116%	113%
Return on the average allocated equity	5%	20%	25%	18%	32%	19%	17%	31%	69%	46%	2%	-2%	38%	13%

41. ADDITIONAL INFORMATION ON CASH FLOWS

	2019	2018
Cash	4.562.400	2.798.893
Gyro account	4.073.644	8.681.382
Foreign currency accounts with foreign banks	1.127.123	1.150.593
Balance as at 31 December	**9.763.167**	**12.630.868**

Obligatory reserves held with the National Bank of Serbia is not available for everyday business transactions of the Bank and that is why it is not a part of cash flows (Note 18).

42. 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 financial statements, the date there has been no discernible impact on the Bank'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 individual financial statements for 2019.

43. 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:

In RSD '000

	31 December 2019	31 December 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

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 Bank's capital is given in the following enclosures:

- PI-KAP form (APPENDIX 1) - detailed structure of regulatory capital of the Bank 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 Bank 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 2019.

DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

Appendix 1 – The form PI- KAP

Data on the Bank's capital position

(in thousand RSD)

No	Item	Amount	DCA reference
	Common Equity Tier 1: elements		
1	CET1 capital instruments and the related share premium accounts	**15.462.944**	
1.1.	*of which: shares and other capital instruments which fulfil the requirements as laid out in Section 8 of the DCA*	**12.909.000**	Section 7, paragraph 1, item 1) and Section 8
1.2.	*of which: relevant share premium with the instruments referred to in item 1.1, i.e. the amount paid above par value of those instruments*	**2.553.944**	Section 7, paragraph 1, item 2)
2	Profit from preceding years free of any future liabilities, to be allocated to CET 1 capital according to the decision of the bank's assembly	**-**	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 capital	**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)	**30.235.557**	

DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

Appendix 1 – The form PI- KAP

Data on the Bank's capital position

(in thousand RSD)

No	Item	Amount	DCA reference
	Common Equity Tier 1: elements		
9	Additional value adjustments (-)	**(25.950)**	Section 12, paragraph 5
10	Intangible assets, including goodwill (net of deferred tax liabilities) (-)	**(665.000)**	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 Bank's capital position

(in thousand RSD)

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 claims on debtors - natural persons (except farmers and entrepreneurs) on the basis of approved consumer loans, cash loans or other loans, which are shown in the accounts 102, 107 and 108 in accordance with the decision prescribing the Chart of Accounts and the contents of the account in the Chart of Accounts for banks for which the borrower's credit indebtedness 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 credit approval, with this deduction being applied without whether or not, after the approval of the loan, the debt ratio of the borrower has become lower than that percentage (-)		Section 13, paragraph 1, item 13)
28	Gross amount of claims on debtors - natural persons (other than farmers and entrepreneurs) on the basis of approved consumer loans, cash loans or other loans, except for the loans shown in item 1.1.1.27 of this form, which are shown in accounts 102, 107 and 108 in accordance with the decision prescribing the Chart of Accounts and the contents of the account in the Chart of Accounts which, on the basis of the criteria of the agreed maturity, fulfill the condition for the application of the deductible item from the share capital, prescribed by the decision regulating the adequacy of the 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 (-)		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)		
31	Common Equity Tier 1 capital (difference between 8 and 28)		

DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

Appendix 1 – The form PI- KAP

Data on the Bank's capital position

	Additional Tier 1 capital: elements		
32	Shares and other capital instruments which fulfil the requirements as laid out in Section 23 of the DCA and related share premium	-	Section 22, paragraph 1, items 1) and 2)
33	Capital instruments issued by subsidiaries, which are recognised as Additional Tier 1 capital**	-	
34	Additional Tier 1 capital before deductibles (32+33)	-	
	Additional Tier 1 capital: deductibles	-	
35	Direct, indirect and synthetic holdings by a 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 34 and 40)	-	
42	Tier 1 capital (sum of rows 31 and 41)	**29.505.647**	

DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

Appendix 1 – The form PI- KAP

Data on the Bank'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 43 to 45)	**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)	**33.183.619**	
54	Total risk-weighted assets	**155.056.599**	Section 3, paragraph 2,
	Capital adequacy ratios and capital buffers		
55	Common Equity Tier 1 capital ratio (%)	**19,03**	Section 3, paragraph 1, item 1)
56	Tier 1 capital ratio (%)	**19,03**	Section 3, paragraph 1, item 2)
57	Total capital ratio (%)	**21,40**	Section 3, paragraph 1, item 3)
58	Total requirements for capital buffers (%)	**5,88**	Section 433
59	Common Equity Tier 1 capital available for capital buffers coverage (%)	**11,03**	

