ERSTE BANK A.D. NOVI SAD

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
AND INDEPENDENT AUDITOR'S REPORT

CONTENTS

Independent Auditor's Report

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

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Erste Bank a.d. Novi Sad (the "Bank") and its subsidiaries (together – the "Group") as at 31 December 2023, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated income statement for the year ended 31 December 2023;
- the consolidated statement of other comprehensive income for the year ended 31 December 2023;
- the consolidated balance sheet as at 31 December 2023;
- the consolidated statement of changes in equity for the year ended 31 December 2023;
- the consolidated statement of cash flows for the year ended 31 December 2023; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

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

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted by the Chamber of Auditors in the Republic of Serbia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code as adopted by the Chamber of Auditors in the Republic of Serbia.

Emphasis of matter – reissuance of consolidated financial statements

We draw your attention to note 18 to these reissued consolidated financial statements, which describes the reason for the reissuance of the 2023 consolidated financial statements. Our opinion is not modified in respect of this matter.

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Reporting on the other information including the consolidated Annual Report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Refer to the original signed Serbian version

Nikola Stamenić
Licensed Auditor
PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 21 March 2024

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

(in thousand RSD)

POSITION	Note	2023	2022
Interest income	4	22,783,964	13,965,775
Interest expense	4	(7,773,764)	(3,397,531)
Neto interest income		**15,010,200**	**10,568,244**
Fee and commission income	5	5,713,557	5,077,095
Fee and commission expense	5	(1,833,184)	(1,677,811)
Net fee and commission income		**3,880,373**	**3,399,284**
Net gains from change in fair value of financial instruments	6	127,809	21,578
Net gains from derecognition of financial instruments valued at fair value	7	19,086	10,945
Net gains from hedging	8	169	826
Net foreign exchange gains/losses and currency clause effects	9	(56,675)	67,277
Net loss from impairment of financial assets that are not valued at fair value through profit and loss	10	(2,515,579)	(2,528,852)
Net loss from derecognition of financial instruments valued at amortized cost	11	(46,833)	(63,474)
Other operating income	12	197,621	178,299
TOTAL NET OPERATING INCOME		**16,616,171**	**11,654,127**
Costs of salaries, contributions and other personnel expenses	13	(3,676,324)	(3,043,468)
Depreciation costs	14	(1,125,635)	(697,108)
Other income	15	760,391	454,552
Other expenses	16	(6,541,250)	(5,839,570)
PROFIT BEFORE TAX		**6,033,353**	**2,528,533**
Income tax	17	(472,309)	(71,139)
Deferred tax gain	17	-	-
Deferred tax loss	17	(1,652)	(14,888)
PROFIT AFTER TAX	32	**5,559,392**	**2,442,506**
Gain belonging to the parent entity		5,556,312	2,417,973
Gain belonging to non-controlling owners		3,080	24,533

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

Novi Sad, 21 March 2024

Tajana Orozović
Data Management Department Head

Suzan Tanriyar
Executive Committee Member

Jasna Terzić
Executive Committee President

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

POSITION	Note	2023	2022
PROFIT FOR THE YEAR	32	**5,559,392**	**2,442,506**
Components of other comprehensive income that can be reclassified to profit or loss:			
Actuarial gain (loss)		(39,579)	38,266
Positive (negative) effects of changes in value of equity instruments valued through other comprehensive income		31,266	(6,700)
Components of other comprehensive income that can be reclassified to profit or loss:			
Positive/ (Negative) effects to changes in value of debt instruments valued through other comprehensive income		354,484	(917,599)
Profit/ (loss) from taxes related to other comprehensive results for the period		(51,874)	132,962
Total positive / (negative) other comprehensive results for the period		**294,297**	**(753,071)**
TOTAL POSITIVE COMPREHENSIVE RESULTS FOR THE PERIOD		**5,853,689**	**1,689,435**
Total positive comprehensive results for the period belonging to the parent entity		5,850,523	1,664,807
Total positive result for the period belonging to the non-controlling owners		3,166	24,628

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

Novi Sad, 21 March 2024

Tajana Orozović
Data Management Department Head

Suzan Tanriyar
Executive Committee Member

Jasna Terzić
Executive Committee President

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2023

(in thousand RSD)

ASSETS	Note	31 December 2023	31 December 2022
Cash and balances with Central bank	18	60,299,066	54,676,245
Pledged financial assets	20	-	6,229,454
Derivative receivables	19	672,404	814,366
Securities	20	58,729,325	55,286,189
Loans and receivables to banks and other financial institutions	21	19,838,576	5,414,498
Loans and receivables to customers	22	247,906,654	235,837,684
Investments in affiliates and joint ventures		118	118
Intangible assets	23	4,177,396	3,221,977
Property, plant and equipment	23	4,906,630	3,529,753
Investment property	23	50,142	52,659
Current tax assets	17	112,946	129,231
Deferred tax assets	17	291,942	345,086
Fixed assets held for sale and assets of discontinued operations	24	12,252	12,252
Other assets	25	1,791,485	1,233,864
TOTAL ASSETS		**398,788,936**	**366,783,376**
LIABILITIES AND EQUITY			
LIABILITIES			
Derivative liabilities	26	527,626	744,020
Deposits and other liabilities due to banks, other financial institutions and central Bank	27	78,423,135	82,161,390
Deposits and other financial liabilities due to customers	28	255,444,374	227,817,268
Subordinated liabilities	39	8,859,124	7,077,148
Provisions	30	1,564,513	1,977,734
Current tax liabilities	17	394,675	26,338
Deferred tax liabilities		32,480	12,166
Other liabilities	31	4,643,245	3,921,236
TOTAL LIABILITIES		**349,889,172**	**323,737,300**
Equity	32		
Share capital and share premium		21,325,154	21,325,154
Retained earnings		6,013,505	2,801,565
Reserves		21,374,146	18,735,564
Non-controlling interests		186,959	183,793
TOTAL EQUITY		**48,899,764**	**43,046,076**
TOTAL LIABILITIES AND EQUITY		**398,788,936**	**366,783,376**

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

Novi Sad, 21 March 2024

Tajana Orozović Data Management Department Head	Suzan Tanriyar Executive Committee Member	Jasna Terzić Executive Committee President

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023

(in thousand RSD)

	Share capital	Share premium	Other reserves	Revaluation reserves	Retained earnings	Total	Non-controlling interest	Total
Balance as at 1 January 2022	**14,107,500**	**3,704,504**	**16,968,157**	**111,412**	**2,792,753**	**37,684,326**	**159,165**	**37,843,491**
Increase in capital value	**1,665,000**	**1,848,150**	**-**	**-**	**-**	**3,513,150**	**-**	**3,513,150**
Total other comprehensive results for the period	-	-	-	(753,166)	-	(753,166)	95	(753,071)
Profit for the year	-	-	-	-	2,417,973	2,417,973	24,533	2,442,506
Transfer from profit to reserves	-	-	2,409,161	-	(2,409,161)	-	-	-
Balance as at 31 December 2022	**15,772,500**	**5,552,654**	**19,377,318**	**(641,754)**	**2,801,565**	**42,862,283**	**183,793**	**43,046,076**

	Share capital	Share premium	Other reserves	Revaluation reserves	Retained earnings	Total	Non-controlling interest	Total
Balance as at 1 January 2023	**15,772,500**	**5,552,654**	**19,377,318**	**(641,754)**	**2,801,565**	**42,862,283**	**183,793**	**43,046,076**
Total other comprehensive results for the period	-	-	-	294,209	-	294,209	87	294,296
Profit for the year	-	-	-	-	5,556,313	5,556,313	3,079	5,559,392
Transfer from profit to reserves	-	-	2,344,373	-	(2,344,373)	-	-	-
Balance as at 31 December 2023	**15,772,500**	**5,552,654**	**21,721,691**	**(347,545)**	**6,013,505**	**48,712,805**	**186,959**	**48,899,764**

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

Novi Sad, 21 March 2024

Tajana Orozović
Data Management Department Head

Suzan Tanriyar
Executive Committee Member

Jasna Terzić
Executive Committee President

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

(in thousand RSD)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated by operating activities	**40,590,369**	**30,920,878**
Interest receipts	22,497,466	14,070,585
Fee and commission receipts	5,555,178	5,194,669
Receipts of other operating activities	12,464,264	11,580,532
Dividend receipts and profit sharing	73,461	75,092
Cash used in operating activities	**35,535,462**	**28,664,803**
Interest payments	7,070,193	3,200,783
Fees and commission payments	1,769,932	1,670,968
Payments to and on behalf of employees	3,679,893	3,034,963
Taxes, contributions and other duties paid	964,068	600,276
Payments for other operating expenses	22,051,376	20,157,813
Net cash inflows from operating activities prior to increases or decreases in loans and deposits	**5,054,908**	**2,256,075**
Decrease in placements and increase in deposits and other liabilities	**38,542,570**	**13,689,448**
Decrease in financial assets initially recognized at fair value through profit and loss, financial assets held for trade, and other securities not held for investment	2,802,585	-
Increase in deposits and other liabilities to banks, other financial institutions, central bank and customers	35,739,984	13,689,448
Increase in loans and decrease in deposits received and other liabilities	**19,095,056**	**18,669,777**
Increase in loans and receivables from banks, other financial organizations, central bank and customers	19,095,056	14,793,526
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
Net cash inflows from operating activities before income tax	**24,502,422**	**(2,724,254)**
Paid income tax	61,418	153,857
Net cash inflows/outflows from ordinary activities	**24,441,004**	**2,878,111**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Cash inflows from investment activities	**1,352,076**	**1,440,089**
Inflows from investing in investment securities	374,104	-
Inflows from investing in intangible assets, PP&E	-	11,766
Other inflows from investment activities	977,972	1,428,323
Cash outflows from investment activities	**4,565,748**	**4,135,240**
Outflows from investing in intangible assets, property, plant and equipment	4,005,748	2,860,240
Other outflows from investment activities	560,000	1,275,000
Net cash outflows from investment activities	**3,213,671**	**2,695,151**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	**17,127,826**	**20,879,809**
Cash inflows based on new issue of shares	-	3,513,150
Cash inflows from subordinated liabilities	1,781,976	3,542,731
Inflows from loans received	15,306,674	13,823,928
Other inflows from financing activities	39,176	-
Cash outflows from financing activities	**30,957,873**	**7,878,968**
Cash outflows from borrowings	30,956,626	5,859,066
Other outflows from financing activities	1,247	2,019,902
Net cash inflows from financing activities	**-**	**13,000,841**
Net cash outflows from financing activities	**13,830,047**	**-**
TOTAL NET CASH INFLOWS	**97,612,841**	**66,930,224**
TOTAL NET CASH OUTFLOWS	**90,215,556**	**59,502,645**
NET INCREASE IN CASH	**7,397,285**	**7,420,261**
CASH AT THE BEGINNING OF THE YEAR	**26,403,498**	**18,916,400**
POSITIVE FOREIGN EXCHANGE DIFFERENCES	**5,014,705**	**10,540,243**
NEGATIVE FOREIGN EXCHANGE DIFFERENCES	**5,071,527**	**10,473,407**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**33,743,962**	**26,403,498**

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

Novi Sad, 21 March 2024

Tajana Orozović	Suzan Tanriyar	Jasna Terzić
Data Management Department Head	Executive Committee Member	Executive Committee President

1. GENERAL INFORMATION

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

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

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

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

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

Presented financial statements and notes to the financial statements are the Group consolidated financial statements. The Bank is a Group parent company and, as such, it is obligated to, in accordance with the request in the Law on Banks, prepare the consolidated financial statements as at and for the year ended on 31 December 2023. The consolidated financial statements also include the financial statements of company S-leasing d.o.o. which is 75% in the Bank ownership.

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, 65 branches, 22 sub-branches and 2 counters.

As at 31 December 2023, the Bank had 1,367 employees (31 December 2022: 1,296 employees).

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

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

S - Leasing doo Beograd was incorporated in June 2003. The company was organised as a limited liability company and registered with the Court of Commerce of Belgrade on 18 June 2003, while it was registered with the Business Registers Agency based on Decision no. BD 33349/2005 of 7 June 2005.

Upon the enforcement of the Law on Financial Leasing, the Company obtained the license for performing financial leasing operations based on the National Bank of Serbia Decision no. 622 of 25 January 2006.

As at 31 December 2013, the company tier 1 capital comprised the participation of founder Steiermaerkische Bank und Sparkassen AG, Graz, Austria (50.0%) and Immorent International Holding GmbH, Vienna, Austria (50.0%).

In 2014, the ownership structure of S-Leasing tier 1 capital changed, thus, Erste Bank Joint Stock Company, Novi Sad, Serbia, became a major shareholder of the company with the participation of 75.0%, while Steiermaerkische Bank und Sparkassen AG, Graz, Austria decreased its share to 25.0%.

The core activity of the company is the provision of the services of financial leasing of movables assets to private individuals and corporate clients in the territory of the Republic of Serbia.

The Company's head office is in Belgrade, 3a Milutina Milankovića street.

As at 31 December 2023, the Company had 51 employees, the same number as in 2022.

The company's registration number is 17488104 and its tax identification number is 102941384.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Group's consolidated financial statements (the "financial statements") as at and for the year ended 31 December 2022 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.

These consolidated financial statements were prepared at historical cost principle, unless otherwise is stated in the accounting policies, presented below.

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

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

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

A) Adoption of New or Revised Standards and Interpretations

The following amended standards entered into force on 1 January 2023, but did not have a material impact on the Group:

- ***IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).*** IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers are now recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity is recognising the loss immediately.
- ***Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).*** The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:
  1. *Effective date:* The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
  2. *Expected recovery of insurance acquisition cash flows:* An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3. *Contractual service margin attributable to investment services*: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
4. *Reinsurance contracts held – recovery of losses:* When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
5. *Other amendments:* Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

Transition option for insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to the transition requirements in IFRS 17 provides insurers with an option aimed at improving the usefulness of information to investors on initial application of IFRS 17. The amendment relates to insurers' transition to IFRS 17 only and does not affect any other requirements in IFRS 17. The transition requirements in IFRS 17 and IFRS 9 apply at different dates and result in the following one-time classification differences in the comparative information presented on initial application of IFRS 17: accounting mismatches between insurance contract liabilities measured at current value and any related financial assets measured at amortised cost; and if an entity chooses to restate comparative information for IFRS 9, classification differences between financial assets derecognised in the comparative period (to which IFRS 9 will not apply) and other financial assets (to which IFRS 9 will apply). The amendment helps insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets. When initially applying IFRS 17, entities are, for the purpose of presenting comparative information, permitted to apply a classification overlay to a financial asset for which the entity does not restate IFRS 9 comparative information. The transition option is available, on an instrument-by-instrument basis; allows an entity to present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset, but not require an entity to apply the impairment requirements of IFRS 9; and require an entity that applies the classification overlay to a financial asset to use reasonable and supportable information available at the transition date to determine how that financial asset is to be classified applying IFRS 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences

Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules (issued 23 May 2023). In May 2023, the IASB issued narrow-scope amendments to IAS 12, 'Income Taxes'. This amendment was introduced in response to the imminent implementation of the Pillar Two model rules released by the Organisation for Economic Co-operation and Development's (OECD) as a result of international tax reform. The amendments provide a temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules. Companies may apply the exception immediately, but disclosure requirements are required for annual periods commencing on or after 1 January 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024). The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate.

Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024). These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued on 25 May 2023). In response to concerns of the users of financial statements about inadequate or misleading disclosure of financing arrangements, in May 2023, the IASB issued amendments to IAS 7 and IFRS 7 to require disclosure about entity's supplier finance arrangements (SFAs). These amendments require the disclosures of the entity's supplier finance arrangements that would enable the users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. The purpose of the additional disclosure requirements is to enhance the transparency of the supplier finance arrangements. The amendments do not affect recognition or measurement principles but only disclosure requirements. The new disclosure requirements will be effective for the annual reporting periods beginning on or after 1 January 2024.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. Consolidation Grounds

The consolidated financial statements include the financial statements of the Bank and the company controlled by the Bank. Control exists if the Bank has a power of managing the company's financial and business policies so as to benefit from its activities. 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.

Result of the subsidiary acquired during the year is included in the consolidated income statement from effective date of acquisition. As necessary, the subsidiary's financial statements are adjusted in such manner that their accounting policies are aligned with those used by the bank as a parent company within the Group. All transactions, balances, income and expenses within the group are eliminated based on the consolidation. Minority interest is a share in profit or loss and equity of the subsidiary to which the Bank is not an owner, either direct or indirect. Minority interest is specifically presented in the Group's income statement and in equity in the Group income statement, separately from the Bank's equity.

2.3 Business Mergers

As at 31 December 2023, the Bank holds 75% of ownership in S-Leasing. As at the participation date, the Leasing assets amounted to RSD 3,092,233 thousand, total share capital amounted to RSD 60,455 thousand, while the profit amounted to RSD 113,284 thousand. As at 31 December 2023, the total Leasing assets amounted to RSD 22,472,918 thousand, total share capital amounted to RSD 67,500 thousand, while the profit amounted to RSD 12,318 thousand.

