ERSTE BANK A.D. NOVI SAD

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 AND
INDEPENDENT AUDITOR'S REPORT**

CONTENT

Independent Auditor's Report

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

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Erste Bank a.d. Novi Sad (the "Bank") and its subsidiaries (together - the "Group") as at 31 December 2021, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated income statement for the year ended 31 December 2021;
- the consolidated statement of other comprehensive income for the year ended 31 December 2021;
- the consolidated balance sheet as at 31 December 2021;
- the consolidated statement of changes in equity for the year ended 31 December 2021;
- the consolidated statement of cash flows for the year ended 31 December 2021; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Reporting on the other information including the consolidated Annual Report

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

Our opinion on the consolidated financial statements does not cover the other information.

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

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

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

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

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

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

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

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

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Refer to the original signed Serbian version

Saša Todorović
Licenced auditor

Refer to the original signed Serbian version

PricewaterhouseCoopers d.o.o. Beograd

Belgrade, 14 March 2022

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

(in thousand RSD)

POSITION	Note	2021	2020 restated
Interest income	4	11.505.052	10.597.399
Interest expense	4	(2.209.113)	(2.150.123)
Net interest income		**9.295.939**	**8.447.276**
Fee and commission income	5	4.175.660	3.498.220
Fee and commission expense	5	(1.418.023)	1.194.993
Net fee and commission income		**2.757.637**	**2.303.227**
Net gains from change in fair value of financial instruments	6	257.656	-
Net loss from change in fair value of financial instruments	6	-	(112.198)
Net gains from derecognition of financial instruments at fair value	7	2.313	44.600
Net gains from hedging	8	1.499	773
Net foreign exchange gains and currency clause effects	9	-	250.254
Net foreign exchange losses and currency clause effects	9	(204.732)	-
Net loss on impairment of financial assets that are not valued at fair value through profit and loss	10	(1.263.298)	(2.092.167)
Net gains from derecognition of financial instruments valued at amortized cost	11	-	15.048
Net loss from derecognition of financial instruments valued at amortized cost	11	(10.361)	-
Other operating income	12	99.064	67.622
TOTAL NET OPERATING INCOME		**10.935.717**	**8.924.435**
Cost of salaries, contributions and other personnel	13	(2.799.800)	(2.608.529)
Depreciation costs	14	(699.587)	(639.010)
Other income	15	328.682	254.108
Other expenses	16	(5.058.229)	(4.622.399)
PROFIT BEFORE TAX		**2.706.783**	**1.308.605**
Income tax	17	(142.282)	(24.951)
Deferred tax gain	17	3.878	119.775
PROFIT FOR THE YEAR	33	**2.568.379**	**1.403.429**
Profit that belongs to the parent entity		2.528.575	1.385.887
Profit that belongs to minority interest		39.805	17.542

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

Novi Sad, 14 March 2022

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

ERSTE BANK a.d. 22 NOVI SAD

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

(in thousand RSD)

POSITION	Note	2021	2020
PROFIT FOR THE YEAR	33	**2.568.379**	**1.403.429**
Components of other comprehensive income that can not be reclassified to profit or loss:			
Actuarial gain (loss)		9.636	(86.296)
Positive (negative) effects of changes in value of equity instruments valued through other comprehensive income		(143)	14.980
Components of other comprehensive income that can be reclassified to profit or loss:			
Negative effects of changes in the value of debt instruments that are measured at fair value through other comprehensive income		(464.342)	(198.214)
Tax gain related to other comprehensive income of the period		68.270	40.452
Total negative other comprehensive income of the period		**(386.580)**	**(229.078)**
TOTAL POSITIVE OTHER COMPREHENSIVE INCOME FOR THE YEAR		**2.181.799**	**1.174.352**
Total result that belongs to the parent entity		2.141.924	1.157.109
Total result that belongs to minority interest		39.875	17.243

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Novi Sad, 14 March 2022

Stevan Čomić
Head of Accounting and Controlling Department

Suzan Tanriyar
Executive Board Member

Slavko Carić
Executive Board Chairman

ERSTE BANK a.d. NOVI SAD

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2021

(In thousand RSD)

ASSETS	Note	31.12.2021.	31.12.2020.
Cash and balances with central bank	18	39.929.941	35.402.631
Pledged financial assets	20	-	4.622.478
Derivative receivables	19	285.448	408.411
Securities	20	58.499.723	49.554.573
Loans and receivables to banks and other financial institutions	21	6.693.196	2.944.805
Loans and receivables to customers	22	218.135.039	201.214.645
Investment in subsidiaries and joint ventures		118	118
Intangible assets	23	1.729.377	1.146.644
Property, plant and equipment	23	3.187.861	3.187.470
Current tax asset	17	238.878	185.043
Deferred tax asset	17	227.079	154.981
Fixed assets held for sale and assets of discontinued operations	24	12.252	12.252
Other assets	25	1.250.269	1.147.687
TOTAL ASSETS		**330.189.181**	**299.981.738**
LIABILITIES AND EQUITY			
LIABILITIES			
Derivative liabilities	26	166.400	346.766
Deposits and other liabilities due to banks, other financial institutions and central bank	27	74.251.792	78.207.806
Deposits and other financial liabilities due to customers	28	208.904.371	175.995.703
Liabilities for issued securities	29	-	3.509.426
Subordinated liabilities	30	3.534.418	3.870.407
Provisions	31	1.690.993	1.320.593
Current tax liabilities	17	109.647	-
Deferred tax liabilities	17	9.763	7.677
Other liabilities	32	3.678.306	3.410.728
TOTAL LIABILITIES		**292.345.690**	**266.669.106**
Equity	33		
Share capital and share premium		17.812.004	15.462.944
Retained earnings		2.792.753	1.597.441
Reserves		17.079.570	16.132.957
Minority interest		159.165	119.290
TOTAL EQUITY		**37.843.491**	**33.312.632**
TOTAL LIABILITIES AND EQUITY		**330.189.181**	**299.981.738**

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

Novi Sad, 14 March 2022

Stevan Čomić
Head of Accounting and Controlling Department

Suzan Tanriyar
Executive Board Member

Slavko Carić
Executive Board Chairman

ERSTE BANK a.d. NOVI SAD 22

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

(in thousand RSD)

	Share capital	Share premium	Other reserves	Revaluation reserves	Retained earnings	Total equity	Minority interest	Total
Balance as at 1 January 2020	**12.909.000**	**2.553.944**	**12.955.129**	**726.841**	**2.891.319**	**32.036.233**	**102.047**	**32.138.280**
Total negative other comprehensive income	-	-	-	(228.779)	-	(228.779)	(298)	(229.077)
Profit for the year	-	-	-		1.385.888	1.385.888	17.541	1.403.429
Transfer from profit to reserves	-	-	2.679.766	-	(2.679.766)	-		-
Balance as at 31 December 2020	**12.909.000**	**2.553.944**	**15.634.895**	**498.062**	**1.597.441**	**33.193.342**	**119.290**	**33.312.632**
Balance as at 1 January 2021	**12.909.000**	**2.553.944**	**15.634.895**	**498.062**	**1.597.441**	**33.193.342**	**119.290**	**33.312.632**
Issued shares	1.198.500	1.150.560	-	-	-	2.349.060	-	2.349.060
Total positive (negative) other comprehensive income	-	-	-	(386.649)	-	(386.649)	70	(386.580)
Profit for the year	-	-	-	-	2.528.574	2.528.574	39.805	2.568.379
Transfer from profit to reserves	-	-	1.333.262	-	(1.333.262)	-	-	-
Balance as at 31 December 2021	**14.107.500**	**3.704.504**	**16.968.157**	**111.413**	**2.792.753**	**37.684.327**	**159.165**	**37.843.491**

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

Novi Sad, 14 March 2022

Stevan Čomić
Head of Accounting and Controlling Department

Suzan Tanriyar
Executive Board Member

Slavko Carić
Executive Board Chairman

ERSTE BANK a.d. NOVI SAD

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

(in thousand RSD)

	2021	2020
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated by operating activities	**24.241.530**	**16.923.439**
Interest receipts	11.954.148	8.161.763
Fee and commission receipts	4.140.431	3.147.942
Receipts of other operating activities	8.115.435	5.588.012
Dividend receipts and profit sharing	31.516	25.722
Cash used in operating activities	**19.725.015**	**16.803.763**
Interest payments	2.063.077	2.092.802
Fee and commission payments	1.396.727	1.154.534
Payments to and on behalf of employees	2.764.743	2.568.610
Taxes, contributions and other duties paid	590.150	565.690
Payments for other operating expenses	12.910.319	10.422.126
Net cash inflows from operating activities prior to increases or decreases in loans and deposits	**4.516.515**	**119.677**
Decrease in placements and increase in deposits and other liabilities	**26.654.138**	**54.001.538**
Increase in deposits and other liabilities to banks, other financial institutions, central bank and customers	26.654.138	54.001.538
Increase in loans and decrease in deposits received and other liabilities	**32.251.187**	**43.953.795**
Increase in loans and receivables from banks, other financial organizations, central bank and customers	27.384.607	30.933.615
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	4.866.580	13.020.179
Net cash inflows from operating activities before income tax	**-**	**10.167.420**
Net cash outflows from operating activities before income tax	**1.080.534**	**-**
Paid income tax	53.836	125.130
Net cash inflows from operating activities	**-**	**10.042.290**
Net cash outflows from operating activities	**1.134.370**	**-**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Cash inflows from investment activities	**589.520**	**2.471.665**
Inflows from investing in investment securities	260.116	251.360
Other inflows from investing activities	329.404	2.220.305
Cash outflows from investment activities	**5.734.996**	**4.043.702**
Outflows for the purchase of intangible assets, property, plant and equipment	1.393.114	1.388.735
Other outflows from investing activities	4.341.882	2.654.967
Net cash outflows of cash from investment activities	**5.145.477**	**1.572.036**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	**14.895.049**	**6.346.354**
Cash inflows based on new issue of shares	2.349.060	-
Inflows from loans received	11.101.602	5.897.574
Other inflows from financing activities	1.444.387	448.780
Cash outflows from financing activities	**10.263.826**	**4.458.682**
Cash outflows based on subordinated liabilities	335.989	336.565
Outflows based on loans taken	6.413.382	4.103.975
Other outflows from financing activities	3.514.456	18.142
Net cash inflows from financing activities	**4.631.223**	**1.887.672**
TOTAL CASH INFLOWS	**66.380.237**	**79.742.996**
TOTAL CASH OUTFLOWS	**68.028.861**	**69.385.070**
NET INCREASE IN CASH	**-**	**10.357.926**
NET DECREASE IN CASH	**1.648.624**	**-**
CASH AT THE BEGINNING OF THE YEAR	**20.762.122**	**9.763.167**
POSITIVE FOREIGN EXCHANGE DIFFERENCES	**3.862.951**	**8.817.149**
NEGATIVE FOREIGN EXCHANGE DIFFERENCES	**4.067.482**	**8.186.627**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**18.908.966**	**20.751.615**

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

Novi Sad, 14 March 2022

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

1. GENERAL INFORMATION

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

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

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

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

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

Presented financial statements and notes to financial statements represent consolidated financial statements of the Group. The Bank is a parent entity of the Group and as such has an obligation in accordance with the Law on Banks to prepare consolidated financial statements on the day and for the year ended 31 December 2021. Consolidated financial statements include financial statements of S-Leasing doo Belgrade which is 75% owned by the Bank.

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

The Bank is headquartered in Novi Sad, at no. 5, Bulevar Oslobođenja St. The Bank operates through 3 centres, 7 business units, 46 branches, 33 sub-branches and 2 counters.

As at 31 December 2021, the Bank had 1.224 employees (31 December 2020: 1.212 employees).

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

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

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

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

Share capital of the Company as of December 31. In 2013, it consisted of the founders of Steiermaerkische Bank und Sparkassen AG, Graz, Austria (50%) and Immorent International Holding GmbH, Vienna, Austria (50%).

In 2014, there was a change in the ownership structure of the share capital of S-Leasing and Erste Bank joint stock company, Novi Sad, Serbia became the majority owner of the company with a share of 75%, while Steiermaerkische Bank und Sparkassen AG, Graz, Austria reduced its share to 25%.

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

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

As at 31 December 2021, the Company had 50 employees (31 December 2020: 50 employees).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Bank's separate financial statements (the "financial statements") as at and for the year ended 31 December 2021 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and the regulations of the National Bank of Serbia governing the financial reporting of banks.

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

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

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

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

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

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

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

A) New and amended standards and interpretations

The following amended standards entered into force on 1 January 2021, but did not have a material impact on the Group:

- **Interest rate benchmark (IBOR) reform (phase 2) – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** issued in August 2020 and effective for annual periods beginning on or after January 01, 2021. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- End date for Phase 1 relief for non-contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

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

- **IFRS 16 Leasing - COVID-19 Tenant Benefits (Amendment)** issued in March 2021 and effective for annual periods beginning on or after April 01, 2021. The bank did not have an annuity reduction for leasing contracts as a direct consequence of Covid-19.
- **IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).** IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

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

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.** Amendments to IFRS 10 and IAS 28 issued in 2014 and effective for annual periods beginning on or after a date to be determined by the IASB. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. This amendments have not yet been adopted by EU. Management has assessed that effects of this changes will not have a material impact on the Bank's financial statements.
- **IAS 1 Presentation of Financial Statements: Classification of Short-Term and Long-Term Liabilities (Amendments).** The amendments are effective for annual reporting periods beginning on or after January 01, 2022, and earlier application is permitted. The International Accounting Standards Board has issued an exposure proposal to postpone the effective date of these amendments until January 01, 2023. The amendments aim to promote consistency in the application of requirements by helping companies determine whether a statement of financial position, debts and other liabilities with an uncertain maturity date should be classified as short-term or long-term. The amendments affect the presentation of liabilities in the statement of financial position and do not change the existing requirements regarding the measurement or timing of recognition of any assets, liabilities, income or expenses, or the information that companies disclose about these items. Also, the amendments clarify the requirements for the classification of debt that a company can settle by issuing its own equity instruments. These changes have not yet been adopted by the EU. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. On the other side, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the paying of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.The effects of these changes are not expected to have a 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)

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

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Potential Liabilities and Potential Assets and Annual Improvements 2018-2020 (Amendments).**The amendments are effective for annual reporting periods beginning on or after January 01, 2022, with earlier application permitted. The International Accounting Standards Board has issued amendments to the narrow-scope IFRS as follows:
  - **IFRS 3 Business Combinations (Amendments)** was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceppхatual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.
  - **IAS 16 Property, Plant and Equipment (Amendments)** prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.
  - **IAS 37 Provisions, Potential Liabilities and Potential Assets (Amendments)** specifies what costs an entity includes in determining the cost of performing a contract to assess whether the contract is harmful. IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.
  - **Annual improvements 2018-2020** lead to minor changes to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and Illustrative Examples of IFRS 16 Leasing.

  The effects of these changes are not expected to have a 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)

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

- **Amendments to IFRS 17 and an amendment to IFRS 4** (issued on June 25, 2020 and effective for annual periods beginning on or after January 01, 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:
    - Effective date: The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after January 01, 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after January 01, 2023.
    - Expected recovery of insurance acquisition cash flows: An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
    - Contractual service margin attributable to investment services: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
    - Reinsurance contracts held – recovery of losses: When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
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- **Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023).** The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. Basis for consolidation

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

Income and expenses of the subsidiary are included in the consolidated income statement from the effective date of control acquisition. Financial statements of the subsidiary are adjusted as necessary to align their accounting policies with those used by the Bank as the parent entity of the Group. All balances receivable or payable, income and expenses arising from intra-group transactions are eliminated in full upon consolidation. The non-controlling interest represents a share in the profit or loss and equity of the subsidiary of which the Bank is neither direct nor indirect owner. The non-controlling interest is presented separately in the Group's income statement and within equity in the balance sheet, separately from the Bank's equity.

2.3. Business Combinations

As at 31 December 2021 the Bank holds 75% ownership of the Leasing. At the date of acquisition, total assets of the S-Leasing amounted to RSD 3.092.233 thousand, total equity amounted to RSD 60.455 thousand while the loss amounted to RSD 113.284 thousand. On 31 December 2021, total assets of the Leasing amounted to RSD 15.392.624 thousand, total equity amounted to RSD 67.500 thousand while the profit amounts to RSD 159.218 thousand.

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

The application of the method is as follows:

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

2.4. Interest income and expense

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

For all financial instruments measured at amortized cost, financial instruments at fair value through other comprehensive income, and financial assets classified as not available for sale at fair value through income statement, interest income or expense at 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 gross carrying amount of the financial asset (amortized cost before decrease for expected credit loss)
- the amortized cost of financial liability

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Interest income and expense (continued)

Unwinding as interest income on impaired loans and advances to customers is calculated using the effective interest rate on the amortized value (net worth) of loans and placements. Interest income also includes gains and losses from modifications recognized on financial assets classified as Stage 1.

2.5. Fee and Commission Income and Expenses

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

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

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

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

/ii/ Fee Income Earned from Transaction Services

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

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

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

Net gains / losses arising from changes in the fair value of financial instruments measured at fair value through profit or loss includes the effects of adjusting the fair value of securities valued through profit or loss and derivatives other than those intended to risk protection.

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

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

2.8. Net gain / loss on derivatives and hedge accounting

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

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

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

2.10. Foreign Exchange Translation

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10. Foreign Exchange Translation

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

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

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

2.11. Financial instruments

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

2.11.1. Methods of measuring financial instruments

a) Amortised cost and Effective interest rate

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

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

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

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

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

Interest income is calculated as follows:

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

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

b) Fair value

The fair value is defined as the price that would be received for a sale of the asset or would be paid for transfer of the obligation in a normal transaction between market participants on the measurement date. This definition of fair value also applies to the measurement of the fair value of non-financial assets and liabilities. More detailed disclosure on valuation models and hierarchy of instruments that are valued at fair value are given in Note 36.10. Fair value of financial assets and liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11. Financial instruments (continued)

2.11.2. Initial recognition and measurement

a) Initial recognition

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

b) Initial measurement

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

"Day 1" Profit

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

2.11.3. Classification and subsequent measurement

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

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

The Group classified the financial assets into the following categories:

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

Subsequent valuation of financial assets depends on their classification.

2.11.3.1. Financial assets at amortised cost

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

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

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

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

Interest income on these assets is calculated by effective interest method and is included under the position 'Net interest-income based on interest rate' in the statement of income. Impairment gains or losses are included in the position 'Net loss from impairment of financial assets that are not valued at fair value through profit and loss account'. Gains and losses from derecognition (such as sales) of the assets are reported under the line item 'Gains/losses from derecognition of financial assets measured at amortised cost'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11. Financial instruments (continued)

2.11.3.2. Financial assets at fair value through other comprehensive income

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

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

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

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

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

2.11.3.3. Financial assets at fair value through profit and loss

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

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

The Group does not have debt financial instruments that have not passed the SPPI test nor designed to be measured at fair value through profit and loss.

2.11.3.4. Reclassification of financial assets

The Group reclassifies financial assets only when it changes its business model. If the Group changes its business model for financial assets management, it will apply reclassification prospecitvely from the reclassification date. The Group will not make amendments to previously recognized gains, losses or interest.
There were no reclassifications of financial assets made by the Group during 2021.

2.11.3.2 Equity instruments

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

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

The effects of changes in the fair value of equity instruments measured at fair value through profit or loss are recorded under the item "Net gains on changes in the fair value of financial instruments".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11. Financial instruments (continued)

2.11.4. Impairment of financial instruments under IFRS 9

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

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

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

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

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

1) Stage 1

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

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

2) Stage 2

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11. Financial instruments (continued)

2.11.5. Derecognition of financial assets and liabilities

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

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

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

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

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

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

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

2.11.6. Restructured Loans

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

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

Forbearance represents restructuring caused by:

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

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

2.11.7. Issued Financial Instruments and Other Financial Liabilities

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11. Financial instruments (continued)

2.11.7. Issued Financial Instruments and Other Financial Liabilities

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 using the method of effective interest rate.

Other Liabilities

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

2.12. Offsetting Financial Assets and Financial Liabilities

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

2.13. Cash and Cash Equivalents

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

2.14. Repurchase Transactions ("Reverse Repo" Transactions)

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15. Intangible Assets

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

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

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

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

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

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

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

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

2.16. Property, plant, equipment and investment property

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

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

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

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

Buildings	33 to 50 years
Computer equipment	4 to 6 years
Other equipment	5 to 10 years

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

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

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

Gains or losses from the disposal or selling of property and equipment are credited to income statement, as a part of other operating incomes or operating and other operating expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17. Impairment of Non-Financial Assets

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

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

2.18. Leasing from the Group's perspective as a lessee

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

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

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

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

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

2.19. Provisions, Contingent Liabilities and Contingent Assets

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20. Employee benefits

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

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

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

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

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

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

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

(c) Short-Term Compensated Absences

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

(d) Allocation of free shares

All employees of the Bank, who have been employed for more than 6 months as at 31 december 2021, will be given free shares of Erste Groupe Bank AG in the net amount of EUR 350, provided that the General Meeting of the Erste Groupe Bank AG of 2022 makes a decision on the distribution of dividends. The bank has recognized, based on the number of employees with this right, the amount of RSD 46.679 thousand in the income statement within line "salary expenses" and as a liability in balance sheet under other liabilities.

2.21 Financial Guarantees

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

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

Any increase in the liability relating to the financial guarantees is recognized in the income statement within the item "Net expenses / income from impairment of financial assets not valued at fair value through profit and loss". The premium received is recognized in the income statement within the fee and commission income, depending on the type of fee. A Group receives certain types of fees on a one-off basis and those that are charged for a known period of time are deferred on a straight-line basis over the life of the guarantee.

The contractual guarantees are contracts that provide compensation if the other party fails to fulfil its contractual obligation. Such contracts transfer, in addition to the credit risks, the 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22. Repossessed Assets

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

Assets acquired in such a way can be classified as:

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

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

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

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

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23. Taxes and Contributions

(a) Income Taxes

Current Income Tax

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

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

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

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

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

Deferred Income Taxes

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

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, associates, and joint ventures 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, effect of changes in accounting policies based on which the correction of relevant positions in balance sheet are made 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, and joint ventures 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24. Taxes and Contributions (continued)

(b) Indirect Taxes and Contributions

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

2.24. Segment Reporting

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

2.25 Managed Funds

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

2.26 Changes in the presentation of comparative data

Based on the recommendation of the NBS, related to the uniform presentation in the financial statements of exchange rate differences and earnings on the basis of foreign exchange transactions, the Bank performed an analysis and quantified the amounts that it is obliged to disclose separately.

In this regard, for 2021 in Note 5 Fee and commission income and expenses and Note 9 Net income (expenses) from exchange differences and effects of the contracted currency clause, the Bank has quantified and separately disclosed these positions.

In order to establish comparability of data for 2020, the Bank reclassified from the positions Net income (expenses) from exchange differences and effects of the contracted currency clause RSD 404.336 thousand gain and RSD 24.281 thousand loss to positions Fee and commission income (expense) in income statement.

4. KEY ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) SPPI assessment

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

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

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

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

For assets with interest mismatches resulting only from prior rates, SPPI compliance is considered to be met based on a qualitative assessment if the time lag between the fixation of the rate and the start of the interest period does not exceed one month.

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

Also, the loan portfolio has been tested in respect of the early repayment fee.

The management of the Group believes that all loans meet the SPPI criteria.

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Business model assessment

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

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

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

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

Business models of the Group:

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

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

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

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

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

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

(c) Credit Loss Allowance

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

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

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(d) Determining the Fair Value of Financial Instruments

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

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

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

(e) Provisions for litigation

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

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

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

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

Issues that are either contingent liabilities or do not meet the criteria for recognition of a provision are disclosed unless the probability of an outflow of economic resources is remote. Note 37 (b) discloses information about the Group's contingent liabilities in litigation.

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

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

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

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

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

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

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

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

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

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

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

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

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

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

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

Discout rate – incremental borrowing rate	31.12.2021.
Average incremental borrowing rate - facilities	2,86%
Average incremental borrowng rate - vehicles	2,76%

4. INTEREST INCOME AND EXPENSES

In RSD '000

	2021	2020
Interest income		
– Finance and insurance institutions	24.069	39.535
– Public non-financial companies	282.033	240.068
– Corporate customers	3.347.730	3.195.890
– Entrepreneurs	152.664	155.650
– Public sector	2.341.277	2.122.299
– Retail customers	5.295.927	4.791.614
– Non-residents	19.541	19.405
– Agricultural producers	11.881	14.743
– Other customers	29.930	18.195
Total	**11.505.052**	**10.597.399**
Interest expense		
– Finance and insurance institutions	431.781	547.503
– Public non-financial companies	3.312	2.697
– Corporate customers	425.695	386.885
– Entrepreneurs	5.358	3.841
– Public sector	369.804	260.280
– Retail customers	249.795	211.206
– Non-residents	637.131	710.196
– Households and agricultural producers	-	1
– Other customers	86.237	27.514
Total	**2.209.113**	**2.150.123**
Net Interest Income	**9.295.939**	**8.447.276**

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

In RSD '000

	2021	2020
Interest Income		
Cash funds held at Central Bank	31.263	44.129
Securities valued at amortised cost	1.477.169	1.193.289
Securities valued at FV through other comprehensive income	620.781	652.386
Securities valued at FV through profit and loss	159.318	152.772
Placements and advances to clients	8.178.258	7.630.849
Placements and advances to credit institutions	506.037	437.620
Interest-bearing swap valued at FV through profit and loss	104.453	101.601
Other interest income	427.773	384.754
Total	**11.505.052**	**10.597.399**
Subordinated liabilities	128.521	141.312
Bank deposits	568.694	675.893
Customer deposits	1.057.154	938.624
Securities valued at amortised cost	261.572	167.491
Securities valued at FV through other comprehensive income	100.072	63.683
Issued bonds	8.838	81.554
Interest-bearing swap valued at FV through profit and loss	80.251	78.113
Other interest liabilities	4.011	3.453
Total	**2.209.113**	**2.150.123**
Net interest income	**9.295.939**	**8.447.276**

5. FEE AND COMMISSION INCOME AND EXPENSES

	2021	In RSD '000 2020 restated
Fee and commission income		
Domestic and foreign payment transaction services	1.875.854	1.587.431
Loans operations	31.403	30.889
Deposits operation	1.356.841	1.102.675
Payment cards operations	37.810	42.442
Guarantees and other warranties	237.479	195.606
Other fees and commissions	189.974	134.841
Foreign currency sales transactions	446.298	404.336
Total	**4.175.660**	**3.498.220**
Fee and commission expense		
Deposits operation	762	6
Domestic and foreign payment transaction services	802.281	664.254
Other fees and commissions	598.165	506.452
Foreign currency sales transactions	16.815	24.281
Total	**1.418.023**	**1.194.993**
Net fee and commission income	**2.757.637**	**2.303.227**

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

	2021	In RSD '000 2020
Gains from changes in the value of assets and liabilities		
Gains from changes in value of other derivatives	1.223.746	833.646
Gains from changes in value of financial assets valued at FV through profit and loss	107.717	100.717
Gains from changes in value of financial liabilities valued at FV through profit and loss	-	31.365
Total	**1.331.463**	**965.728**
Losses from changes in the value of assets and liabilities		
Losses from changes in value of other derivatives	887.369	1.000.294
Losses from changes in value of financial assets valued at FV through profit and loss	147.432	77.580
Losses from changes in value of financial liabilities valued at FV through profit and loss	39.006	52
Total	**1.073.807**	**1.077.926**
Net gains (losses) from changes in the FV of financial instruments	**257.656**	**(112.198)**

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

		In RSD '000
	2021	2020
Gains from derecognition of financial instruments		
Gains from derecognition of financial instruments valued at FV through profit and loss	12.370	47.329
Gains from derecognition of financial instruments value at FV through other comprehensive income	3.483	21
Total	**15.853**	**47.350**
Losses from derecognition of financial instruments		
Gains from derecognition of financial instruments valued at FV through profit and loss	9.170	2.750
Gains from derecognition of financial instruments through other comprehensive income	4.370	-
Total	**13.540**	**2.750**
Net gains from derecognition of financial instruments value at FV	**2.313**	**44.600**

8. NET GAINS FROM HEDGING

		In RSD '000
	2021	2020
Gains from hedging		
Gains from changes in value of placements and receivables	1.499	1.182
Total	**1.499**	**1.182**
Losses from hedging		
Losses from changes in value of placements and receivable	-	409
Ukupno	**-**	**409**
Net gains from hedging	**1.499**	**773**

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 (LOSSES) AND POSITIVE CURRENCY CLAUSE EFFECTS

		In RSD '000
	2021	2020 restated
Foreign exchange difference gains	3.698.129	8.199.853
Foreign exchange difference losses	(3.987.313)	(7.991.677)
Gains on currency clause effects	166.109	214.710
Lossess on currency clause effects	(81.656)	(172.632)
Net Income (Expenses) of Foreign Exchange and currency clause effects	**(204.732)**	**250.254**

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

In RSD '000

	2021	2020
Gains from impairment of financial asset not valued at FVTPL		
Gains from reversal of indirect write-offs of financial asset valued at amortized cost	7.506.927	4.538.307
Gains from reversal of impairment of financial assets valued at FV through other comprehensive result	8.241	2.589
Gains from reversal of provisions for off-balance sheet items	393.747	678.731
Gains from the modification of financial instruments	31.497	6.327
Total	**7.940.412**	**5.225.954**
Losses from impairment of financial asset not valued at FVTPL		
Losses from indirect write-offs of financial asset valued at amortized cost	8.719.408	6.313.126
Losses from impairment of financial assets valued at FV through other comprehensive result	7.011	3.639
Losses from provisions for off-balance sheet items	431.822	654.189
Losses from the modification of financial instruments	45.470	347.167
Total	**9.203.711**	**7.318.121**
Net losses from impairment of financial asset not valued at FVTPL	**(1.263.298)**	**(2.092.167)**

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

In RSD '000

	2021	2020
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)	(9.168)	(17.412)
– loans and advances to banks and other financial institutions (Note 21(d))	(6.171)	(5.761)
- loans and advances to customers (Note 22d)	(5.145.043)	(3.720.304)
– other assets (Note 25)	(70.286)	(73.724)
	(5.230.668)	**(3.817.201)**
Provisions for losses on off-balance sheet assets (Note 31)	(176.308)	(157.042)
Total losses from impairment of financial assets and credit risk off-balance sheet items	**(5.406.976)**	**(3.974.243)**
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)	2.918	138
– loans and advances to banks and other financial institutions (Note 21(b))	2.957	4.706
- loans and advances to customers (Note 22)	4.015.838	2.032.070
– other assets (Note 25)	6.264	6.787
	4.027.977	**2.043.701**
Provisions for losses on off-balance sheet assets (Note 31)	138.231	181.584
Total gains from impairment of financial assets and credit risk off-balance sheet items	**4.166.208**	**2.225.285**
Net losses from impairment	**(1.240.768)**	**(1.748.958)**

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

In RSD '000

	2021.	2020.
Gains from derecognition of financial instruments valued at amortized cost		
Gains from derecognition_other stages	5.284	-
Gains from derecognition_stage 3 and POCI per AC	23.125	28.237
Total:	**28.409**	**28.237**
Losses from derecognition of financial instruments valued at amortized cost		
Losses from derecognition_other stages	-	10.776
Losses from derecognition_stage 3 and POCI per AC	38.770	2.413
Total:	**38.770**	**13.189**
Net gains (losses) from derecognition of financial instruments valued at amortized cost	**(10.361)**	**15.048**

12. OTHER OPERATING INCOME

	2021	In RSD '000 2020
Income from consulting services	3.217	3.217
Income from rent	6.673	6.445
Income from IT services	14.251	9.045
Other income	74.469	48.491
Dividend income and other income from shares	454	424
Total	**99.064**	**67.622**

13. COST OF SALARIES, CONTRIBUTIONS AND OTHER PERSONNEL EXPENSE

	2021	In RSD '000 2020
Net salaries and benefits	1.737.340	1.566.839
Payroll taxes and contributions charged to the employee	633.399	590.874
Retirement benefits, jubilee awards, bonuses and annual leave	275.708	338.603
Other staff costs	125.198	78.119
Revenues from reversal of provisions (Note 31)	(6.676)	-
Provision expenses for retirement (Note 31)	34.831	34.094
Total	**2.799.800**	**2.608.529**

14. DEPRECIATION COSTS

	2021	In RSD '000 2020
Depreciation expense:		
– Tangible assets (Note 23)	562.887	546.583
– Intangible assets (Note 23)	136.700	92.427
Total	**699.587**	**639.010**

15. OTHER INCOME

	2021	In RSD '000 2020
Income from collection of written receivables	256.507	202.190
Reversal of unused provision for liabilities	-	3
Reversal of unused other provision	15.125	4.427
Income from sale of properties and intangible assets	188	111
Other income	56.862	47.377
Total	**328.682**	**254.108**

16. OTHER EXPENSES

	2021	In RSD '000 2020
Professional services	2.030.427	1.876.338
Donations and sponsorships	34.968	32.640
Marketing and advertising	218.144	224.055
Telecommunication services and postage	79.391	64.596
Insurance premiums	545.688	448.502
Rental cost	81.431	78.596
Cost of materials	136.813	117.930
Taxes and contributions payable	120.916	130.088
Maintenance of fixed assets and software	621.582	660.367
Losses on sale and disposal of fixed and intangible assets	490	207
Payroll contributions payable by the employer	345.216	321.093
Per diems and travel expenses	72.410	63.986
Training and counselling	22.119	17.230
Provision expenses for litigations (Note 31)	561.016	507.348
Other	187.618	79.423
Total	**5.058.229**	**4.622.399**

17. INCOME TAXES

(a) Components of Income Taxes

	Erste Bank 31.12.2021.	S Leasing 31.12.2021	Erste Bank 31.12.2020.	S Leasing In RSD '000 31.12.2020.
Current income tax expense	(109.647)	(32.635)	-	(24.951)
Gains on created deferred tax assets and decrease of deferred tax liabilities	3.808	70	118.991	784
Total	**(105.839)**	**(32.565)**	**118.991**	**(24.167)**

17. INCOME TAXES

(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

	Erste Bank 31.12.2021.	S Leasing 31.12.2021.	Erste Bank 31.12.2020.	S Leasing 31.12.2020.
Profit before tax	**2.515.000**	**191.782**	**1.214.271**	**94.335**
Income tax at the rate of 15%	**377.250**	**28.768**	**182.141**	**14.150**
Tax effects of expenses not recognized for the tax purposes	76.360	3.867	133.513	10.801
Recognized deferred tax assets based on losses from previous years	-	-	(40.244)	-
Tax effects of non-taxable income (interest on securities issued by the Republic of Serbia, Autonomous Province, local self-government or NBS)	(284.470)	-	(299.129)	-
Tax effects of first implementation of IFRS 9	(8.263)	-	(16.525)	-
Other	(55.038)	(70)	(78.747)	(784)
Total tax expense(income) stated in the income statement	**105.839**	**32.565**	**(118.991)**	**24.167**
Effective income tax rate	4,21%	16,98%	0,00%	25,62%

(c) Deferred Tax Components

	Erste Bank 31 Decembar 2021		S Leasing 31 Decembar 2021	
	Temporary difference amount	**Deffered tax amount**	**Temporary difference amount**	**Deffered tax amount**
Deductible temporary difference per difference between the carrying value and tax base of fixed assets – deferred tax assets	207.325	31.099	2.205	332
Deductible temporary difference per adjustment of securities to fair value – deferred tax liabilities	(152.752)	(22.913)	-	-
Deductible temporary difference per prior years' tax loss carryforwards – deferred tax assets	-	-	(1.024)	(154)
Deductible temporary difference based on provisions for litigations- deferred tax assets	1.045.849	156.877	12.034	1.805
Deductible temporary difference based on provisions for jubilee awards- deferred tax assets	140.993	21.149	5.434	815
Deductible temporary difference based on retirement provisions deferred tax assets	174.877	26.232	1.764	265
Deductible temporary difference based on retirement provisions - actuarial gain - deferred tax liabilities	40.104	6.016	(539)	(81)
Deductible temporary difference based on the provision of state securities - deferred tax liability	(18.022)	(2.703)	-	-
Temporary differences based on the effect of IFRS 9	55.084	8.263	523	78
Balance as at 31 December	**1.493.458**	**224.019**	**20.397**	**3.059**

17. INCOME TAXES (continued)

c) Deferred Tax Components

	Erste Bank		S Leasing	
	31 Decembar 2020		31 Decembar 2020	
	Temporary difference amount	Deffered tax amount	Temporary difference amount	Deffered tax amount
Deductible temporary difference per difference between the carrying value and tax base of fixed assets – deferred tax assets	188.213	28.232	1.634	245
Deductible temporary difference per adjustment of securities to fair value – deferred tax liabilities	(635.260)	(95.289)	-	-
Deductible temporary difference per prior years' tax loss carryforwards – deferred tax assets	268.294	40.244	523	78
Deductible temporary difference based on provisions for litigations- deferred tax assets	712.380	106.857	13.451	2.018
Deductible temporary difference based on provisions for jubilee awards- deferred tax assets	136.749	20.512	5.125	769
Deductible temporary difference based on retirement provisions deferred tax assets	182.940	27.441	1.768	268
Deductible temporary difference based on retirement provisions - actuarial gain - deferred tax liabilities	49.458	7.419	(206)	(31)
Temporary differences based on the effect of IFRS 9	110.168	16.525	(2.049)	(307)
Balance as at 31 December 2020	**1.012.942**	**151.941**	**20.246**	**3.040**

(d) Changes in deferred taxes

	Erste Bank	S Leasing	Erste Bank	S Leasing
				U RSD hiljada
	31.12.2021.	31.12.2021.	31.12.2020.	31.12.2020.
Balance of deferred tax assets (liabilities) as at 1 January	151.941	3.039	(7.265)	2.044
Effect of temporary tax differenced recognized in the income statement	3.808	70	118.991	784
Effect of temporary tax differenced recognized in equity	68.270	(50)	40.215	211
Deferred tax assets (liabilities) balance as at 31 December	**224.019**	**3.059**	**151.941**	**3.039**

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

		In RSD '000
	2021	2020
Based on portable unused tax credits under the law on conversion of housing loans indexed in Swiss francs	10.986	21.973

In Note 17, the Bank presented data from the tax balance of individual subsidiaries, bearing in mind that the Bank, as a parent legal entity, does not perform tax consolidation in accordance with Article 55 of the Law on Income Tax of legal entities.

18. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

In RSD '000

	31.12.2021	31.12.2020
In RSD		
Current account	11.251.757	13.650.653
Cash on hand	3.633.331	2.612.940
Deposits of surplus liquid assets	-	1.300.000
Receivables for accrued interest, fee and commission on cash and funds with NBS	-	4
	14.885.088	**17.563.597**
In foreign currencies		
Cash on hand	3.098.154	2.814.671
Obligatory foreign currency reserve held with NBS	21.946.699	15.024.363
	25.044.853	**17.839.034**
Total	**39.929.941**	**35.402.631**

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 (current) account over the accounting period.

