ERSTE BANK A.D. NOVI SAD

UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 AND INDEPENDENT AUDITOR'S REPORT

CONTENTS

This is English translation of the Report oriqinally issued in Serbian language (For management purposes only)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ERSTE BANK A.D., NOVI SAD

Opinion

We have audited the unconsolidated financial statements of Erste Bank a.d., Novi Sad (the Bank), which comprise the balance sheet as at December 31, 2022, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the to the standalone financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying unconsolidated financial statements give a true and fair view of the financial position of the Bank as at December 31, 2022 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with Standards on Auditing applicable in Republic of Serbia. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the ethical requirements relevant to our audit of financial statements in the Republic of Serbia, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other matters

The financial statements of the Bank as of and for the year ended December 31, 2021 were audited by another auditor, who expressed an unmodified opinion on the financial statements in its Report dated March 14, 2022.

Reporting on other information

Management is responsible for other information. Other information includes Additional Tables containing disclosures in accordance with the "Decision on Disclosure of Bank Data and Information" (which does not include financial statements and the auditor's report on them).

Our opinion on the financial statements does not refer to the other information and we do not express any form of assurance opinion about them.

In connection with our audit of the financial statements, it is our responsibility to read the other information listed above, and in doing so, consider whether there is a material inconsistency between it and the financial statements or our knowledge obtained during the audit, or otherwise constitute a material misstatement. If, based on the work we have done, we conclude that there is a material misstatement of other information, we are required to disclose that fact in the report. In that sense, there is nothing we need to report in the report.

Responsibilities of management for the financial statements

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

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

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

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Auditing Standards applicable in Republic of Serbia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Auditor's responsibilities for the audit of the financial statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Belgrade, March 6, 2023

PKF BEOGRAD

Petar Grubor

Certified Auditor

for „PKF“ d.o.o., Beograd
Palmira Toljatija 5/III
11070 Novi Beograd

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

(in thousand RSD)

POSITION	Note	2022	2021
Interest income	4	13,449,523	11,021,213
Interest expense	4	(3,245,537)	(2,058,505)
Net interest income		**10,203,986**	**8,962,708**
Fee and commission income	5	4,994,549	4,141,030
Fee and commission expense	5	(1,644,525)	(1,395,893)
Net fee and commission income		**3,350,024**	**2,745,137**
Net gains from change in fair value of financial instruments	6	21,578	257,656
Net gains from derecognition of financial instruments valued at fair value	7	10,945	2,313
Net gains from hedging	8	826	1,499
Net foreign exchange gains and currency clause effects	9	66,954	-
Net foreign exchange losses and currency clause effects	9	-	(204,561)
Net loss from impairment of financial assets that are not valued at fair value through profit and loss	10	(2,473,449)	(1,257,085)
Net loss from derecognition of financial instruments valued at amortized cost	11	(63,474)	(10,361)
Other operating income	12	75,093	31,516
TOTAL NET OPERATING INCOME		**11,192,483**	**10,528,822**
Cost of salaries, contributions and other personnel expenses	13	(2,874,407)	(2,681,758)
Depreciation costs	14	(663,358)	(680,764)
Other income	15	454,456	317,719
Other expenses	16	(5,724,078)	(4,969,019)
PROFIT BEFORE TAX		**2,385,096**	**2,515,000**
Income tax	17	(26,338)	(109,647)
Deferred tax gain	17	-	3,808
Deferred tax loss	17	(14,386)	-
PROFIT AFTER TAX	33	**2,344,372**	**2,409,161**

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

Novi Sad, 06 March 2023

Stevan Čomić Head of Accounting and Controlling Department	Suzan Tanriyar Executive Board Member	Jasna Terzić Executive Board Chairman

ERSTE BANK NOVI SAD 1

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

(in thousand RSD)

POSITION	Note	2022	2021
PROFIT FOR THE YEAR	33	**2,344,372**	**2,409,161**
Components of other comprehensive income that cannot be reclassified to profit or loss:			
Actuarial gain (loss)		37,888	9,354
Positive (negative) effects of changes in value of equity instruments valued through other comprehensive income		(6,700)	(143)
Components of other comprehensive income that can be reclassified to profit or loss:			
Negative effects of changes in value of debt instruments valued through other comprehensive income		(917,599)	(464,343)
Profit from taxes related to other comprehensive results of the period		132,962	68,270
Total negative other comprehensive result		**(753,449)**	**(386,862)**
TOTAL POSITIVE RESULT FOR THE YEAR		**1,590,923**	**2,022,299**

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Novi Sad, 06 March 2023

Stevan Čomić Head of Accounting and Controlling Department	Suzan Tanriyar Executive Board Member	Jasna Terzić Executive Board Chairman

ERSTE BANK a.d. NOVI SAD 1

BALANCE SHEET AS AT 31 DECEMBER 2022

(in thousand RSD)

ASSETS	Note	2022	2021
Cash and balances with Central bank	18	54,676,263	39,929,947
Pledged financial assets	20	6,229,454	-
Derivative receivables	19	814,366	285,448
Securities	20	55,286,189	58,499,723
Loans and receivables to banks and other financial institutions	21	10,346,771	10,709,287
Loans and receivables to customers	22	217,007,877	203,616,892
Investment in subsidiaries	23	93,560	93,560
Intangible assets	24	3,192,108	1,705,660
Property, plant and equipment	24	3,100,408	3,049,741
Investment property	24	52,659	-
Current tax asset	17	129,231	238,878
Deferred tax assets	17	342,595	224,019
Fixed assets held for sale and assets of discontinued operations	25	11,902	11,902
Other assets	26	1,177,375	1,232,314
TOTAL ASSETS		**352,460,758**	**319,597,371**
LIABILITIES AND EQUITY			
LIABILITIES			
Derivative liabilities	27	744,020	166,400
Deposits and other liabilities due to banks, other financial institutions and central Bank	28	68,822,072	64,455,576
Deposits and other financial liabilities due to customers	29	227,765,769	208,904,371
Subordinated liabilities	30	7,077,148	3,534,418
Provisions	31	1,938,039	1,656,101
Current tax liabilities	17	26,338	109,647
Other liabilities	32	3,682,908	3,470,467
TOTAL LIABILITIES		**310,056,294**	**282,296,980**
Equity	33		
Share capital and share premium		21,325,154	17,812,004
Retained earnings		2,344,372	2,409,161
Reserves		18,734,938	17,079,226
TOTAL EQUITY		**42,404,464**	**37,300,391**
TOTAL LIABILITIES AND EQUITY		**352,460,758**	**319,597,371**

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

Novi Sad, 06 March 2023

Stevan Čomić
Head of Accounting and Controlling Department

Suzan Tanriyar
Executive Board Member

Jasna Terzić
Executive Board Chairman

ERSTE BANK a.d. NOVI SAD

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

(in thousand RSD)

	Share capital	Share premium	Other reserves	Revaluation reserves	Retained earnings	Total
Balance as at 1 January 2021	12,909,000	2,553,944	15,634,894	497,932	1,333,262	32,929,032
Increase in capital value	1,198,500	1,150,560	-	-	-	2,349,060
Total negative other comprehensive income	-	-	-	(386,862)	-	(386,862)
Profit for the year	-	-	-	-	2,409,161	2,409,161
Transfer from profit to reserves	-	-	1,333,262	-	(1,333,262)	-
Balance as at 31 December 2021	14,107,500	3,704,504	16,968,156	111,070	2,409,161	37,300,391
Balance as at 1 January 2022	14,107,500	3,704,504	16,968,156	111,070	2,409,161	37,300,391
Increase in capital value	1,665,000	1,848,150	-	-	-	3,513,150
Total negative other comprehensive income	-	-	-	(753,449)	-	(753,449)
Profit for the year	-	-	-	-	2,344,372	2,344,372
Transfer from profit to reserves	-	-	2,409,161	-	(2,409,161)	-
Balance as at 31 December 2022	15,772,500	5,552,654	19,377,317	(642,379)	2,344,372	42,404,464

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

Novi Sad, 06 March 2023

Stevan Čomić
Head of Accounting and Controlling Department

Suzan Tanriyar
Executive Board Member

Jasna Terzić
Executive Board Chairman

ERSTE BANK NOVI SAD 1

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

(in thousand RSD)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated by operating activities	**19,026,378**	**15,919,230**
Interest receipts	13,551,065	11,486,065
Fee and commission receipts	5,064,148	4,064,379
Receipts of other operating activities	336,073	337,270
Dividend receipts and profit sharing	75,092	31,516
Cash used in operating activities	12,759,141	10,328,581
Interest payments	3,104,636	1,955,505
Fees and commissions payments	1,670,968	1,396,727
Payments to and on behalf of employees	2,852,259	2,652,224
Taxes, contributions and other duties paid	375,740	450,929
Payments for other operating expenses	4,755,538	3,873,196
Net cash inflows from operating activities prior to increases or decreases in loans and deposits	**6,267,237**	**5,590,649**
Decrease in placements and increase in deposits and other liabilities	**21,460,904**	**29,677,956**
Increase in deposits and other liabilities to banks, other financial institutions, central bank and customers	21,460,904	29,677,956
Increase in loans and decrease in deposits received and other liabilities	**26,436,682**	**36,027,344**
Increase in loans and receivables from banks, other financial organizations, central bank and customers	22,560,431	31,160,764
Increase in financial assets initially recognized at fair value through profit or loss, financial assets intended for trading and other securities not intended for investment	3,876,251	4,866,580
Net cash inflows/outflows from operating activities before income tax	**1,291,459**	**(758,739)**
Paid income tax	109,647	53,836
Net cash inflows/outflows from ordinary activities	**1,181,812**	**(812,575)**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Cash inflows from investment activities	**11,766**	**260,116**
Inflows from investing in investment securities	-	260,116
Inflows from investing in intangible assets, PP&E	11,766	-
Cash outflows from investment activities	**2,471,144**	**1,361,155**
Outflows from investing in intangible assets, property, plant and equipment	2,471,144	1,361,155
Net cash outflows from investment activities	**2,459,378**	**1,101,039**
Outflows from purchase of intangible assets, PP&E	2,471,144	
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	**10,724,728**	**4,111,515**
Cash inflows based on new issue of shares	3,513,150	2,349,060
Cash inflows from subordinated liabilities	3,542,731	-
Inflows from loans received	3,668,847	318,068
Other inflows from financing activities	0	1,444,387
Cash outflows from financing activities	**2,019,583**	**3,835,989**
Cash outflows from subordinated liabilities	0	335,989
Other outflows from financing activities	2,019,583	3,500,000
Net cash inflows from financing activities	**8,705,145**	**275,526**
TOTAL CASH INFLOWS	**51,223,776**	**49,968,817**
TOTAL CASH OUTFLOWS	**43,796,198**	**51,606,905**
NET INCREASE IN CASH	**7,427,579**	**-**
NET DECREASE IN CASH	**-**	**1,638,088**
CASH AT THE BEGINNING OF THE YEAR	**18,908,966**	**20,751,615**
POSITIVE FOREIGN EXCHANGE DIFFERENCES	**10,540,018**	**3,862,911**
NEGATIVE FOREIGN EXCHANGE DIFFERENCES	**10,473,065**	**4,067,472**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**26,403,498**	**18,908,966**

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

Novi Sad, 06 March 2023

Stevan Čomić Head of Accounting and Controlling Department	Suzan Tanriyar Executive Board Member	Jasna Terzić Executive Board Chairman

ERSTE BANK a.d. NOVI SAD 1

1. GENERAL INFORMATION

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

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

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

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

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

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

The Bank is headquartered in Novi Sad, at no. 5, Bulevar Oslobođenja St. The Bank operates through 3 business centres, 47 branches, 3303 sub-branches and 2 counters.

As at 31 December 2022, the Bank had 1.296 employees (31 December 2021: 1.224 employees).

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Bank's unconsolidated 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. 93/2020).

The Bank holds a 75% interest in the equity of its subsidiary S-leasing d.o.o. Belgrade (25% is held by Steiermärkische Bank und Sparkassen AG). In these financial statements, the Bank stated its equity investment held in the subsidiary at cost.

The accompanying financial statements represent unconsolidated financial statements of the Bank in which the financial statements have not been consolidated. The Bank prepared on the same date also the consolidated financial statements in accordance with IFRS.

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

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

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

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

A) New and amended standards and interpretations

The following amended standards entered into force on 1 January 2022, but did not have a material impact on the Bank:

- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** states which costs the company includes in determining cost of fulfilling a contract in order to assess whether the contract is harmful. the amendment to IAS 37 clarifies the meaning of " cost of fulfilling a contract". The amendment explains that the direct costs of fulfilling the contract include additional costs of fulfilling the specific contract; and the allocation of other costs directly related to fulfilment. The amendment also clarifies that, before establishing a separate provision for adverse contract, entity recognizes impairment loss that has arisen on assets used in the fulfilment of the contract, rather than on assets intended for that contract.

- **2018-2020 Annual Improvements** bring minor changes to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and Illustrative Examples for IFRS 16 Leases.

- **IAS 16 Property, Plant and Equipment (Amendments)** prohibits a company from deducting from the cost of real estate, plant and equipment amounts received from the sale of manufactured items while the company is preparing the asset for its use. Instead, the company will recognize such sales revenue and related expenses in the income statement. The amendment to IAS 16 also clarifies that an entity "tests whether the asset is functioning properly" when assessing the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. The asset may therefore be capable of performing as anticipated by management and subject to amortization before it reaches the level of operating performance expected by management.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

A) New and amended standards and interpretations (continued)

- **IFRS 3 Business Combinations (Amendments)** has been amended to refer to the 2018 Conceptual Framework for Financial Reporting to determine what constitutes asset or liability in a business combination. Before the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception was added in IFRS 3 for liabilities and contingent liabilities. The exception specifies that for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21 rather than the 2018 conceptual framework. Without this new exception, entity would recognize some liabilities in a business combination that it would not recognize under IAS 37. Therefore, immediately after the acquisition, the entity would have to stop recognizing such liabilities and recognize a gain that did not reflect economic profit. It is also clarified that the acquirer should not recognize a contingent asset, as defined in IAS 37, at the acquisition date

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

- **IFRS 17 - Insurance Contracts, IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors.** The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. The International Accounting Standards Board has issued amendments to IFRS and IAS as follows:

  - **Amendments to IFRS 17 and amendments to IFRS 4** (published on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications aimed at facilitating the application of IFRS 17, simplifying some requirements of the standard and the transition. The amendments relate to eight areas of IFRS 17 and are not intended to change the basic principles of the standard. The following changes were made to IFRS 17:
    1. Effective Date: The effective date of IFRS 17 (which includes amendments) has been delayed by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been postponed for annual reporting periods beginning on or after 1 January 2023.
    2. Expected recovery of cash flows on insurance acquisition: The entity is required to allocate a portion of the acquisition costs to the related expected contract renewals and recognize those costs as an asset until the entity recognizes the contract renewals. Entities are required to assess the recoverability of assets at each reporting date and to provide certain information about assets in the notes to the financial statements.
    3. Margin of contract service attributable to investment services: Cover units should be identified, taking into account the amount of benefits and the expected period of insurance and investment services, for variable fee access contracts and for other contracts with "return on investment service" under the general model . Costs related to investment activities should be included as cash flows within the limits of the insurance contract, to the extent that the entity performs such activities to increase the benefits of the insurance for the insured.
    4. Reinsurance contracts - recovery of losses: When an entity recognizes a loss after the initial recognition of a loss-making group of underlying insurance contracts or by adding loss-making underlying contracts to the group, the entity should adjust the contractual service margin of the related group of reinsurance contracts and recognize a gain on the reinsurance contract. The amount of loss covered under a reinsurance contract is determined by multiplying the loss recognized in the underlying insurance contracts by the percentage of claims under the underlying insurance contracts that the entity expects to recover from the reinsurance contract. This condition would only apply when the reinsurance contract is recognized before or at the same time as a loss is recognized on the underlying insurance contracts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

- **IAS 1 and IFRS Statements of Practice 2 (Amendments)** - The Board has recently issued amendments to IAS 1 - Presentation of financial statements and updates to Statements of Practice IFRS 2 - Making material judgments to help companies disclose useful accounting policies. Key changes to IAS 1 include: requiring companies to disclose their material accounting policies rather than their significant accounting policies; clarifying that accounting policies relating to immaterial transactions, other events or conditions are inherently immaterial and as such need not be disclosed; and clarifying that not all accounting policies relating to material transactions, other events or conditions are themselves material to the company's financial statements. The changes are effective from 01 January 2023, but may be implemented earlier.

- **IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (Amendments)** introduces a new definition of accounting estimates: clarifying that they are monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set by the accounting policy. Making an accounting estimate includes: the choice of a measurement technique (appraisal or valuation technique) and the choice of inputs to be used when applying the chosen measurement technique.

- **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 1 January 2022, with earlier application permitted. The International Accounting Standards Board has issued an exposure proposal to delay the effective date of these changes until 1 January 2024. The goal of the changes is to promote consistency in the application of the requirements by helping companies determine whether the statement of financial position, debts and other liabilities with an uncertain maturity date should be classified as short-term or long-term at the end of the reporting period. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements regarding the measurement or timing of recognition of any asset, liability, income or expense, nor the information disclosed by the company about those items. Also, the amendments clarify the requirements for the classification of debt that the company can settle by issuing its own capital instruments. These changes have not yet been adopted by the EU. Liabilities are long-term if the entity has a substantial right, at the end of the reporting period, to postpone settlement for at least 12 months. The guidelines no longer require such a right to be unconditional. Management's expectations of whether they will subsequently exercise the right to defer settlement do not affect the classification of liabilities. The right to defer exists only if the entity meets any relevant conditions at the end of the reporting period. A liability is classified as current if the condition is breached on or before the reporting date, even if a waiver of the condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if the loan agreement is breached only after the reporting date. In addition, the amendments include clarification of the requirements for the classification of debt that an entity can settle by converting it to equity. "Settlement" is defined as the settlement of a liability with cash, other resources containing economic benefits, or equity instruments. There is an exception for convertible instruments that can 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 complex financial instrument. The effects of these changes are not expected to have a significant impact on the Bank's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

- **IFRS 16 – Leases (Amendments).** Amendments to IFRS 16 Leases affect how a seller-lessee accounts for variable lease payments arising in a sale-leaseback transaction. The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially review sale and leaseback transactions entered into from 2019. The amendments confirm that upon initial recognition, the seller-lessee includes variable lease payments when measuring the lease liability arising from the sale and leaseback transaction, and that after initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability so that it does not recognizes no gain or loss related to the right of use it retains. A seller-lessee can adopt different approaches to meet the new post-measurement requirements. The amendments are effective for annual reporting periods beginning on or after 1 January 2024.

- **Amendment to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associated Entities and Joint Ventures: Sale of Assets between an Investor and a Subsidiary.** Amendments to IFRS 10 and IAS 28 published in 2014 and effective for annual periods beginning on or after a date determined by the IASB. The changes indicate a known discrepancy between the requirements in IFRS 10 and those in IAS 28, related to the sale or entry of assets between the investor and its subsidiaries and joint ventures. The main consequence of the changes is that the total loss or gain is recognized when the transaction commences operations (regardless of whether it is a subsidiary or not). A partial gain or loss is recognized when a transaction involves an asset that is not a business, even when this asset is part of a subsidiary. In December 2015, the International Accounting Standards Board postponed the date of application of this standard indefinitely pending the outcome of research related to the application of participation methods. These changes have not yet been adopted by the EU. The effects of these changes are not expected to have a significant impact on the Bank's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2. Interest income and expenses

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

For all financial instruments measured at amortized cost, financial instruments initially recognized at fair value through total other comprehensive profit/loss, financial assets not held for trading initially recognized at fair value through profit and loss, interest income and expense are recognized using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to:

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

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

When calculating the effective interest rate for financial instruments other than POCI (not purchased or originated credit impaired at the time of approval or haven't undergone significant modification of the contractual cash flows as credit impaired), the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

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

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

2.3. Fee and Commission Income and Expenses

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

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

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

Fees for the provision of services over a period of time are recorded in relevant period ie. when service is provied. These fees include borrowing fees that are not an integral part of the effective interest rate of the financial instrument, fees and commissions on account maintenance and other fees and commissions for domestic and international payment services, fees for guarantees, custody and other management fees, such as and insurance brokerage fees.
Loan origination fees for loans likely to be drawn down and other loan-related fees are deferred (together with any incremental costs) and recognized as adjustment to the loan effective interest rate.

/ii/ Fee Income Earned from Transaction Services

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

2.6. Net gain / loss on derivatives and hedge accounting

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

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

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

2.8. Foreign Exchange Translation

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial instruments

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

2.9.1. Methods of measuring financial instruments

a) Amortised cost and Effective interest rate

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

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

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

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

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

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

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

b) Fair value

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

2.9.2. Initial recognition and measurement

a) Initial recognition

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

b) Initial measurement

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9.2 Initial recognition and measurement (continued)

"Day 1" Profit

When the transaction price in an inactive market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include data from observable markets, the Bank immediately recognizes the difference between the transaction price and fair value ("Day 1" profit) in the income statement. In the event that the difference in the price of the transaction and the fair value is determined on the basis of non-market parameters, the gain / loss on the first day is deferred into the duration of the financial instrument.

2.9.3 Classification and subsequent measurement

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

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

The Bank classified the financial assets into the following categories:

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

Subsequent valuation of financial assets depends on their classification.

2.9.3.1. Financial assets at amortised cost

Financial assets are measured at amortised cost if they are held in a business model whose objective is to collect contractual cash flows, and their contractual cash flows are SPPI.

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

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

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

Interest income on these assets is calculated by effective interest method and is included under the 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)

2.9.3.2 Financial assets at fair value through other comprehensive income

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

A part of debt securities that meets the above criteria is measured at fair value through other comprehensive results. Interest income on such securities is calculated using the effective interest method and is included in the 'net interest-income based on interest rate' position in the bank's income statement. Gains and losses arising from impairment for credit losses are also presented in the income statement at the position "Net 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 bank's income statement is the same as for financial assets that are measured at amortized cost. The difference between the fair value at which these securities are valued in the balance sheet and their amortized cost is recognized through the other comprehensive result within the 'Positive / negative effects of the change in debt instruments that are valued at fair value through other comprehensive income". When the securities ceases to be recognized, the amount previously accumulated in the other comprehensive result is reclassified to the income statement and presented at the position 'Net gain / loss on recognition of financial instruments at fair value.'

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

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

2.9.3.3. Financial assets at fair value through profit and loss

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 assessed on the basis of fair value and the profit is realized through its realization. In the bank's business, it is a business model according to which financial assets are held for trading.
The Bank has part of its debt instruments in its portfolio of securities held for trading.

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

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

2.9.3.4 Reclassification of financial assets

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

There were no reclassifications made by the Bank during 2022.

2.9.3.5 Equity instruments

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9.4. Impairment of financial instruments under IFRS 9

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

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

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

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

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

1) Stage 1

   a) Assets the initial (on-balance) recognition (except POCI assets)

   b) Financial assets which fulfil the low credit risk conditions

   c) Financial assets without significant increase in credit risk since initial recognition irrespective of their credit quality

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

2) Stage 2

   It includes financial assets with a significant increase in credit risk, but not credit-impaired at the reporting date, including initially recognized assets described under 1) a) above.

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

3) Stage 3

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9.5. Derecognition of financial assets and liabilities

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

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

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

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

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

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

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

2.9.6. Restructured loans

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

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

Forbearance represents restructuring conditioned with:

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

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

2.9.7. Issued Financial Instruments and Other Financial Liabilities

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Deposits and Other Liabilities due to Banks and Customers

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

Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently measured at amortized cost using the effective interest method.

Other Liabilities

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

2.10. Offsetting Financial Assets and Financial Liabilities

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

2.11. Cash and Cash Equivalents

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

2.12. Repurchase Transactions (“Reverse Repo” Transactions)

Securities purchased under agreements to repurchase at a specified future date (‘repos’) are recognized in the statement of financial position.

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

Transactions involving the sale of securities under a repurchase agreement on a specified date in the future constitute as "repo agreements". Securities sold in such transactions do not cease to be recognized in the balance sheet because the Bank 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 under position "Interest expenses" within line "Net interest income" and is calculated over the life-time of the contract. The financial assets transferred by the Bank under the repurchase agreement remain on the Bank's balance sheet. The measurement category of transferred financial assets does not change.

2.13. Investments in Subsidiaries

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

As at 31 December 2022, the Bank owns 75% of the ownership of the company S Leasing doo, Belgrade. Participation in the capital of the said dependent legal entity is stated at the cost less any allowance for impairment in the individual financial statements of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14. Intangible Assets

Intangible assets are stated at cost less accumulated impairment losses and any impairment losses. Intangible assets consist of licenses and other intangible assets.

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

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

Changes in the expected useful lives or the expected pattern of consumption of future economic benefits embodied in an asset are accounted for by changing the depreciation period or method and are 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 licence	in accordance with the agreed term of use
Other intangible assets	4-6 years

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

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

2.15. Property, Plant and 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 Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to income statement of the financial period in which they are incurred.

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

Buildings	33-50 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 put into use. Assets under construction are not depreciated. The depreciation charge is recognized as an expense for the period in which incurred.

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

Gains or losses on disposal or selling of property and equipment are recorded directly in iincome statement, as other operating income or operating and other operating expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16. Impairment of Non-Financial Assets

In accordance with the adopted accounting policy, at each reporting date, the Bank's management reviews the carrying amounts of the Bank's intangible assets and property, plant and equipment, and investments in subsidiaries. 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.

2.17. Accounting for leases by the Bank as a lessee

Right of use assets and lease liabilities are recognized on the date of the lease inception. Assets are initially measured at cost representing the initial value of the leasing liability (discounted to present value) and all leasing payments made prior to the lease date less any incentives received from the lessor. Right of use assets are subsequently amortized, starting form the lease inception date, up to the end of the lease period. The Bank uses the straight-line method of depreciation.

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

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

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

For lease of movable property, the Bank uses an incremental borrowing rate - the rate at which the Bank may borrow from Erste Group.

2.18. Provisions, Contingent Liabilities and Contingent Assets

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

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

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

When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are reversed by cancelation of the current year's expenses, i.e., reversed to income if the provision was made in the previous period.

Provisions are taken into account in accordance with their type and they can be used only for the expenses for which they were initially recognized. Provisions are not recognized for future operating losses.

Contingent liabilities are not recognized in the financial statements. They are disclosed in Notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. If a future outflow of resources is probable, the provision is recognized in the financial statements. The Bank makes provisions for the expense of credit risk off-balance sheet items to the extent of the required provisions in accordance with IFRS 9.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19. Employee Benefits

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

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

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

In accordance with the Collective Agreement the Bank is obligated to pay its vesting employees retirement benefits in the amount of three average monthly salaries paid in the Republic of Serbia in the month prior to the month of the retirement according to the most recent data published by the Republic of Serbia Statistical Office or three average salaries paid by the Bank in the month prior to the month of the retirement, or 3 monthly salaries of the employee prior to the month of the retirement, whichever arrangement is most favourable for the retiree.