Business merger that includes entities of business under common control is a business combination in which the entities under the common control by the same entity, prior to or after business merger are stated, and such control is not transferable. Since IFRS 3 does not apply to business mergers of companies under common control, in accordance with IAS 8, the Group adopted the accounting policy where such transactions are recorded based on pooling of interests.

Method application is as follows:

- Assets and liabilities of the entities merged is presented at carrying amount as shown in the previous statements of the Group parent company;
- There is no new fair value appraisal or recognition of new assets or liabilities. The only adjustments made are those for the purpose of adjusting the accounting policies;
- Goodwill is not recognised as the merger result;
- Difference between paid amount/transfer and "acquired" capital is shown in equity;
- Income statement reflects the result of all companies for whole business year if merger occurred at the beginning of year and gap is not material;
- Comparative data are not altered.

2.4 Interest income and expenses

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

For all financial instruments measured at amortized cost, 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 Group 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. 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 by the Group 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 i.e. when service is provided. 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).

2.6. Foreign Exchange Translation

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

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

2.7 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.

2.7.1. 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 Group 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 35.10. Fair value of financial assets and liabilities.

2.7.2. Initial recognition and measurement

a) Initial recognition

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

b) Initial measurement

All financial instruments are initially recognized at fair value (except for financial assets and financial liabilities at fair value through profit and loss), increased by transaction costs that are directly attributable to 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)

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

2.7.3 Classification and subsequent measurement

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

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

The Group classified the financial assets into the following categories:

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

Subsequent valuation of financial assets depends on their classification.

2.7.3.1. Financial assets at amortized cost

Financial assets are measured at amortized 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 amortized cost, i.e. the gross carrying amount net of the credit loss allowance.

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

Financial assets at amortized cost are the largest category of measurement, as the entire credit portfolio of the Group' 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 Group 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 amortized cost'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7.3 Classification and subsequent measurement

2.7.3.2 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 Group's income statement. Gains and losses arising from impairment for credit losses are also presented in the income statement at the position "Net loss from impairment of financial assets that are not valued at fair value through profit and loss account." As a result, the effect of valuation recognized in the Group's income statement is the same as for financial assets that are measured at amortized cost. The difference between the fair value at which these securities are valued in the balance sheet and their amortized cost is recognized through the other comprehensive result within the 'Positive / negative effects of the change in debt instruments that are valued at fair value through other comprehensive income". When the securities ceases to be recognized, the amount previously accumulated in the other comprehensive result is reclassified to the income statement and presented at the position 'Net gain / loss on recognition of financial instruments at fair value.'

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

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

2.7.3.3 Financial assets at fair value through profit and loss

Financial assets that have either not passed the SSPI test or have another business model are included in the category of fair value measurement through profit and loss. In general, these financial assets are sold prior to their maturity and their performances are assessed based on their fair value, therefore, gain is generated through sale. In the bank's operation, this is a business model based on which financial assets are held for trade.
In this portfolio, the Bank holds debt securities held for trade as well as derivatives.

For debt securities valued at fair value through profit and loss, gains and losses from adjustment with market value, and effects of fair value change in subsequent valuation are recognised through profit and loss in position "Net gains from change in fair value of financial instruments" and they do not subject to impairment. Interest income based on financial asset coupons held for trade are recognised based on effective interest rate method and they are included in the "Interest income" position in the income statement.

2.7.3.4 Reclassification of financial assets

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

There were no reclassifications made by the Group during 2023.

2.7.3.5 Equity instruments

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

2.7.4 Impairment of financial instruments under IFRS 9

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

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

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

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

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

1) Stage 1

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

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

2) Stage 2

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

2.7.5. Derecognition of financial assets and liabilities

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

When the 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 Group is engaged around the asset. Further engagement of the Group, which has the form of a guarantee on the transferred asset, is valued at the amount of the original carrying amount of the asset or the amount of the maximum amount of compensation that the Group would have to pay, depending on the amount that is lower.

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

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

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

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

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

2.7.6. Restructured loans

Where possible, the Group 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 European Banking Authority (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 Group 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 Group 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7.7. Issued Financial Instruments and Other Financial Liabilities

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

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 Operating Liabilities

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

2.8. 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.

2.9. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances on the Group'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.

2.10. Derivative Receivables and Liabilities

Derivatives are derived financial instruments or other agreements having three basic features: their value changes depending on changes of a basic – core value, they do not require any initial investment or require relatively low net investment, and they are settled on a date in the future. Derivatives cover forward transactions, currency swaps, interest rate swaps, and interest rate options. In the income statement, they are presented within the assets position if their fair value is positive, or within the liabilities position of their fair value is negative. Initially, they are recognised at fair value, and fair value change effects are, at subsequent measurement, presented in the income statement, in position "Net gains/losses from change in fair value of financial instruments".

2.11 Reverse Repo and 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 Group retains substantially all the risks and rewards of ownership, as the securities are redeemed at a fixed price when the repo transaction is completed.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12. 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.

2.13. 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to income statement of the financial period in which they are incurred.

Depreciation is 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 income statement, as other operating income or operating and other operating expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14. Impairment of Non-Financial Assets

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

2.15. Accounting for leases by the Group as a lessee

The Group as a lessee analyses the Lease Agreements and determines whether they meet the requirements of IFRS 16 standard for the recognition of the lease liability and right of use assets in the Income Statement. Right of use assets and lease liabilities are recognized on the date of the lease inception. Right of use assets are initially measured at cost representing the initial value of the leasing liability (discounted to present value) and all leasing payments made prior to the lease date less any incentives received from the lessor. Right of use assets are subsequently amortized, starting form the lease inception date, up to the end of the lease period. The Group uses the straight-line method of depreciation. Lease liabilities are, on the date of the beginning of lease, valued at present value of future lease payments during lease period. All payments are discounted using an interest rate that represents the implicit lease rate. If this rate cannot be determined, the Group uses an incremental borrowing rate - the rate at which the Group can borrow from Erste Group.

On the date of initial recognition, lease payments include: fixed lease payments, variable lease payments that depend on the market indices 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 payment of contractual penalties for early termination of the contract if the lease term reflects the fact that lessees have used the termination option. Thereafter, the carrying amount of the lease liability is increased by interest calculated using the discount rate, less any lease payments made, and possibly revalued in accordance with the change in lease agreement.

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

2.16. Provisions, Contingent Liabilities and Contingent Assets

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

- when the Group 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)

2.17. Employee Benefits

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

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

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

In accordance with the Collective Agreement the Bank is obligated to pay its vesting employees retirement benefits in the amount of 3, 5, or 7 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 3, 5, or 7 average salaries paid by the Bank in the month prior to the month of the retirement, or 3, 5, or 7 monthly salaries of employee paid in the month of payment if this is more favourable to an employee – depending on the years of service at the Bank.

In accordance with the Rulebook on Labour, S-Leasing is obligated to remunerate retirement benefit (severance payment) to employees in the amount of 3 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 3 average monthly salaries paid at S-Leasing in the month prior to the month of 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 Group. Jubilee awards are paid in the respective amounts of one, two or three average salaries paid by the Group in the month prior to the date of payment, depending on duration of the continuous service with the employer.

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

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

(c) Short-Term Compensated Absences

Accumulating compensated absences (annual vacation leaves) may be carried forward and used in future periods if the current period’s entitlement is not used in full. Expenses for compensated absences are recognized at the amount the 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

Within the employee share program, all employees of the Bank, who have been employed for more than 6 months as at 31 December 2023, will be given free shares of Erste Group Bank AG in the net amount of EUR 350, provided that the General Meeting of the Erste Groupe Bank AG of 2024 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 18,436 thousand in the income statement within line “wage costs“ and as a liability in balance sheet under other liabilities.

All employees who met the conditions of the aforementioned program were, in addition to the allocation of shares, able to buy the Erste Group shares, including additional incentive by the Group (Investment plus). The additional incentive includes that, in addition to the shares bought by an employee from own funds, such an employees receives additional free shares (preferential investment the Bank allocates free of charge as an incentive).
On this basis, the Bank recognized the amount of 11,681 thousand in its income statement within the “Cost of Salaries” as well as a liability in the balance sheet in “Other liabilities”

Within the Employee Share program, all S-Leasing employees, who were employed longer than 6 months as at 31 December 2023, will receive the free shares of Erste Group Bank AG in the amount of EUR 350 net provided that decision on the dividend distribution is made by Erste Group Bank AG general meeting in 2024. Based on the number of the employees, S-Leasing recognized the amount of RSD 1,943 thousand in the income statement within the “costs of salaries” as well as the obligation in the balance sheet in “Other Liabilities”.

All employees who met the conditions based on the aforementioned Program, were also entitled to, in addition to the share distribution, buy Erste Group shares based on additional incentive by the Group (Investment plus).
On this basis, S-Leasing recognized the amount of RSD 779 thousand in the income statement within the “Costs of salaries” as well as the obligation in the balance sheet in “Other Liabilities”.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18. Guarantees

In the ordinary course of business, the Group approves guarantees that can be 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 and compensate the loss to the holder of a guarantee, incurred if a certain client fails to settle its payment liabilities in due time as required under the terms of the contract.

Financial guarantees are initially recognized in the financial statements at fair value as at the date the guarantee is issued. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required 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 Group records certain types of fees on an one-off basis, while those which refer 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 unamortized 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.

2.19. Repossessed Assets

The Group assumes assets (collaterals) as a form of collection in cases of lending with problems in repayment. The basic reasons are to enable collateral control and protect collateral value in illiquid or problematic markets by setting the market base and, as a 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 Group and to avoid further deterioration of value.

Assets acquired in such a way can be classified as:
1) Tangible assets held by the Group for their use (IAS 16, 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 Group used by the Group are recorded at cost and depreciated in accordance with the Group's Accounting Policy and the IFRS Accounting Manual Erste Bank ad Novi Sad.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19. Repossessed Assets (continued)

The Group 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.

2.20. Taxes and Contributions

(a) Income Taxes

Current Income Tax

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

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

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)

2.20. 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.

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) SPPI assessment

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

When taking into consideration specific features of loans, significant areas of judgement are prepayment fees, 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 Group upon the early termination. For these purposes, the Group uses a quantitative test where the costs relate to the lost interest margin and the lost interest differential due to a potential decrease in the interest rates upon early termination or prepayment. The estimation is done on the portfolio level. The adequacy of the fees can also be defended on a qualitative basis such as common market practice regarding level prepayment fees and their acceptance by authorities.

The discrepancy in the interest rate and the period of its update relates to variable interest rates for loans where the reference interest rate is not adjusted in terms of tenor and the update period (such as when the 3M EURIBOR is adjusted more often, i.e. every month or less, e.g. every 6 months) or is the update period determined before the beginning of the interest period (for example, 3MEURIBOR is updated 2 months before the release of the loan and the beginning of the interest period). Such cases need to be assessed by means of a „benchmark test" whether the contracted (undiscounted) cash flow of the loan deviates significantly from the benchmark loan (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 Group tested its placements with contracted "old rates" qualitatively, as well as a number of placements that have contracted interest maturity with the update period, quantitatively and all placements have passed the benchmark test.

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

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

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Business model assessment

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

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

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

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

Business models of the Group:

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

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

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

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

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

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

(c) Credit Loss Allowance

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

Detailed disclosure of the identification of a significant increase in credit risk, including collective, individual credit, foresight techniques used to measure the expected loss and default definition and other aspects of credit risk assessment are given in Note 35.

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 35.4 (Market risks) and 35.10 (Fair value of financial assets and liabilities).

(e) Provisions for litigation

The Group, 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 Group assesses the probability of any negative outcomes in these disputes, as well as the extent of probable and reasonable estimated losses, and for those with a probable negative outcome, 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 Group is likely to be in the obligation to pay and whether the amount of payment can be reliably estimated.

A provision for litigation is formed when it is probable that an obligation 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 36(b) discloses information about the Group'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 Group uses a model which in accordance with IFRS 16 requirements. The lessee recognizes the right of use asset, which represents it’s right to use the underlying property, and the lease liability, which, represents its lease payment obligation.

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

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

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

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

Determining the incremental rate of borrowing for the lease of immovable property is based on a rate that can be easily observed. Such a rate represents the return on assets that reflects the annual return expected on the assets - the capitalization rate. A simplified approach using financing / refinancing rates has been applied to determine the incremental 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" (secured, 70% value)

The "market rate" is derived from existing Group 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 Group'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.

Discount rate – incremental borrowing rate	31 December 2023
Average incremental borrowing rate – facilities	2,93%
Average incremental borrowing rate – vehicles	2.76%

(g) Performance guarantees are treated as loan liabilities.

The Bank analysed issued performance guarantee agreements to assess whether they meet the definition of insurance agreement within IFRS 17 scope. It was concluded that certain performance agreements expose the Bank solely to the applicant's credit risk because (i) all agreements require a customer to file application for guarantee to fully indemnify their liabilities in order to entirely indemnify the Bank as an issuer and (ii) there are no scenarios with the commercial content where the Bank would have to pay significant additional amounts to holders of such guarantees. Consequently, the Bank records these agreements as loan liabilities, in accordance with IFRS 9.

4. INTEREST INCOME AND EXPENSES

In RSD '000

	2023.	2022.
Interest income		
– Banks and other financial institutions	652,295	206,650
– Public companies	771,365	549,265
– Corporate customers	8,264,673	4,210,587
– Entrepreneurs	313,180	187,751
– Public sector	2,336,084	2,393,180
– Retail customers	9,770,985	6,260,153
– Non-residents	465,192	82,151
– Agricultural producers	11,968	10,355
– Other customers	198,222	65,683
Total	**22,783,964**	**13,965,775**
Interest expense		
– Banks and other financial institutions	2,251,956	646,759
– Public companies	31,667	19,545
– Corporate customers	2,749,653	1,057,293
– Entrepreneurs	18,913	7,660
– Public sector	57,355	478,235
– Retail customers	952,355	210,654
– Non-residents	1,631,948	918,122
– Households and agricultural producers	1,486	5
– Other customers	78,430	59,259
Total	**7,773,764**	**3,397,531**
Net interest income	**15,010,200**	**10,568,244**

Interest expenses position growth was impacted by a significant growth in deposit volumes as well as higher interest rates to deposits in 2023. Regarding growth in the interest income position, increase in new placements as well as higher interest rates in 2023 had the highest impact to the growth.