The obligatory RSD reserve balance that had to be maintained from 18 December 2021 to 17 January 2022 amounted to RSD 14.417.875 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 0,10% 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 2021 to 17 January 2022 amounted to EUR 151.837 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

	31.12.2021	31.12.2020
In RSD		
Financial assets at FV through profit and loss		
– FV of derivatives intended for trading (FVTPL)	29.812	22.245
	29.812	**22.245**
In foreign currency		
Financial assets at FV through profit and loss		
– FV of derivatives intended for trading (FVTPL)	255.636	386.166
	255.636	**386.166**
Balance as of December 31	**285.448**	**408.411**

20. SECURITIES

	31.12.2021.	In RSD '000 31.12.2020.
In RSD		
Debt securities		
– bonds (AC)	32.243.492	27.163.004
– bonds (FVTPL)	5.815.688	3.780.083
- T/bills (FVTPL)	-	1.477.473
– bonds (FVTOCI)	10.542.336	11.159.358
Equity securities		
– shares in equity (FVTPL)	27.047	27.251
	48.628.563	**43.607.169**
In foreign currency		
Debt securities		
– bonds (AC)	2.357.500	849.515
– bonds (FVTPL)	4.301.393	5.718.121
– bonds (FVTOCI)	3.189.088	3.890.448
– T-bills (FVTOCI)	(44.953)	46.313
Equity securities		
– other securities available for sale - VISA shares (FVTOCI)	112.503	103.544
	9.915.531	**10.607.941**
Total securities	**58.544.094**	**54.215.110**
Minus: Expected credit loss (AC)	(44.371)	(38.059)
Balance as of December 31 - with pledged financial resources	**58.499.723**	**54.177.051**
Of which pledged financial assets		
Debt securities		
– T-bills (FVTPL)	-	514.289
– bonds (AC)	-	4.108.189
Total pledged financial resources	**-**	**4.622.478**
Balance as of December 31 - without pledged financial assets	**58.499.723**	**49.554.573**

On 31 December 2021 Group did not have any pledged financial assets.

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

20. SECURITIES (continued)

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

In RSD '000

	Opening balance	Increase due to recognition and acquisition	Decrease due to recognition and acquisition	Increase due to credit risk change	Decrease due to credit risk change	Foreign exchange differences	Closing balance
Changes in impairment allowances of financial assets							
Stage 1	**38.059**	**9.150**	**519**	**18**	**2.399**	**62**	**44.371**
Other companies	2.754	-	-	-	2.140	-	614
Public sector	35.305	9.150	519	18	259	62	43.757
TOTAL	**38.059**	**9.150**	**519**	**18**	**2.399**	**62**	**44.371**

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

In RSD '000

	31 December 2021			31 December 2020		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Revocable deposits and loans	5.686.426	-	**5.686.426**	-	-	**-**
Loans	39	14.151	**14.190**	-	16.729	**16.729**
Deposits	10.000	-	**10.000**	5.000	-	**5.000**
Other placements	-	-	**-**	-	1	**1**
	5.696.465	**14.151**	**5.710.616**	**5.000**	**16.730**	**21.730**
In foreign currency						
Foreign currency accounts	925.843	-	**925.843**	1.673.727	-	1.673.727
Revocable deposits and loans	106		**106**	-	-	-
Loans	-	32.069	**32.069**	1.176.816	42.652	1.219.468
Deposits placed	4.703	-	**4.703**	4.704	-	4.704
Other placements	25.914	-	**25.914**	27.969	-	27.969
	956.566	**32.069**	**988.635**	**2.883.216**	**42.652**	**2.925.868**
Gross loans and receivables	**6.653.031**	**46.220**	**6.699.251**	**2.888.216**	**59.382**	**2.947.598**
Less: Impairment allowance			(6.055)			(2.793)
			(6.055)			**(2.793)**
Loans and receivables due from banks and other financial institutions			**6.693.196**			**2.944.805**

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

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

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

In RSD '000

	Gross book value					Impairment allowance				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
In RSD										
Central bank	3.500.143	-	-	-	**3.500.143**	(1.965)	-	-	-	**(1.965)**
Banks in the country	-	-	-	-	**-**	(574)	-	-	-	**(574)**
Insurance companies	337	14	-	-	**351**	(5)	-	-	-	**(5)**
Financial leasing	1	-	-	-	**1**	-	-	-	-	**-**
Auxiliary activities in providing financial and insurance services	13.837	-	-	-	**13.837**	(110)	-	-	-	**(110)**
Foreign banks	2.196.284	-	-	-	**2.196.284**	(305)	-	-	-	**(305)**
	5.710.602	**14**	**-**	**-**	**5.710.616**	**(2.959)**	**-**	**-**	**-**	**(2.959)**
In foreign currency										
Central bank	106	-	-	-	**106**	-	-	-	-	**-**
Financial leasing	13.246	-	-	-	**13.246**	(2.903)	-	-	-	**(2.903)**
Auxiliary activities in providing financial and insurance services	49.440	-	-	-	**49.440**	(69)	-	-	-	**(69)**
Foreign banks	925.843	-	-	-	**925.843**	(124)	-	-	-	**(124)**
	988.635	**-**	**-**	**-**	**988.635**	**(3.096)**	**-**	**-**	**-**	**(3.096)**
Total as at 31 December	**6.699.237**	**14**	**-**	**-**	**6.699.251**	**(6.055)**	**-**	**-**	**-**	**(6.055)**

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

	Gross book value							
	Tranfer between Stage 1 and Stage 2		Tranfer between Stage 2 and Stage 3		Tranfer between Stage 1 and Stage 3		POCI	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 3 to Stage 2	From Stage 2 to Stage 3	From Stage 3 to Stage 1	From Stage 1 to Stage 3	From Defaulted to Non-Defaulted	From Non-Defaulted to Defaulted
Insurance companies	7	-	-	-	-	-	-	-
Auxiliary activities in providing financial and insurance services	-	10.159	-	-	-	-	-	-
Total	**7**	**10.159**	-	-	-	-	-	-

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 2021 and 31 December 2020:

In RSD '000

	31.12.2021	**31.12.2020**
Without defined maturity	956.566	2.883.216
Under 30 days	5.696.435	5.000
From 1 to 3 months	-	-
From 3 months to 12 months	30	1
Over a year	46.220	59.381
Total	**6.699.251**	**2.947.598**

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

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

In RSD '000

	Balance as at 1 January 2021	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 2021
Changes in credit loss allowances of financial assets								
Stage 1	**2.703**	**5.534**	**1.087**	**637**	**1.792**	**25**	**35**	**6.055**
Central bank	-	1.965	-	-	-	-	-	1.965
Banks in the country	1.604	281	834	571	1.057	9	-	574
Insurance companies	-	1	-	5	1	-	-	5
Financial leasing	642	2.888	232	-	403	-	8	2.903
Auxiliary activities in providing financial and insurance services	57	110	-	1	-	-	11	179
Foreign banks	400	289	21	60	331	16	16	429
Stage 2	**90**	**-**	**-**	**-**	**78**	**-**	**(12)**	**-**
Financial leasing								
Activities auxiliary to financial services and insurance activities	90	-	-	-	78	-	(12)	-
TOTAL	**2.793**	**5.534**	**1.087**	**637**	**1.870**	**25**	**23**	**6.055**

22. LOANS AND RECEIVABLES TO CUSTOMERS

In RSD '000

	31.12.2021			31.12.2020		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Loans	4.695.009	54.213.613	**58.908.622**	2.075.010	49.161.147	**51.236.157**
Other placements	6.072.397	10.166.767	**16.239.164**	4.775.797	8.780.794	**13.556.591**
	10.767.406	**64.380.380**	**75.147.786**	**6.850.807**	**57.941.941**	**64.792.748**
Foreign currency						
Loans	8.724.719	139.425.118	**148.149.837**	4.840.568	136.206.337	**141.046.905**
Deposits placed	89.896	-	**89.896**	82.749	-	**82.749**
Other placements	345.867	59.745	**405.612**	245.828	-	**245.828**
	9.160.482	**139.484.863**	**148.645.345**	**5.169.145**	**136.206.337**	**141.375.482**
Gross loans and receivables	**19.927.888**	**203.865.243**	**223.793.131**	**12.019.952**	**194.148.278**	**206.168.230**
Less: Credit Loss Allowance						
– Individual assessment			(1.403.776)			(1.072.056)
– Collective assessment			(4.254.316)			(3.881.529)
			(5.658.092)			**(4.953.585)**
As at 31 December 2021			**218.135.039**			**201.214.645**

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	2.435.704	5.094	1.034	-	**2.441.832**	(12.386)	(15)	(1.034)	-	**(13.435)**
Other companies	6.268.077	1.868.105	482.916	-	**18.619.098**	(100.942)	(72.276)	(328.537)	-	**(501.755)**
Entrepreneurs	2.369.112	520.833	92.458	-	**2.982.403**	(16.922)	(19.038)	(61.430)	-	**(97.390)**
Public sector	2.538.649	12.769	-	-	**2.551.418**	(4.083)	(80)	-	-	**(4.163)**
Retail customers	38.890.411	7.646.659	1.553.201	64.383	**48.154.654**	(483.478)	(764.670)	(1.165.392)	(16.265)	**(2.429.805)**
Foreign entities	2.747	8	86	-	**2.841**	(4)	(1)	(59)	-	**(64)**
Farmers	60.733	25.442	12.144	-	**98.319**	(2.234)	(3.708)	(7.306)	-	**(13.248)**
Other customers	178.908	68.685	49.628	-	**297.221**	(1.252)	(702)	(38.779)	-	**(40.733)**
	62.744.341	**10.147.595**	**2.191.467**	**64.383**	**75.147.786**	**(621.301)**	**(860.490)**	**(1.602.537)**	**(16.265)**	**(3.100.593)**
In foreign currency										
Public enterprises	8.670.925	-	-	-	**8.670.925**	(41.212)	-	-	-	**(41.212)**
Other companies	79.894.698	5.388.201	1.580.727	52.906	**86.916.532**	(476.073)	(458.738)	(852.738)	(22.426)	**(1.809.975)**
Entrepreneurs	602.151	236.307	86.104	-	**924.562**	(2.310)	(37.820)	(39.447)	-	**(79.577)**
Public sector	744.663	34.061	-	-	**778.724**	(11.725)	(640)	-	-	**(12.365)**
Retail customers	46.937.963	2.328.867	284.956	94.347	**49.646.133**	(142.735)	(170.763)	(162.954)	(6.459)	**(482.911)**
Foreign entities	262.450	30.240	-	-	**292.690**	(6.029)	(3.253)	-	-	**(9.282)**
Farmers	56.349	12.245	35.952	-	**104.546**	(5.529)	(1.210)	(28.661)	-	**(35.400)**
Other customers	1.159.342	34.427	117.464	-	**1.311.233**	(6.149)	(344)	(80.284)	-	**(86.777)**
	138.328.541	**8.064.348**	**2.105.203**	**147.253**	**148.645.345**	**(691.762)**	**(672.768)**	**(1.164.084)**	**(28.885)**	**(2.557.499)**
Total	**201.072.882**	**18.211.943**	**4.296.670**	**211.636**	**223.793.131**	**(1.313.063)**	**(1.533.258)**	**(2.766.621)**	**(45.150)**	**(5.658.092)**

The Bank values all loans at amortized cost.

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

c) Transfer of exposure to loans and receivables from customers 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	
	From Stage 2 to Stage 1	From Stage 1 to Stage 2	From Stage 3 to Stage 2	From Stage 2 to Stage 3	From Stage 3 to Stage 1	From Stage 1 to Stage 3
Other companies	**1.040.080**	**1.755.587**	**120.190**	**-**	**830.316**	**-**
Construction	95.854	14.804	1.369	-	-	-
Agriculture and food industry	139.444	46.737	-	-	241.341	-
Manufacturing industry	69.386	669.995	11.769	-	27.884	-
Production and supply of electricity	-	4	-	-	508.356	-
Trade	63.060	729.075	31.053	-	42.337	-
Services and tourism	672.335	294.972	76.000	-	10.398	-
Entrepreneurs	**213.953**	**206.006**	**30.104**	**-**	**72.818**	**-**
Public sector	**3.205**	**2.361**	**697**	**-**	**525**	**-**
Retail	**1.792.710**	**3.743.256**	**409.192**	**87.716**	**306.645**	**19.925**
Other customers	**184.820**	**11.474**	**46.085**	**-**	**5.838**	**-**
Total	**3.234.768**	**5.718.684**	**606.269**	**87.717**	**1.216.142**	**19.925**

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 2021 and as at 31 December 2020 are presented in the table below:

In RSD '000

	31.12.2021	**31.12.2020**
Without defined maturity	1.892.903	1.719.184
Under 30 days	290.282	272.183
From 1 to 3 months	516.355	585.258
From 3 to 12 months	17.228.349	9.443.327
Over a year	203.865.242	194.148.278
Total	**223.793.131**	**206.168.230**

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

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

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	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 2021
Impairment Stage 1	**1.211.657**	**552.421**	**417.265**	**1.044.420**	**1.132.782**	**(627)**	**98**	**54**	**55.264**	**1.313.044**
Public enterprises	40.559	33.388	23.543	11.464	8.205	-	-	1	(64)	53.600
Other companies	617.259	276.295	209.738	291.882	417.454	(1)	24	43	18.718	576.979
Entrepreneurs	17.963	11.515	5.576	30.865	31.457	1	-	-	(4.105)	19.206
Public sector	15.423	318	128	5.238	5.089	-	50	-	95	15.807
Retail customers	508.656	223.813	169.395	698.822	666.982	(627)	24	(5)	39.717	633.975
Foreign entities	177	293	22	789	482	-	-	17	5.261	6.033
Other customers	11.620	6.799	8.862	5.360	3.114	-	-	(2)	(4.358)	7.443
Impairment Stage 2	**1.556.343**	**862.091**	**525.998**	**648.487**	**940.620**	**3.505**	**52**	**102**	**(70.580)**	**1.533.277**
Public enterprises	2.775	-	2.665	39	154	-	-	2	17	14
Other companies	299.697	352.599	95.444	107.613	95.370	(105)	16	36	(37.913)	531.097
Entrepreneurs	25.129	46.894	11.293	19.797	20.539	(158)	0	3	(3.104)	56.728
Public sector	1.293	-	-	803	1.377	-	-	-	-	719
Retail customers	1.226.581	462.131	416.462	519.162	821.705	3.783	35	61	(33.097)	940.419
Foreign entities	4	-	2	-	-	-	-	-	3.252	3.254
Other customers	863	468	131	1.073	1.476	(15)	1	-	265	1.046
Impairment Stage 3	**2.103.098**	**399.921**	**151.611**	**1.621.790**	**762.557**	**4.117**	**517.786**	**587**	**68.027**	**2.765.587**
Public enterprises	1.545	-	-	-	511	-	-	-	-	1.034
Other companies	700.064	88.936	9	883.798	353.276	54	188.470	52	50.126	1.181.276
Entrepreneurs	51.757	19.586	6.309	58.997	21.298	(146)	11.127	2	9.002	100.464
Retail customers	1.061.916	289.112	145.287	649.993	280.268	4.209	253.855	541	38.364	1.364.725
Foreign entities	28	39	6	-	-	-	-	-	(2)	59
Other customers	289.333	2.248	-	29.002	107.715	-	64.334	(8)	(29.463)	119.063
POCI	**80.942**	**10.719**	**40.763**	**5.193**	**44.242**	**-**	**3.011**	**(3)**	**36.315**	**45.150**
Other companies	26.669	-	2.292	-	28.119	-	-	-	26.168	22.426
Retail customers	54.273	10.719	38.471	5.193	16.123	-	3.011	(3)	10.147	22.724
TOTAL	**4.952.040**	**1.825.152**	**1.135.637**	**3.319.890**	**2.880.202**	**6.995**	**520.947**	**740**	**89.026**	**5.657.058**

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

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

Concentration of loans and receivables from banks and other financial organisations and clients, shown in gross amount as at 31 December 2021 and 31 December 2020, is significant for the following activities:

In RSD '000

	31.12.2021	31.12.2020
Trade	12.899.448	13.578.615
Manufacturing industry	25.630.419	22.690.610
Construction	15.780.382	15.515.444
Production and supply of el. energy	17.185.543	12.717.501
Services and tourism	34.696.572	32.965.249
Agriculture and food industry	7.652.588	7.149.977
Retail customers	98.004.110	90.553.762
Domestic and foreign banks and other financial institutions	6.699.251	2.947.598
Public sector	4.436.229	4.816.779
Non-resident corporate customers	94.069	94.985
Agricultural producers	205.920	245.919
Other customers	2.163.208	1.491.524
Entrepreneurs	5.044.643	4.347.865
Total	**230.492.382**	**209.115.828**

e) Receivables from financial leasing

In RSD '000

	31.12.2021	31.12.2020
Minimum lease payments	15.818.450	14.458.354
Minus: receivables for overdue interest	(871.698)	(874.067)
Receivables from financial leasing	**14.946.752**	**13.584.287**
Due to the remaining minimum lease payments	14.562	13.098
Other receivables from financial leasing	30.999	36.145
	14.992.312	**13.633.530**
Minus deferred income from receivables based on fees for approving financial leasing	(119.252)	(107.234)
	14.873.061	**13.526.296**
Minus: expected credit loss		
- receivables from financial leasing	(297.607)	(299.886)
- receivables for accrued interest	(14.370)	(12.629)
- other receivables based on financial leasing	(30.514)	(33.927)
Total	**14.530.570**	**13.179.854**

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

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	Land and buildings	Equipment	Leased equipement/ Right of Use Assets	Investments in progress	Total fixed assets	Intangible assets in progress	Intangible assets
Cost							
Balance as at 1 January 2020	**773.681**	**1.265.026**	**2.518.016**	**17.120**	**4.573.846**	**455.012**	**1.509.302**
Additions	-	11.726	165.977	479.663	657.366	554.355	-
Transfers	26.978	239.350	-	(264.162)	2.166	(134.190)	135.508
Rebooking	-	19.670	(19.670)	-	-	-	-
Disposal and retirement	-	(121.865)	(45.213)	-	(167.078)	-	(10.857)
Balance as at 31 December 2020	**800.659**	**1.413.907**	**2.619.110**	**232.620**	**5.066.299**	**875.177**	**1.633.953**
Additions	-	7.897	272.187	327.311	607.395	707.228	12.208
Transfers	23.232	289.628	-	(312.860)	-	(40.471)	40.471
Rebooking	-	224.857	(224.857)	-	-	-	-
Disposal and retirement	-	(41.185)	(131.999)	-	(173.184)	-	(12.705)
Balance as at 31 December 2021	**823.891**	**1.895.104**	**2.534.441**	**247.071**	**5.500.506**	**1.541.934**	**1.673.928**
Accumulated depreciation/amortisation							
Balance as at 1 January 2020	**310.520**	**765.358**	**421.799**	**-**	**1.497.677**	**-**	**1.280.918**
Rebooking	(3)	19.670	(19.670)	-	(3)	-	-
Depreciation (Note 14)	19.459	140.917	386.208		546.583		**90.389**
Disposal and retirement	-	(121.659)	(43.772)	-	(165.431)	-	(8.820)
Balance as at 31 December 2020	**329.976**	**804.286**	**744.565**	**-**	**1.878.828**	**-**	**1.362.487**
Rebooking	-	224.857	(224.857)	-	-	-	-
Depreciation (Note 14)	20.062	195.309	347.515	-	562.886	-	136.700
Disposal and retirement	-	(40.699)	(88.372)	-	(129.071)	-	(12.702)
Balance as at 31 December 2021	**350.038**	**1.183.753**	**778.851**	**-**	**2.312.645**	**-**	**1.486.485**
NET BOOK VALUE							
– 31 December 2021	**473.853**	**711.351**	**1.755.590**	**247.071**	**3.187.861**	**1.541.934**	**187.443**
– 31 December 2020	**470.683**	**609.621**	**1.874.545**	**232.620**	**3.187.470**	**875.177**	**271.467**

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

The Group does not have any mortgaging properties to secure repayment of loan obligations. The net book value of the equipment as at 31 December 2021 is mostly composed of computer and telecommunication equipment and office furniture. The net book value of intangible assets as at 31 December 2021 is mostly software and licenses.

Within the scope of right of use assets and lease liablities under IFRS 16 are the following:

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

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

Type of property	Balance on 1 January 2021	Changes during 2021		As at 31 December 2021
	Purchase value	Increase	Decrease	
IT equipment	295.425	-	(224.856)	70.569
Immobilities	2.284.931	273.238	(108.191)	2.449.978
Vehicles	38.753	-	(23.809)	14.944
Total:	**2.619.109**	**273.238**	**(356.856)**	**2.535.491**

The purchase value of IT equipment under financial leasing as of 1 January 2021 is RSD 295.425 thousand and has decreased as at 31 December 2021 and amounts to RSD 70.569 thousand.

The purchase value of real estate (facilities) as right of use assets on 1 January 2021 amounts to RSD 2.284.931 thousand. The increase in the purchase value in the amount of RSD 273.238 thousand refers to the adjustment of the value of assets, as well as indexation in accordance with the harmonized growth rate of consumer prices at the EU level, the so-called HICP index, increase in lease prices and registration of new leases. During 2021, value reductions were recorded due to changes in contractual conditions and cancellation of leases in the amount of RSD 108.191 thousand. On 31.12.2021. the purchase value of real estate (facilities) is RSD 2.449.978 thousand.

The cost of movable property (vehicles) as right of use assets on 1 January 2021 amounts to RSD 38.753 thousand and is reduced by the amount of RSD 23.809 thousand related to cancellation / expiration of the existing lease.

The balance of accumulated depreciation of right of use assets under IFRS 16 is shown in the following table (In RSD '000):

Type of property	Balance on 1 January 2021	Changes during 2021		As at 31 December 2021.
	Accumulated depreciation	Increase	Decrease	
IT equipment	239.560	41.419	(224.857)	56.122
Immobilities	484.131	307.746	(64.832)	727.045
Vehicles	20.875	7.601	(23.540)	4.936
Total:	**744.566**	**356.766**	**(313.229)**	**788.103**

The largest part of intangible investments relates to investments in the new information system of Bank through project LIFT. Capitalization of investment costs is performed for those expenses that arise in the project implementation phase, while other costs are recognized in the bank's balance sheets in accordance with policies and procedures related to intangible assets.

Based on the conducted analysis at the end of 2021, it was determined that there are no indicators of impairment of non-financial assets.

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

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

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

In RSD '000

	31.12.2021.	31.12.2020.
Fixed assets intended for sale and assets from discounted operations	12.252	12.252
Balance as at 31 December	**12.252**	**12.252**

As at 31 December 2021, the Group has registered following fixed assets for sale, which are located in the territory of the Republic of Serbia:

- Zemun, Cara Dušana 266 – business premises of 374 m2.

25. OTHER ASSETS

		In RSD '000
	31.12.2021.	**31.12.2020.**
In RSD		
Financial assets:		
– Receivables for accrued fees and commissions	125.262	41.069
– Trade receivables	498	1.407
– Other receivables from operations by establishing income	38.715	49.983
– Other receivables from standard operations	193.537	148.293
– Prepaid insurance premiums	482.403	522.309
– Coupon interest when buying bonds	151.269	139.662
- Other accruals	182.640	98.770
Non-financial assets:		
– Advances given	15.378	8.534
– Receivables from employees	784	5.050
- Receivables from prepaid taxes and contributions	1.902	513
- Inventories	80.055	79.834
– Other non-financial receivables	28.142	(2.569)
– Other investments	27.006	27.005
– Other receivables	-	61.661
	1.327.595	**1.181.521**
In foreign currency		
Financial assets:		
– Receivables for accrued fees and commissions	-	620
– Trade receivables	277	-
– Other receivables from operations	20	20
– Other receivables from standard operations	61.627	41.869
- Coupon interest when buying bonds	24.574	36.356
– Other receivables	8.336	4.687
Non-financial assets:		
- Advances given	25.217	25.419
- Receivables from employees	905	1.058
- Other non-financial receivables	184	53.826
– Other receivables	5.856	-
	126.996	**163.855**
Gross other assets	**1.454.591**	**1.345.376**
Less: Impairment allowance	(204.322)	(197.689)
Balance as at 31 December	**1.250.269**	**1.147.687**

Other financial assets are valued at amortized cost.

25. OTHER ASSETS (continued)

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

	31.12.2021	In RSD '000 31.12.2020
Balance at beginning of the year	132.462	106.162
New impairment allowances	70.286	73.724
Reversal for impairment allowance	(6.264)	(6.787)
Direct write-offs	(96.512)	(56.120)
Foreign exchange difference	25.701	15.483
Balance of impairment allowances of financial assets as at 31 December	**125.673**	**132.462**
Balance of impairment allowances of non-financial assets as at 31 December	**78.649**	**65.227**
Balance as at 31 December	**204.322**	**197.689**

26. DERIVATIVE LIABILITIES

	31.12.2021.	In RSD '000 31.12.2020.
In RSD		
Liabilities from derivatives intended for trading	2.989	42.242
	2.989	**42.242**
In foreign currency		
Liabilities from derivatives intended for trading	163.411	304.524
	163.411	**304.524**
Balance as at 31 December	**166.400**	**346.766**

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

In RSD '000

	31.12.2021.			31.12.2020.		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Liabilities from deposits and borrowings						
Transaction deposits	1.012.788	-	**1.012.788**	844.906	-	**844.906**
Deposits for approved loans	-	2.514	**2.514**	86	-	**86**
Specific purpose deposits	508		**508**	1.647	-	**1.647**
Other deposits	6.597.028	1.120.005	**7.717.033**	5.903.209	1.378.116	**7.281.325**
Overnight deposits	-	-	**-**	1.300.000	-	**1.300.000**
Loans per repo transactions	-	-	**-**	500.155	-	**500.155**
Borrowings	-	3.762.769	**3.762.769**	3.265	2.683.382	**2.686.647**
Total	**7.610.324**	**4.885.288**	**12.495.612**	**8.553.268**	**4.061.498**	**12.614.766**
In foreign currency						
Liabilities from deposits and borrowings						
Transaction deposits	570.297	-	**570.297**	582.959	-	**582.959**
Deposits for approved loans	-	11.506	**11.506**	-	24.011	**24.011**
Specific purpose deposits	47.519	32.923	**80.442**	281.922	28.220	**310.142**
Other deposits	1.879.426	1.885.256	**3.764.682**	3.401.547	2.850.850	**6.252.397**
Overnight deposits	6.255.367	-	**6.255.367**	-	-	**-**
Loans per repo transactions	-		**-**	3.527.424	-	**3.527.424**
Borrowings	4.312.715	46.705.893	**51.018.608**	2.977.951	51.792.253	**54.770.204**
Other financial liabilities	55.278	-	**55.278**	101.000	24.903	**125.903**
Total	**13.120.602**	**48.635.578**	**61.756.180**	**10.872.803**	**54.720.237**	**65.593.040**
Balance as at 31 December	**20.730.926**	**53.520.866**	**74.251.792**	**19.426.071**	**58.781.735**	**78.207.806**

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

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

In RSD '000

	31.12.2021.	31.12.2020.
Central bank	366	504.383
Domestic banks	59.664	3.412.479
Insurance companies	3.945.844	3.965.100
Finance leasing companies	22.952	63.047
Auxiliary activities within financial services and insurance	8.980.220	9.077.888
Other crediting and financing service providers	2.062	12.892
Foreign banks	61.240.684	61.172.017
Balance as at 31 December	**74.251.792**	**78.207.806**

Deposits of foreign banks mostly relate to the loans of Bank from Erste Group Bank AG, Austria in the amount of RSD 13.874.688 thousand and loan from the European Bank for Reconstruction and Development of RSD 15.098.849 thousand, the loan from the European Investment Bank in the amount of RSD 11.104.271 thousand, and overnight loan from Erste Groupe Bank AG, Austria in the amount of RSD 6.255.368 thousand, and also loan received from KfW Bank in the amount of RSD 4.323.102 thousand.

Also the company S-Leasing on 31.12.2021. has liabilities to foreign banks, mostly related to loans received from Bremer Landesbank in the amount of 4.244.130 thousand dinars, then Steiermaerkische bank und Sparkassen in the amount of 4.737.795 thousand dinars, the European Investment Bank in the amount of 1.486.111 thousand dinars.

28. DEPOSITS AND OTHER FINANCIAL LIABILITIES DUE TO CUSTOMERS

In RSD '000

	31.12.2021.			31.12.2020.		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Liabilities from deposits and borrowings						
Transaction deposits	55.299.478	-	**55.299.478**	49.470.808	-	**49.470.808**
Revocable deposits	500.000	-	**500.000**	-	-	**-**
Savings deposits	1.110.342	1.987.204	**3.097.546**	941.234	799.683	**1.740.917**
Deposits placed for approved loans	313.127	1.133.291	**1.446.418**	384.919	1.871.968	**2.256.887**
Specific purpose deposits	554.935	18.750	**573.685**	398.679	40.814	**439.493**
Other deposits	18.959.945	155.513	**19.115.458**	13.043.574	102.554	**13.146.128**
Total	**76.737.827**	**3.294.758**	**80.032.585**	**64.239.214**	**2.815.019**	**67.054.233**
In foreign currency						
Liabilities from deposits and borrowings						
Transaction deposits	85.360.466	-	**85.360.466**	60.755.934	-	**60.755.934**
Savings deposits	8.540.473	16.938.439	**25.478.912**	8.466.306	20.052.092	**28.518.398**
Deposits placed for approved loans	1.086.369	5.424.370	**6.510.739**	319.673	4.884.055	**5.203.728**
Specific purpose deposits	1.723.502	-	**1.723.502**	996.501	281.914	**1.278.415**
Other deposits	2.854.054	1.938.294	**4.792.348**	7.328.446	2.059.536	**9.387.982**
Borrowings	29.132	2.462.371	**2.491.503**	27.276	2.780.161	**2.807.437**
Other financial liabilities	2.514.316	-	**2.514.316**	989.576	-	**989.576**
Total	**102.108.312**	**26.763.474**	**128.871.786**	**78.883.712**	**30.057.758**	**108.941.470**
Balance as at 31 December			**208.904.371**			**175.995.703**

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

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

		In RSD '000
	31.12.2021.	**31.12.2020.**
Holding companies	32	32
Public companies	1.086.460	1.270.689
Corporate customers	87.759.601	76.599.278
Public sector	3.845.072	3.245.323
Retail customers	97.224.815	79.652.632
Non-residents	4.933.013	4.228.524
Entrepreneurs	6.027.122	4.852.606
Agricultural producers	1.218.293	1.361.459
Other customers	6.809.963	4.785.160
Balance as at 31 December	**208.904.371**	**175.995.703**

29. LIABILITIES FOR ISSUED SECURITIES

In RSD '000

Name	Currency	Nominal value of issued bonds	Maturity date	Interest rate	As at 31 December 2021	As at 31 December 2020
Erste Bank ad Novi Sad	RSD	3.500.000	15.02.2021.	3m belibor+1% p.a.	-	3.512.691
Total		**3.500.000**			**-**	**3.509.426**

At maturity date, 15 February 2021, the nominal value of bonds and the related interest were paid by the Bank.

30. SUBORDINATED LIABILITIES

In RSD '000

	31.12.2021.	31.12.2020.
In foreign currencies		
Subordinated liabilities	3.534.418	3.870.407
	3.534.418	**3.870.407**
Balance as at 31 December	**3.534.418**	**3.870.407**

Balance of subordinated borrowings as at 31 December 2021 and 31 December 2020 is presented in more detail in the table below:

In RSD '000

Creditor	Currency	Loan amount	Maturity	Interest rate	31.12.2021.	31.12.2020.
Erste Group Bank AG	EUR	15.000.000	27.12.2021.	Euribor+3,65 % p.a.	-	335.943
Erste Group Bank AG	EUR	30.000.000	10.09.2028.	Euribor+3,38 % p.a.	3.527.463	3.527.406
Total		**45.000.000**			**3.527.463**	**3.863.349**

The Group has signed on 20 August 2018 a new subordinated loan agreement with Erste Group Bank AG Vienna for the amount of EUR 30.000.000. Term of the loan is 10 years, the interest rate is at the level of the three-month EURIBOR, increased by 3,38% annually. In accordance with the contract, the principal is repaid on the maturity date in one amount.

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

31. PROVISION

In RSD '000

	31.12.2021	31.12.2020
Provisions for losses per off-balance sheet items (a)	294.381	256.154
Provisions for long-term employee benefits (b):		
– retirement benefits	176.641	184.726
– jubilee awards	146.428	141.874
Provisions for litigations (c)	1.057.883	725.831
Other long-term provisions	15.660	12.008
Balance as at 31 December	**1.690.993**	**1.320.593**

Changes in the provisions of off-balance sheet items

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

Evidence based on which the Group performs the individual assessment of impairment are: payments effected on the Group’s accounts with respect to commitments arising from guarantees, avals, 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, taking into account the possibility of future outflows on off-balance sheet items. Commitments and other risk-weighted off-balance sheet items, for which the Group does not expect any outflow of resources and/or it estimates that in the case of an outflow of resources all receivables will be fully collected, the Group collectively assesses them for impairment, in a similar way as for balance sheet items, using the credit conversion factors for off-balance sheet items.

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

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

31. PROVISIONS (continued)

Movements on provision accounts during the year are provided below:

In RSD '000

	31.12.2021	31.12.2020
Provisions for losses per off-balance sheet exposures		
Balance at beginning of the year	256.154	280.891
Charge for the year (Note 10(a))	176.308	157.042
Reversal of unused provisions (Note 10(a))	(138.231)	(181.584)
Other movements	150	(195)
	294.381	**256.154**
Provisions for other long-term employee benefits		
Balance at beginning of the year	326.601	216.435
Provisions in the period through P&L (Note 13)	35.891	35.282
Provisions in the period through other comprehensive income	-	94.414
Reversal of provisions (Note 13)	(6.676)	-
Benefits paid during the year	(23.392)	(12.667)
Actuarial losses/(gains) on jubilee awards	-	1.154
Actuarial losses/(gains) on retirement benefits	(9.355)	(8.019)
	323.069	**326.599**
Provision for litigation		
Balance at beginning of the year	725.832	261.280
Charge for the year (Note 16)	570.526	510.274
Used provision during the year	(239.274)	(46.001)
Other changes	800	279
	1.057.884	**725.832**
Other long-term provisions		
Balance at beginning of the year	12.008	11.288
Other movements	12.253	8.995
Used provisions - payments	(8.602)	(8.275)
	15.659	**12.008**
Balance as at 31 December	**1.690.993**	**1.320.593**

31. PROVISIONS (continued)

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

- data on employees;
- total work experience as at 31 December 2021;
- year of birth and gender;
- the number of years up to the old age pension;
- mortality table for the Republic of Serbia 2010-2012;
- interest rate of 4,17%;
- average salary of Bank's employees (Estimated gross amount)
- Amount of severance pay for retirement: 3 average monthly salaries of employees or 3 average salaries of all employees of the Bank, whichever is higher. According to the new collective agreement, this applies to those whose work experience in the bank is up to 20 years.
- According to the new collective agreement, the amount of severance pay for retirement has been increased - for employees who have been in the bank for more than 20 years of service - 5 salaries, and for more than 30 years - 7 salaries
- 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 2020	**326.599**
Cost of services	
a. Current service cost	23.845
b. Past service cost	2.586
c. Interest costs	11.785
d. Payments	(22.390)
Actuarial gains (-) / losses (+) for jubilee awards arising from:	**(9.174)**
a. Change in demographic assumptions	(196)
b. Change in financial assumptions	(8.978)
c. Change in experiential assumptions	-
Actuarial gains (-) / losses (+) for severance payments arising from:	**(10.183)**
a. Change in demographic assumptions	(2.299)
b. Change in financial assumptions	(7.884)
c. Change in experiential assumptions	-
Present value of employee benefits as at 31 December 2021	**323.069**

31. PROVISIONS (continued)

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

In RSD '000

Changes in provisions for losses on off-balance sheet assets	Balance at the beginning of the period	Increase due to recognition and acquisition	Decrease due to derecognition	Increase due to credit risk change	Decrease due to credit risk change	Change due to foreign exchange differences	Other changes	Balance at period end
Stage 1	155.812	122.217	51.614	32.607	56.315	37	4.238	206.982
Stage 2	17.512	13.081	8.337	3.105	1.925	68	(5.309)	18.195
Stage 3	82.826	108	5.883	5.190	14.157	2	1.118	69.204
Total	**256.150**	**135.406**	**65.834**	**40.902**	**72.397**	**107**	**47**	**294.381**

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	215.374	265.401	-	-	3.000	-
Unused undertaken irrevocable liabilities	53.140	206.951	808	39	2.100	7
Total	**268.515**	**472.352**	**808**	**39**	**5.100**	**7**

32. OTHER LIABILITIES

	31.12.2021.	In RSD '000 31.12.2020.
In RSD		
Financial liabilities:		
Leasing liabilities for unpaid leased fixed assets	21.245	28.350
Liabilities for deferred fee and commission income and other deferred income	4.100	2.130
Other deferred income and accrued expenses	113.543	242.894
	138.888	**273.374**
Non-financial liabilities:		
Trade payables	23.728	11.682
Advances received	84.805	59.116
Liabilities for salaries	6.788	5.892
Liabilities for taxes, contributions and other duties payable	135.314	125.838
Liabilities for accured fee and commission expense and other accrued expense	653.620	712.454
Liabilities for cards operations	173.725	162.882
Liabilities to retailers for POS terminals	42.625	35.473
Other liablities	211.992	79.428
	1.332.597	**1.192.765**
In foreign currencies		
Financial liabilities:		
Leasing liabilities for unpaid leased fixed assets	1.855.068	1.908.105
Liabilities for deferred interest income	49.746	-
Liabilties for deferred fee and commission income and other deferred income	6.391	11.185
Other deferred income and accrued expenses	40.466	2.174
	1.951.671	**1.921.464**
Non-financial liabilities:		
Trade payables	5.373	-
Liabilities per received advances	9.153	2.676
Liabilities for accured fee and commission expense and other accrued expense	162.229	916
Other liabilities	78.395	19.533
	255.150	**23.125**
Balance as at 31 December	**3.678.306**	**3.410.728**

Other financial liabilities are valued at amortized cost.

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

Currency of liability	**31 December 2021**		**31 December 2021**	
	Amount in currency	**Amount in RSD**	**Amount in currency**	**Amount in RSD**
RSD	-	28.350	-	21.245
Currency clause (EUR) Immovables	7.687	856.858	7.141	827.544
Currency clause (EUR) Movable Property	153	17.978	86	10.071
Currency clause (EUR) IT equipment	404	47.542	106	12.488
EUR Facilities	8.383	985.727	8.547	1.004.965
Total	**16.627**	**1.936.455**	**15.880**	**1.876.313**

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

Practical expedients – balance as at 31 December 2021	**Value**
Expenses of short term leases	-
Expenses of low value leases	9.752

33. EQUITY

(a) Structure of the Group's Equity

The total Group's equity as at 31 December 2021 amounts to RSD 37.843.491 thousand and consists of share capital in the amount of RSD 14.107.500 thousand, share premium in the amount of RSD 3.704.504 thousand, reserves from profit and other reserves RSD 16.968.156 thousand, revaluation reserves in the amount of RSD 111.414 thousand, accumulated profit in the amount of RSD 2.792.753 thousand and minority interest in amount of RSD 159.165 thousand.