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

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

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

(c) Short-Term Compensated Absences

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

(d) Allocation of free shares

All employees of the Bank, who have been employed for more than 6 months as at 31 december 2022, 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 2023 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 23,553 thousand in the income statement within line "wage costs" and as a liability in balance sheet under other liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20. Financial Guarantees

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

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

Any increase in the liability relating to the financial guarantees is recognized in the income statement within the item “Net expenses / income based on (reduction) from impairment of financial assets not measured at fair value through profit or loss. The premium received is recognized in the income statement within the fee and commission, based on the type of fee. The Bank records certain types of fees on an one-off basis, while those which refere to providing service for a certain period of time are accrued evenly over the life of the guarantee.

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

2.21. Repossessed Assets

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

Assets acquired in such a way can be classified as:
1) Tangible assets held by the Bank for their use (IAS 16, Property, plant and equipment)
2) Investment property (IAS 40 Investment Property)
3) Assets acquired through collecting receivables (IAS 2 Inventory)
4) Fixed assets held for sale (IFRS 5).

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21. Repossessed Assets (continued)

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

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

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

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

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

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

2.22. Taxes and Contributions

(a) Income Taxes

Current Income Tax

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

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

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

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

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

Deferred Income Taxes

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22. Taxes and Contributions (continued)

(a) Income Taxes (continued)

Deferred Income Taxes (continued)

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

(b) Taxes, Contributions and Other Duties Not Related to Operating Result

Taxes, contributions and other duties that are not related to the Bank's operating result include property taxes, value added tax, payroll contributions charged to the employer and various other taxes, contributions and duties payable under the republic and municipal tax regulations. These are included under operating and other expenses within the income statement.

2.23. Segment Reporting

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

2.24. Managed Funds

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

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) SPPI assessment

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

When taking into consideration specific features of loans, significant areas of judgement are prepayment fees, and mismatch of the interest rate and the update period.

The assessment whether the prepayment fees applied to loans can be considered as a reasonable compensation for early terminations or prepayments is based on comparing the level of the fees with the economic costs incurred by the bank upon the early termination. For these purposes, bank uses a quantitative test where the costs relate to the lost interest margin and the lost interest differential due to a potential decrease in the interest rates upon early termination or prepayment. The 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 the period of its update relates to variable interest rates for loans where the reference interest rate is not adjusted in terms of tenor and the update period (such as when the 3M EURIBOR is adjusted more often, i.e. every month or less, eg every 6 months) or is the update period determined before the beginning of the interest period (for example, 3MEURIBOR is updated 2 months before the release of the loan and the beginning of the interest period). Such cases need to be assessed by means of a „benchmark test" whether the contracted (undiscounted) cash flow of the loan deviates significantly from the benchmark loan (the same loan maturity, the same amount, the same currency, but which does not have an interest rate mismatch). Materiality threshold for passing the quantitative benchmark test is a 5% cumulative deviation or 10% periodic deviation. This test is done on a single individual placement on an initial recognition.

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

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

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

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

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Business model assessment

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

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

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

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

Business models of the Bank:

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

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

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

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

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

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

(c) Credit Loss Allowance

The expected credit loss model is based on judgment because it requires an estimate of a significant increase in credit risk and the measurement of expected losses without some more detailed guidance. In terms of a significant increase in credit risk, the Bank has set out specific valuation rules that include quantitative and qualitative criteria. Measurement of expected credit loss involves complex models that rely on historical default and loss rates, their extrapolation in case of insufficient data, individual estimations of credit loss-adjusted cash flows, and probability of scenario realization including forward-looking information.

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

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(d) Determining the Fair Value of Financial Instruments

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

When market inputs are unavailable, these are determined through assessments that include a certain degree of judgments in the fair value assessment. Models of estimates reflect the current market situation at the date of assessment and do not have to correspond to the market terms before or after the date of measuring. Hence, measurement techniques are revised periodically so they would best reflect current market terms.

Detailed disclosure is found in Note 36.4 (Market risks) and 36.10 (Fair value of financial assets and liabilities).

(e) Provisions for litigation

The Bank, as well as other economic entities, participates in disputes arising from the ordinary course of business, which relate to economic, contractual and labour issues.

When making provisions, the Bank 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, makes provisions in the amount of the client's request as per lawsuit increased for default interest, attorney's fees and court costs.

The outcome of disputes is assessed based on 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 Bank 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 exists and that amount can be estimated reliably by careful analysis. The required reservation may change in the future due to new events or obtaining new information.

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

(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 Bank to measure financial leasing liabilities and right of use assets relate primarily to:

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

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

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

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

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

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

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 borrowing 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% value)

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

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

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

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

Discout rate – incremental borrowing rate	**31 December 2022**
Average incremental borrowing rate – facilities	**2.86%**
Average incremental borrowng rate – vehicles	**2.76%**

4. INTEREST INCOME AND EXPENSES

In RSD '000

	2022	2021
Interest income		
– Banks and other financial institutions	274,816	43,166
– Public companies	428,664	239,489
– Corporate customers	3,808,038	3,015,779
– Entrepreneurs	164,612	133,334
– Public sector	2,393,058	2,266,932
– Retail customers	6,226,846	5,265,912
– Non-residents	82,093	19,513
– Agricultural producers	9,998	11,728
– Other customers	61,398	25,360
Total	**13,449,523**	**11,021,213**
Interest expense		
– Banks and other financial institutions	499,101	284,951
– Public companies	19,545	3,312
– Corporate customers	1,052,956	421,917
– Entrepreneurs	7,660	5,358
– Public sector	478,235	369,804
– Retail customers	210,654	249,795
– Non-residents	918,122	637,131
– Households and agricultural producers	5	-
– Other customers	59,259	86,237
Total	**3,245,537**	**2,058,505**
Net interest income	**10,203,986**	**8,962,708**

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

In RSD '000

	2022	2021
Interest income		
Cash funds held at Central Bank	147,681	21,353
Securities valued at amortised cost	1,745,380	1,477,169
Securities valued at FV through other comprehensive income	513,955	620,781
Securities valued at FV through profit and loss	113,585	159,318
Placements and advances to clients	10,249,025	8,196,203
Placements and advances to credit institutions	109,366	14,163
Interest-bearing swap valued at FV through profit and loss	92,110	104,453
Other interest income	478,421	427,773
Total	**13,449,523**	**11,021,213**
Interest expense		
Subordinated liabilities	223,414	128,521
Bank deposits	665,846	410,801
Customer deposits	1,829,146	1,068,217
Central banks deposits	80,905	
Securities valued at FV through other comprehensive income	269,305	261,572
Securities at FV through profit and loss	105,453	100,072
Issued bonds	-	8,838
Interest-bearing swap valued at FV through profit and loss	71,380	80,251
Other interest duties	89	233
Total	**3,245,537**	**2,058,505**
Net interest income	**10,203,986**	**8,962,708**

5. FEE AND COMMISSION INCOME AND EXPENSES

In RSD '000

	2022	2021
Fee and commission income		
Domestic and foreign payment transaction services	2,079,939	1,876,696
Loans operations	28,443	31,403
Deposits operation	1,607,691	1,356,842
Payment cards operations	33,246	37,810
Guarantees and other warranties	388,862	290,684
Other fees and commissions	109,927	101,297
Foreign currency sales transactions	745,313	446,298
Securities	1,128	-
Total	**4,994,549**	**4,141,030**
Fee and commission expense		
Loans	17,596	-
Securities	4,273	-
Deposits operations	-	762
Domestic and foreign payment transaction services	918,572	802,281
Other fees and commissions	632,291	576,035
Foreign currency sales transactions	71,793	16,815
Total	**1,644,525**	**1,395,893**
Net fee and commission income	**3,350,024**	**2,745,137**

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

In RSD '000

	2022	2021
Gains from changes in the value of assets and liabilities		
Gains from changes in value of other derivatives	2,958,375	1,223,746
Gains from changes in value of financial assets valued at FV through profit and loss	47,479	107,717
Gains from changes in value of financial liabilities valued at fair value through profit or loss	18,391	-
Total	**3,024,245**	**1,331,463**
Losses from changes in the value of assets and liabilities		
Losses from changes in value of other derivatives	2,766,105	887,369
Losses from changes in value of financial assets valued at FV through profit and loss	236,562	147,432
Losses from changes in value of financial liabilities valued at FV through profit and loss	-	39,006
Total	**3,002,667**	**1,073,807**
Net gains from changes in the FV of financial instruments	**21,578**	**257,656**

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

	2022	In RSD '000 2021
Gains from derecognition of financial instruments		
Gains from derecognition of financial instruments valued at FV through profit and loss	26,286	12,370
Gains from derecognition of financial instruments valued at FV through other comprehensive income	-	3,483
Total	**26,286**	**15,853**
Losses from derecognition of financial instruments		
Losses from derecognition of financial instruments valued at FV through profit and loss	15,341	9,170
Losses from derecognition of financial instruments valued at FV through other comprehensive income	-	4,370
Total	**15,341**	**13,540**
Net gains from derecognition of financial instruments valued at FV	**10,945**	**2,313**

8. NET GAINS FROM HEDGING

	2022	In RSD '000 2021
Gains from hedging		
Gains from changes in value of placements and receivables	826	1.499
Total	**826**	**1,499**
Net gains from hedging	**826**	**1.499**

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 INCOME (EXPENSE) FROM EXCHANGE DIFFERENCES AND EFFECTS OF THE CONTRACTED CURRENCY CLAUSE

	2022	In RSD '000 2021
Foreign exchange difference gains	10,123,192	3,697,978
Foreign exchange difference losses	(9,840,837)	(3,986,590)
Gains on currency clause effects	416,827	164,933
Lossess on currency clause effects	(632,228)	(80,882)
Net Income of Foreign Exchange and currency clause effects	**66,954**	**(204,561)**

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

In RSD '000

	2022	2021
Gains from impairment of financial asset not valued at FVTPL		
Gains from reversal of indirect write-offs of financial asset valued at amortized cost	7,409,821	7,412,120
Gains from reversal of impairment of financial assets valued at FV through other comprehensive result	3,276	8,241
Gains from reversal of provisions for off-balance sheet items	944,903	393,747
Gains from the modification of financial instruments	3,104	31,497
Total	**8,361,104**	**7,845,605**
Losses from impairment of financial asset not valued at FVTPL		
Income from indirect write-offs of financial asset valued at amortized cost	9,606,732	8,618,387
Income from impairment of financial assets valued at FV through other comprehensive result	2,570	7,011
Losses from provisions for off-balance sheet items	1,220,859	431,822
Losses from the modification of financial instruments	4,392	45,470
Total	**10,834,553**	**9,102,690**
Net losses from impairment of financial asset not valued at FVTPL	**(2,473,449)**	**(1,257,085)**

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

In RSD '000

	2022	2021
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)	(24,195)	(9,168)
– loans and advances to banks and other financial institutions (Note 21)	(7,127)	(5,319)
- loans and advances to customers (Note 22)	(7,070,612)	(4,941,178)
– other assets (Note 26)	(94,234)	(70,278)
	(7,196,168)	**(5,025,943)**
Provisions for losses on off-balance sheet assets (Note 31)	(521,521)	(176,308)
Total losses from impairment of financial assets and credit risk off-balance sheet items	**(7,717,689)**	**(5,202,251)**
Gains from impairment of financial assets and credit risk off-balance sheet items		
Gains from reversal of indirect write-offs of placements of balance sheet items:		
– securities (Note 20)	4,160	2,918
– loans and advances to banks and other financial institutions (Note 21)	6,251	1,845
- loans and advances to customers (Note 22)	4,979,602	3,808,656
– other assets (Note 26)	9,255	6,257
	4,999,268	**3,819,676**
Provisions for losses on off-balance sheet assets (Note 31)	245,564	138,231
Total gains from impairment of financial assets and credit risk off-balance sheet items	**5,244,831**	**3,957,907**
Net loss from impairment of financial asset not valued at FVTPL	**(2,472,858)**	**(1,244,344)**

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

In RSD '000

	2022	2021
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	140	23,125
Total:	**140**	**28,409**
Losses from derecognition of financial instruments valued at amortized cost		
Losses from derecognition stage 3 and POCI per AC	(63,614)	38,770
Total:	**(63,614)**	**38,770**
Net gains (losses) from derecognition of financial instruments valued at amortized cost	**(63,474)**	**(10,361)**

12. OTHER OPERATING INCOME

In RSD '000

	2022	2021
Income from consulting services	9,509	9,518
Income from rent	7,765	6,962
Income from IT services	12,645	14,582
Dividend income and other income from shares	45,174	454
Total	**75,093**	**31,516**

13. COST OF SALARIES, CONTRIBUTIONS AND OTHER PERSONNEL EXPENSE

In RSD '000

	2022	2021
Net salaries and benefits	1,864,532	1,679,697
Payroll taxes and contributions charged to the employee	683,665	610,647
Retirement benefits, jubilee awards, bonuses and annual leave	189,384	262,644
Other staff costs	107,333	100,864
Gains from reversal of provisions (Note 32)	(9,216)	(6,676)
Provision expenses for retirement benefits (Note 32)	38,709	34,582
Total	**2,874,407**	**2,681,758**

14. DEPRECIATION COSTS

In RSD '000

	2022	2021
Depreciation expense:		
– Tangible assets (Note 24)	577,675	549,255
– Intangible assets (Note 24)	85,224	131,509
	459	-
Total	**663,358**	**680,764**

15. OTHER INCOME

In RSD '000

	2022	2021
Income from collection of written receivables	251,660	256,507
Reversal of unused provision for liabilities	49,747	-
Reversal of unused other provision	15,792	4,202
Income from sale of properties and intangible assets	28,252	188
Other income	109,005	56,822
Total	**454,456**	**317,719**

16. OTHER EXPENSES

In RSD '000

	2022	2021
Professional services	2,696,532	2,022,547
Donations and sponsorships	38,754	33,061
Marketing and advertising	219,317	211,855
Telecommunication services and postage	68,809	76,886
Insurance premiums	608,048	544,543
Rental cost	87,040	80,744
Cost of materials	157,076	136,336
Taxes and contributions payable	114,805	110,542
Maintenance of fixed assets and software	653,618	601,165
Losses on sale and disposal of fixed and intangible assets	297	490
Payroll contributions payable by the employer	373,329	345,216
Per diems and travel expenses	103,782	72,371
Training and counselling	34,400	20,079
Provision expenses for litigations (Note 32)	476,732	561,016
Other	91,539	152,168
Total	**5,724,078**	**4,969,019**

17. INCOME TAXES

a) Components of Income Taxes

In RSD '000

	2022	2021
Current income tax expense	(26,338)	(109,647)
Gains on created deferred tax assets and decrease of deferred tax liabilities	-	3,808
Loss from reduction of deferred tax assets and creation of deferred tax liabilities	(14,385)	-
Total	**(40,723)**	**(105,839)**

17. INCOME TAXES (continued)

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

	2022	2021
Profit before tax	**2,385,095**	**2,515,000**
Income tax at the rate of 15%	**357,764**	**377,250**
Tax effects of expenses not recognized for the tax purposes	(545)	76,360
Tax effects of non-taxable income (interest on securities issued by the Republic of Serbia, Autonomous Province, local self-government or NBS)	(304,920)	(284,470)
Tax effects of first implementation of IFRS 9	(8,263)	(8,263)
Other	(3,312)	(55,038)
Total tax expense/(income) stated in the income statement	**40,724**	**105,839**
Effective interest rate	1.71%	4.21%

(c) Deferred Tax Components

As of 31 December 2022

	Temporary difference amount	Deferred tax amount
Deductible temporary difference per difference between carrying amount and tax value of fixed assets - deferred tax assets	160,047	24,007
Deductible temporary difference per reduction of securities to fair value-deferred tax assets	770,842	115,626
Deductible temporary difference per provision for litigation - deferred tax assets	1,099,191	161,879
Deductible temporary difference per provision for jubilee awards - deferred tax assets	141,579	21,237
Deductible temporary difference per provision for pensions - deferred tax assets	127,408	19,111
Deductible temporary difference per provision for pensions - actuarial gain - deferred tax liabilities	2,216	332
Deductible temporary difference based on provision of state securities - deferred tax liability	(17,317)	(2,598)
Temporary differences based on the effects of IFRS 9	-	-
Balance as at 31 December 2022	**2,283,966**	**342,595**

17. INCOME TAXES (continued)

(c) Deferred Tax Components

	As of 31 December 2021	
	Temporary difference amount	**Deferred tax amount**
Deductible temporary difference per difference between the carrying value and tax base of fixed assets – deferred tax assets	207,325	31,099
Deductible temporary difference per adjustment of securities to fair value – deferred tax liabilities	(152,752)	(22,913)
Deductible temporary difference per provision for litigation - deferred tax assets	1,045,849	156,877
Deductible temporary difference per provision for jubilee awards - deferred tax assets	140,993	21,149
Deductible temporary difference per provision for pensions - deferred tax assets	174,877	26,232
Deductible temporary difference per provision for pensions - actuarial gain - deferred tax liabilities	40,104	6,016
Deductible temporary difference based on provision of state securities - deferred tax liability	(18,022)	(2,703)
Temporary differences based on the effects of IFRS 9	55,084	8,263
Balance as at 31 December 2021	**1,493,458**	**224,020**

d) Changes in deferred taxes

		In RSD '000
	31 December 2022	**31 December 2021**
Balance of deferred tax assets (liabilities) as at 1 January	224,019	151,941
Effect of temporary tax differenced credited to the income statement	(14,385)	3,808
Effect of temporary tax differenced credited to equity	132,961	68,270
Deferred tax assets (liabilities) balance as at 31 December	**342,595**	**224,019**

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

		In RSD '000
	31 December 2022	**31 December 2021**
Based on portable unused tax credits under the law on conversion of housing loans indexed in Swiss francs	-	10,986

Creation of deferred tax assets in the amount of RSD 342,5959 thousand in 2022 compared to RSD 224,019 thousand in 2021 had an effect on the income statement by decreasing amount of RSD 14,385 thousand and the effect through equity in the amount of RSD 132,961 thousand.

During 2022, the Bank made a profit after tax in the amount of RSD 2,344,372 thousand. This amount will be distributed in accordance with the Decision at the forthcoming Bank assembly meeting.

During the year, the Bank pays income tax in the form of monthly advance payments, the amount determined on the basis of the tax return for the previous year. The final tax base, to which the prescribed corporate income tax rate of 15% applies is determined by the Bank's Tax Balance Sheet. The Bank reported current tax assets in the amount of RSD 129,231 thousand, which is the amount of the advance payments paid during 2020 (RSD 75,396 thousand) and 2021 (RSD 53,835 thousand).

18. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

	31 December 2022	In RSD '000 31 December 2021
In RSD		
Current account	19,122,942	11,251,763
Cash on hand	2,962,685	3,633,331
Deposits of surplus liquid assets	8,000,000	-
	30,085,627	**14,885,094**
In foreign currencies		
Cash on hand	3,627,470	3,098,154
Obligatory foreign currency reserve held with NBS	20,963,166	21,946,699
	24,590,636	**25,044,853**
Total	**54,676,263**	**39,929,947**

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 2022 to 17 January 2023 amounted to RSD 16,897,853 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 2022 to 17 January 2023 amounted to EUR 178,692 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

	31 December 2022	In RSD '000 31 December 2021
In RSD		
Financial assets at FV through profit and loss		
– FV of derivatives intended for trading (FVTPL)	28,613	29,812
	28,613	**29,812**
In foreign currency		
Financial assets at FV through profit and loss		
– FV of derivatives intended for trading (FVTPL)	785,753	255,636
	785,753	**255,636**
Balance as of December 31	**814,366**	**285,448**

20. SECURITIES

In RSD '000

	31 December 2022	31 December 2021
In RSD		
Debt securities		
– bonds (AC)	40,547,822	32,243,492
– bonds (FVTPL)	1,224,595	5,815,688
– bonds (FVTOCI)	9,005,815	10,542,336
Equity securities		
– shares in equity (FVTPL)	27,049	27,047
	50,805,281	**48,628,563**
In foreign currency		
Debt securities		
– bonds (AC)	4,530,479	2,357,500
– bonds (FVTPL)	3,748,357	4,301,393
– bonds (FVTOCI)	2,383,357	3,189,088
– T-bills (FVTOCI)	-	(44,953)
Equity securities		
– other securities available for sale - VISA shares (FVTOCI)	112,669	112,503
	10,774,862	**9,915,531**
Total	**61,580,143**	**58,544,094**
Minus: Impairment allowance (AC)	(64,500)	(44,371)
Balance as of December 31 - with pledged financial assets	**61,515,643**	**58,499,723**
Of that pledged financial assets		
Debt securities		
– bonds (AC)	6.229.454	-
Total pledged financial instruments	**6.229.454**	-
Balance as of December 31 – without pledged instruments	**55.286.189**	**58.499.723**

On 31 December 2022, The Bank had pledged financial assets. These are debt securities (bonds) pledged as part of a repo transaction with the NBS.

In the table, except for trading securities (FVTPL), all debt securities are classified in impairment stage 1. Of all listed securities, bonds are listed on the stock exchange, as well as Visa 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 derecognition	Increase due to credit risk change	Decrease due to credit risk change	Foreign exchange difference	Closing balance
Changes in impairment allowances of financial assets							
Stage 1	**44,370**	**18,375**	**3,546**	**5,820**	**614**	**96**	**64,500**
Other companies	614	-	-	3,296	614	-	3,296
Public sector	43,756	18,375	3,546	2,524	0	96	61,204
TOTAL	**44,370**	**18,375**	**3,546**	**5,820**	**614**	**96**	**64,500**

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

	31 December 2022			31 December 2021		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Revocable deposits and loans	4,666,670	-	**4,666,670**	5,686,426	-	**5,686,426**
Loans	245	3,556	**3,801**	39	14,462	**14,501**
Deposits	6,000	-	**6,000**	10,000	-	**10,000**
	4,672,915	**3,556**	**4,676,471**	**5,696,465**	**14,462**	**5,710,927**
In foreign currency						
Foreign currency accounts	690,505	-	**690,505**	925,843	-	925,843
Revocable deposits and loans	482	-	**482**	106	-	106
Loans	4,836,016	115,705	**4,951,721**	4,015,206	32,069	4,047,275
Deposits placed	4,693	-	**4,693**	4,703	-	4,703
Other placements	29,832	-	**29,832**	25,914	-	25,914
	5,561,528	**115,705**	**5,677,233**	**4,971,772**	**32,069**	**5,003,841**
Gross loans and receivables	**10,234,443**	**119,261**	**10,353,704**	**10,668,237**	**46,531**	**10,714,768**
Less: Impairment allowance			(6,933)			(5,481)
			(6,933)			**(5,481)**
Loans and receivables from banks and financial organizations			**10,346,771**			**10,709,287**

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	4,666,670	-	-	-	4,666,670	(2,724)	-	-	-	(2,724)
Insurance companies	397	68	-	-	465	(6)	(1)	-	-	(7)
Financial leasing	183	-	-	-	183	-	-	-	-	-
Auxiliary activities in providing financial and insurance services	2,704	447	-	-	3,151	(18)	(25)	-	-	(43)
Foreign banks	6,002	-	-	-	6,002	(17)	-	-	-	(17)
	4,675,956	515	-	-	4,676,471	(2,765)	(26)	-	-	(2,791)
In foreign currency										
Central bank	482	-	-	-	482	-	-	-	-	-
Financial leasing	4,931,294	-	-	-	4,931,294	(3,975)	-	-	-	(3,975)
Auxiliary activities in providing financial and insurance services	53,446	-	-	-	53,446	(64)	-	-	-	(64)
Foreign banks	692,011	-	-	-	692,011	(103)	-	-	-	(103)
	5,677,233	**-**	**-**	**-**	**5,677,233**	**(4,142)**	**-**	**-**	**-**	**(4,142)**
Balance as at 31 December 2022	**10,353,189**	**515**	**-**	**-**	**10,353,704**	**(6,907)**	**(26)**	**-**	**-**	**(6,933)**

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	
	In Stage 2 from Stage 1	In Stage 1 from 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	From Defaulted to Non-Defaulted	From Non-Defaulted to Defaulted
Auxiliary activities in providing financial and insurance services		398						
Total		**398**						

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 shown in gross amount per outstanding maturity as at 31 December 2022 and 31 December 2021:

In RSD '000

	31 December 2022	31 December 2021
Without defined maturity	732,924	960,177
Under 30 days	4,672,859	5,696,435
From 1 to 3 months	-	-
From 3 months to 12 months	4,828,660	4,011,625
Over a year	119,261	46,531
Total	**10,353,704**	**10,714,768**

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 2022	Increase due to recognition and acquisition	Decrease due to derecognition	Increase due to credit risk change	Decrease due to credit risk change	Other changes	Balance as at 31 December 2022
Changes in credit loss allowances of financial assets							
Stage 1	**5,474**	**-**	**-**	**281**	**1,018**	**2,169**	**6,907**
Central bank	-	-	-	-	635	635	-
Banks in the country	1,965	-	-	-	-	759	2,724
Insurance companies	5	-	-	21	21	1	6
Financial leasing	2,895	-	-	-	-	1,080	3,975
Auxiliary activities in providing financial and insurance services	180	-	-	240	318	(20)	82
Foreign banks	429	-	-	20	44	(285)	120
Stage 2	**-**	**6,799**	**5,172**	**48**	**61**	**(1,587)**	**26**
Central Bank	-	2,724	1,965	-	-	(759)	-
Insurance companies	-	1	1	1	-	(1)	-
Financial leasing	-	4,004	2,899	3	21	(1,086)	-
Auxiliary activities in providing financial and insurance services	-	29	1	25	2	(26)	25
Foreign banks	-	40	306	18	37	286	1
TOTAL	**5,474**	**6,799**	**5,172**	**329**	**1,079**	**582**	**6,933**

22. LOANS AND RECEIVABLES TO CUSTOMERS

In RSD '000

	31 December 2022			31 December 2021		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Loans	2,859,573	53,942,855	**56,802,428**	4,695,009	54,213,613	**58,908,622**
Other placements	625,896	885,533	**1,511,429**	547,582	830,955	**1,378,537**
	3,485,469	**54,828,388**	**58,313,857**	**5,242,591**	**55,044,568**	**60,287,159**
Foreign currency						
Loans	15,342,582	145,712,105	**161,054,687**	8,724,719	139,425,118	**148,149,837**
Deposits placed	118,745	2,796,758	**2,915,503**	89,896	-	**89,896**
Other placements	461,075	777,832	**1,238,907**	345,867	59,745	**405,612**
	15,922,402	**149,286,695**	**165,209,097**	**9,160,482**	**139,484,863**	**148,645,345**
Gross loans and receivables	**19,407,871**	**204,115,083**	**223,522,954**	**14,403,073**	**194,529,431**	**208,932,504**
Less: Credit Loss Allowance						
– Individual assessment			(1,542,735)			(1,315,953)
– Collective assessment			(4,972,342)			(3,999,659)
			(6,515,077)			**(5,315,612)**
Balance as at 31 December			**217,007,877**			**203,616,892**

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

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

The Bank values all loans at their amortized value.