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

In RSD '000

	2023.	2022.
Interest income		
Loan obligations	19,531,264	11,383,197
Based on obligatory reserve	153,189	92,349
Based on deposits	2.326	21,065
Based on securities	2,322,942	2,372,918
Based on other placements	774,243	178,186
Total	**22,783,963**	**14,047,715**
Interest expenses		
Loan obligations	2,349,204	937,345
Based on securities	0	374,758
Based on deposits	4,779,836	2,043,555
Based on leasing IFRS 16	46,024	47,858
Other interest expenses	598,699	75,955
Total	**7,773,763**	**3,479,471**
Net interest income	**15,010,200**	**10,568,244**

5. FEE AND COMMISSION INCOME AND EXPENSES

In RSD '000

	2023.	2022.
Fee and commission income		
Loans operations	160,690	28,443
Securities	32,171	1,128
Guarantees and other warranties	445,469	338,092
Payments and payment card transactions	3,104,613	2,112,009
Foreign currency buying and selling	779,534	745,313
Other fees and commissions	1,191,080	1,852,110
Total	**5,713,557**	**5,077,095**
Fee and commission expenses		
Loans operations	139,597	17,596
Securities	19,383	4,273
Guarantees and other warranties	740	-
Payments and payment card transactions	1,145,188	918,572
Foreign currency buying and selling	24,969	71,793
Other fees and commissions	503,307	665,577
Total	**1,833,184**	**1,677,811**
Net fee and commission income	**3,880,373**	**3,399,284**

6. NET GAINS (LOSS) FROM CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

In RSD '000

	2023.	2022.
Gains from changes in the value of assets and liabilities		
Gains from changes in value of other derivatives	1,719,676	2,958,375
Gains from changes in value of financial assets valued at FV through profit and loss	18,491	47,479
Gains from changes in value of financial liabilities valued at fair value through profit and loss	-	18,391
Total	**1,738,167**	**3,024,245**
Losses from changes in the value of assets and liabilities		
Losses from changes in value of other derivatives	1,599,970	2,766,105
Losses from changes in value of financial assets valued at FV through profit and loss	2,116	236,562
Losses from changes in value of financial liabilities valued at FV through profit and loss	8,272	-
Total	**1,610,358**	**3,002,667**
Net gains from changes in the FV of financial instruments	**127,809**	**21,578**

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

In RSD '000

	2023.	2022.
Gains from derecognition of financial instruments		
Gains from derecognition of financial instruments valued at FV through profit and loss	24,876	26,286
Gains from derecognition of financial instruments valued at FV through other comprehensive income	3,386	-
Total	**28,262**	**26,286**
Losses from derecognition of financial instruments		
Losses from derecognition of financial instruments valued at FV through profit and loss	9,176	15,341
Losses from derecognition of financial instruments valued at FV through other comprehensive income	-	-
Total	**9,176**	**15,341**
Net gains from derecognition of financial instruments valued at FV	**19,086**	**10,945**

8. NET GAINS FROM HEDGING

In RSD '000

	2023	2022
Gains from hedging		
Gains from changes in value of placements and receivables	169	826
Total	**169**	**826**
Net gains from hedging	**169**	**826**

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

In RSD '000

	2023.	2022.
Foreign exchange difference gains	4,910,451	10,124,374
Foreign exchange difference losses	(4,701,681)	(9,841,366)
Gains on currency clause effects	133,288	454,852
Losses on currency clause effects	(398,733)	(670,583)
Net expenses of foreign exchange differences and currency clause effects	**(56,675)**	**67,277**

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

In RSD '000

	2023.	2022.
Gains from impairment of financial asset not valued at FVTPL		
Expenses from reversal of indirect write-offs of financial asset valued at amortized cost	10,166,831	7,514,823
Expenses from reversal of impairment of financial assets valued at FV through other comprehensive result	29,539	3,276
Gains from reversal of provisions for off-balance sheet items	855,794	944,903
Gains from the modification of financial instruments	2,087	3,104
Total	**11,054,251**	**8,466,106**
Losses from impairment of financial asset not valued at FVTPL		
Income from indirect write-offs of financial asset valued at amortized cost	11,610,900	9,767,137
Income from impairment of financial assets valued at FV through other comprehensive result	17,139	2,570
Losses from provisions for off-balance sheet items	668,768	1,220,859
Losses from the modification of financial instruments	1,273,023	4,392
Total	**13,569,830**	**10,994,958**
Net losses from impairment of financial asset not valued at FVTPL	**(2,515,579)**	**(2,528,852)**

The National Bank of Serbia rendered the Decision on Temporary Measures for Banks Relating to Natural Persons' Housing Loans ("Official Herald of the RS", number 78 of 12 September 2023), based on which the National Bank of Serbia restricted the interest rate to the borrowers of first hosing credit at variable interest rate, the contracted amount of which does not exceed EUR 200,000. The nominal interest rate was restricted to those borrowers were, on a temporary basis, for next 15 months, starting from the October instalment. The Bank will not be entitled to claim the interest difference due to the application of this Decision. On this basis, the bank generated losses based on the modification of the aforementioned loans in the amount of RSD 1.27 billion

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

In RSD '000

	2023.	2022.
Losses from impairment of financial assets and credit risk off-balance sheet items		
Losses from indirect write-offs of placement of balance sheet items:		
- securities (Note 20)	(90,032)	(24,195)
- loans and advances to banks and other financial institutions (Note 21)	(19,506)	(7,701)
- loans and advances to customers (Note 22)	(4,881,109)	(7,352,018)
- other assets (Note 25)	(113,149)	(94,237)
	(5,103,796)	**(7,478,148)**
Provisions for losses on off-balance sheet assets (Note 30)	(290,718)	(521,521)
Total losses from impairment of financial assets and credit risk off-balance sheet items	**(5,394,514)**	**(7,999,669)**
Gains from impairment of financial assets and credit risk off-balance sheet items		
Gains from reversal from indirect write-offs of placement of balance sheet items:		
- securities (Note 20)	126,918	4,160
- loans and advances to banks and other financial institutions (Note 21)	5,750	6,597
- loans and advances to customers (Note 22)	4,360,517	5,205,813
- other assets (Note 25)	85,955	9,255
	4,579,140	**5,225,825**
Provisions for losses on off-balance sheet assets (Note 30)	565,044	245,564
Total gains from impairment of financial assets and credit risk off-balance sheet items	**5,144,184**	**5,471,389**
Net loss from impairment of indirect write-offs of placements and provisions	**(250,330)**	**(2,528,280)**

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

In RSD '000

	2023.	2022.
Gains from derecognition of financial instruments valued at amortized cost		
Gains from derecognition	19	140
Total:	**19**	**140**
Losses from derecognition of financial instruments valued at amortized cost		
Loss from derecognition	(46,852)	(63,614)
Total:	**(46,852)**	**(63,614)**
Net Gains/losses from derecognition of financial instruments valued at amortized cost	**(46,833)**	**(63,474)**

12. OTHER OPERATING INCOME

In RSD '000

	2023.	2022.
Income from consulting services	9,490	9,509
Income from rent	7,731	7,765
Income from IT services	11,671	12,645
Other income	124,160	103,206
Dividend income and other income from shares	44,569	45,174
Total	**197,621**	**178,299**

13. COST OF SALARIES, CONTRIBUTIONS AND OTHER PERSONAL EXPENSE

In RSD '000

	2023.	2022.
Net salaries and benefits	2,274,103	1,948,026
Payroll taxes and contributions charged to the employee	855,668	716,327
Retirement benefits, jubilee awards, bonuses and annual leave	369,456	204,437
Other staff costs	128,523	144,996
Gains from reversal of provisions (Note 30)	(18)	(9,216)
Provision expenses for retirement benefits and other provisions (Note 30)	48,592	38,898
Total	**3,676,324**	**3,043,468**

14. DEPRECIATION COSTS

In RSD '000

	2023.	2022.
Depreciation expense:		
- Tangible assets (Note 23)	806,231	600,799
- Intangible assets (Note 23)	316,886	459
- investment real estate (Note 23)	2,517	95,850
Total	**1,125,634**	**697,108**

15. OTHER INCOME

	2023.	2022.
		In RSD ‘000
Income from collection of written receivables	308,824	251,660
Reversal of unused provision for liabilities	111,644	49,747
Reversal of unused other provision	8,813	15,888
Income from sale of properties and intangible assets	25,052	28,252
Other income	306,058	109,005
Total	**760,391**	**454,552**

16. OTHER EXPENSES

	2023.	2022.
		In RSD ‘000
Professional services	3,376,792	2,703,962
Donations and sponsorships	36,041	40,514
Marketing and advertising	277,754	226,559
Telecommunication services and postage	97,778	72,781
Insurance premiums	652,235	609,611
Rental cost	92,196	87,577
Cost of materials	180,156	157,883
Taxes and contributions payable	242,994	128,784
Maintenance of fixed assets and software	659,928	681,501
Losses on sale and disposal of fixed and intangible assets	327	606
Pay roll contributions payable by the employer	423,684	373,329
Per diems and travel expenses	118,676	104,012
Training and counselling	43,733	37,900
Provision expenses for litigations (Note 30)	124,303	476,732
Other	214,652	137,819
Total	**6,541,250**	**5,839,570**

17 INCOME TAXES

(a) Components of income taxes

	Erste Bank	S Leasing	Erste Bank	S Leasing
				In RSD '000
	31 December 2023	31 December 2023	31 December 2022	31 December 2022
Current income tax expense	(394,675)	(77,634)	(26,338)	(44,801)
Gains on created deferred tax assets and decrease of deferred tax liabilities	-	16,185	-	-
Loss on created deferred tax assets and decrease of deferred tax liabilities	(17,837)	-	(14,385)	(502)
Total	**(412,512)**	**(61,449)**	**(40,723)**	**(45,303)**

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

	Erste Bank 31 December 2023.	S Leasing 31 December 2023.	Erste Bank 31 December 2022.	S Leasing 31 December 2022.
Profit before tax	**5,959,586**	**73,766**	**2,385,095**	**143,438**
Income tax at the rate of 15%	**893,938**	**11,065**	**357,764**	**21,516**
Tax effects of expenses not recognized for the tax purposes	(18,297)	66,171	(545)	23,285
Tax effects of non-taxable income (interest on securities issued by the Republic of Serbia, Autonomous Province, local self-government or NBS)	(474,281)	-	(304,920)	-
Tax effects of first implementation of IFRS 9	-	-	(8,263)	-
Other	11,152	(15,787)	(3,312)	(502)
Total tax expense/(income) stated in the income statement	**412,512**	**61,449**	**40,724**	**45,303**
Effective interest rate	6.92%	83.3%	1.71%	31.58%

(c) Deferred tax components

	Erste Bank as of 31 December 2023 Amount of temporary difference	Erste Bank as of 31 December 2023 Amount of deferred tax	S Leasing as of 31 December 2023 Amount of temporary difference	S Leasing as of 31 December 2023 Amount of deferred tax
Deductible temporary difference per difference between the carrying value and tax base of fixed assets – deferred tax assets	172,388	25,858	(1,404)	(210)
deferred temporary difference based on carried forward tax losses from the previous years – deferred tax assets	372,689	55,903	523	78
Deductible temporary difference from provisions for litigations – deferred tax assets	893,209	133,981	15,115	2,267
Deductible temporary difference from provisions for jubilee awards – deferred tax assets	171,509	25,726	8,590	1,288
Deductible temporary difference from provisions for pensions – deferred tax assets	172,204	25,831	1,460	218
Deductible temporary difference from provisions for pensions – actuarial gain – deferred tax liabilities	42,142	6,231	(1,391)	(208)
Deductible temporary difference from provisions from provisions for government securities – deferred tax liabilities	(4,914)	(737)	101,210	15,182
Balance as at 31 December 2023	**1,819,227**	**272,884**	**22,894**	**3,433**

17 INCOME TAXES (continued)

(d) Changes in deferred taxes

	Erste Bank	S Leasing	Erste Bank	S Leasing
	31 12 2023	**31 12 2023**	**31 12 2022**	**In RSD '000 31 12 2022**
Balance of deferred tax assets (liabilities) as at 1 January	342,595	2,491	224,019	3,060
Effect of temporary tax differences credited to the income statement	(17,837)	16,185	(14,385)	(502)
Effect of temporary tax differences credited to equity	(51,874)	(61)	132,961	(67)
Balance of deferred tax assets as at 31 December	**272,884**	**18,615**	**342,595**	**2,491**

In Note 17, the Group presented the data from the tax balance of single parties since the Bank, as a parent legal entity, does not perform tax consolidation, in accordance with Article 55 of the Law on Corporate Profit Tax.

18 CASH AND FUNDS WITH THE CENTRAL BANK

	31 December 2023	**In RSD '000 31 December 2022**
In RSD		
Giro account	26,206,162	19,122,924
Cash on hand	4,125,952	2,962,685
Deposits of surplus liquid assets	5,000,000	8,000,000
Impairment allowance of deposits of surplus liquid assets	(1,274)	-
Active accruals based on cash and funds with the Central Bank	2,188	-
	35,333,028	**30,085,609**
In foreign currency		
Cash on hand	2,804,997	3,627,470
Obligatory foreign currency reserve held with the NBS	22,161,062	20,963,166
	24,966,059	**24,590,636**
Total	**60,299,087**	**54,676,245**

The consolidated financial statements have been reissued and supersede a version previously issued and dated 12 March 2024. The reason for the reissuance is previous misclassification of Deposits of surplus liquid assets with National Bank of Serbia in the amount of RSD 5 billion to "Loans and receivables to banks and other financial institutions" instead of "Cash and balances with Central bank". This came as a consequence of booking it intially to the incorrect account (overnight deposits), and has been rectified by reclassifying balances of the following items in total amount of RSD 5 billion from "Loans and receivables to banks and other financial institutions" to "Cash and balances with Central bank": Deposits of surplus liquid assets, Impairment allowance of deposits of surplus liquid assets and Active accruals.

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) and in accordance with the Decision on Amendments of Decision on Required Reserves of Banks with the National Bank of Serbia ("Official Gazette of the RS, no. 77/2023), based on which banks calculate the required reserves in dinars at the rate of 7% on the average balance of RSD liabilities maturing within 2 years, and at the rate of 2% 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 2023 to 17 January 2024 amounted to RSD 24,627,434 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 0,75% annually.

18 CASH AND FUNDS WITH THE CENTRAL BANK (continued)

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) and in accordance with Decision on Required Reserves of Banks with the National Bank of Serbia ("Official Gazette of the RS, no. 77/2023), based on which banks calculate the obligatory foreign currency reserve at the following rates: 23% 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; 16% 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 2023 to 17 January 2024 amounted to EUR 189,020 thousand.

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

19. DERIVATIVE RECEIVABLES

		In RSD '000
	31 December 2023	**31 December 2022**
In RSD		
Financial assets at FV through profit and loss		
- FV of derivatives intended for trading (FVTPL)	69,843	28,613
	69,843	**28,613**
In foreign currency		
Financial assets at FV through profit and loss		
- FV of derivatives intended for trading (FVTPL)	602,561	785,753
	602,561	**785,753**
Balance as of 31 December	**672,404**	**814,366**

20. SECURITIES

In RSD ‘000

	31 December 2023	31 December 2022
In RSD		
Debt securities		
– bonds (AC)	42,934,941	40,547,822
– bonds (FVTPL)	65,830	1,224,595
– bonds (FVTOCI)	5,325,953	9,005,815
Debt securities		
– shares in equity (FVTPL)	19,597	27,049
	48,346,321	**50,805,281**
In foreign currency		
Debt securities		
– bonds (AC)	4,072,625	4,530,479
– bonds (FVTPL)	3,702,354	3,748,357
– bonds (FVTOCI)	2,502,095	2,383,357
Debt securities		
– other securities available for sale – VISA shares (FVTOCI)	133,687	112,669
	10,410,761	**10,774,862**
Total	**58,757,082**	**61,580,143**
Less: Impairment allowance (AC)	(27,757)	(64,500)
Balance as of 31 December – with pledged financial assets	**58,729,325**	**61,515,643**
Of that pledged financial assets		
Debt securities		
– bonds (AC)	-	6,229,454
Total pledged financial assets	**-**	**6,229,454**
Balance as of 31 December – without pledged financial assets	**58,729,325**	**55,286,189**

As of 31 December 2023, the Group did not have any pledged financial assets. On 31 December 2022, the Group 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 stage 1. Of all listed securities, bonds are listed on the stock exchange, as well as Visa shares valued through equity.

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	**64,500**	**6,132**	**14,533**	**83,900**	**112,385**	**143**	**27,757**
Other companies	3,296	-	-	9,105	7,943	(3,326)	1,132
Public sector	61,204	6,132	14,533	74,795	104,442	3,469	26,625
TOTAL	**64,500**	**6,132**	**14,533**	**83,900**	**112,385**	**143**	**27,757**

21. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2023			31 December 2022		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Revocable deposits and loans	19,014,671	-	**19,014,671**	4,666,670	-	**4,666,670**
Loans	44	521	**565**	245	3,373	**3,618**
Deposits	12,000	-	**12,000**	6,000	-	**6,000**
	19,026,715	**521**	**19,027,236**	**4,672,915**	**3,373**	**4,676,288**
In foreign currency						
Foreign currency accounts	606,939	-	**606,939**	690,505	-	**690,505**
Revocable deposits and loans	-	-	**-**	482	-	**482**
Loans	52,283	11	52,294	4,449	15,981	20,430
Deposits	96,262		96,262	4,693	-	4,693
Other placements	76,055		76,055	29,832	-	29,832
	831,539	**11**	**831,550**	**729,961**	**15,981**	**745,942**
Gross loans and receivables	**19,858,254**	**532**	**19,858,786**	**5,402,876**	**19,354**	**5,422,230**
Less: Impairment allowance			(20,210)			(7,732)
			(20,210)			**(7,732)**
Loans and receivables from banks and financial institutions			**19,838,576**			**5,414,498**

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

21. LOANS AND RECEIVABLES 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									
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
In RSD										
Central bank	19,014,671	-	-	-	19,014,671	(4,844)	-	-	-	(4,844)
Bank in the country	-	-	-	-	-	(99)	-	-	-	(99)
Insurance companies	340	-	-	-	340	(6)	-	-	-	(6)
Auxiliary activities in providing financial and insurance services	185	17	3	-	205	(3)	(4)	(2)	-	(9)
Foreign banks	12,020	-	-	-	12,020	(33)	-	-	-	(33)
	19,027,216	**17**	**3**	**-**	**19,027,236**	**(4,985)**	**(4)**	**(2)**	**-**	**(4,991)**
In foreign currency										
Financial leasing	11	-	-	-	11	(2,219)	-	-	-	(2,219)
Auxiliary activities in providing financial and insurance services	167,630	4,687	-	-	172,317	(12,163)	(749)	-	-	(12,912)
Foreign banks	659,222	-	-	-	659,222	(88)	-	-	-	(88)
	826,863	**4,687**	**-**	**-**	**831,550**	**(14,470)**	**(749)**	**-**	**-**	**(15,219)**
Total	**19,854,079**	**4,704**	**3**	**-**	**19,858,786**	**(19,455)**	**(753)**	**(2)**	**-**	**(20,210)**

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

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

b) Maturities of Loans and Receivables due from Banks and Other Financial Institutions

Maturities of loan and receivables due from customers shown in gross amount per outstanding maturity as at 31 December 2023 and 31 December 2022:

In RSD '000

	31 December 2023	31 December 2022
Without defined maturity	831,431	726,841
Up to 30 days	19,026,671	4,672,859
From 3 to 12 months	-	3,176
Over 1 year	684	19,354
	19,858,786	**5,422,230**

Increase in loans based on repo transactions in the amount of RSD 14.3 billion had the highest effect to the increase in the position of loans and receivables from banks and other financial isntitutions.