The total equity structure of the Gtoup is presented below:

In RSD '000

	31.12.2021	31.12.2020
Share capital - ordinary shares	14.107.500	12.909.000
Share premium	3.704.504	2.553.944
Reserves from profit and other reserves	16.968.156	15.634.895
Revaluation reserves	111.414	498.062
Profit	2.792.753	1.597.441
Minority interest	159.165	119.290
Balance as at 31 December	**37.843.491**	**33.312.632**

/i/ Share capital

As at 31 December 2021 the Group's subscribed and paid in capital comprised of 1.410.750 ordinary shares with the par value of RSD 10.000 per share (31 December 2020: 1.290.900 ordinary shares with the par value of RSD 10.000 per share).

In the first quarter of 2021, the Group, on the basis of the Shareholders Assembly Decision on Issuance of Ordinary Shares No. 463/2021-29v/1 form 26 January 2021, realized the 32nd issue of shares without public offering in order to increase the share capital.

The number of shares issued is 119.850, of which Erste Group Band AG has purchased 88.689 shares and Steiermarkische Bank has purchased 31.161 commands. The nominal value of individual shares is RSD 10.000 and the issue price RSD 19.600.

Following the successful issue, the total share capital was increased by RSD 2.349.060 thousand and amounts to RSD 14.107.500 thousand. The majority shareholder of the Bank is EGB AG with 74% and 1.043.955 shares, while Steiermarkische Bank has 26% and 366.795 shares.

The shareholder structure of the Bank as at 31 December 2021 is presented below:

Shareholder	Number of shares	Share %
EGB CEPS HOLDING GMBH	1.043.955	74,00
Steiermärkische Bank und Sparkassen AG, Graz	366.795	26,00
Total	**1.410.750**	**100,00**

33. EQUITY (continued)

/ii/ Share Premium

Share premium amounting to RSD 3.704.504 thousand as at 31 December 2021 (31 December 2020: RSD 2.553.944 thousand) resulted from a positive difference between the selling price of the shares and their nominal value.

/iii/ Reserves from Profit and Other Reserves

Profit reserves formed as at 31 December 2021 amount to RSD 16.968.156 thousand. As at 31 December 2020, reserves from profit amounted to RSD 15.634.894 thousand. Pursuant to the Decision of the Shareholders Assembly of the Group dated 31 March 2021, from the realized profit for 2020, the Group made has allocated the remaining profit to the other reserves in the amount of RSD 1.333.262 thousand.

/iv/ Revaluation Reserves

Revaluation reserves, which as at 31 December 2021 amounted to RSD 111.414 thousand (31 December 2020: 498.063 thousand), were formed as a result of the decrease in the value of investments in securities at fair value through other comprehensive results, adjusted for effects of deferred taxes based on the revaluation of these securities and effects of issuer’s credit risk change, 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	31.12.2021.	31.12.2020.
1. Equity	Minimum EUR 10 million	EUR 314.166.819	EUR 290.935.595
2. Total capital adequacy ratio	Minimum 8%	18,25	18,67
3. Tier 1 capital adequacy ratio	Minimum 6%	16,51	16,73
4. Common Equity Tier 1 capital adequacy ratio	Minimum 4,5%	16,51	16,73
5. Investments of the Group	Maximum 60%	8,76	9,45
6. Exposure to related parties	No limit	10,81	8,52
7. Large and largest possible loans in relation to capital	Maximum 400%	68,69	51,24
8. Liquidity:			
– liquidity indicator	Minimum 0,8	1,30	1,73
– narrower liquidity indicator	Minimum 0,5	1,18	1,69
9. Indicator of liquid assets coverage	Minimum 100%	168,43	201,23
10. Foreign exchange risk indicator	Maximum 20%	1,32	0,82
11. Exposure of the Bank to a group of related parties	Maximum 25%	19,46	15,40
12. Exposure of the Group to a person related to a bank	No limit	9,73	6,11
13. Group's investments in non-financial entities	Maximum 10%	0,07	0,08

34. OFF-BALANCE SHEET ITEMS

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

In RSD '000

	31.12.2021	31.12.2020
Operations on behalf of third parties (a)	561.458	581.391
Guarantees and other irrevocable commitments (b)	94.020.476	63.725.169
Other off-balance sheet positions (c)	315.396.963	321.081.040
Balance as at 31 December	**409.978.897**	**385.387.600**
Bad debt transferred to off-balance sheet items	(1.241.490)	(1.292.046)
Balance as at 31 December	**408.737.407**	**384.095.554**

(a) Operations on behalf of third parties

In RSD '000

	31.12.2021	31.12.2020
Investments on behalf of third parties		
In RSD		
– short-term	17.249	18.227
– long-term	544.209	563.164
Balance as at 31 December	**561.458**	**581.391**

Short-term funds managed on behalf of third parties relate to funds of the Ministry of Agriculture in the amount of RSD 8.507 thousand and on the commission business of farmers in the amount of RSD 8.741 thousand. Long-term funds managed on behalf of third parties relate to long-term housing loans insured with National Mortgage Insurance Corporation amounting RSD 541.703 thousand and long-term loans to agricultural producers in the amount of RSD 1.788 thousand.

(b) Guarantees and other irrevocable commitments

In RSD '000

	31.12.2021.	31.12.2020.
In RSD		
Payment guarantees	3.103.391	2.823.050
Performance guarantees	9.928.473	7.784.677
Irrevocable commitments for undrawn loan facilities	6.351.847	6.136.157
Other off-balance sheet items	5.054.129	1.198.140
Total	**24.437.840**	**17.942.024**
In foreign currency		
Payment guarantees	5.220.867	3.552.057
Performance guarantees	12.855.823	10.164.451
Irrevocable commitments for undrawn loan facilities	48.171.008	28.816.036
Letter of credit	364.977	46.419
Other off-balance sheet items	2.969.961	3.204.182
	69.582.636	**45.783.145**
Balance as at 31 December	**94.020.476**	**63.725.169**

Other off-balance sheet items in dinars refer to letters of intent, while other off-balance sheet items in foreign currency refer to other irrevocable liabilities.

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

34. OFF-BALANCE SHEET ITEMS (continued)

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

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

As at 31 December 2021, the Group's provisions for guarantees and other irrevocable commitments amounted to RSD 294.381 thousand (31 December 2020: RSD 256.154 thousand).

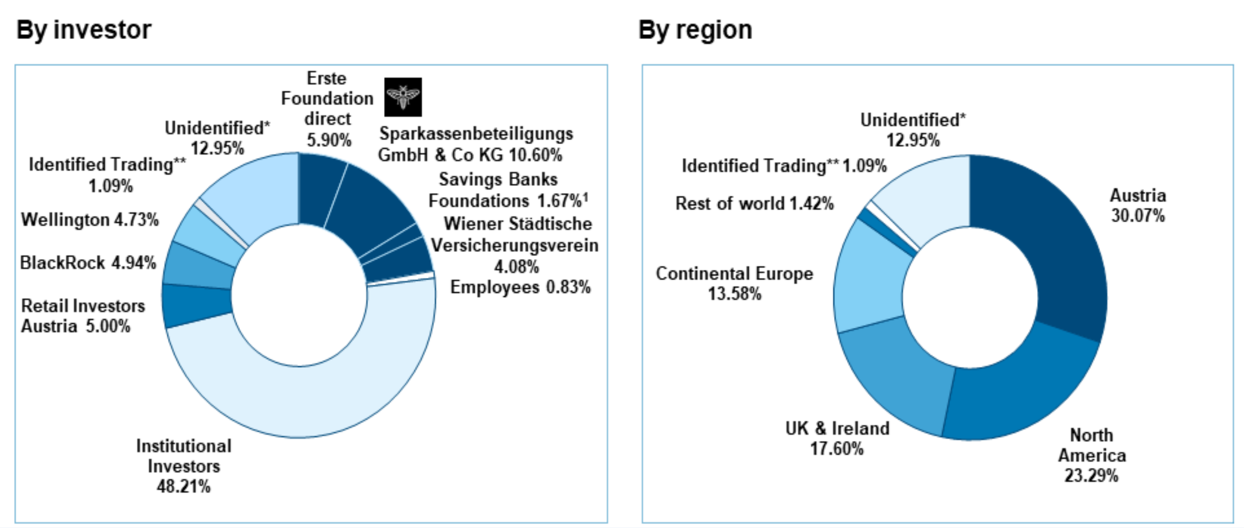
35. RELATED PARTY DISCLOSURES

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

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

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

Shareholder structure of Erste Group is as follows:



35. RELATED PARTY DISCLOSURES (continued)

a) Balance as at 31 December 2021 and 31 December 2020, as well as income and expenses during the year, arising from transactions with legal entities within the Erste Group, are presented in the following tables:

In RSD '000

	31.12.2021		31.12.2020	
	Shareholders	**Other members of Erste Group**	**Shareholders**	**Other members of Erste Group**
Assets				
Receivables from derivatives	100.215	-	3.791	-
Loans and receivables from banks and other financial organisations	3.102.562	12.103	1.655.081	242.119
Loans and receivables due from customers	-	146.489	-	107.948
Property, plant and equipment	-	801.373	-	895.713
Other assets	15.416	1.965	3.542	403
Balance as at 31 December	**3.218.193**	**961.930**	**1.662.414**	**1.246.183**
Liabilities				
Liabilities from derivatives	113.732	-	330.101	-
Deposits and other liabilities due to banks and other financial organizations	29.031.849	46.799	21.761.282	506.762
Deposits and liabilities due to customers	-	102.948	-	222.294
Subordinated liabilities	3.534.418	-	3.870.406	-
Provisions	5	1.389	6	1.664
Other liabilities	1.207	963.319	11.250	1.178.493
Balance as at 31 December	**32.681.211**	**1.114.455**	**25.973.045**	**1.909.213**
Off-balance sheet items				
Guarantees and other warranties issues	75.586	119.832	49.560	108.800
Irrevocable commitments	-	173.425	-	18.434
Other off-balance sheet items	-	1.687.159	-	370.965
Balance as at 31 December	**75.586**	**1.980.416**	**49.560**	**498.199**

35. RELATED PARTY DISCLOSURES (continued)

	31.12.2021		31.12.2020	
	Shareholders	**Other members of Erste Group**	**Shareholders**	**Other members of Erste Group**
Interest income	24.348	20.112	21.451	656
Interest expenses	(478.459)	(36.431)	(509.413)	(27.223)
Fee and commission income	55.461	59.047	48.932	19.580
Fee and commission expenses	(286.510)	-	(261.625)	-
Net gains on changes in FV of financial instruments	552.540	-	-	-
Net loss on changes in FV of financial instruments	-	-	(215.501)	-
Net gains on foreign exchange difference and currency clause effects	13.856	-	93.801	-
Net gains on impairment decrease of financial assets not valued at FV through profit and loss	18	-	-	-
Net loss on impairment of financial assets not valued at FV through profit and loss	(103)	(2.484)	(796)	(1.083)
Other operating income	-	11.310	-	10.297
Depreciation expense	(441)	(99.916)	(441)	(103.409)
Other income	4.395	7.801	3.248	8.032
Other epenses	(156.847)	(767.817)	(167.765)	(805.753)

As at 31 December 2021 and 31 December 2020, placements to related legal entities were not impaired.

Long-term loans were taken at the rate in the range from 0,94% to 3,38%.

Interbank transactions (overnight and short-term borrowings, repo and reverse repo trasactions) are made at prices ranging from 0,09 to 0,63% depending on the currency in which the business is performed.

Guarantee fees with affiliated entities range from 0,1 to 1,96%.

Other transactions on the foreign exchange market, money market and derivative market (spot transaction, foreign currency swap transactions, forward transactions, purchase and sale of cash, interest rate swap, interest rate option, repo and reso transactions), as well as those transactions for which a fee is charged or paid, are also performed at market conditions and prices out of reach.

The interest rate on deposits and other liabilities towards customers related to bank ranges from 0,07% to 9,35%.

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.

35. RELATED PARTY DISCLOSURES (continued)

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

In RSD '000

	Balance as at 31 December 2021	**Income/ (expense) 2021**	**Balance as at 31 December 2020**	**Income/ (expenses) 2020**
Current account overdrafts, credit cards and consumer loans	848	132	874	121
Housing loans	31.855	1.286	33.558	1.376
Other loans and receivables	630	76	695	16
Total impairment allowances	(42)	4	(47)	(20)
Deposits	189.924	(1.064)	111.771	(1.060)
Other liabilities	-	(13)	324	(173)
Unused credit limit	425	-	410	-

Salaries and other benefits of the Executive Board's members and the Board of Directors' members (stated in gross amounts), during 2021 and 2020, are presented in the table below:

In RSD '000

	2021	**2020**
Salaries and benefits of the Management Board members	5.819	5.702
Salaries and benefits of the Executive Board members	195.569	145.800
Accrued income of the Executive Board members	115.549	82.731
Total	**316.937**	**234.233**

Transfer prices

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

36. RISK MANAGEMENT

36.1. Introduction

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

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

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

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

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

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

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

Management Board and Executive Board

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

Assets and Liabilities Management Committee (ALCO)

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

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

Local Model Committee

The purpose of Local Model Committee is to ensure consistency of methodology and standards of development of models, validation and monitoring. The Committe proposes decisions to Executive Board for all models, parameters and related processes and systems related to risk management models, including local models, as well as local use of models used throughout the Group.

36. RISK MANAGEMENT (continued)

36.1. Introduction (continued)

Non-financial Risk Management Committee

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

Asset and Liability Management Unit

Asset and Liability Management Unit is organized as an independent organizational unit that is directly responsible to the Executive Board of the Group. In addition, it is primarily responsible for strategic funding and liquidity, as well as management of other market risks (interest rate risk and foreing exchange risk) of the Bank. Asset and Liability Management Unit prepares a report for the Assets and Liabilities Management Committee, as well as reports related to the management of assets and liabilities for the needs of the Bank's bodies.

Internal Audit

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

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

Risk management and reporting

In accordance with the Law on Groups, Erste 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").

36. RISK MANAGEMENT (continued)

36.1. Introduction (continued)

Risk management and reporting (continued)

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

- Identification and measurement or assessment of the 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 credit risk management
- Directorate for credit portfolio strategy and management
- Directorate for restructuring and collection of placements.

Business compliance control service:

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

Security risk management service:

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

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

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk

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

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

The Group's business policy requires and stipulates maximum protection of the Group against credit risk exposure, as the most significant risk in banking operations.

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

The 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 by the Executive Board. 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, the Bank uses a new model for the assessment of the risk exposure category. 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 (default rates) published by the agency's rating, an external rating is approximated for classification into a risk category for each client.

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 and the status of default has not occurred.

Non-performing - Clients who have one or more criteria for default status, in accordance with the definition precisely prescribed by the internal acts of the Bank and Erste Group AG: uncertain collection, payment delays with material exposure longer than 90 days, restructuring that caused loss to the Bank, realization of credit loss or initiation of bankruptcy proceedings. In addition, restructured receivables (Non performing forbearance) (see 36.2 Credit risk - restructured receivables) that are not in default status are also considered problematic receivables. In order to determine the default status, the Bank applies a client-level approach, including Retail clients; if the customer is in default status for one product, then the other products of that customer are also classified as - problematic receivables.

Monitoring and control of credit risk

Monitoring of credit risk

With goal of timely management of credit risk, regular client's risk analysis is carried out, which includes regular rating status, possibility of paying obligations towards 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.

36. RISK MANAGEMENT (continued)

36.2. 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, predicting changes in variables in future period which primarily includes client's liabilities fulfilment so far and following market information.

Control function EWS in Bank is organised within special organisational 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 Bank, translating it to 5 Bank 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 - Bankcruptcy

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.

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Default status (continued)

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 in any criteria which can start some of previously defined default events E1-E5.

During 2020, the Bank did not conduct the process of early recognition of defaulted status, due to the fact that the same was not possible during the regulatory measures to help clients in the form of two moratoriums, and recognition was carried out after their expiration. The total amount of receivables from clients whose default status was recognized during 2021 and the E1 code was assigned was RSD 2.031 milions with the effect on provisions in the amount of RSD 456 milions.

Receivables write-off

In accordance with the Rulebook on the write-off of receivables and the transfer of receivables from the balance sheet into the off-balance sheet, the 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.

COVID 19

The pandemic caused by the COVID 19 virus during 2020 caused uncertainty in the global economy and markets. New rules of social distance and restrictions on movement have led to a slowdown in the economy and a significant drop in the income of certain industries. Assistance packages from the Ministry of Finance and NBS measures were introduced in order to mitigate the potential negative effects caused by the pandemic. Although such measures mitigate the negative effects on the economy, they make it difficult to identify in a timely manner the potential deterioration in the quality of the Bank's portfolio, which diabled standard risk indicators (days of delay, significant increase in credit risk, restructuring, financial indicators, etc.) to perform their function in such conditions.

In order to timely identify the potential deterioration in portfolio quality, the Bank has undertaken several activities in 2020 which were revised during 2021. In March 2020, the analysis of the impact of COVID 19 on the business of clients was started by considering the long-term consequences of the pandemic on specific industries. Industries and sub-industries are categorized into those that are expected to be high, medium and low affected, and during 2021 Bank introduced critical category. Such a division has led to the formation of 5 categories - green, yellow, orange and red and critical, which represent the degree of expected impact of the crisis on a particular (sub) industry in the next 12 months and such a list is regularly revised. For example, due to reduced traffic, air passenger traffic and city hotels which depend on foreign guests are marked as critical sub-industries, and food retail as green. This division was the basis for strategic recommendations to certain industries, for the revision of the criteria for placing new loans as well as the reclassification of receivables to stage 2 of impairment.

During 2020, the Bank established a system of monitoring and reporting on relief measures granted to clients, primarily on the two moratoriums that are provided to all clients on the basis of the so-called "opt-out" principle, as well as on placements approved under the State Guarantee Scheme.

Reliefs within the first regulatory moratorium were used by 86% of clients (of which 88% from the segment of private individuals, while in the segment of legal entities that percentage was 60% of clients).

The situation during the second regulatory moratorium is slightly different, and 76% of clients used these benefits (of which 77% from the segment of private individuals, while in the segment of legal entities this percentage was 68%).

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

COVID 19 (continued)

During 2021, NBS introduced the third regulatory moratorium on the basis of "opt-in" principle with the duration of 6 months, and 3,4% of clients used these benefits with total exposure of RSD 9 billion.

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

The criteria on the basis of which clients and their loans are transferred to stage 2:

Clients from the corporate sector:

a) If the critical industry condition is met, the transfer to Stage 2 is performed;
b) Local criteria of the Bank: all facilities of clients on which moratorium 3 has been applied go to Stage 2.
c) Local criteria of the Bank: The Bank has defined a list of clients who are considered exceptions and they are not transferred to Stage 2 based on the above-mentioned criteria.

Clients from the retail sector:

a) Local criteria of the Bank: all facilities on which moratorium 3 has been applied go to Stage 2.

All facilities of clients which have used the benefits of moratorium 3 are classified in the Stage 2 as at 31/12/2021. Total effects on provision of these overlays amounted RSD 435 millions.

Since May 2020, the Bank has been granting loans to clients with a guarantee from the state guarantee scheme. Out of a total of 1528 guarantees in the amount of EUR 92 million, only one guarantee of the client Energia Gas and Power was activated in November 2021. The amount of the activated guarantee is EUR 1 million, and EUR 800 thousand was collected.

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

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

On 31/12/2021 clients that used benefits of moratorium 1 and 2 , and have not applied for moratorium 3 or do not operate in a critical industry (in the case of legal entities) were reclassified from Stage 2 to the Stage 1 taking into account that it has passed more than 6 months of undisturbed functioning of basic risk tools. The effect of provision reversal due to this amounted RSD 127 millions.

On the end of 2021, due to the timely recognition of the increase in credit risk and in accordance with the above-mentioned criteria, had a net effect of increasing exposure at stage 2 by RSD 6,3 billion with net effect on profit and loss in amount of RSD 307 bilions.

As a second measure to quantify the pandemic effect, in Q4 2021 the Bank has revised impairment parameter PD in the part related to the future outlook in the economy (Forward Looking Information) with different probabilities of potential outcomes. To calculate the expected losses, FLI is used for the first three years of calculation. In addition, certain adjustments of the PD parameter were used in the calculation, in order to overcome the deficiencies caused by the suspension of the day of delay due to the moratorium. The specificity of the COVID pandemic leads to the late materialization of macroeconomic variables. The late materialization of basic risk expectations for the end of 2021 (mainly due to the new Omicron variant of the virus), led to the retention of the probability of a baseline scenario of 40% (described in 36.2, subtitle *Risk parameters used to calculate expected credit losses*).

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

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

Maximum exposure to credit risk, in gross and net amount, without collaterals, as well as other items Group does not consider to be exposed to credit risk, in accordance with balance sheet items as at 31 December 2021 is presented in the following table:

In RSD '000

	Assets exposed to credit risk				
	Gross value	**Accumulated allowance for impairment / provisions**	**Net value**	**Assets not exposed to credit risk**	**Balance sheet**
Cash and funds at central Bank	21.946.699	-	**21.946.699**	17.983.242	**39.929.941**
Derivative receivables	285.448	-	**285.448**	-	**285.448**
Securities and pledged financial assets	58.544.094	44.371	**58.499.723**	-	**58.499.723**
Loans and receivables from banks and other financial organizations	6.699.251	6.055	**6.693.196**	-	**6.693.196**
Loans and receivables from customers	223.793.131	5.658.092	**218.135.039**	-	**218.135.039**
Investment in subsidiaries and joint ventures	-	-	-	118	**118**
Intangible assets	-	-	-	1.729.377	**1.729.377**
Properly, plant and equipment	-	-	-	3.187.861	**3.187.861**
Current tax assets	-	-	-	238.878	**238.878**
Deferred tax assets	-	-	-	227.079	**227.079**
Non-current assets held for sale and discontinued operations	-	-	-	12.252	**12.252**
Other assets	925.675	107.551	**818.124**	432.145	**1.250.269**
Balance sheet	**312.194.298**	**5.816.069**	**306.378.229**	**23.810.952**	**330.189.181**
Guarantees and warranties	31.473.531	160.208	**31.313.323**	-	**31.313.323**
Assumed contingent liabilities	62.546.945	134.172	**62.412.773**	-	**62.412.773**
Other off-balance exposure	-	-	-	315.958.421	**315.958.421**
Off-balance sheet	**94.020.476**	**294.380**	**93.726.096**	**315.958.421**	**409.684.517**
Total exposure	**406.214.774**	**6.110.449**	**400.104.325**	**339.769.373**	**739.873.698**

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

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Overview of securities:

In RSD '000

	Securities					
	Gross value			Accumulated allowance for impairment		
	AC	FVOCI	FVTPL	AC	FVOCI	FVTPL
Derivative receivables	**-**	-	**285.448**	**-**	**-**	**-**
Of which: Other	-	-	285.448	-	-	-
Securities	**34.600.992**	**13.798.974**	**10.144.128**	**44.371**	**18.022**	-
Of which: State bonds of the Republic of Serbia	34.105.993	13.686.471	10.117.081	44.371	18.022	-
Of which: Other	494.999	112.503	27.047	-		-
Total exposure	**34.600.992**	**13.798.974**	**10.429.576**	**44.371**	**18.022**	-

As at 31 December 2021, 98,43 % of securities exposures refer to the exposure based on government bonds of the Republic of Serbia, which, in accordance with the valid Decision on capital adequacy of the Group, allocates a risk weight of 0%.
Credit rating of the Republic of Serbia for long-term borrowing as at 31 December 2021:
- Moody's Investors Service Ba2 / stable outlook
- Fitch Ratings BB+ / stable outlook
- Standard and Poor's BB+ / positive outlook

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Maximum exposure to credit risk, in gross and net amount, without collaterals, as well as other items Group does not consider to be exposed to credit risk, in accordance with Balance sheet items as at 31 December 2020. is presented in the following table:

In RSD '000

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

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[2] are presented by of sector, category, status, collateral, maturity and value of collateral.

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Review of securities:

In RSD '000

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

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Loans and receivables from customers, Groups and other financial institutions

(a) Overview by credit quality of non-problematic receivables (retroactively simulated based on the new methodology) and value of collateral of those receivables as at 31 December 2021:

In RSD '000

	Credit quality of non-problematic receivables				Value of collateral*		
	High	Medium	Low	Problematic receivables[3]	Non-problematic receivables	Problematic receivables	The impact of collateral on reducing the value of impairment*
Receivables from retail customers	**81.198.471**	**12.262.627**	**2.450.995**	**1.992.994**	**42.756.341**	**260.263**	**105.010,89**
Housing loans	47.811.451	2.265.399	391.176	345.170	41.747.617	258.952	103.650
Consumer and cash loans	31.127.203	9.472.152	1.957.754	1.462.065	110.376	-	1.319
Transactions and credit cards	522.988	110.920	23.180	16.946	852	88	27
Other receivables	1.736.828	414.156	78.884	168.814	897.496	1.222	15
Receivables from corporate clients	**98.102.686**	**17.345.232**	**2.889.438**	**2.357.882**	**30.026.836**	**665.092**	**1.063.047**
Large enterprises	20.221.739	120.135	-	62.756	6.242.730	62.756	78.294
Small and middle sized enterprises	45.243.459	9.567.817	2.020.732	1.256.306	15.408.418	485.182	774.186
Micro sized enterprises and entrepreneurs	19.454.325	6.643.703	836.748	979.770	6.526.023	91.404	195.987
Agriculture	2.763.675	285.254	31.958	58.016	1.188.789	25.749	14.115
Public enterprises	10.419.488	728.322	-	1.034	660.875	-	466
Receivables from other clients	**10.698.973**	**1.003.776**	**8.329**	**180.981**	**1.068.293**	**64.647**	**47.594**
Total receivables	**190.000.129**	**30.611.635**	**5.348.761**	**4.531.857**	**73.851.469**	**990.001**	**1.215.652**

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

[3] Problematic claims of the Bank include claims in the status of default (see "37.2 Credit Risk" – default status) and restructured claims "Non performing forbearance" (see 37.2 Credit Risk - Restructured Receivables) that are not in the status of default.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Loans and receivables from customers, Groups and other financial institutions

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

In RSD '000

	Credit quality of non-problematic receivables				Value of collateral*		The impact of collateral on reducing the value of impairment*
	High	Medium	Low	Problematic receivables[4] [5]	Non-problematic receivables	Problematic receivables	
Receivables from retail customers	**74.018.439**	**12.261.892**	**2.736.896**	**1.435.320**	**40.271.807**	**228.345**	**112.290**
Housing loans	44.515.915	2.184.217	504.355	315.842	39.359.198	227.426	110.770
Consumer and cash loans	27.293.347	9.554.892	2.116.453	989.560	96.354	588	1.516
Transactions and credit cards	496.382	140.057	37.328	14.834	2.046	-	1
Other receivables	1.712.795	382.726	78.760	115.084	814.210	332	3
Receivables from corporate clients	**89.339.264**	**16.631.786**	**3.622.209**	**1.119.934**	**31.838.103**	**132.598**	**501.406**
Large enterprises	19.373.629	119.917	88.436	-	8.071.342	-	50.118
Small and middle sized enterprises	43.785.927	11.086.270	2.202.527	262.347	17.118.494	74.437	175.377
Micro sized enterprises and entrepreneurs	16.906.110	5.261.196	1.279.098	815.549	5.672.694	30.745	272.805
Agriculture	98.634	156.292	52.149	41.004	94.097	27.417	1.935
Public enterprises	9.174.965	8.111	-	1.034	881.476	-	1.171
Receivables from other clients	**5.752.349**	**1.795.957**	**42.850**	**358.932**	**1.244.701**	**128.516**	**55.348**
Total receivables	**169.110.052**	**30.689.635**	**6.401.955**	**2.914.186**	**73.354.612**	**489.459**	**669.044**

[4] Problematic claims of the Bank include claims in the status of default (see "37.2 Credit Risk" – default status) and restructured claims "Non performing forbearance" (see 37.2 Credit Risk - Rescheduled Receivables) that are not in the status of default.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

(b) Overview of gross and net exposure to credit risk by sector and category of receivables, means of collateral, maturity and value of collateral as at 31 December 2021:

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	**95.606.519**	**388.926**	**245.063**	**1.664.580**	**97.905.087**	**1.568.289**	**140.052**	**1.205.502**	**94.991.245**	**42.787.210**	**229.394**
Mortgage loans	50.450.966	54.125	227.009	81.097	**50.813.196**	328.646	123.359	46.716	**50.314.475**	41.778.486	228.083
Consumer and cash loans	42.321.929	280.803	11.270	1.405.172	**44.019.174**	1.202.523	9.951	1.048.197	**41.758.503**	110.376	-
Transactions and credit cards	656.223	988	334	16.490	**674.034**	10.661	307	12.924	**650.143**	852	88
Other receivables	2.177.402	53.011	6.450	161.820	**2.398.683**	26.459	6.435	97.666	**2.268.124**	897.496	1.222
Receivables from corporate clients	**118.037.871**	**318.795**	**2.096.926**	**241.653**	**120.695.245**	**1.248.471**	**1.155.180**	**182.414**	**118.109.180**	**30.026.836**	**665.092**
Large enterprises	20.303.900	37.975	62.756	-	**20.404.631**	76.164	3.138	-	**20.325.329**	6.242.730	62.756
Small and middle sized enterprises	56.689.124	142.889	1.176.666	79.641	**58.088.321**	682.843	481.964	63.140	**56.860.375**	15.408.418	485.182
Micro sized enterprises	26.854.336	97.913	821.996	140.300	**27.914.545**	410.490	640.853	102.046	**26.761.157**	6.526.023	91.404
Agriculture	3.071.973	10.744	35.508	20.678	**3.138.903**	24.365	29.225	16.195	**3.069.117**	1.188.789	25.749
Public enterprises	11.118.538	29.273	-	1.034	**11.148.845**	54.608	-	1.034	**11.093.203**	660.875	-
Receivables from other customers	**11.636.650**	**74.420**	**154.935**	**26.046**	**11.892.050**	**32.059**	**108.545**	**23.636**	**11.727.810**	**1.068.293**	**64.647**
Total exposure	**225.281.040**	**782.140**	**2.496.923**	**1.932.279**	**230.492.382**	**2.848.818**	**1.403.776**	**1.411.552**	**224.828.235**	**73.882.338**	**959.132**
Non-problematic receivables	225.179.346	781.179	-	-	**225.960.525**	2.833.012	-	-	**223.127.513**	73.851.469	-
of which: restructured	569.875	3.046	-	-	572.920	41.046	-	-	531.874	337.605	-
Problematic receivables	101.695	961	2.496.923	1.932.278	4.531.857	15.806	1.403.776	1.411.552	1.700.722	30.869	959.132
of which: restructured	87.520	905	718.099	228.876	1.035.400	15.003	553.288	158.883	308.225	24.387	133.067
Total exposure	**225.281.041**	**782.140**	**2.496.923**	**1.932.278**	**230.492.382**	**2.848.818**	**1.403.776**	**1.411.552**	**224.828.235**	**73.882.338**	**959.132**

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

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

In RSD '000

	Unimpaired receivables[8]		Impaired receivables[9]			Accumulated impairment allowances				Values of collateral	
	Not past due	Past due	On individual basis	On collective basis	Total gross receivables	Impairment allowances on unimpaired receivables	On individual basis	On collective basis	Total net receivables	Unimpaired receivables	Impaired receivables
By sector											
Receivables from retail clients	**88.713.200**	**375.605**	**241.781**	**1.121.961**	**90.452.547**	**1.718.200**	**170.144**	**906.196**	**87.658.006**	**40.293.124**	**207.028**
Mortgage loans	47.182.397	46.444	229.926	61.562	**47.520.328**	373.130	159.810	37.189	**46.950.200**	39.380.515	206.108
Consumer and cash loans	38.795.573	215.300	5.621	937.759	**39.954.252**	1.294.780	4.105	759.478	**37.895.889**	96.354	588
Transactions and credit cards	672.653	1.398	14	14.536	**688.601**	14.800	13	12.188	**661.600**	2.046	-
Other receivables	2.062.578	112.464	6.220	108.104	**2.289.366**	35.490	6.217	97.342	**2.150.317**	814.210	332
Receivables from corporate clients	**109.162.009**	**431.253**	**978.094**	**141.840**	**110.713.195**	**1.017.974**	**689.454**	**112.502**	**108.893.265**	**31.838.103**	**132.598**
Large enterprises	19.519.521	62.460	-	-	**19.581.982**	86.993	-	-	**19.494.989**	8.071.342	-
Small and middle sized enterprises	56.797.080	277.644	205.423	56.925	**57.337.070**	547.845	157.218	47.925	**56.584.082**	17.118.494	74.437
Micro sized enterprises	23.382.747	63.658	744.399	71.150	**24.261.954**	320.305	505.893	53.616	**23.382.139**	5.672.694	30.745
Agriculture	294.723	12.351	28.273	12.731	**348.078**	20.845	26.344	9.926	**290.963**	94.097	27.417
Public enterprises	9.167.937	15.140	-	1.034	**9.184.111**	41.985	-	1.034	**9.141.092**	881.476	-
Receivables from other customers	**7.517.979**	**73.175**	**340.361**	**18.571**	**7.950.086**	**37.937**	**286.865**	**17.104**	**7.608.180**	**1.244.701**	**128.516**
Total exposure	**205.393.188**	**880.034**	**1.560.236**	**1.282.371**	**209.115.828**	**2.774.111**	**1.146.464**	**1.035.803**	**204.159.451**	**73.375.929**	**468.142**
Non-problematic receivables	205.322.523	879.119	-	-	**206.201.643**	2.765.825	-	-	**203.435.818**	73.354.612	-
of which: restructured	586.463	3.058	-	-	**589.522**	55.765	-	-	**533.757**	325.542	-
Problematic receivables	70.665	914	1.560.236	1.282.371	**2.914.186**	8.286	1.146.464	1.035.803	**723.633**	21.317	468.142
of which: restructured	65.773	820	767.350	256.273	**1.090.217**	7.367	489.850	194.004	**398.996**	19.701	198.980
Total exposure	**205.393.188**	**880.034**	**1.560.236**	**1.282.371**	**209.115.828**	**2.774.111**	**1.146.464**	**1.035.803**	**204.159.450**	**73.375.929**	**468.142**

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

(v) Data on exposure to credit risk by sectors and categories of receivables, according to the impairment status and number of days past due as at 31 December 2021:

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	**82.228.854**	**13.313.039**	**368.290**	**85.260**	**-**	**365.436**	**512.039**	**257.848**	**229.777**	**544.542**
Mortgage loans	49.716.058	766.133	21.081	1.818	-	144.094	82.790	19.990	11.846	49.387
Consumer and cash loans	30.105.951	12.098.548	320.192	78.041	-	163.461	418.946	227.027	202.464	404.544
Transactions and credit cards	643.714	1.456	10.749	1.291	-	3.207	1.311	2.732	2.785	6.789
Other receivables	1.763.131	446.902	16.268	4.110	-	54.675	8.991	8.100	12.683	83.821
Receivables from corporate clients	**113.621.014**	**4.498.425**	**192.717**	**44.505**	**-**	**125.239**	**301.110**	**805.804**	**160.940**	**945.484**
Large enterprises	20.045.214	296.662	-	-	-	62.756	-	-	-	-
Small and middle sized enterprises	54.325.824	2.341.092	128.277	36.817	-	22.249	263.879	769.616	28.090	172.472
Micro sized enterprises and entrepreneurs	25.971.962	912.586	60.019	7.682	-	26.761	32.301	31.366	131.833	740.036
Agriculture	2.850.334	227.955	4.422	6	-	13.464	4.930	4.822	1.018	31.951
Public enterprises	10.427.680	720.130	-	-	-	9	-	-	-	1.025
Receivables from other customers	**11.354.478**	**322.551**	**34.046**	**-**	**-**	**32.898**	**483**	**17.447**	**278**	**129.875**
Total exposure	**207.204.347**	**18.134.015**	**595.053**	**129.765**	**-**	**523.572**	**813.633**	**1.081.100**	**390.995**	**1.619.901**
By category of receivables										
Non-problematic receivables	207.136.128	18.103.104	593.905	127.388	-	-	-	-	-	-
of which: restructured	472.075	99.809	1.036	-	-	-	-	-	-	-
Problematic receivables	68.219	30.911	1.148	2.377	-	523.572	813.633	1.081.100	390.995	1.619.901
of which: restructured	54.643	30.289	1.117	2.377	-	101.403	121.448	21.151	44.722	658.251
Total exposure	**207.204.347**	**18.134.015**	**595.053**	**129.765**	**-**	**523.572**	**813.633**	**1.081.100**	**390.995**	**1.619.901**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

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

In RSD '000

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

(g) Data on problematic receivables as at 31 December 2021:

In RSD '000

	Gross receivables value	Accumulated impairment allowance on total receivables	Gross value of problematic receivables – Total	Gross value of problematic receivables – of which: restructured receivables	Accumulated impairment allowance on total receivables	% of problematic receivables	Collateral value of problematic receivables
Receivables from retail clients	**97.905.087**	**2.913.843**	**1.992.994**	**383.469**	**1.353.998**	**2,04**	**260.263**
Housing loans	50.813.196	498.721	345.170	144.730	172.921	0,68	258.952
Consumers and cash loans	44.019.174	2.260.671	1.462.065	238.681	1.063.708	3,32	-
Transactions and credit cards	674.034	23.891	16.946	-	13.234	2,51	88
Other receivables	2.398.683	130.559	168.814	59	104.135	7,04	1.222
Receivables from corporate clients	**102.443.397**	**2.283.210**	**2.119.628**	**642.008**	**1.197.113**	**2,07**	**563.138**
Sector A	7.535.884	454.784	282.585	-	153.641	3,75	-
Sectors B, C and E	24.920.417	764.895	835.069	602.967	611.503	3,35	138.916
Sector D	11.904.913	298.683	597.523	-	168.590	5	317.327
Sector F	15.547.256	106.844	17.848	6.468	14.892	0,11	3.026
Sector G	12.583.309	226.064	204.765	32.572	145.390	1,63	19.850
Sector H, I and J	10.939.738	131.974	61.954	-	50.699	0,57	13.059
Sector L, M and N	19.011.881	299.966	119.883	-	52.397	0,63	70.960
Receivables from other clients	**30.143.898**	**467.095**	**419.234**	**9.924**	**280.024**	**1,39**	**166.600**
Total receivables	**230.492.382**	**5.664.147**	**4.531.857**	**1.035.400**	**2.831.135**	**1,97**	**990.001**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

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

In RSD '000

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

(d) Data on changes of problematic receivables in 2021:

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	1.435.320	1.543.435	1.002.413	469.086	433.829	286.203	16.652	1.992.994	638.997
Receivables from corporate and other clients	1.478.866	1.726.026	974.409	583.844	94.772	295.793	308.380	2.538.863	1.061.725
Total receivables	**2.914.186**	**3.269.461**	**1.976.822**	**1.052.930**	**528.601**	**581.996**	**325.032**	**4.531.858**	**1.700.722**

Data on changes of problematic receivables in 2020:

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	1.446.272	449.014	541.977	181.453	282.665	77.860	82.013	1.435.320	350.694
Receivables from corporate and other clients	914.593	852.801	322.163	265.434	4.561	52.168	33.634	1.478.866	372.940
Total receivables	**2.360.865**	**1.301.815**	**864.140**	**446.886**	**287.226**	**130.029**	**115.647**	**2.914.186**	**723.633**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Collateral and other means of protection against credit risk

During the process of loan approval, the 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 data 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.