In RSD '000

	Gross book value					Impairment allowance				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
In RSD										
Public enterprises	1,531,447	33,935	-	-	**1,565,382**	(2,105)	(332)	-	-	**(2,437)**
Other companies	13,561,641	8,440,852	450,102	-	**22,452,595**	(104,751)	(458,762)	(367,204)	-	**(930,717)**
Entrepreneurs	1,618,451	704,331	89,024	-	**2,411,806**	(12,381)	(34,529)	(62,765)	-	**(109,675)**
Public sector	1,810,848	16,261	-	-	**1,827,109**	(1,957)	(227)	-	-	**(2,184)**
Retail customers	50,819,309	5,871,765	2,065,491	164,271	**58,920,836**	(466,601)	(685,664)	(1,608,991)	(51,718)	**(2,812,974)**
Foreign entities	157,143	25,288	29	-	**182,460**	(3,582)	(2,721)	(29)	-	**(6,332)**
Farmers	67,382	4,049	13,350	-	**84,781**	(3,993)	(395)	(6,941)	-	**(11,329)**
Other customers	55,939	12,254	146,025	-	**214,218**	(354)	(572)	(68,523)	-	**(69,449)**
	69,622,160	**15,108,735**	**2,764,021**	**164,271**	**87,659,187**	**(595,724)**	**(1,183,202)**	**(2,114,453)**	**(51,718)**	**(3,945,097)**
In foreign currency										
Public enterprises	5,264,220	4,372,469	-	-	**9,636,689**	(7,172)	(217,314)	-	-	**(224,486)**
Other companies	63,891,406	13,028,254	1,874,197	11,209	**78,805,066**	(479,879)	(374,896)	(998,851)	-	**(1,853,626)**
Entrepreneurs	431,573	303,764	16,343	-	**751,680**	(2,450)	(10,620)	(10,065)	-	**(23,135)**
Public sector	513,155	-	-	-	**513,155**	(670)	-	-	-	**(670)**
Retail customers	41,700,890	1,258,382	238,325	61,649	**43,259,246**	(130,678)	(122,273)	(123,128)	(769)	**(376,848)**
Foreign entities	101,254	-	-	-	**101,254**	(593)	-	-	-	**(593)**
Farmers	41,671	653	11,641	-	**53,965**	(1,186)	(23)	(8,921)	-	**(10,130)**
Other customers	2,388,107	33,809	320,796	-	**2,742,712**	(15,732)	(962)	(63,798)	-	**(80,492)**
	114,332,276	**18,997,331**	**2,461,302**	**72,858**	**135,863,767**	**(638,360)**	**(726,088)**	**(1,204,763)**	**(769)**	**(2,569,980)**
Total	**183,954,436**	**34,106,066**	**5,225,323**	**237,129**	**223,522,954**	**(1,234,084)**	**(1,909,290)**	**(3,319,216)**	**(52,487)**	**(6,515,077)**

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

b) 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						
Construction	1,248,183	(12,375)	-	-	335,362	-
Agriculture and food industry	167,318	701	1,715,512	-	20,267	-
Manufacturing industry	4,637,111	67,529	2,528	-	22,453	-
Production and supply of electricity	5,085,525	-	-	-	-	-
Trade	911,828	18,641	1,525	-	20,131	-
Services and tourism	2,225,996	877,448	15,299	-	8,660	-
Entrepreneurs	**404,176**	**109,759**	**25,392**	**961**	**17,753**	**-**
Public sector	**-**	**(758)**	**-**	**-**	**-**	**-**
Retail	**2,767,004**	**4,083,886**	**467,859**	**86,425**	**521,651**	**52,135**
Other customers	**13,975**	**13,744**	**5,988**	**-**	**2,720**	**-**
Total	**3,185,155**	**4,206,631**	**499,239**	**87,386**	**542,124**	**52,135**

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

c) Maturity of loans and receivables to customers

Maturities of loan and receivables due from customers shown in gross amount per outstanding maturity as at 31 December 2022 and as at 31 December 2021 are presented in the table below:

In RSD '000

	31 December 2022	31 December 2021
Without defined maturity	1,895,982	1,892,903
Under 30 days	198,016	182,249
From 1 to 3 months	2,039,525	508,624
From 3 to 12 months	15,274,348	11,819,297
Over a year	204,115,083	194,529,431
Total	**223,522,954**	**208,932,504**

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

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

	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 2022	Direct write-off expense
Impairment Stage 1	**1,238,138**	**639,895**	**423,086**	**1,291,720**	**1,803,560**	**(17,542)**	**6**	**(1,293)**	**308,391**	**1,232,657**	**12**
Public enterprises	50,177	7,673	41,363	17,988	-	-	-	(52)	(25,144)	9,279	-
Other companies	518,955	343,014	168,935	488,113	540,432	(465)	-	(715)	(54,843)	584,692	-
Entrepreneurs	16,291	23,875	18,373	7,909	14,535	170	-	(4)	(848)	14,485	-
Public sector	13,217	698	358	751	11,658	-	-	(24)	-	2,626	-
Retail customers	632,398	255,349	193,611	774,529	1,235,417	(17,223)	6	(506)	389,379	604,892	12
Foreign entities	452	-	-	119	-	-	-	22	1	594	-
Other customers	6,648	9,286	446	2,311	1,518	(24)	-	(14)	(154)	16,089	-
Impairment Stage 2	**1,484,962**	**716,048**	**341,725**	**1,160,216**	**559,123**	**(5,661)**	**2**	**(1,630)**	**-543,746**	**1,909,339**	**16**
Public enterprises	-	217,346	29	139	23,919	-	-	(40)	24,148	217,645	-
Other companies	485,600	299,366	174,254	493,321	77,774	(300)	-	(1,366)	(191,017)	833,576	-
Entrepreneurs	54,626	22,010	6,579	39,874	64,749	211	1	(95)	(139)	45,158	-
Public sector	640	-	-	225	636	-	-	(1)	(1)	227	-
Retail customers	943,377	176,724	160,708	625,906	391,878	(5,574)	1	(127)	(376,542)	811,177	16
Foreign entities	2	-	-	-	2	-	-	-	21	21	-
Other customers	717	602	155	751	165	2	-	(1)	(216)	1,535	-
Impairment Stage 3	**2,547,362**	**196,169**	**1,350,936**	**2,997,732**	**442,868**	**(6,408)**	**897,759**	**(1,397)**	**278,698**	**3,320,593**	**1,337**
Other companies	1,028,177	50,149	814,591	1,818,809	-	112	325,337	(1,484)	(388,866)	1,366,969	0
Entrepreneurs	93,012	6,834	53,914	49,012	6,656	152	20,752	(32)	5,529	73,185	0
Retail customers	1,307,362	139,186	373,975	1,007,151	83,130	(6,670)	212,109	395	(29,206)	1,749,004	1,337
Foreign entities	60	-	39	-	-	-	-	-	7	28	0
Other customers	118,751	-	108,417	122,760	353,082	(2)	339,561	(276)	691,234	131,407	0
POCI	**45,151**	**30,356**	**30,678**	**38,476**	**27,626**	**18**	**1,292**	**(59)**	**(1,858)**	**52,488**	**0**
Other companies	22,426	-	22,461	22,461	-	-	-	(41)	(22,385)	-	-
Retail customers	22,725	30,356	8,217	16,015	27,626	18	1,292	(18)	20,527	52,488	-
TOTAL	**5,315,613**	**1,582,468**	**2,146,425**	**5,488,144**	**2,833,177**	**(29,593)**	**899,059**	**(4,379)**	**41,485**	**6,515,077**	**1,365**

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 2022 and 31 December 2021, is significant for the following activities:

	31 December 2022	In RSD '000 31 December 2021
Trade	15,130,001	10,666,144
Manufacturing industry	25,875,507	24,209,761
Construction	11,661,171	13,614,497
Production and supply of electricity	15,411,402	17,167,736
Services and tourism	35,479,350	31,336,836
Agriculture and food industry	8,902,301	7,469,211
Retail customers	102,366,659	97,016,440
Domestic and foreign banks and other financial institutions	10,353,704	10,714,768
Public sector	2,340,264	2,358,269
Non-resident corporate customers	97,137	91,355
Agricultural producers	138,746	196,491
Other customers	2,956,930	1,458,378
Entrepreneurs	3,163,486	3,347,386
TOTAL:	**233,876,658**	**219,647,272**

23. INVESTMENTS IN SUBSIDIARIES

	31 December 2022	In RSD '000 31 December 2021
S – Leasing d.o.o Serbia -75% of share	93,560	93,560
Balance as at 31 December	**93,560**	**93,560**

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

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

In RSD '000

	Land and buildings	Equipment	Leased equipment/ Right of Use Assets	Intangible assets in progress	Total fixed assets	Investment properties	Intangible assets in progress	Intangible assets
Cost								
Balance as at 1 January 2021	**800,659**	**1,387,871**	**2,475,684**	**232,620**	**4,896,834**	**-**	**875,177**	**1,584,493**
Additions	-	267	272,187	327,311	599,765	-	707,228	-
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**	**1,861,438**	**2,391,015**	**247,071**	**5,323,414**	**-**	**1,541,934**	**1,612,259**
Additions	-	-	205,154	508,636	1,133,747	-	1,571,785	-
Transfers	45,240	282,230	-	(327,470)	-	-	(43,480)	43,480
Rebooking	(100,678)	70,570	(70,570)	-	(100,678)	100,678	-	-
Disposal and retirement	(13,274)	(61,419)	(62,802)	-	(557,444)	-	-	(13,359)
Balance as at 31 December 2022	**755,179**	**2,152,819**	**2,462,797**	**428,237**	**5,799,032**	**100,678**	**3,070,238**	**1,642,380**
Accumulated depreciation/amortisation								
Balance as at 1 January 2021	**329,976**	**795,603**	**727,908**	**-**	**1,853,488**	**-**	**-**	**1,329,725**
Rebooking	-	224,857	(224,857)	-	-	-	-	-
Charges in the year (Note 14)	20,062	181,678	347,515		549,255	-		131,509
Disposal and retirement	-	(40,699)	(88,372)	-	(129,071)	-	-	(12,702)
Balance as at 31 December 2021	**350,038**	**1,161,439**	**762,195**	**-**	**2,273,672**	**-**	**-**	**1,448,532**
Rebooking	(47,560)	70,570	(70,570)	-	(47,560)	47,560	-	-
Charges in the year (Note 14)	20,362	226,049	331,264	-	577,675	459	-	85,224
Disposal and retirement	(6,962)	(58,943)	(39,258)	-	(105,162)	-	-	(13,246)
Balance as at 31 December 2022	**315,878**	**1,399,115**	**983,631**	**-**	**2,698,624**	**48,019**	**-**	**1,520,510**
NET BOOK VALUE								
– 31 December 2022	**439,301**	**753,704**	**1,479,166**	**428,237**	**3,100,408**	**52,659**	**3,070,238**	**121,870**
– 31 December 2021	**473,853**	**699,999**	**1,628,819**	**247,071**	**3,049,741**	**-**	**1,541,933**	**163,727**

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

In 2022, the Bank rebooked item of two units from the item self-owned contructions into the item investment property. The transfer was made in carrying value of these units. The fair value amounts to RSD 130,710 thousand.

The Bank does not have any mortgaging properties to secure repayment of loan obligations. The net book value of the equipment as at 31 December 2022 is mostly composed of computer and telecommunication equipment and office furniture. The net book value of intangible assets as at 31 December 2022 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 2022		As at 31 December 2022
	Purchase value	Increase	Decrease	
IT equipment	70,570	-	(70,570)	-
Immobilities	2,305,502	613,693	(478,150)	2,441,045
Vehicles	14,943	11,418	(4,603)	21,758
Total:	**2,391,015**	**625,111**	**(553,323)**	**2,462,803**

The purchase value of IT equipment under financial leasing as of 1 January 2022 is RSD 70,570 thousand and has decreased as at 31 December 2022 and amounts to RSD 70,570 thousand and finally rebooked within the item Bank's IT equipment.

The purchase value of real estate (facilities) as right of use assets on 1 January 2022 amounts to RSD 2,305,502 thousand. The increase in the purchase value in the amount of RSD 613,693 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 2022, value reductions were recorded due to changes in contractual conditions and cancellation of leases in the amount of RSD 478,150 thousand. On 31 December 2022, the purchase value of real estate (facilities) is RSD 2,441,045 thousand.

The cost of movable property (vehicles) as right of use assets on 1 January 2022 amounts to RSD 14,943 thousand and is reduced by the amount of RSD 4,603 thousand related to cancellation / expiration of the existing lease.

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

Type of property	Balance on 1 January 2022	Changes during 2022		As at 31 December 2022
	Written-off value	Increase	Decrease	
IT equipment	239,560	41,419	(224,857)	56,122
Immobilities	467,473	298,495	(64,832)	701,136
Vehicles	20,875	7,601	(23,540)	4,936
Total:	**727,908**	**347,515**	**(313,229)**	**762,194**

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

Based on the conducted analysis at the end of 2022, it was determined that there are no indicators of impairment of non-financial assets.

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

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

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

In RSD '000

	31 December 2022	31 December 2021
Fixed assets intended for sale and assets from discounted operations	11,902	11,902
Balance as at 31 December	**11,902**	**11,902**

As at 31 December 2022, the Bank has registered following fixed assets for sale, which are located in the territory of the Republic of Serbia:

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

26. OTHER ASSETS

In RSD '000

	31 December 2022	31 December 2021
In RSD		
Financial assets:		
– Receivables for accrued fees and commissions	51,273	125,262
– Trade receivables	469	498
– Other receivables from operations by establishing income	37,204	38,715
– Other receivables from standard operations	395,110	193,537
– Prepaid insurance premiums	427,146	482,403
– Coupon interest from bonds	18,442	151,269
- Other accruals	102,157	182,644
Non-financial assets:		
– Advances given	7,632	6,516
– Receivables from employees	12,406	779
- Receivables from prepaid taxes and contributions	2,131	1,902
– Inventories	81,717	80,055
– Other receivables	23,526	12,197
– Other investments	27,006	27,006
	1,186,219	**1,302,783**
In foreign currency		
Financial assets:		
– Other receivables from operations by establishing income	20	20
– Other receivables from standard operations	61,199	61,627
- Coupon interest from bonds	47,877	24,574
– Other receivables	-	8,336
Non-financial assets:		
- Advances given	47,025	3,170
- Receivables from employees	267	905
- Other non-financial receivables	850	184
- Other receivables	-	5,856
	157,238	**104,672**
Gross other assets	**1,343,457**	**1,407,455**
Less: Impairment allowance	(166,082)	(175,141)
Balance as at 31 December	**1,177,375**	**1,232,314**

Other financial assets are valued at amortized cost.

26. OTHER ASSETS (continued)

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

In RSD '000

	31 December 2022	31 December 2021
Balance at beginning of the year	96,492	103,282
New impairment allowances	94,234	70,278
Reversal for impairment allowance	(9,255)	(6,257)
Direct write-offs	(140,358)	(96,512)
Foreign exchange difference	46,014	25,701
Balance of impairment allowances of financial assets as at 31 December	**87,127**	**96,492**
Balance of impairment allowances of non-financial assets as at 31 December	**78,955**	**78,649**
Balance as at 31 December	**166,082**	**175,141**

27. DERIVATIVE LIABILITIES

In RSD '000

	31 December 2022	31 December 2021
In RSD		
Liabilities from derivatives intended for trading	25,698	2,989
	25,698	**2,989**
In foreign currency		
Liabilities from derivatives intended for trading	718,322	163,411
	718,322	**163,411**
Balance as at 31 December	**744,020**	**166,400**

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

In RSD '000

	31 December 2022			31 December 2021		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Liabilities from deposits and borrowings						
Transaction deposits	1,120,604	-	**1,120,604**	1,020,228	-	**1,020,228**
Deposits for approved loans	-	1,255	**1,255**	-	2,514	**2,514**
Specific purpose deposits	14,975	-	**14,975**	508	-	**508**
Other deposits	4,431,732	884,000	**5,315,732**	7,197,895	1,191,000	**8,388,895**
Loans per repo transactions	5,846,245	-	**5,846,245**	-	-	**-**
Borrowings	-	3,322,865	**3,322,865**	-	3,762,769	**3,762,769**
Total	**11,413,556**	**4,208,120**	**15,621,676**	**8,218,631**	**4,956,283**	**13,174,914**
In foreign currency						
Liabilities from deposits and borrowings						
Transaction deposits	473,889	-	**473,889**	570,297	-	**570,297**
Deposits for approved loans	-	-	**-**	-	11,506	**11,506**
Specific purpose deposits	863,758	27,571	**891,329**	47,519	32,923	**80,442**
Other deposits	4,208,268	2,051,435	**6,259,703**	1,879,426	1,885,256	**3,764,682**
Overnight deposits	4,909,299	-	**4,909,299**	6,255,367	-	**6,255,367**
Loans per repo transactions	-	-	**-**	-	-	**-**
Borrowings	58,542	40,580,570	**40,639,112**	24,305	40,518,785	**40,543,090**
Other financial liabilities	27,064	-	**27,064**	55,278	-	**55,278**
Total	**10,540,820**	**42,659,576**	**53,200,396**	**8,832,192**	**42,448,470**	**51,280,662**
Balance as at 31 December	**21,954,376**	**46,867,696**	**68,822,072**	**17,050,823**	**47,404,753**	**64,455,576**

28. DEPOSITS AND OTHER LIABILITIES DUE TO 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:

	31 December 2022	In RSD '000 31 December 2021
Central bank	5,846,245	366
Domestic banks	5,122,160	55,225
Insurance companies	4,095,454	3,945,844
Finance leasing companies	547,080	702,254
Auxiliary activities within financial services and insurance	8,343,192	8,980,220
Other crediting and financing service providers	5,512	2,062
Foreign banks	44,862,429	50,769,605
Balance as at 31 December	**68,822,072**	**64,455,576**

Deposits of foreign banks mostly relate to the loans from Erste Group Bank AG, Austria in the amount of RSD 14,078,688 thousand and loan from the European Bank for Reconstruction and Development of RSD 15.357.855 thousand, the loan from the European Investment Bank in the amount of RSD 9,961,947 thousand, and also received loan from KfW bank in the amount of RSD 3,504,029 thousand and from CE Bank in the amount of RSD 1,089,422 thousand.

29. DEPOSITS AND OTHER FINANCIAL LIABILITIES DUE TO CUSTOMERS

In RSD '000

	31 December 2022			31 December 2021		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Liabilities from deposits and borrowings						
Transaction deposits	62,263,378	5	**62,263,383**	55,299,478	-	**55,299,478**
Revocable deposits	-	-	**-**	500,000	-	**500,000**
Savings deposits	1,153,120	2,870,507	**4,023,627**	1,110,342	1,987,204	**3,097,546**
Deposits placed for approved loans	827,536	2,830,585	**3,658,121**	313,127	1,133,291	**1,446,418**
Specific purpose deposits	726,975	18,750	**745,725**	554,935	18,750	**573,685**
Other deposits	16,379,209	1,111,965	**17,491,174**	18,959,945	155,513	**19,115,458**
Total	**81,350,218**	**6,831,812**	**88,182,030**	**76,737,827**	**3,294,758**	**80,032,585**
In foreign currency						
Liabilities from deposits and borrowings						
Transaction deposits	96,128,853	-	**96,128,853**	85,360,466		**85,360,466**
Savings deposits	8,103,045	15,662,406	**23,765,451**	8,540,473	16,938,439	**25,478,912**
Deposits placed for approved loans	603,845	5,478,509	**6,082,354**	1,086,369	5,424,370	**6,510,739**
Specific purpose deposits	1,166,144	-	**1,166,144**	1,723,502		**1,723,502**
Other deposits	8,546,260	1,319,230	**9,865,490**	2,854,054	1,938,294	**4,792,348**
Borrowings	-	2,040,012	**2,040,012**	29,132	2,462,371	**2,491,503**
Other financial liabilities	535,435	-	**535,435**	2,514,316	-	**2,514,316**
Total	**115,083,582**	**24,500,157**	**139,583,739**	**102,108,312**	**26,763,474**	**128,871,786**
Balance as at 31 December			**227,765,769**			**208,904,371**

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

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

In RSD '000

	31 December 2022	31 December 2021
Holding companies	-	32
Public companies	1,190,208	1,086,460
Corporate customers	99,813,130	87,759,601
Public sector	3,318,543	3,845,072
Retail customers	107,210,817	97,224,815
Non-residents	3,461,262	4,933,013
Entrepreneurs	6,424,579	6,027,122
Agricultural producers	1,229,781	1,218,293
Other customers	5,117,449	6,809,963
Balance as at 31 December	**227,765,769**	**208,904,371**

30. SUBORDINATED LIABILITIES

In RSD '000

	31 December 2022	31 December 2021
In foreign currencies		
Subordinated liabilities	7,077,148	3,534,418
	7,077,148	**3,534,418**
Balance as at 31 December	**7,077,148**	**3,534,418**

Balance of subordinated loan principal as at 31 December 2022 and 31 December 2021 is presented in more detail in the table below:

In RSD '000

Creditor	Currency	Loan amount	Maturity	Interest rate	31 December 2022	31 December 2021
Erste Group Bank AG	EUR	30,000,000	10.09.2028	Euribor+3.38% p.a.	3,519,672	3,527,463
Erste Group Bank AG	EUR	30,000,000	12.05.2032	Euribor+3.48 % p.a.	3,519,672	-
Total		**60,000,000**			**7,039,344**	**3,527,463**

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

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

On 15 February 2022, the Bank signed a subordinated loan agreement with Erste Group Bank AG Vienna for the amount of EUR 30,000,000. The term of the loan is 10 years, interest rate is at the level of three-month EURIBOR increased by 3.48% annually. In accordance with the contract, the principal is repaid on the maturity date in one amount.

The Bank may include subordinated liabilities in the supplementary capital after the National Bank of Serbia, based on the submitted documentation and the Agreement, determines that the conditions for granting approval that the subordinated liabilities can be included in the Bank's supplementary capital have been met. The National Bank of Serbia, the Banking Supervision Department, submitted the aforementioned approval on 20 July 2018.

31. PROVISIONS

In RSD '000

	31 December 2022	31 December 2021
Provisions for losses per off-balance sheet items (a)	569,864	294,381
Provisions for long-term employee benefits (b):		
– retirement benefits	127,407	174,877
– jubilee awards	141,578	140,994
Provisions for litigations (c)	1,099,190	1,045,849
Balance as at 31 December	**1,938,039**	**1,656,101**

Changes in the provisions of off-balance sheet items

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

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

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

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

(c) The Bank also formed provisions for litigations involving the Bank as a defendant, where the Bank's expert team expects negative outcomes (Note 3(e) and Note 36(b)).

31. PROVISIONS (continued)

Movements on provision accounts during the year are provided below:

		In RSD '000
	31 December 2022	**31 December 2021**
Provisions for losses per off-balance sheet exposures		
Balance at beginning of the year	294,381	256,154
Charge for the year (Note 10(a))	521,521	176,308
Reversal of unused provisions (Note 10(a))	(245,564)	(138,231)
Other movements	(473)	150
	569,865	**294,381**
Provisions for other long-term employee benefits		
Balance at beginning of the year	315,871	319,689
Provisions in the period through P&L (Note 13)	38.709	34,582
Reversal of provisions during the year (Note 13)	(9,216)	(6,676)
Benefits paid during the year	(38,489)	(22,369)
Actuarial losses (+)/gains (-) on retirement benefits	(37,888)	(9,355)
	268,987	**315,871**
Provision for litigation		
Balance at beginning of the year	1,045,849	712,380
Charge for the year (Note 16)	476,732	561,016
Used provision during the year	(423,591)	(228,347)
Other changes	197	800
	1,099,187	**1,045,849**
Balance as at 31 December	**1,938,039**	**1,656,101**

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 2022;
- 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 2021	**315,871**
Cost of services	
a. Current service cost	21,438
b. Past service cost	4,572
c. Interest costs	17,271
d. Payments	(38,489)
Actuarial gains (-) / losses (+) for jubilee awards arising from:	**11,533**
a. Change in demographic assumptions	1,102
b. Change in financial assumptions	(12,635)
c. Change in experiential assumptions	-
Actuarial gains (-) / losses (+) for severance payments arising from:	(40,142)
a. Change in demographic assumptions	(12,861)
b. Change in financial assumptions	(27,281)
c. Change in experiential assumptions	-
Present value of employee benefits as at 31 December 2022	**268,987**

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	206,982	344,920	85,456	40,430	74,087	(407)	(77)	432,305
Stage 2	18,195	71,461	7,712	57,986	9,343	(43)	52	130,596
Stage 3	69,204	3,060	67,513	3,664	1,453	1	1	6,964
Total	**294,381**	**419,441**	**160,681**	**102,080**	**84,883**	**(449)**	**(24)**	**569,865**

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	2,545,676	513,988	-	-	998	-
Unused undertaken irrevocable liabilities	104,088	-	-	-	-	-
Total	**2,649,764**	**513,988**	**-**	**-**	**998**	**-**

32. OTHER LIABILITIES

In RSD '000

	31 December 2022	31 December 2021
In RSD		
Financial liabilities:		
Leasing liabilities for unpaid leased fixed assets	13,905	21,245
Liabilities for deferred fee and commission income and other deferred income	17,255	4,100
Other deferred income and accrued expenses	131,981	113,075
	163,141	**138,420**
Non-financial liabilities:		
Trade payables	65,262	9,175
Advances received	20,570	8,915
Liabilities for salaries	197	6,788
Liabilities for taxes, contributions and other duties payable	244,509	132,641
Liabilities for accrued fee and commission expense and other accrued expense	683,901	653,620
Liabilities for cards operations	172,069	174,036
Liabilities to retailers for POS terminals	208,403	42,625
Other liabilities	223,565	211,992
	1,618,476	**1,239,792**
In foreign currencies		
Financial liabilities:		
Leasing liabilities for unpaid leased fixed assets	1,620,590	1,740,502
Liabilities for deferred interest income	31,882	49,746
Liabilities for deferred fee and commission income and other deferred income	14,094	6,391
Other deferred income and accrued expenses	1,482	40,466
	1,668,048	**1,837,105**
Non-financial liabilities:		
Trade payables	143,858	5,373
Liabilities per received advances	3,407	9,153
Liabilities for accrued fee and commission expense and other accrued expense	-	162,229
Other liabilities	85,978	78,395
	233,243	**255,150**
Balance as at 31 December	**3,682,908**	**3,470,467**

Other financial liabilities are valued at amortized cost.

32. OTHER LIABILITIES (continued)

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

Currency of liability	1 January 2022		31 December 2022	
	Amount in currency	Amount in RSD	Amount in currency	Amount in RSD
RSD	-	21,245	-	13,905
Currency clause (EUR) - Immovables	6,061	712,978	5,748	674,336
Currency clause (EUR) - Movable Property	86	10,071	123	14,485
Currency clause (EUR) – It equipment	106	12,488	-	-
EUR Facilities	8,547	1,004,965	7,942	931,770
Total	**14,800**	**1,761,747**	**13,813**	**1,634,495**

Practical expedients from the use of IFRS 16 are presented in the following table (in 000 RSD):

Practical expedients – balance as at 31 December 2022	**Value**
Expenses of short term leases	774
Expenses of low value leases	12,909

33. EQUITY

(a) Structure of the Bank's Equity

The total Bank’s equity as at 31 December 2022 amounts to RSD 42,404,464 thousand and consists of share capital in the amount of RSD 15,772,500 thousand, share premium in the amount of RSD 5,552,654 thousand, reserves from profit and other reserves RSD 19,377,317 thousand, revaluation reserves in the amount of RSD 642,379 thousand and profit for the current period in the amount of RSD 2,344,372 thousand.