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

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

In RSD '000

	Opening balance	Increase due to recognition and acquisition	Decrease due to derecognition	Increase due to credit risk change	Decrease due to credit risk change	Change based on foreign currency exchange differences	Closing balance
Changes in impairment allowances of financial assets							
Stage 1	**7,706**	**17,319**	**5,231**	**157**	**493**	**(3)**	**19,455**
Bank in the country	799	100	800	-	-	-	99
Central bank	2,724	4,844	2,724	-	-	-	4,844
Insurance companies	6	3	5	3	-	(1)	6
Financial leasing	3,975	88	1,511	154	486	(1)	2,219
Auxiliary activities in providing financial and insurance services	82	12,163	71	-	7	-	12,166
Foreign banks	120	121	120	-	-	(1)	121
Stage 2	**26**	**754**	**26**	**-**	**-**	**(1)**	**753**
Auxiliary activities in providing financial and insurance services	25	754	25	-	-	(1)	753
Foreign banks	1	-	1	-	-	-	-
Stage 3	**-**	**2**	**-**	**-**	**-**	**-**	**2**
Auxiliary activities in providing financial and insurance services	-	2	-	-	-	-	2
TOTAL	**7,732**	**18,075**	**5,257**	**157**	**493**	**(4)**	**20,210**

The consolidated financial statements have been reissued and supersede a version previously issued and dated 12 March 2024. The reason for the reissuance is previous misclassification of Deposits of surplus liquid assets with National Bank of Serbia in the amount of RSD 5 billion to "Loans and receivables to banks and other financial institutions" instead of "Cash and balances with Central bank". This came as a consequence of booking it intially to the incorrect account (overnight deposits), and has been rectified by reclassifying balances of the following items in total amount of RSD 5 billion from "Loans and receivables to banks and other financial institutions" to "Cash and balances with Central bank": Deposits of surplus liquid assets, Impairment allowance of deposits of surplus liquid assets and Active accruals.

22. LOANS AND RECEIVABLES TO CUSTOMERS

In RSD '000

	31 December 2023			31 December 2022		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Loans	4,304,821	54,677,351	**58,982,172**	2,859,573	53,942,855	**56,802,428**
Other placements	8,507,147	13,777,059	**22,284,206**	7,099,311	13,612,093	**20,711,404**
	12,811,968	**68,454,410**	**81,266,378**	**9,958,884**	**67,554,948**	**77,513,832**
In foreign currency						
Loans	10,594,580	161,595,652	**172,190,232**	15,342,582	145,712,105	**161,054,687**
Deposits	-	-	**-**	118,745	2,796,758	**2,915,503**
Other placements	836,378	1,037,940	**1,874,318**	461,075	777,832	**1,238,907**
	11,430,958	**162,633,592**	**174,064,550**	**15,922,402**	**149,286,695**	**165,209,097**
Gross loans and receivables	**24,242,926**	**231,088,002**	**255,330,928**	**25,881,286**	**216,841,643**	**242,722,929**
Less: Impairment allowance						
– Individual assessment			(1,103,762)			(1,626,787)
– Collective assessment			(6,320,512)			(5,258,458)
			(7,424,274)			**(6,885,245)**
Balance as of 31 December			**247,906,654**			**235,837,684**

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 31 December 2023				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
In RSD										
Public enterprises	1,957,406	10,000	66	-	**1,967,472**	(24,103)	(357)	(61)	-	**(24,521)**
Other companies	3,614,716	1,974,365	107,227	-	**5,696,308**	(41,409)	(39,695)	(96,132)	-	**(177,236)**
Entrepreneurs	1,275,195	491,198	88,438	-	**1,854,831**	(14,747)	(27,855)	(75,768)	-	**(118,370)**
Public sector	1,594,297	100,697	28	-	**1,695,022**	(853)	(485)	(24)	-	**(1,362)**
Retail	39,924,376	6,031,739	2,785,302	197,230	**48,938,647**	(299,847)	(606,294)	(2,259,879)	(84,621)	**(3,250,641)**
Foreign entities	49	20	256	-	**325**	-	(2)	(198)	-	**(200)**
Farmers	31,612	2,794	9,167	-	**43,573**	(918)	(291)	(8,291)	-	**(9,500)**
Other customers	17,118	21,125	18,876	-	**57,119**	(144)	(1,559)	(16,988)	-	**(18,691)**
	48,414,769	**8,631,938**	**3,009,360**	**197,230**	**60,253,297**	**(382,021)**	**(676,538)**	**(2,457,341)**	**(84,621)**	**(3,600,521)**
In foreign currency										
Public enterprises	6,866,671	3,868,685	1,031	-	**10,736,387**	(29,280)	(119,210)	(1,031)	-	**(149,521)**
Other companies	105,502,700	17,340,127	974,132	1,776,958	**125,593,917**	(666,147)	(704,624)	(696,997)	(934,431)	**(3,002,199)**
Entrepreneurs	1,468,982	367,441	180,583	-	**2,017,006**	(10,626)	(15,154)	(39,769)	-	**(65,549)**
Public sector	619,853	9,348	-	-	**629,201**	(1,963)	(551)	-	-	**(2,514)**
Retail	48,312,177	4,406,333	517,789	93,548	**53,329,847**	(88,517)	(195,935)	(234,744)	(1,192)	**(520,388)**
Foreign entities	7,636	-	-	-	**7,636**	(7)	-	-	-	**(7)**
Farmers	80,986	10,470	9,102	-	**100,558**	(700)	(1,395)	(9,015)	-	**(11,110)**
Other customers	2,527,734	15,498	119,847	-	**2,663,079**	(42,704)	(1,012)	(28,749)	-	**(72,465)**
	165,386,739	**26,017,902**	**1,802,484**	**1,870,506**	**95,077,631**	**(839,944)**	**(1,037,881)**	**(1,010,305)**	**(935,623)**	**(3,823,753)**
Total	**213,801,508**	**34,649,840**	**4,811,844**	**2,067,736**	**255,330,928**	**(1,221,965)**	**(1,714,419)**	**(3,467,646)**	**(1,020,244)**	**(7,424,274)**

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

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

	Gross book value					
	Transfer between Stage 1 and Stage 2		Transfer between Stage 2 and Stage 3		Transfer between Stage 1 and Stage 3	
	From Stage 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	**5,194,238**	**6,072,865**	**205,264**	**8,373**	**449,196**	**-**
Construction	601,950	23,016	173	-	6,371	-
Agriculture and food industry	190,523	3,789	48,471	-	401,645	-
Manufacturing industry	1,117,893	3,289,332	69,756	-	8,886	-
Production and supply of electricity	7,630	1,771,646	-	-	-	-
Trade	2,105,160	324,662	26,771	-	5,892	-
Services and tourism	1,171,082	660,420	60,093	8,373	26,402	-
Entrepreneurs	**754,640**	**196,200**	**19,831**	**-**	**12,807**	**-**
Public sector	**373,852**	**-**	**-**	**-**	**-**	**-**
Retail	**6,221,016**	**1,526,559**	**568,795**	**50,108**	**671,746**	**10,742**
Farmers	**9,290**	**15,871**	**4**	**-**	**2,779**	**-**
Sector of other customers	**220,794**	**42,378**	**4,803**	**-**	**7,127**	**-**
Total	**12,773,830**	**7,853,873**	**798,697**	**58,481**	**1,143,655**	**10,742**

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

c) Maturity and loans and receivables to customers

Maturities of loan and receivables due from customers shown in gross amount per outstanding maturity as at 31 December 2023 and 31 December 2022:

In RSD '000

	31 December 2023	31 December 2022
Without defined maturity	2,804,496	1,895,982
Up to 30 days	182,350	320,557
From 1 to 3 months	1,377,793	2,052,416
From 3 to 12 months	19,878,287	21,612,331
Over 1 year	231,088,002	216,841,643
	255,330,928	**242,722,929**

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	Decrease due to modification	Decrease due to direct write-offs	Change based on foreign currency exchange differences	Closing balance	Collected written-off receivables	Direct write-off expense
Stage 1	**1,281,476**	**606,866**	**325,332**	**158,339**	**854,858**	**2,006**	**34**	**353,502**	**1,221,965**	**47**	**133**
Public enterprises	19,147	34,802	2,235	10,850	9,883	-	-	702	53,383	-	-
Other companies	617,379	382,503	166,560	98,005	443,786	14	34	220,035	707,556	-	132
Entrepreneurs	16,688	19,569	2,723	3,038	18,816	-	-	7,617	25,373	-	-
Public sector	2,648	829	1,575	1,227	296	-	-	(17)	2,816	-	-
Farmers	55	416	0	98	3,876	(3)	-	4,928	1,618	-	-
Retail	607,986	158,384	148,048	24,714	376,466	1,995	0	119,799	388,364	47	1
Foreign entities	594	1	566	0	21	-	-	(1)	7	-	-
Other customers	16,979	10,362	3,625	20,407	1,714	-	-	439	42,848	-	-
Stage 2	**2,049,780**	**325,770**	**395,222**	**661,953**	**485,937**	**5,381**	**7**	**447,299)**	**1,714,419**	**40**	**-**
Public enterprises	219,372	5	8,550	2,746	93,774	-	-	(232)	119,567	-	-
Other companies	968,783	171,077	191,408	232,840	185,133	(23)	7	(251,810)	744,319	-	-
Entrepreneurs	48,193	15,700	7,739	15,455	12,351	(1)	-	(16,248)	43,009	-	-
Public sector	319	291	227	576	0	-	-	77	1,036	-	-
Farmers	-	422	0	935	72	(2)	-	403	1,686	-	-
Retail	811,369	136,946	186,773	408,268	193,963	5,407	0	(179,025)	802,229	40	-
Foreign entities	21	2	20	0	0	-	-	(1)	2	-	-
Other customers	1,723	1,327	505	1,133	644	-	-	(463)	2,571	-	-
Stage 3	**3,501,500**	**774,080**	**2,101,311**	**1,352,705**	**174,087**	**10,152**	**944**	**105,551**	**3,467,646**	**9,698**	**19**
Other companies	1,489,666	267,072	1,331,884	344,201	4,646	11	95	28,804	793,129	4,992	4
Entrepreneurs	79,776	28,275	42,139	47,456	6,495	9	20	8,675	115,537	-	7
Retail	1,799,272	465,558	633,585	875,831	75,019	10,138	383	52,811	2,494,623	4,706	3
Public enterprises	1,032	61	-	66,345	66,349	0	11	14	1,092	-	-
Public sector	0	24	-	0	0	0	2	2	24	-	-
Farmers	6	4,886	-	3,003	2,365	(6)	0	11,782	17,306	-	-
Foreign entities	28	166	5	10	0	0	0	(1)	198	-	-
Other customers	131,720	8,038	93,698	15,859	19,213	0	433	3,464	45,737	-	5
POCI	**52,488**	**981,227**	**20,250**	**20,169**	**3,520**	**14**	**0**	**(9,884)**	**1,020,244**	**-**	**-**
Other companies	0	934,431	0	-	-	-	-	-	934,431	-	-
Retail	52,488	46,796	20,250	20,169	3,520	14	0	(9,884)	85,813	-	-
TOTAL	**6,885,244**	**2,687,943**	**2,842,115**	**2,193,166**	**1,518,402**	**17,553**	**985**	**1,870**	**7,424,274**	**9,785**	**152**

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 2023 and 31 December 2022, is significant for the following activities:

In RSD '000

	31 December 2023	31 December 2022
Trade	19,955,975	17,504,870
Manufacturing industry	28,182,484	28,666,206
Construction	20,731,449	14,381,115
Production and supply of electricity	15,962,827	15,438,313
Services and tourism	42,398,719	39,214,516
Agriculture and food industry	10,461,883	9,061,974
Retail	102,272,883	103,383,099
Domestic and foreign banks and other financial institutions	19,767,211	5,422,230
Public sector	5,461,842	5,974,693
Foreign legal entities	95,633	97,137
Farmers	144,132	149,510
Sector of other customers	3,689,526	3,912,806
Entrepreneurs	6,065,135	4,938,690
Public companies in bankruptcy	4	-
Other financial institutions in bankruptcy	11	-
TOTAL:	**275,189,714**	**248,145,159**

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

f) Receivables based on financial leasing

In RSD '000

	31 December 2023	31 December 2022
Minimum leasing payments	23,273,098	20,835,113
Less: receivables for non-due interests	(2,135,621)	(1,516,517)
Receivables based on financial leasing	**21,137,477**	**19,318,596**
Due remaining minimum leasing payments	12,521	12,610
Other receivables based on financial leasing	37,045	33,224
	21,187,043	**19,364,430**
Less deferred income of receivables based on fees for financial leasing approval	(173,962)	(164,456)
	21,013,081	**19,199,974**
Less: impairment allowance		
- receivables based on financial leasing	(464,304)	(328,761)
- receivables for due interests	(11,697)	(10,655)
- other receivables based on financial leasing	(32,719)	(30,751)
Total	**20,504,360**	**18,829,807**

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

	Land and buildings	Equipment	Leased equipment / Right of Use Assets	Assets in progress	Total fixed assets	investment property	Intangible assets in progress	Intangible assets
Cost								
Balance as at 01 January 2022	**823,891**	**1,894,054**	**2,535,491**	**247,071**	**5,500,506**	**-**	**1,541,934**	**1,673,928**
Additions	-	-	205,154	508,636	713,790	-	1,571,785	-
Transfers	45,240	593,848	10,885	(327,470)	322,503	-	(43,480)	60,258
Rebooking	(100,678)	70,570	(70,570)	-	(100,678)	100,678	-	-
Disposal and retirement	(13,274)	(71,046)	(62,802)	-	(147,122)	-	-	(13,359)
Balance as at 31 December 2022	**755,179**	**2,487,426**	**2,618,158**	**428,237**	**6,288,999**	100,678	**3,070,240**	**1,720,828**
Additions	-	-	304,168	534,177	838,345	-	1,259,644	-
Transfers	15,124	2,235,603	14,444	(735,455)	1,529,716	-	(3,990,502)	4,003,956
Rebooking	-	-	(8,461)	-	(8,461)	-	(760)	-
Disposal and retirement	-	(202,281)	(136,082)	-	(338,363)	-	-	(681,037)
Balance as at 31 December 2023	**770,303**	**4,520,748**	**2,792,227**	**226,959**	**8,310,237**	**100,678**	**338,619**	**5,043,747**
ACCUMULATED IMPAIRMENT ALLOWANCE								
Balance as at 01 January 2022	**350,038**	**1,174,505**	**788,103**	-	**2,312,646**	-	-	**1,486,485**
Rebooking	(47,560)	70,570	(70,570)	-	(47,560)	47,560	-	-
Amortization (Note 14)	20,362	239,060	341,375	-	600,797	459	-	**95,850**
Disposal and retirement	(6,962)	(60,415)	(39,258)	-	(106,635)	-	-	(13,245)
Balance as at 31 December 2022	**315,878**	**1,423,720**	**1,019,650**	-	**2,759,248**	48,019	-	**1,569,090**
Amortization (Note 14)	18,980	439,318	347,933	-	**806,231**	2,517	-	316,886
Disposal and retirement	-	(93,583)	(68,287)	-	**(161,870)**	-	-	(681,005)
Balance at 31 December 2023	**334,858**	**1,769,455**	**1,299,296**	-	**3,403,609**	**50,536**	-	**1,204,971**
Non-written off value as at:								
31 December 2023	**435,445**	**2,751,292**	**1,492,931**	**226,959**	**4,906,628**	**50,142**	**338,619**	**3,838,777**
Non-written off value as at:								
31 December 2022	**439,301**	**1,063,706**	**1,598,508**	**428,237**	**3,529,752**	**52,659**	**3,070,240**	**151,739**

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

The Group has two facilities in its ownership classified as investment property. The fair value of the property amounts to RSD 130,544 thousand.

The Group does not have any mortgaging properties to secure repayment of loan obligations. The net book value of the equipment as at 31 December 2023 is mostly composed of computer and telecommunication equipment and office furniture. The net book value of intangible assets as at 31 December 2023 is software and licenses.

Within the scope of right of use assets and lease liabilities under IFRS 16, the Group has the property and movable assets. The right of use assets mostly relate to the facilities and, as at 31 December 2023, they amount to RSD 1,388, 452 thousand.

The largest part of the intangible assets relates to the investments in the new information system the Bank had through its LIFT project. The Bank completed the acquisition on 31 May 2023 in the amount of 3,561,763 thousand. Since this is a Core Bank System and the use in a longer time period is expected, amortisation is performed, in accordance with the policy, at 10 years.

During 2023, the Group determined that there were no non-financial assets impairment indicators.