36. RISK MANAGEMENT (continued)

36.2. 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 bank guarantee and international bank 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.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on the type and value [10] of collateral and guarantees by sector providers and categories of receivables as at 31 December 2021:

In RSD '000

	Means of collateral up to the receivables amount (as in KA4)		
	Deposits	**Residential real estate**	**Other real estate**
Receivables from retail clients	**55.761**	**41.896.577**	**185.111**
Household loans	1.205	41.849.049	156.316
Consumer and cash loans	53.616	43.184	13.576
Transactions and credit cards	940	-	-
Other receivables	-	4.343	15.219
Receivables from corporate clients	**1.342.788**	**1.038.145**	**18.098.804**
Large enterprises	58.801	-	4.867.307
Small and middle sized enterprises	851.972	385.210	8.025.531
Micro sized enterprises and entrepreneurs	428.271	633.478	4.020.398
Agriculture	3.745	19.456	1.185.568
Public enterprises	-	-	-
Receivables from other clients	**12.141**	**14.469**	**143.946**
Total exposure	**1.410.691**	**42.949.191**	**18.427.860**
Per category of receivables			
Non-problematic receivables	1.409.577	42.501.896	17.947.001
of which: restructured	639	187.099	149.867
Problematic receivables	1.114	447.295	480.860
of which: restructured	75	104.326	53.052
Total receivables	**1.410.691**	**42.949.191**	**18.427.860**

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

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

In RSD '000

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

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

During 2021, the Bank had acquired following means of collateral through collection of receivables:

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

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

Means of collateral acquired through collection of receivables	**Residential real estate**	**Total**
Gross value at the beginning of the period	12.073	12.703
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 rarely movable assets.

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

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

LTV ratio

The table below 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 2021	Value of receivables secured by mortgage as at 31 December 2020
Below 50%	9.282.954	8.576.818
50% to 70%	13.142.753	11.654.996
70% to 90*	18.777.925	21.608.166
90% to 100%	2.602.600	1.593.313
100% to 120%	4.670.332	3.584.764
120% to 150%	2.960.574	1.762.871
over 150%	4.741.150	2.701.501
Total exposure	**56.178.287**	**51.482.429**
Average LTV ratio	**78,6%**	**76,5%**

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

Evaluation of impairment of financial assets

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

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

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

The Group seeks to classify its key portfolios (loans and receivables from customers, 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).

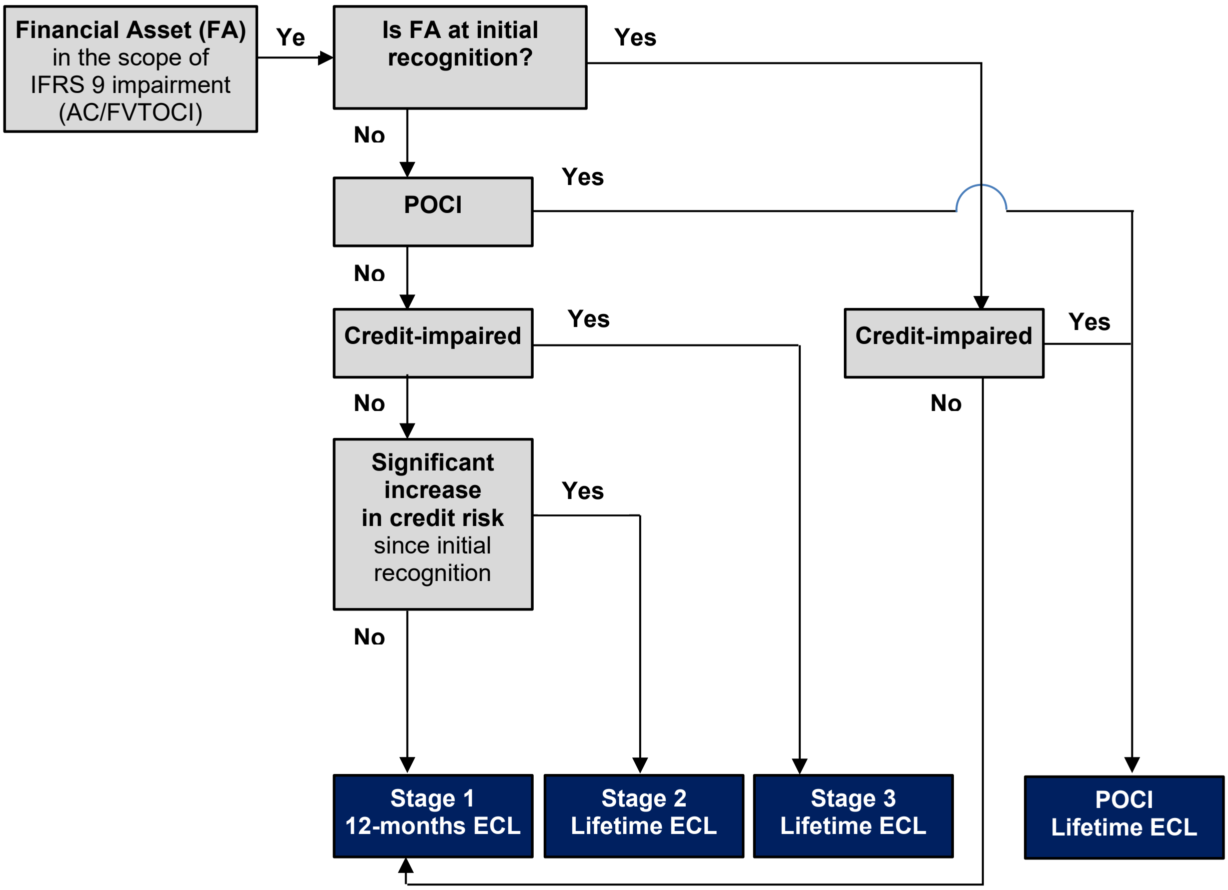
The objective of establishing an impairment allowances is to recognize expected credit losses over the life of all financial instruments, taking into account all reasonable and supporting information, including those relating to future events. Accordingly, financial assets that are relevant from the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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Expected credit loss / impairment is the present value of any decrease in the expected cash flow over the expected life of the financial asset. The decrease represents the difference between the cash flows owed to the 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:



36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Stage 1

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

b) Financial assets meeting the requirements of low credit risk,

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

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

Stage 2

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

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

Stage 3

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

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

POCI assets

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

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

Qualitative criteria

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

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Quantitative criteria

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

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

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

Calculation of expected credit losses

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

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

Where

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

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

It is calculated as:

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

Lifetime ECL in the case of future commitments and financial guarantee contract is calculated according to the following formula:

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

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

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

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

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

For financial assets that are in the status of non-obligation of liabilities (assigned rating R). The lifetime expected credit loss the Bank calculates 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.

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 "going/gone concern";
2) Alternative base case, if applicable;
3) Contingency scenario;
4) Exit scenario (e.g. NPL sale).

The calculation of lifetime ECL for each scenario is done according to following formula:

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Where

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

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

$$\mathrm{ECL}_{\mathrm{LT}} = \mathrm{p}_1 \cdot \mathrm{ECL}_{\mathrm{LT},1} + \mathrm{p}_2 \cdot \mathrm{ECL}_{\mathrm{LT},2} + \mathrm{p}_3 \cdot \mathrm{ECL}_{\mathrm{LT},3}$$

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.

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:

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

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

Rule based approach

In case of ECL on financial assets of individually not significant customers in default, the expected future cash flows can be estimated rule based in accordance with formula:

$$\mathrm{ECL}_{\mathrm{LT}} = \mathrm{GCA}_{\mathrm{t0}} \cdot \mathrm{LGD}_{\mathrm{tiD}}$$

Where

1) ECL_{LT} is the lifetime expected loss at reporting date;
2) GCA_{t0} is the gross carrying amount booked at reporting date (t_0);
3) LGD_{tiD} it the loss given default defined as a function of the time in default (tiD);

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

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

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

Where:

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

Risk parameters used to calculate expected credit losses

- PD – Probability of Default

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

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

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

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

Forward-looking information is incorporated into the process of calculating provisions for credit losses during the first three years. The unbiased and probability-weighted amount of expected credit loss (ECL) taking into account FLI (Forward-looking information) was calculated using the probabilities of each of the three macroeconomic scenarios. Examples of typical macroeconomic variables used in this process are real gross domestic product (GDP), unemployment rate (UR), industrial production index. The choice of macroeconomic variables depends on the availability of their predictions in the local market. Real gross domestic product (GDP) is considered the main indicator of the situation and economic development.

An overview of the macroeconomic variables included in the calculation of Forward-looking information as well as the period of their availability can be seen in the table below:

Macroeconomic variable	Start of series	End of series
Industrial production index	2004Q1	2019Q4
Unemployment rate	2006Q4	2019Q4
Average salary	2005Q1	2019Q4
Gross domestic product - annual growth rate	2004Q1	2019Q4
6m EURIBOR	2004Q1	2019Q4
3m BELIBOR	2005Q3	2019Q4
Exchange rate EUR / RSD average in the period	2004Q1	2019Q4

Time series data from 2008Q4 to 2019Q4 were used to develop Forward-looking statistical models.

FLI component calculation in 2021:

The metodological approcah remained unchanged compared to 2020, except in the part of applied probabilities:

- In order to adequately reflect the crisis caused by COVID-19 pandemic, the proposal of Erste Group experts is to change the probabilities for the used "Down", "Base", "UP" scenarios from 45%, 40%, 15% to 51%, 40% and 9% respectively.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

The probability of scenario “Base” is retained at 40% with the purpose of adjusting to events that happened at the end of 2021:

- The new COVID-19 variant (Omicron)
- The inflations trends which can potentially lead to increase in interest rates
- Unstable geopolitical situation (Ukraine/Russia) which can have impact on energy prices

In order to better reflect the high volatility of estimates of macroeconomic variables and economic recovery due to the current development of the COVID-19 pandemic, a conservative "Down" scenario with a high probability of realization was introduced.

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

ADD on component:

Given the specificity of 2020 and 2021 in which default rates, due to the application of the moratorium, do not reflect the real macroeconomic situation in the country, there was a need to incorporate the "Add on" component in the calculation of the FLI component to fill the above gap.

The "Add on" component is calculated as follows:

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

The implementation of new forward looking information, as well as "add on" comments in 2020, led to a change in the probability of default (PD). Probability updated followed twice during 2021 which resulted in additional provisions in the amount of RSD 40 milions.

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

- LGD – Loss Given Default

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

Statistical LGD calculated on the basis of historical losses of the Bank's clients has been calculated for the segment of individuals and micro clients and has been applied since 2019, while the annual re-assessment was done in November 2021. The effect for both segments was a reduction in provisions, for the retail segment RSD 23 million, while for the micro segment the reduction was RSD 0,5 million. For the Corporate segment, the Group currently uses LGD expert values (taking into account collateral coverage).

- CCF - Credit Conversion Factor

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

The table below contains information about modified receivables

		In RSD '000
	Net book value of receivables prior to modification	**The effect of modification recorded through the profit and loss account**
Loans and receivables from banks and other financial organizations		
Construction	81.456	55
Non-profit institutions	1.679	(67)
Agriculture and food industry	373.811	(41)
Entrepreneurs	305.371	(1.623)
Manufacturing industry	1.639.287	(320)
Retail	5.697.078	16.906
Commerce	349.307	41
Services and tourism	991.379	(980)
Balance at 31 December	**9.439.368**	**13.971**

The effects of modification as at 31 December 2021 amounted to RSD 13.972 thousand.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on changes of impaired receivables in 2021:

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	**1.363.741**	**1.160.029**	**116.803**	**255.116**	**69.167**	**(359.011)**	**1.909.642**	**564.088**
Household loans	291.488	152.103	108.776	80.755	67.181	(54.729)	308.106	138.031
Consumer and cash loans	943.380	908.220	7.460	161.704	1.984	(273.453)	1.416.442	358.294
Transactions and credit cards	14.550	10.875	279	2.461	-	(6.142)	16.824	3.593
Other receivables	114.324	88.831	289	10.196	2	(24.688)	168.271	64.170
Receivables from corporate clients	**1.119.934**	**1.373.004**	**1.222.338**	**28.346**	**22.069**	**(126.014)**	**2.338.578**	**1.000.983**
Large enterprises	-	62.756	62.756	-	-	-	62.756	59.618
Small and middle sized enterprises	262.347	1.082.811	1.038.528	3.171	22.069	(85.681)	1.256.306	711.203
Micro sized enterprises and entrepreneurs	815.549	204.175	113.672	22.794	-	(34.634)	962.296	219.397
Agriculture	41.004	23.262	7.382	2.382	-	(5.698)	56.186	10.765
Public enterprises	1.034	-	-	-	-	-	1.034	-
Receivables from other customers	**358.932**	**71.143**	**45.713**	**-**	**-**	**(249.095)**	**180.981**	**48.801**
Total receivables	**2.842.607**	**2.604.176**	**1.384.854**	**283.462**	**91.236**	**(734.120)**	**4.429.201**	**1.613.872**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on changes of impaired receivables in 2020:

In RSD '000

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on changes of allowance for impairment of receivables in 2021:

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	**2.794.541**	**4.842.680**	**4.488.861**	**(234.517)**	**2.913.843**
Household loans	570.129	981.584	1.055.635	2.644	498.721
Consumer and cash loans	2.058.362	3.767.821	3.364.663	(200.849)	2.260.671
Transactions and credit cards	27.001	46.320	46.411	(3.019)	23.891
Other receivables	139.049	46.956	22.152	(33.293)	130.559
Receivables from corporate clients	**1.819.931**	**3.152.124**	**2.368.183**	**(17.806)**	**2.586.066**
Large enterprises	86.993	118.335	124.732	(1.295)	79.302
Small and middle sized enterprises	752.989	1.567.781	1.042.318	(50.506)	1.227.947
Micro sized enterprises and entrepreneurs	879.815	1.343.665	1.086.135	16.044	1.153.389
Agriculture	57.114	54.681	60.129	18.119	69.786
Public enterprises	43.019	67.661	54.869	(169)	55.642
Receivables from other customers	**341.906**	**99.442**	**85.196**	**(191.914)**	**164.238**
Total exposure	**4.956.378**	**8.094.247**	**6.942.240**	**(444.237)**	**5.664.147**
Per category of receivable:					
Non-problematic receivables:	2.765.824	5.254.531	5.181.297	(6.047)	2.833.011
Of which: restructured	55.765	118.920	187.194	53.556	41.046
Problematic receivables	2.190.554	2.839.716	1.760.943	(438.190)	2.831.136
Of which: restructured	691.220	759.274	631.060	(90.433)	729.001
Total exposure	**4.956.378**	**8.094.247**	**6.942.240**	**(444.237)**	**5.664.147**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

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

In RSD '000

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on accrued income from interest and collected interest for the year ended 31 December 2021

In RSD '000

	Interest income	Interest collected	Interest income on impaired receivables	Collected interest on impaired receivables
Receivables from retail clients	**5.042.160**	**5.017.492**	**179.598**	**105.624**
Household loans	1.503.926	1.488.975	27.379	16.032
Consumer and cash loans	3.399.477	3.410.057	143.143	85.498
Transactions and credit cards	95.377	106.763	3.163	2.334
Other receivables	43.380	11.698	5.914	1.761
Receivables from corporate clients	**3.670.698**	**3.261.195**	**113.375**	**39.212**
Large enterprises	498.767	493.575	2.371	2.130
Small and middle sized enterprises	1.817.157	1.569.988	72.459	28.800
Micro sized enterprises and entrepreneurs	1.000.657	799.173	36.549	6.776
Agriculture	98.705	109.329	1.995	1.506
Public enterprises	255.413	289.130	-	-
Receivables from other customers	**2.606.943**	**2.430.204**	**5.062**	**2.327**
Total receivables	**11.319.801**	**10.708.891**	**298.034**	**147.164**
Per category of receivable:				
Non-problematic receivables	11.014.277	10.557.056	-	-
Of which: restructured	27.540	26.479	-	-
Problematic receivables	305.525	151.835	298.034	147.164
Of which: restructured	58.820	20.583	53.647	16.696
Total receivables	**11.319.801**	**10.708.891**	**298.034**	**147.164**

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

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

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

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

In RSD '000

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

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

36. RISK MANAGEMENT (continued)

36.2. 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, reduction of the initially agreed interest rate, reduction of the annuity, partial write-off of receivables or any other modification to the original loan agreement provisions in a way that the client is granted more favorable conditions than were initially approved. 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 and the need to adjust the loan repayment schedule and terms to the newly arisen situation.

Forbearance represents restructuring caused by:

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

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

Performing forbearance under probation – is a specific category within Forbearance status where client get transferred to from non-performing forbearance or default forbearance status after monitoring period of minimum 1 year expires, in which following conditions must be met cumulatively: maximum delays during the monitoring period, no delays at the end of the monitoring period and recorded positive financial development (Corporate clients only, which indicates the debtor's ability to duly fulfill contractual obligations in the future. Performing Forbearance under probation lasts at least 2 years, provided that all conditions for the client to withdraw from the status of Forbearance (the client has no arrears more than 30 days in the last 12 months consecutively, at the end of the period has no due obligations, the installment is not less than 50% of the initial installment for retail clients and the client (valid for Corporate) has paid the minimum 6,7% of the principal in the last 12 months).

Non-performing forbearance is granted in following situations:

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

Monitoring period for clients with NPF status lasts for one year after which, 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 R3 at the moment of approval of the reprogram, when the client is not in employment (applies only to natural persons), and when the client is granted another reprogram, and less than 2 years have passed since the approval of the initial reprogram.

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

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

Data on restructured loans as at 31 December 2020:

In RSD '000

	Gross value of total receivables	Accumulated allowance for impairment	Gross restructured loans		Accumulated allowance for impairment for rescheduled receivables	% of restructured receivables	Value of collateral of restructured loans
			Total	from which: problematic receivables			
Receivables from retail clients	**97.905.087**	**2.913.843**	**761.144**	**383.469**	**240.807**	**0,78**	**279.681**
Housing loans	50.813.196	498.721	339.596	144.730	83.576	0,67	256.975
Consumers and cash loans	44.019.174	2.260.671	421.490	238.681	157.227	0,96	22.706
Transactions and credit cards	674.034	23.891	-	-	-	-	-
Other receivables	2.398.683	130.559	59	59	4	0,00	-
Receivables from corporate clients	**105.165.536**	**2.320.067**	**817.194**	**642.008**	**520.527**	**0,78**	**214.016**
Sector A	9.131.903	454.277	16.844	-	5.204	0,18	16.844
Sectors B, C and E	31.512.081	880.728	601.309	601.141	475.280	1,91	50.918
Sector D	13.705.982	372.821	1.826	1.826	-	0,01	-
Sector F	13.563.072	88.596	6.468	6.468	4.258	0,05	1.986
Sector G	11.291.649	184.540	40.503	32.572	20.675	0,36	2.726
Sector H, I and J	8.854.340	105.116	140.044	-	14.834	1,58	135.572
Sector L, M and N	17.106.510	233.989	10.200	-	276	0,06	5.970
Receivables from other clients	**27.421.759**	**430.238**	**29.983**	**9.924**	**6.887**	**0,11**	**1.361**
Total receivables	**230.492.382**	**5.664.147**	**1.608.321**	**1.035.400**	**768.221**	**0,70**	**495.058**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

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

Data on restructured loans as at 31 December 2020:

In RSD '000

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on restructured loans as at 31 December 2021:

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	**822.499**	**276.296**	**219.965**	**(117.686)**	**761.144**	**521.183**
Household loans	379.451	86.669	86.116	(40.409)	339.596	256.020
Consumer and cash loans	443.048	189.568	133.849	(77.277)	421.490	265.109
Other receivables	-	59	-	-	59	54
Receivables from corporate clients	**857.239**	**43.283**	**46.359**	**(6.987)**	**847.176**	**318.917**
Large entreprises	-	-	-	-	-	-
Small and middle sized enterprises	217.919	6.907	3.210	(11.833)	209.782	156.676
Micro sized enterprises and entrepreneurs	634.286	36.146	41.628	5.169	633.973	160.258
Agriculture	5.034	230	1.521	(323)	3.421	1.983
Other clients	-	-	-	-	-	**-**
Total receivables	**1.679.739**	**319.578**	**266.323**	**(124.673)**	**1.608.321**	**840.100**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on changes on restructured loans as at 31 December 2020:

In RSD '000

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on structure of restructured receivables according to measures of reschedule during 2021:

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	**430.822**	**8.714**	**507.529**	**616.352**	**29.882**	**34.321**	**761.144**
Household loans	162.310	6.091	104.034	245.062	29.619	34.321	339.596
Consumer and cash loans	268.454	2.622	403.436	371.232	264	-	421.490
Other receivables	59	-	59	59	-	-	59
Receivables from corporate clients	**828.804**	**586.780**	**807.097**	**54.962**	**-**	**13.618**	**847.176**
Small and middle sized enterprises	209.782	12.352	209.782	50.918	-		209.782
Micro sized enterprises and entrepreneurs	615.601	574.429	595.724	623	-	12.257	633.973
Agriculture	3.421	-	1.591	3.421	-	1.361	3.421
Other receivables							-
Total receivables	**1.259.626**	**595.494**	**1.314.627**	**671.314**	**29.882**	**47.939**	**1.608.321**

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

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

In RSD '000

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Loan concentration risk

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

Bank manages concentration risk in credit portfolio through framework defined in Policy of internal capital adequacy assessment (with the corresponding Procedure), regulatory limit defined in Decision about Bank’s risks management, internally defined limits and limits defined by the stated Policy and Procedure.

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

According to the Decision of the Group's risk management, the Group analyses the exposure to credit risk through the following two indicators (taking into account all the conditions defined by the said Decision):

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

Policy of internal capital adequacy assessment (with the corresponding Procedure), 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 and the highest level of operating limit of exposure by rating.

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 and 98/2020), on 31 December 2021, the Bank is fully compliant with the regulatory requirements prescribed by that decision.

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on concentration per sector and geographical region of exposure at during 2021:

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	**36.280.202**	**529.767**	**39.487.934**	**846.620**	**11.227.957**	**366.751**	**8.167.985**	**232.321**	**743.420**	**17.450**	**4.594**	**86**
Household loans	23.942.211	97.932	19.684.851	156.025	4.181.771	68.123	2.558.714	22.248	95.931	841	4.548	-
Consumers and cash loans	11.211.167	366.554	18.667.196	642.642	6.669.609	264.487	5.388.939	172.113	620.198	16.269	-	-
Transactions and credit cards	129.089	2.956	385.204	8.024	92.225	4.163	46.024	1.710	4.547	91	-	-
Other receivables	997.734	62.325	750.683	39.928	284.352	29.978	174.308	36.249	22.744	249	47	86
Receivables from corporate clients	**54.739.833**	**1.034.136**	**30.468.192**	**782.127**	**8.463.054**	**264.151**	**6.651.957**	**39.212**	**735**	-	-	-
Sector A	836.480	259.404	6.256.782	18.497	47.147	4.685	112.888	-	-	-	-	-
Sectors B, C and E	4.555.895	16.404	10.668.550	658.015	4.290.670	156.344	4.570.232	4.307	-	-	-	-
Sector D	6.874.347	597.523	1.647.932	-	2.081.274	-	703.836	-	-	-	-	-
Sector F	11.074.523	8.029	3.642.064	589	395.400	4.392	417.419	4.837	-	-	-	-
Sector G	6.579.333	65.596	4.576.636	86.203	635.660	22.933	586.180	30.032	735	-	-	-
Sector H, I and J	8.625.714	38.120	1.498.004	11.019	589.224	12.816	164.842	-	-	-	-	-
Sector L, M and N	16.193.542	49.061	2.178.224	7.804	423.678	62.982	96.560	36	-	-	-	-
Receivables from other clients	**21.866.194**	**98.413**	**3.208.398**	**214.317**	**984.089**	**91.142**	**452.501**	**15.364**	**-**	**-**	**3.213.481**	**-**
Total exposure	**112.886.228**	**1.662.317**	**73.164.523**	**1.843.064**	**20.675.099**	**722.044**	**15.272.443**	**286.897**	**744.156**	**17.450**	**3.218.076**	**86**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Data on concentration per sector and geographical region of exposure during 2020:

In RSD '000

	Belgrade region		Vojvodina		Sumadija and Western Serbia		South and East Serbia		Kosovo and Metohija		Foreign countries	
	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables
Receivables from retail clients	**34.107.221**	**399.262**	**36.057.458**	**597.487**	**10.566.140**	**303.355**	**7.558.601**	**126.804**	**722.541**	**8.376**	**5.267**	**36**
Household loans	22.924.163	76.962	17.813.686	135.427	3.958.797	78.748	2.394.591	24.705	108.288	-	4.962	-
Consumers and cash loans	10.101.062	282.072	17.126.528	417.991	6.231.392	190.326	4.916.836	91.152	588.875	8.020	-	-
Transactions and credit cards	128.380	2.955	395.585	6.933	97.373	3.305	47.824	1.550	4.605	91	-	-
Other receivables	953.616	37.274	721.660	37.137	278.578	30.977	199.350	9.396	20.773	265	304	36
Receivables from corporate clients	**51.284.647**	**770.888**	**31.700.018**	**114.252**	**8.924.626**	**83.348**	**4.749.455**	**40.153**	**1.046**	**0**	**0**	**0**
Sector A	687.921	15.006	5.880.537	5.090	507.087	4.391	50.802	-	-	-	-	-
Sectors B, C and E	4.522.116	600.694	10.839.514	59.181	4.290.836	38.169	2.345.015	4.378	-	-	-	-
Sector D	6.088.857	-	1.557.810	-	2.261.162	-	1.062.014	-	-	-	-	-
Sector F	11.063.153	11.138	3.555.655	667	321.164	3.352	378.969	4.053	-	-	-	-
Sector G	6.423.055	64.479	5.659.022	36.520	625.623	22.774	688.061	30.406	1.046	-	-	-
Sector H, I and J	9.383.015	23.892	2.253.660	5.102	485.962	14.435	115.749	838	0	-	-	-
Sector L, M and N	13.116.531	55.679	1.953.820	7.691	432.793	226	108.845	477	-	-	-	-
Receivables from other clients	**14.393.421**	**29.834**	**3.111.056**	**165.462**	**776.595**	**259.717**	**468.826**	**15.212**	**-**	**-**	**1.774.725**	**-**
Total exposure	**99.785.289**	**1.199.984**	**70.868.532**	**877.201**	**20.267.361**	**646.420**	**12.776.882**	**182.169**	**723.586**	**8.376**	**1.779.992**	**36**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Credit-related Risks

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

Counterparty Risk

The Bank operates with derivative financial instruments, as well as with repo / reverse repo 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 limit for each derivative financial instrument, having in mind their type, maturity and credit quality of clients. For repo / reverse repo transactions, different types of limits have been established (nominal product limit, nominal limit to the other counterparty, limit to the other counterparty in accordance with the client's maturity and credit quality), and credit risk is limited by daily collateral valuation and establishment process for margin call.

36.3. Liquidity Risk and Financial Assets Management

Liquidity risk is defined by the Decision of the National Group on liquidity risk management ("Official Gazette of the Republic of Serbia", No. 103/2016).

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

This involves estimating expected RSD and foreign currency cash flows on daily basis and availability of highly liquid collaterals that may be used to ensure additional funding, if required. The Group manages its assets and liabilities in such a way that it can meet its due liabilities at all time, as well as to have customers disposing their funds held with the Group in accordance with agreed terms.

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

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

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

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

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

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

In addition to broader liquidity indicators, the Bank as well monitors the narrow 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 2021 and 2020 the Bank had daily liquidity ratios above the legally prescribed level.

	31 December 2021	31 December 2020
Average during period	1,50	1,37
Highest	1,87	1,87
Lowest	1,27	1,12
On 31 December	1,30	1,73

Narrower liquidity ratio during 2021 and 2020

	31 December 2021	31 December 2020
Average during period	1,36	1,29
Highest	1,75	1,82
Lowest	1,16	1,09
On 31 December	1,18	1,69

As at 30 June 2017, on the basis of the Decision on the Group's liquidity management, adopted by the National Bank of Serbia, the banks are obliged to calculate and report on liquidity coverage ratio (hereinafter LCA) on a monthly basis. LCA represents the ratio of the Group's liquidity layer and the net outflow of liquid assets that would arise during the next 30 days from the date of calculating this indicator under the assumed stress conditions. The Group is obliged to keep LCA, in all currencies, at a level not lower than 100%.

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

The Department for Market Risk Management and Liquidity Risk within the Strategic Risk Management Department is responsible for calculating the indicators, and the Asset and Liability Management Service is responsible for managing and projecting the indicators. As at 31 December 2021 and 31 December 2020 Group had Indicator of liquid assets coverage ratio above prescribed limit.

	31 December 2021	31 December 2020
Indicator of liquid assets coverage	168,43	201,23

In addition to calculating regulatory and internal indicators, the Group conducts a regular stress test for liquidity risk. Survival Period Analysis is done on a weekly basis (during 2021 it has been changed from weekly to monthly 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 survival period was adopted. The Group has defined internal limits for SPA. The methodology used for the Survival Period Analysis (SPA) in EBS is based on the Approach of the Hazardous Zone. The hazardous zone model is used as a model of risk financing in system stress tests. The assumption is that liquidity risk is a secondary risk, which can easily be expanded and increase any crisis arising from other risk categories. Approach of the Hazardous Zone implies that while the crisis develops and becomes more serious, there are critical points where each financial market is closed and is no longer available to the subject.

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

As an additional way of managing liquidity risk, the Group produces a monthly report on the liquidity gap, in which positions are allocated either according to the agreed maturity or with assumptions for the allocation of positions that have no agreed maturity. The Market and Liquidity Risk Management Department is responsible for regular monitoring and reporting. The Group's Executive Board has adopted internal limits on the liquidity gap for both the absolute cash flow indicator and the cumulative cash flow indicator. The methodology for preparing the report is defined through a separate internal act.

The 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 Group has defined the internal limits for the NSFR indicator.

The amount of internal limits is reviewed annually.

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

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

Maturity Analysis of the Group's Financial Liabilities

The following table shows the Group's most significant financial liabilities by maturity, as at 31 December 2021 and 31 December 2020

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

In RSD '000

	Within a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2021
Liabilities per borrowings, deposits and securities	34.997.598	22.982.437	79.949.377	102.247.708	42.979.042	**283.156.162**
Subordinated liabilities	6.955	-	-	-	3.527.463	**3.534.418**
Total	**35.004.553**	**22.982.437**	**79.949.377**	**102.247.708**	**46.506.505**	**286.690.580**

Maturity Analysis of the Group's Financial Liabilities

In RSD '000

	Within a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2020
Liabilities per borrowings, deposits and securities	20.112.434	29.713.590	58.946.410	103.806.427	45.134.074	**257.712.935**
Subordinated liabilities	-	83.986	252.572	-	3.533.849	**3.870.407**
Total	**20.112.435**	**29.797.576**	**59.198.982**	**103.806.427**	**48.667.923**	**261.583.342**

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

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

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

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	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 2021
Contingent liabilities	153.003	410.694	4.703.912	12.095.163	13.069.399	1.041.361	31.473.532
Irrevocable commitments and letters of credit	40.538.684	868.628	3.655.186	6.927.380	6.404.232	4.152.834	62.546.944
Total	**40.691.687**	**1.279.322**	**8.359.098**	**19.022.543**	**19.473.631**	**5.194.195**	**94.020.476**

In RSD '000

	Up to 14 days	From 15 days to a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2020
Contingent liabilities	426.385	772.921	3.917.595	11.417.337	7.303.074	694.153	24.531.465
Irrevocable commitments and letters of credit	26.221.740	831.699	720.607	4.047.232	4.742.941	2.629.485	39.193.704
Total	**26.648.125**	**1.604.620**	**4.638.202**	**15.464.569**	**12.046.015**	**3.323.638**	**63.725.169**

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

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

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 EUR 175 million. In 2020, the Bank signed a new agreement with the EIB for a total amount of EUR 30 million for the purpose of financing small and medium-sized enterprises and medium-sized enterprises in order to respond to the situation caused by the COVID-19 crisis.

By signing a contract with the German Development Bank, KfW, signed in 2014, the Bank provided funds for the financing of micro, small and medium enterprises and energy efficiency / renewable energy projects in the amount of a total of EUR 20 million. At the end of 2017, the Bank signed a new contract with KfW in the amount of EUR 23 million for financing energy efficiency and renewable energy. In mid-December 2018, the Bank signed a new contract with the German Development Bank, KfW, to finance renewable energy sources for small and medium-sized enterprises in the total amount of EUR 10 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 in the total amount of RSD 600 million. In mid-June 2019, the Bank signed a contract with the European Bank for Reconstruction and Development for the financing of micro, small and medium-sized enterprises in the total amount of EUR 40 million. During 2020 Bank is signed two long-term contracts with EBRD for the purpose of financing micro, small and medium companies in amount of 2,16 billion and RSD 40 million. In may 2021, the Bank signed an agreement with EBRD in the amount of RSD 1,2 billion for the purpose of financing of energy efficiency projects in the housing sector, while in August of the same year the Bank signed two more agreements, in the amount of EUR 25 million for the purpose of financing small and medium companies and for companies with middle capitalization in order to respond to the situation caused by COVID-19 crisis and in the amount of EUR 5 million for the financing micro, small and medium companies.

For the financing of loans to legal entities at the end of 2017, the Bank signed long-term loan agreement with Erste Group Bank AG in the amount of EUR 53 million. In June 2018, the Bank signed a new contract with Erste Group AG for the purpose of financing loans to legal entities in the total amount of EUR 65 million.

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.

During 2020 Bank is signed new long-term contract with Development Bank of Council of Europe ("CEB") for the purpose of financing micro, small and medium companies in amount of RSD 30 million.

The balance of loans received from foreign credit institutions at the end of 2021 is presented in Note 27.

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

***Maturity Analysis of the Group's Financial Liabilities* (continued)**
Liquidity Gap Analysis – Financial Assets and Liabilities

In RSD '000

	Up to 14 days	15 days up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total 2021
ASSETS							
Cash and cash funds held at Central Bank	39.929.941	-	-	-	-	-	39.929.941
Derivative receivables	29.823	-	-	-	99.754	55.871	285.448
Securities	139.550	2.012.966	3.800.100	2.376.275	33.278.594	16.892.238	58.499.723
Loans and receivables due from banks and other financial institutions	6.646.880	-	63	10.257	13.592	22.404	6.693.196
Loans and receivables due from customers	891.739	1.864.186	2.911.698	19.035.836	74.204.017	119.227.564	218.135.039
Other assets	372.708	849.279	93	1.072	167.406	1.139	1.391.697
Total assets	**48.010.641**	**4.726.431**	**6.711.954**	**21.423.440**	**107.763.363**	**136.299.216**	**324.935.044**
LIABILITIES AND EQUITY							
Derivative liabilities	3.101	-	-	-	67.219	96.080	166.400
Deposits and liabilities due to banks and other financial institutions and NBS	7.947.794	1.135.497	2.220.614	16.602.688	40.363.350	5.981.849	74.251.792
Deposits and other liabilities to customers	159.487.475	4.034.975	13.084.131	23.158.005	3.431.647	5.708.138	208.904.371
Subordinated liabilities	-	6.955	-	-	-	3.527.463	3.534.418
Other liabilities	223.885	213.776	-	47.564	497.288	1.257.941	2.240.454
Total liabilities	**167.662.255**	**5.391.203**	**15.304.745**	**39.808.257**	**44.359.504**	**16.571.471**	**289.097.435**
Total equity	**-**	**-**	**-**	**-**	**-**	**37.843.491**	**37.843.491**
Total liabilities and equity	**167.662.255**	**5.391.203**	**15.304.745**	**39.808.257**	**44.359.504**	**54.414.963**	**326.940.927**
Liquidity GAP as at 31 December 2021	**(119.651.614)**	**(664.772)**	**(8.592.791)**	**(18.384.817)**	**63.403.859**	**81.884.253**	
Liquidity GAP as at 31 December 2020	**(86.341.820)**	**(2.586.518)**	**(16.146.093)**	**(11.626.297)**	**39.986.103**	**74.673.120**	

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management

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

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

The previous table presents an analysis of the maturities for the Group's assets and liabilities on the basis of agreed payment terms. The contractual maturities of assets and liabilities are determined on the basis of the remaining period at the balance sheet date in relation to the contractual maturity. The table does not include potential liabilities and irrevocable obligations that are shown in the table above. The maturity structure of assets and liabilities as at 31 December 2021 is based on agreed discounted amounts.

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

36.4. Market Risks

Market risk is the risk that changes in the value of balance sheet and off-balance sheet items arising from movements in market prices will have negative effects on the Group's financial result and equity.

The Group's operations are, among other risks, exposed to market risks, including foreign exchange risk, price risk on debt and equity securities and merchant banking risk.

The general price risk on debt securities is the risk of debit securities price changes due to changes in the general level of interest rates.

To calculate the capital requirements of the general price risk, the Group applies the standard approach and maturity method.

Maturity method is based on the classification of all net positions in debt securities into maturity classes or zones according to the outstanding maturity and coupon (interest) rate as per the table prescribed by the NBS Decision governing the bank's capital adequacy.

The Group calculates capital requirements for market risks arising from items of trading book using the methodology and guidelines prescribed by the NBS Decision governing the Group'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

36. RISK MANAGEMENT (continued)

36.4. Market Risks

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 2021	As at 31 December 2020
Interest rate risk	11.339	10.455
Foreign exchange risk	6.898	4.221
Total	14.846	11.510

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

For the purpose of calculating internal capital requirements, the daily VaR with confidence level of 99% is transferred to annual, and the confidence level is increased to 99,92%.

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.

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 the individual issuer, separately for securities in the trading book and in the banking 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 Group's Executive Board at the proposal of the Strategic Risk, Portfolio and Capital Management Sector. Exposure is monitored on a daily basis.

The Group conducts stress testing of the trading book portfolio on a monthly basis. Historical and standard (one-factor) scenarios are defined, while the Executive Board approved limit at the proposal of the Strategic Risk, Portfolio and Capital Management Sector.