The total equity structure of the Bank is presented below:

		In RSD '000
	31 December 2022	**31 December 2021**
Share capital - ordinary shares /i/	15,772,500	14,107,500
Share premium /ii/	5,552,654	3,704,504
Reserves from profit /iii/	19,377,317	16,968,156
Revaluation reserves /iv/	(642,379)	111,070
Profit for the year	2,344,372	2,409,161
Balance as at 31 December	**42,404,464**	**37,300,391**

/i/ Share Capital

As at 31 December 2022 the Bank's subscribed and paid in capital comprised of 1,577,250 ordinary shares with the par value of RSD 10.000 per share (31 December 2021: 1,410,750 ordinary shares with the par value of RSD 10.000 per share).

In Q4 2022, the Bank, on the basis of the Shareholders Assembly Decision on Issuance of Ordinary Shares No. 301BG/2022-34V/1 of 10 November 2022, realized the 33rd issue of shares without public offering in order to increase the share capital.

The number of shares issued is 170,000, of which Erste Group Band AG has purchased 125,800 shares and Steiermarkische Bank has purchased 44,200 shares. The nominal value of individual shares is RSD 10.000 and the issue price RSD 21,000.

Following the successful issue, the total share capital was increased by RSD 1,665,000 thousand and amounts to RSD 15,772,500 thousand. The majority shareholder of the Bank is EGB AG with 74% and 1,167,165 shares, while Steiermarkische Bank has 26% and 410,085 shares.

The shareholder structure of the Bank as at 31 December 2022 is presented below:

Shareholder	**Number of shares**	**In %**
EGB CEPS HOLDING GMBH	1,167,165	74.00
Steiermärkische Bank und Sparkassen AG, Graz	410,085	26.00
Total	**1,577,250**	**100.00**

33. EQUITY (continued)

/ii/ Share Premium

Share premium amounting to RSD 5,552,654 thousand as at 31 December 2022 (31 December 2021 RSD 3,704,504 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 2022 amount to RSD 19,377,317 thousand. As at 31 December 2021, reserves from profit amounted to RSD 16,968,156 thousand. Pursuant to the Decision of the Shareholders Assembly of the Bank dated 24 April 2022, from the realized profit for 2021, the Bank made has allocated the remaining profit to the other reserves in the amount of RSD 2,409,161 thousand.

/iv/ Revaluation Reserves

Revaluation reserves, which as at 31 December 2022 amounted to RSD 139,522 thousand (31 December 2021: 111,070 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 December 2022	31 December 2021
1. Equity	Minimum EUR 10 million	EUR 378,150,269	EUR 311,756,618
2. Total capital adequacy ratio	Minimum 8%	20.58	18.72
3. Tier 1 capital adequacy ratio	Minimum 6%	17.32	16.92
4. Common Equity Tier 1 capital adequacy ratio	Minimum 4,5%	17.32	16.92
5. Investments of the Bank	Maximum 60%	7.15	8.45
6. Exposure to related parties	No limit	4.61	10.89
7. Large and largest possible loans in relation to capital	Maximum 400%	27.83	69.17
8. Liquidity:			
– liquidity indicator	Minimum 0.8	2.11	1.30
– narrower liquidity indicator	Minimum 0.5	1.98	1.18
9. Indicator of liquid assets coverage	Minimum 100%	157.10	170.04
10. Foreign exchange risk indicator	Maximum 20%	3.38	1.40
11. Exposure of the Bank to a group of related parties	Maximum 25%	16.75	19.61
12. Exposure of the Bank to a person related to a bank	No limit	3.94	9.81
13. Bank's investments in non-financial entities	Maximum 10%	0.06	0.07

34. OFF-BALANCE SHEET ITEMS

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

In RSD '000

	31 December 2022	31 December 2021
Operations on behalf of third parties (a)	528,953	561,458
Guarantees and other irrevocable commitments (b)	113,904,104	94,020,476
Other off-balance sheet positions (c)	329,408,119	315,396,963
Balance as at 31 December	**443,841,176**	**409,978,897**
Bad debt transferred to off-balance sheet items	(1,187,735)	(1,241,490)
Balance as at 31 December	**442,653,441**	**408,737,407**

(a) Operations on behalf of third parties

In RSD '000

	31 December 2022	31 December 2021
Investments on behalf of third parties		
In RSD		
– short-term	7,222	17,249
– long-term	521,731	544,209
Balance as at 31 December	**528,953**	**561,458**

Short-term funds managed on behalf of third parties relate to funds of the Ministry of Agriculture in the amount of RSD 5,907 thousand and on the commission business of farmers in the amount of RSD 1,615 thousand. Long-term funds managed on behalf of third parties relate to long-term housing loans insured with National Mortgage Insurance Corporation amounting RSD 519,947 thousand and long-term loans to agricultural producers in the amount of RSD 1.784 thousand.

(b) Guarantees and other irrevocable commitments

In RSD '000

	31 December 2022	31 December 2021
In RSD		
Payment guarantees	2,841,851	3,103,391
Performance guarantees	12,942,297	9,928,473
Irrevocable commitments for undrawn loan facilities	6,335,935	6,351,847
Other off-balance sheet items	239,657	5,054,129
Total	**22,359,740**	**24,437,840**
In foreign currency		
Payment guarantees	5,553,678	5,220,867
Performance guarantees	18,322,445	12,855,823
Irrevocable commitments for undrawn loan facilities	61,218,831	48,171,008
Letter of credit	761,653	364,977
Other off-balance sheet items	5,687,757	2,969,961
Total	**91,544,364**	**69,582,636**
Balance as at 31 December	**113,904,104**	**94,020,476**

Other off-balance sheet items in dinars refer to letters of intent of the company, 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 Bank monitors maturity periods of irrevocable credit commitments for undrawn loan facilities because long term commitments bear a greater degree of credit risk than short-term commitments.

As at 31 December 2022, the Bank’s provisions for loss from guarantees and other irrevocable commitments amounted to RSD 569,864 thousand (31 December 2021: RSD 294,381 thousand).

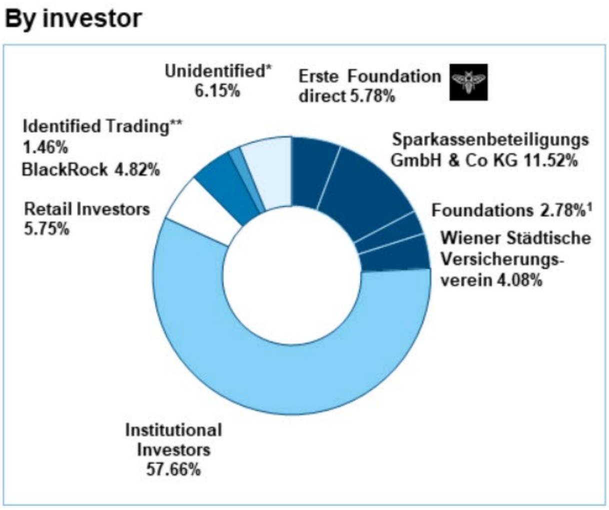
35. RELATED PARTY DISCLOSURES

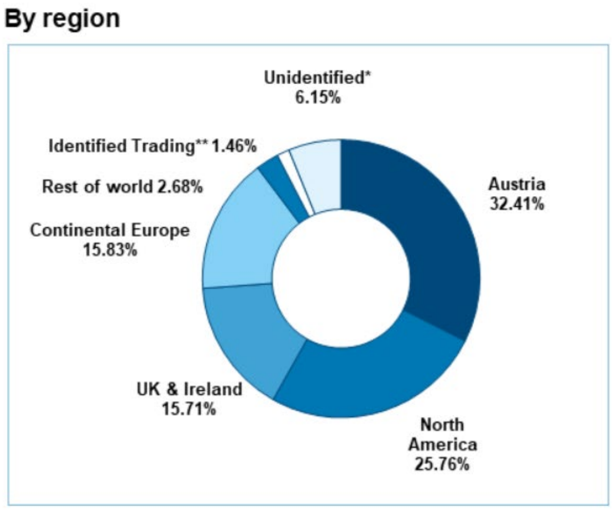
As part of regular operations, the Bank realises business transactions with its shareholders and other related parties.

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

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

Shareholder structure of Erste Group is as follows:





35. RELATED PARTY DISCLOSURES (continued)

a) Balance as at 31 December 2022 and 31 December 2021, 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 December 2022		31 December 2021	
	Shareholders	**Other members of Erste Group**	**Shareholders**	**Other members of Erste Group**
Assets				
Derivative receivables	787,838	-	100,215	-
Loans and receivables from banks and other financial organisations	623,138	4,935,596	3,102,562	4,024,742
Loans and receivables due from customers	-	253	-	146,489
Fixed assets	-	-	-	-
Investments in subsidiaries	-	93,560	-	93,560
Property, plant and equipment	-	759,700	-	801,373
Other assets	3,381	2,942	2,928	1,965
	1,414,357	**5,792,051**	**3,205,705**	**5,068,129**
Liabilities				
Derivative liabilities	25,699	-	113,732	-
Deposits and other liabilities due to banks and other financial organizations	14,893,650	739,613	20,277,709	726,106
Deposits and liabilities due to customers	-	-	-	102,948
Subordinated liabilities	7,077,149	-	3,534,418	-
Provisions	24	2,492	5	1,389
Other liabilities	3,064	898,930	1,207	961,980
	21,999,586	**1,641,035**	**23,927,071**	**1,792,423**
Off-balance sheet items				
Guarantees and other sureties issues	220,722	108,800	75,586	119,832
Irrevocable commitments	-	2,328,399	-	173,425
Other off-balance sheet items	-	669,640	-	1,687,159
	220,722	**3,106,839**	**75,586**	**1,980,416**

35. RELATED PARTY DISCLOSURES (continued)

In RSD '000

	31 December 2022		31 December 2021	
	Shareholders	Other members of Erste Group	Shareholders	Other members of Erste Group
Interest income	66,239	70,258	13,109	20,112
Interest expenses	(535,432)	(36,126)	(381,427)	(36,428)
Fee and commission income	66,812	54,233	55,461	59,047
Fee and commission expenses	(268,228)	-	(286,510)	-
Net gains on changes in FV of financial instruments	1,235,242	-	552,540	-
Net gains on foreign exchange difference and currency clause effects	169,651	-	13,856	-
Net income from reduction of impairment of financial assets not valued at FV through profit or loss	286	-	18	-
Net loss on impairment of financial assets not valued at FV through profit and loss	-	(1,773)	-	(2,484)
Other operating income	-	11,193	-	10,718
Depreciation expense	-	(91,345)	-	-
Other income	3,944	9,242	4,395	7,801
Other expense	(78,067)	(805,393)	(95,140)	(750,260)

As at 31 December 2022 and 31 December 2021, placements to related legal entities were not impaired.

Rate of long-term loans with related parties range from 0.94 to 3.48%.

Interbank transactions (overnight, short-term borrowings, placements and repo and reverse repo transactions) are made at prices ranging from 0.68 to 9.50% depending on the currency in which the business is performed.

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, and interest rate option), as well as those transactions for which a fee is charged or paid, are also performed at market conditions and arm's length prices.

The interest rate on deposits and other liabilities towards customers related to bank ranges from 0.75% to 9.50 %.

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

In RSD '000

	Balance as at 31 December 2022	**Income/ (expense) 2022**	**Balance as at 31 December 2021**	**Income/ (expenses) 2021**
Current account overdrafts, credit cards and consumer loans	842	196	848	132
Housing loans	20,920	732	31,855	1,286
Other loans and receivables	13	-	630	76
Total impairment allowances	(43)	(8)	(42)	4
Deposits	195,730	(1,099)	189,924	(1,064)
Other liabilities	-	(82)	-	(13)
Unused credit limit	8	-	425	-

Salaries and other benefits of the Executive Board's members and the Board of Directors' members (stated in gross amounts), during 2022 and 2021, are presented in the table below:

In RSD '000

	31 December 2022	**31 December 2021**
Salaries and benefits of the Management Board members	5,697	5,819
Salaries and benefits of the Executive Board members	162,679	181,715
Accrued income of the Executive Board members	62,405	115,549
Total	**230,781**	**303,083**

Transfer prices

In line with the provisions of the Law on Profit Tax in 2013, the Rulebook on Transfer Pricing and Methods, which are applied "arm's length principle", 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 Transfer Pricing Study.

36. RISK MANAGEMENT

36.1. Introduction

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

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

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

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

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

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

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

Management Board and Executive Board

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

Assets and Liabilities Management Committee (ALCO)

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

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

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 Bank's operational risk areas, with the application of Decision on the basis of expected profit of exposure to risk as well as implementation of corrective measures and activities of mitigation of risk to manage non-financial risks proactively (operational risk, reputation risk, compliance risk, legal risk, information security risk).

Asset and Liability Management Unit

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

Internal Audit

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

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

Risk management and reporting

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

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

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.

36. RISK MANAGEMENT (Continued)

36.1. Introduction (Continued)

Risk management and reporting (continued)

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

37.2. Credit Risk

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

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

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

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

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

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

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

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

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

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 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, a new model for the assessment of the risk exposure. Based on the calibration of the internal probabilities of the default status of liabilities that are used for regulatory purposes (calculation of the provisions) on the rates of default status published by the agency's rating, an external rating is approximated for classification into a risk category purpose for each client.

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

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

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

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

Non-performing - Clients who have 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 - rescheduled 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 analyses 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 and predicting changes in variables in future period which mainly includes client's liabilities fulfilment so far and monitoring information from the market.

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

Default status

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

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

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

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Default status (continued)

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

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

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

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

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

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

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

During 2022, the Bank did not conduct the process of early recognition of default status. The total amount of receivables from clients whose default status was recognized during 2022 and the E1 default event was assigned was RSD 2,413 million with the effect on provisions in the amount RSD 343 million.

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.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

COVID 19

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 have 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 od clients on which moratorium 3 have been applied go to Stage 2.

All parity clients who used moratorium 3 were classified in stage 2 on 31 December 2021. The total effect on the reservations of these clients amounted to RSD 435 million.

In June 2022, the Bank released provisions for COVID 19 stage 2 overlay. The total effect of decrease in provision for these clients amounted to RSD 224 million.

Geopolitical Crisis

Pursuant to Erste Group's decision, in June 2022, with the aim of early recognition of deterioration in the quality of clients from cyclical industries affected by the Russian-Ukrainian crisis, the Bank introduced a rule according to which all batches of clients from crisis-affected industries, if the client has a probability of entering default status (PD) of more than 2.5%, be reclassified into stage 2 impairment. The total exposure of clients reclassified to stage 2 on the balance sheet date amounts to RSD 74.3 billion, and mostly are corporates. The total effect in 2022 is increase in provision in the amount of RSD 91 million.

Additionally, pursuant to Erste Group's decision, with the aim of early recognition of deterioration in the quality of clients from the energy sector affected by the Russian-Ukrainian crisis, the Bank introduced in September 2022 a criterion according to which all claims of the aforementioned group of clients will be reclassified into stage 2 impairment, with the possibility of exceptions in individual cases. The total exposure of these clients as of the balance sheet date amounts to RSD 25.5 billion, referring to corporate. The total effect in 2022 is increase in reservations in the amount of RSD 336 million. Clients from both groups mentioned above (cyclical industries and at the same time the energy sector) are shown within the effect related to the energy sector.

The Bank did not additionally carry out quantitative sensitivity analyses, but they were done at level of the competent organizational parts of Erste Group.

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

As a second measure of quantification, the Bank revised the PD parameters during Q4 2022, including the part related to future prospects in the economy (Forward Looking Information) with different probabilities of potential outcomes. For the calculation of expected losses, FLI is used for the first three accounting years.

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

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 Bank does not consider to be exposed to credit risk, in accordance with balance sheet items as at 31 December 2022 is presented in the following table:

In RSD '000

	Assets exposed to credit risk			Assets not exposed to credit risk	Balance sheet
	Gross value	Accumulated allowance for impairment / provisions	Net value		
Cash and funds at Central Bank	28,963,166	-	**28,963,166**	25,713,097	**54,676,263**
Pledged financial assets	6,229,454	-	**6,229,454**	-	**6,229,454**
Derivative receivables	814,366	-	**814,366**	-	**814,366**
Securities	55,350,689	64,500	**55,286,189**	-	**55,286,189**
Loans and receivables from banks and other financial organizations	10,353,703	6,932	**10,346,771**	-	**10,346,771**
Loans and receivables from customers	223,523,008	6,515,131	**217,007,876**	-	**217,007,876**
Investments in subsidiaries	-	-	-	93,560	**93,560**
Intangible assets	-	-	-	3,192,108	**3,192,108**
Properly, plant and equipment	-	-	-	3,100,408	**3,100,408**
Investment property	-	-	-	52,659	**52,659**
Current tax assets	-	-	-	129,231	**129,231**
Deferred tax assets	-	-	-	342,595	**342,595**
Non-current assets held for sale and discontinued operations	-	-	-	11,902	**11,902**
Other assets	1,343,457	166,082	**1,177,375**	-	**1,177,375**
Balance sheet exposure	**326,577,843**	**6,752,645**	**319,825,198**	**32,635,560**	**352,460,758**
Guarantees and warranties	40,421,924	3,318	**40,418,606**	-	**40,418,606**
Assumed contingent liabilities	73,482,180	566,546	**72,915,634**	-	**72,915,634**
Other off-balance exposure	-	-	-	329,937,072	**329,937,072**
Off-balance sheet exposure	**113,904,104**	**569,864**	**113,334,240**	**329,937,072**	**443,271,312**
Total exposure	**440,481,947**	**7,322,509**	**433,159,438**	**362,572,632**	**795,732,070**

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

[1] Other balance sheet exposures which Bank considers to be exposed to credit risk are 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	-	-	**814,366**	**-**	**-**	**-**
Of which: Other	-	-	814,366	-	-	-
Securities	**45,078,301**	**11,501,841**	**5,000,001**	**64,500**	**-**	-
Of which: State bonds of the Republic of Serbia	44,583,300	11,389,172	4,972,952	64,500	-	-
Of which: Other	495,001	112,669	27,049	-	-	-
Total exposure	**45,078,301**	**11,501,841**	**5,814,367**	**64,500**	**-**	-

As at 31 December 2022, 97.68% of securities exposures refer to the exposure based on government bonds of the Republic of Serbia, which, in accordance with the valid Decision on capital adequacy of the bank, allocates a risk weight of 0%.
Credit rating of the Republic of Serbia for long-term borrowing as at 31 December 2022:
- 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 regarding balance sheet and off-balance sheet items.
Maximum exposure to credit risk, in gross and net amount, without collaterals, as well as other items Bank does not consider to be exposed to credit risk, in accordance with Balance sheet items as at 31 December 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**	17,983,248	**39,929,947**
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	10,714,768	5,481	**10,709,287**	-	**10,709,287**
Loans and receivables from customers	208,932,504	5,315,612	**203,616,892**	-	**203,616,892**
Investments in subsidiaries	-	-	-	93,560	**93,560**
Intangible assets	-	-	-	1,705,660	**1,705,660**
Properly, plant and equipment	-	-	-	3,049,741	**3,049,741**
Current tax assets	-	-	-	238,878	**238,878**
Deferred tax assets	-	-	-	224,019	**224,019**
Non-current assets held for sale and discontinued operations	-	-	-	11,902	**11,902**
Other assets	925,675	107,551	**818,124**	414,190	**1,232,314**
Balance sheet exposure	**301,349,188**	**5,473,015**	**295,876,173**	**23,721,198**	**319,597,371**
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 exposure	**94,020,476**	**294,380**	**93,726,096**	**315,958,421**	**409,684,517**
Total exposure	**395,369,664**	**5,767,395**	**389,602,269**	**339,679,619**	**729,281,888**

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 primarily from activities which support Bank's operations (forming of liquidity reserves, respectively managing of short-term liquidity, as well as optimisation of interest income through managing assets, liabilities and equity) and are considered to be of high risk quality

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	**-**	-	**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 bank, 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 Ba3 / stable outlook
- Fitch Ratings BB+ / stable outlook
- Standard and Poor's BB+ / positive outlook

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Loans and receivables from customers, banks 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 2022:

In RSD '000

	Credit quality of non-problematic receivable			Problematic receivables[3]	Value of collateral*		The impact of collateral on reducing the value of impairment*
	High	Medium	Low		Non-problematic receivables	Problematic receivables	
Receivables from retail customers	**83,941,896**	**12,633,095**	**3,095,646**	**2,565,499**	**44,849,125**	**266,188**	**132,813**
Housing loans	51,884,515	2,736,788	490,907	375,092	44,598,947	264,806	131,051
Consumer and cash loans	30,471,667	9,542,299	2,531,016	2,047,334	236,191	1,382	1,748
Transactions and credit cards	541,226	109,461	22,543	19,579	2,228	0	7
Other receivables	1,044,488	244,547	51,180	123,494	11,759	0	7
Receivables from corporate clients	**97,042,601**	**14,912,154**	**1,452,789**	**2,486,316**	**19,587,091**	**1,239,401**	**1,340,627**
Large enterprises	20,630,166	699,457	0	41,208	4,968,352	41,208	51,607
Small and middle sized enterprises	36,785,755	7,318,217	719,256	2,193,442	7,139,706	1,175,226	1,091,996
Micro sized enterprises and entrepreneurs	25,874,719	6,698,024	701,822	213,201	6,477,686	14,761	182,807
Agriculture	2,549,890	196,456	31,711	38,465	1,001,347	8,206	14,217
Public enterprises	11,202,071	0	0	0	0	0	0
Receivables from other clients	**15,271,527**	**9,677**	**2**	**465,509**	**42,394**	**291,718**	**333,463**
Total receivables	**196,256,024**	**27,554,926**	**4,548,437**	**5,517,324**	**64,478,610**	**1,797,307**	**1,806,903**

* 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 "36.2 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)

Loans and receivables from customers, banks and other financial organizations

(a) Overview by credit quality of non-problematic receivables and value of collateral of those receivables as at 31 December 2021:

In RSD '000

	Credit quality of non-problematic receivables			Problematic receivables[4]	Value of collateral*		The impact of collateral on reducing the value of impairment*
	High	Medium	Low		Non-problematic receivables	Problematic receivables	
Receivables from retail customers	**80,477,069**	**12,086,658**	**2,419,301**	**1,931,683**	**41,878,408**	**259,040**	**105,011**
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	1,015,426	238,187	47,190	107,503	19,563	-	15
Receivables from corporate clients	**89,210,138**	**14,020,042**	**2,690,600**	**2,189,002**	**19,870,584**	**609,154**	**1,063,047**
Large enterprises	18,517,814	48,273	-	62,756	4,863,352	62,756	78,294
Small and middle sized enterprises	39,113,890	7,760,008	1,895,859	1,148,377	8,816,960	445,753	774,186
Micro sized enterprises and entrepreneurs	18,520,901	5,892,092	762,783	919,894	5,007,216	74,930	195,987
Agriculture	2,759,027	283,569	31,958	57,975	1,183,055	25,714	14,115
Public enterprises	10,298,506	36,099	-	-	-	-	466
Receivables from other clients	**14,449,769**	**6,228**	**4**	**166,780**	**109,482**	**61,075**	**47,594**
Total receivables	**184,136,975**	**26,112,928**	**5,109,904**	**4,287,465**	**61,858,473**	**929,269**	**1,215,652**

4 Problematic claims of the Bank include receivables in default status (see 36.2 Credit risk - default status) and restructured receivables "Non performing forbearance" (see 37.2 Credit risk - reprogramed receivables) that are not in default status.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

(b) Overview of gross and net exposure to credit risk by sector and category of receivables, means of collateral, maturity and value of collateral as at 31 December 2022:

In RSD '000

	Unimpaired receivables[5]		Impaired receivables[6]			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	**99,298,739**	**480,732**	**254,830**	**2,201,835**	**102,236,136**	**1,408,874**	**130,484**	**1,651,011**	**99,045,767**	**44,901,693**	**213,620**
Mortgage loans	55,109,462	71,039	230,153	76,648	55,487,302	304,628	107,568	48,375	55,026,731	44,651,515	212,238
Consumer and cash loans	42,226,802	358,090	24,400	1,983,024	44,592,316	1,074,872	22,654	1,526,553	41,968,237	236,191	1,382
Transactions and credit cards	672,384	970	132	19,323	692,809	8,359	125	15,649	668,676	2,228	-
Other receivables	1,290,091	50,633	145	122,840	1,463,709	21,015	137	60,434	1,382,123	11,759	-
Receivables from corporate clients	**112,976,830**	**446,694**	**2,349,007**	**121,329**	**115,893,860**	**1,712,391**	**1,371,143**	**88,778**	**112,721,548**	**19,587,090**	**1,239,402**
Large enterprises	21,277,793	51,830	41,208	-	21,370,831	190,692	13,607	0	21,166,532	4,968,352	41,208
Small and middle sized enterprises	44,612,188	211,041	2,181,701	11,740	47,016,670	608,849	1,285,043	6,938	45,115,840	7,139,705	1,175,227
Micro sized enterprises	33,117,799	171,016	102,393	96,558	33,487,766	655,730	58,314	72,173	32,701,549	6,477,686	14,761
Agriculture	2,768,411	11,375	23,705	13,031	2,816,522	30,196	14,179	9,667	2,762,480	1,001,347	8,206
Public enterprises	11,200,639	1,432	-	-	11,202,071	226,924	-	-	10,975,147	-	-
Receivables from other customers	**15,271,196**	**10,010**	**459,216**	**6,293**	**15,746,715**	**27,975**	**126,631**	**4,776**	**15,587,333**	**42,394**	**291,718**
Total exposure	**227,546,765**	**937,436**	**3,063,053**	**2,329,457**	**233,876,711**	**3,149,240**	**1,628,258**	**1,744,565**	**227,354,648**	**64,531,177**	**1,744,740**
By category of receivables											
Non-problematic receivables	227,423,812	935,575	-	-	228,359,387	3,130,394	-	-	225,228,993	64,478,610	-
of which: restructured	543,260	4,226	-	-	547,486	37,736	-	-	509,750	342,970	-
Non-problematic receivables	122,953	1,861	3,063,053	2,329,457	5,517,324	18,846	1,628,258	1,744,565	2,125,655	52,567	1,744,740
of which: restructured	105,908	1,317	128,882	294,630	530,737	15,706	63,539	186,806	264,686	42,517	95.467
Total exposure	**227,546,765**	**937,436**	**3,063,053**	**2,329,457**	**233,876,711**	**3,149,240**	**1,628,258**	**1,744,565**	**227,354,648**	**64,531,177**	**1,744,740**