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

As disclosed in Note 2.21 in accordance with its accounting policies, the Group 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 for sale

		In RSD '000
	31 December 2023	**31 December 2022**
Fixed assets intended for sale and assets from discontinued operations	12,252	12,252
Balance as of 31 December	**12,252**	**12,252**

As at 31 December 2023, the Group has registered following fixed assets for sale, which are located in the territory of the Republic of Serbia:

- Zemun, Cara Dušana 266 – business premises of 374 m2 Appraised market value amounts to RSD 22,831 thousand.
- Šljivovica, Čajetina Municipality – cadastral parcels. Total appraised market value amounts to RSD 472 thousand.
- Dolovo, Pančevo Municipality – agricultural land. Appraised market value amounts to RSD 1,268 thousand.
- Nova Varoš – cadastral parcel. Appraised market value amounts to RSD 52 thousand.
- Krnule, Vladimirci Municipality – agricultural land. Appraised market value amounts to RSD 1,137 thousand.
- Vojka, Stara Pazova Municipality – land in the construction area. Appraised market value amounts to RSD 1,885 thousand.

25. OTHER ASSETS

		In RSD '000
	As at 31 December 2023	**As at 31 December 2022**
In RSD		
Financial assets:		
– Receivables for accrued fees and commissions	5,060	51,273
– Trade receivables	432	469
– Other receivables from operations by establishing income	61,626	37,204
– Other receivables from standard operations	11,694	395,110
- Prepaid insurance premiums	434,761	427,146
- Coupon interest from bonds	-	18,442
– Other accruals	24,390	102,157
Non-financial assets:		
– Advance given	53,812	12,558
– Receivables from employees	2,577	12,421
– Receivables from prepaid taxes and contributions	66	2,131
– Inventories	125,962	83,080
– Other receivables	824,568	80,845
– Other investments	27,005	27,006
– Other accruals	128,631	-
	1,700,584	**1,249,842**
In foreign currency		
Financial assets:		
– Receivables for accrued fees and commissions	782	-
– Trade receivables	461	-
– Other receivables from operations by establishing income	2	20
– Other receivables from standard operations	61,651	61,199
– Coupon interest from bonds	-	47,877
Non-financial assets:		
– Advance given	26,531	69,023
– Receivables from employees	149	267
– Other non-financial receivables	206,552	850
	296,128	**179,236**
Gross other assets	**1,996,712**	**1,429,078**
Less: Impairment allowance	(205,227)	(195,214)
Balance as at 31 December	**1,791,485**	**1,233,864**

Other financial assets are valued at amortized cost.

25. OTHER ASSETS (continued)

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

In RSD '000

	31 December 2023	31 December 2022
Balance at the beginning of the year	116,259	125,673
New impairment allowances	113,149	94,269
Reversal for impairment allowance	(85,955)	9,171
Direct write-offs	(24,900)	(140,358)
Foreign exchange difference	(9,645)	27,504
Balance of impairment allowances of financial assets as at 31 December	**108,908**	**116,259**
Balance of impairment allowances of non-financial assets as at 31 December	96,319	78,955
Balance as of 31 December	**205,227**	**195,214**

26. DERIVATIVE RECEIVABLES

In RSD '000

	31 December 2023	31 December 2022
In RSD		
Liabilities from derivatives intended for trading	17,229	25,698
	17,229	**25,698**
In foreign currency		
Liabilities from derivatives intended for trading	510,397	718,322
	510,397	**718,322**
Balance as of 31 December	**527,626**	**744,020**

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

In RSD '000

	31 December 2023			31 December 2022		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Liabilities from deposits and borrowings						
Transaction deposits	2,782,678	-	2,782,678	1,108,718	-	1,108,718
Deposits for approved loans	-	-	-	-	1,255	1,255
Specific purpose deposits	15,262	-	15,262	14,975	-	14,975
Other deposits	753,345	985,000	1,738,345	3,899,660	884,000	4,783,660
Deposits and loans falling due within one day	200,000	-	200,000	-	-	-
Loans per repo transactions	-	-	-	5,846,245	-	5,846,245
Borrowings	-	2,273,731	2,273,731	-	3,322,865	3,322,865
Total	**3,751,285**	**3,258,731**	**7,010,016**	**10,869,598**	**4,208,120**	**15,077,718**
In foreign currency						
Liabilities from deposits and borrowings						
Transaction deposits	3,326,724	-	3,326,724	473,889	-	473,889
Deposits for approved loans	-	-	-	-	-	-
Specific purpose deposits	635,241	27,535	662,776	863,758	27,571	891,329
Other deposits	14,849,856	1,400,226	16,250,082	4,208,268	2,051,435	6,259,703
Deposits and loans falling due within one day	3,398,037	-	3,398,037	4,909,299	-	4,909,299
Loans per repo transactions	-	-	-	-	-	-
Borrowings	9,288,455	38,476,310	47,764,765	4,856,965	49,665,423	54,522,388
Other financial liabilities	10,735	-	10,735	27,064	-	27,064
Total	**31,509,048**	**39,904,071**	**71,413,119**	**15,339,243**	**51,744,429**	**67,083,672**
Balance as of 31 December	**35,260,333**	**43,162,802**	**78,423,135**	**26,208,841**	**55,952,549**	**82,161,390**

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

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

In RSD '000

	31 December 2023	**31 December 2022**
Central bank	-	5,847,000
Bank in the country	9,809,142	5,122,160
Insurance companies	3,411,813	4,095,454
Financial leasing	131,225	547,080
Auxiliary activities in providing financial and insurance services	14,219,768	8,343,192
Other lending and financing services	275,174	5,512
Foreign banks	50,576,013	58,200,992
Balance as of 31 December	**78,423,135**	**82,161,390**

Deposits of foreign banks mostly relate to the loans from ERSTE BANK DER OESTERREICHISCHEN SPARKASSEN AG Austria in the amount of RSD 9,373,896 thousand and loan from the European Bank for Reconstruction and Development of RSD 10,104,172 thousand, the loan from the European Investment Bank in the amount of RSD 5,940,508 thousand, and also received loan from KfW bank in the amount of RSD 2,691,089 thousand and from Council of Europe Development Bank (CED Bank) in the amount of RSD 3,264,124 thousand.

28. DEPOSITS AND OTER FINANCIAL LIABILITIES DUE TO CUSTOMERS

In RSD '000

	31 December 2023			31 December 2022		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Liabilities from deposits and borrowings						
Transaction deposits	83,073,489	74	**83,073,563**	62,263,378	5	**62,263,383**
Savings deposits:	975,352	3,951,943	**4,927,295**	1,153,120	2,870,507	**4,023,627**
Deposits for approved loans	122,343	2,787,821	**2,910,164**	827,536	2,830,585	**3,658,121**
Specific purpose deposits	170,484	18,750	**189,234**	726,975	18,750	**745,725**
Other deposits	10,967,100	1,083,540	**12,050,640**	16,379,209	1,111,965	**17,491,174**
Total	**95,308,768**	**7,842,128**	**103,150,896**	**81,350,218**	**6,831,812**	**88,182,030**
In foreign currency						
Liabilities from deposits and borrowings						
Transaction deposits	96,955,465	-	**96,955,465**	96,128,853	-	**96,128,853**
Savings deposits:	6,281,168	23,026,770	**29,307,938**	8,103,045	15,662,406	**23,765,451**
Deposits for approved loans	57,118	5,993,730	**6,050,848**	603,845	5,478,509	**6,082,354**
Specific purpose deposits	1,528,293	-	**1,528,293**	1,166,144	-	**1,166,144**
Other deposits	7,952,844	8,179,513	**16,132,357**	8,546,260	1,370,729	**9,916,989**
Borrowings	12,365	1,715,272	**1,727,637**	-	2,040,012	**2,040,012**
Other financial liabilities	590,940	-	**590,940**	535,435	-	**586,935**
Total	**113,378,193**	**38,915,285**	**152,293,478**	**115,083,582**	**24,551,656**	**139,635,238**
Balance as of 31 December			**255,444,374**			**227,817,268**

28. DEPOSITS AND OTER 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 2023	31 December 2022
Public enterprises	1,098,203	1,190,208
Corporate customers	117,419,785	99,859,175
Public sector	2,805,956	3,318,543
Retail	117,106,328	107,210,817
Foreign entities	2,876,904	3,461,262
Entrepreneurs	7,551,004	6,430,033
Farmers	1,206,687	1,229,781
Other customers	5,379,507	5,117,449
Balance as of 31 December	**255,444,374**	**227,817,268**

29. SUBORDINATED LIABILITIES

	31 December 2023	In RSD '000 31 December 2022
In foreign currency		
Subordinated liabilities	8,859,124	7,077,148
	8,859,124	**7,077,148**
Balance as of 31 December	**8,859,124**	**7,077,148**

Balance of subordinated loan principal as at 31 December 2023 and 31 December 2022 is presented in more detail in the table below:

In RSD '000

Creditor	Currency designation	Loan amount	Due date	Interest rate	31 December 2023	31 December 2022
Erste Group Bank AG	EUR	15,000,000	14 November 2033	Euribor + 3.94% p.a.	1,757,606	-
Erste Group Bank AG	EUR	30,000,000	10 September 2028	Euribor + +3.38% p.a.	3,515,211	3,519,672
Erste Group Bank AG	EUR	30,000,000	12 May 2032	Euribor + +3.48% p.a.	3,515,211	3,519,672
Total		**75,000,000**			**8,788,028**	**7,039,344**

On 20 August 2018, the Bank executed the subordinated loan agreement with Erste Group Bank AG Vienna in the amount of EUR 30,000,000. The subordinated loan was drawn on 10 September 2019 with the maturity date on 10 September 2028, the interest rate is in the amount of three-month EURIBOR plus 3.38% per annum. In accordance with the agreement, 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, based on the Bank's request of 24 August 2018.

On 15 February 2022, the Bank executed the subordinated loan agreement with Erste Group Bank AG Vienna in the amount of EUR 30,000,000. The subordinated loan was drawn on 12 May September 2022 with the maturity date on 12 May 2032, the interest rate is in the amount of three-month EURIBOR plus 3.48% per annum. In accordance with the agreement, 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 20 July 2022, based on the Bank's request of 26 May 2022.

On 24 October 2023, the Bank executed the subordinated loan agreement with Erste Group Bank AG Vienna in the amount of EUR 15,000,000. The subordinated loan was drawn on 15 November 2023 with the maturity date on 14 November 2033, the interest rate is in the amount of three-month EURIBOR plus 3.94% per annum. In accordance with the agreement, 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 26 January 2024, based on the Bank's request of 19 December 2023.

30. PROVISIONS

In RSD '000

	31 December 2023	31 December 2022
Provisions for losses per off-balance sheet items (a)	295,618	569,864
Provisions for long-term employee benefits (b):		
– retirement benefits	173,664	129,012
– jubilee awards	180,099	148,498
Provisions for litigations (c)	908,324	1,111,282
Other long-term provisions	6,808	19,078
Balance as of 31 December	**1,564,513**	**1,977,734**

Changes in the provisions

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

Evidence based on which the Group performs the individual assessment of impairment are: payments effected on the Group's accounts with respect to commitments arising from guarantees, bills of guarantees, etc., late payments for other liabilities, and the customers has been classified in accordance with the 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 Group does not expect any outflow of resources and/or it estimates that in the case of an outflow of resources all receivables will be fully collected, the Group collectively assesses them for impairment, in a similar way as for balance sheet items, using the credit conversion factors for off-balance sheet items.

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

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

30. PROVISIONS (continued)

Movements on provision accounts during the year are provided below:

In RSD '000

	31 December 2023	31 December 2022
Provisions for losses per off-balance sheet exposures		
Balance at the beginning of the year	569,865	294,381
Charge for the year (Note 10(a))	290,718	521,521
Reversal of unused provisions (Note 10(a))	(565,044)	(245,564)
Other movements	79	(473)
	295,618	**569,865**
Provisions for other long-term benefits of personnel		
Balance at the beginning of the year	277,513	323,069
New provisions (Note 13)	50,348	40,481
Reversal of provisions (Note 13)	(18)	(9,660)
Benefits paid during the year	(29,542)	(38,489)
Actuarial losses (+)/gains (-) based on jubilee awards	15,537	-
Actuarial losses (+)/gains (-) based on retirement benefits	39,925	(37,888)
	353,763	**277,513**
Provision for litigations		
Balance at the beginning of the year	1,111,280	1,057,884
Charge for the year (Note 16)	127,326	476,882
Used provision during the year	(288,321)	(423,683)
Other movements	(41,961)	197
	908,324	**1,111,280**
Other long-term provisions		
balance at the beginning of the year	19,077	15,659
other movements	545	15,227
used provisions – payments	(12,814)	(11,810)
	6,808	**19,076**
Balance as of 31 December	**1,564,513**	**1,977,734**

30. 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 2023;
- 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 3.5%;
- 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 17.7% per annum over the entire period for which funds are reserved.

	In RSD '000
Present value of employee benefits as at 31 December 2022	**268,987**
Cost of services	
a. Current service cost	27,001
b. Past service cost	2,259
c. Interest costs	22,986
d. Payments	(29,152)
Actuarial gains (-)/losses (+) for jubilee arising from:	**14,469**
a. Change in demographic assumptions	(2,472)
b. Change in financial assumptions	16,941
c. Change in experience assumptions	-
Actuarial gains (-)/losses (+) for severance payments arising from:	**38,688**
a. Change in demographic assumptions	18,320
b. Change in financial assumptions	20,368
c. Change in experience assumptions	-
Present value of employee benefits as at 31 December 2023	**345,238**

30. 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 for losses on off-balance sheet 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 based on foreign currency exchange differences	Other movements	Closing balance
Stage 1	432,305	112,368	405,588	21	21,859	79	-	117,326
Stage 2	130,596	153,936	130,554	3,209	33	-	-	157,154
Stage 3	6,964	21,184	6,964	-	46	-	-	21,138
Total	**569,865**	**287,488**	**543,106**	**3,230**	**21,938**	**79**	**-**	**295,618**

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

In RSD '000

	Gross book value					
	From Stage 1 to Stage 2		From Stage 2 to Stage 3		From Stage 1 to 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
Unused undertaken irrevocable liabilities	306,997	9,824	-	-	-	-
Total	**306,997**	**9,824**	**-**	**-**	**-**	**-**

31. OTHER LIABILITIES

In RSD '000

	31 December 2023	31 December 2022
In RSD		
Financial liabilities:		
Leasing liabilities for unpaid leased fixed assets	17,004	13,905
Liabilities for deferred fee and commission income and other deferred income	20,794	17,255
Other deferred income and accrued expenses	243,130	137,146
	280,928	**168,306**
Non-financial liabilities:		
Trade payables	19,745	86,006
Advances received	124,008	98,147
Liabilities for salaries	-	197
Liabilities for taxes, contributions, and other duties payable	95,328	251,050
Liabilities for accrued fees and commissions expense and other accrued expense	732,905	683,901
Liabilities for cards operations	623,871	172,069
Liabilities to retailers for POS terminals	440,696	208,403
Other liabilities	169,618	223,565
	2,206,171	**1,723,338**
In foreign currency		
Financial liabilities:		
Leasing liabilities for unpaid leased fixed assets	1,547,304	1,620,590
Liabilities for deferred interest income	26,711	31,882
Liabilities for deferred fee and commission income and other deferred income	30,975	14,094
Other deferred income and accrued expenses	154	1,482
	1,605,144	**1,668,048**
Non-financial liabilities:		
Trade payables	102,041	272,159
Advances received	3,188	3,407
Other liabilities	445,773	85,978
	551,002	**361,544**
Balance as of 31 December	**4,643,245**	**3,921,236**

Other financial liabilities are valued at amortized cost.

31. OTHER LIABILITIES (continued)

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

Currency of liability	As as 1 January 2023		As at 31 December 2023	
	Amount in currency	amount in RSD	Amount in currency	AMOUNT IN RSD
RSD – real estate	-	13,905		17,004
Currency clause (EUR) - **Real estate**	6,842	802,637	6,105	715,501
Currency clause (EUR) - Immovables	123	14,485	78	9,127
Currency clause (EUR) – IT equipment	-	-		
EUR facilities	7,942	931,770	7,892	924,715
Total	**14,907**	**1,762,797**	**14,075**	**1,666,347**

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

Practical expedients – balance as at 31 December 2023	**Value**
Expenses of short-term leases	-
Expenses of low value leases	12,909

32. EQUITY

(a) Structure of the Group's Equity

The total Group's equity as at 31 December 2023 amounts to RSD 48,899,764 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 21,721,689 thousand, revaluation reserves in the amount of RSD -348,430 thousand and profit for the current period in the amount of RSD 6,201,351 thousand and non-controlling interests in the amount of RSD 186,959 thousand.