On a daily basis, the Bank monitors the compliance of the period of holding positions in securities allocated to the trading book with the maximum period defined by the Trading Strategy.

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.

36. RISK MANAGEMENT (continued)

36.4. Market Risks

36.4.1 Interest Rate Risk

Interest risk is the risk of an adverse impact on the Group's financial result and capital due to changes in market interest rates. The Group is exposed to this risk based on items from the banking book, and it assesses the aforementioned risk in the aggregate and per each significant foreign currency for whose definition it has established criteria. In accordance with these criteria, the Group considers RSD and EUR to be materially significant currencies.

The basis for the formation of interest rates are market interest rates, on the basis of 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, in terms of impact the net interest revenue on one end and economic value of equity on the other.

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

The Group has set up a set of indicators and limits of sensitivity for monitoring and managing the exposure to interest rate risk in the 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 Group has defined indicators through which to assess the impact of interest rate changes on net interest income. It uses shocks of +/- 200 basis points (with and without floor interest rates), shocks caused by market interest rate volatility, as well as 6 scenarios prescribed by the EBA guidelines.

By establishing separate indicators, the risk of options as well as the base risk are assessed.

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

Given that interest rate risk indicators are calculated using behavioral models, the Group has also defined indicators that assess the risk of these models, changes in assumptions and scenarios for the calculation of interest rate risk indicators. The difference between the initial calculations and the calculations in accordance with the changed assumptions shows the impact of the applied models.

The Group prepares a report on the interest rate gap on a regular basis, which presents an overview of interest-sensitive balance sheet and off-balance sheet positions in the banking book, by time baskets. For fixed interest rate positions, the risk of maturity mismatch is determined, and for variable interest rate items, the expected interest rate re-determination interval is determined. The relative interest rate gap is determined for the most important currencies and for all currencies together, by comparing the difference between interest rate sensitive assets and interest rate sensitive liabilities (by time baskets) on the one hand and total assets on the other hand.

To calculate the internal capital requirement, the Bank uses the VaR approach (confidence level 99.92%) and takes into account interest rate risk and credit spread risk.

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.

36. RISK MANAGEMENT (continued)

36.4. Market Risks (continued)

36.4.1. Interest Rate Risk (continued)

The following table shows the Group's exposure to the interest rate risk (Repricing Gap) as at 31 December 2021. Assets, liabilities, and currency swaps as off-balance sheet items are categorized by the earlier of interest repricing date and maturity date.

In RSD '000

Position	Up to a month	From 1 to 3 month	From 3 to 6 months	From 6 month to 1 year	Over 1 year	Total non-interest bearing	Total 2021
Cash	-	-	-	-	-	10.832.333	10.832.333
Obligatory reserve	11.251.764	-	-	-	-	17.853.285	29.105.049
Securities	2.613.628	5.674.896	2.589.946	4.876.113	44.404.141	-	60.158.724
Loans due from banks	6.623.436	-	-	-	-	-	6.623.436
Loans due from customers	66.311.480	79.519.086	30.167.658	4.749.283	36.292.632	-	217.040.139
Other assets	-	-	-	-	-	6.429.499	6.429.499
Total balance assets	**86.800.308**	**85.193.982**	**32.757.604**	**9.625.396**	**80.696.773**	**35.115.117**	**330.189.181**
FX Swap	11.476.134	1.675.821	-	-	72.748	-	13.224.703
Total assets	**98.276.442**	**86.869.803**	**32.757.604**	**9.625.396**	**80.769.521**	**35.115.117**	**343.413.883**
Liabilities to banks	6.515.050	5.056.030	12.346.121	-	7.423	-	23.924.624
Liabilities to financial institutions	6.761.570	17.770.248	7.029.800	3.436.561	12.587.724	-	47.585.904
AVISTA deposits	13.715.101	7.877.692	11.947.833	24.158.255	93.824.362	-	151.523.244
Term deposits	9.905.944	14.847.264	12.055.008	18.938.210	8.775.634	-	64.522.060
Other liabilities	-	-	-	-	-	4.789.858	4.789.858
Total equity	**-**	**-**	**-**	**-**	**-**	37.843.491	37.843.491
Total balance liabilities and equity	**36.897.666**	**45.551.234**	**43.378.761**	**46.533.027**	**115.195.143**	**42.633.350**	**330.189.181**
FX Swap	11.445.958	1.677.782	-	-	71.859	-	13.195.599
Total liabilities and equity	**48.343.624**	**47.229.016**	**43.378.761**	**46.533.027**	**115.267.003**	**42.633.350**	**343.384.780**
Net interest rate risk on 31 December 2021	**49.932.818**	**39.640.788**	**(10.621.157)**	**(36.907.631)**	**(34.497.481)**	**(7.520.389)**	**26.947**
Net interest rate risk on 31 December 2020	**66.618.520**	**10.398.364**	**(34.261.032)**	**(23.817.791)**	**(10.181.605)**	**(8.577.479)**	**178.975**

36. RISK MANAGEMENT (continued)

36.4. Market Risks (continued)

36.4.1. Interest Rate Risk (continued)

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

The following table presents the income statement's sensitivity to the reasonably anticipated changes of interest rates (1%) with other variables held constant. The income statement's sensitivity represents the effect of assumed changes in interest rates on the net interest income in one year and on financial assets and liabilities based on interest rates as at 31 December 2021 and 31 December 2020.

In RSD '000

Currency	Changes in percentage points	Income statement sensitivity 2021	Changes in percentage points	Income statement sensitivity 2020
Increase in percentage:				
RSD	1%	118.432	1%	168.140
EUR	1%	451.212	1%	510.298
Decrease in percentage:				
RSD	1%	(224.157)	1%	(152.854)
EUR	1%	(719.585)	1%	(731.349)

36. RISK MANAGEMENT (continued)

36.4. Market Risks (continued)

36.4.2. *Foreign Exchange Risk*

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

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

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

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

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

In 2021, the Group continuously monitored the compliance of foreign exchange risk indicators, whereby the above indicator was at a level within the prescribed limit. At the end of each working day, the Group's foreign currency exposure indicator was not more than 20% higher than the Group's capital.

The following table shows the currencies in which the Group has significant exposure as at 31 December 2021 and 31 December 2020 of its monetary assets and liabilities that are not traded.

The above analysis calculates the result of reasonably possible currencies exchange rates movements relative to the RSD with constant maintenance of other variables. Negative amounts in the table represent a potential decrease in the income statement, i.e. profit or capital, while positive amounts represent potential increases.

Risk of changing foreign exchange rates

Currency	Changes in currency rate (depreciation in %) 2021	Effect on profit and loss before taxes 2021	Changes in currency rate (depreciatio n in %) 2020	Effect on profit and loss before taxes 2020
EUR	2%	(9.470)	2%	(5.378)
CHF	2%	(54)	2%	(76)
USD	2%	655	2%	391

36. RISK MANAGEMENT (continued)

36.4. Market Risks (continued)

36.4.2. *Foreign Exchange Risk*

The following table presents the Group's exposure to foreign exchange risk as at 31 December 2021. The table includes assets and liabilities at their carrying amounts.

In RSD '000

	EUR	USD	CHF	Other currencies	Total in foreign currencies	Total in RSD	Total
ASSETS							
Cash and cash funds held at central Bank	24.322.776	103.169	484.829	134.079	**25.044.853**	14.885.088	**39.929.941**
Pledged financial resources	-	-	-	-	-	-	-
Derivative receivables	255.636	-	-	-	**255.636**	29.812	**285.448**
Securities	8.383.315	1.529.191	-	-	**9.912.506**	48.587.217	**58.499.723**
Loans and receivables due from banks and other financial institutions	653.626	63.247	35.625	232.156	**984.654**	5.708.542	**6.693.196**
Loans and receivables due from customers	160.246.277	352.789	6.927	-	**160.605.993**	57.529.046	**218.135.039**
Investment in subsidiaries and joint ventures	-	-	-	-	-	118	**118**
Intangible assets	-	-	-	-	-	1.729.377	**1.729.377**
Property, plant and equipment	-	-	-	-	-	3.187.861	**3.187.861**
Current tax assets	-	-	-	-	-	238.878	**238.878**
Deferred tax assets	-	-	-	-	-	227.079	**227.079**
Fixed assets held for sale and assets of discontinued operations	-	-	-	-	-	12.252	**12.252**
Other assets	25.872	-	3.771	18	**29.661**	1.220.608	**1.250.269**
Total assets	**193.887.502**	**2.048.396**	**531.152**	**366.253**	**196.833.303**	**133.355.878**	**330.189.181**
LIABILITIES AND EQUITY							
Derivative liabilities	163.302	109	-	-	**163.411**	2.989	**166.400**
Deposits and liabilities due to banks and other financial institutions and NBS	61.052.205	8.019	4.948	11.706	**61.076.878**	13.174.914	**74.251.792**
Deposits and liabilities due to customers	117.474.340	6.368.745	4.017.596	1.011.105	**128.871.786**	80.032.585	**208.904.371**
Subordinated liabilities	3.534.418	-	-	-	**3.534.418**	-	**3.534.418**
Provisions	-	-	-	-	-	1.690.993	**1.690.993**
Current tax assets	-	-	-	-	-	109.647	**109.647**
Deferred tax liabilities	-	-	-	-	-	9.763	**9.763**
Other liabilities	1.988.572	2.319	1.674	288	**1.992.853**	1.685.453	**3.678.306**
Total liabilities	**184.212.837**	**6.379.192**	**4.024.218**	**1.023.099**	**195.639.346**	**96.706.344**	**292.345.690**
Total equity	-	-	-	-	-	37.843.491	**37.843.491**
Total liabilities and equity	**184.212.837**	**6.379.192**	**4.024.218**	**1.023.099**	**195.639.346**	**134.549.835**	**330.189.181**
Net foreign currency position as at:							
– 31 December 2021	**9.674.665**	**(4.330.796)**	**(3.493.066)**	**(656.846)**	**1.193.957**		
– 31 December 2020	**7.891.122**	**(2.507.420)**	**(1.741.683)**	**(294.220)**	**3.347.799**		

36. RISK MANAGEMENT (continued)

36.5. Group’s Risk Concentration

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

Monitoring the exposure risk is mandatory part of the procedures in the loan approval stage in the sense that a committee that approves a loan has at its disposal information on the total Group's exposure to a customer or a group of related customers relative to the Group's capital.

During 2021, the Group maintained the exposure risk indicators within the prescribed values. By implementing appropriate activities stipulated by the relevant procedures and decisions on loan approval, the Group kept the adequacy of its loans and receivables and investments in line with the performance indicators prescribed by the National Bank of Serbia (see Note 33(b)) and with the internal limits.

In accordance with the Risk management policies, the Group’s management approves the exposures and limits, i.e. the loan concentration on certain legal entities or a group of related entities, and parties related to the Group.

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

36.6. Group's Investment Risks

The Group’s investment risks include the Group’s equity investments held in other entities and investments made into the fixed assets.

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

The Group’s investment risk exposure arising on investments into other legal entities and fixed assets is monitored by the organizational unit or the Group’s body competent for procurement of fixed 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 2021, the Group maintained the investment risk indicators within the prescribed values and it ensured that investments were reconciled with the indicators prescribed by the National Bank of Serbia.

36.7. Country Risk

Country risk is the risk related to the country of origin of a counterparty the Group is exposed to and includes adverse effects which may influence the financial result and capital of the Group, as the Group might not be able to collect receivables from this counterparty, as a result of political, economic or social situation in the country of its origin.

The Bank mostly approves funds to the customers from the Republic of Serbia, while it is exposed to the country risk mostly in the part of funds that can be placed up to certain limits to foreign banks at certain moments.

The Bank pursues its country risk management policy 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.

36. RISK MANAGEMENT (continued)

36.8. Operational Risk

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

The Group has established a comprehensive system of managing operational risk through the identification and recording, evaluation and monitoring of operational risks in all materially significant products, activities, processes and systems. Operational risk management is the responsibility of all employees of the Group.

Committee for Non-financial Risk Management of the Bank, in addition to an independent department for operational risk management and other non-financial risks, and other control functions, actively contributes to the improvement of operational risk management function.

Reporting system for operational risk events is used for early identification of operational risk events, while the approximation process provides completeness, coherence and comprehensiveness of operational risk events that have occurred in the Group. Operational risk events are collected in a single database and further analysed and monitored.

The Group continuously educates all employees in the field of operational risk management by increasing the awareness of the employees of operational risk management, improves quantitative and qualitative tools for identifying and measuring risk exposure (such as self-assessment, key operational risk indicators, scenario analysis, etc.), and establishes and promotes adequate preventive and corrective measures to decrease the level of operational risk exposure to an acceptable level.

The Group actively monitors, analyzes and adapts to current changes in the environment initiated by the emerging global Covid19 pandemic. In this regard, all extraordinary related losses are regularly collected and updated within the loss database based on operational risks and included in regular management reporting. Additionally, regular operational risk assessments include the impact of the Covid19 situation in each segment (self-assessment of the operational risk management system, Scenario analysis, RMA, etc.).

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

The Group is insured from the usual risks and specific 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 Group's internal and external frauds, technological risks and civil responsibility.

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

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

Business Continuity Management in Covid 19

On 12 March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Serbian authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19 in the country, such as travel bans, movement restrictions, business restrictions, and more.

The above measures were gradually relaxed during 2020, while some were repealed in 2021 and the remaining ones further weakened. The easing of measures has mitigated the negative impact of COVID-19 on the economy, market participants, as well as the Serbian and global economy.

According to the published statements of the NBS in January 2022, and according to the preliminary assessment of the Statistical Office of the Republic of Serbia on economic trends in 2021, the real GDP grwoth is 7,5% which represented significant growth in economic activity compared to 2020. Such developments are the result of growing activity in industry, construction and the service sectors. Annual inflation rate (prices in December 2021 compared to December 2020) amounted 7,9% in 2021, while the average annual inflation rate in 2021 was 4.0%.

Management is taking necessary measures to ensure business continuity, ensure continuous customer service and reduce negative impact on employees.

36. RISK MANAGEMENT (continued)

36.8. Operational Risk

Due to the pandemic situation caused by the COVID-19 virus, the Bank has ensured the continuity of its functions: work from home for more than 70% of its employees, combined work from administrative facilities for functions that are not able to perform their business remotely due to needs and working conditions, as well as working in shifts, reducing working hours and introducing physical security workers in the Bank's sales points. The Bank additionally informed clients about the possibilities of using ATM zones, m-banking and net-banking solutions, which would avoid unnecessary crowds and service queues in the Bank's branches.

In accordance with the newly established work scenarios, the Bank has implemented process and technical measures in order to protect access to sensitive information through remote access: VPN connection, user authorization, log monitoring system, etc. Due to the need for internal controls within the Bank and the impossibility of field trips and the need to avoid contact with employees, the Bank's control functions have been provided with additional monitoring and control tools: video surveillance system recordings, identification card access logs, action logs in the Bank's information system, etc.

36.9. Capital Management

The Group permanently manages its capital, which is a broader concept than “capital” on the face of the balance sheet, in order to:

- comply with the capital requirements set by the National Bank of Serbia;
- to ensure that the level and composition of capital that can support the expected growth in placements;
- ensure the possibility of a long-term going concern of operations with providing of profit to shareholders and benefits to other stakeholders; and
- provide a solid capital base to support the development of its business.

The Group manages the capital structure and performs adjustments in accordance with changes in economic conditions and risk related to the Group’s operations. The Group’s management monitors regularly the Group’s capital adequacy ratios and other ratios established by the National Bank of Serbia and delivers quarterly reports on the achieved values of ratios.

The Law on Groups and relevant decisions of the National Group of Serbia, which are fully compliant with the requirements of Basel 3 standards as of June 30, 2017, stipulates that Groups must maintain a minimum capital of dinar equivalent of 10 million euros at the official middle exchange rate, as and to harmonize the scope and structure of its operations with the business indicators prescribed by the Decision on Risk Management ("Official Gazette of RS", No. 45/2011, 94/2011, 119/2012, 123/2012 and 23/2013 - other decision, 43 / 2013 and 92/2013, 33/2015, 61/2015, 61/2016, 103/2016, 119/2017, 76/2018, 57 / 2019, 88/2019, 27/2020 and 67/2020) and the Decision on capital adequacy ("Official Gazette of RS", No. 103/2016, 103/2018, 88/2019, 67/2020, 98/2020, 137/2020 and 59/2021).

Regulatory prescribed minimum capital adequacy ratios, including the protection classes of equity as at 31 December 2021, were as follows:

- indicator of the adequacy of the basic share capital 16,51%
- indicator of the capital adequacy ratio 16,51 and
- indicator of capital adequacy of 18,25%.

In addition to the requirements defined in the form of minimum indicators of capital adequacy and protective capital layers, the Group is also required to fulfil the additional regulatory minimum capital requirement, defined in the process of the Supervisory Review and Evaluation Process (SREP), which the National Bank of Serbia for 2021 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.

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

The capital of the Group is the sum of the basic and additional capital, where the basic capital makes the sum of the basic share capital and additional share capital. The capital adequacy ratio of the Group is equal to the ratio of the Group's capital and the collection of credit risk weighted assets, the capital requirement for price risk from the activities in the book of trade multiplied by the reciprocal value of the capital adequacy ratio (prescribed 8%), the capital requirement for foreign exchange risk multiplied by the reciprocal value of the capital adequacy ratio, the capital requirement for the risk of adjusting the credit exposure multiplied by the reciprocal value of the capital adequacy ratio, the capital requirement for operational risk multiplied by the reciprocal value of the capital adequacy ratios and the risk weighted exposure for the risk of the counterparty.

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

The Framework for Integrated Risk and Capital Management as a concept established in the Group, as its key component, has the Internal Capital Adequacy Assessment Process (ICAAP). This framework is defined to support the Group's management in the risk management process to which the Group is exposed, as well as in its internal capital, in order to achieve the Group's satisfactory level of capital in accordance with its risk profile.

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

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

In accordance with the Law on banks and the Decision on banks and banking group Recovery Plans ("Official Gazette of the Republic of Serbia" No. 71/2015), the Group 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 Group, as well as achieving stability in situations of serious financial disturbances. In addition, the Group, for the purpose of preparing the Plan for Restructuring and defining Minimum Capital Requirements and similar obligations of the 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).

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

The table below summarizes the structure of the Group's capital as at 31 December 2021 and 31 December 2020 as well as the capital adequacy ratio:

		In RSD '000
	31.12.2021.	**31.12.2020.**
Basic capital		
Basic share capital		
The amount of the basic share capital paid	14.107.500	12.909.000
Related emission premium with basic equity instruments	3.704.504	2.553.944
Profit from the current period that meets the requirements for inclusion in the share capital	307.114	254.488
Revaluation reserves and other unrealized gains	176.790	642.678
Unrealized losses	(65.720)	(144.747)
Other reserves	16.968.156	15.634.894
Additional value adjustments	(24.395)	(26.958)
Other intangible assets before deduction for related deferred tax liabilities	(1.729.377)	(1.146.644)
Gross amount of receivables from a debtor - natural person (other than farmers and entrepreneurs) where the level of credit indebtedness of that debtor was higher than the percentage determined in accordance with the decision governing the classification of the balance sheet assets and off-balance sheet items of the Group or will be higher due to loan approval	(15.081)	(22.526)
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	(9.806)	(8.759)
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 2555 days	(4.213)	(5.813)
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 2190 days	(2.540)	-
Total	**33.419.684**	**30.639.556**
Supplementary capital		
Subordinated obligations	3.527.463	3.568.709
Basic capital	**3.527.463**	**3.568.709**
Capital:	**36.947.147**	**34.208.265**
Risky balance and off-balance assets		
Capital requirement for credit risk, counterparty risk and risk of delivery / delivery on the basis of free delivery	14.525.453	13.032.542
Capital requirement for price risk	116.489	169.187
Capital requirement for foreign exchange risk	-	-
Capital requirement for operational risk	1.516.995	1.395.833
Capital requirement for the risk of adjusting credit exposure	34.363	56.605
Tier 1 capital adequacy ratio	**16,51**	**16,73**
Common Equity Tier 1 capital adequacy ratio	**16,51**	**16,73**
Capital adequacy	**18,25**	**18,67**

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

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

The following table gives an overview of the limits for applying exceptions to deductible items from the basic share capital defined by the Decision on the capital adequacy of the Group:

		In RSD '000
	31.12.2021	**31.12.2020**
Investments in entities in the financial sector in which the Group does not have significant investments		
The limit to which investments in entities in the financial sector in which the Group does not have a significant investment are not deducted from the capital (10% of the basic share capital)	3.341.293	3.067.349
Investments in the basic share capital of entities in the financial sector in which the Group does not have a significant investment	120.224	(111.469)
Investments in additional share capital of entities in the financial sector in which the Group does not have significant investments		-
Investments in supplementary capital of entities in the financial sector in which the Group does not have significant investments		-
Remains up to the limit	**3.461.517**	**2.955.880**
Investments in entities in the financial sector in which the Group has significant investments		
The limit to which investments in entities in the financial sector in which the Group has significant investments are not deducted from the capital (10% of the basic share capital)	3.341.293	3.067.349
Investments in the basic share capital of entities in the financial sector in which the Group has significant investments	-	-
Remains up to the limit	**3.341.293**	**3.067.349**
Deferred tax assets		
The limit to which deferred tax assets, that are dependent on future profitability and arise from temporary differences, do not deduct from the capital (10% of the basic share capital)	3.341.293	3.067.349
Deferred tax assets that depend on future profitability and arise from temporary differences	(252.929)	(250.608)
Remains up to the limit	**3.088.364**	**2.816.741**
Combined limit for deferred tax assets and significant investments		
The limit for deferred tax assets, that are dependent on future profitability and arising from temporary differences and investments in financial sector entities in which the Group has significant investments are not deducted from equity (17,65% of the basic share capital)	5.857.303	5.386.517
Deferred tax assets that depend on future profitability and arise from temporary differences and investments in financial sector entities in which the Group has significantly invested	(252.929)	(250.608)
Remains up to the limit	**5.604.374**	**5.135.909**

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

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

In RSD '000

	31.12.2021		31.12.2020	
	Risk assets	**Capital requirement**	**Risk assets**	**Capital requirement**
Total risk assets	202.416.241	16.193.299	183.177.092	14.654.167
Risk-weighted exposure to credit risk	181.568.158	14.525.453	162.906.777	13.032.542
Standardized approach	181.568.158	14.525.453	162.906.777	13.032.542
IRB approach	-	-	-	-
Exposure to risk of settlement/delivery (except for free delivery)	-	-	-	-
Exposure to market risks	1.456.113	116.489	2.114.843	169.187
Exposure to operational risk	18.962.435	1.516.995	17.447.909	1.395.833
Exposure to the risk of adjusting credit exposure	429.535	34.363	707.563	56.605

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.

The classification of receivables does not affect the process of calculating expected credit losses, nor does it affect the calculations of the amount of credit risk weighted assets and regulatory equity.

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 9,18% as at 31 December 2021 (2020: 10,25%).

36. RISK MANAGEMENT (Continued)

36.10. Fair Value of Financial Assets and Liabilities

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

Evaluation model

Bonds

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

OTC derivatives

Valuation is aimed at discounting future cash flows using defined yield curves for a particular product and a specific currency. During 2021, the yield curves changed due to the transition from EONIA to ESTR rates. 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 2021	**31 December 2020**
CVA	10.401	16.666
DVA	(2.940)	(2.705)

Hierarchy of instruments that are valued at fair value

In accordance with IFRS 13, the EBS quarterly allocates appropriate levels to all positions in assets and liabilities that are valued at fair value or whose fair value must be disclosed in notes to the financial statements. Levels are allocated depending on how the market value of the instrument is derived. There are 3 levels.

Level FV 1
The fair value of financial instruments assigned to Level 1 hierarchy is determined on the basis of market quotations. The fair value determined on the basis of quotations can be Level 1 if the frequency and scope of trading is satisfactory and there is price consistency.

Level 1 classifies derivatives traded on an organized market, as well as stocks and bonds for which there is an active market.

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

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

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

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

36. RISK MANAGEMENT (Continued)

36.10. Fair Value of Financial Assets and Liabilities

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

	Na dan 31.12.2021				Na dan 31.12.2020			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS	**12.701.540**	**11.500.526**	**26.601**	**24.228.667**	**8.947.668**	**18.321.321**	**26.490**	**27.295.479**
Securities	**12.701.540**	**11.215.078**	**26.601**	**23.943.219**	**8.947.668**	**17.899.878**	**26.490**	**26.874.036**
Debit securities								
Republic of Serbia Treasury bills and bonds	12.589.037	11.214.514	-	**23.803.551**	8.596.124	17.899.118		**26.495.242**
Government bonds of Republic of Montenegro				**-**	248.000			**248.000**
Equity securities								
Quoted shares	112.503	564	-	**113.066**	103.544	760	-	**104.304**
Shares that are not quoted	**-**	-	26.601	**26.601**	**-**	-	26.490	**26.490**
Derivative receivables	**-**	285.448	-	**285.448**	-	421.443	-	**421.443**
FINANCIAL LIABILITIES	**-**	**166.400**	**-**	**166.400**	**-**	**349.511**	**-**	**349.511**
Derivative liabilities	-	166.400	-	**166.400**	-	349.511	-	**349.511**

36. RISK MANAGEMENT (Continued)

36.10. Fair Value of Financial Assets and Liabilities

Changes in the level of financial instruments valued at fair value

In RSD '000

	31.12.2021.			31.12.2020.		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Securities						
Transfer from Level 1	-	1.396.793	-	-	760	-
Transfer from Level 2	5.464.384	-	-	5.003.472	-	-
Transfer from Level 3	-	-	-	-	-	-
Acquisition, sale and derecogntion		(2.568.421)	-	(1.403.899)	8.002.823	-
Total	2.421.670	(1.171.628)	-	**3.599.573**	**8.003.583**	**-**

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

In RSD '000

	31.12.2021.		31.12.2020.	
	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	832.094	4.094.561	-	4.338.183
Financial assets FVPL				
Bonds	564.699	1.369.823	760	665.289
Total	**1.396.793**	**5.464.384**	**760**	**5.003.472**

36. RISK MANAGEMENT (Continued)

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

As at 31 December 2021, all bonds bonds of the Republic of Serbia were classified to level FV 1 or level FV 2.

Bonds of the Republic of Serbia, which are valued at market value, are mostly valued through quotation from Reuters, while a smaller part of the portfolio of RS bonds is valued by discounting - using the RS government curve from Reuters.

The 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 2021		**31 December 2020**	
FINANCIAL ASSETS	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Securities valued at amortized cost	34.556.623	34.556.623	27.974.460	27.974.460
Loans and receivables due from Banks	6.693.196	6.698.488	2.944.805	2.933.026
Loans and receivables due from customers	218.135.039	228.904.487	201.214.645	213.227.159
Fixed assets intended for sale	12.252	22.654	12.252	12.252
FINANCIAL LIABILITIES				
Deposits due to Banks	74.251.792	76.868.781	78.207.806	81.492.534
Deposits due to customers	208.904.371	210.344.939	175.995.703	176.875.682

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 KRM as a standard of Erste Group. During 2021, the replacement of the application in which the calculation is performed has been replaced, from QRM to Kamakura Risk Management (KRM).

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 2021, there were no reclassifications within the financial asset position.

Due to the influence of COVID 19, there were no changes in the process of calculating PV, nor in the process of assigning FV levels.

37. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating Lease Commitments

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

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

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

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

In RSD '000

	31 December 2021	**31 December 2020**
Within a year	12.850	20.659
From 1 to 5 years	1.448	28.523
	14.298	**49.182**

(b) Litigation

As at 31 December 2020, the Group had 12.621 initiated litigations in the total amount of RSD 2.164.684 thousand in which it had the status of the sued party (31 December 2020: RSD 1.909.159 thousand). The default interest based on disputes against the Group amounts to RSD 443.027 thousand (31 December 2020: RSD 325.247 thousand).

Based on the assessment of the legal representatives of the Group in the above mentioned disputes, the Group made a provision in the amount of RSD 1.057.883 thousand as at 31 December 2021 (RSD 725.831 thousand as at 31 December 2020), for disputes that are expected to fall at the Group’s expense on this date. The Group’s management estimates that materially significant losses will not arise on the basis of the outcome of the court disputes in excess of the amount for which the provision was made.

A large number of litigations relate to client claims challenging the Group's right to charge a loan processing fee and a housing loan insurance premium. As the current case law in relation to these disputes is more in favor of clients in the first instance, and based on procedural laws it is possible to execute by invalid first instance judgments, the Group set aside provisions in the amount of 91% of total exposure to current disputes in the amount of RSD 855.083 thousand.

(c) Taxation Risks

The Republic of Serbia tax legislation is in the process of ongoing reviews and changes occur frequently. In the Republic of Serbia, tax liabilities do not become obsolete for a period of 5 years. In different circumstances, tax authorities may apply different approaches to certain matters and entities may be assessed additional taxes, penalties and interest. The Group’s management believes that the Group’s tax liabilities recorded in these financial statements are appropriately stated in accordance with the effective regulations.

38. RECONCILIATION OF OUTSTANDING BALANCES OF RECEIVABLES AND LIABILITIES

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

The Group sent its customers outstanding item statements (OIS) as at 31 October 2021 in total amount of RSD 403.253.065 thousand. Confirmed receivables amounted to RSD 260.897.263 thousand.

The amount of disputed receivables amounted to RSD 50.686 thousand and the Group is in contact with clients in order to resolve conflicts.

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

39. SEGMENT REPORTING

Management of the Group views operating segments in accordance with the methodology and segmentation defined at the entire Erste Group level and, on such basis, makes decisions in respect of, allocates resources to and assesses performance of individual segments. The report on segment results is aligned with FINREP methodology for financial reporting used within Erste Group where there are departures in certain items from the result as stated under the local NBS methodology.

a) Structure of Operating Segments

Segment report is comprised of four basic segments reflecting the governance structure of Erste Group a.d., Novi Sad.

b) Definition of Operating Segments

Retail Segment

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

Corporate

A segment that represents business with legal entities with different sizes of annual turnover as well as with the public sector.

Small and Medium Enterprises (SME)

This segment includes legal entities within the scope of responsibilities local corporate commercial centres, mostly comprised of companies with annual turnover of up to EUR 50 million.

Commercial Reals Estate Funding (CRE)

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

Large Corporate Clients (LC)

It includes clients whose consolidated annual turnover exceeds EUR 50 million as well as large companies / groups of companies with significant operations in key markets where the Erste Group operates.

Public sector

It represents a business that encompasses three sets of clients: the public sector, public enterprises, and nonprofits. Also, most municipalities by affiliation (segmentation) belong to the business of the Public Sector.

39. SEGMENT REPORTING

Alignment of assets and liabilities (ALM), CC and Free Capital

Consistency of assets and liabilities- Alm

It covers all asset and liability management activities. In addition, it includes financial transactions, hedging, investing in securities rather than trading them, managing own securities as well as foreign exchange positions.

Corporate Center (CC)

Represents activities in the area of internal service delivery on a non-profit basis.

Free capital

Free capital is defined as the difference between total IFRS recognized capital and average economic capital allocated to business segments.

Market Segment

It represents activities that consist of trading and providing market services as well as doing business with financial institutions. Trading and market services include activities related to the management and risk-taking within the Group's trading book, as well as activities related to the use of the Group's trading book for market creation, short-term liquidity management and securities custody.

Financial institutions are companies that provide financial services to their clients or members and participate as professional active participants in financial markets for the purpose of trading on behalf of their clients (banks, central banks, development banks, investment banks, investment funds, brokers, insurance companies, pensions funds, etc.). Transactions related to serving financial institutions as clients include all custody transactions, commercial transactions, all activities on the capital market, as well as deposit transactions with these clients, all of which belong to the segment of financial institutions.

39. SEGMENT REPORTING

Business segmentation

	Customers		Legal entities		Markets		ALM/CC/fcap		Consolidated	
in '000 RSD	**12.2021**	**12.202**	**12.2021**	**12.202**	**12.2021**	**12.202**	**12.2021**	**12.202**	**12.2021**	**12.202**
B. Profit & loss account										
Net interest income	5.546.846	4.846.186	3.214.872	2.976.905	214.901	212.262	137.993	151.044	9.114.612	8.186.157
Dividend income	-	-		-		-	454	424	454	424
Net investment result by equity method	-	-		-			11.093		11.093	5.145
Rental income from investment properties & other operating leases	-	-		-		-	6.093	6.735	6.093	5.956
Net fee and commission income	1.601.288	1.270.957	812.844	692.216	153.498	131.110	(193.205)	(202.181)	2.374.426	1.892.102
Net trading result	237.060	187.877	155.687	114.568	199.556	205.122	(44.149)	(43.069)	548.153	464.498
Gains/losses from financial instruments measured at fair value through profit or loss	-	-				-	(203)	(358)	(203)	(358)
General administrative expences	(6.001.260)	(5.453.703)	(1.421.797)	(1.192.893)	(218.486)	(179.663)	(50.344)	(274.173)	(7.691.788)	(7.093.389)
Gains/losses from derocognition of financial assets measured at amortised cost	(15.140)	(10.776)	-	-		-		-	(15.140)	(10.776)
Other gains/losses from derocognition of financial instruments not measured at fair value throught profit or loss	-	-	-	-		-	(887)	21	(887)	21
Reclassification gains/losses from amortized cost to fair value through profit or loss			-							
Reclassification gains/losses from fair value through other comprehensive income to fair value through profit or loss			-							
Net impairment loss on financial instruments	(265.032)	(1.270.855)	(694.877)	(303.077)	783	3.910	(6.457)	(17.231)	(965.583)	(1.585.537)
Other operating result	(33.949)	11.565	47.966	(5.970)	(2.288)	72	(673.710)	(548.277)	(661.981)	(549.357)
Pre-tax result from continuing operations	**1.069.814**	**(418.749)**	**2.114.694**	**2.281.748**	**347.964**	**372.670**	**(813.223)**	**(927.063)**	**2.719.250**	**1.314.888**
Taxes on income	(48.476)	(41.035)	111.762	190.187	(12.252)	36.519	33.911	(90.847)	(138.578)	94.543
Profit or loss for the year	**1.021.338**	**(459.784)**	**2.002.933**	**2.471.934**	**335.712**	**409.189**	**(779.311)**	**(1.017.910)**	**2.580.672**	**1.409.430**
Net result which belongs to minority interest (non-controlling)							(39.804)		(39.804)	(17.542)
Net result attributable to the owners of the parent	**1.021.338**	**(459.784)**	**2.002.933**	**2.471.934**	**335.712**	**409.189**	**(819.116)**	**(1.017.910)**	**2.540.867**	**1.391.888**
Operating Income	7.385.194	6.305.020	4.183.403	3.783.689	567.955	548.494	(81.924)	(87.404)	12.054.628	10.553.925
Operating Expences	(6.001.260)	(5.453.703)	(1.421.797)	(1.192.893)	(218.486)	(179.663)	(50.244)	(274.173)	(7.691.788)	(7.093.389)
Operating Result	**1.383.934**	**851.317**	**2.761.606**	**2.590.795**	**349.469**	**368.832**	**(132.168)**	**(361.577)**	**4.362.840**	**3.460.536**
A. Balance sheet										
Total assets (period end balance)	108.571.151	99.392.063	116.295.751	106.490.139	16.651.323	13.541.120	88.767.610	81.405.829	330.285.835	300.128.233
Total liabilities (period end balance)	123.383.144	101.996.058	96.521.389	85.473.093	14.112.912	15.469.935	58.301.257	64.483.873	292.318.702	266.704.277
Equity	7,059,591	7,286,030	13,685,052	10,399,127	1,326,554	852,411	15,895,936	14,868,622	37,967,134	33,423,955
C. Key indicators/parameters										
Cost/Income Ratio	81%	86%	34%	32%	38%	33%	-61%	-314%	64%	67%
Loans/Deposits Ratio (net)	83%	93%	145%	149%	1%	2%	100%	15%	99%	106%
Return on the average allocated equity	14%	-6%	14%	24%	25%	48%	-5%	-7%	7%	4%

40. ADDITIONAL INFORMATION ON CASH FLOWS

	31.12.2021.	31.12.2020.
Cash	6.731.485	5.427.612
Bank account	11.251.764	13.650.670
Foreign currency accounts with foreign banks	925.718	1.673.333
Balance as at 31 December	**18.908.966**	**20.751.615**

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

41. EVENTS AFTER THE REPORTING PERIOD

During January 2022, the Group has sold the pledged property of the debtor Fabrika Vode Zrenjanin, in the total amount of RSD 417.368.175 in the procedure of forced collection. The said transaction led to the release of provision for the said client, as well as to the decrease of the percentage of NPL placements in the Group's total portfolio.

After balance sheet date the Group received a total of 1.245 lawsuits regarding loan origination fees. The management estimates that there will be no material losses based on the outcome of litigation that are in progress above the amount for which the provision was made.

In the beginning of 2022, there has been increased volatility in the financial and commodity markets due to the escalation of political tension in Ukraine, followed by international sanctions against certain Russian companies and individuals. While this is still an ongoing situation at the date of issuing these financial statements, and there is an expectation of consequences on the economy in general, there has been no discernible impact on the Group's operations neither Group has any significant exposure to underlying countries or individuals that are under sanctions, however the future effects cannot be predicted. Management will continue to monitor the potential impact and will take further action as necessary to mitigate any effects.

After the reporting period, there were no other events that would require corrections or disclosure in the notes to the consolidated financial statements for the year ended 31 December 2021.

42. EXCHANGE RATES

The official middle exchange rates of the National Bank of Serbia were determined at the interbank foreign exchange market meeting. Exchange rates used for the translation of the foreign exchange positions of the balance sheet as at 31 December 2021 and 31 December 2020 for certain foreign currencies are:

In RSD

	31.12.2021.	31.12.2020.
EUR	117,5821	117,5802
USD	103,9262	95,6637
CHF	113,6388	108,4388

Novi Sad, 14 March 2022

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

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

ERSTE BANK a.d. NOVI SAD

SUPPLEMENTARY SCHEDULES

DISCLOSURE OF DATA AND INFORMATION UNDER BASEL III PILLAR 3

In accordance with the Decision on Disclosure of Data and Information, detailed information on the Group's capital is given in the following enclosures:

- PI-KAP form (APPENDIX 1) - detailed structure of regulatory capital of the Group as at 31 December 2021;
- PI-FIKAP form (APPENDIX 2) - basic characteristics of regulatory capital elements;
- PI-UPK form (APPENDIX 3) - Balance sheet of the Group compiled in accordance with IAS / IFRS standards and disaggregated positions that can be linked through the references to the equity positions of the Capital report made in accordance with the Decision regulating the reporting on the capital adequacy of the Group (ANNEX 1).
- PI-AKB form (APPENDIX 4) - overview of calculated capital requirements as at 31 December 2021.