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

36. RISK MANAGEMENT (nastavak)
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[7]		Impaired receivables[8]			Accumulated impairment allowances				Value of collateral	
	Not past due	Past due	On individual basis	On collective basis	Total gross receivables	Impairment allowances on unimpaired receivables	On individual basis	On collective basis	Total net receivables	Unimpaired receivables	Impaired receivables
By sector											
Receivables from retail clients	**94,679,477**	**386,902**	**238,904**	**1,609,428**	**96,914,710**	**1,564,435**	**133,893**	**1,150,873**	**94,065,510**	**41,909,277**	**228,172**
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	1,250,360	50,987	291	106,668	**1,408,306**	22,605	276	43,037	**1,342,389**	19,563	-
Receivables from corporate clients	**105,695,983**	**244,101**	**2,015,880**	**153,818**	**108,109,782**	**1,137,065**	**1,074,134**	**114,813**	**105,783,770**	**19,870,584**	**609,154**
Large enterprises	18,528,303	37,785	62,756	-	**18,628,844**	69,911	3,138	-	**18,555,795**	4,863,352	62,756
Small and middle sized enterprises	48,659,390	110,367	1,130,507	17,870	**49,918,135**	602,620	435,805	15,565	**48,864,146**	8,816,960	445,753
Micro sized enterprises	25,118,549	74,700	787,109	115,311	**26,095,669**	390,012	605,966	83,095	**25,016,597**	5,007,216	74,930
Agriculture	3,065,640	10,744	35,508	20,637	**3,132,529**	24,344	29,225	16,154	**3,062,805**	1,183,055	25,714
Public enterprises	10,324,101	10,504	-	-	**10,334,605**	50,177	-	-	**10,284,428**	-	-
Receivables from other customers	**14,382,351**	**73,650**	**154,317**	**12,463**	**14,622,780**	**27,130**	**107,927**	**10,824**	**14,476,899**	**109,482**	**61,075**
Total exposure	**214,757,811**	**704,652**	**2,409,100**	**1,775,709**	**219,647,272**	**2,728,629**	**1,315,953**	**1,276,510**	**214,326,179**	**61,889,342**	**898,400**
By category of receivables											
Non-problematic receivables	214,656,116	703,691	-	-	**215,359,807**	2,712,823	-	-	**212,646,984**	61,858,473	-
of which: restructured	569,875	3,046	-	-	**572,920**	41,046	-	-	**531,874**	337,605	-
Problematic receivables	101,695	961	2,409,100	1,775,709	**4,287,465**	15,806	1,315,953	1,276,510	**1,679,195**	30,869	898,400
of which: restructured	87,520	905	716,273	228,876	**1,033,574**	15,003	553,288	158,883	**306,399**	24,387	133.067
Total exposure	**214,757,811**	**704,652**	**2,409,100**	**1,775,709**	**219,647,272**	**2,728,629**	**1,315,953**	**1,276,510**	**214,326,179**	**61,889,342**	**898,400**

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

(d) 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 2022:

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	**83,826,539**	**15,497,973**	**349,276**	**101,163**	**4,519**	**452,898**	**701,201**	**309,117**	**276,323**	**717,126**
Mortgage loans	54,175,969	977,527	19,580	7,421	-	182,261	90,103	4,144	2,727	27,569
Consumer and cash loans	28,067,427	14,110,179	312,700	90,103	4,485	216,240	600,133	292,321	253,601	645,128
Transactions and credit cards	660,023	1,549	10,978	804	-	3,418	2,798	2,786	3,013	7,439
Other receivables	923,120	408,718	6,018	2,835	34	50,979	8,167	9,866	16,982	36,990
Receivables from corporate clients	**122,423,442**	**6,202,775**	**78,483**	**31**	**-**	**76,559**	**887,179**	**391,983**	**1,037,829**	**542,295**
Large enterprises	21,287,121	42,502	-	-	-	-	41,208	-	-	-
Small and middle sized enterprises	42,799,009	1,972,908	51,313	-	-	36,350	817,362	325,750	992,444	21,535
Micro sized enterprises and entrepreneurs	30,835,979	2,442,116	10,720	-	-	32,529	28,483	32,506	36,363	69,070
Agriculture	2,742,278	37,288	189	31	-	7,680	126	12,384	314	16,232
Public enterprises	9,501,051	1,701,020	-	-	-	-	-	-	-	-
Receivables from other customers	**15,258,004**	**6,941**	**16,261**	**-**	**-**	**-**	**-**	**21,343**	**8,708**	**435,458**
Total exposure	**206,249,981**	**21,700,748**	**427,759**	**101,194**	**4,519**	**529,457**	**1,588,380**	**701,100**	**1,314,152**	**1,259,421**
By category of receivables										
Non-problematic receivables	206,167,603	21,673,304	420,681	97,799	-	-	-	-	-	-
of which: restructured	430,687	113,328	3,226	245	-	-	-	-	-	-
Problematic receivables	82,378	27,444	7,078	3,395	4,519	529,457	1,588,380	701,100	1,314,152	1,259,421
of which: restructured	69,661	27,091	7,078	3,395	-	158,492	148,130	29,924	18,969	67.997
Total exposures	**206,249,981**	**21,700,748**	**427,759**	**101,194**	**4,519**	**529,457**	**1,588,380**	**701,100**	**1,314,152**	**1,259,421**

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	**81,341,728**	**13,285,742**	**355,756**	**83,152**	**-**	**364,735**	**512,039**	**257,324**	**229,777**	**484,458**
Mortgage loans	49,716,058	766,133	21,081	1,818	-	144,094	82,790	19,990	11,846	49,388
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	876,005	419,605	3,734	2,002	-	53,974	8,991	7,575	12,683	23,737
Receivables from corporate clients	**102,552,936**	**3,352,917**	**26,077**	**8,153**	-	**113,838**	**292,134**	**794,390**	**152,092**	**817,243**
Large enterprises	18,269,426	296,662	-	-	-	62,756	-	-	-	-
Small and middle sized enterprises	46,660,540	2,100,754	317	8,147	-	13,923	259,055	760,105	19,832	95,462
Micro sized enterprises and entrepreneurs	24,483,246	688,664	21,339	-	-	23,695	28,149	29,463	131,243	689,871
Agriculture	2,844,001	227,955	4,422	6	-	13,464	4,930	4,822	1,018	31,910
Public enterprises	10,295,723	38,882	-	-	-	-	-	-	-	-
Receivables from other customers	**14,123,639**	**298,315**	**34,046**	**-**	**-**	**29,024**	**485**	**17,447**	**278**	**119,547**
Total exposure	**198,018,304**	**16,936,974**	**415,879**	**91,305**	**-**	**507,596**	**804,657**	**1,069,161**	**382,147**	**1,421,248**
By category of receivables										
Non-problematic receivables	197,950,085	16,906,063	414,731	88,928	-	-	-	-	-	-
of which: restructured	472,075	99,809	1,036	-	-	-	-	-	-	-
Problematic receivables	68,219	30,911	1,148	2,377	-	507,596	804,657	1,069,161	382,147	1,421,248
of which: restructured	54,643	30,289	1,117	2,377	-	101,403	121,448	21,151	44,722	656.425
Total exposure	**198,018,304**	**16,936,974**	**415,879**	**91,305**	**-**	**507,596**	**804,657**	**1,069,161**	**382,147**	**1,421,248**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

(f) Data on problematic receivables as at 31 December 2022:

In RSD '000

	Gross receivables value	Accumulated impairment allowance on total receivables	Gross value of problematic receivables		Accumulated impairment allowance on total receivables	% of problematic receivables	Collateral value of problematic receivables
			Total	of which: restructured receivables			
Receivables from retail clients	**102,236,133**	**3,190,370**	**2,565,499**	**473,106**	**1,794,327**	**2.51**	**266,187**
Housing loans	55,487,299	460,571	375,093	169,248	161,470	0.68	264,805
Consumers and cash loans	44,592,317	2,624,078	2,047,333	303,858	1,556,467	4.59	1,382
Transactions and credit cards	692,809	24,134	19,579	-	15,783	2.83	-
Other receivables	1,463,708	81,587	123,494	-	60,607	8.44	-
Receivables from corporate clients	**98,711,796**	**2,758,518**	**2,342,130**	**36,351**	**1,368,513**	**2.37**	**1,219,923**
Sector A	8,810,612	1,069,651	1,735,781	-	940,193	19.70	1,140,553
Sectors B, C and E	24,960,462	380,511	103,650	12,567	40,623	0.42	37,166
Sector D	10,772,999	332,327	-	-	-	-	-
Sector F	11,640,652	382,136	325,560	-	292,481	2.80	-
Sector G	15,124,008	201,937	71,245	22,473	47,220	0.47	-
Sector H, I and J	8,585,294	116,709	37,165	-	20,371	0.43	996
Sector L, M and N	18,817,769	275,247	68,729	1,311	27,625	0.37	41,208
Receivables from other clients	**32,928,782**	**573,175**	**609,695**	**21,280**	**228,829**	**1.85**	**311,197**
Total receivables	**233,876,711**	**6,522,063**	**5,517,324**	**530,737**	**3,391,669**	**2.36**	**1,797,307**

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		Accumulated impairment allowance on total receivables	% of problematic receivables	Collateral value of problematic receivables
			Total	of which: restructured receivables			
Receivables from retail clients	**96,914,710**	**2,849,201**	**1,931,683**	**383,469**	**1,293,210**	**1.99**	**259,041**
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	1,408,306	65,917	107,503	59	43,347	7.63	-
Receivables from corporate clients	**91,295,291**	**2,042,229**	**1,961,192**	**640,182**	**1,057,685**	**2.15**	**512,199**
Sector A	7,356,115	448,024	278,001	-	149,057	3.78	-
Sectors B, C and E	23,341,901	706,771	782,880	601,141	562,682	3.35	128,762
Sector D	11,887,106	298,505	597,523	-	168,590	5	317,327
Sector F	13,556,698	88,534	10,558	6,468	8,226	0.08	1,986
Sector G	10,477,409	179,075	157,598	32,572	106,954	1.50	75
Sector H, I and J	7,569,553	87,331	31,115	-	23,963	0.41	1,293
Sector L, M and N	17,106,510	233,989	103,516	-	38,212	0.61	62,756
Receivables from other clients	**31,437,271**	**429,664**	**394,589**	**9,924**	**257,375**	**1.26**	**158,029**
Total receivables	**219,647,272**	**5,321,093**	**4,287,465**	**1,033,574**	**2,608,270**	**1.95**	**929,269**

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

(d)Data on changes of problematic receivables in 2022:

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	1,931,683	1,681,991	1,169,635	903,051	42,327	224,257	121,459	2,565,499	771,172
Receivables from corporate and other clients	2,355,781	2,235,531	1,974,568	804,411	430,549	739,609	335,081	2,951,825	1,354,483
Total receivables	**4,287,464**	**3,917,522**	**3,144,203**	**1,707,462**	**472,876**	**963,866**	**456,540**	**5,517,324**	**2,125,655**

* Other changes relate to the increase in credit exposure of existing NPL clients (transition from off-balance sheet to on-balance sheet exposure).

(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	1,374,100	1,541,495	1,000,071	280,177	433,829	286,064	16,159	1,931,683	638,474
Receivables from corporate and other clients	1,328,614	1,642,923	923,211	542,801	94,772	285,638	307,455	2,355,781	1,040,721
Total receivables	**2,702,714**	**3,184,418**	**1,932,282**	**822,978**	**528,601**	**571,702**	**323,614**	**4,287,465**	**1,679,195**

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 banks guarantee and international banks for development 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 [9] of collateral and guarantees by sector providers and categories of receivables as at 31 December 2022:

In RSD '000

	Means of collateral* up to the receivables amount		
	Deposits	**Residential real estate**	**Other real estate**
Receivables from retail clients	**180,309**	**44,323,918**	**611,086**
Household loans	928	44,261,270	601,555
Consumer and cash loans	177,153	58,769	1,651
Transactions and credit cards	2,228	-	-
Other receivables	-	3,879	7,880
Receivables from corporate clients	**1,195,627**	**1,084,749**	**18,546,116**
Large enterprises	-	-	5,009,560
Small and middle sized enterprises	778,611	346,174	7,190,147
Micro sized enterprises and entrepreneurs	410,233	700,379	5,381,835
Agriculture	6,783	38,196	964,574
Public enterprises	-	-	-
Receivables from other clients	**1,971**	**177,447**	**154,694**
Total exposure	**1,377,907**	**45,586,114**	**19,311,896**
Per category of receivables	-	-	-
Non-problematic receivables	1,353,503	45,135,121	17,989,986
of which: restructured	4,855	174,582	163,533
Problematic receivables	24,403	450,993	1,321,911
of which: restructured	-	126,659	11,325
Total receivables	**1,377,906**	**45,586,114**	**19,311,897**

[9] 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 [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		
	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**

[10] 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)

In the course of 2022, the Bank sold the facility acquired by collecting receivables.

The sale value of the facility was RSD 11,766 thousand, and the book value on the day of sale was RSD 3,041 thousand. The profit from the sale was incurred in the amount of RSD 8,725 thousand.

During 2022, the Bank had acquired following means of collateral through collection of receivables:

In RSD '000

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	**-**	**-**

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

Basic principles to overtake assets (fixed and mobile) which have to be taken in consideration include analysis of market value and potential marketability of assets taken into consideration, which must be supported with expected sales revenue, which will lead uncollected receivable to the highest level possible. In 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 Bank applies sale, rent, development, retention, respectively combination of mentioned strategies. Suggestion of strategy must involve a real plan in terms of implementation of strategy. Estimated related expenses, income and effect on profit and loss must be taken in consideration. In case of suggesting retention strategy, cost of maintenance must be clearly presented in assets strategy.

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 2022	Value of receivables secured by mortgage as at 31 December 2021
Below 50%	12,794,078	9,282,954
50% to 70%	14,300,825	13,142,753
70% to 90*	16,743,963	18,777,925
90% to 100%	2,672,351	2,602,600
100% to 120%	5,015,176	4,670,332
120% to 150%	3,227,152	2,960,574
over 150%	5,809,219	4,741,150
Total exposure	**60,562,764**	**56,178,288**
Average LTV ratio	75.3%	78.6%

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

Evaluation of impairment of financial assets

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

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

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

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

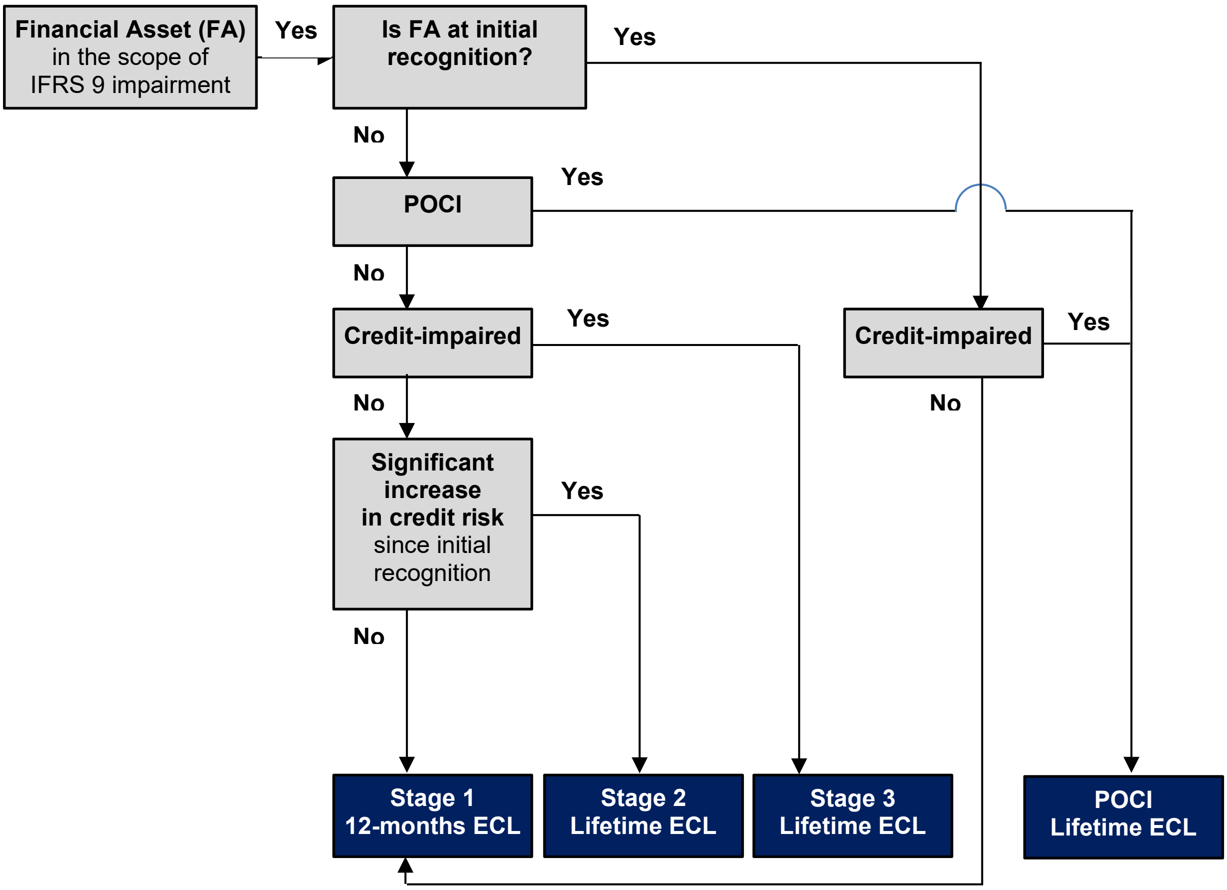
The objective of establishing an impairment allowances is to recognize expected credit losses over the life of all financial instruments, taking into account all reasonable and supporting information, including those relating to future events. Accordingly, financial assets that are relevant from the 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 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 Bank uses the following qualitative and quantitative criteria that indicate a significant increase in credit risk (SICR) at the time of reporting relative to the moment of initial recognition of financial assets:

Qualitative criteria

- **Days past due (DPD) -** The Bank defines more than 30 days past due with applied materiality threshold as a backstop indicator that lifetime expected credit losses should be recognised;
- **Forbearance** – Both performing and non- performing forbearance status are considered to be an indicator of significant increase in credit risk since initial recognition;
- **Transfer of the client to 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 bank, and in accordance with the IFRS 9 Concept for estimating the SICR threshold.
- **Absolute change in the probability of default status (PD) over a lifetime** - that is, a comparison of the annualized life-time PD at the reporting date and the adjusted annualized PD over the life-time of the financial asset at initial recognition. An absolute change above 50 bps 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 Bank 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 case of undrawn loan commitment and financial guarantee contract is calculated according to the following formula:

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

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). In the Bank (based on the methodology provided by the Erste Group), for financial assets to defaulted customers, the lifetime expected credit loss is calculated as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original EIR.

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 (e.g. bankruptcy / liquidation);
4) Exit scenario (e.g. NPL sale).

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

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Where

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

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

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

Where

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

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

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

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. The calculation formula for lifetime ECL on financial assets of individually not significant customers in default is:

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

Where

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

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

Where:

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

Risk parameters used to calculate expected credit losses

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

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

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

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

Forward-looking information is incorporated into the process of calculating provisions for credit losses during the first three years. 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	BEGINNING OF THE SERIES	END OF SERIES
Industrial production index	2004Q1	2021Q4
Unemployment rate	2006Q4	2021Q4
Average salary	2005Q1	2021Q4
Gross domestic product - annual growth rate	2004Q1	2021Q4
6m EURIBOR	2004Q1	2021Q4
3m BELIBOR	2005Q3	2021Q4
Rate EUR / RSD average in the period	2004Q1	2021Q4

Time series data from 2008Q4 to 2021Q4 were used to develop Forward-looking statistical models.

FLI component calculation in 2022:

The methodological approach remained unchanged compared to 2021, except in the part of applied probabilities:

- Recalibration of the model - the choice of variables remained unchanged, but the time series were extended, which affected the values of coefficients of the variables.
- Disabling the Add-on component

In order to most adequately reflect the actual macroeconomic uncertainty, the proposal of Erste Group experts is to change the probabilities for the used "Down", "Base", "UP" scenarios from 51%, 40%, 9% to 59%, 40% and 1% 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 in 2022:

- The inflations trends which increase
- Unstable geopolitical situation (Ukraine/Russia) which impact on energy prices
- Increase in interest rate

In order to better reflect the high volatility of macroeconomic variable estimates and economic recovery due to current macroeconomic uncertainty, the "Down" scenario was made more conservative by combining the standard "Down" scenario and the "Adverse Comprehensive Stress Test" scenario.

Implementation of new forward looking information in 2022 led to change in the probability of default status. The probabilities were updated twice during 2022, resulting in additional provision in the amount of around RSD 231 million.

The assessment of one-year and lifetime PD values is performed on the available history of data on clients of the corresponding segment, using different statistical approaches depending on the client segment (migration matrices, historical average default rate, forward-looking information and the like).

- LGD – Loss Given Default

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

Statistical LGD calculated on the basis of the historical losses of the Bank's customers is calculated for the segment of private individuals and micro clients and applies from 2019, while the annual reassessment was done in November 2022. The effect for both segments was a decrease in provisions, for the retail segment RSD 39 million, while for the micro segment a decrease of RSD 15 million. For the Corporate segment, the Bank is currently using LGD Expert Values (taking into account collateral coverage).

- CCF - Credit Conversion Factor

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

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 customers		
Agriculture and food industry	864,700	(610)
Entrepreneurs	24,800	945
Manufacturing industry	265,052	(151)
Retail	1,646,999	941
Commerce	99,115	(5)
Services and tourism	623,560	168
Balance at 31 December	**3,524,226**	**1,288**

The effects of modification as at 31 December 2022 amounted to RSD 1,288 thousand.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on changes of impaired receivables in 2022:

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	**1,848,332**	**1,226,253**	**114,346**	**268,383**	**43,494**	-	**2,456,665**	**675,170**
Household loans	308,106	126,464	97,120	68,136	40,148	-	306,801	150,858
Consumer and cash loans	1,416,442	1,089,066	17,085	189,177	2,927	-	2,007,424	458,217
Transactions and credit cards	16,824	-	-	3,025	188	-	19,455	3,681
Other receivables	106,960	10,723	141	8,045	231	-	122,985	62,414
Receivables from corporate clients	**2,169,698**	**2,310,619**	**2,240,713**	**268,383**	**7,382**	**(21,548)**	**2,470,336**	**1,010,415**
Large enterprises	62,756	-	-	-	-	(21,548)	41,208	27,601
Small and middle sized enterprises	1,148,377	2,176,528	2,164,904	68,136	-	-	2,193,441	901,460
Micro sized enterprises and entrepreneurs	902,420	114,841	61,485	189,177	-	-	198,951	68,464
Agriculture	56,145	19,250	14,324	3,025	7,382	-	36,736	12,890
Public enterprises	-	-	-	8,045	-	-	-	-
Receivables from other customers	**166,780**	**8,708**	**5,988**	**-**	**-**	**-**	**465,509**	**334,102**
Total receivables	**4,018,030**	**3,545,580**	**2,361,047**	**536,766**	**50,876**	**(21,548)**	**5,392,510**	**2,019,687**

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	**1,302,521**	**1,158,089**	**116,803**	**255,116**	**69,167**	**(357,162)**	**1,848,331**	**563,565**
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	53,104	86,891	289	10,196	2	(22,839)	106,960	63,647
Receivables from corporate clients	**984,362**	**1,314,570**	**1,222,338**	**28,346**	**-**	**(100,888)**	**2,169,698**	**980,751**
Large enterprises	-	62,756	62,756	-	-	-	62,756	59,618
Small and middle sized enterprises	183,371	1,041,521	1,038,528	3,171	22,069	(73,344)	1,148,377	697,008
Micro sized enterprises and entrepreneurs	760,030	187,031	113,672	22,794	-	(21,847)	902,420	213,360
Agriculture	40,961	23,262	7,382	2,382	-	(5,696)	56,145	10,765
Public enterprises	-	-	-	-	-	-	-	-
Receivables from other customers	**344,252**	**46,474**	**45,713**	**-**	**-**	**(223,947)**	**166,780**	**48,029**
Total receivables	**2,631,135**	**2,519,133**	**1,384,854**	**283,462**	**69,167**	**(681,997)**	**4,184,809**	**1,592,345**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on changes of allowance for impairment of receivables in 2022:

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	**2,849,319**	**4,762,624**	**4,161,970**	**(259,604)**	**3,190,369**
Household loans	498,722	776,790	811,362	(3,579)	460,571
Consumer and cash loans	2,260,789	3,912,388	3,296,691	(252,407)	2,624,079
Transactions and credit cards	23,891	39,061	36,889	(1,930)	24,133
Other receivables	65,917	34,385	17,028	(1,688)	81,586
Receivables from corporate clients	**2,326,012**	**4,007,748**	**2,160,403**	**(1,001,045)**	**3.172.312**
Large enterprises	73,049	250,361	118,825	(286)	204,299
Small and middle sized enterprises	1,053,989	2,291,803	1,021,347	(423,615)	1,900,830
Micro sized enterprises and entrepreneurs	1,079,073	1,138,561	872,097	(559,320)	786,217
Agriculture	69,724	66,340	64,144	(17,878)	54,042
Public enterprises	50,177	260,683	83,990	(54)	226,924
Receivables from other customers	**145,880**	**175,176**	**520,505**	**358,831**	**159.382**
Total exposure	**5,321,211**	**8,945,548**	**6,842,878**	**(901,818**	**6.522.063**
Per category of receivable:	-	-	-	-	-
Non-problematic receivables:	2,608,270	5,921,852	5,264,503	(135,225)	3,130,394
Of which: restructured	727,175	40,196	62,402	(667,233)	37.736
Problematic receivables:	2,712,941	3,023,696	1,578,375	(766,593)	3,391,669
Of which: restructured	41,046	213,825	492,621	503,801	266.051
Total exposure	**5,321,211**	**8,945,548**	**6,842,878**	**(901,818)**	**6,522,063**

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	**2,729,818**	**4,837,924**	**4,483,749**	**(234,792)**	**2,849,201**
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	74,326	42,200	17,040	(33,586)	65,917
Receivables from corporate clients	**1,559,812**	**2,992,000**	**2,215,521**	**(10,279)**	**2,326,012**
Large enterprises	72,541	104,402	103,043	(852)	73,049
Small and middle sized enterprises	598,657	1,457,495	956,373	(45,791)	1,053,989
Micro sized enterprises and entrepreneurs	792,742	1,311,175	1,043,315	18,471	1,079,073
Agriculture	57,067	54,668	60,123	18,111	69,724
Public enterprises	38,804	64,259	52,667	(219)	50,177
Receivables from other customers	**319,558**	**74,105**	**59,198**	**(188,585)**	**145,880**
Total exposure	**4,609,188**	**7,904,030**	**6,758,468**	**(433,656)**	**5,321,093**
Per category of receivable:					
Non-problematic receivables:	2,623,598	5,140,421	5,048,412	(2,784)	2,712,823
Of which: restructured	55,765	118,920	187,194	53,556	41.046
Problematic receivables:	1,985,590	2,763,609	1,710,056	(430,872)	2,608,270
Of which: restructured	688,538	759,184	630,115	(90,432)	727.175
Total exposure	**4,609,188**	**7,904,030**	**6,758,468**	**(433,656)**	**5,321,093**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on accrued income from interest and collected interest for the year ended 31 December 2022

In RSD '000

	Interest income	Interest collected	Interest income on impaired receivables	Collected interest on impaired receivables
Receivables from retail clients	**6,018,344**	**6,027,777**	**254,413**	**161,820**
Household loans	1,856,084	1,861,482	20,680	15,761
Consumer and cash loans	4,048,211	4,056,834	224,087	142,058
Transactions and credit cards	100,253	99,834	3,489	2,281
Other receivables	13,796	9,627	6,157	1,720
Receivables from corporate clients	**4,122,820**	**3,791,405**	**98,411**	**68,816**
Large enterprises	609,664	593,541	1,803	1,762
Small and middle sized enterprises	1,708,809	1,624,436	77,404	53,272
Micro sized enterprises and entrepreneurs	1,330,702	1,157,759	17,304	11,979
Agriculture	102,432	104,825	1,900	1,803
Public enterprises	371,213	310,844	0	0
Receivables from other customers	**2,634,252**	**2,646,236**	**7,997**	**4,057**
Total receivables	**12,775,416**	**12,465,418**	**360,821**	**234,693**
Per category of receivable:				
Non-problematic receivables:	12,405,894	12,223,513	-	-
Of which: restructured	32,598	30,109	-	-
Problematic receivables:	369,522	241,905	360,821	234,693
Of which: restructured	55,296	48,503	48,360	42,528
Total receivables	**12,775,416**	**12,465,418**	**360,821**	**234,693**

Interest income from loans is recognized in accordance with IFRS 9, in effective interest rate, which represents rate that discounts estimated future payments through expected life cycle of loan to net present value of loan. When determining the effective interest rate, all terms from contract related to that financial instrument are taken into account, but not future credit losses. With impaired loans, income is recognized in amount of income specified using the effective interest rate on the net book value (book value minus amount of impairment).