The total equity structure of the Group is presented below:

In RSD '000

	31 December 2023	**31 December 2022**
Share capital – ordinary shares /i/	15,772,500	15,772,500
Share premium /ii/	5,552,654	5,552,654
Reserves from profit /iii/	21,721,689	19,377,943
Revaluation reserves /iv/	(348,430)	(642,379)
Profit for the year	6,201,351	2,801,565
Non-controlling interests	186,959	183,793
Balance as of 31 December	**48,899,764**	**43,046,076**

/i/ Share capital

As at 31 December 2023 the Group'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: 1,577,250 ordinary shares with the par value of RSD 10,000 per share).

The shareholder structure of the Bank as at 31 December 203 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**

/ii/ Share Premium

Share premium amounting to RSD 5,552,654 thousand as at 31 December 2023 (31 December 2022 RSD 5,552,654 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 2023 amount to RSD 21,721,689 thousand. As at 31 December 2022, reserves from profit amounted to RSD 19,377,317 thousand. Pursuant to the Decision of the Shareholders Assembly of the Bank dated 21 April 2023, from the realized profit for 2022, the Bank made has allocated the remaining profit to the other reserves in the amount of RSD 2,344,372 thousand.

/iv/ Revaluation Reserves

Revaluation reserves losses, which as at 31 December 2023 amounted to RSD 348,429 thousand (31 December 2022: (642,379) 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.

32. EQUITY (continued)

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

Performance indicators	Prescribed	31 December 2023	31 December 2022
1 Equity	Minimum EUR 10 million	EUR 408,463,126	EUR 381,531,188
2 Total capital adequacy ratio	Minimum 8 %	20.36	20.01
3 Tier 1 capital adequacy ratio	Minimum 6 %	16.71	16.87
4 Common Equity Tier 1 tier capital adequacy ratio	Minimum 4.5 %	16.71	16.87
5 Investments of the Bank	Maximum 60%	6.91	7.09
6 Exposure to related parties	No limit	4.55	4.57
7 Large and largest possible loans in relation to capital	Maximum 400%	67.04	27.58
8 Liquidity:			
– liquidity indicator	Minimum 0.8	2.10	2.11
– narrower liquidity indicator	Minimum 0.5	1.70	1.98
9 Indicator of liquid assets coverage	Minimum 100 %	146.69	156.53
10 Foreign exchange risk indicator	Maximum 20%	0.67	3.39
11 Exposure of the Bank to a group of related parties	Maximum 25%	19.58	16.61
12 Exposure of the Bank to a person related to a bank	No limit	4.55	3.90
13 Bank's investments in non-financial entities	Maximum 10%	0.06	0.06

33. OFF-BALANCE SHEET ITEMS

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

	31 December 2023	In RSD '000 31 December 2022
Operations on behalf of third parties (a)	500,948	528,953
Guarantees and other irrevocable commitments (b)	128,131,848	113,904,104
Other off-balance sheet positions	451,591,563	329,408,119
Balance as of 31 December	**580,223,359**	**443,841,176**
Bad debt transferred to off-balance sheet items	(5,054,893)	(1,187,735)
Balance as of 31 December	**575,168,466**	**442,653,441**

(a) Operations on behalf of third parties

	31 December 2023	In RSD '000 31 December 2022
Investments on behalf of third parties		
In RSD:		
– short-term	8,352	7,222
– long-term	492,596	521,731
Balance as of 31 December	**500,948**	**528,953**

Short-term operations on behalf and for the account of third parties predominantly relate to due principal of long-term agricultural loans in the amount of RSD 5,239 thousand and due interest under commission operations of agricultural holdings in the amount of RSD 2,591 thousand. Long-term operations relate to housing loans insured with the National Mortgage Insurance Corporation in the amount of RSD 492,596 thousand.

(b) Guarantees and other irrevocable commitments

	31 December 2023	In RSD '000 31.12.202.
In RSD		
Payment guarantees	3,991,820	2,841,851
Performance guarantees	17,055,453	12,942,297
Irrevocable commitments for undrawn loan facilities	8,449,339	6,335,935
Other off-balance sheet items	435,022	239,657
	29,931,634	**22,359,740**
In foreign currency		
Payment guarantees	5,444,586	5,553,678
Performance guarantees	21,376,276	18,322,445
Irrevocable commitments for undrawn loan facilities	67,435,944	61,218,831
Letters of credit	255,767	761,653
Other off-balance sheet items	3,687,641	5,687,757
	98,200,214	**91,544,364**
Balance as of 31 December	**128,131,848**	**113,904,104**

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 participations in risk and 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.

33. OFF-BALANCE SHEET ITEMS (continued)

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

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

As at 31 December 2023, the Bank’s provisions for loss from guarantees and other irrevocable commitments amounted to RSD 295,618 thousand (31 December 2022: RSD 569,864 thousand).

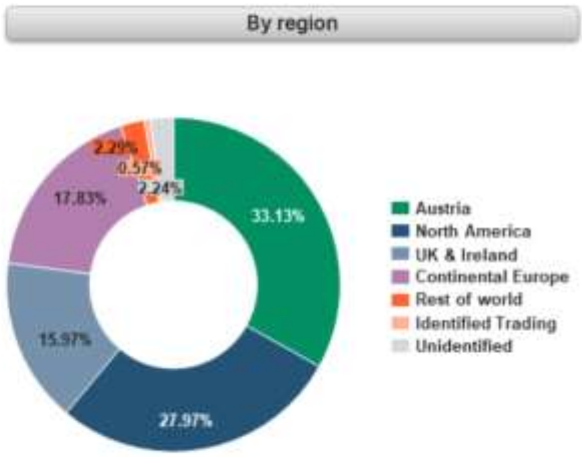
34. RELATED PARTY DISCLOSURES

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

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

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

Shareholder structure of Erste Group is as follows:



34. RELATED PARTY DISCLOSURES (continued)

a) Balance as at 31 December 2023 and 31 December 2022, 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 2023		31 December 2022	
	Shareholders	**Other members of Erste Group**	**Shareholders**	**Other members of Erste Group**
claims				
Derivative receivables	479,877	-	787,838	-
Loans and receivables from banks and other financial organisations	589,788	14,299	623,138	9,169
Loans and receivables due from customers	120,000	106	-	531,253
Investments in subsidiaries	-	-	-	-
Property, plant and equipment	-	757,600	-	759,700
Other assets	1,818	28,972	3,381	2,427
	1,191,483	**800,977**	**1,414,357**	**1,302,549**
Liabilities				
Derivative liabilities	141,649	-	25,699	-
Deposits and other liabilities due to banks and other financial organisations	15,459,986	9,429,282	14,893,650	9,904,485
Deposits and other liabilities to customers	-	331,427	-	-
Subordinated liabilities	8,859,125	-	7,077,149	
Provisions	20	6,049	24	2,675
Other liabilities	282	8,519	3,064	898,930
	24,461,062	**9,775,277**	**21,999,586**	**10,806,090**
Off-balance sheet items				
Guarantees and other surety issues	713,263	238,374	220,722	108,800
Irrevocable commitments	-	153,483	-	2,328,399
Other off-balance sheet items	-	492,129	-	669,640
	713,263	**883,986**	**220,722**	**3,106,839**

34. RELATED PARTY DISCLOSURES (continued)

In RSD '000

	31 December 2023		31 December 2022	
	Shareholders	Other members of Erste Group	Shareholders	Other members of Erste Group
Interest income	437,997	1,259	66,239	15,853
Interest expenses	(1,623,755)	(65,386)	(535,432)	(213,769)
Fee and commission income	77,793	4,815	66,812	2,203
Fee and commission expenses	(243,007)	-	(268,228)	-
Net gains from changes in the FV of financial instruments	(349,422)	-	1,235,242	-
Net gains on foreign exchange difference and currency clause effects	(6,348)	-	169,651	-
Net income from reduction of impairment of financial assets not valued at FV through profit and loss	701,248	-	286	-
Net loss on impairment of financial assets not valued at FV through profit and loss	-	(3,326)	-	(320)
Other operating income	-	-	-	24,839
Amortisation expenses	(441)	(115,376)	-	(9,056)
Other income	-	10	3,944	9,239
Other expense	(120,043)	(955,395)	(167,031)	(894,357)

As at 31 December 2023 and 31 December 2022, placements to related legal entities were not impaired.

Rate of long-term loans with related parties ranges from 1.82% to 3,94%.

Interbank transactions (overnight, short-term borrowings, placements and repo and reverse repo transactions) are made at prices ranging from 0.9 to 9.85% 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.

Interbank transactions with related parties were executed by the Bank for provided deposits and placements at the prices ranging from 1.9% to 5.58%, and for received deposits at the range from 0.9% to 4.05%.

Through cross-border loans, the Bank provides the opportunity to its clients to borrow directly abroad, while allowing clients to perform all activities in the process of approval and administration at 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. Through cross-border loans, the Bank provides the opportunity to its clients to borrow directly abroad, while allowing clients to perform all activities in the process of approval and administration at the Bank. This type of the services provides clients with significant support in financing their activities, and the bank generates fee income for these services through comprehensive cooperation with clients.

34. RELATED PARTY DISCLOSURES (continued)

Salaries and other benefits of the Group Executive Committee’s members and the Board of Directors’ members (stated in gross amounts), during 2023 and 2022, are presented in the table below:

In RSD ‘000

	31 December 2023	31 December 2022
Salaries and benefits of the Board of Director's members	19,985	5,697
Salaries and benefits of the Executive Committee members	137,538	176,719
Accrued income of the Executive Committee members	85,052	62,405
Total	**242,575**	**244,821**

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.

35. RISK MANAGEMENT

35.1 General

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

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

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

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

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

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

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

Board of Directors and Executive Committee

The Board of Directors and Executive Committee 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 and Data Analytics Division, Assets and Liabilities Management Committee and other relevant organizational units of the Group.

Assets and Liabilities Management Committee (ALCO)

Assets and Liabilities Management Committee (ALCO) monitors the 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 Committee, 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 Committee proposes decisions to Executive Committee 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.

35. RISK MANAGEMENT (continued)

35.1 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 and telecommunication technology (ICT) risk, and security risk).

Balance Sheet Management Service

Balance Sheet Management Service is organized as an independent organizational unit that is directly responsible to the Executive Committee 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). Balance Sheet Management Service 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 Group’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 Group through check-up of adequacy of procedures, control mechanisms in place and compliance of the Group with the adopted procedures. The Internal Audit reviews results of its work with the Group’s management and reports to the Audit Committee and Board of Directors 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 and Data Analytics Division, 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”).

35. RISK MANAGEMENT (continued)

35.1. Introduction (continued)

Risk management and reporting (continued)

The responsibilities of the Credit Risk Management Division and Strategic Risk Management and Data Analytics Division 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 and Data Analytics Division, the Compliance Service and Security Risk Management Service.

The Strategic Risk Management and Data Analytics Division consists of the following organizational units:

- Enterprise wide risk Management Department;
- Model Development and Risk Data Management Department;
- Market Risk and Liquidity Risk Management Unit;
- Operational and Cyber Risk Management Department;
- Collateral Management Unit;
- Data Management Department.

The Credit Risk Management Division consists of the following organizational units:

- Credit Risk Management Department;
- Strategy and Credit Portfolio Management Department;
- Work out Department.

Compliance Service:

- Financial Crime Risk Management Unit;
- Anti-Money Laundering (AML) Control Unit;
- Regulatory Compliance Unit;
- Conflict of Interests Management and Securities Compliance Unit;

Security Risk Management Service:

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

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 Group 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 Board of Directors, Executive Committee, 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.

35. RISK MANAGEMENT (Continued)

35.1. 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 Group is exposed.

35.2. Credit Risk

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

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

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

The Group 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 Group has implemented the adequate system of credit risk management so as to reduce the credit risk to an acceptable level.

The Group'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 Group 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 Group is based on probability of client getting in default status. For every exposure to credit risk, the Group 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.

35. RISK MANAGEMENT (continued)

35.2. Credit Risk (continued)

The Group 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 the Group (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 Committee. 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 Group 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 the Group, 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.

35. RISK MANAGEMENT (continued)

35.2. 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.

35. RISK MANAGEMENT (continued)

35.2 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 2023, 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 2023 and the E1 default event was assigned was RSD 1,422 million with the effect on the impairment allowance in the amount RSD 306 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.

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

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. During 2023, updating of the list of the clients classified in this manner at stage 2 was made. As at 31 December 2023, the total exposure on these grounds amounts to RSD 9.4 billion with the effect of the impairment allowance increase of RSD 68 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. In 2023, this list was updated and as at 31 December 2023, the total exposure of clients classified at stage 2 amounts to RSD 16.7 billion, with the effect of the impairment allowance decrease of RSD 52.7 million. In November 2023, expanded list of expedients determining the clients reclassified into stage 1 (total exposure of RSD 7.2 billion, with the effect of decrease to the allowance for impairment of RSD 107 million) was adopted. 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 2023, 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. Chapter **36.2 Credit Risks (continued)** within **Risk parameters used to calculate expected credit losses** presents further details on the scenarios and variables used in the FLI calculation.

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.

35. RISK MANAGEMENT (continued)

35.2 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 2023 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	-	-	**-**	60,299,066	**60,299,066**
Pledged financial assets	-	-	**-**	-	**-**
Derivative receivables	672,404	-	**672,404**	-	**672,404**
Securities	58,757,082	(27,757)	**58,729,325**	-	**58,729,325**
Loans and receivables from banks and other financial organizations	844,116	(15,367)	**828,749**	19,009,827	**19,838,576**
Loans and receivables due from customers	232,500,697	(7,423,413)	**246,090,365**	1,816,289	**247,906,654**
Investments in subsidiaries	-	-	**-**	118	**118**
Intangible assets	-	-	**-**	4,177,396	**4,177,396**
Property, plant and equipment	-	-	**-**	4,906,630	**4,906,630**
Investment property	-	-	**-**	50,142	**50,142**
Current tax assets	-	-	**-**	112,946	**112,946**
Deferred tax assets	-	-	**-**	291,499	**291,499**
Non-current assets held for sale and discontinued operations	-	-	**-**	12,252	**12,252**
Other assets	-	-	**-**	1,791,485	**1,791,485**
Balance sheet exposure	**313,787,380**	(7,466,537)	**306,320,843**	**92,467,650**	**398,788,493**
Guarantees and warranties	48,123,903	(120,534)	**48,003,369**	-	**48,003,369**
Assumed contingent liabilities	80,007,945	(175,084)	**79,832,861**	-	**79,832,861**
Other off-balance exposures	-		**-**	452,090,938	**452,090,938**
Off-balance sheet exposure	**128,131,848**	(295,618)	**127,836,230**	**452,090,938**	**579,927,168**
Total exposure	**441,919,228**	(7,762,155)	**434,157,073**	**544,558,588**	**978,715,661**

In accordance with Group'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 are presented by sector, category, status, collateral, maturity and value of collateral.

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Overview of securities

In RSD '000
31 December 2023

	Securities					
	Gross value			Accumulated allowance for impairment		
	AC	FVOCI	FVTPL	AC	FVOCI	FVTPL
Derivative receivables	-	-	**672,404**	**-**	**-**	**-**
Of which: Other	-	-	672,404	-	-	-
Securities	**47,007,566**	**7,961,735**	**3.787.781**	**27,757**	**-**	-
Of which: State bonds of the Republic of Serbia	46,512,566	7,828,048	3,768,184	26,625	-	-
Of which: Other	495,000	133,687	19,597	1,132	-	-
Total exposure	**47,007,566**	**7,961,735**	**4,460,185**	**27,757**	**-**	-

As at 31 December 2023, 98.90% 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 2023:
- Moody's Investors Service Ba2 / stable outlook
- Fitch Ratings BB + / stable outlook
- Standard and Poor's BB + / stable outlook

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Maximum exposure to credit risk regarding balance sheet and off-balance sheet items.
Overview of maximum credit risk exposures, presented in the gross and net amount, excluding security instruments, as well as other items the bank does not consider to be exposed to the risk, in accordance with the balance sheet positions as at 31 December 2022, is presented in the table below:

	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**	25,713,079	**54,676,245**
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	5,422,230	7,732	**5,414,498**	-	**5,414,498**
Loans and receivables due from customers	242,722,983	6,885,299	**235,837,684**	-	**235,837,684**
Investments in affiliates and joint ventures	-	-	-	118	**118**
Investments in subsidiaries	-	-	-	-	-
Intangible assets	-	-	-	3,221,977	**3,221,977**
Property, plant and equipment	-	-	-	3,529,753	**3,529,753**
Investment property	-	-	-	52,659	**52,659**
Current tax assets	-	-	-	129,231	**129,231**
Deferred tax assets	-	-	-	345,086	**345,086**
Non-current assets held for sale and discontinued operations	-	-	-	12,252	**12,252**
Other assets	1,343,457	166,082	**1,177,375**	56,489	**1,233,864**
Balance sheet exposure	**340,846,345**	**7,123,613**	**333,722,732**	**33,060,644**	**366,783,376**
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 sheet 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	**454,750,449**	**7,693,477**	**447,056,972**	**362,997,716**	**810,054,688**

In accordance with Erste Group'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, those exposures[1] are presented by sector, category, status, collateral, maturity and value of collateral below in detail

[1] Other balance sheet exposures which the Bank considers to be exposed to credit risk are primarily from activities which support the 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

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Overview of securities

In RSD '000 31 December 2022

	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 2023, 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 + / stable outlook

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Loans and receivables from customers, banks and other financial institutions

(a) Overview by credit quality of non-problematic receivables and value of collateral of those receivables as of 31 December 2023:

In RSD thousand

	Credit quality of non-problematic receivable			Problematic receivables	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	**79,287,346**	**15,673,398**	**3,772,882**	**3,574,124**	**38,028,612**	**401,027**	**-**
Housing loans	45,186,424	6,088,155	1,511,866	513,725	36,992,758	388,692	-
Consumer and cash loans	31,701,526	9,215,487	2,160,191	2,827,738	67,758	2,001	-
Transactions and credit cards	1,416,715	346,470	100,825	124,177	5,272	-	-
Other receivables	982,681	23,286	-	108,484	962,824	10,334	-
Receivables from corporate clients	**122,716,163**	**13,529,135**	**636,321**	**3,114,753**	**49,678,690**	**1,483,537**	**1,247,354**
Large enterprises	24,762,522	2,989,312	221,966	27,007	17,376,730	24,232	9,992
Small and middle sized enterprises	62,382,315	5,298,471	42,540	2,541,219	24,976,465	1,177,328	991,229
Micro sized enterprises and entrepreneurs	22,860,663	5,181,616	354,234	527,157	6,806,669	281,204	152,976
Agriculture	71,088	37,193	17,579	18,271	80,293	773	-
Public enterprises	12,639,574	22,543	2	1,099	438,533	-	-
Receivables from other clients	**31,986,530**	**635,317**	**80,860**	**182,782**	**402,310**	**695**	93,157
Total receivables	**233,990,040**	**29,837,850**	**4,490,063**	**6,871,658**	**88,109,612**	**1,885,259**	**1,247,354**

* Effects of collateral for decreased allowances of impairment is calculated by the simulation of LGD parameter excluding the collateral. Simulation refers to the general provisions and special provisions for individually significant clients (for secured exposures which are not considered individually significant collateral does not influence the value of LGD).