DISCLOSURE OF DATA AND INFORMATION UNDER BASEL III PILLAR 3 (continued)

Appendix 1 – The form PI- KAP

Data on the Group's capital position

In RSD '000

No	Item	Amount	DCA reference
	Common Equity Tier 1: elements		
1	CET1 capital instruments and the related share premium accounts	**17.812.004**	
1.1.	*of which: shares and other capital instruments which fulfil the requirements as laid out in Section 8 of the DCA*	**14.107.500**	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*	**3.704.504**	Section 7, paragraph 1, item 2)
2	Profit from preceding years free of any future liabilities, to be allocated to CET 1 capital according to the decision of the Group's assembly	**307.114**	Section 10, paragraph 1
3	Profit of the current year or profit from the preceding year which the Group's assembly still has not decided to allocate in CET 1 capital which fulfil the requirements as laid out in Section 10, paras 2 and 3 on inclusion into CET 1 capital	**-**	Section 10, paras 2 and 3
4	Revaluation reserves and other unrealised losses	**111.070**	Section 7, paragraph 1, item 4)
5	Reserves from profit and other Group reserves, except for reserves for general Grouping risks	**16.968.156**	Section 7, paragraph 1, item 5)
6	Reserves for general Grouping risks	**-**	Section 7, paragraph 1, paragraph 6)
7	Non-controlling participations (minority interests) allowed in CET1**	**-**	
8	Common Equity Tier 1 capital before regulatory adjustments and deductibles (sum of rows from 1 to 7)	**35.198.344**	

DISCLOSURE OF DATA AND INFORMATION UNDER BASEL III PILLAR 3 (continued)
Appendix 1 – The form PI- KAP

Data on the Group's capital position

In RSD '000

No	Item	Amount	DCA reference
	Common Equity Tier 1: elements		
9	Additional value adjustments (-)	-24.395	Section 12, paragraph 5
10	Intangible assets, including goodwill (net of deferred tax liabilities) (-)	-1.729.377	Section 13, paragraph 1, item 2)
11	Deferred tax assets that rely on future profitability of the Group, excluding those arising from temporary differences (net of related deferred tax liability where the conditions referred to in Section 14, paragraph 1 of the DCA are met)	-	Section 13, paragraph 1, item 3)
12	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value, including projected cash flows	-	Section 12, paragraph 1, item 1)
13	IRB Approach: Negative amount of difference resulting from the calculation in accordance with Section 134 of the DCA (-)		Section 13, paragraph 1, item 4)
14	Any increase in equity that results from securitisation exposures (-)	-	Section 11
15	Gains or losses on Group's liabilities valued at fair value resulting from changes in own credit standing	-	Section 12, paragraph 1, item 2)
16	Defined benefit pension fund assets on the balance sheet of the Group(-)	-	Section 13, paragraph 1, item 5)
17	Direct, indirect and synthetic holdings by a Group of own Common Equity Tier 1 instruments, including own CET 1 instruments that a Group is under an actual or contingent obligation to purchase by virtue of an existing contractual obligation (-)	-	Section 13, paragraph 1, item 6)
18	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have a reciprocal cross holding with the Group, designed to inflate artificially the capital of the Group (-)	-	Section 13, paragraph 1, item 7)
19	Applicable amount of direct, indirect and synthetic holdings by the Group of the CET1 instruments of financial sector entities where the Group does not have a significant investment in those entities (-)	-	Section 13, paragraph 1, item 8)
20	Applicable amount of direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the Group has a significant investment in those entities (-)	-	Section 13, paragraph 1, item 9)
21	Exposure amount of the following items which qualify for a risk weight of 1,250%, where the Group deducts that exposure amount from the amount of CET1 items as an alternative to applying a risk weight of 1,250%	-	Section 13, paragraph 1, item 11)
21.1.	*of which: holdings in entities outside the financial sector in the amount of over 10% of capital of those entities, i.e. holdings that allow exerting a significant impact on managing of a legal entity or on the business policy of that legal entity (-)*	-	Section 13, paragraph 1, item 11), indent one
21.2.	*of which: securitisation positions (-)*	-	Section 13, paragraph 1, item 11), indent two
21.3.	*of which: free deliveries (-)*	-	Section 13, paragraph 1, item 11), indent three
22	Deferred tax assets that rely on the Group's future profitability arising from temporary differences (amount above 10% of Group's CET1 capital referred to in Section 21, paragraph 2, reduced by the amount of related tax liabilities where the requirements referred to in Section 14, paragraph 1 of the DCA are met (-)	-	Section 21, paragraph 1, item 1)

DISCLOSURE OF DATA AND INFORMATION UNDER BASEL III PILLAR 3 (continued)

Appendix 1 – The form PI- KAP

Data on the Group's capital position

In RSD '000

No	Item	Amount	DCA reference
23	Sum of deferred tax assets and holdings of financial sector entities where the Group has a significant investment referred to in Section 21, paragraph 1 of the DCA in such entities, which exceeds the threshold referred to in Section 21, paragraph 3 of the DCA (-)	-	Section 21, paragraph 1
23.1.	*of which: Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the Group has a significant investment in those entities*	-	Section 21, paragraph 1, item 2)
23.2.	*of which: Deferred tax assets arising from temporary differences*	-	Section 21, paragraph 1, item 1)
24	Losses for the current and previous years, and unrealised losses (-)	-	Section 13, paragraph 1, item 1)
25	Any tax charge relating to CET1 elements foreseeable at the moment of its calculation, except where the Group suitably adjusts the amount of CET1 elements insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (-)	-	Section 13, paragraph 1, item 12)
26	Amount of items required to be deducted from the Group's Additional Tier 1 items that exceeds Additional Tier 1 capital of the Group (-)	-	Section 13, paragraph 1, item 10)
27	Gross amount of claims on debtors - natural persons (except farmers and entrepreneurs) on the basis of approved consumer loans, cash loans or other loans, which are shown in the accounts 102, 107 and 108 in accordance with the decision prescribing the Chart of Accounts and the contents of the account in the Chart of Accounts for Groups for which the borrower's credit indebtedness was higher than the percentage determined in accordance with the decision governing the classification of the Group's balance sheet assets and off-balance sheet items, or that percentage would be higher due to the credit approval, with this deduction being applied without whether or not, after the approval of the loan, the debt ratio of the borrower has become lower than that percentage (-)	(15.081)	Section 13, paragraph 1, item 13)
28	Gross amount of claims on debtors - natural persons (other than farmers and entrepreneurs) on the basis of approved consumer loans, cash loans or other loans, except for the loans shown in item 1.1.1.27 of this form, which are shown in accounts 102, 107 and 108 in accordance with the decision prescribing the Chart of Accounts and the contents of the account in the Chart of Accounts which, on the basis of the criteria of the agreed maturity, fulfill the condition for the application of the deductible item from the share capital, prescribed by the decision regulating the adequacy of the Group's capital Of which: Loans with a contractual maturity of more than 2920 days - if these loans are approved between January 1 and December 31, 2019 (-)	(9.806)	Section 13, paragraph 1, item 14)
29	Gross amount of claims on debtors - natural persons (other than farmers and entrepreneurs) on the basis of approved consumer loans, cash loans or other loans, except for the loans shown in item 1.1.1.27 of this form, which are shown in accounts 102, 107 and 108 in accordance with the decision prescribing the Chart of Accounts and the contents of the account in the Chart of Accounts which, on the basis of the criteria of the agreed maturity, fulfill the condition for the application of the deductible item from the share capital, prescribed by the decision regulating the adequacy of the Group's capital Of which: Loans with a contractual maturity of more than 2920 days - if these loans are approved between January 1 and December 31, 2020 (-)	(4.213)	Section 13, paragraph 1, item 14)

DISCLOSURE OF DATA AND INFORMATION UNDER BASEL III PILLAR 3 (continued)

Appendix 1 – The form PI- KAP

Data on the Group's capital position

In RSD '000

No	Item	Amount	DCA reference
30	Gross amount of claims on debtors - natural persons (other than farmers and entrepreneurs) on the basis of approved consumer loans, cash loans or other loans, except for the loans shown in item 1.1.1.27 of this form, which are shown in accounts 102, 107 and 108 in accordance with the decision prescribing the Chart of Accounts and the contents of the account in the Chart of Accounts which, on the basis of the criteria of the agreed maturity, fulfill the condition for the application of the deductible item from the share capital, prescribed by the decision regulating the adequacy of the Group's capital Of which: Loans with a contractual maturity of more than 2190 days - if these loans are approved between January 1 and December 31, 2021 (-)	(2.540)	
31	Amount of required reserve for estimated losses on balance-sheet assets and off-balance sheet items of the Group	-	Section 13, paragraph 1, item 16)
32	Total regulatory adjustments and deductibles from CET1 capital (sum of rows from 9 to 27)	(1.785.412)	
33	Common Equity Tier 1 capital (difference between 8 and 28)	33.412.931	
	Additional Tier 1 capital: elements		
34	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)
35	Capital instruments issued by subsidiaries, which are recognised as Additional Tier 1 capital**	-	
36	Additional Tier 1 capital before deductibles (32+33)	-	
	Additional Tier 1 capital: deductibles	-	
37	Direct, indirect and synthetic holdings by a Group of own Additional Tier 1 instruments, including the instruments that a Group is obliged to purchase as a result of existing contractual obligations (-)	-	Section 26, paragraph 1, item 1)
38	Direct, indirect and synthetic holdings by a Group of the Additional Tier 1 instruments of financial sector entities with which the Group has reciprocal cross holdings, designed to inflate artificially the capital of the Group (-)	-	Section 26, paragraph 1, item 2)
39	Applicable amount of direct, indirect and synthetic holdings by a Group of the Additional Tier 1 instruments of financial sector entities where the Group does not have a significant investment in those entities (-)	-	Section 26, paragraph 1, item 3)
40	Direct, indirect and synthetic holdings by a Group of the Additional Tier 1 instruments of financial sector entities where the Group has a significant investment in those entities, excluding underwriting positions held for five working days or fewer (-)	-	Section 26, paragraph 1, item 4)
41	Amount of items required to be deducted from Tier 2 items that exceed the Tier 2 capital of the Group (-)	-	Section 26, paragraph 1, item 5)
42	Total deductibles from Additional Tier 1 capital (sum of rows from 35 to 39)	-	
43	Additional Tier 1 capital (difference between 34 and 40)	-	
44	Tier 1 capital (sum of rows 31 and 41)	**33.412.931**	

DISCLOSURE OF DATA AND INFORMATION UNDER BASEL III PILLAR 3 (continued)

Appendix 1 – The form PI- KAP

Data on the Group's capital position

In RSD '000

No	Item	Amount	DCA reference
	Tier 2: elements		
45	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	3.527.463	Section 27, paragraph 1, items 1) and 2)
46	Capital instruments issued by subsidiaries, which are recognised as Tier 2 capital**	-	
47	Credit risk adjustments that meet the requirements for the inclusion in Tier 2 capital	-	Section 27, paragraph 1, items 3) and 4)
48	Tier 2 capital before deductibles (sum of rows from 43 to 45)	3.527.463	
	Tier 2 capital: deductibles		
49	Direct, indirect and synthetic holdings by a Group of own Tier 2 instruments and subordinated liabilities, including instruments that the Group is obliged to purchase as a result of existing contractual obligations (-)	-	Section 30, paragraph 1, item 1)
50	Direct, indirect and synthetic holdings of the Tier 2 instruments and subordinated liabilities of financial sector entities with which the Group has reciprocal cross holdings, designed to inflate artificially the capital of the Group (-)	-	Section 30, paragraph 1, item 2)
51	Applicable amount of direct, indirect and synthetic holdings of the Tier 2 instruments and subordinated liabilities of financial sector entities where a Group does not have a significant investment in those entities (-)	-	Section 30, paragraph 1, item 3)
52	Direct, indirect and synthetic holdings by the Group of the Tier 2 instruments and subordinated liabilities of financial sector entities where the Group has a significant investment in those entities, excluding underwriting positions held for fewer than five working days (-)	-	Section 30, paragraph 1, item 4)
53	Total deductibles from Tier 2 capital (sum of rows from 47 to 50)	-	
54	Tier 2 capital (difference between 46 and 51)	3.527.463	
55	Total capital (sum of rows 42 and 52)	36.940.394	
56	Total risk-weighted assets	202.416.241	Section 3, paragraph 2,
	Capital adequacy ratios and capital buffers		
57	**Common Equity Tier 1 capital ratio (%)**	16,51	Section 3, paragraph 1, item 1)
58	**Tier 1 capital ratio (%)**	16,51	Section 3, paragraph 1, item 2)
59	**Total capital ratio (%)**	18,25	Section 3, paragraph 1, item 3)
60	**Total requirements for capital buffers (%)**	5,89	Section 433
61	**Common Equity Tier 1 capital available for capital buffers coverage (%)**	8,51	

DISCLOSURE OF DATA AND INFORMATION UNDER BASEL III PILLAR 3 (continued)

Appendix 2 – The form PI-FIKAP

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

No	Instrument features	The share capital of the Group	The subordinated loan granted by Erste Group Group Ceps Holding GmbH, Vienna
1.	**Issuer**	Erste Group a.d. Novi Sad	Erste Group Group Ceps Holding GmbH, Vienna
1.1.	**Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)**	ISIN: RSNOVBE23514, CFI ESVTFR	
	Regulatory treatment		
2.	**Treatment in accordance with the Decision on Capital Adequacy of Groups**	*Core capital instrument*	Supplementary capital instrument
3.	**Eligible at solo/(sub-)consolidated/ solo&(sub-) consolidated**	*Individual and group*	Individual and group
4.	**Instrument type**	*Ordinary shares*	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 14.107.500 thousand RSD is recognized for the purposes of calculating regulatory capital (nominal value plus share premium in the amount of 3.704.504 thousand RSD).	Amount of 3.527.463 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 30.000.000
6.1.	**Issue price**	RSD 11.978,42	-
6.2.	**Redemption price**	-	-
7.	**Accounting classification**	*Share capital*	Liability – depreciated amount
8.	**Original date of issuance**	*1*st issue: 5.382.070 thousand RSD 16/06/2006 2nd issue: 1.735.310 thousand RSD 30/01/2007 3rd issue: 2.922.620 thousand RSD 27/12/2007 5th issue: 2.869.000 thousand RSD 12/07/2019 *5*th issue: 1.198.500 thousand RSD 11/02/2021	10.09.2018.
9.	**Perpetual or dated**	*No maturity date*	With maturity date
9.1.	***Original maturity date***	*No maturity date*	10.09.2028.
10.	**Issuer call subject to prior supervisory approval**	*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 UNDER BASEL III PILLAR 3 (continued)

Appendix 2 – The form PI-FIKAP

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

No	Instrument features	The share capital of the Group	The subordinated loan granted by Erste Group Group Ceps Holding GmbH, Vienna
11.	Fixed or floating dividend/coupon	Variable	Variable
12.	Coupon rate and any related index	-	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
14.2.	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Full discretion	No discretion
15.	Existence of step up or other incentive to redeem	No	No
16.	Noncumulative or cumulative dividend/coupon	*Non-cumulative*	*Non-cumulative*
17.	Convertible or non-convertible	*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
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
29.	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Minority participations	Other
30.	Non-compliant transitioned features	*No*	No
31.	If yes, specify non-compliant features		-

DISCLOSURE OF DATA AND INFORMATION UNDER BASEL III PILLAR 3 (continued)

ANNEX 3 - Form PI-UPK

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

In RSD '000

Designation of item	Item	Balance sheet as disclosed in financial reports	References
A	**ASSETS**		
A.I	Cash and assets with the central Bank	39.929.941	
A.II	Pledged financial assets	-	
A.III	Derivative receivables	285.448	
A.IV	Securities	58.499.723	
A.V	Loans and receivables from Banks and other financial organisations	6.693.196	
A.VI	Loans and receivables from clients	218.135.039	
A.VII	Change in fair value of hedged items	-	
A.VIII	Receivables arising from hedging derivatives	-	
A.IX	Investments in associated companies and joint ventures	118	
A.X	Investments into subsidiaries	-	đ
A.XI	Intangible assets	1.729.377	
A.XII	Property, plant and equipment	3.187.861	
A.XIII	Investment property	-	
A.XIV	Current tax assets	238.878	
A.XV	Deferred tax assets	227.079	
A.XVI	Fixed assets intended for sale and assets of discounted operations	12.252	
A.XVII	Other assets	1.250.269	
A.XX	**TOTAL ASSETS (AOP items from 0001 to 0019 in the balance sheet)**	**39.929.941**	
P	**LIABILITIES AND EQUITY**		
PO	**LIABILITIES**		
PO.I	Derivative liabilities	166.400	
PO.II	Deposits and other liabilities to Banks, other financial organisations and central Bank	74.251.792	
PO.III	Deposits and other liabilities to other clients	208.904.371	
PO.IV	Liabilities arising from hedging Derivatives	-	
PO.V	Change in fair value of hedged items	-	
PO.VI	Liabilities from securities	-	
PO.VII	Subordinated liabilities	3.534.418	đ
	Out of which included in Supplementary capital	3.527.463	
PO.VIII	Provisions	1.690.993	
PO.IX	Liabilities under assets held for sale and discontinued operations	-	
PO.X	Current tax liabilities	109.647	
PO.XI	Deferred tax liabilities	9.763	
PO.XII	Subordinated liabilities	3.678.306	
PO.XIV	**TOTAL LIABILITIES (AOP items from 0401 to 0413 in the balance sheet)**	**292.345.690**	

DISCLOSURE OF DATA AND INFORMATION UNDER BASEL III PILLAR 3 (continued)

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

In RSD '000

	EQUITY		
PO.XV	Share capital	17.812.004	
	Of which the nominal value of paid-in shares, except for preferential cumulative shares	14.107.500	a
	Of which issue premium based on share capital, except for preferential cumulative shares	3.704.504	b
PO.XVI	Own shares	-	
PO.XVII	Profit	2.792.753	
PO.XVIII	Loss	-	
PO.XIX	Reserves	17.079.570	
	Of which Other reserves	16.968.156	g
	Of which Revaluation reserves and other unrealized gains	176.790	v
	Of which unrealized losses	-65.720	v
PO.XX	Unrealized losses	-	
PO.XXI	Minority interest	159.165	
PO.XXII	**TOTAL CAPITAL (result of adding up and/or subtracting the following balance sheet items: 0415-0416+0417-0418+0419-0420+0421) ≥ 0**	**37.843.491**	
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)**	**330.189.181**	

DISCLOSURE OF DATA AND INFORMATION UNDER BASEL III PILLAR 3 (continued)

APPENDIX 4 – The form PI-ABK

Data on capital requirements and capital adequacy of the Group:

In RSD '000

No	Name	Amount
I	**CAPITAL**	**36.940.394**
1.	**TOTAL COMMON EQUITY TIER 1 CAPITAL**	**33.412.931**
2.	**TOTAL ADDITIONAL TIER 1 CAPITAL**	-
3.	**TOTAL TIER 2 CAPITAL**	**3.527.463**
II	**CAPITAL REQUIREMENTS**	**16.193.299**
1.	**CAPITAL REQUIREMENT FOR CREDIT RISK, COUNTERPARTY RISK, DILUTION RISK AND SETTLEMENT/DELIVERY RISK TO FREE DELIVERIES**	**14.525.453**
1.1.	Standardised Approach (SA)	181.568.158
1.1.1.	Exposures to central governments and central Banks	-
1.1.2.	Exposures to territorial autonomies or local government units	724.221
1.1.3.	Exposures to public administrative bodies	988.377
1.1.4.	Exposures to multilateral development banks	-
1.1.5.	Exposures to international organisations	-
1.1.6.	Exposures to banks	577.231
1.1.7.	Exposures to companies	94.242.204
1.1.8.	Retail exposures	56.135.699
1.1.9.	Exposures secured by mortgages on immovable property	20.971.998
1.1.10.	Exposures in default	1.724.106
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	166.556
1.1.17.	Other items	6.037.766
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 Group applies the Standardised Approach	-
1.2.6.	Exposures in the form of securitisation positions	-
1.2.7.	Exposures arising from other assets	-

DISCLOSURE OF DATA AND INFORMATION UNDER BASEL III PILLAR 3 (continued)

APPENDIX 4 – The form PI-ABK (continued)

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

In RSD '000

No	Name	Amount
2	**CAPITAL REQUIREMENT FOR SETTLEMENT/DELIVERY RISK IN RESPECT OF UNSETTLED TRANSACTIONS**	**-**
3	**CAPITAL REQUIREMENT FOR MARKET RISKS**	**116.489**
3.1.	Capital requirements for position, foreign exchange risk and commodities risk calculated under the Standardised Approach	116.489
3.1.1.	Capital requirement for position risk of debt securities	116.489
	of which capital requirement for position risk in respect of securitisation items	-
3.1.2.	Capital requirements for position risk arising from equity securities	-
3.1.3.	Additional capital requirement for large exposures from the trading book	-
3.1.4.	Capital requirement for foreign exchange risk	-
3.1.5.	Capital requirement for commodities risk	-
3.2.	Capital requirements for position, foreign exchange and commodities risk calculated under the internal models approach	
4	**CAPITAL REQUIREMENTS FOR OPERATIONAL RISK**	**1.516.995**
4.1.	Capital requirement for operational risk calculated under the Basic Indicator Approach	**1.516.995**
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**	**34.363**
III	**COMMON EQUITY TIER 1 CAPITAL RATIO (%)**	**16,51**
IV	**TIER 1 CAPITAL RATIO (%)**	**16,51**
V	**TOTAL CAPITAL RATIO (%)**	**18,25**

APPENDIX

Used abbreviations:

AC	Amortized cost
AFS	Available for sale
ALCO	Asset and Liability Management Committee
ALM	Asset and Liabilities Management
AML	Anti-Money Laundering
bps	Basis points
CCF	Credit Conversion Factor
CR01	Credit Price Value
CRR	Capital Requirements Regulation
CVA	Credit Value Adjustments
DTA	Deferred tax asset
DVA	Debit Value Adjustment
EAD	Exposure at Default
EBA	European Grouping Authority
EIR	Effective interest rate
EVE	Economic Value Of Equity
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
FV	Fair value
FX	Foreign exchange
GCA	Gross Carrying Amount
HFT	Held for trading
HTM	(Held to maturity) - A portfolio of securities held to maturity
ICAAP	(Internal capital adequacy assessment process) - The process of internal capital adequacy assessment
IRB	(Internal Ratings Based Approach) - An approach based on internal rating
LCR	Liquidity coverage ratio
LGD	(eng. Loss Given Default) - Loss due to the occurrence of default status
LTV ratio	(eng. Loan To Value) - The ratio of the gross value of the receivable and the market value of the real estate by which the receivable is secured
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
MVoE	(Market Value of Equity) - Market value of capital
NBS	National Bank of Serbia
NPL	Uncollectible receivables
NSFR	(Net Stable Funding Ratio) - An indicator of net stable sources of financing, and is an indicator of structural liquidity that aims to prevent structural mismatches in the structure of balance sheet assets and liabilities over a period of 1 year
OAK	Decision on capital adequacy
OCI	(eng Other Comprehensive Income) – Other result
OTC derivatives	Over the Counter Derivatives
PD	Probability of Default
POCI	Purchased or originated credit impaired
PVBP	Price Value Basis Point
RCC	Risk-bearing Capacity Calculation
REPO	Repurchase Agreement
RSD	Dinar of the Republic of Serbia

SICR	Significant increase in credit risk
SME	Small and Medium Size Enterprises
SPA	Survival Period Analysis
SPPI	Solely payments of Principal and Interest
SREP	Supervisory Review and Evaluation Process
VaR	Value-at-Risk

CONSOLIDATED ANNUAL BUSINESS REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

CONTENT

CONSOLIDATED ANNUAL BUSINESS REPORT

1. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE GROUP

- **Introduction**

The consolidated annual business report includes informations on Erste Bank a.d. Novi Sad (the "Bank") and its subsidiary S-Leasing doo Beograd. The consolidated annual business report of the Bank and the subsidiary (collectively: "the Group") has been prepared in accordance with Article 29 of the Law on Accounting (Official Gazette of RS, no. 73/2019 and 44/2021 – state law).

The report is based on the audited financial information. A more detailed presentation of the business opration of the Group on the consolidated level is provided in the Notes to consolidated financial statements as of December 31, 2021.

- **About the Bank**

Erste Bank a.d. Novi Sad (the ''Bank'') is the oldest financial institution in the country. It was founded in 1864 as the first savings bank (Novosadska stedionica). At the beginning of August 2005, subsequent to the successful finalization of privatization process, Novosadska banka a.d. Novi Sad became a member of Erste Bank Group.

The Erste Group today have about 46,700 employees, serving around 15,9 million clients in 7 countries (Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia).

The Erste Group began to build its tradition since 4th October 1819 when „first austrian savings bank" was founded as fisrt saving bank in Central and Eastern Europe, antecedent of the Erste Group. Group is recognized as an institution that strives to, in addition to offering traditional services and products, constantly develop in accordance with the requirements of the modern market. The Erste Groupe offers its clients security and trust, as well as products and services of the highest quality.

In addition to retail banking, the Erste Groupe provides financing services as well as advisory services to legal entities in investing and accessing to international capital markets, public sector financing and interbank market operations.

The Erste Bank's focus is on retail, local communities and small and medium size entreprises. It insists on speed and quality of service, and thus contributes to stable and healthy growth. It continued to expand its customer base and increase market share in key segments. It pushes the boundaries in the areas of electronic banking and credit cards operations in the financial market of Serbia and tries to respond to all customer requests.

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

The Bank's headquarter is in Novi Sad, at number 5 Bulevar Oslobodenja Street. The Bank operates through 3 centers, 7 business units, 46 branches, 32 sub-branches and 2 counters.

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

As of December 31, 2021 the Bank had 1.224 employees (December 31, 2020: 1.212 employees).

As of December 31, 2021 members of the Bank's **Management Board** were:
1. Ingo Bleier, Chairman, Erste Group Bank AG, Vienna
2. David O'Mahony, member, Erste Group Bank AG, Vienna
3. Hannes Frotzbacher, member, Erste Group Bank AG, Vienna
4. Georg Bucher, member, Chairman deputy, Steiermarkische Bank und Sparkassen AG, Graz
5. Tijana Vještica, independent member, Belgrade
6. Aleksandar Vlahović, independent member, Belgrade

As of December 31, 2021 members of the Bank's **Executive Board** were:

1. Slavko Carić, Chairman of the Executive Board
2. Jasna Terzić, Member of the Executive Board
3. Suzan Tanriyar, Member of the Executive Board
4. Tomislav Stena, Member of the Executive Board

As of December 31, 2021 members of the Bank's Audit Committee were:

1. David Bichler, Chairman, Erste Group Bank AG, Vienna
2. Georg Bucher, member, Steiermärkische Bank und Sparkassen AG, Graz
3. Aleksandar Vlahović, independent member, Belgrade

S - Leasing doo Beograd (the ''Company'') was established in June 2003 as a limited liability company. The Company was registered with the Commercial Court of Belgrade on June 18, 2003 and registered with the Serbian Business Registers Agency under Decision number BD 33349/2005 dated June 7, 2005.

Prior to the Law on Financial Leasing effective date, the Company was issued an operating license for performance of finance leasing activities under Decision of the National Bank of Serbia number 622 dated January 25, 2006.

1. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE GROUP (countinued)

As of December 31, 2013 the company's share capital comprised investments of the founders Steiermaerkische Bank und Sparkassen AG, Graz, Austria (50,0%) and Immorent International Holding GmbH, Vienna, Austria (50,0%).

In 2014 the equity ownership structure of S-Leasing changed, so Erste Bank a.d., Novi Sad, Serbia became the majority owner of the company with a 75,0% equity interest, while Steiermaerkische Bank und Sparkassen AG, Graz, Austria decreased its equity share in the Company to 25,0%.

The Company's principal business activity involves services of finance lease over movable assets to individuals and legal entities in the territory of the Republic of Serbia.

The Company's headquarter is in Beograd, at number 3a Milutina Milankovica Street.

As of December 31, 2021 the Company had 50 employees (December 31, 2020: 50 employees).

The Company's corporate ID number is 17488104, and its tax ID number (fiscal code) is 102941384.

Members of the Company's **Management Board** are:
1. Slavko Carić, Chairman, Erste Bank akcionarsko društvo, Novi Sad
2. Vladan Mihajličin, member, Erste Bank akcionarsko društvo, Novi Sad
3. Ana Sofijanova-Stojčevska, member, Erste Group Bank AG Vienna
4. Marko Markić, member, Steiermaerkische Bank und Sparkassen AG, Graz
5. Daniel Kozel, member, Steiermaerkische Bank und Sparkassen AG, Graz

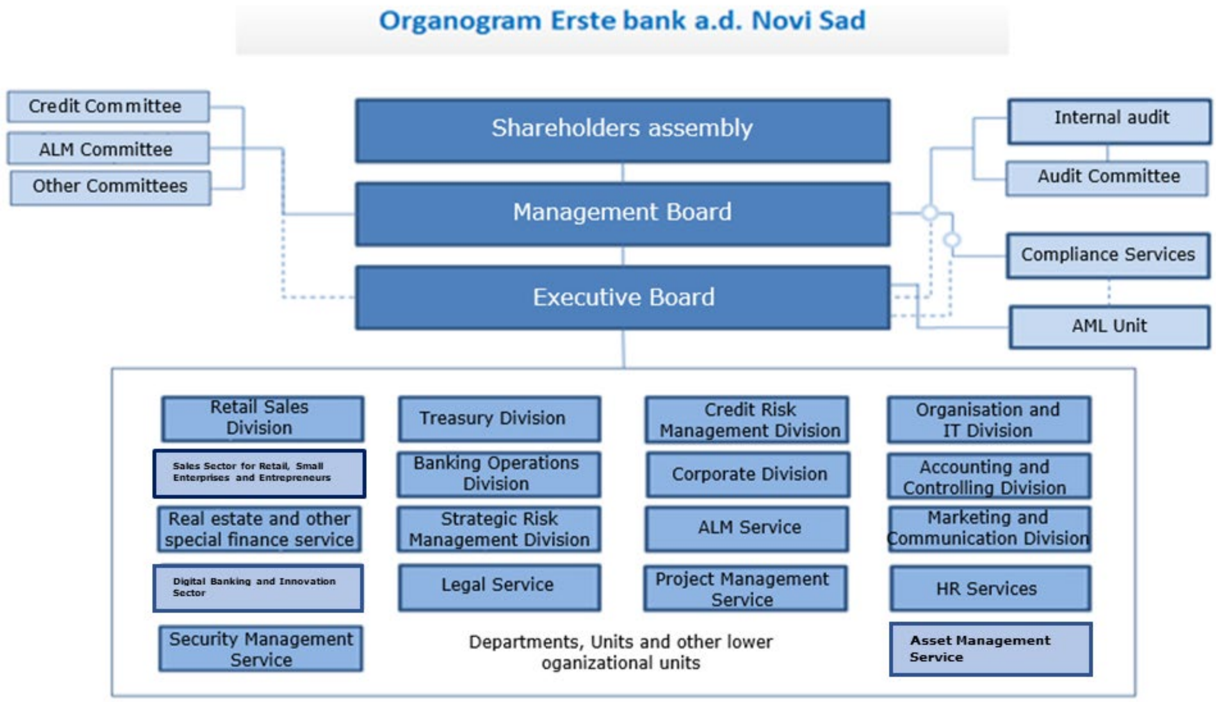
Members of the Company's **Executive Board** are:
1. Bojan Vračević, Chairman and
2. Vuk Vučević, member

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

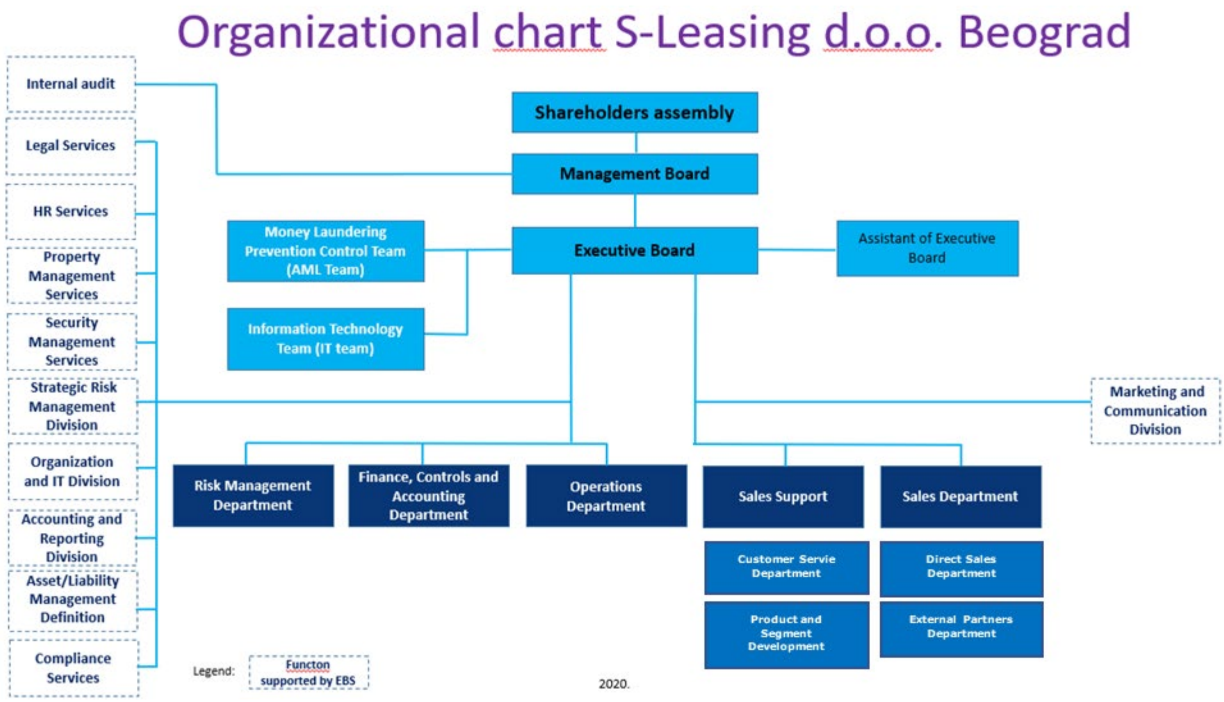
Figures in the accompanying report are stated in thousands of dinars, unless otherwise specified.

1. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE GROUP (countinued)

Organizational chart of the Bank is provided below:

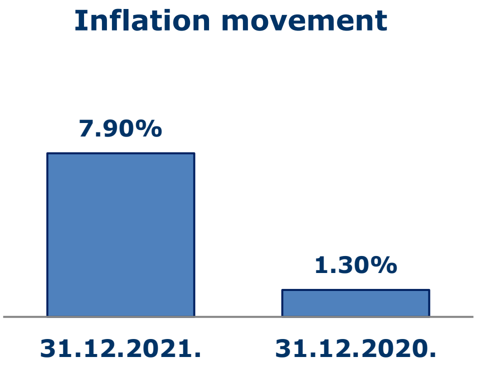


Organizational chart of the S-Leasing is provided below:



2. AUTHENTIC PRESENTATION OF THE GROUP'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL POSITION OF THE GROUP AND DATA RELEVANT FOR THE ASSESSMENT OF THE GROUP'S ASSETS

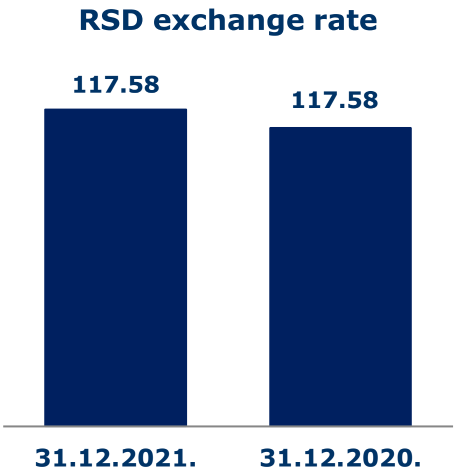
Macroeconomic conditions during 2021

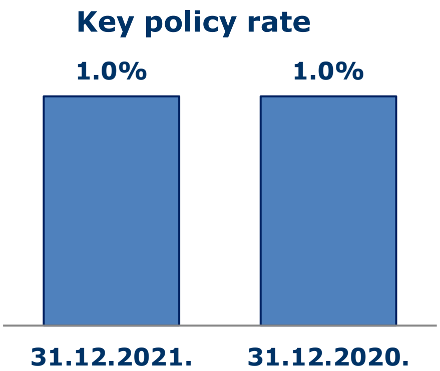


In December 2021, inflation slowed down and on monthly basis it amounted to 0,4, while compared to December 2020 it amounted to 7,9%. The average annual inflation in 2021 was 4,0%.

Short-term and medium-term inflation expectations of the financial sector continue to be within the inflation target of the National Bank of Serbia (3 ± 1,5%). Representatives of the financial sector expect that inflation in December 2022 will be at level of 4,5%.

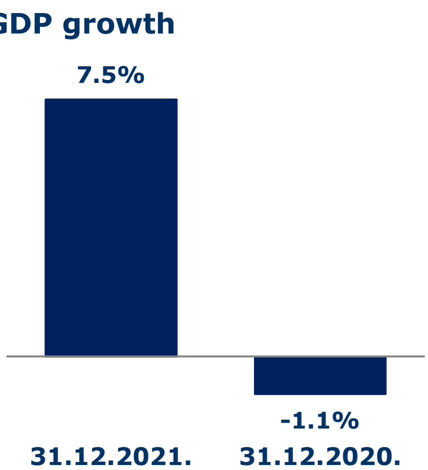
In 2021, the dinar was stable against the euro, and at the end of 2021 amounted to 117.5821 (31.12.2020: 117.5802).





During 2021, the NBS key policy rate was kept on unchanged level of 1%.

According to preliminary evaluation of Statistical Office of the Republic of Serbia on economic developments in 2021, the real GDP growth was 7,5%. Due to the new investment cycle and planned infrastructural projects in the next ten years, the estimation of GDP growth in the medium-term has been revised from 4% to the range from 4% to 5%.