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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	**5,011,644**	**5,015,351**	**179,430**	**105,615**
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	12,864	9,557	5,746	1,752
Receivables from corporate clients	**3,269,096**	**3,233,574**	**109,231**	**38,900**
Large enterprises	443,288	490,594	2,035	2,098
Small and middle sized enterprises	1,583,564	1,553,981	69,891	28,621
Micro sized enterprises and entrepreneurs	931,484	794,044	35,309	6,675
Agriculture	98,680	109,326	1,995	1,506
Public enterprises	212,081	285,629	-	-
Receivables from other customers	**2,525,051**	**2,422,319**	**5,045**	**2,327**
Total receivables	**10,805,791**	**10,671,244**	**293,705**	**146,843**
Per category of receivable:				
Non-problematic receivables	10,504,596	10,519,731	-	-
Of which: restructured	27,540	26,479	-	-
Problematic receivables	301,196	151,513	293,705	146,843
Of which: restructured	58,820	20,583	53,647	16.696
Total receivables	**10,805,791**	**10,671,244**	**293,705**	**146,843**

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 favourable 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 (customers, suppliers, competitors) and the need to adjust the loan repayment schedule and terms to the newly arisen situation.

Forbearance represents restructuring caused by:

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

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

Performing forbearance under probation – is a specific category within Forbearance status where client get transferred to from 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 that, in case of fulfilment of defined terms, client gets into Performing forbearance under probation status.

Distressed reprogram / restructuring (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 months.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

Data on restructured loans as at 31 December 2022:

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	**102,236,133**	**3,190,370**	**810,971**	**473,106**	**264,276**	**0,79**	**272,794**
Housing loans	55,487,299	460,571	314,733	169,248	73,822	0,57	251,436
Consumers and cash loans	44,592,317	2,624,078	496,238	303,858	190,454	1,11	21,358
Transactions and credit cards	692,809	24,134	-	-	-	-	-
Other receivables	1,463,708	81,587	-	-	-	-	-
Receivables from corporate clients *	**98,711,796**	**2,758,518**	**240,056**	**36,351**	**28,290**	**0,24**	**202,755**
Sector A	8,810,612	1,069,651	11,470	-	3,314	0,13	11,470
Sectors B, C and E	24,960,462	380,511	72,525	12,567	1,303	0,29	68,538
Sector D	10,772,999	332,327	-	-	-	-	-
Sector F	11,640,652	382,136	-	-	-	-	-
Sector G	15,124,008	201,937	50,360	22,473	12,972	0,33	24,803
Sector H, I and J	8,585,294	116,709	103,307	-	9,710	1,20	97,944
Sector L, M and N	18,817,769	275,247	2,394	1,311	991	0,01	-
Receivables from other clients	**32,928,782**	**573,175**	**27,196**	**21,280**	**11,221**	**0,08**	**5,405**
Total receivables	**233,876,711**	**6,522,063**	**1,078,223**	**530,737**	**303,787**	**0,46**	**480,954**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

Data on restructured loans as at 31 December 2021:

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	**96,914,710**	**2,849,201**	**761,144**	**383,469**	**240,807**	**0.79**	**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	1,408,306	65,917	59	59	4	0.00	-
Receivables from corporate clients *	**91,295,291**	**2,042,229**	**815,368**	**640,182**	**520,527**	**0.89**	**214,016**
Sector A	7,356,115	448,024	16,844	-	5,204	0.23	16,844
Sectors B, C and E	23,341,901	706,771	601,309	601,141	475,280	2.58	50,918
Sector D	11,887,106	298,505	-	-	-	-	-
Sector F	13,556,698	88,534	6,468	6,468	4,258	0.05	1,986
Sector G	10,477,409	179,075	40,503	32,572	20,675	0.39	2,726
Sector H, I and J	7,569,553	87,331	140,044	-	14,834	1.85	135,572
Sector L, M and N	17,106,510	233,989	10,200	-	276	0.06	5,970
Receivables from other clients	**31,437,271**	**429,664**	**29,983**	**9,924**	**6,887**	**0.10**	**1,361**
Total receivables	**219,647,272**	**5,321,093**	**1,606,495**	**1,033,574**	**768,221**	**0.73**	**495,058**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on changes in restructured loans during 2022:

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	**761,145**	**294,488**	**139,024**	**(105,638)**	**810,971**	**546,695**
Household loans	339,596	72,470	67,487	(29,846)	314,733	240,912
Consumer and cash loans	421,490	222,018	71,537	(75,733)	496,238	305,783
Other receivables	59	-	-	(59)	-	-
Receivables from corporate clients	**845,350**	**112,265**	**25,113**	**(665,250)**	**267,252**	**227,741**
Large enterprises	-	13,824	-	-	13,824	13,814
Small and middle sized enterprises	209,782	71,026	-	(95,597)	185,211	170,936
Micro sized enterprises and entrepreneurs	632,147	21,385	25,113	(569,155)	59,264	37,743
Agriculture	3,421	6,030	-	(498)	8,953	5,248
Receivables from other clients	-	-	-	-	-	-
Total receivables	-	-	-	-	-	-
Receivables from retail clients	**1,606,495**	**406,753**	**164,137**	**(770,888)**	**1,078,223**	**774,436**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on changes in restructured loans during 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	**854,557**	**43,283**	**46,359**	**(6,131)**	**845,350**	**317,090**
Large enterprises	-	-	-	-	-	-
Small and middle sized enterprises	217,919	6,907	3,210	(11,833)	209,782	156,676
Micro sized enterprises and entrepreneurs	631,604	36,146	41,628	6,025	632,147	158,431
Agriculture	5,034	230	1,521	(323)	3,421	1,983
Receivables from other clients	-	-	-	-	-	**-**
Total receivables	**1,677,057**	**319,578**	**266,323**	**(123,817)**	**1,606,495**	**838,273**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on structure of restructured receivables according to measures of reschedule during 2022:

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	**465,607**	**4,343**	**586,952**	**623,054**	**8,423**	**50,943**	**810,971**
Household loans	128,249	1,845	105,599	175,943	8,313	50,720	314,733
Consumer and cash loans	337,358	2,498	481,353	447,111	110	223	496,238
Other receivables	**169,707**	**103,916**	**236,550**	**85,941**	-	**12,847**	**267,252**
Receivables from corporate clients	-	13,824	13,824	13,824	-	-	13,824
Small and middle sized enterprises	119,549	72,598	185,211	68,538	-	-	185,211
Micro sized enterprises and entrepreneurs	46,579	17,494	35,665	-	-	10,050	59,264
Agriculture	3,579	-	1,850	3,579	-	2,797	8,953
Total receivables	**635,314**	**108,259**	**823,502**	**708,995**	**8,423**	**63,790**	**1,078,223**

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 2021:

In RSD '000

	Delay capitalisation	Grace period	Extension of maturity date	Change of interest rate	Partial write off	Other measure s	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**	**584,954**	**807,097**	**54,962**	**-**	**13,618**	**845,350**
Small and middle sized enterprises	209,782	12,352	209,782	50,918	-	-	209,782
Micro sized enterprises and entrepreneurs	615,601	572,603	595,724	623	-	12,257	632,147
Agriculture	3,421	-	1,591	3,421	-	1,361	3,421
Total receivables	**1,259,626**	**593,668**	**1,314,627**	**671,314**	**29,882**	**47,939**	**1,606,495**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Loan concentration risk

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

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

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

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

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

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 2022, 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 as at 31 December 2022:

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	**37,140,691**	**698,470**	**41,973,988**	**1,110,478**	**11,507,522**	**446,314**	**8,250,893**	**294,964**	**793,302**	**15,244**	**4,238**	**29**
Household loans	25,424,524	104,229	22,171,358	161,406	4,608,293	86,743	2,782,912	22,333	121,002	382	4,117	-
Consumers and cash loans	11,320,476	552,991	18,768,457	900,986	6,552,327	339,596	5,259,143	239,322	644,581	14,438	-	-
Transactions and credit cards	131,302	4,489	394,434	8,783	93,965	4,249	48,762	2,054	4,767	4	-	-
Other receivables	264,389	36,761	639,739	39,303	252,937	15,726	160,076	31,255	22,952	420	121	29
Receivables from corporate clients *	**50,705,085**	**401,368**	**31,933,212**	**1,870,193**	**8,355,716**	**56,654**	**5,375,653**	**13,915**	**-**	**-**	**-**	**-**
Sector A	2,003,700	-	4,697,282	1,735,779	342,342	2	31,507	-	-	-	-	-
Sectors B, C and E	4,296,137	6,156	12,236,972	96,527	4,553,002	68	3,770,701	899	-	-	-	-
Sector D	6,293,466	-	2,014,468	-	1,864,837	-	600,228	-	-	-	-	-
Sector F	7,181,373	325,346	3,561,326	184	422,428	30	149,965	-	-	-	-	-
Sector G	8,204,072	45,530	5,653,454	7,776	591,225	14,250	604,012	3,689	-	-	-	-
Sector H, I and J	6,825,282	6,975	1,366,061	28,213	218,883	1,096	137,903	881	-	-	-	-
Sector L, M and N	15,901,055	17,361	2,403,649	1,714	362,999	41,208	81,337	8,446	-	-	-	-
Receivables from other clients	27,586,468	476,395	2,727,966	74,227	838,585	53,202	370,643	5,871	276	-	795,149	-
Total exposure	**115,432,244**	**1,576,233**	**76,635,166**	**3,054,898**	**20,701,823**	**556,170**	**13,997,189**	**314,750**	**793,578**	**15,244**	**799,387**	**29**

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	**35,542,055**	**501,832**	**39,373,474**	**835,514**	**11,178,208**	**349,116**	**8,142,715**	**227,686**	**741,981**	**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	259,587	34,390	636,223	28,822	234,603	12,343	149,038	31,614	21,305	249	47	86
Receivables from corporate clients *	**47,253,900**	**960,627**	**28,448,993**	**755,339**	**7,463,411**	**213,212**	**6,167,060**	**32,014**	**735**	**-**	**-**	**-**
Sector A	818,057	259,404	6,106,242	13,913	40,926	4,685	112,888	-	-	-	-	-
Sectors B, C and E	4,222,701	1,527	9,935,144	657,984	4,063,399	120,590	4,337,777	2,780	-	-	-	-
Sector D	6,865,553	597,523	1,642,035	-	2,078,159	-	703,836	-	-	-	-	-
Sector F	9,561,512	7,983	3,453,000	589	249,061	-	282,566	1,986	-	-	-	-
Sector G	5,191,811	36,085	4,088,257	71,367	506,051	22,933	532,957	27,212	735	-	-	-
Sector H, I and J	6,029,348	21,275	1,243,032	7,592	147,018	2,249	119,040	-	-	-	-	-
Sector L, M and N	14,564,919	36,831	1,981,283	3,894	378,796	62,756	77,996	36	-	-	-	-
Receivables from other clients	**23,699,224**	**85,240**	**2,903,073**	**212,053**	**845,321**	**86,834**	**381,583**	**10,462**	**-**	**-**	**3,213,481**	**-**
Total exposure	**106,495,178**	**1,547,700**	**70,725,539**	**1,802,906**	**19,486,939**	**649,162**	**14,691,358**	**270,162**	**742,717**	**17,450**	**3,218,076**	**86**

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. The Bank overcomes risks related to credit risk through 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 transactions 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.

37.3. Liquidity Risk and Financial Assets Management

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

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

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

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

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

ALCO and Operating Liquidity Management Committee ("OLC") are responsible for liquidity risk monitoring, management and recommending to the Executive Board measures and activities for liquidity maintenance, maturity matching, planning of funding reserves and other measures relevant to the financial stability of the Bank. ALM Unit and Market and Liquidity Risk Management Department monitor the liquidity ratio on a daily basis, so that it is maintained within the limits prescribed by NBS and the Bank's Liquidity Risk Management Policy and Contingency (Liquidity Crisis) Financing Plan ("LCFP"). 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 Bank maintains a portfolio consisted of highly liquid securities and diversified assets that can be easily converted into cash in the event of unforeseen and negative oscillations in cash flows of the Bank. In addition, the Bank maintains the required level of obligatory dinar and foreign currency reserves, in accordance with the requirements of the National Bank of Serbia.

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

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 2022 and 2021 the Bank had daily liquidity ratios above the regulatory prescribed level.

Broader liquidity ratio	**31 December 2022**	**31 December 2021**
Average during period	1.39	1.50
Highest	2.2	1.87
Lowest	1.1	1.27
On 31 December	2.11	1.30

Narrower liquidity ratio	**31 December 2022**	**31 December 2021**
Average during period	1.26	1.36
Highest	1.98	1.75
Lowest	1.00	1.16
On 31 December	1.98	1.18

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

A set of policies and other internal acts adopted by the Managing and Executive Boards describe in more detail the issues of jurisdiction, methodology of calculation, limits and escalation. In addition to the defined regulatory limit, the Bank has established and monitors the internal limits for LCR, 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. As at 31 December 2022 and 31 December 2021, the Bank had Indicator of liquid assets coverage ratio above prescribed limit.

	31 December 2022	**31 December 2021**
LCR	157.10%	170.04%

In addition to calculating regulatory and internal indicators, the Bank conducts a regular stress test for liquidity risk. Survival Period Analysis is done on a weekly basis (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 bank 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 (continued)

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

The bank, in accordance with the requirements of the parent bank, and based on EU regulations, monitors and reports the indicator of the NSFR (Net Stable Funding ratio). The indicator is defined as the relationship between elements that provide stable financing and elements that require stable funding, and serves to monitor structural liquidity risks, with a focus on long-term financing for the purpose of limitation of the use of short-term financing and financing incompatibility. The Bank has defined the internal limits for the NSFR indicator.

The amount of internal limits is reviewed annually.

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

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management (continued)

Maturity Analysis of the Bank's Financial Liabilities

The following table shows the Bank's most significant financial liabilities by maturity, as at 31 December 2022 and 31 December 2021.

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 2022
Liabilities per borrowings, deposits and securities	**34,177,894**	**18,257,086**	**89,035,346**	**109,949,493**	**45,168,022**	**296,587,841**
Subordinated liabilities	37,804	-	-	-	-	-
Total	**34,215,698**	**18,257,086**	**89,035,346**	**109,949,493**	**52,207,366**	**303,664,989**

Analysis of financial liabilities by maturity

In RSD '000

	Within a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2021
Liabilities per borrowings, deposits and securities	**34,282,184**	**23,078,238**	**72,867,499**	**100,211,763**	**42,920,262**	**273,359,946**
Subordinated liabilities	6,955	-	-	-	3,527,463	3,534,418
Total	**34,289,139**	**23,078,238**	**72,867,499**	**100,211,763**	**46,447,725**	**276,894,364**

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management (continued)

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

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

In RSD '000

	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 2022
Contingent liabilities	417,253	781,860	4,439,435	14,299,412	19,897,141	586,822	40,421,923
Irrevocable commitments and letters of credit	50,163,849	189,488	2,196,887	5,225,785	9,253,569	6,452,603	73,482,181
Total	**50,581,102**	**971,348**	**6,636,322**	**19,525,197**	**29,150,710**	**7,039,425**	**113,904,104**

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 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**

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management (continued)

***Maturity Analysis of the Bank'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 totalingn 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 RSD 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 avgust 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. At the end of September 2022, the Bank signed agreement with the EBRD for financing energy efficiency projects for small and medium-sized enterprises in the total amount of 15 million euros. In December 2022, the Bank signed agreement with the EBRD for financing micro, small and medium-sized enterprises in the total amount of 15 million euros.

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 June 2022, the Bank signed agreement with Erste Group Bank AG on a long-term loan in the amount of EUR 55 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 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 2022 is presented in Note 28.

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management (continued)

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

Liquidity Gap Analysis – Financial Assets and Liabilities

In RSD '000

	Up to 14 days	15 days up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total 2022
ASSETS							
Cash and cash funds held at central Bank	54,676,263	-	-	-	-	-	54,676,263
Derivative receivables	28,613	-	1,928	10,027	472,350	301,448	814,366
Securities	143,547	4,555,295	45,422	12,177,577	23,546,691	21,047,111	61,515,643
Loans and receivables due from banks and other financial institutions	5,402,831	-	1,758,392	3,168,096	1,486	15,966	10,346,771
Loans and receivables due from customers	2,726,003	470,574	5,136,907	19,916,417	75,767,716	112,990,260	217,007,877
Other assets	1,048,517	20	67	3,316	1,150	700	1,053,770
Total assets	**64,025,774**	**5,025,889**	**6,942,716**	**35,275,433**	**99,789,393**	**134,355,485**	**345,414,690**
LIABILITIES AND EQUITY							
Derivative liabilities	25,698	-	2,909	9,433	434,175	271,805	744,020
Deposits and liabilities due to banks and other financial institutions and NBS	8,121,409	850,448	2,828,541	24,109,521	26,214,952	6,697,201	68,822,072
Deposits and other liabilities to customers	171,728,384	5,711,986	6,636,095	24,627,096	14,988,123	4,074,085	227,765,769
Securities liabilitie s	-	-	-	-	-	-	-
Subordinated liabilities	-	37,804	-	-	-	7,039,344	7,077,148
Other liabilities	224,659	-	287	7,603	441,698	1,156,942	1,831,189
Total liabilities	**180,100,150**	**6,600,238**	**9,467,832**	**48,753,653**	**42,078,948**	**19,239,377**	**306,240,198**
Total equity	**-**	**-**	**-**	**-**	**-**	**42,404,464**	**42,404,464**
Total liabilities and equity	**180,100,150**	**6,600,238**	**9,467,832**	**48,753,653**	**42,078,948**	**61,643,841**	**348,644,662**
Liquidity gap as at 31 December 2022	**(116,074,376)**	**(1,574,349)**	**(2,525,116)**	**(13,478,220)**	**57,710,445**	**72,711,644**	
Liquidity gap as at 31 December 2021	**(119,450,837)**	**(249,089)**	**(8,496,323)**	**(16,439,951)**	**60,053,296**	**82,495,897**	

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management (continued)

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

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

The previous table presents an analysis of the maturities for the Bank's financial 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 2022 is based on agreed discounted amounts.

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

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 Bank's financial result and equity.

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

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

To calculate the capital requirements of the general price risk, the Bank applies the maturity method.

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

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

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

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

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

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

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

36. RISK MANAGEMENT (continued)

36.4. Market Risks (continued)

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 2022	As at 31 December 2021
Interest rate risk	14,999	11,339
Foreign exchange risk	1,508	6,898
Total	**14,630**	**14,846**

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

In December 2022, the method of calculating FX VaR at the level of Erste Group was changed, which eliminated part of the risk that was caused only by the methodology. As a result, there was a decrease in the FX component in VaR, which also has an impact on the overall VaR.

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 an individual issuer for the entire portfolio of securities (trading book and bank book)

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

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

The bank 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.

36.4.1 Interest Rate Risk

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

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

36. RISK MANAGEMENT (continued)

36.4. Market Risks (continued)

36.4.1 Interest Rate Risk (continued)

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

The Bank has set up a set of indicators and limits of sensitivity for monitoring and managing the exposure to interest rate risk in the banking book.

Basis point 01 (BP01) - change in the value of balance positions due to changes in interest rates for one base point (exposure is monitored on the total and the level of individual currencies, for defined time limits).

Economic Value of Equity (EVE) - a shock of +/- 200 basis points (with and without application of interest rate floor) for each individual currency and summing up the worst scenarios. For discounting a risk free curve is used.

In addition to the EVE 1 indicator, the EVE 2 indicator has been established and regularly monitored and reported. EVE 2 is based on 6 different (parallel and non-parallel) scenarios defined by the EBA guidelines.

Market Value of Equity (MVoE) - a shock of +/- 200 basis points for each individual currency and summing up the worst scenarios. For discounting a risk free curve is used for margins.

EVE and MVoE ratios are calculated as a relationship of sensitivity and capital.

CR01 - change in value of portfolio of securities in the banking book due to a change in the credit rating of 1 base point.

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

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 Bank 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 Bank 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 bank's exposure to the interest rate risk (Repricing Gap) as at 31 December 2022. 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

	Within a month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over a year	Total non-interest bearing	Total
Cash	8,000,000	-	-	-	-	11,925,125	19,925,125
Required reserves	16,897,853	-	-	-	-	17,853,285	34,751,138
Securities	5,067,958	1,194,344	1,495,284	13,833,951	41,363,789	-	62,955,325
Loans to banks	5,366,400	-	-	-	-	-	5,366,400
Loans to clients	63,694,167	90,259,536	30,104,083	4,919,746	32,295,425	-	221,272,956
Other assets	-	-	-	-	-	8,189,814	8,189,814
Total balance assets	**99,026,377**	**91,453,880**	**31,599,367**	**18,753,697**	**73,659,213**	**37,968,224**	**352,460,758**
FX Swap	11,835,948	463,656	-	-	-	-	12,299,604
Total assets	**110,862,325**	**91,917,535**	**31,599,367**	**18,753,697**	**73,659,213**	**37,968,224**	**364,760,362**
Liabilities to banks	5,981,639	-	21,118,032	5,846,246	331	-	32,946,248
Liabilities to financial institutions	2,265,889	3,235,299	24,749,308	4,696,067	1,660,848	-	36,607,410
Demand deposits	15,262,887	8,792,450	13,335,216	26,963,513	103,143,155	-	167,497,221
Term deposits	10,706,076	8,279,467	9,572,458	20,560,852	18,791,560	-	67,910,413
Other liabilities	-	-	-	-	-	5,095,003	5,095,003
Equity	-	-	-	-	-	42,404,464	42,404,464
Total balance liabilities equity	**34,216,490**	**20,307,215**	**68,775,014**	**58,066,678**	**123,595,894**	**47,499,467**	**352,460,758**
FX Swap	11,829,978	464,427	-	-	-	-	12,294,405
Total L+E	**46,046,468**	**20,771,643**	**68,775,014**	**58,066,678**	**123,595,894**	**47,499,467**	**364,755,163**
Net interest risk exposure as at 31 December 2022	**64,815,857**	**71,145,893**	**(37,175,647)**	**(39,312,981)**	**(49,936,680)**	**(9,531,242)**	**5,199**
Net interest risk exposure as at 31 December 2021	**50,336,640**	**39,736,972**	**(10,360,310)**	**(35,185,251)**	**(37,695,471)**	**(6,803,475)**	**29,104**

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 Bank's income and expenses.

The following table presents the income statement's sensitivity to the reasonably anticipated changes of interest rates (1%) with other variables held constant. The income statement's sensitivity represents the effect of assumed changes in interest rates on the net interest income in one year and on financial assets and liabilities based on interest rates as at 31 December 2022 and 31 December 2021.

In RSD '000

Currency	**Changes in percentage points**	**Income statement sensitivity 2022**	**Changes in percentage points**	**Income statement sensitivity 2021**
Increase in percentage:				
RSD	1%	337,889	1%	118,432
EUR	1%	484,542	1%	451,212
Decrease in percentage:				
RSD	1%	(381,298)	1%	(224,157)
EUR	1%	(577,226)	1%	(719,585)

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 Bank's financial result and equity due to the fluctuations in foreign exchange rates. Banking operations in different foreign currencies cause the exposure to fluctuation in foreign exchange rates.

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

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

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

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

In 2022, the Bank continuously monitored the compliance of foreign exchange risk indicators, whereby the related indicator was at a level within the prescribed limit. At the end of each working day, the Bank's foreign currency exposure indicator was not more than 20% higher than the Bank's capital.

36. RISK MANAGEMENT (continued)

36.4. Market Risks (continued)

36.4.2. Foreign Exchange Risk (continued)

The following table shows the currencies in which the Bank has significant exposure as at 31 December 2022 and 31 December 2021 of its monetary assets and liabilities that are not traded.

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

Risk of changing foreign exchange rates

In RSD '000

Currency	Changes in currency rate (depreciation in %) as at 31 December 2022	Effect on profit and loss before taxes as at 31 December 2022	Changes in currency rate (depreciation in %) as at 31 December 2021	Effect on profit and loss before taxes as at 31 December 2021
EUR	2%	(30,003)	2%	(9,999)
CHF	2%	48	2%	(54)
USD	2%	327	2%	655

36. RISK MANAGEMENT (continued)

36.4. Market Risks (continued)

36.4.2. Foreign Exchange Risk

The following table presents the Bank's exposure to foreign exchange risk as at 31 December 2022. The table includes assets and liabilities at their carrying amounts.

In RSD '000

	EUR	USD	CHF	Other currencies	Total in FC	Total in RSD	Total
ASSETS							
Cash and cash funds held at Central Bank	24,152,720	144,865	115,708	177,345	**24,590,637**	30,085,626	**54,676,263**
Pledged financial assets	-	-	-	-	-	6,229,454	**6,229,454**
Derivative receivables	785,753	-	-	-	**785,753**	28,613	**814,366**
Securities	9,150,661	1,617,981	-	-	**10,768,642**	44,517,547	**55,286,189**
Loans and receivables due from banks and other financial institutions	5,227,057	292,908	12,387	141,377	**5,673,729**	4,673,042	**10,346,771**
Loans and receivables due from customers	161,689,817	303,311	6,459	-	**161,999,587**	55,008,290	**217,007,877**
Investments in subsidiaries	-	-	-	-	-	93,560	**93,560**
Intangible assets	-	-	-	-	-	3,192,108	**3,192,108**
Property, plant and equipment	-	-	-	-	-	3,100,408	**3,100,408**
Investment property						52,659	**52,659**
Current tax assets	-	-	-	-	-	129,231	**129,231**
Deferred tax assets	-	-	-	-	-	342,595	**342,595**
Fixed assets held for sale and assets of discontinued operations	-	-	-	-	-	11,902	**11,902**
Other assets	73,049	79	6,753	17	**79,898**	1,097,477	**1,177,375**
Total assets	**201,079,057**	**2,359,144**	**141,307**	**318,739**	**203,898,246**	**148,562,512**	**352,460,758**
LIABILITIES AND EQUITY							
Derivative liabilities	718,322	-	-	-	**718,322**	25,698	**744,020**
Deposits and liabilities due to banks and other financial institutions and NBS	52,974,082	207,202	5,313	13,799	**53,200,396**	15,621,676	**68,822,072**
Deposits and liabilities due to customers	127,620,166	6,113,498	4,564,951	1,285,124	**139,583,739**	88,182,030	**227,765,769**
Subordinated liabilities	7,077,148	-	-	-	**7,077,148**	-	**7,077,148**
Provision	-	-	-	-	-	1,938,039	**1,938,039**
Current tax assets	-	-	-	-	-	26,338	**26,338**
Other liabilities	1,923,792	18,243	6,551	1,469	**1,950,055**	1,732,853	**3,682,908**
Total liabilities	**190,313,510**	**6,338,943**	**4,576,815**	**1,300,392**	**202,529,660**	**107,526,634**	**310,056,294**
Total equity	-	-	-	-	-	42,404,464	**42,404,464**
Total liabilities and equity	**190,313,510**	**6,338,943**	**4,576,815**	**1,300,392**	**202,529,660**	**149,931,098**	**352,460,758**
Net foreign currency position as at:							
– 31 December 2022	**10,765,547**	**(3,979,799)**	**(4,435,508)**	**(981,653)**	**1,368,586**		
– 31 December 2021	**9,083,489**	**(4,330,796)**	**(3,493,066)**	**(656,846)**	**602.781**		

36. RISK MANAGEMENT (continued)

36.5. Bank's Risk Concentration

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

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

During 2022, the Bank maintained the exposure risk indicators within the prescribed values. By implementing appropriate activities stipulated by the relevant procedures and decisions on loan approval, the Bank kept the adequacy of its loans and receivables and investments in line with the performance indicators prescribed by the National Bank of Serbia (see Note 33(b)) and with the internal limits.