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Loans and receivables from customers, banks and other financial institutions

(a) Overview by credit quality of non-problematic receivables and value of collateral of those receivables as of 31 December 2022:

In RSD thousand

	Credit quality of non-problematic receivable			Problematic receivables	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	84,726,597	12,786,908	3,123,087	2,615,983	45,773,291	266,508	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	-	7
Other receivables	1,829,189	398,360	78,621	173,978	935,925	320	7
Receivables from corporate clients	108,808,016	20,818,633	1,530,027	2,624,285	34,610,759	1,279,865	1,340,627
Large enterprises	21,575,849	2,639,134	-	41,208	7,368,630	41,208	51,607
Small and middle-sized enterprises	42,985,750	9,989,940	740,700	2,265,826	14,717,991	1,202,451	1,091,996
Micro sized enterprises and entrepreneurs	27,454,264	7,376,500	757,616	277,748	8,592,834	28,000	182,807
Agriculture	2,555,679	202,924	31,711	38,471	1,012,741	8,206	14,217
Public enterprises	14,236,474	610,135	-	1,032	2,918,563	-	-
Receivables from other clients	10,557,874	61,811	2	491,990	286,369	310,205	333,463
Total receivables	204,092,487	33,667,352	4,653,116	5,732,258	80,670,419	1,856,578	1,806,903

35. RISK MANAGEMENT (continued)

35.2 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 of 31 December 2023:

In RSD thousand

	Unimpaired receivables		Impaired receivables		Total gross receivables	Accumulated impairment allowances			Total net receivables	Value of collateral*	
	Not past due	Past due	On individual basis	On collective basis		Impairment allowances on unimpaired receivables	On individual basis	On collective basis		Unimpaired receivables	Impaired receivables
According to divisions											
Receivables from retail customers	**98,486,868**	**248,427**	**1,591**	**3,570,864**	**102,307,750**	**1,182,501**	**1,591**	**2,587,897**	**98,535,761**	**38,028,612**	**401,027**
Housing loans	52,786,445	-	-	513,725	**53,300,170**	292,199	-	187,887	**52,820,084**	36,992,758	388,692
Consumer and cash loans	42,868,572	209,976	-	2,826,394	**45,904,942**	861,538	-	2,248,050	**42,795,354**	67,758	2,001
Transactions and credit cards	1,829,116	35,219	-	123,852	**1,988,187**	26,392	-	100,198	**1,861,597**	5,272	-
Other receivables	1,002,735	3,232	1,591	106,893	**1,114,451**	2,372	1,591	51,762	**1,058,726**	962,824	10,334
Receivables from corporate clients	**135,262,953**	**1,618,684**	**2,027,740**	**1,086,994**	**139,996,371**	**1,687,872**	**1,039,237**	**778,607**	**136,490,656**	**49,678,690**	**1,483,537**
Large enterprises	27,283,871	689,929	-	27,007	**28,000,807**	278,064	-	2,775	**27,719,968**	17,376,730	24,232
Small and middle-sized enterprises	67,112,756	610,570	1,811,131	730,088	**70,264,546**	694,629	977,784	527,423	**68,064,710**	24,976,465	1,177,328
Micro sized enterprises and entrepreneurs	28,182,800	213,731	216,609	310,531	**28,923,670**	539,406	61,453	229,850	**28,092,961**	6,806,669	281,204
Agriculture	120,191	5,670	-	18,270	**144,131**	3,304	-	17,467	**123,360**	80,293	773
Public enterprises	12,563,335	98,785	-	1,098	**12,663,218**	172,469	-	1,092	**12,489,656**	438,533	-
Receivables from other clients	**25,269,802**	**7,432,905**	**153,496**	**29,285**	**32,885,489**	**77,188**	**62,931**	**26,556**	**32,718,813**	**402,310**	**695**
Total exposure	**259,019,623**	**9,300,017**	**2,182,827**	**4,687,143**	**275,189,610**	**2,947,561**	**1,103,759**	**3,393,060**	**267,745,230**	**88,109,612**	**1,885,259**
By category of receivables	0	0	0	0	**0**	0	0	0	**0**	0	0
Non-problematic receivables	259,018,272	9,299,680	-	-	**268,317,953**	2,947,176	-	-	**265,370,776**	88,109,612	-
of which: restructured	4,612,923	31,591	-	-	4,644,514	220,190	-	-	**4,424,324**	190,873	-
Problematic receivables	1,351	337	2,182,827	4,687,143	**6,871,658**	385	1,103,759	3,393,060	**2,374,454**	-	1,885,259
of which: restructured	-	-	1,776,958	968,274	**2,745,232**	-	934,431	628,615	**1,182,186**	-	986,207
Total exposure	**259,019,623**	**9,300,017**	**2,182,827**	**4,687,143**	**275,189,611**	**2,947,561**	**1,103,759**	**3,393,060**	**267,745,230**	**88,109,612**	**1,885,259**

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

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

In RSD thousand

	Unimpaired receivables[2]		Impaired receivables[3]		Total gross receivables	Accumulated impairment allowances			Total net receivables	Value of collateral	
	Not past due	Past due	On individual basis	On collective basis		Impairment allowances on unimpaired receivables	On individual basis	On collective basis		Unimpaired receivables	Impaired receivables
According to divisions											
Receivables from retail customers	**100,262,400**	**483,026**	**256,423**	**2,250,726**	**103,252,575**	**1,412,160**	**132,077**	**1,699,686**	**100,008,652**	**45,825,859**	**213,940**
Housing 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	2,253,752	52,927	1,738	171,731	2,480,148	24,301	1,730	109,109	2,345,008	935,925	320
Receivables from corporate clients	130,765,565	**521,007**	**2,428,487**	**179,817**	**133,780,961**	**1,897,013**	**1,441,718**	**130,861**	**130,311,369**	**34,610,758**	**1,279,866**
Large enterprises	27,431,244	51,536	41,208	-	24,256,191	242,033	13,607	-	24,000,551	7,368,630	41,208
Small and middle-sized enterprises	64,676,433	266,539	2,216,905	48,920	55,982,216	700,044	1,311,342	35,622	53,935,208	14,717,990	1,202,452
Micro sized enterprises and entrepreneurs	25,877,759	189,618	102,393	116,828	35,866,128	686,165	102,590	84,534	34,992,839	8,592,834	28,000
Agriculture	118,293	11,375	23,705	13,037	2,828,785	30,252	14,179	9,673	2,774,681	1,012,741	8,206
Public enterprises	12,661,836	1,539	-	1,032	14,847,641	238,519	-	1,032	14,608,090	2,918,563	-
Receivables from other clients	**32,674,386**	**11,036**	**479,600**	**12,391**	**11,111,677**	**30,127**	**138,515**	**10,874**	**10,932,161**	**286,369**	**310,205**
Total exposure	**245,681,299**	**1,015,069**	**3,164,510**	**2,442,934**	**248,145,213**	**3,339,300**	**1,712,310**	**1,841,421**	**241,252,182**	**80,722,986**	**1,804,011**
By category of receivables											
Non-problematic receivables	245,681,299	1,013,208	-	-	242,412,955	3,320,454	-	-	239,092,501	80,670,419	-
of which: restructured	543,260	4,226	-	-	547,486	37,736	-	-	509,750	342,970	-
Problematic receivables	122,953	1,861	3,164,510	2,442,934	5,732,258	18,846	1,712,310	1,841,421	2,159,681	52,567	1,804,011
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	**245,681,299**	**1,051,069**	**3,164,510**	**2,442,934**	**248,145,213**	**3,339,300**	**1,712,310**	**1,841,421**	**241,252,182**	**80,722,986**	**1,804,011**

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

35. RISK MANAGEMENT (continued)

35.2 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 of 31 December 2023:

In RSD thousand

	Unimpaired receivables					Impaired receivables				
	Not in delay	**up to 30 days**	**31 to 60 days**	**61 to 90 days**	**more than 90 days**	**Not in delay**	**up to 90 days**	**91 to 180 days**	**181 to 360 days**	**more than 360 days**
Receivables from retail customers	**82,241,349**	**16,022,178**	**373,845**	**96,256**	**1,669**	**609,749**	**1,162,162**	**439,831**	**406,106**	**954,608**
Housing loans	51,454,204	1,105,812	35,110	5,200	-	293,669	140,507	49,816	9,281	20,452
Consumer and cash loans	28,292,617	14,573,835	311,429	85,443	1,345	249,712	1,006,936	368,143	370,330	831,272
Transactions and credit cards	1,549,996	299,408	8,997	5,610	324	14,823	14,656	15,913	25,835	52,627
Other receivables	944,532	43,123	18,309	3	-	51,545	63	5,959	660	50,257
Receivables from corporate clients	**130,765,565**	**5,406,146**	**701,426**	**8,481**	**19**	**2,483,299**	**277,577**	**67,997**	**75,306**	**210,554**
Large enterprises	27,431,244	17,653	524,903	-	-	-	27,007	-	-	-
Small and middle sized enterprises	64,676,433	2,911,540	134,475	878	-	2,274,199	209,342	11,070	9,369	37,239
Micro sized enterprises and entrepreneurs	25,877,759	2,473,360	41,813	3,579	19	206,299	40,828	56,918	64,514	158,580
Agriculture	118,293	3,309	235	4,024	-	2,789	337	9	1,423	13,713
Public enterprises	12,661,836	284	-	-	-	12	64	-	-	1,022
Receivables from other clients	**32,674,386**	**28,242**	**25**	**54**	-	**1,865**	**561**	**7,505**	**6,797**	**166,053**
Total exposure	**245,681,299**	**21,456,566**	**1,075,296**	**104,791**	**1,688**	**3,094,913**	**1,440,300**	**515,333**	**488,209**	**1,331,215**
By category of receivables	-									
Non-problematic receivables	245,681,299	21,456,566	1,075,296	104,791	-	-	-	-	-	-
of which: restructured	4,535,953	104,349	2,038	2,174	-	-	-	-	-	-
Problematic receivables	-	-	-	-	1,688	3,094,913	1,440,300	515,333	488,209	1,331,215
of which: restructured	-	-	-	-	-	2,241,226	333,112	53,149	32,453	85,292
Total exposure	**245,681,299**	**21,456,566**	**1,075,296**	**104,791**	**1,688**	**3,094,913**	**1,440,300**	**515,333**	**488,209**	**1,331,215**

35. RISK MANAGEMENT (continued)

35.2 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 of 31 December 2022:

In RSD thousand

	Unimpaired receivables					Impaired receivables				
	Not in delay	**up to 30 days**	**31 to 60 days**	**61 to 90 days**	**more than 90 days**	**Not in delay**	**up to 90 days**	**91 to 180 days**	**181 to 360 days**	**more than 360 days**
Receivables from retail customers	**84,737,876**	**15,537,165**	**364,702**	**101,163**	**4,519**	**452,898**	**701,201**	**309,437**	**276,323**	**767,290**
Housing 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	1,834,457	447,910	21,444	2,835	34	50,979	8,167	10,186	16,982	87,154
Receivables from corporate clients	**134,507,685**	**7,065,609**	**212,981**	**6,069**	**-**	**86,558**	**903,507**	**396,110**	**1,041,747**	**672,373**
Large enterprises	24,172,478	42,502	-	-	-	-	41,208	-	-	-
Small and middle sized enterprises	50,951,586	2,637,724	122,076	5,010	-	37,610	830,046	329,447	993,754	74,973
Micro sized enterprises and entrepreneurs	32,889,424	2,637,723	74,455	1,028	-	41,252	32,127	32,936	36,799	120,388
Agriculture	2,754,535	37,288	189	31	-	7,680	126	12,384	314	16,238
Public enterprises	13,145,589	1,701,020	-	-	-	-	-	-	-	1,023 -
Receivables from other clients	10,594,073	9,352	16,261	-	-	16	-	21,343	10,880	459,751
Total exposure	**219,245,561**	**22,602,774**	**577,683**	**107,232**	**4,519**	**539,456**	**1,604,708**	**705,547**	**1,318,070**	**1,439,663**
By category of receivables										
Non-problematic receivables	219,163,183	22,575,330	570,605	103,837	-	-	-	-	-	-
of which: restructured	430,687	113,328	3,226	245	-	-	-	-	-	-
Problematic receivables	82,378	27,444	7,078	3,395	4,519	539,456	1,604,708	705,547	1,318,070	1,439,663
of which: restructured	69,661	27,091	7,078	3,395	-	158,492	148,130	29,924	18,969	67,997
Total exposure	**219,245,561**	**22,602,774**	**577,683**	**107,232**	**4,519**	**539,456**	**1,604,708**	**705,547**	**1,318,070**	**1,439,663**

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

(e) Data on problematic receivables as of 31 December 2023:

In RSD thousand

	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 customers	**102,307,749**	**3,770,936**	**3,574,124**	**546,941**	**2,589,256**	**3.49**	**401,027**
Housing loans	53,114,050	480,029	513,726	131,008	187,867	0.97	388,692
Consumer and cash loans	46,091,060	3,108,874	2,827,737	415,933	2,247,931	6.14	2,001
Transactions and credit cards	1,988,188	126,308	124,177	-	100,105	6.25	-
Other receivables	1,114,451	55,725	108,484	-	53,353	9.73	10,334
Receivables from corporate clients*	**123,173,362**	**3,125,751**	**2,822,963**	**2,164,486**	**1,683,496**	**2.20**	**1,293,786**
Division A	10,174,167	1,479,046	2,383,242	2,080,883	1,395,272	23.42	1,133,936
Divisions B, C and E	28,555,125	382,692	170,889	42,135	89,193	0.60	61,325
Division D	12,403,158	256,064	97	-	85	0.00	-
Division F	20,479,186	171,793	20,195	-	15,447	0.10	6,681
Division G	19,848,972	351,951	110,106	38,055	97,186	0.55	3,759
Divisions H, I and J	16,315,516	194,022	107,888	2,370	63,656	0.66	65,069
Divisions L, M and N	15,397,239	290,183	30,545	1,043	22,657	0.15	23,015
Receivables from other clients	**49,708,499**	**547,693**	**474,572**	**33,805**	**224,452**	**0.95**	**190,446**
Total receivables	**275,189,611**	**7,444,381**	**6,871,658**	**2,745,232**	**4,497,204**	**2.45**	**1,885,259**

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

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

In RSD thousand

	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 customers	103,252,575	3,243,925	2,615,984	473,106	1,844,595	2.53	**266,507**
Housing loans	55,487,301	460,571	375,094	169,248	161,470	0.68	264,805
Consumer 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	2,480,148	135,142	173,978	-	110,875	7.01	320
Receivables from corporate clients	112,202,217	3,028,363	2,468,253	36,351	1,472,983	2.20	**1,254,191**
Division A	8,966,834	1,076,714	1,741,567	-	945,252	19.42	1,141,765
Divisions B, C and E	27,914,136	474,211	129,831	12,567	66,235	0.47	38,114
Division D	10,801,949	332,779	-	-	-	-	-
Division F	14,137,724	410,357	332,374	-	298,939	2.35	595
Division G	17,413,898	253,604	121,081	22,473	84,872	0.70	18,945
Divisions H, I and J	12,146,789	158,397	59,828	-	40,736	0.49	5,007
Divisions L, M and N	20,820,887	322,301	83,572	1,311	36,949	0.40	49,765
Receivables from other clients	32,690,421	620,743	648,021	21,280	254,999	1.98	335,880
Total receivables	**248,145,213**	**6,893,031**	**5,732,258**	**530,737**	**3,572,577**	**2.31**	**1,856,578**

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

d)Data on changes of problematic receivables in 2023:

In RSD thousands

	Gross value at beginning of year	New problematic receivables	Total						
			Total	of which: charged	of which: transferred to non-problematic category	of which: write-off	Other changes	Gross value at year end	Net value at year end
Receivables from retail customers	2,615,981	1,441,685	177,964	177,765	-	199	307,321	3,574,124	984,253
Receivables from corporate and other clients	3,116,275	858,333	77,947	77,911	-	36	599,053	3,297,534	1,390,201
Total receivables	**5,732,256**	**2,300,018**	**255,911**	**255,676**	-	**235**	**906,375**	**6,871,658**	**2,374,454**

*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 2022:

In RSD thousand

	Gross value at beginning of year	New problematic receivables	Total				Other changes	Gross value at year end	Net value at year end
			Total	of which: charged	of which: transferred to non-problematic category	of which: write-off			
Receivables from retail customers	1,992,994	1,681,991	1,180,530	904,501	42,327	233,703	121,459	2,615,983	771,387
Receivables from corporate and other clients	2,538,863	2,285,815	2,044,033	856,572	430,549	749,055	335,630	3,116,275	1,388,294
Total receivables	**4,531,857**	**3,967,806**	**3,224,563**	**1,761,073**	**472,876**	**982,758**	**457,157**	**5,732,258**	**2,159,681**

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Collateral and other means of protection against credit risk

During the process of loan approval, the Group 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. The Group 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.