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 Bank's capital

No	Instrument features	The share capital of the Bank	The subordinated loan granted by Erste Group Bank Ceps Holding GmbH, Vienna	The subordinated loan granted by Erste Group Bank Ceps Holding GmbH, Vienna
1.	**Issuer**	Erste Bank a.d. 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	Supplementary capital instrument
3.	**Eligible at solo/(sub-)consolidated/ solo&(sub-) consolidated**	*Individual and group*	Individual and group	Individual and group
4.	**Instrument type**	*Ordinary shares*	Subordinated debt issued in the form of financial instrument	Subordinated debt issued in the form of financial instrument
5.	**Amount recognised in regulatory capital (in RSD thousand, as of most recent reporting date)**	Amount of 15.462.944 thousand RSD is recognized for the purposes of calculating regulatory capital (nominal value plus share premium in the amount of 124.474 thousand RSD).	Amount of 150.188 thousand RSD recognized as supplementary capital which fulfil requirements in accordance with Decision on Capital Adequacy	Amount of 3.527.784 thousand RSD recognized as supplementary capital which fulfil requirements in accordance with Decision on Capital Adequacy
6.	**Nominal amount of instrument**	12.909.000 thousand RSD	EUR 15.000.000	EUR 30.000.000
6.1.	**Issue price**	RSD 11.978,42	-	-
6.2.	**Redemption price**		-	-
7.	**Accounting classification**	*Share capital*	Liability – depreciated amount	Liability – depreciated amount
8.	**Original date of issuance**	*1st* issue: 4.012.090 thousand RSD 23/11/2004 2nd issue: 1.369.980 thousand RSD 15/06/2006 3rd issue: 1.735.310 thousand RSD 28/12/2006 4th issue: 2.922.620 thousand RSD 19/12/2007 5th issue: 2.869.000 thousand RSD 12/07/2019	27.12.2011.	10.09.2018.
9.	**Perpetual or dated**	*No maturity date*	With maturity date	With maturity date
9.1.	***Original maturity date***	*No maturity date*	27.12.2021.	10.09.2028.
10.	**Issuer call subject to prior supervisory approval**	*No*	*No*	*No*
10.1.	**Optional call date, contingent call dates and redemption amount**	-	-	-
10.2.	**Subsequent call dates, if applicable**	-	-	-
	Coupons / dividends			

DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

Appendix 2 – The form PI-FIKAP

Data on the basic characteristics of financial instruments that are included in the calculation of the Bank's capital

No	Instrument features	The share capital of the Bank	The subordinated loan granted by Erste Group Bank Ceps Holding GmbH, Vienna	The subordinated loan granted by Erste Group Bank Ceps Holding GmbH, Vienna
11.	Fixed or floating dividend/coupon	Variable	Variable	Variable
12.	Coupon rate and any related index		Referring to interest on subordinated loan	Referring to interest on subordinated loan
13.	Existence of a dividend stopper		-	-
14.1.	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Full discretion	No discretion	No discretion
14.2.	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Full discretion	No discretion	No discretion
15.	Existence of step up or other incentive to redeem	No	No	No
16.	Noncumulative or cumulative dividend/coupon	*Non-cumulative*	*Non-cumulative*	*Non-cumulative*
17.	Convertible or non-convertible	*Non-cumulative*	*Non-cumulative*	*Non-cumulative*
18.	If convertible, conversion trigger(s)			
19.	If convertible, fully or partially			
20.	If convertible, conversion rate			
21.	If convertible, mandatory or optional conversion			
22.	If convertible, specify instrument type convertible into			
23.	If convertible, specify issuer of instrument it converts into			
24.	Write-down features	*No*	No	No
25.	If write-down, write-down trigger(s)			
26.	If write-down, full or partial			
27.	If write-down, permanent or temporary			
28.	If temporary write-down, description of write-up mechanism			
29.	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated debt issued in the form of financial instrument	Other	Other
29.	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Minority participations	Other	Other
30.	Non-compliant transitioned features	*No*	No	No
31.	If yes, specify non-compliant features		-	-

DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

ANNEX 3 - Form PI-UPK

Disaggregation of the elements in the balance sheet of the Bank with references to the positions of regulatory capital (Appendix 1)

(in thousand RSD)