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

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

36.6. Bank's Investment Risks

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

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

The Bank's investment risk exposure arising on investments into other legal entities and property and equipment is monitored by the organizational unit or the Bank's body competent for procurement of tangible assets and investing in legal entities familiar with the current exposure and the amount of capital for the purposes of acting in timely manner in accordance with the prescribed limits.

During 2022, the Bank maintained the investment risk indicators within the prescribed values and it ensured that investments were reconciled with the indicators prescribed by the National Bank of Serbia.

36.7. Country Risk

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

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

The Bank monitors its exposure on geographic basis by applying the limits determined by the parent bank and based on country ratings. The limits, after approval by the parent bank, are also adopted locally by a defined level of decision making.

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

36. RISK MANAGEMENT (continued)

36.8. Operational Risk

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

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

Committee for 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 timely recording and reporting of early identified operational risk events, while the approximation process provides completeness, coherence and comprehensiveness of operational risk events that have occurred in the Bank. Operational risk events are collected in a single database and further analysed and monitored.

The Bank continuously educates all employees in the field of operational risk management by increasing the awareness of the emplozees 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 Bank 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 Bank has defined and regularly reviews and updates internal acts which govern the Bank's exposure to operational risk, taking into account the compliance with the applicable regulatory framework and Group standards.

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

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

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

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, such as travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity, including closures.

The aforementioned measures were gradually relaxed during 2020, and some of them would be abolished during 2021, while the rest were further weakened. The same trend continued during 2022, when from March the mandatory use of COVID-19 passes for staying indoors was abolished, and due to significantly milder clinical pictures, there were no further tightening of measures, so that in the second half of 2022 and a large number of health institutions returned to their normal operating mode. The loosening of measures mitigated the negative impact of COVID-19 on the economy, market participants, as well as the Serbian and global economy.

According to the data of the Republic Institute of Statistics, it was estimated that the total economic activity in the Republic of Serbia in 2022, measured by the real movement of gross domestic product (GDP), recorded a growth of 2.3% compared to 2021. According to the results of the Labor Force Survey, in the third quarter of 2022, the employment rate is 50.8%, while the unemployment rate is 8.9%. Average salaries without taxes and contributions in 2022, compared to the previous year, are nominally higher by 14.1%, and in real terms by 2.0%.

The estimated annual inflation rate for 2022 is 15.1%. 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 (continued)

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.

The pandemic response scenario is included in the recovery plans and ensuring the continuity of business-critical activities.

During 2022, extensive testing of business continuity plans for all business-critical activities was carried out, which included a scenario simulating the unavailability of standard workplaces at the primary location of employees due to mandatory measures to protect the health of employees in the event of a pandemic. The recovery of business-critical activities entailed the transition of employees to work from the HomeOffice environment and the performance of the target level of critical activities in that environment, showing as a result a high level of readiness of the Bank's business-critical functions to respond to the pandemic, with short target recovery times.

36.9. Capital Management

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

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

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

The Law on Banks and relevant decisions of the National Bank of Serbia, which are fully compliant with the requirements of Basel 3 standards as of 30 June 2017, stipulates that banks 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 decisions, 43/2013 and 92/2013, 33/2015, 61/2015, 61 /2016, 103/2016, 119/2017, 76/2018, 57/2019, 88/2019, 27/2020, 67/2020 and 89/2022) and the Decision on Capital Adequacy ("Official Gazette of RS", No. 103 /2016, , 103/2018, 88/2019, 67/2020, 98/2020, 137/2020, 59/2021, 67/2022 and 137/2022).

Regulatory prescribed minimum capital adequacy ratios, including the protection classes of equity as at 31 December 2022, were as follows:

- indicator of the Common Equity Tier 1 capital adequacy ratio 17.32%
- indicator of the Tier 1 capital adequacy ratio 17.32%% and
- indicator of Total capital adequacy ratio 20.58%.

In addition to the requirements defined in the form of minimum indicators of capital adequacy and protective capital layers, the Bank is also required to fulfil the additional regulatory minimum capital requirement, defined in the process of the Supervisory Review and Evaluation Process (SREP), which the National Bank of Serbia for 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 bank is the sum of the basic and additional capital, where the basic capital makes the sum of the basic share capital and additional share capital. The capital adequacy ratio of the Bank is equal to the ratio of the bank's capital and the collection of credit risk weighted assets, the capital requirement for price risk from the activities in the book of trade multiplied by the reciprocal value of the capital adequacy ratio (prescribed 8%), the capital requirement for foreign exchange risk multiplied by the reciprocal value of the capital adequacy ratio, the capital requirement for the risk of adjusting the credit exposure multiplied by the reciprocal value of the capital adequacy ratio, the capital requirement for operational risk multiplied by the reciprocal value of the capital adequacy ratios and the risk weighted exposure for the risk of the counterparty.

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

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

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

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

In accordance with the Law on Banks and the Decision on Bank and Banking group Recovery Plans ("Official Gazette of the Republic of Serbia" No. 71/2015), the Bank regularly prepares and provides the National Bank of Serbia with the Recovery Plan, which represents the main pillar for preserving the financial resilience of the Bank, as well as achieving stability in situations of serious financial disturbances. In addition, the Bank, for the purpose of preparing the Plan for Restructuring and defining Minimum Capital Requirements and similar obligations of the Bank, shall submit data to the National Bank of Serbia in accordance with the Decision on the Minimum Capital Requirement and Related Obligations of the Bank ("Official Gazette of the Republic of Serbia" No. 30/2015 and 78/2017) and the Decision on Information and Data submitted to the National Bank of Serbia for the purpose of drafting and updating the plan of restructuring of the bank and banking group ("Official Gazette of the Republic of Serbia" No. 78/2015, 78/2017 and 46/2018).

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

The table below summarizes the structure of the Bank's capital as at 31 December 2022 and 31 December 2021 as well as the capital adequacy ratio:

In RSD '000	31 December 2022	31 December 2021
Basic capital		
Basic share capital		
The amount of the basic share capital paid	15,772,500	14,107,500
Related emission premium with basic equity instruments	5,552,654	3,704,504
Revaluation reserves and other unrealized gains	135,953	176,790
Unrealized losses	(275,475)	(65,720)
Other reserves	19,377,317	16,968,156
Additional value adjustments	(18,060)	(24,395)
Other intangible assets before deduction for related deferred tax liabilities	(3,192,108)	(1,705,660)
Gross amount of receivables from a debtor - individuals (other than farmers and entrepreneurs) where the level of credit indebtedness of that debtor was higher than the percentage determined in accordance with the decision governing the classification of the balance sheet assets and off-balance sheet items of the bank or will be higher due to loan approval	(11,190)	(15,081)
Gross amount of claims on debtors - individuals (except farmers and entrepreneurs) based on approved consumer loans, cash loans or other loans, which are stated on accounts 102, 107 and 108 in accordance with the decision prescribing the Chart of Accounts and the contents in the Chart of Accounts for banks, and which on the basis of the criteria of agreed maturity meet the condition for applying the deductible item from the basic share capital prescribed by the decision governing the capital adequacy of the bank	(15,438)	(16,559)
	37,326,153	**33,129,535**
Supplementary capital		
Subordinated liabilities	7,039,344	3,527,463
	7,039,344	**3,527,463**
Capital:	**44,365,497**	**36,656,998**
Risky balance and off-balance assets		
Capital requirement for credit risk, counterparty risk and risk of delivery / delivery on the basis of free delivery	15,435,120	14,040,438
Capital requirement for price risk	66,666	116,489
Capital requirement for foreign exchange risk	120,351	-
Capital requirement for operational risk	1,614,598	1,470,087
Capital requirement for the risk of adjusting credit exposure	8,061	34,363
Common Equity Tier 1 capital adequacy ratio	**17.32**	**16.92**
Tier 1 capital adequacy ratio	**17.32**	**16.92**
Capital adequacy	**20.58**	**18.72**

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

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

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

In RSD '000

	31 December 2022		31 December 2021	
	Risk assets	**Capital requirement**	**Risk assets**	**Capital requirement**
Total risk assets	215,559,956	17,244,796	195,767,213	15,661,377
Risk-weighted exposure to credit risk	192,939,005	15,435,120	175,505,477	14,040,438
Standardized approach	192,939,005	15,435,120	175,505,477	14,040,438
IRB approach	-	-	-	-
Exposure to risk of settlement /delivery (except for free delivery)	-	-	-	-
Exposure to market risks	2,337,710	187,017	1,456,113	116,489
Exposure to operational risk	20,182,475	1,614,598	18,376,088	1,470,087
Exposure to the risk of adjusting credit exposure	100,766	8,061	429,535	34,363

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 on 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 9.66% as at 31 December 2022 (2021: 9.47%).

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 2022	**31 December 2021**
CVA	2,337	10,401
DVA	(9,634)	(2,940)

Transactions with the parent bank are excluded from the calculation of CVA/DVA, due a Credit Support Annex (CVA) with the parent bank was signed in 2022.

Hierarchy of instruments that are valued at fair value

In accordance with IFRS 13, the EBS quarterly allocates appropriate FV 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 (continued)

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

	31 December 2022				31 December 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS	**7,061,218**	**10,232,302**	**26,478**	**17,319,998**	**12,701,540**	**11,500,526**	**26,483**	**24,228,549**
Securities	**7,061,218**	**9,414,145**	**26,478**	**16,501,842**	**12,701,540**	**11,215,078**	**26,483**	**23,943,101**
Debit securities								
Republic of Serbia bonds and T-bills	6,948,550	9,413,575	-	**16,362,125**	12,589,037	11,214,514	-	**23,803,551**
Equity securities								
Quoted shares	112,669	570	-	**113,239**	112,503	564	-	**113,066**
Shares that are not quoted		-	26,478	**26,478**	-		26,483	**26,483**
Derivative receivables	-	818,156	-	**285,448**	-	285,448	-	**285,448**
FINANCIAL LIABILITIES	**-**	**745,086**	**-**	**745,086**	**-**	**166,400**	**-**	**166,400**
Derivative liabilities	-	745,086	-	**745,086**	-	166,400	-	**166,400**

36. RISK MANAGEMENT (Continued)

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

Changes in the level of financial instruments valued at fair value

In RSD '000

	31 December 2022			31 December 2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Securities						
Transfer from Level 1	-	496,142	-	-	1,396,793	-
Transfer from Level 2	-	-	-	5,464,384	-	-
Transfer from Level 3	-	-	-	-	-	-
Acquisition, sale and derecogntion	(1,658,844)	(1,538,344)	-	(3,042,714)	(2,568,421)	-
Total	**(1,658,844)**	**(1,042,202)**	**-**	**2,421,670**	**(1,171,628)**	**-**

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

In RSD '000

	31 December 2022		31 December 2021	
	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	496,142	-	832,094	4,094,561
Financial assets FVPL				
Bonds	-	-	564,699	1,369,823
Total	**496,142**	**-**	**1,396,793**	**5,464,384**

36. RISK MANAGEMENT (Continued)

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

As at 31 December 2022, all 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 2022		**31 December 2021**	
FINANCIAL ASSETS	**Book value**	**Fair value**	**Book value**	**Fair value**
Securities held to maturity	45,078,301	46,371,025	34,556,623	34,556,623
Loans and receivables due from banks	10,346,771	10,363,388	10,709,287	10,717,755
Loans and receivables due from customers	217,007,877	223,373,722	203,616,892	213,669,571
Fixed assets intended for sale	11,902	22,861	11,902	22,654
FINANCIAL LIABILITIES				
Deposits due to banks	68,822,072	68,643,817	64,455,576	66,727,300
Deposits due to customers	227,765,769	228,327,659	208,904,371	210,344,939

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.

37. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating Lease Commitments

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

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

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

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

In RSD '000

	31 December 2022	**31 December 2021**
Within a year	107	12,488
From 1 to 5 years	9,716	-
Over 5 years	26,915	
	36,738	**12,488**

(b) Litigation

As at 31 December 2022, the Bank had 10,537 initiated litigations in the total amount of RSD 1,563,743 thousand in which it had the status of the sued party (31 December 2021: RSD 1,743,281 thousand). The default interest based on disputes against the Bank amounts to RSD 223,211 thousand (31 December 2021: RSD 271,815 thousand).

Based on the assessment of the legal representatives of the Bank in the above mentioned disputes, the Bank made a provision in the amount of RSD 1,099,190 thousand as at 31 December 2022 (RSD 1,046,930 thousand as at 31 December 2021), for disputes that are expected to fall at the Bank's expense on this date. The Bank's management estimates that materially significant losses will not arise on the basis of the outcome of the court disputes in excess of the amount for which the provision was made.

A significant number of disputes relate to client requests that challenge the bank's right to charge a fee for processing a loan application, as well as a housing loan insurance premium. As in relation to these disputes, the current case law is more favorable to clients in the first instance, and based on procedural laws, enforcement is possible under invalid first instance judgments, the Bank has made provisions regarding afore-mentioned disputes in the amount of RSD 653,942 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, as well as subsequent default interest and penalties. The Bank's management believes that the Bank's tax liabilities recorded in these financial statements are appropriately stated in accordance with the effective regulations.

38. RECONCILIATION OF OUTSTANDING BALANCES OF RECEIVABLES AND LIABILITIES

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

The Bank sent its customers open items statements (OIS) as at 31 October 2022 in total amount of RSD 266,644,859 thousand. Confirmed receivables amounted to RSD 159,954,718 thousand.

The amount of disputed receivables amounted to RSD 4,387,288 thousand and the Bank is in contact with clients in order to resolve conflicts.

The Bank is still in process of reconciliation Open Balance Statements for which response has not been received, and a number OBS was re-sent, with the note " if any response within 10 days was not received, the amount shall be considered as reconciled". The amount of resent OBS to which the clients did not provide a response is RSD 78,777,155 thousand.

39. SEGMENT REPORTING

Management of the Bank views operating segments in accordance with the methodology and segmentation defined at the entire Erste Group level and, on such basis makes decisions in respect of, allocates resources to and assesses performance of individual segments. The report on segment results is aligned with FINREP methodology for financial reporting used within Erste Group where there are departures in certain items from the result as stated under the local NBS methodology.

a) Structure of Operating Segments

Segment report is comprised of four basic segments reflecting the governance structure of Erste Bank a.d., Novi Sad.

b) Definition of Operating Segments

Retail Segment

This segment comprises business activities within the scope of responsibilities of the Sales Managers from the Sales Network of the Retail Department. Target customers are mostly individuals, entrepreneurs and freelance professionals. Operations of the segment are mostly managed by the Bank, which is focused on the simplicity of products offered – investment products, current accounts, savings, credit cards and additional products such as leases, insurance, and social security products.

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 defined annual turnover of 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 (EGI) and construction for the Bank's own purposes.

39. SEGMENT REPORTING (continued)

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.

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 bank's trading book, as well as activities related to the use of the bank'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, pension 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 (continued)

Business segmentation	-	-	-	-	-	-	-	-	-	-
	Retail		**Corporate**		**Markets**		**ALM/CC/fcap**		**Group**	
in RSD 000	**12.2022**	**12.2021**	**12.2022**	**12.2021**	**12.2022**	**12.2021**	**12.2022**	**12.2021**	**12.2022**	**12.2021**
B. Profit&Loss account										
Net interest income	6.301.009	5.546.846	3.519.522	2.816.193	192.790	214.901	60.638	138.113	10.073.959	8.716.053
Dividends income	-	-					45.174	454	45.174	454
Neto reNet investment result by equity method	-	-								
Income from lease of investment property and other operating rent	-	-					7.765	6.962	7.765	6.962
Net income from commissions and fees	1.676.483	1.601.288	1.078.068	827.504	145.928	153.498	(182.496)	(193.205)	2.717.983	2.389.085
Net trading result	314.885	237.060	213.463	155.857	165.897	199.556	(41.489)	(44.149)	652.755	548.324
Gains/losses from financial instruments at fair value through profit or loss	-	-	(5)				6	(203)	1	(203)
general administrative cost	(6.671.346)	(6.001.260)	(1.349.653)	(1.226.450)	(259.104)	(218.486)	(193.105)	(57.608)	(8.473.208)	(7.503.804)
Gains/losses from derecognition of financial assets measured at amortized cost	(39.114)	(15.140)	-	-					(39.114)	(15.140)
Other losses/gains from derecognition of financial instruments not valued at fair value through profit or loss	-	-	-	-			-	(887)	-	(887)
Gains/losses from reclassification from amortized cost to fair value through the income statement			-	-						
Gains/losses from reclassification from fair value through other comprehensive result to fair value through income statement			-	-						
Net impairment loss on financial instruments	(560.902)	(265.032)	(1.713.328)	(698.621)	(2.956)	783	(19.553)	(8.379)	(2.296.738)	(971.248)
Other operating results	13.341	(33.949)	96.913	48.428	15.561	(2.288)	(429.296)	(666.788)	(303.480)	(654.596)
Profit from operation before tax	**1.034.357**	**1.069.814**	**1.844.979**	**1.922.912**	**258.115**	**347.964**	**(752.356)**	**(825.689)**	**2.385.095**	**2.515.001**
Income tax	(16.967)	(48.476)	(30.491)	(79.197)	(4.290)	(12.252)	11.024	34.085	(40.723)	(105.839)
Profit / loss for current year	**1.017.389**	**1.021.338**	**1.814.488**	**1.843.715**	**253.826**	**335.712**	**(741.332)**	**(791.604)**	**2.344.372**	**2.409.161**
Net result attributable to minority interest (non-controlling)										
Net result available to the owner of the parent company	**1.017.389**	**1.021.338**	**1.814.488**	**1.843.715**	**253.826**	**335.712**	**(741.332)**	**(791.604)**	**2.344.372**	**2.409.161**
Operational income	8.292.377	7.385.194	4.811.047	3.799.554	504.614	567.955	(110.402)	(92.028)	13.497.636	11.660.676
Opreational costs	(6.671.346)	(6.001.260)	(1.349.653)	(1.226.450)	(259.104)	(218.486)	(193.105)	(57.608)	(8.473.208)	(7.503.804)
Operational result	**1.621.031**	**1.383.934**	**3.461.394**	**2.573.104**	**245.510**	**349.469**	**(303.508)**	**(149.636)**	**5.024.428**	**4.156.871**
A. Balance sheet										
Total assets (balance at the end of the period)	113.783.740	108.571.151	109.219.040	100.903.127	9.114.288	16.651.323	120.311.813	93.422.027	352.428.881	319.547.628
Total liabilities without equity (balance at the end of the period)	132.973.812	123.383.144	94.951.856	81.765.425	15.129.465	14.112.912	66.969.284	62.985.757	310.024.418	282.247.237
Equity	7.462.730	7.059.591	15.145.976	13.048.392	1.620.987	1.326.554	18.174.770	15.865.853	42.404.463	37.300.391
C. Key indicators/ratios										
Cost-to-income ratio	80%	81%	28%	32%	51%	38%	-175%	-63%	63%	64%
Loan to deposit ratio (net)	81%	83%	117%	127%	1%	1%	236%	100%	92%	94%
Return on average allocated capital	14%	14%	12%	14%	16%	25%	-4%	-5%	6%	6%

40. ADDITIONAL INFORMATION ON CASH FLOWS

		In RSD '000
	31 December 2022	**31 December 2021**
Cash	6,590,156	6,731,485
Gyro account	19,122,942	11,251,763
Foreign currency accounts with foreign banks	690,401	925,718
Balance as at 31 December	**26,403,498**	**18,908,966**

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

41. EVENTS AFTER THE REPORTING PERIOD

After the reporting period, there were no other events that would require corrections or disclosure in the notes to the Bank's financial statements for the year ended 31 December 2022.

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 2022 and 31 December 2021 for certain foreign currencies are:

		In RSD
	31 December 2022	**31 December 2021**
EUR	117.3224	117.5821
USD	110.1515	103,9262
CHF	119.2543	113,6388

Novi Sad, 06 March 2023

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

Stevan Čomić	Suzan Tanriyar	Jasna Terzić
Head of Accounting and Controlling Department	Executive Board Member	Executive Board Chairman

ERSTE BANK a.d. NOVI SAD 1

ADDITIONAL TABLES

DISCLOSURE OF INFORMATION IN RESPECT OF EQUITY ACCORDING TO BASEL III PILLAR 3

Pursuant to the Decision on publication of data and information, more detailed information on the Bank's equity is provided in the following attachments, namely:

- form PI-KAP (APPENDIX 1) - detailed structure of the Bank's regulatory capital as of 31 December 2022;
- form PI-FIKAP (APPENDIX 2) - basic characteristics of elements of regulatory capital;
- form PI-UPK (APPENDIX 3) - Balance sheet of the Bank prepared in accordance with IAS/IFSI standards and broken prepared items that can be connected through references to the equity items from the Report on changes in equity prepared in accordance with the Decision regulating reporting bank's equity adequacy (APPENDIX 1).
- form PI-AKB (APPENDIX 4) - overview of calculated capital requirements as of 31 December 2022.

DISCLOSURE OF INFORMATION IN RESPECT OF EQUITY ACCORDING TO BASEL III PILLAR 3 (CONTINUED)

APPENDIX 1 - form PI-KAP

Information on equity item of the Bank

In RSD '000

No.	Item	Amount	Link with Decision on Capital Adequacy
	Issued share capital: elements		
1	Issued share capital instruments and related issue share premiums	**21,325,154**	
1.1.	*of which: shares and other capital instruments that meet requirements from point 8.OAK*	15,772,500	Note 7. pg. 1. Stipulate. pod 1) and Note 8.
1.2.	*of which: related share issue premiums with instruments from point 1.1. i.e. the amount paid above the nominal value of those instruments*	5,552,654	Note 7. pg. 1. Stipulate pod 2)
2	Profit from previous years not burdened by any future obligations, for which the Bank's Assembly made a decision to be allocated to the issued share capital	-	Note 10. pg. 1.
3	Profit of current year or profit from previous for which the Bank's Assembly has not yet made a decision that will be allocated to the issued share capital that meets conditions from point 10, paragraph. 2. and 3. - inclusion in issued share capital	-	note 10. pg. 2. It. 3.
4	Revaluation reserves and other unrealized gains	(139,522)	Note 7. pg. 1. Stipulate 4)
5	Reserves from profits and other reserves of the bank, except those for general banking risks	19,377,317	Note 7. pg. 1. Stipulate 5)
6	Reserves for general banking risks	-	Note 7. pg. 1. Stipulate pod 6)
7	Share without controlling rights (minority shareholders) recognized in the issued share capital	-	
8	Issued share capital before regulatory adjustments and deductions (sum of 1 to 7)	**40,562,949**	

No.	Item	Amount	Link with OAK*	Reference to Appendix 3
	Common stock: regulatory adjustments and deductions			
9	Additional Value Adjustments (-)	(18,060)	note12. prg. 5.	PVA (eng. Prudent Valuation) is not integral part of balance
10	Intangible assets, including goodwill (less deferred tax liabilities) (-)	(3,192,108)	note13. prg. 1. stipulate2)	d
11	Deferred tax assets that depend on the future profitability of the bank, except for those arising from temporary differences, less related deferred tax liabilities if the conditions from point 14, paragraph 1 of the KCA are met.	-	note13. prg.1. stipulate3)	
12	Fair values of reserves related to gains or losses on cash flow hedging instruments for financial instruments not measured at fair value, including projected cash flows	-	note12. prg.1. stipulate1)	
13	IRB approach: negative amount of the difference obtained by calculation in accordance with point 134 of the KAC (-)		note13. prg.1. stipulate4)	
14	Capital increase resulting from securitization of exposure (-)	-	note11.	
15	Gains or losses on bank liabilities valued at fair value resulting from changes in the bank's creditworthiness	-	note12. prg.1. stipulate2)	
16	Assets in the defined benefit pension fund in the bank's balance sheet (-)	-	note13. prg.1. stipulate5)	
17	Direct, indirect and synthetic investments of the bank in its own equity instruments, including its own equity instruments that the bank is obligated or may be obligated to redeem on the basis of a contractual obligation (-)	-	note13. prg.1. stipulate6)	
18	Direct, indirect and synthetic investments in instruments of the basic share capital of persons in the financial sector who have mutual investments in the bank, which were made in order to show a larger amount of the bank's capital (-)	-	note13. prg.1. stipulate7)	
19	The applicable amount of bank's direct, indirect and synthetic investments in instruments of the share capital of persons in the financial sector in which the bank does not have a significant investment (-)	-	note13. prg.1. stipulate8)	
20	Applicable amount of the bank's direct, indirect and synthetic investments in instruments of the share capital of persons in the financial sector in which the bank has a significant investment (-		note13. prg.1. stipulate9)	
21	The amount of exposures that qualify for the application of a risk weight of 1,250%, which the bank decides to deduct from the share capital instead of applying that weight	-	note13. prg.1. stipulate11)	
21.1.	*of which: participations in persons who are not persons in the financial sector in the amount of more than 10% of the capital of those persons, i.e. participations that enable the effective exercise of significant influence on the management of a legal entity or on the business policy of that legal entity (-)*	-	note13. prg.1. stipulate11) line 1	
21.2.	*of which: securitized positions (-)*	-	note13. prg.1. stipulate11) line 2	
21.3.	*of which: free deliveries (-)*	-	note13. prg.1. stipulate11) line 3	
22	Deferred tax assets that depend on the future profitability of the bank and that result from temporary differences (amount above 10% of the basic share capital of the bank from point 21. paragraph 2, reduced by the amount of related tax liabilities if the conditions from point 14. paragraph 1. KAC are met) (-)	-	note21. prg.1. stipulate1)	

DISCLOSURE OF INFORMATION IN RESPECT OF EQUITY ACCORDING TO BASEL III PILLAR 3 (CONTINUED)

APPENDIX 1 - form PI-KAP (continued)