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

The Bank's operation indicators – comparative data 2021 - 2020

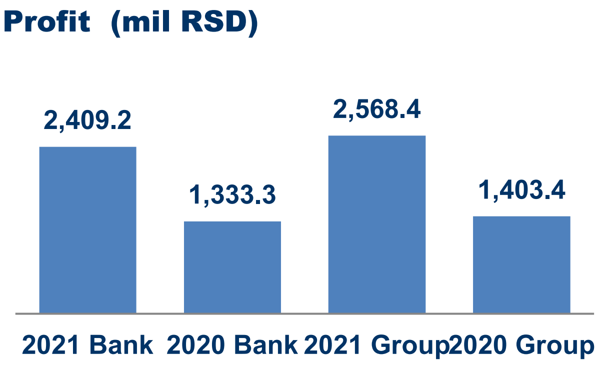
Profit and Loss Statement

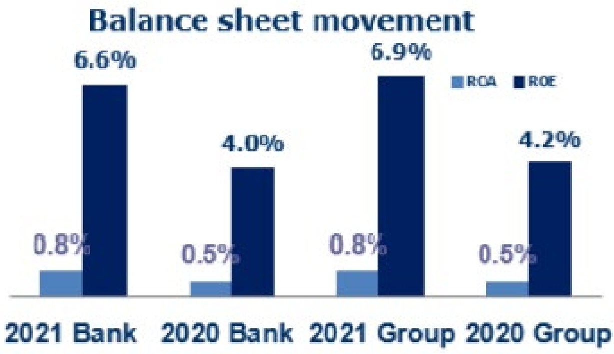
The profit and loss structure for the year ended as of 31 December 2021 and 31 December 2020, including the growth percentages in relation to the previous year, is as:

(in thousand RSD)

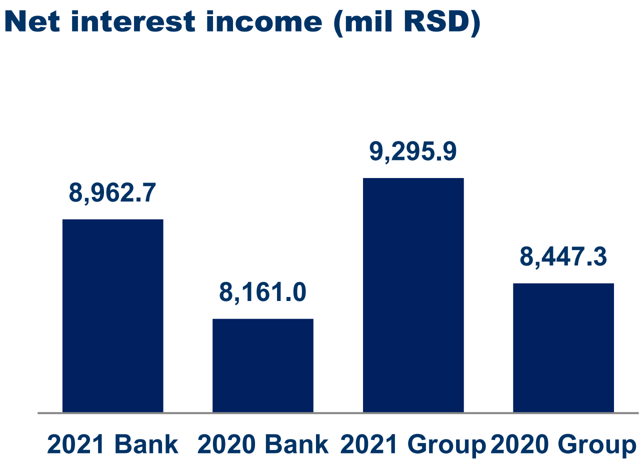
	Consolidated			Bank		
	01.01-31.12.2021.	**01.01-31.12.2020. restated**	**% growth (drop)**	**01.01-31.12.2021.**	**01.01-31.12.2020. restated**	**% growth (drop)**
INCOME AND EXPENSES FROM REGULAR BUSINESS OPERATIONS						
Interest income	11.505.052	10.597.399	8,56	11.021.213	10.152.958	8,55
Interest expenses	(2.209.113)	(2.150.123)	2,74	(2.058.505)	(1.991.968)	3,34
Net interest income	**9.295.939**	**8.447.276**	**10,05**	**8.962.708**	**8.160.990**	**9,82**
Fee and commission income	4.175.660	3.498.220	19,37	4.141.030	3.465.324	19,5
Fee and commission expenses	(1.418.023)	(1.194.993)	18,66	(1.395.893)	(1.178.813)	18,42
Net income from fee and commission	**2.757.637**	**2.303.227**	**19,73**	**2.745.137**	**2.286.511**	**20,06**
Net gains from change in fair value of financial instruments	257.656	-	100,00	257.656	-	100
Net loss from change in fair value of financial instruments	-	(112.198)	(100,00)	-	(112.198)	(100,00)
Net gains from derecognition of financial instruments valued at fair value	2.313	44.600	(94,81)	2.313	44.600	(94,81)
Net gains from hedging	1.499	773	93,92	1.499	773	93,92
Net foreign exchange gains and currency clause effects	-	250.254	(100,00)	-	250.466	(100,00)
Net foreign exchange losses and currency clause effects	(204.732)	-	100,00	(204.561)	-	100,00
Net loss from impairment of financial assets that are not valued at fair value through profit and loss	(1.263.298)	(2.092.167)	(39,62)	(1.257.085)	(2.022.337)	(37,84)
Net gains from derecognition of financial instruments valued at amortized cost	-	15.048	(100,00)	-	15.048	(100,00)
Net losses from derecognition of financial instruments valued at amortized cost	(10.361)	-	100,00	(10.361)	-	100,00
Other operating income	99.064	67.622	46,50	31.516	25.722	22,53
TOTAL NET OPERATING INCOME	**10.935.717**	**8.924.435**	**22,54**	**10.528.822**	**8.649.575**	**21,73**
Cost of salaries, contributions and other personnel expenses	(2.799.800)	(2.608.529)	7,33	(2.681.758)	(2.507.490)	6,95
Depreciation costs	(699.587)	(639.010)	9,48	(680.764)	(622.542)	9,35
Other income	328.682	254.108	29,35	317.719	251.730	26,21
Other expenses	(5.058.229)	(4.622.399)	9,43	(4.969.019)	(4.557.002)	9,04
PROFIT BEFORE TAX	**2.706.783**	**1.308.605**	**106,84**	**2.515.000**	**1.214.271**	**107,12**
Income tax	(142.282)	(24.951)	470,25	(109.647)	-	100,00
Deferred tax gain	3.878	119.775	(96,76)	3.808	118.991	(96,80)
PROFIT AFTER TAX	**2.568.379**	**1.403.429**	**83,01**	**2.409.161**	**1.333.262**	**80,70**

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





In the period from 1 January to 31 December 2021, the Bank generated net profit of RSD 2.409.161 thousand (2020: RSD 1.333.262 thousand), which is a 80,70% increase, compared to the previous year. In the period from 1 January to 31 December 2021, the Group generated net profit of RSD RSD 2.568.379 thousand (2020: RSD 1.403.429 thousand), which is a 83,01% increase in compared to the previous year.



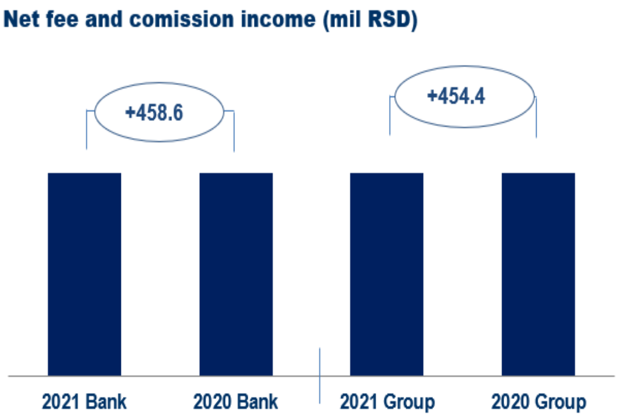
Interest income in 2021, at the Group level, amount to RSD 11.505.052 thousand (2020: RSD 10.597.399 thousand) which is an increase of 8,56%. compared to the previous year. Interest income of the Bank in 2021 amount to RSD 11.021.213 thousand (2020: RSD 10.152.958 thousand), and have increased by 8,55% compared to the previous year

Interest expenses in 2021 at Group level amount to RSD 2.209.113 thousand (2020: RSD 2.150.123 thousand), is an increase of 2,74% compared to the previous year. Interest expenses of the Bank in 2021 amount to RSD 2.058.505 thousand (2020: RSD 1.991.968 thousand), and have increased by 3,34% compared to the previous year.

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

Fee and commission income in 2021, at the Group level, amounts to RSD 4.175.660 thousand (2020: RSD 3.498.220 thousand), and compared to the previous year recorded an increase of 19,37%. The Bank's fee and commission income in 2021 amounted to RSD 4.141.030 thousand (2020: RSD 3.465.324 thousand), and compared to the previous year it recorded an increase of 19,5%.

Expenses from fees and commissions in 2021, at the Group level, amount to RSD 1.418.023 thousand (2020: RSD 1.194.993 thousand), and compared to the previous year, they recorded an increase of 18,66%. Expenses from fees and commissions of the Bank in 2021 amount to RSD 1.395.893 thousand (2020: RSD 1.178.813 thousand), and compared to the previous year, they recorded an increase of 18,42%.



In the structure of total income and total expenses, in addition to interest and fees, the largest share belongs to income from, other operating income and net gains from change in the fair value of financial instruments, other expenses, salary costs, losses on impairment of financial assets that are not measured at fair value through profit or loss, and depreciation.

Net impairment losses on financial assets not measured at fair value through profit or loss in 2021, at the Group level, amounted to RSD 1.263.298 thousand, of which RSD 1.257.085 thousand relates to the Bank and RSD 6.213 thousand to S Leasing. **Other operating income** in 2021, at the Group level, amount to RSD 99.064 thousand, of which RSD 31.516 related to the Bank and RSD 67.548 thousand to S Leasing.

The **negative net effect of exchange rate differences** in 2021, at the Group level, amounts to RSD 204.732 thousand, of which RSD 204.561 thousand is expense at the Bank level, and RSD 171 thousand is expenditure at the S Leasing level. The **positive net effect based on the change in the fair value of financial instruments** at the Group level amounts to RSD 257.65 thousand, of which the entire amount relates to the Bank.

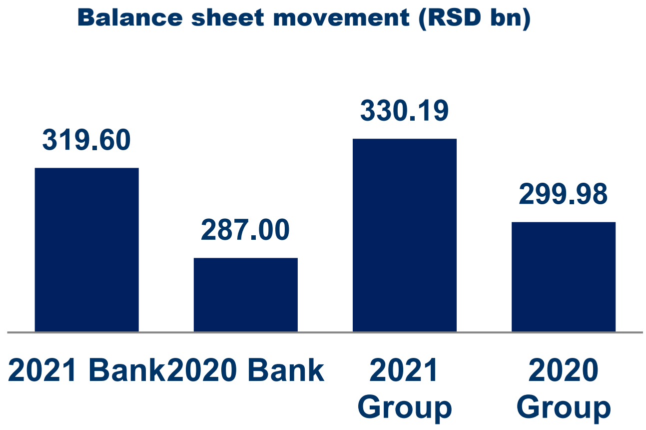
2. AUTHENTIC PRESENTATION OF THE GROUP'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL POSITION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE GROUP'S ASSETS (continued)

Balance sheet

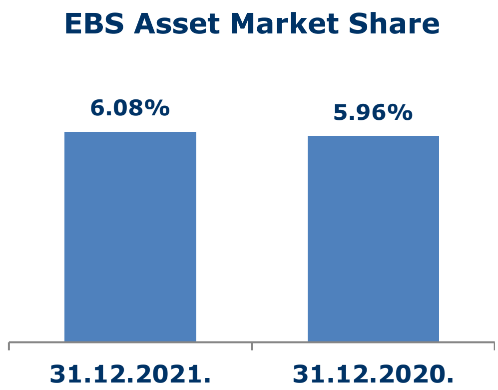
(in thousand RSD)

	Consolidated					Bank				
	31.12.2021.	In %	31.12.2020.	In %	% growth (drop)	31.12.2021	In %	31.12.2020	In %	% growth (drop)
ASSETS										
Cash and balances with central bank	39.929.941	12,09	35.402.631	11,80	12,79	39.929.947	12,49	35.402.648	12,34	12,79
Pledged financial assets	-	0,00	4.622.478	1,54	(100,00)	-	0,00	4.622.478	1,61	(100,00)
Derivative receivables	285.448	0,09	408.411	0,14	(30,11)	285.448	0,09	408.411	0,14	(30,11)
Securities	58.499.723	17,72	49.554.573	16,52	18,05	58.499.723	18,30	49.554.573	17,27	18,05
Loans and receivables to banks and other financial institutions	6.693.196	2,03	2.944.805	0,98	127,29	10.709.287	3,35	3.180.869	1,11	236,68
Loans and receivables to customers	218.135.039	66,06	201.214.645	67,08	8,41	203.616.892	63,71	188.082.044	65,53	8,26
Investments in affiliates and joint ventures	118	0,00	118	0,00	0,00	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	93.560	0,03	93.560	0,03	0,00
Intangible assets	1.729.377	0,52	1.146.644	0,38	50,82	1.705.660	0,53	1.129.945	0,39	50,95
Property, plant and equipment	3.187.861	0,97	3.187.470	1,06	0,01	3.049.741	0,95	3.043.349	1,06	0,21
Current tax asset	238.878	0,07	185.043	0,06	29,09	238.878	0,07	185.043	0,06	29,09
Deferred tax asset	227.079	0,07	154.981	0,05	46,52	224.019	0,07	151.941	0,05	47,44
Fixed assets held for sale and assets of discontinued operations	12.252	0,00	12.252	0,00	0,00	11.902	0,00	11.902	0,00	0,00
Other assets	1.250.269	0,38	1.147.687	0,38	8,94	1.232.314	0,39	1.137.029	0,40	8,38
TOTAL ASSETS	**330.189.181**	**100**	**299.981.738**	**100**	**10,07**	**319.597.371**	**100**	**287.003.792**	**100**	**11,36**
LIABILITIES										
Derivative liabilities	166.400	0,05	346.766	0,12	(52,01)	166.400	0,05	346.766	0,12	(52,01)
Deposits and other liabilities due to banks, other financial institutions and Central Bank	74.251.792	22,49	78.207.806	26,07	(5,06)	64.455.576	20,17	65.806.844	22,93	(2,05)
Deposits and other financial liabilities due to customers	208.904.371	63,27	175.995.703	58,67	18,70	208.904.371	65,36	175.995.703	61,32	18,70
Liabilities for issued securities	-	0,00	3.509.426	1,17	(100,00)	-	0,00	3.509.426	1,22	(100,00)
Subordinated liabilities	3.534.418	1,07	3.870.407	1,29	(8,68)	3.534.418	1,11	3.870.407	1,35	(8,68)
Provisions	1.690.993	0,51	1.320.593	0,44	28,05	1.656.101	0,52	1.288.223	0,45	28,56
Current tax liabilities	109.647	0,03	-	0,00	100,00	109.647	0,03	-	0,00	100,00
Deferred tax liabilities	9.763	0,00	7.677	0,00	27,17	-	-	-	-	-
Other liabilities	3.678.306	1,11	3.410.728	1,14	7,85	3.470.467	1,09	3.257.391	1,13	6,54
TOTAL LIABILITIES	**292.345.690**	**88,54**	**266.669.106**	**88,90**	**9,63**	**282.296.980**	**88,33**	**254.074.760**	**88,53**	**11,11**
CAPITAL										
Share capital and share premium	17.812.004	5,39	15.462.944	5,15	15,19	17.812.004	5,57	15.462.944	5,39	15,19
Retained earnings	2.792.753	0,85	1.597.441	0,53	74,83	2.409.161	0,75	1.333.262	0,46	80,70
Reserves	17.079.570	5,17	16.132.957	5,38	5,87	17.079.226	5,34	16.132.826	5,62	5,87
Minority interest	159.165	0,05	119.290	0,04	33,43	-	-	-	-	-
TOTAL EQUITY	**37.843.491**	**11,46**	**33.312.632**	**11,10**	13,60	**37.300.391**	**11,67**	**32.929.032**	**11,47**	13,28
TOTAL LIABILITIES AND EQUITY	**330.189.181**	**100**	**299.981.738**	**100**	**10,07**	**319.597.371**	**100**	**287.003.792**	**100**	**11,36**

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



Total balance sheet amount of the Bank as at 31 December 2021 amounts to RSD 319.597.371 thousand and records a growth in 2021 of 11,36% compared to 31 December 2020. The total balance sheet amount on a consolidated basis as at 31 December 2021 amounts to RSD 330.189.181 thousand and records an increase in 2021 of 10,07% compared to 31 December 2020.



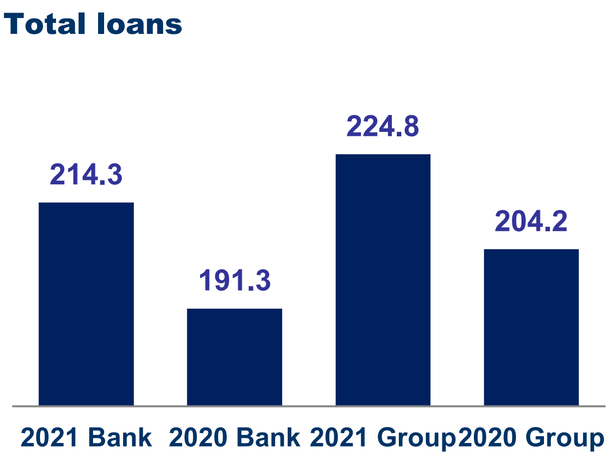
Market share of the Bank's assets in relation to the total assets of the Serbian banking sector in the period ended 31 December 2021 is 6,08%, while the Bank's market share in relation to the total assets of the Serbian banking market in the same period in 2020 was 5,96%.

Cash and assets with the central bank in 2021, at the Group level, amount to RSD 39.929.941 thousand, of which RSD 39.929.947 thousand is related to Bank. Cash and funds with the central bank recorded a growth of 12,79% in 2021 compared to 2020.

In 2021, the Bank did not have any **pledged financial assets**, while in 2020 they amounted to RSD 4.622.478 thousand, and the total amount relates to the Bank.

Receivables from derivatives in 2021, at the Group level, amount to RSD 285.448 thousand, and the total amount relates to the Bank. Receivables from derivatives decreased by 30,11% as of December 31, 2021, compared to the same date in 2020.

Securities in 2021, at the Group level, amount to RSD 58.499.723 thousand, and the total amount relates to the Bank. As of December 31, 2021, the securities increased by 18,05% compared to the same date in 2020.



Loans and receivables from banks and other financial organizations in 2021, at the Group level, amount to RSD 6.693.196 thousand, and the most significant part of this amount relates to the Bank. Loans and receivables from banks and other financial organizations as of December 31, 2021 increased by 127,29% compared to the same date in 2020.

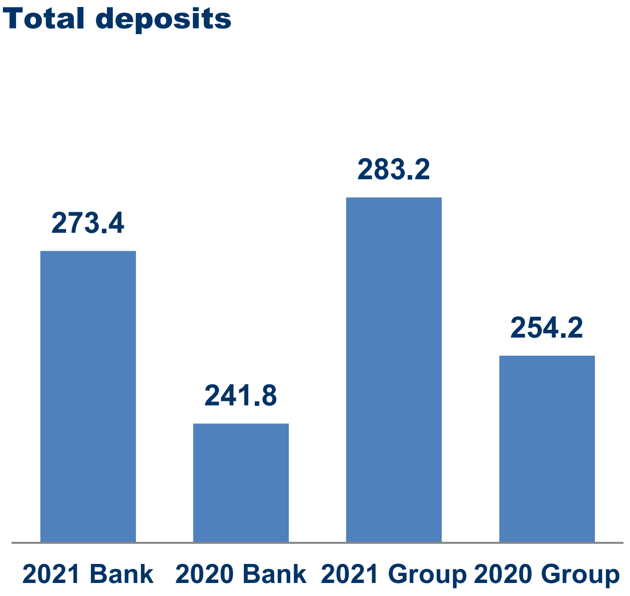
Loans and receivables from customers on a consolidated basis as at 31 December 2021 amount to RSD 218.135.039 thousand, of which at the level of the Bank they amount to RSD 203.616.892 thousand, and at the level of S-Leasing they amount to RSD 14.518.147 thousand.

Loans and receivables from customers on a consolidated level as of December 31, 2021 recorded an increase of 8,41% compared to the same date in 2020. Loans and receivables from the Bank's customers, as at 31 December 2021, increased by 8,26% compared to 2020.

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

Deposits and other liabilities to banks and other financial organizations on a consolidated basis as at 31 December 2021 amount to RSD 74.251.792 thousand, of which at the level of the Bank they amount to RSD 64.455.576 thousand, while at the level of S-Leasing they amount to RSD 9.796.216 thousand. Deposits and other liabilities to banks and other financial organizations on a consolidated basis as of December 31, 2021 recorded a decrease of 5,06% compared to the same date in 2020. Deposits and other liabilities to banks and other financial organizations of the Bank, as at 31 December 2021, decreased by 2,05% compared to the same date in 2020.

Deposits and other liabilities to other customers on a consolidated basis as at 31 December 2021 amount to RSD 208.904.371 thousand, and the entire amount relates to the Bank. Deposits and other liabilities to other customers on a consolidated basis as of December 31, 2021 recorded an increase of 18,70% compared to the same date in 2020.



The maturity structure of the consolidated balance sheet as at 31 December 2021 is favorable. Permanent and long-term sources finance fixed assets and long-term assets.

The total capital of the Group as at 31 December 2021 amounts to RSD 37.843.491 thousand and records an increase of 13,60% compared to the same date in 2020. The total capital of the Bank amounts to RSD 37.300.391 thousand as at 31 December 2021. The total capital of the Bank in 2021 increased by 13,28% compared to the previous year.

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

RSD and FX Group sub-balances as of 31 December 2021 and 2020 are presented as follows:

	Consolidated					Bank				
	31.12.2021	In %	31.12.2020	In %	% growth (drop)	31.12.2021	In %	31.12.2020	In %	% growth (drop)
Assets										
Assets in RSD	133.355.878	40,39	115.835.724	38,61	15,13	133.266.124	41,70	115.754.369	40,33	15,13
Assets in foreign currency	196.833.303	59,61	184.146.014	61,39	6,89	186.331.247	58,30	171.249.423	59,67	8,81
Total assets	**330.189.181**	**100**	**299.981.738**	**100**	10,07	**319.597.371**	**100**	**287.003.792**	**100**	**11,36**
Liabilities										
Liabilities in RSD	134.549.835	40,75	119.183.523	39,73	12,89	133.868.905	41,89	119.040.898	41,48	12,46
Liabilities in foreign currency	195.639.346	59,25	180.798.215	60,27	8,21	185.728.466	58,11	167.962.894	58,52	10,58
Total liabilities	**330.189.181**	**100**	**299.981.738**	**100**	10,07	**319.597.371**	**100**	**287.003.792**	**100**	**11,36**

The dinar sub-balance of the Group's assets accounts for 40,39% of total assets and recorded a growth of 15,13% in 2021, while the dinar sub-balance of the Group's liabilities accounts for 40,75% of the Group's total liabilities and recorded a growth of 12,89% in 2021. However, the foreign currency sub-balance of the Group's assets is still more significant and accounts for 59,61% of assets and recorded an increase of 6,89% compared to the previous year, while the foreign exchange sub-balance of the Group's liabilities is also more significant and accounts for 59,25% of liabilities as at 31 December 2021, and recorded a growth of 8,21% compared to the previous year.

The dinar sub-balance of the Bank's assets accounts for 41,70% of total assets and recorded a growth of 15,13% in 2021, while the dinar sub-balance of the Bank's liabilities accounts for 41,89% of the Bank's total liabilities and recorded a growth of 12,46% in 2021. However, the foreign currency sub-balance of the Bank's assets is still more significant and accounts for 58,30% of assets and recorded an increase of 8,81% compared to the previous year, while the foreign currency sub-balance of the Bank's liabilities is also more significant and accounts for 58,11% of liabilities as at 31. December 2021, and recorded a growth of 11,36% in relation to the previous year.

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

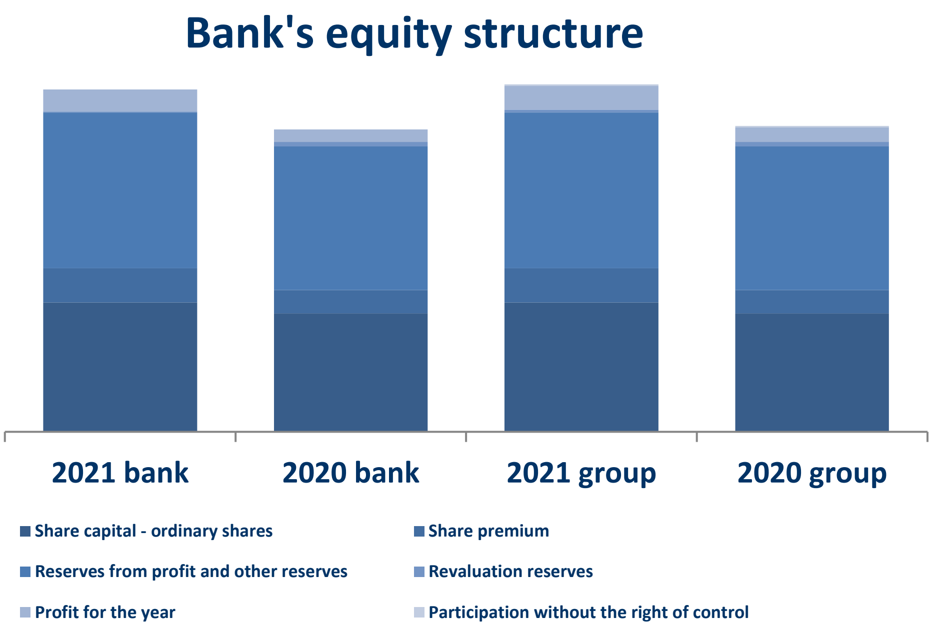
Equity

The Group's capital as at 31 December 2021 amounts to RSD 37.843.491 thousand (31 December 2020: RSD 33.312.632 thousand). The Bank's capital as at 31 December 2021 amounts to RSD 37.300.391 thousand (31 December 2020: RSD 32.929.032 thousand).

The Bank total capital structure is presented as follows:

In RSD thousand

	Consolidated		**Bank**	
	31.12.2021	**31.12.2020**	**31.12.2021**	**31.12.2020**
Share capital - ordinary shares	14.107.500	12.909.000	14.107.500	12.909.000
Share premium	3.704.504	2.553.944	3.704.504	2.553.944
Reserves from profit	16.968.156	15.634.894	16.968.156	15.634.894
Revaluation reserves	111.414	498.063	111.070	497.932
Profit for the year	2.568.379	1.597.441	2.409.161	1.333.262
Minority inetrest	159.165	119.290	-	-
Balance as at December, 31	**37.843.491**	**33.312.632**	**37.300.391**	**32.929.032**

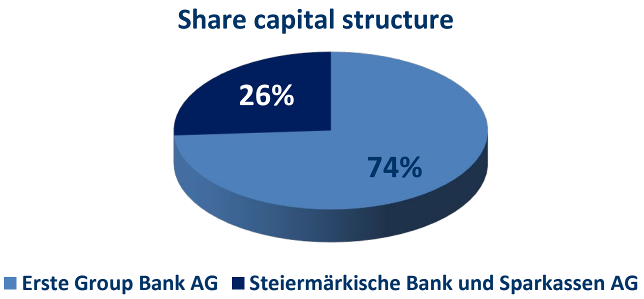


As at 31 December 2021, the subscribed and paid-in capital of the Bank consists of 1.410.750 ordinary shares, with an individual nominal value of 10,000 dinars (31 December 2020: 1.290.900 ordinary shares with an individual nominal value of 10,000 dinars).

The total capital of the Bank as at 31 December 2021 amounts to RSD 37.300.391 thousand and consists of share capital in the amount of RSD 14.107.500 thousand, issue premiums in the amount of RSD 3.704.504 thousand, profit reserves and other reserves RSD 16.968.156 thousand, revaluation reserves in the amount of RSD 111.070 thousand and profit for the current period in the amount of RSD 2.409.161 thousand.

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

Equity (continued)



The majority shareholder of the Bank is Erste Group Bank AG, Vienna with a 74% share in the share capital as of December 31, 2021.

The Bank shareholder's structure as at 31 December 2021 is as follows:

Name of shareholder	Number of shares	Share in %
EGB CEPS HOLDING GMBH	1.043.955	74,00
Steiermärkische Bank und Sparkassen AG, Grac	366.795	26,00
Total	**1.410.750**	**100,00**

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

3. NON-FINANCIAL REPORTING

3.1. INTRODUCTION

Since 2009 Erste Bank operates in accordance with its Social Corporate Responsibility Strategy, defined after extensive research and input analysis by all relevant stakeholders, and transparently presents its results by issuing a Report on Corporate Social Responsibility under the name "The bank is the people". The basic elements of Social Corporate Responsibility Strategy and all published reports in serbian and english until present time, are available on the Bank's website: **https://www.erstebank.rs/sr/o-nama/drustveno-odgovorno-poslovanje**.

Report on Corporate Social Responsibility of Erste Bank for 2021 will be published at the end of July 2022 in accordance with „Core" option of *Global Reporting Initiative* – GRI guidelines for reporting (**https://www.globalreporting.org/**), with additional fulfillment of some of the requirements for „Comprehensive" option. The report provides answers for over 30 GRI indicators, including indicators and relevant management approaches from *GRI Financial Services Sector Supplement* – FSSS, which makes this report relevant data source for international financial institutions with which the bank cooperates. According to valid agreement between GRI and United Nations Global Compact (UNGC), the Bank's report answers to all requirements of Communication on Progress – COP UNGC. Besides, the report brings an overview of activities aimed at improving gender equality and women empowerment, in accordance with United Nation Principles on women empowerment, whose signatory is the Bank. Furthermore, the Report offers the insight into how the Bank contribute to Sustainable Development goals of UN, by reviewing past activities and results and taking into account all effects in the broader context of sustainability, The document will be available on the Bank's website: **https://www.erstebank.rs/sr/o-nama/izvestavanje-dop.**

3.2. ANTI-CORRUPTION AND BRIBERY ISSUES

One of the goals of our business model is to ensure trust in our Bank. Within the Business Compliance function, among other things, we deal with issues of fraud and corruption, as well as conflicts of interest, all with the aim of maintaining and strengthening customer confidence in our Bank and preserving its good reputation. The program covers safety and security issues and meets all international regulatory requirements and compliance standards.

To ensure that:

- We define standards and regular inspections in all relevant processes of business in order to identify and to prevent potentially ilegal or unethical practices and in that purpose we use appropriate technical and management systems;
- We idenitify, report and do not execute suspicious transactions related to money laundering and terrorism financing, abuse of sensitive information, market manipulation and insider trading;
- We known our clients, and we only do business with those we identified in accordance with regulations and only in situations when we understand the client's business;
- We identify, resolve and/or disclose any potential conflicts of interest;
- We pursue strict anti-corruption and anti-bribery policies, prevent the giving and receiving of bribes and/or payments in order to speed up business procedures;
- We define arangements which consists of rules, tools and channels for their immplementation and sanctioning, all with the goals of ensuring adequate security and safety of our employees, property and reputation;
- We provide a pleasant and safe environment for all our clients, business partners and visitors;
- We provide regular training in the field of business compliance control, including regular training in the field of preventing money laundering, terrorism financing and targeted financial sanctions for all employees in the Bank;
- We encourage all employees to disclose all issues of concern, we provide whistleblower protection program (which ensures anonymity) and we control immplementation of adequate measures if a violation has occurred, while respecting and protecting individual rights.
- We signed the Declaration on the fight against corruption of the UN Global Compact in Serbia and we are devoted to its immplementation in daily business.

In order to avoid conflicts of interests, the general principal that all employees must adhere to, and therefore all members of the Bank's board, is to recognize conflicts of interests and to report about it to Compliance Control Service without exception and without delay, as defined by the Conflict of Interest Management Procedure and the Conflict of Interest Management Policy. Furthermore, in accordance with internal acts, in the case of Bank's employees and its external activities, the consent for them is given by the competent member of the Executive Board, on the recommendation of the Business Compliance Control Service. In the case of a member of the Executive Board, the necessary consent is given by the Board of Directors.

3. NON-FINANCIAL REPORTING (continued)

3.2. ANTI-CORRUPTION AND BRIBERY ISSUES (continued)

Prevention of fraud and abuse

In Erste Bank there are several departments that are dealing exclusively with prevention of fraud and abuse, FCM – Financial Crime Management, but to prevent abuse the constant involvement and support of all collegues is needed. One of the basic tools for managing internal fraud is to report suspected fraud - the so-called Whistleblowing, where in addition to clients and partners, report can be done by Bank employees primarily with the aim of protecting the Bank, and thus their workplace and status, as well as the Bank's clients. The Bank puts emphasis on fraud prevention and identification of possible frauds before they even happen, while from the detected cases the Bank draws conclusions in order to furthermore improve processes which can prevent these events, thus reducing the number of negative effects, bad placements and finally it makes future products cheaper for clients and the Bank more competitive in the market.

The Bank has a special Conflict of Interest and Securities Risk Management Department whose competence is risk management of all types of conflict of interest which may arise in connection with banking operations, as well as private activities of employees, including securities compliance risk and reputational risk. Special policies have been established to manage these risks, which aim is to protect clients in the field of compliance risk, prevent abuse of capital markets and relevant compliance of information arising from special authorizations.

Besides, Erste Bank is the member of Forum for the Prevention of abuse regarding credit operations, whose main goal is the efficient protection of Bank's clients, legal entities and individuals, from fraud and abuse in the procedure for approval and using the loan, as well as protection of banks themselves. The members of Forum exhange with each other data and informations which are relevant for the fraud detection and prevention. The Bank, as well as other members of the Forum, has the obligation to keep the data and information obtained in communication with other members of the Forum as a business secret, in accordance with regulations and acts of the Bank's business policy. EBS employees also made a significant contribution to the establishment of the local branch of the world's most important association - ACFE.

When it comes to protection against corruption, Erste Bank immplemetns the so-called zero tolerance policy for all actions that are illegal, including corruption. The Banks bases its activiites on the prevention of behaviors that may lead to corruption, and those are: risks of conflict of interest, reputational risk and protection of competition. The Bank has adopted a "Corruption Prevention Policy" and a "Procedure for the implementation of donations and sponsorships‟, documents covering this matter, and according to which it is strictly forbidden any kind of corrupt behavior. "Corruption Prevention Policy" from the guidance level it has become a level „A1‟ document, i.e. the highest act adopted by Executive and Managing Board, which indicates the importance that the Bank gives to the topic of anti-corruption.

The Bank observes a conflict of interest that arises from regular activities and in which participants are aware of the consequences, and a conflict of interest in which participants are brought with intent. In this context, two types of conflicts of interest are distinguished: internal - which refers to the Bank's employees, and external - which refers to the Bank's clients and business partners.

Internal conflict of interest that may indicate corruption is defined as any conflict that may arise among other as the difference between private and business interests of the employee, where private interest is expressed in money, while business interest is expressed in loyalty to the employer, respect for clients, enforcement and compliance with all regulations, preserving the reputation of the employer and one's own reputation, etc. Mechanisms to reduce this type of conflict of interest are raising employees' awareness of the Bank's organizational culture and policies regarding the commission of these acts, pointing out the consequences in the event of these acts, and mandatory reporting of private business activities of all employees and their analysis in the field of conflict of interest, the possibility of reporting perpetrators or suspicions of perpetrators through the Whistleblow process, the application of the Gift Policy, controls in the field of financial crime risk management and general prevention of conflicts of interest.

By external conflict of interest, the Bank means a conflict of interest of the client (or other business partner) between private interest in savings, more favorable conditions, easier and faster way to get money in general and interest in fair business, compliance, respect for banking institutions, etc. Mechanisms that reduce this type of conflict of interest, primarily, are the analysis of reputational risk in relation to the client and raising the level of awareness of employees to avoid these types of conflicts of interest, as well as advising employees on transferring activities that may lead to conflicts of interest to other organizational units where this conflict cannot be expressed or at least controlled, training on the consequences and importance of reporting suspected perpetrators, application of the Gift Policy, control in the field of financial crime risk management and prevention of conflicts of interest, mandatory application of an independent tender evaluation model, etc.

During 2021, a risk analysis of corruption was conducted in all business units of the Bank. This analysis is conducted every two years, with the obligation to revise, if new relevant information for the assessment appears, taking into account that for 2021 it was done within the framework for development of the risk register. Detected risks relate to the sales function, which interacts with customers, and therefore can give and receive any kind of incentive. Risks are avoided by permanent training, as well as control of gifts received by employees or gifts given by employees.

3. NON-FINANCIAL REPORTING (continued)

3.2. ANTI-CORRUPTION AND BRIBERY ISSUES (continued)

Employee awareness raising and targeted training are an extremely important part of the corruption risk management system. For the highest levels of management, if necessary, the so-called Tone at the top training related to general topics related to corruption and reputational risk is conducted. Also, management trainings include e-learning modules, as well as special presentations for specific positions. During 2021, all four members of the EB (100%), as well as all 19 executive directors, had special targeted training on anti-corruption, including the appropriate testing.

The Bank's anti-corruption policies and procedures are available to all employees through the internal portal, and it is the obligation of all employees to be regularly informed about newly adopted documents. During 2021, 77,34% of Erste Bank employees and 85,59% of employees in express branches were tested on anti-corruption procedures, and all of them successfully passed the test.

The topic of anti-corruption is an integral part of the training for all new employees, which is conducted once a month and includes training on non-financial risks, risks of financial crime, general provisions on conflict of interest, corruption and reputational risk. The aim of the training is intorducing employees to zero tolerance, risks, ways of recognizing, ways of reporting and escalating risk-related cases, relevant acts that need to be known and contact persons for any question in this area. The training is conducted in direct communication using presentations. The anti-corruption training was integrated into the e-learning and e-testing system as part of the anti-fraud training for all employees periodically, or at least every two years, as well as the 'face to face' training system held by Financial Crime Risk Management every year to functions of the Bank. Trainings on anti-corruption with e-learning and e-testing as part of anti-fraud training are conducted by presenting information, and then by using a special application (TEA) testing employees on these topics, in order to raise awareness of risks, regulations and acts in which it is located, and risk mitigation measures and persons in charge of risk management.

In the area of prevention of money laundering and terrorist financing, a regulatory requirement was implemented and the risk of money laundering, terrorist financing and sanctions was assessed, and measures were provided to mitigate the assessed risks, all in order to protect the Bank from suspected money. intended to finance terrorism or the abuse of the Bank and its clients by circumventing sanctions that are binding in the Republic of Serbia and the Erste Group.

In the area of conflict of interest prevention, mandatory trainings are held every year for all employees of the Bank, including top management, as follows:

- general training for all employees (in 2021, a total of 96,3% of employees passed)
- advanced training for the so-called Confidentiality units as organizational units that are by nature more frequent in contact with information relevant to business compliance, due to which there is a greater potential for conflicts of interest (in 2021, a total of 93% of employees passed)
- Welcome to Erste Day for all new Bank employees
- During 2021, a special training was held in the field of: secondary business activities of employees (SBA) and prevention of conflicts of interest that may arise due to SBA.

In addition to strengthening internal capacities, the Bank communicates its policies and procedures in this area to clients and business partners, with the aim of a comprehensive approach to the prevention of compliance risks. Regulations related to anti-corruption and conflicts of interest are an integral part of the General Terms and Conditions, which are an integral part of the contract with each client, and are also publicly available on the Bank's website and the annual Corporate Social Responsibility Report. Special meetings are held with clients and business partners if assessed as necessary.

Protection of competition

Free competition and compliance with the regulations on protection of competition are not only an important market principle, but also a strong business commitment and goal of the Bank.

Our approach to this topic means that:

- inform employees about behavior that distorts free and fair competition and prohibit them from concluding business agreements that distort free and fair competition;
- we do not abuse our position on the market and ensure that all business mergers and acquisitions meet all applicable requirements prescribed by antitrust laws;
- We do not infringe the rights of third parties when it comes to trademarks and intellectual property rights, and we protect our own rights from potential misuse by third parties.

3. NON-FINANCIAL REPORTING (continued)

3.2. ANTI-CORRUPTION AND BRIBERY ISSUES (continued)

The competition program which Erste Bank has implemented since 2011 inclued several documents which are related to next key fields:

- Fair competitions – compliance with the principles of the Law on Protection of Competition for Employees
- Guidelines for the prevention of corruption - an integral part of Anti-Fraud Management Compliance
- What to do in the case of unannounced investigation
- Application form for permission to establish contact with the competition
- Procedure for acting in communication with regulatory bodies and other state bodies in direct and indirect control procedures.