Designation of item	Item	Balance sheet as disclosed in financial reports	Balance sheet under regulatory method and scope of consolidation
A	**ASSETS**		
A.I	Cash and assets with the central bank	21.855.375	21.855.375
A.II	Pledged financial assets		-
A.III	Derivative receivables	346.899	346.899
A.IV	Securities	41.531.585	41.531.585
A.V	Loans and receivables from banks and other financial organisations	1.606.876	1.606.876
A.VI	Loans and receivables from clients	160.829.494	160.829.494
A.VII	Change in fair value of hedged items	-	-
A.VIII	Receivables arising from hedging derivatives	-	-
A.IX	Investments in associated companies and joint ventures	-	-
A.X	Investments into subsidiaries	93.560	93.560
A.XI	Intangible assets	665.001	665.001
A.XII	Property, plant and equipment	2.952.105	2.952.105
A.XIII	Investment property	-	-
A.XIV	Current tax assets	229.409	229.409
A.XV	Deferred tax assets	-	-
A.XVI	Fixed assets intended for sale and assets of discounted operations	11.902	11.902
A.XVII	Other assets	1.328.126	1.328.126
A.XX	**TOTAL ASSETS (AOP items from 0001 to 0019 in the balance sheet)**	231.450.332	231.450.332
P	**LIABILITIES AND EQUITY**		
PO	**LIABILITIES**		
PO.I	Derivative liabilities	250.039	250.039
PO.II	Deposits and other liabilities to banks, other financial organisations and central bank	61.266.424	61.266.424
PO.III	Deposits and other liabilities to other clients	126.407.953	126.407.953
PO.IV	Liabilities arising from hedging Derivatives	-	-
PO.V	Change in fair value of hedged items	-	-
PO.VI	Liabilities from securities	3.512.691	3.512.691
PO.VII	Subordinated liabilities	4.206.971	4.206.971
PO.VIII	Provisions	740.087	740.087
PO.IX	Liabilities under assets held for sale and discontinued operations	-	-
PO.X	Current tax liabilities	169.499	169.499
PO.XI	Deferred tax liabilities	7.265	7.265
PO.XII	Subordinated liabilities	3.065.750	3.065.750
PO.XIV	**TOTAL LIABILITIES (AOP items from 0401 to 0413 in the balance sheet)**	199.626.679	199.626.679

DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

ANNEX 3 - Form PI-UPK (continued)

(in thousand RSD)

Designation of item	Item	Balance sheet as disclosed in financial reports	Balance sheet under regulatory method and scope of consolidation
	EQUITY		
PO.XV	Share capital	15.462.944	15.462.944
PO.XVI	Own shares	-	-
PO.XVII	Profit	2.679.766	2.679.766
PO.XVIII	Loss	-	-
PO.XIX	Reserves	13.680.943	13.680.943
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**	31.823.653	31.823.653
PO.XXIII	**TOTAL CAPITAL SHORTFALL (result of adding up and/or subtracting the following balance sheet items: 0415-0416+0417-0418+0419-0420+0421) < 0**	-	-
PO.XXIV	**TOTAL LIABILITIES (result of adding up and/or subtracting the following balance sheet items: 0414+0422-0423)**	231.450.332	231.450.332
В.П.	**OFF-BALANCE SHEET ITEMS**		
В.П.А.	Off-balance sheet assets	356.976.582	356.976.582
В.П.П.	Off-balance sheet liabilities	356.976.582	356.976.582

DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

ANNEX 3 - Form PI-UPK

Disaggregation of the elements in the balance sheet of the Bank with references to the positions of regulatory capital (Appendix 1)

(in thousand RSD)

Designation of item	Item	Balance sheet	Reference
A	**ASSETS**		
A.I	Cash and assets with the central bank	21.855.375	
A.II	Pledged financial assets	-	
A.III	Derivative receivables	346.899	
A.IV	Securities	41.531.585	
A.V	Loans and receivables from banks and other financial organisations	1.606.876	
A.VI	Loans and receivables from clients	160.829.494	
A.VII	Change in fair value of hedged items	-	
A.VIII	Receivables arising from hedging derivatives	-	
A.IX	Investments in associated companies and joint ventures	-	
A.X	Investments into subsidiaries	93.560	
A.XI	Intangible assets	665.001	d
A.XII	Property, plant and equipment	2.952.105	
A.XIII	Investment property	-	
A.XIV	Current tax assets	229.409	
A.XV	Deferred tax assets	-	
A.XVI	Fixed assets intended for sale and assets of discounted operations	11.902	
A.XVII	Other assets	1.328.126	
A.XX	TOTAL ASSETS (AOP items from 0001 to 0019 in the balance sheet)	**231.450.332**	
P	**LIABILITIES AND EQUITY**		
PO	**LIABILITIES**		
PO.I	Derivative liabilities	250.039	
PO.II	Deposits and other liabilities to banks, other financial organisations and central bank	61.266.424	
PO.III	Deposits and other liabilities to other clients	126.407.953	
PO.IV	Liabilities arising from hedging Derivatives	-	
PO.V	Change in fair value of hedged items	-	
PO.VI	Liabilities from securities	3.512.691	
PO.VII	Subordinated liabilities	4.206.971	
	Of which subordinated liabilities that are included in the bank's supplementary capital	3.768.261	đ
PO.VIII	Provisions	740.087	
PO.IX	Liabilities under assets held for sale and discontinued operations	-	
PO.X	Current tax liabilities	169.499	
PO.XI	Deferred tax liabilities	7.265	
PO.XII	Other liabilities	3.065.750	
PO.XIV	**Equity exposures**	**199.626.679**	

DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

ANNEX 3 - Form PI-UPK

Disaggregation of the elements in the balance sheet of the Bank with references to the positions of regulatory capital (Appendix 1)

(in thousand RSD)

Designation of item	Item	Balance sheet	Reference
	EQUITY		
PO.XV	Share capital	15.462.944	
	Of which nominal value of paid shares, except cumulative preference shares	12.909.000	a
	Of which premium emission based on share capital, except cumulative preference share	2.553.944	b
PO.XVI	Own shares	-	
PO.XVII	Profit	2.679.766	
PO.XVIII	Loss	-	
PO.XIX	Reserves	13.680.943	
	Of which Other reserves	12.955.128	g
	Of which Revalorization reserves and other unrealized gains	853.900	v
	Of which unrealized losses	-128.085	v
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**	31.823.653	
PO.XXIII	**TOTAL CAPITAL SHORTFALL (result of adding up and/or subtracting the following balance sheet items: 0415-0416+0417-0418+0419-0420+0421) < 0**	-	
PO.XXIV	**TOTAL LIABILITIES (result of adding up and/or subtracting the following balance sheet items: 0414+0422-0423)**	**231.450.332**	
В.П.	**OFF-BALANCE SHEET ITEMS**		
В.П.А.	Off-balance sheet assets	356.976.582	
В.П.П.	Off-balance sheet liabilities	356.976.582	

DISCLOSURE OF DATA AND INFORMATION BY BANKS (continued)

APPENDIX 4 – The form PI-ABK

Data on capital requirements and capital adequacy of the Bank:

(in thousand RSD)

No	Name	Amount
I	**CAPITAL**	**33.183.619**
1.	**TOTAL COMMON EQUITY TIER 1 CAPITAL**	**29.505.647**
2.	**TOTAL ADDITIONAL TIER 1 CAPITAL**	**-**
3.	**TOTAL TIER 2 CAPITAL**	**3.677.972**
II	**CAPITAL REQUIREMENTS**	**12.404.528**
1.	**CAPITAL REQUIREMENT FOR CREDIT RISK, COUNTERPARTY RISK, DILUTION RISK AND SETTLEMENT/DELIVERY RISK TO FREE DELIVERIES**	**10.885.127**
1.1.	Standardised Approach (SA)	***136.064.082***
1.1.1.	Exposures to central governments and central banks	-
1.1.2.	Exposures to territorial autonomies or local government units	***1.232.149***
1.1.3.	Exposures to public administrative bodies	***1.234.491***
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	***68.485.848***
1.1.8.	Retail exposures	***41.621.953***
1.1.9.	Exposures secured by mortgages on immovable property	***18.378.757***
1.1.10.	Exposures in default	***687.219***
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	***385.868***
1.1.17.	Other items	***3.252.589***
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 (continued)

Data on capital requirements and capital adequacy of the Bank (continued):

(in thousand RSD)

No	Name	Amount
2	**CAPITAL REQUIREMENT FOR SETTLEMENT/DELIVERY RISK IN RESPECT OF UNSETTLED TRANSACTIONS**	-
3	**CAPITAL REQUIREMENT FOR MARKET RISKS**	213.000
3.1.	Capital requirements for position, foreign exchange risk and commodities risk calculated under the Standardised Approach	213.000
3.1.1.	Capital requirement for position risk of debt securities	210.080
	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	2.920
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**	1.251.550
4.1.	Capital requirement for operational risk calculated under the Basic Indicator Approach	1.251.550
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 (%)**	19,03
IV	**TIER 1 CAPITAL RATIO (%)**	19,03
V	**TOTAL CAPITAL RATIO (%)**	21,40

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
CAD	Capital adequacy decision
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 ratio	Loan To Value
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
MVoE	Market Value of Equity
NBS	National Bank of Serbia
NPL	Non-performing loan
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
PPLA	
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