Information on equity item of the Bank (continued)

No.	Item	Amount	Link with Decision on Capital Adequacy
23	The sum of deferred tax assets and investments in persons in the financial sector in which the bank has a significant investment from point 21, paragraph 1 of the KAC, which exceeds the limit from point 21, paragraph 3 of the KAC (-)	-	note 21. prg.1.
23.1.	*of which: Direct, indirect and synthetic investments in instruments of the basic share capital of persons in the financial sector in which the bank has a significant investment*	-	note 21. prg.1. stipulate2)
23.2.	*of which: Deferred tax assets arising from temporary differences*	-	note 21. prg.1. stipulate1)
24	Loss of current and previous years, as well as unrealized losses (-)	-	note 13. prg.1. stipulate1)
25	The amount of taxes related to the elements of the basic share capital that can be foreseen at the time of the capital calculation, unless the bank has previously corrected the amount of the elements of the basic share capital in the amount in which those taxes reduce the amount to which the elements of the basic share capital can be used to cover the risk or losses (-)	-	note 13. prg.1. stipulate12)
26	The amount by which the deductions from the bank's additional core capital exceed the amount of the bank's additional core capital (-)	-	note 13. prg.1. stipulate10)
27	Gross amount of receivables from debtors - natural persons (except farmers and entrepreneurs) on the basis of approved consumer loans, cash loans or other loans that are reported on accounts 102, 107 and 108 in accordance with the decision prescribing the Account Framework and the content of accounts in the Account Framework for banks where the degree of credit indebtedness of that debtor before the approval of the loan was higher than the percentage established in accordance with the decision regulating the classification of the balance sheet assets and off-balance sheet items of the bank or that percentage will be higher due to the approval of the loan, whereby this deductible item is applied without regardless of whether, after the approval of the loan, the degree of credit indebtedness of the debtor became lower than that percentage (-)	(11,190)	**note 13. prg.1. stipulate13)**
28	The gross amount of receivables from debtors - natural persons (except farmers and entrepreneurs) on the basis of approved consumer loans, cash loans or other loans, except for the loans shown in position 1.1.1.27 of this form, which are reported on accounts 102, 107 and 108 in accordance with by the decision prescribing the Account Framework and the content of the accounts in the Account Framework for banks, which, based on the criteria of the agreed maturity, meet the condition for the application of the deductible item from the basic share capital prescribed by the decision regulating the adequacy of the bank's capital	(8,034)	**note 13. prg.1. stipulate14)**
29	Of which: loans whose contractual maturity is longer than 2920 days - if these loans were approved in the period from 1 January to 31 December 2019 (-)	(3,537)	**note 13. prg.1. stipulate14)**

DISCLOSURE OF INFORMATION IN RESPECT OF EQUITY ACCORDING TO BASEL III PILLAR 3 (CONTINUED)

APPENDIX 1 - form PI-KAP (continued)

Information on equity item of the Bank (continued)

No.	Item	Amount	Link with Decision on Capital Adequacy
30	Gross amount of receivables from debtors - natural persons (except farmers and entrepreneurs) on the basis of approved consumer loans, cash loans or other loans, except for the loans shown in position 1.1.1.27 of this form, which are reported on accounts 102, 107 and 108 in accordance with by the decision prescribing the Account Framework and the content of the accounts in the Account Framework for banks, which, based on the criteria of the agreed maturity, meet the condition for the application of the deductible item from the basic share capital prescribed by the decision regulating the adequacy of the bank's capital Of which: loans with a contractual maturity of more than 2190 days - if these loans were approved starting on 01.01.2021	(3,868)	
31	Amount of required reserve for estimated losses on balance sheet assets and off-balance sheet items of the bank	-	note 13. prg. 1. stipulate16)
32	Total regulatory adjustments and deductions from share capital (sum of 9 to 27)	(3,236,797)	
33	Share capital (difference between 8 and 30)	37,326,152	
	Additional share capital: elements		
34	Shares and other capital instruments that meet the requirements from point 23 of the KAC and the associated issue premium	-	note 22. prg. 1. stipulate 1) and 2)
35	Equity instruments issued by subsidiaries that are recognized in additional equity**	-	
36	Additional share capital before deductions (32+33)	-	
	Additional share capital: deductible items	-	
37	Direct, indirect and synthetic investments of the bank in its own instruments of additional basic capital, including instruments that the bank is obliged to buy based on the existing contractual obligation (-)	-	note 26. prg. 1. stipulate1)
38	Direct, indirect and synthetic investments in instruments of additional basic capital of persons in the financial sector who have mutual investments in the bank that were made in order to show a larger amount of the bank's capital (-)	-	note 26. prg. 1. stipulate2)
39	Applicable amount of direct, indirect and synthetic investments in instruments of additional basic capital of persons in the financial sector in which the bank does not have a significant investment (-)	-	note 26. prg. 1. stipulate3)
40	Direct, indirect and synthetic investments of the bank in instruments of additional basic capital of persons in the financial sector in which the bank has a significant investment, excluding positions based on the sponsorship of the issue of securities held for five working days or less (-)	-	note 26. prg. 1. stipulate4)
41	The amount by which the deductions from the supplementary capital of the bank exceed the amount of the supplementary capital of the bank (-)	-	note 26. prg. 1. stipulate5)
42	Total deductions from additional share capital (sum of 35 to 39)	-	
43	Additional share capital (difference between 34 and 40)	-	
44	Share capital (sum of 31 and 41)	37,326,152	

DISCLOSURE OF INFORMATION IN RESPECT OF EQUITY ACCORDING TO BASEL III PILLAR 3 (CONTINUED)

APPENDIX 1 - form PI-KAP (continued)

Information on equity item of the Bank (continued)

No.	Item	Amount	Link with Decision on Capital Adequacy
	Supplementary capital: elements		
45	Shares and other instruments of additional capital and subordinated liabilities, which meet the requirements from point 28 of the KAA and the associated issue premiums with the instruments	7,039,344	note 27. prg. 1. stipulate 1) and 2)
46	Equity instruments issued by subsidiaries that are recognized in supplementary capital **	-	
47	Adjustments for credit risk eligible for inclusion in supplementary capital	-	note 27. prg. 1. stipulate 3) and 4)
48	Supplementary capital before deductions (sum of 43 to 45)	7,039,344	
	Supplementary capital: deductible items		
49	Direct, indirect and synthetic investments of the bank in its own instruments of additional capital and subordinated liabilities, including instruments that the bank is obliged to buy on the basis of an existing contractual obligation (-)	-	note 30. prg. 1. stipulate 1)
50	Direct, indirect and synthetic investments in supplementary capital instruments and subordinated liabilities of persons in the financial sector who have mutual investments in the bank, which were made in order to show a larger amount of the bank's capital (-)	-	note 30. prg. 1. stipulate 2)
51	The applicable amount of direct, indirect and synthetic investments in supplementary capital instruments and subordinated liabilities of persons in the financial sector in which the bank does not have a significant investment (-)	-	note 30. prg. 1. stipulate 3)
52	Direct, indirect and synthetic investments of the bank in instruments of additional core capital and subordinated obligations of persons in the financial sector in which the bank has a significant investment, excluding positions based on the sponsorship of the issue of securities held for five working days or less (-)	-	note 30. prg. 1. stipulate 4)
53	Total additional capital deductions (sum of 47 to 50)	-	
54	Supplementary capital (difference between 46 and 51)	7,039,344	
55	Total capital (sum of 42 and 52)	44,365,496	
56	Total risk assets	215,559,956	note 3. prg. 2.
	Capital adequacy indicators and capital protective layers		
57	Indicator of the adequacy of share capital of the bank (%)	**17.32**	note 3. prg. 1. stipulate 1)
58	Indicator of adequacy of capital of the bank (%)	**17.32**	note 3. prg. 1. stipulate 2)
59	Bank's capital adequacy ratio (%)	**20.58**	note 3. prg. 1. stipulate 3)
60	Total requirements for protective layers of capital (%)***	**8.43**	note 433.
61	Basic share capital available to cover protective layers (%)****	**9.32**	

DISCLOSURE OF INFORMATION IN RESPECT OF EQUITY ACCORDING TO BASEL III PILLAR 3 (CONTINUED)

Annex 2 – Form PI-FIKAP

Information about basic characteristics of financial instruments included in the calculation of the Bank's capital

No.	Characteristic of instruments	Share capital	Subordinated loan granted by Erste Group Bank Ceps Holding GmbH, Vienna	Subordinated loan granted by Erste Group Bank Ceps Holding GmbH, Vienna
1.	Issuer	Erste Bank ad Novi Sad	Erste Group Bank Ceps Holding GmbH, Vienna	Erste Group Bank Ceps Holding GmbH, Vienna
1.1.	Unique identifier (eg CUSIP, ISIN or Bloomberg private placement identifier)	ISIN: RSNOVBE23514, CFI ESVTFR		
	Treatment in accordance with regulations			
2.	Treatment in accordance with the Decision on the adequacy of the bank's capital	Basic capital instrument	Supplementary capital instrument	Supplementary capital instrument
3.	Individual/(sub)consolidated/individual and (sub)consolidated level of inclusion of the instrument in capital at group level	Individual and group	Individual and group	Individual and group
4.	Instrument type	Ordinary shares	Subordinated debt issued in the form of a financial instrument	Subordinated debt issued in the form of a financial instrument
5.	The amount recognized for the purposes of calculating the regulatory capital (in thousands of dinars, with the balance on the day of the last reporting)	For the purposes of calculating regulatory capital, RSD 15,772,500 thousand are recognized (nominal amount of paid shares increased by the issue premium in the amount of RSD 5,552,654 thousand).	Supplementary capital includes an amount of RSD 3,527,463 thousand, which meets the conditions for inclusion in accordance with the Decision on Capital Adequacy.	Supplementary capital includes an amount of RSD 3,527,463 thousand, which meets the conditions for inclusion in accordance with the Decision on Capital Adequacy.
6.	Nominal value of the instrument	RSD 12,909,000 thousand	EUR 30,000,000	EUR 30,000,000
6.1.	Issue price	RSD 11,978.42	-	-
6.2.	Purchase price	-	-	-
7.	Accounting classification	Share capital	Obligatory – depreciated amount	Obligatory – depreciated amount
8.	Date of issue of the instrument	I issue: 4,012,090 thousand RSD 23.11.2004 II issue: RSD 1,369,980 thousand 16.06.2006 III issue: RSD 1,735,310 thousand 03.01.2007 V issue: RSD 2,869,000 thousand 12.07.2019	15.02.2022	10.09.2018
9.	An instrument with a maturity date or an instrument without a maturity date	No due date	Due date	Due date
9.1.	Initial due date	No due date	15.02.2023	10.09.2028
10.	Option of redemption by the issuer with the prior consent of the competent body	No	No	No
10.1.	The first activation date of the redemption option, the conditional activation dates of the redemption option and the redemption value	-	-	-
10.2.	Subsequent Redemption Option Activation Dates (if applicable)	-	-	-
	Coupons/Dividends			

DISCLOSURE OF INFORMATION IN RESPECT OF EQUITY ACCORDING TO BASEL III PILLAR 3 (CONTINUED)

Annex 2 – Form PI-FIKAP (continued)

Information about basic characteristics of financial instruments included in the calculation of the Bank's capital (continued)

No.	Characteristic of instruments	Share capital	Subordinated loan granted by Erste Group Bank Ceps Holding GmbH, Vienna	Subordinated loan granted by Erste Group Bank Ceps Holding GmbH, Vienna
11.	Fixed or variable dividends/coupons	Variable	Variable	Variable
12.	Coupon rate and related indices	-	Interest on subordinated loan	Interest on subordinated loan
13.	Existence of a mandatory dividend cancellation mechanism	-	-	-
14.1.	Full discretion, partial discretion or no discretion as to the timing of dividend/coupon payments	Total discretion	No discretion	No discretion
14.2.	Full discretion, partial discretion or no discretion as to the amount of dividends/coupons	Total discretion	No discretion	No discretion
15.	The possibility of increasing the yield (step up) or other incentives for redemption	Not	No	No
16.	Non-cumulative or cumulative dividends/coupons	Non-cumulative	Non-cumulative	Non-cumulative
17.	Convertible or non-convertible instrument	Non-convertible	Non-cumulative	Non-cumulative
18.	If convertible, the conditions under which conversion may occur			
19.	If it is convertible, partially or fully			
20.	If convertible, the conversion rate			
21.	If convertible, mandatory or voluntary conversion			
22.	If convertible, the instrument into which it is converted			
23.	If convertible, the issuer of the convertible instrument			
24.	Possibility of reduction in value	No	No	No
25.	If impairment exists, the conditions under which impairment may occur			
26.	If there is a possibility of a reduction in value, in part or in whole			
27.	If there is a possibility of a reduction in value, permanently or temporarily			
28.	If the impairment is temporary, the conditions for re-recognition			
29.	The type of instrument that will be collected immediately before the mentioned instrument in case of bankruptcy or liquidation	Subordinated debt issued in the form of a financial instrument	Other	Other
29.	The type of instrument that will be collected immediately before the mentioned instrument in case of bankruptcy or liquidation	Minority participation	Other	Other
30.	Mismatched characteristics of converted instruments	Not	No	No
31.	If there are any, please list the mismatched features	-	-	-

DISCLOSURE OF INFORMATION IN RESPECT OF EQUITY ACCORDING TO BASEL III PILLAR 3 (CONTINUED)

Annex 3 – Form PI-UPK

Breakdown of elements in the Bank's balance sheet with references to regulatory capital item (Appendix 1)

Item code	Item	Balance sheet as in published financial statements	Balance sheet by the regulatory method and scope of consolidation
A	ASSETS		
A.I	Cash and funds at the central bank	54,676,263	54,676,263
A.II	Pledged financial assets	6,229,454	6,229,454
A.III	Receivables from derivatives	814,366	814,366
A.IV	Securities	55,286,189	55,286,189
A.V	Loans and receivables from banks and other financial organizations	10,346,771	10,346,771
A.VI	Loans and receivables from customers	217,007,877	217,007,877
A.VII	Changes in fair value of items subject to hedging	-	-
A.VIII	Receivables from derivatives intended for hedging	-	-
A.IX	Investments in associates and joint ventures	-	-
A.X	Investments in subsidiaries	93,560	93,560
A.XI	Intangible assets	3,192,108	3,192,108
A.XII	Fixed assets	3,100,408	3,100,408
A.XIII	Investment property	52,659	52,659
A.XIV	Current tax assets	129,231	129,231
A.XV	Deferred tax assets	342,595	342,595
A.XVI	Fixed assets intended for sale and discontinued operations	11,902	11,902
A.XVII	Other assets	1,177,375	1,177,375
A.XX	**TOTAL ASSETS (positions under EDP codes from 0001 to 0019 in the balance sheet)**	**352,460,758**	**352,460,758**
P	LIABILITIES AND EQUITY		
PO	LIABILITIES		
PO.I	Liabilities from derivatives	744,020	744,020
PO.II	Deposits and other financial obligations to banks, other financial organizations and the central bank	68,822,072	68,822,072
PO.III	Deposits and other financial obligations to other clients	227,765,769	227,765,769
PO.IV	Liabilities from derivatives intended for hedging	-	-
PO.V	Changes in fair value of items subject to hedging	-	-
PO.VI	Liabilities for securities	-	-
PO.VII	Subordinated liabilities	7,077,148	7,077,148
PO.VIII	Provision	1,938,039	1,938,039
PO.IX	Liabilities from assets intended for sale and business assets that are being discontinued	-	-
PO.X	Current tax liabilities	26,338	26,338
PO.XI	Deferred tax liabilities	-	-
PO.XII	Other liabilities	3,682,908	3,682,908
PO.XIV	**TOTAL LIABILITIES (positions under EDP codes from 0401 to 0413 in the balance sheet)**	**310,056,294**	**310,056,294**

DISCLOSURE OF INFORMATION IN RESPECT OF EQUITY ACCORDING TO BASEL III PILLAR 3 (CONTINUED)

Annex 3 – Form PI-UPK

Breakdown of elements in the Bank's balance sheet with references to regulatory capital item (Appendix 1) – (continued)

Item code	Item	Balance sheet as in published financial statements	Balance sheet by the regulatory method and scope of consolidation
	EQUITY		
PO.XV	Share capital	21,325,154	21,325,154
PO.XVI	Own shares	-	-
PO.XVII	Profit	2,344,372	2,344,372
PO.XVIII	Loss	-	-
PO.XIX	Reserves	18,734,938	18,734,938
PO.XX	Unrealized losses	-	-
PO.XXII	TOTAL CAPITAL (the result of adding or subtracting the following AOP codes from the balance sheet: 0415-0416+0417-0418+0419-0420+0421) ≥ 0	42,404,464	42,404,464
PO.XXIII	TOTAL DEFICIENCY OF CAPITAL (the result of adding or subtracting the following AOP codes from the balance sheet: 0415-0416+0417-0418+0419-0420+0421) < 0	-	-
PO.XXIV	TOTAL LIABILITIES NAD EQUITY (the result of adding or subtracting the following AOP codes from the balance sheet: 0414+0422-0423)	**352,460,758**	**352,460,758**
	OFF-BALANCE SHEET ITEMS		
	ASSETS	443,841,176	409,978,898
	LIABILITIES	443,841,176	409,978,898

DISCLOSURE OF INFORMATION IN RESPECT OF EQUITY ACCORDING TO BASEL III PILLAR 3 (CONTINUED)

Annex 3 – Form PI-UPK

Breakdown of elements in the Bank's balance sheet with references to regulatory capital item (Appendix 1) – (continued)

Item code	Item	Balance sheet	Reference
A	**ASSETS**		
A.I	Cash and funds at the central bank	54,676,263	
A.II	Pledged financial assets	6,229,454	
A.III	Receivables from derivatives	814,366	
A.IV	Securities	55,286,189	
A.V	Loans and receivables from banks and other financial organizations	10,346,771	
A.VI	Loans and receivables from customers	217,007,877	
A.VII	Changes in fair value of items subject to hedging	-	
A.VIII	Receivables from derivatives intended for hedging	-	
A.IX	Investments in associates and joint ventures	-	
A.X	Investments in subsidiaries	93,560	
A.XI	Intangible assets	3,192,108	d
A.XII	Fixed assets	3,100,408	
A.XIII	Investment property	52,659	
A.XIV	Current tax assets	129,231	
A.XV	Deferred tax assets	342,595	
A.XVI	Fixed assets intended for sale and discontinued operations	11,902	
A.XVII	Other assets	1,177,375	
A.XX	**TOTAL ASSETS (positions under EDP codes from 0001 to 0019 in the balance sheet)**	**352,460,758**	
P	LIABILITIES AND EQUITY		
PO	LIABILITIES		
PO.I	Liabilities from derivatives	744,020	
PO.II	Deposits and other financial obligations to banks, other financial organizations and the central bank	68,822,072	
PO.III	Deposits and other financial obligations to other clients	227,765,769	
PO.IV	Liabilities from derivatives intended for hedging	-	
PO.V	Changes in fair value of items subject to hedging	-	
PO.VI	Liabilities for securities	0	
PO.VII	Subordinated liabilities	7,077,148	
	Of which subordinated liabilities are included in the supplementary capital of the bank	7,077,148	đ
PO.VIII	Provision	1,938,039	
PO.IX	Liabilities from assets intended for sale and business assets that are being discontinued	-	
PO.X	Current tax liabilities	26,338	
PO.XI	Deferred tax liabilities	-	
PO.XII	Other liabilities	3,682,908	
PO.XIV	**TOTAL LIABILITIES (positions under EDP codes from 0401 to 0413 in the balance sheet)**	**310,056,294**	

DISCLOSURE OF INFORMATION IN RESPECT OF EQUITY ACCORDING TO BASEL III PILLAR 3 (CONTINUED)

Annex 3 – Form PI-UPK

Breakdown of elements in the Bank's balance sheet with references to regulatory capital item (Appendix 1) – (continued)

	EQUITY		
PO.XV	Share capital	21,325,154	
	Of which nominal value of paid shares, except preferential cumulative shares	15,772,500	a
	Of which issue premium from share capital, except preferential cumulative shares	552,654	b
PO.XVI	Own shares	-	
PO.XVII	Profit	2,344,372	
PO.XVIII	Loss	-	
PO.XIX	Reserves	18,734,938	
	Of which other reserves	19,377,317	g
	Of which revaluation reserves and other unrealized gains	135,953	v
	Of which unrealized losses	(275,475)	v
PO.XX	Unrealized losses	-	
PO.XXII	**TOTAL EQUITY** (the result of adding or subtracting the following AOP codes from the balance sheet: 0415-0416+0417-0418+0419-0420+0421) ≥ 0	42,907,321	
PO.XXIII	**TOTAL DEFICIENCY OF CAPITAL** (the result of adding or subtracting the following AOP codes from the balance sheet: 0415-0416+0417-0418+0419-0420+0421) < 0	-	
PO.XXIV	**TOTAL EQUITY AND LIABILITIES** (the result of adding or subtracting the following AOP codes from the balance sheet: 0414+0422-0423)	**352,963,616**	
в.п.	**OFF-BALANCE SHEET ITEMS**		
в.п.а.	ASSETS	443,841,176	
в.п.п.	LIABILITIES	443,841,176	

DISCLOSURE OF INFORMATION IN RESPECT OF EQUITY ACCORDING TO BASEL III PILLAR 3 (CONTINUED)

Annex 4 – Form PI-ABK

Data on total capital requirements and the Bank's capital adequacy indicator

No.	Item	Amount
I	**EQUITY**	**44,365,496**
1.	**TOTAL BASED SHARE CAPITAL**	**37,326,152**
2.	**TOTAL ADDITIONAL SHARE CAPITAL**	**-**
3.	**TOTAL SUPPLEMENTARY CAPITAL**	**7,039,344**
II	**CAPITAL REQUIREMENTS**	**38,056,071**
1.	**CAPITAL REQUIREMENT FOR CREDIT RISK, COUNTERPARTY RISK, RISK OF REDUCING THE VALUE OF PURCHASED RECEIVABLES AND SETTLEMENT/DELIVERY RISK ON THE BASIS OF FREE DELIVERIES**	**15,435,120**
1.1.	Standardized Access (SP)	192,939,005
1.1.1.	Exposures to countries and central banks	0
1.1.2.	Exposures to territorial autonomies and local self-government units	547,058
1.1.3.	Exposures to public administrative bodies	9,206
1.1.4.	Exposures to international development banks	-
1.1.5.	Exposure to international organizations	-
1.1.6.	Exposures to banks	459,835
1.1.7.	Exposures to companies	106,599,961
1.1.8.	Exposures to natural persons	53,177,456
1.1.9.	Exposures secured by real estate mortgages	22,245,611
1.1.10.	Exposures in default status	2,149,500
1.1.11.	High-risk exposures	0
1.1.12.	Exposures based on covered bonds	0
1.1.13.	Exposures based on securitized positions	0
1.1.14.	Exposures to banks and companies with short-term credit ratings	0
1.1.15.	Exposures based on investments in open investment funds	0
1.1.16.	Exposures based on equity investments	400,623
1.1.17.	Other exposures	7,349,755
1.2.	Internal Ratings Based (IRB) Approach	-
1.2.1.	Exposures to countries and central banks	-
1.2.2.	Exposures to banks	-
1.2.3.	Exposures to companies	-
1.2.4.	Exposures to natural persons	-
1.2.4.1.	of which: Exposures to natural persons secured by real estate mortgages	-
1.2.4.2.	of which: Qualified revolving exposures to natural persons	-
1.2.4.3.	of which: Exposures to small and medium enterprises classified in this exposure class	-
1.2.5.	Exposures based on equity investments	-
1.2.5.1.	Applied approach:	-
1.2.5.1.1.	A simple risk weights approach	-
1.2.5.1.2.	PD/LGD approaches	-
1.2.5.1.3.	Internal models approach	-
1.2.5.2.	Types of exposure based on equity investments	-
1.2.5.2.1.	Equity investments traded on the stock exchange	-
1.2.5.2.2.	Equity investments that are not traded on the stock exchange but are in sufficiently diversified portfolios	-
1.2.5.2.3.	Other equity investments	-
1.2.5.2.4.	Equity investments to which the bank applies a standardized approach to credit risk	-
1.2.6.	Exposures based on securitized positions	-
1.2.7.	Exposures based on other assets	-

DISCLOSURE OF INFORMATION IN RESPECT OF EQUITY ACCORDING TO BASEL III PILLAR 3 (CONTINUED)

Annex 4 – Form PI-ABK (continued)

Data on total capital requirements and the Bank's capital adequacy indicator (continued)

No.	Item	Amount
2	**CAPITAL REQUIREMENT FOR SETTLEMENT/ DELIVERY RISK BASED ON UNSETTLED TRANSACTIONS**	-
3	**CAPITAL REQUIREMENT FOR MARKET RISKS**	**2,337,709**
3.1.	Capital requirements for price, currency and commodity risk calculated using standardized approaches	2,337,709
3.1.1.	Capital requirement for price risk based on debt securities	833,323
	of which the capital requirement for price risk based on securitized positions	-
3.1.2.	Capital requirement for price risk based on equity securities	-
3.1.3.	Additional capital requirement for large exposures from the trading book	-
3.1.4.	Capital requirement for foreign exchange risk	1,504,386
3.1.5.	Capital requirement for commodity risk	-
3.2.	Capital requirements for price, currency and commodity risk calculated using the internal models approach	
4	**CAPITAL REQUIREMENT FOR OPERATIONAL RISK**	**20,182,475**
4.1.	Capital requirement for operational risk calculated using the basic indicator approach	20,182,475
4.2.	Capital requirement for operational risk calculated using the standardized/alternative standardized approach	-
4.3.	Capital requirement for operational risk calculated using advanced approach	-
5	**CAPITAL REQUIREMENT FOR CREDIT EXPOSURE ADJUSTMENT RISK**	**100,766**
III	**STATE SHARE CAPITAL ADEQUACY INDICATOR (%)**	**17.31**
IV	**CAPITAL ADEQUACY INDICATOR (%)**	**17.31**
V	**CAPITAL ADEQUACY INDICATOR (%)**	**20.58**

APPENDIX

Used abbreviations:

AC	Amortized cost
AFS	Available for sale
ALCO	Asset and Liability Management Committee
ALM	Asset and Liabilities Management
AML	Anti-Money Laundering
bps	Basis points
CCF	Credit Conversion Factor
CR01	Credit Price Value
CRR	Capital Requirements Regulation
CVA	Credit Value Adjustments
DTA	Deferred tax asset
DVA	Debit Value Adjustment
EAD	Exposure at Default
EBA	European Banking Authority
EIR	Effective interest rate
EVE	Economic Value Of Equity
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
FV	Fair value
FX	Foreign exchange
GCA	Gross Carrying Amount
HFT	Held for trading
HOV	Hartije od vrednosti
HTM	Held to maturity)
ICAAP	Internal capital adequacy assessment process
IRB	Internal Ratings Based Approach
LCR	Liquidity coverage ratio
LGD	Loss Given Default
LTV ratio	Loan To Value
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
MVoE	Market Value of Equity
NBS	National Bank of Serbia
NPL	Non-performing loan
NSFR	Net Stable Funding Ratio
OAK	Odluka o adekvatnosti kapitala
OCI	(eng Other Comprehensive Income) – Ostali rezultat
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