Introducation to the program is included since 2013 in the regular training for new employees „Welcome to Erste". The training includes raising awareness of the importance of the topic of competition protection and learning about the harmful consequences in case of violation of competition regulations.

3.3 SOCIAL AND HUMAN RESOURCES ISSUES

As a responsible employer, Erste Bank offers modern, attractive and motivating working environment for engaged and dedicated people, ready for learning and professional development. Concern for the satisfaction and motivation of our employees is at the top of the Bank's priorities, with guaranteed equal opportunities, protection of rights and transparent communication.

With the goal of providing and improving the motivating working environment, we are focused on the next priority topics:

- Employee development and training
- Safety and health at work
- Social support for employees

Our approach to these complex topics is defined in the Bank's strategical documents, which are related to various field of responsibility to its emoployees:

- Code of Business Conduct
- Employment policy
- Training and development policy
- Reward policy
- Performance management policy
- Diversity and inclusion policy
- Human resources strategy
- Communication strategy
- Rulebook on safety and protection of health at work
- Collective agreement

3. NON-FINANCIAL REPORTING (continued)

3.3 SOCIAL AND HUMAN RESOURCES ISSUES (continued)

Data on the number of employees in 2021	EBS		SL	
	HC	%	HC	%
Total number of Employees:	**1.224**		**50**	
Male	327	27%	22	44%
Female	897	73%	28	56%
Total number of managers (all management levels)	**201**		**8**	
Male	97	48%	5	63%
Female	104	52%	3	38%
Management board	**6**		**5**	
Male	5	83%	4	80%
Female	1	17%	1	20%
Executive board	**4**		**2**	
Male	2	50%	2	100%
Female	2	50%	0	0%
Executive directors	**17**		2	
Male	10	59%	2	50%
Female	7	41%	2	50%
Age structure of all employees				
to 30 years	184		3	
30 to 50	844		44	
above 50 years	196		3	
Type of engagement				
Indefinitely	1.075		48	
Definitely	149		2	
Full time	1.221		49	
Part time	3		1	

Development and training

Development and training of employees is one of the most important strategic priorities of Erste Bank. Our approach to the development of employees includes training and development, adequate resource planning, definition of key jobs, succession plan management, principles of employee rewards and benefits, performance and promotion management. In addition to contributing to higher employees motivation and satisfaction, this comprehensive approach also enables us to constantly improve business processes.

Carefully designes vocational training is available to our employees, as well as program of lifelong learning which enables them acquire the necessary knowledge and skill to increase their competitivenes in an increasingly challenging labour market. In addition to internal training, Erste Bank provides employees with referrals to external training, as well as study periods with a guaranteed return to work. We offer our employees the opportunity to engage in the internal job market of Erste Group in all seven countries, which representes part of our efforts to encourage mobility within the Group and to become the most attractive employer on the financial market.

Trainings held in 2021	**EBS**	**SL**
Scope of training (h)	40.700	401
Costs (RSD)	26.300.000	2.396.258

3. NON-FINANCIAL REPORTING (continued)

3.4 ENVIRONMENT

Erste Bank's long-term strategic approach to environmental protection is reflected in continuous assessment of the impact of our business - we continue to decrease negative effects where possible, and with innovative solutions to contribute to the improvement of the environment and sustainability. Setting environmental goals, as well as monitoring indicators and measurement methods, are an integral part of our planning processes.

In addition to resource consumption, the biggest impact on the environment the Banks has through financing of projects and business of its clients. Therefore, our focus is on developing and maintaining high standards in the field of responsible financing, where we strive to be an example to others and one of the leaders in financing renewable energy projects.

Our strategic approach includes three priority areas for Bank's action:

- Responsible resource management
- Responsible financing
- Raising employee awareness of environmental protection

The Bank's business is compliant with all current regulations related to environmental protection. Besides, the Banks in its operations, is guided by the Responsible Financing Policy, the Renewable Energy Financing Policy, the Environmental Protection Principles, the Erste Group Energy Management Policy and the Waste Management Procedure.

Respobsible resource management

When it comes to direct influences, Erste Bank from year to year it records reductions in consumption according to all the most important parameters that we monitor: energy, emissions, water, waste, transport. Some of the most significant measures that the Bank has implemented over the past years are:

- Development of energy management system;
- Supply of electricity produced from renewable energy sources;
- Application of environmental standards in the arrangement of branches;
- Use of certified materials for furnishing and arranging the space - use of ecological materials, furniture and rugs in the renovation and furnishing of buildings;
- Reduced work of advertising signs in accordance with the available possibilities;
- Installation of LED lighting - in two administrative buildings there is a complete LED lighting;
- Change of heating system in facilities where it is necessary;
- Programming the air conditioning system in accordance with the working hours of employees;
- Lease and purchase of vehicles that are more environmentally friendly;
- Use of video and telephone conferences to reduce business travel;
- Innovations in the printing system aimed at reducing energy, paper and toner consumption.

Rational use of water

Water supply and wastewater disposal is performed by the distribution system for water supply (water supply) and wastewater disposal (sewerage) of public utility companies for production and distribution of water and sewage. Public utility companies for water production and distribution and sewerage perform daily water quality control in accordance with applicable legislation that is in line with EU and World Health Organization Directives.

The following is an approximate data on water consumption (m3/year) in accordance with the approximate average consumption from previous years according to the formula, in the way it monitors:

*number of employees * approximate average water consumption per employee in m3/year = water consumption in m3/year*

Water consumption in 2021
1150 * 9 m3 = 10.350 m3/year

Energy and emmission

During 2021, we continued to implement initiatives to improve energy efficiency. Out of a total of 69 locations for which energy consumption is monitored and in which the Bank operates, 49 locations were included in the commercial contract for green energy that the Bank had with the company Energia gas and power. The percentage of the share of green energy in the total amount of energy consumed in 2021 is approximately 57%.

At the end of 2021, after significant increase in the price of electricity on the world market, the Bank renewed its contract with Elektroprivreda Srbije. A decision on the return to the use of green energy in a higher percentage will be made in accordance with market trends and electricity prices.

3. NON-FINANCIAL REPORTING (continued)

3.4 ENVIRONMENT (continued)

Electricity and heat consumption in 2021	
Electricity (KWh) Thermal energy (KWh)	2.243.156 1.947.070
Energy intensity (KWh/number of employees)	
Electricity (KWh/number of employees) Thermal energy (KWh/number of employees)	1.832,64 1.590,74

Transport

Emissions that occur as a result of transport for our business sector in regular circumstances are a material aspect, so this topic is among the priorities for Erste Bank. Fuel consumption, as well as emissions, have been monitored and recorded since 2013, including business trips as well as employee transportation. The significance of the impact is determined on the basis of the following criteria:
• CO2eq emissions based on annual mileage and annual fuel consumption of official vehicles

The Erste Group's standards for environmentally friendly vehicles, ie official vehicles with CO2eq limits of 120 to 140 g/km, contribute to the reduction of these impacts. In 2021, business trips were not possible for most of the year due to the COVID-19 pandemic, and there was a significant reduction in emissions from transport.

Waste management and recycling

Responsible waste management in Erste Bank is regulated by the internal document Wate Management Procedure.

Our daily business activities cause the generation of significant amounts of paper waste, which is why we are focused primarily on reducing the use of paper and the use of certified paper, as well as recycling. Since 2009, the Bank's publications, including the internal journal Pulse and other publications, have been printed exclusively on FSC (Forest Stewardship Council) certified paper, which means that wood, including paper, is obtained from forests that are managed responsibly and sustainably. This certificate represents the highest level of quality and sustainability assurance in the forestry, wood industry and paper industry.

When it comes to recycling, the Bank strives to positively impact sustainability by sorting and handing over its generated waste for recycling. Our business facilities in Novi Sad and Belgrade are equipped with bins for PET packaging and glass waste, as well as boxes for collecting office paper.

The reduction of generated waste was also contributed to by the initiative from 2014, when the Bank started using Konica Minolta's printing service, which released it from the obligation to collect toner (except for stocks from the previous period). This also reduces the amount of paper used.

Data on generated waste in 2021	
Waste papers and cardboard packaging	19,04 t
Pet packaging	0,06 t
Metal	7,64 t
Hazardous electronic and electrical equipment containing hazardous components	4,85 t

Investing in sustainable development

Responsible approach to financing is essentially woven into our business and our strategic commitment to contribute to a sustainable future for our customers, employees and the community. Recognizing climate change as one of the greatest global challenges of today's society, Erste Bank has in accordance with its Responsible Financing Policy and Renewable Energy Financing Policy dedicated to financing various energy efficiency and renewable energy projects. Projects related to renewable energy sources imply very complex activities both for project promoters and financial institutions. Funding is based on studies on the impact of projects on the environment in the community in which it is built, the approval of local authorities, compliance with all local laws and regulations, as well as compliance with specific standards for funding in this area.

Erste Bank, along with its partners from European Bank for Reconstruction and Development, actively works on promoting energy efficiency in households, and in accordance with that it offers loans for energy efficiency for individuals, which can be used for replacement of windows or doors, adaptation of the residential facade, new lighting or other mentioned measures, which contribute to economy and savings. The loan also includes a financial incentive in the amount of 15% to 20% of the loan amount for individual apartments - it is a non-refundable amount paid by the EBRD with the support of the European Union. In addition, the funds returned by financial incentives do not have a predefined purpose - that is, clients are free to use them for other needs of their household.

With the goal of improving energy efficiency, during 2021 the Bank realized 1.158 loans to individuals in the total volume of RSD 554.007.736. In this way 1.145 households installed energy efficient equipment and materials in their homes in 2021.

3. NON-FINANCIAL REPORTING (continued)

3.4 ENVIRONMENT (continued)

Investing in sustainable development (continued)

In august 2021, Erste Bank has signed with EBRD Contract for a new credit line "SME CSP loan" - "EBRD Competitiveness Support Program" for energy efficiency. EBRD CSP credit line has a purpose of funding investment of SME in Republic of Serbia, which will help to improve competitiveness and compliance with the technical standards of the EU acquis communautaire (Legal Legacy of the European Union). This credit line finances numerous projects of solar panels, machines for production and operation of the companies themselves, production plants and similarly, as well as improving the competitiveness of end users/SME companies in the Republic of Serbia, and all in accordance with EU directives in the fields of social, health and environmental protection. Contract EBRD CSP Program is signed in the amount of EUR 5.000.000. From this credit line, clients are provided with a grant, after the verification of projects, in the amount of 15% of the approved loan.

When it comes to legal entities, in 2021 for the energy efficiency (EE) and renewable energy source projects (RES) the following funds were placed:

- from KFW 2014. credit line for RES 2.333.500 EUR (for the construction of a mini hydropower plant);
- from KFW 2017. credit line for EE 3.333.196 EUR to replace street lighting;
- from EIB 2018. for EE 264.643 EUR
- from EBRD 2021. CSP credit line for RES 448.233 EUR, and for EE 136.077 EUR
- from Bank's fund for EE 3.559.683 EUR, and for RES 29.083.254 EUR (for mini hydropower plants, biogas plants and wind farms).

3.5 Support and development of the communities in which we operate

From the beginning of Erste bank's business, it strives to contribute to the further development of society and raise the quality of life in the communities in which it operates through their business, strategic partnerships and proactive activities. Even in the difficult years of the pandemic, the Bank continued to support the survival of civil society organizations, social enterprises, start-ups, as well as programs and initiatives in the fields of culture and the arts, financial education and inclusion, entrepreneurship, education and sports.

In accordance with its Social Corporate Responsibility Strategy, Erste Bank continuously strategically and proactively invests in the community listening to the needs, communicating daily with all stakeholders following modern trends in sustainable development. The Bank's support has long outgrown exclusively financial support, and has included the exchange of knowledge and experiences, educational and mentoring support, as well as networking of various resources for the common good. The Bank believes that the synergy of different resources gives the best results and therefore strives to identify quality partners, ideas, initiatives, programs and by supporting them changes society for the better. The Bank is also very active in connecting and networking its partners to make the positive results of the program even greater.

Financial Inclusion - "Step by Step" Program

At Erste Bank, we believe that the preconditions for inclusive and sustainable development lie in removing barriers and improving access to financial products and services for all citizens and sectors of society. We are especially focused on innovations in the development of entrepreneurship, which we consider a pillar of economic growth and social prosperity. We are strategically focused on supporting the development of social entrepreneurship in Serbia, as one of the sustainable ways of solving social challenges, and in addition to creating inclusive programs and financial products and services, we strive to improve financial literacy and create preconditions for better economic sustainability.

"Step by Step" is Erste Group's social banking program to promote financial stability and prosperity in our region. We provide customized banking services to people who are very often not considered attractive by conventional banks and do not receive adequate services.

The program is designed to support start-ups in business to create jobs, empower NGOs in the further development of our society as well as support low-income individuals. To give our clients a chance to improve their economic situation, we offer banking products such as current and savings accounts, insurance products and financing. By providing dedicated loans, we help our clients start a small business, finance the renovation of their homes, gain higher education, increase their mobility and gain the right to health care.

It is important to point out that we combine our products with financial education and business training to help clients make good decisions for their finances. To ensure long-term success, we have an ongoing mentoring program to support financial and business challenges.

The goal of this program is to help improve the financial stability of our clients and to further support the region in reaching its growth potential systematically and sustainably.

3. NON-FINANCIAL REPORTING (continued)

3.5 Support and development of the communities in which we operate (continued)

Financial Inclusion - "Step by Step" Program (continued)

As part of research that Erste Bank had conducted, it is determined that after first two years of business only one quarter of start-ups in Serbia survive on the market. In the case of Step by Step beneficiaries, 97% continued and developed their business after two years of operation.

Only in 2021, through Step by Step program Erste Bank provided credit support to 80 start-ups and 4 civil society organisations in the total volume of around 1 million EUR. Start-up clients, program users have been provided with over 100 hours of mentoring support.

This Bank's program has been recognized in 2021 as one the very complex programs that actively contributed to acheving Sustainable development goals of United Nations and it has won the special award "Champions of Sustainability" by the Forum for Responsible Business.

Financial literacy

In order to contribute to further progress in the field of financial inclusion, we systematically approach information and education on financial topics, not only of our current and potential clients, but also of the entire community. Financial literacy enables citizens to plan their finances in a quality way, as well as to adequately manage them, making informed and responsible decisions that contribute to their sustainability and can positively affect their future.

The Bank approaches the topic of financial literacy in several ways:

- implementation of the "Step by Step" program, which comprehensively provides education and support to startups, social enterprises, civil society organizations and individuals at risk of poverty;
- creating a digital platform #ErsteZnali, which brings complex financial topics closer to everyone in an interesting and receptive way;
- providing direct support to social enterprises through various types of mentoring, counseling, product purchase, promotion support, etc .;
- by participating in and supporting programs, conferences and events that promote entrepreneurship, self-employment, self-sustainability.

The contribution of the Step by Step program to the development of financial literacy consists of several elements:

- The online educational platform is aimed at helping to create a business plan. The platform combines several modern types of content: presentations, video content, collaborations, etc. to enable users to acquire the necessary knowledge in the most acceptable way;
- Offline workshops defined according to the needs of the program users in order to increase their business capacity in several cities in Serbia in order to provide access to as many users as possible;
- One-year mentoring support to which every user of the program is entitled. Mentors are experienced entrepreneurs from various industries who, with their knowledge and experience, help new entrepreneurs to raise their businesses to a higher level.

#ErsteZnali

In order to help citizens make good financial decisions, as well as to develop a responsible attitude towards money, in 2019 Erste Bank launched #ErsteZnali, a comprehensive, free and non-commercial financial education program. So far, 42 educational modules have been published on the platform, in the development of which 25 experts from various sectors of the bank are participating on a volunteer basis. The ErsteZnali.rs platform recorded over 80,000 unique visits in 2021, and online workshops were held, attended by a total of 157 people.

The year behind us was marked by the launch of our first educational game for children on the topic of financial education "Guardians of the Dragon's Treasure", which recorded more than 10,000 downloads in less than a month.

A memorandum of cooperation was signed with the Ministry of Education, Science and Technological Development on the four-year program "School of Money for Elementary School". During 2021, a plan and program for teaching in primary schools for three ages was made and 150 teachers were trained in cooperation with the Institute for the Advancement of Education. The implementation of the program in schools began in December 2021.

Sponsorships and donations

Erste Bank strives to support the creation of conditions for a better quality of life in all communities in which it is present. Given that we are all as organizations, but also as individuals, part of a wider environment in which we can not thrive without the progress of people and organizations around us, we are strategically focused on the development and promotion of corporate and individual philanthropy in Serbia.

3. NON-FINANCIAL REPORTING (continued)

3.5 Support and development of the communities in which we operate (continued)
Sponsorships and donations (continued)

The Bank strategically supports organisations and institutions, programs and initiatives in the following fields:

- culture and art,
- popularization of science,
- entrepreneurship,
- financial literacy and inclusion
- sports.

Decisions on sponsorships are made in accordance with specific regulations and available budget for current year. Only in 2021 the Bank has in this way supported over 45 projects and programs with more than RSD 21 million.

3.6 Respect of human and labour rights

The collective agreement

The collective agreement, which in 2020 has been signed between the Employees Union and the Bank and which was in force in 2021, guarantees to all Bank's employees benefits above those proided by the Law o labour. The agreement is the result of the readiness of both parties to actively work on improving the rights of employees, which are the drivers and strength of the changes and improvements that we are constantly striving for. All areas of relations with employees are regulated by this document, from the establishment of the employment relationship of an individual, his rights and obligations, through training, safety and health. The collective agreement applies to all employees, and its entire content is available to colleagues on the Bank's internal portal.

Erste Bank provides to its employees the following benefits:

- Retirement severance pay is higher than the legal minimum
- Severance pay in case of termination of employment on the basis of redundancy is higher than the legal minimum
- Collective insurance of employees against the consequences of an accident during work, as well as at the time of arrival at work and departure from work
- Compensation for damage due to injury at work or occupational disease in accordance with the law
- Reimbursement of necessary funeral expenses to immediate family members in the event of the employee's death
- Reimbursement of necessary funeral expenses to close family members in the event of the employee's death, as well as to a person with whom the employee lives in a joint household and is not a close family member
- Solidarity financial assistance to an employee due to a long or severe illness of an employee or a member of his immediate family
- Solidarity financial assistance to the employee due to difficult financial situation
- New Year's gift for children of employees up to ten years of age
- Gift to the employee for the birth of a child
- Jubilee award on the occasion of the years spent working with the employer
- The employer can provide the employee with a jubilee award on the occasion of marking another important event with the employer
- Maternity leave with guaranteed payroll dynamics and return to work
- Entitlement to special allowance during maternity leave, childcare leave and special childcare as the difference between the amount of salary compensation paid by the state and the last salary of the employee before the start of leave
- Additional private health insurance - systematic examinations for employees
- Discounts for employees for certain goods and services
- Higher amounts of certain salaries and other incomes in relation to the legally determined ones (increased salary for work on holidays, work at night, salary compensation in case of temporary incapacity for work, etc.)

Safety at work
About safety and health at work and social support for employees in Erste Bank taken care of by the Human Resources Department, the Security Risk Management Department and the Employee's Union, with the support of all other organizational parts of the Bank.
The Security Risk Management Service is in charge of physical protection, technical protection, information security, business continuity management, fire protection, emergency situations and safety and health at work. Since 2019, there has been a Person for Safety and Health at Work appointed at the Bank, while this function was previously performed by an externally engaged company. Trainings on employees 'actions in case of robbery and other emergencies are regularly organized for employees, trainings on employees' actions with aggressive clients, basic training of employees in the field of fire protection, first aid trainings (for which all managers are trained and at least 2% of the total number of employees), training of employees for safe and healthy work and training on how to use the Technical Protection System. In addition, procedures, instructions and advices are communicated to employees through the internal journal Pulse.

3. NON-FINANCIAL REPORTING (continued)

3.5 Support and development of the communities in which we operate (continued)

Safety at work (continued)

Safety and health at work in Erste Bank are regulated by the Rulebook on safety and protection of health at work. In addition, the Injury Reporting Instruction, the Wiener Insurance Accident Reporting Instruction, and the Safe and Healthy Worker Training Program apply.

Erste bank provides employees with basic health examinations once a year and is committed to promoting health in the workplace to prevent disease and improve the well-being of people at work. Medical examinations provided to employees include a set of preventive examinations, namely: basic medical examination, complete biochemistry, ophthalmological examination, ECG, ultrasound of the breast, thyroid gland or abdomen. In 2021, a free health examination was used by 500 employees in Erste Bank and 21 employees in S-Leasing.

We pay the greatest attention to the prevention of health problems caused by sitting at the computer for a long time, and through various internal communication channels we encourage employees to physical activity and advise them on how to introduce healthy habits into their daily routine. Last year was certainly different and caring for the personal health and health of loved ones, as well as colleagues, was a priority. During the year, advices on the prevention and health was often prepared.

In 2021 in Erste Bank a total of two injuries were reported, and in S Leading one. All injuries were of a minor nature, and there were no injuries with serious consequences.

When it comes to safety and protection of life and health at work, the Collective Agreement elaborates the following topics in detail:

- prevention of harassment at work (mobbing)
- collective insurance of employees
- protection of personal data
- maternity protection
- special child care
- protection against termination of employment contract
- protection of persons with disabilities
- notice of temporary incapacity for work

The Collective Agreement clearly defines the terms, bodies and authorities that, in addition to the Employee’s Union, control and implement the agreed rights and obligations.

4. ALL SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

During January 2022, the Group has sold the pledged property of the debtor Fabrika Vode Zrenjanin, in the total amount of RSD 417.368.175 in the procedure of forced collection. The said transaction led to the release of provision for the said client, as well as to the decrease of the percentage of NPL placements in the Group's total portfolio.

After balance sheet date the Group received a total of 1.245 lawsuits regarding loan origination fees. The management estimates that there will be no material losses based on the outcome of litigation that are in progress above the amount for which the provision was made.

In the beginning of 2022, there has been increased volatility in the financial and commodity markets due to the escalation of political tension in Ukraine, followed by international sanctions against certain Russian companies and individuals. While this is still an ongoing situation at the date of issuing these financial statements, and there is an expectation of consequences on the economy in general, there has been no discernible impact on the Group's operations neither Group has any significant exposure to underlying countries or individuals that are under sanctions, however the future effects cannot be predicted. Management will continue to monitor the potential impact and will take further action as necessary to mitigate any effects.

After the reporting period, there were no other events that would require corrections or disclosure in the notes to the consolidated financial statements for the year ended 31 December 2021.

5. DESCRIPTION OF EXPECTED DEVELOPMENT IN THE NEXT PERIOD

Erste Bank a.d. Novi Sad as bank group (the "Group") wants to remain one of the leading bank in Serbia that provides financial services to individuals and legal entities. The Group intends to achieve this goal through three priorities defined by the Erste Group, namely: high data quality, business growth in the retail and corporate segment, as well as clear management and governance.

In the retail segment, Group develops long-term cooperation with customers by continuous improvement of products and services, strong presence in the domestic market through a network of branches and alternative distribution channels, in order to meet customer needs and greater employee satisfaction, which should be reflected in customer development. experience, continuous and healthy growth, as well as increasing profitability.

In terms of business with legal entities, the Group intends to continue to be a reliable and long-lasting partner with its clients, which can be achieved by high quality and diversification of financial services, as well as professional relationship with clients in this segment, which will lead to greater profitability with the lowest possible risk.

The Group continuously, through the Risk Management Strategy, but also other business strategies, defines the target profile of risk exposure and portfolio structure with the primary goal of long-term business sustainability, compliance with domestic regulatory requirements and compliance with Erste Group standards.

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

The Group takes care of professional training and advanced training of its employees, especially those who perform risk identification, measurement and monitoring, taking into account the scope, type and risk exposure of the Group's operations, as well as the risk profile of the Group.

Erste Bank a.d. Novi Sad will continue to provide comprehensive support to the population and economy of Serbia in achieving their financial needs and goals. Business principles, which include focusing on continuous improvement of customer service, and constant improvement of internal organization and efficiency, will continue to be the basis of the Group's operations.

Group mission:

We are committed to improving the quality of life of people and communities by fostering financial stability, security and prosperity - honestly, fairly and with respect.

Our values:

RESPONSIBILITY
- we take responsibility for the development of the Group and ourselves

SUPPORT
- we listen, understand and help

TRUST
- we keep our word and build quality relationships

INNOVATION
- we encourage the new and constantly improve the existing ones

CREATION
- we create value for our clients, shareholders and ourselves

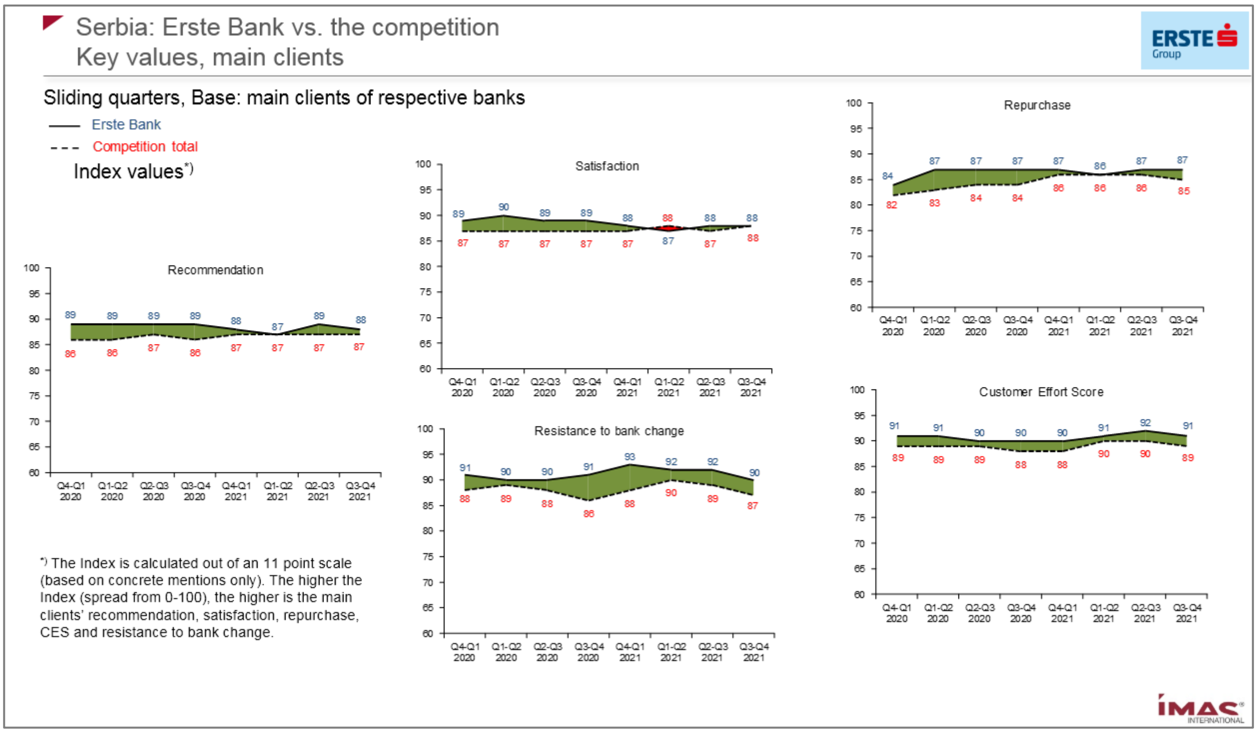
Detailed and precise implementation of the Strategy is done through the Action Plan, annual budgets, Credit Policies, Price Regulations, and other Group documents.

6. RESEARCH AND DEVELOPMENT ACTIVITIES FOR THE YEAR 2021

The company's activities in the field of research and development are presented for the Bank, as the holder of the Group.

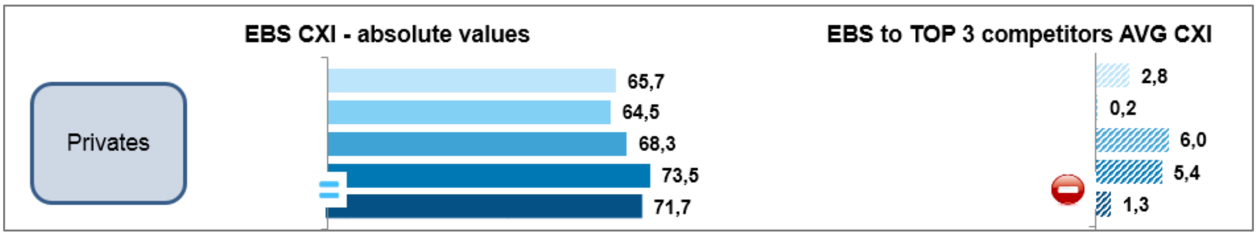
During 2021, the Bank continued to conduct regular market research and analyze the results of quantitative and qualitative research on the level of quality of service both at the market level and at the level of the Bank and special business units of the bank. With the engagement of independent market research agencies, measurements and analyzes of the level of satisfaction and loyalty of clients of Erste Bank and other banks are conducted, as well as the quality of processes in Erste Bank.

Through the **"Banking Market Monitor"** survey, Erste Bank measures 6 key service quality parameters for both its clients and the clients of competing banks. The parameters of service quality that are measured are: trust, satisfaction, recommendation, ease of doing business with the bank, repurchase and the probability of changing the bank. **On all 6 observed service quality parameters, Erste Bank records a result that is above the competition average or on the same level**. In this way, Erste Bank constantly measures its performance in relation to the market, and through the activities it carries out to improve the customer experience, it works to strengthen its position among the leading banks in the field of customer satisfaction.



Based on the results obtained through the **"Banking Market Monitor"** survey, Erste Bank calculates the Customer Experience Index - **CXI**. Observed at the bank level (included retail segment), **Erste Bank was on the second place in the market by CXI in 2021** with an advantage of +1,3 over the Top 3 competitors.

Customer Experience Index –



6. RESEARCH AND DEVELOPMENT ACTIVITIES FOR THE YEAR 2021

Erste Bank also conducts a Customer Satisfaction Survey with the service provided immediately after a certain event (**event-triggered research**). The events we observe are the opening of accounts (dinar and foreign currency), the making of deposits, the approval of cash loans, the approval of housing loans and the approval of loans for small businesses and entrepreneurs. Within a week after the client is provided with one of the above products / services, **we provide them with the opportunity to immediately, directly express their (dis)satisfaction with the service** and thus help us improve our quality of service. On a weekly basis, Erste Bank monitors customer responses and responds adequately.

The Bank provides support to its clients through its advanced complaint management and resolution system in which the quality of complaint resolution is paramount. In 2021, the Bank stood out from the competition in terms of the speed of resolving complaints. Based on the analysis and measurements during 2021, 78,97% of complaints were resolved within 7 days. The goal of the Bank is to constantly improve the quality of service, according to which the Bank is recognized as the leading Bank in the banking market of Serbia.

SPEED OF RESOLVING COMPLAINTS ON SERVICE AT THE BANK LEVEL IN THE PERIOD FROM 01.01. TO 31.12.2021.				
Up to 24h	Up to 7 days	Up to 30 days	Over 30 days	Total
71,70%	19,08%	6,70%	2,52%	100%

Note: within S Leasing there were no written complaints in 2021.

In addition to continuously studying the needs and expectations of customers, the Bank within its organization systematically measures and improves customer satisfaction and uses it as a permanent tool for improving the quality of internal processes and service.

7. RISK EXPOSURE

Risk monitoring and management functions are the responsibility of the Credit Risk Management Division and the Strategic Risk, Portfolio and Capital Management Division, as separate organizational units in the Group. Risk management policies, risk management strategy and capital management strategy are related to the Group's strategy, and include defining the type of risk, ways of managing these risks and the degree of risk that the Group is willing to accept in order to achieve its business goals. Special attention is paid to full compliance with the relevant regulations of the National Bank of Serbia (NBS).

The responsibilities of the Credit Risk Management Division and the Strategic Risk Management Division, portfolio and capital include the following:

- Identifying and measuring or assessing the Group's exposure to certain types of risks;
- Monitoring of risks, including their supervision and control, preparation of analyzes and reports on the amount of individual risks, their causes and consequences;
- Measurement or assessment as well as management of the Group's risk profile and capital adequacy;
- Monitoring the parameters that affect the position of the Group's exposure to risks, primarily including the management and optimization of asset quality and cost of risk;
- Development and application of quantitative models for risk management as elements in the process of advanced business decision-making and pricing of risk;
- Development of strategies and proposals for the Group's exposure limits by individual types of risks and their control;
- Quantifying the impact of changes in the economic cycle or stressful events on the financial position of the Group;
- Risk assessment of the introduction of new products and externalization of activities;
- Development of methodologies, procedures and policies for risk management in accordance with applicable legislation, Erste Group standards, good business practice and special needs of the Group;
- Development and implementation of various technical platforms and tools;

The Group adequately identifies the risks to which it is exposed and accordingly conducts its management activities, trying to avoid them or reduce them to acceptable levels.

Risk management in the Bank in the period from 01.01. to 31.12.2021. was implemented successfully, which is primarily reflected in the timely allocation of additional provisions for expected losses that are expected to occur due to the COVID-19 crisis, then compliance with regulatory requirements for a moratorium, defined policies and procedures for risk management and their continuous improvement, constant focus of Management Board and Executive Board is on quality risk management, use of modern technology in the work of the Group and its continuous improvement, as well as the adopted culture of risk management by employees of the Group.

According to the latest conducted analysis of materiality assessment, the Group is exposed to the following material risks in its operations:

- Credit risk (including default risk, credit interest rate risk, credit risk concentration risk and credit and foreign exchange risk);
- Market risk in the trading book;
- Interest rate risk in the banking book;
- Operational risk;
- Liquidity risk;
- Strategic risk;
- Compliance Risk;
- Reputational risk;
- Macroeconomic risk (transverse risk that is reflected in all the above types of risk).

Regardless of the fact that the Group calculates capital requirements under Pillar 1 and Pillar 2 for foreign exchange risk, counterparty risk and residual risk, they are not assessed as material risks in the last conducted assessment of the material significance of the risk.

7. RISK EXPOSURE (continued)

For material risks (except for those risks that are included in the risk management framework through a precisely established monitoring system and limits or through stress testing), the Group conducts quarterly assessment of internal capital adequacy in accordance with relevant methodologies and standards when calculating capital requirements and internal capital which is available to the bank to absorb these risks.

In addition, the Group continuously calculates capital requirements and capital based on the NBS decision in the field of capital adequacy when calculating capital adequacy ratios. In accordance with the above, the capital requirement for credit risk, counterparty risk and settlement / delivery risk based on free deliveries is calculated according to the standardized approach as well as the capital requirement for price risk using maturity methods and the capital requirement for operational risk using the basic approach indicators and capital requirements for credit exposure risk adjustment using a standardized approach.

Capital adequacy was calculated as the ratio of regulatory capital and risk assets, as of December 31, 2021. The Group is obliged to maintain the minimum capital adequacy ratios prescribed by the National Bank of Serbia (8% for capital adequacy, 6% for Tier 1 capital adequacy ratio and 4.5% for Common Equity Tier 1 capital adequacy ratio), as well as to meet the requirements for a combined capital buffer. In addition to the requirements defined in the form of minimum capital adequacy ratios and capital buffers, the Group is required to meet an additional regulatory minimum capital requirement, defined in the process of comprehensive supervisory review and evaluation process. The Bank's capital adequacy ratio as at 31 December 2021 is 18,72%. On a consolidated basis, the capital adequacy ratio on December 31, 2021 is 18,25%.

The Group's **liquidity** is monitored and controlled by ensuring the Group's continuing ability to provide liquidity for the payment of customer deposits, financing the growth of assets and operating operations, as well as for settling other contractual obligations. The Group in the period from 01.01. to 31.12.2021. had an indicator of daily liquidity and an indicator of coverage by liquid assets above the legally prescribed level.

The Bank / Group manages its assets and liabilities in a way that ensures that it fulfills all its obligations at all times, as well as that its clients dispose of their funds in accordance with the agreed deadlines.

Interest rate risk management The Bank / Group aims to optimize the ratio of these effects in terms of the impact on net interest income on the one hand, and the economic value of capital on the other. The Assets and Liabilities Management Committee manages the maturity matching of assets and liabilities based on: Erste Group AG guidelines, macroeconomic analysiss and forecasts, liquidity forecasting, analysis and forecasting of market interest rate trends for different asset and liability segments.

The Group's **foreign exchange position** as a risk that there will be a change in the value of financial instruments and negative effects on the Group's financial result and capital due to changes in the exchange rate, in 2021 was below the maximum prescribed level of open foreign exchange position. The Group's foreign exchange risk indicator as at 31 December 2021 amounts to 1,40% of the Bank's capital, which is significantly below the prescribed maximum of 20% of capital. The foreign exchange risk indicator on a consolidated basis as at 31 December 2021 amounts to 1,32% of the Group's capital.

7. RISK EXPOSURE (continued)

Group's performance indicators - compliance with regulatory indicators

The Group is obliged to harmonize the scope and structure of its operations and risky placements with the business indicators prescribed by the Law on Banks and relevant decisions of the National Bank of Serbia adopted on the basis of the said Law. In the period from January 1 to December 31, 2021, the Group continuously achieved the prescribed business indicators.

Performance indicators	Prescribed	31.12.2021.	31.12.2020.
1. Equity	Minimum EUR 10 million	EUR 314.166.819	EUR 290.935.595
2. Total capital adequacy ratio	Minimum 8%	18,25	18,67
3. Tier 1 capital adequacy ratio	Minimum 6%	16,51	16,73
4. Common Equity Tier 1 capital adequacy ratio	Minimum 4,5%	16,51	16,73
5. Investments of the Group	Maximum 60%	8,76	9,45
6. Exposure to related parties	No limit	10,81	8,52
7. Large and largest possible loans in relation to capital	Maximum 400%	68,69	51,24
8. Liquidity:			
– liquidity indicator	Minimum 0,8	1,30	1,73
– narrower liquidity indicator	Minimum 0,5	1,18	1,69
9. LCR	Minimum 100%	168,43	201,23
10. Foreign exchange risk indicator	Maximum 20%	1,32	0,82
11. Exposure of the Group to a group of related parties	Maximum 25%	19,46	15,40
12. Exposure of the Group to a person related to a bank	No limit	9,73	6,11
13. Group's investments in non-financial entities	Maximum 10%	0,07	0,08

8. ALL MAJOR TRANSACTIONS WITH RELATED PARTIES

In its ordinary course of business, the Group enters into business transactions with its shareholders and other related parties. The Group enters into relations with the parent legal entity - the majority shareholder of Erste Group Bank AG, another shareholder and other members of the Erste Group. As at 31 December 2021, the sum of net exposures to persons related to the Group amounts to 10,81% of the Group's capital.

The Group did not grant conditions to persons related to the Group that are more favorable than the conditions approved to persons not related to the Group, in accordance with Article 37 of the Law on Banks.

Novi Sad, 14 March 2022

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

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