Strategic Risk and Data Analytics Management Division includes Collateral Management Unit, 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 Unit 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, Strategic Risk and Data Analytics Management Division, 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 Group’s separate internal procedure that defines applicable instruments of credit risk reduction as well as terms of recognition of credit risk reduction instruments.

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Basic types of credit protection instruments

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

At the moment, the Group does not apply balance and off-balance netting as credit risk reduction technique.

Primary types of credit risk protection on the basis of guarantees and credit derivatives

Guarantees applied as immaterial credit protection are provided by:

- Government;
- Commercial banks of sufficient credit quality and international banks for development – exposures secured by a banks guarantee and international banks for development guarantees.

In its portfolio of acceptable means of collateral, the Group has no credit derivatives, thus they are not used as instruments of credit protection.

Exposures secured by mortgages on real estate

Real estate is recognized as a protection instrument when all the requirements defined by the Decision on the capital adequacy of banks are met. The fulfilment of the prescribed requirements is a prerequisite for classifying the given exposure into a special class of exposure, exposures secured by mortgages on real estate, which are given a more 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 Group 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.

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Data on the type and value[4] of collateral and guarantees by sector providers and categories of receivables as of 31 December 2023:

In RSD thousand

	Means of collateral* up to the receivables amount		
	Deposits	**Residential real estate**	**Other real estate**
Receivables from retail customers	**23,662**	**36,732,632**	**700,187**
Housing loans	-	36,684,216	697,234
Consumer and cash loans	23,407	46,352	-
Transactions and credit cards	255	2,064	2,953
Other receivables	-	-	-
Receivables from corporate clients	**685,760**	**1,109,410**	**32,934,069**
Large enterprises	-	-	12,587,516
Small and middle sized enterprises	438,845	479,354	16,487,513
Micro sized enterprises and entrepreneurs	246,915	630,056	3,788,631
Agriculture	-	-	70,409
Public enterprises	-	-	-
Receivables from other clients	3,486	31,608	29,171
Total exposure	**712,908**	**37,873,650**	**33,663,427**
By category of receivables			
Non-problematic receivables	712,143	37,272,242	32,513,299
of which: restructured	24,171	99,836	66,866
Problematic receivables	765	601,407	1,150,129
of which: restructured	-	119,586	866,621
Total receivables	**712,908**	**37,873,649**	**33,663,428**

[4] 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 catalogue and is reduced by the previous charges.

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Data on the type and value[5] of collateral and guarantees by sector providers and categories of receivables as of 31 December 2022:

In RSD thousand

	Means of collateral* up to the receivables amount		
	Deposits	**Residential real estate**	**Other real estate**
Receivables from retail customers	**180,309**	**44,323,918**	**611,086**
Housing 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**
By 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**

[5] 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 catalogue and is reduced by the previous charges.

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

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 Group makes a decision to take over a certain real estate, the analysis is done by applying the net present value method. Depending on the characteristics of assets, type of asset (real estate, movable property) can be further divided into primary and secondary when takeover is taken into consideration, depending on their purpose and other characteristics, such as location, type, technical standards, equipment, year of construction and similar, as well as market situation in terms of supply and demand of certain type of collaterals. All above-mentioned parameters affect the final decision on implementation of the takeover procedure.

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

35. RISK MANAGEMENT (continued)

35.2 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 thousand

Value of LTV ratio*	Value of receivables secured by mortgage as of 31 December 2023	Value of receivables secured by mortgage as of 31 December 2022
Below 50%	1,269,984	12,794,078
50% to 70%	10,862,313	14,300,825
70% to 90%	9,872,971	16,743,963
90% to 100%	1,982,238	2,672,351
100% to 120%	2,859,068	5,015,176
120% to 150%	1,959,818	3,227,152
more than 150%	1,057,120	5,809,219
Total	**42,877,938**	**60,562,764**
Average LTV ratio	62.6%	75.3%

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

Evaluation of impairment of financial assets

In accordance with IFRS 9, the Group has set up an adequate structure, tools and processes for the timely determination of credit risk losses. According to regulatory and accounting standards as well as economic considerations, the 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 Group classifies financial assets as assets subsequently measured at amortized cost (AC), at fair value through other comprehensive income (FVTOCI) or at fair value through profit and loss account (FVTPL):

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

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

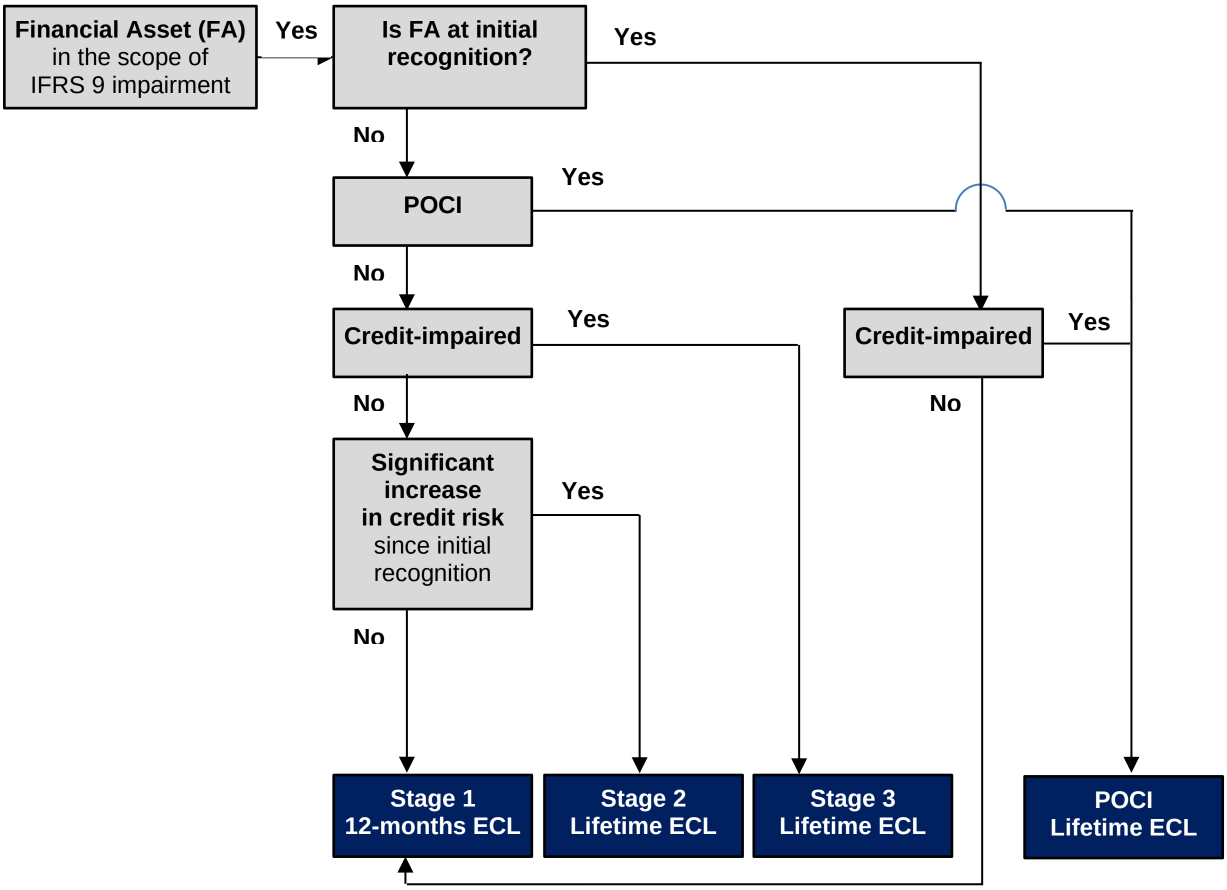
The objective of establishing allowances of impairment is to recognize expected credit losses over the life of all financial instruments, taking into account all reasonable and supporting information, including those relating to future events. Accordingly, financial assets that are relevant from the 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.

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

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

The process of impairment of due to credit losses:



35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Stage 1

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

b) Financial assets meeting the requirements of low credit risk

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

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

Stage 2

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

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

Stage 3

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

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

POCI assets

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

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

Qualitative criteria

- **Days past due (DPD) -** The 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, i.e. expected credit losses over the life.
- **EWS** – in the event of activating the early warning signals regarding the assessment of credit risk increase, debtors' financial assets should be transferred to stage 2.
- **Portfolio level criteria** - The performance of the assessment of significant increase in credit risk on portfolio level is necessary if the increase in credit risk on individual instrument level is only available with a certain time lag.

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

35. RISK MANAGEMENT (continued)

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

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

Where

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

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

35. RISK MANAGEMENT (continued)

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

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:

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

35. RISK MANAGEMENT (continued)

35.2 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:

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

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);

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

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

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

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
Average salary	2005Q1	2022Q4
Gross domestic product - annual growth rate	2004Q1	2022Q4
6m EURIBOR	2004Q1	2022Q4
Rate EUR / RSD average in the period	2004Q1	2021Q4

Time series data from 2008Q4 to 2022Q4 were used to develop Forward-looking statistical models.

FLI component calculation in 2023:

The methodological approach remained unchanged compared to 2022, except in the part of applied probabilities:

• Recalibration of the model - a new model with the change of the choice of variables was implemented and the time series were extended, which affected the values of coefficients of the variables.

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.

The probability of the "Base" scenario is changed to 50% in accordance with the requirement of the Group.

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

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 2023 led to change in the probability of default status. The probabilities were updated twice during 2023, resulting in additional provision in the amount of around RSD 282 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, micro clients and legal entities and the annual reassessment was done in November 2023. The effect for Private Individuals and Legal Entities was a decrease in provisions (RSD -304 million for Private Individuals and RSD -39 million for Legal Entities), while the Micro Clients segment had a decrease of RSD 29 million. New LGD values are estimated based on a longer data history, while the methodology of the calculation of LGD parameters was complied with the recommendation of NBS (the clients who were in default less than 12 months are excluded, LGD is restricted with values 0 and 1, open/closed cases are specified, extrapolation was performed based on single provisions, and collateral values are allocated).

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 are used. In May 2023, the Bank updated these values with the effect of provision of the RSD 100 million decrease.

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

The table below contains information about effects of modification:

	In RSD thousand
	The effect of modification recorded through the profit and loss account
Loans and receivables from banks and other financial organizations	
Agriculture and food industry	124
Entrepreneurs	(8)
Retail	(1,270,825)
Trade	(1)
Services and tourism	(226)
Balance at of 31 December	**(1,270,936)**

The negative effects of modification as of 31 December 2023 amounted to RSD 1,270,936 (in thousands). Modification of the housing loans was implemented based on Article 4 item 3), Article 14 paragraph 1 item 11), and Article 15 paragraph 1 of the National Bank of Serbia Law ("Official Gazette of the RS", nos 72/03, 55/04, 85/05 – other law, 44/10, 76/12, 106/12, 14/15, 40/15 – CC decision, and 44/18), and Article 28 paragraph 7 of the Law on Banks ("Official Gazette of the RS", nos 107/05, 91/10, and 14/15), based on which the NBS Executive Board made Decision on Temporary Measures for Banks Relating to Natural Persons' Housing Loans

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Data on changes of impaired receivables in 2023:

In RSD thousand

	Gross value at the 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	of which: impaired individually			
Receivables from retail customers	**2,506,904**	**1,491,189**	**-**	**133,698**	**-**	**(291940)**	**3,572,455**	**982,967**
Housing loans	306,744	264,648	-	27,825	-	(29842)	513,725	325,838
Consumer and cash loans	2,007,261	1,163,164	-	104,410	-	(239621)	2,826,394	578,344
Transactions and credit cards	93,554	52,280	-	1,463	-	(20519)	123,852	23,654
Other receivables	99,345	11,097	-	-	-	(1958)	108,484	55,131
Receivables from corporate clients	**2,608,306**	**857,390**	**195,154**	**19,346**	**-**	**(331616)**	**3,114,734**	**1,296,890**
Large enterprises	-	32,863	-	-	-	(5857)	27,007	24,232
Small and middle-sized enterprises	72,384	484,953	33,187	-	-	1,983,882	2,541,219	1,036,012
Micro sized enterprises and entrepreneurs	2,498,148	330,343	161,967	14,001	-	(2287350)	527,140	235,837
Agriculture	36,742	2,807	-	5,345	-	(15934)	18,270	803
Public enterprises	1,032	6,423	-	-	-	(6358)	1,098	6
Receivables from other clients	**491,990**	**12,022**	**-**	**2**	**-**	**(321,228)**	**182,782**	**93,294**
Total receivables	**5,607,200**	**2,360,601**	**195,154**	**153,046**	**-**	**(944,785)**	**6,869,970**	**2,373,151**

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Data on changes of impaired receivables in 2022:

In RSD thousand

	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	of which: impaired individually			
Receivables from retail customers	**1,909,643**	**1,226,253**	**114,346**	**268,383**	**43,494**	**(10,827)**	**2,507,149**	**675,386**
Housing 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	168,271	10,723	141	8,045	231	(10,827)	173,469	62,630
Receivables from corporate clients	**2,338,578**	**2,340,192**	**2,256,034**	**268,383**	**7,382**	**(82,032)**	**2,608,304**	**1,035,725**
Large enterprises	62,756	-	-	-	-	(21,548)	41,208	27,601
Small and middle-sized enterprises	1,256,306	2,197,444	2,180,225	68,136	-	(56,461)	2,265,825	918,861
Micro sized enterprises and entrepreneurs	962,296	123,498	61,485	189,177	-	(3,986)	263,497	76,373
Agriculture	56,186	19,250	14,324	3,025	7,382	(35)	36,742	12,890
Public enterprises	1,034	-	-	8,045	-	(2)	1,032	-
Receivables from other clients	**180,981**	**29,419**	**26,699**	**-**	**-**	**(8,431)**	**491,991**	**342,602**
Total receivables	**4,248,221**	**3,595,864**	**2,397,079**	**536,766**	**50,876**	**(101,290)**	**5,607,444**	**2,053,713**

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Data on changes of allowances receivables in 2023:

In RSD thousand

	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 as of 31 December 2023
Receivables from retail customers	**3,243,684**	**5,067,315**	**3,837,404**	**(701607)**	**3,771,989**
Housing loans	460,544	1,151,961	1,117,513	(14,906)	480,086
Consumer and cash loans	2,623,889	3,744,123	2,604,652	(653,772)	3,109,588
Transactions and credit cards	105,697	164,120	110,005	(33,222)	126,590
Other receivables	53,554	7,111	5,234	293	55,725
Receivables from corporate clients	**3,468,871**	**1,024,647**	**911,762**	**(74,766)**	**3,505,716**
Large enterprises	51,340	127,093	110,171	213,852	280,839
Small and middle sized enterprises	146,178	181,805	151,705	2,023,557	2,199,836
Micro sized enterprises and entrepreneurs	2,978,421	439,436	314,360	(2,272,789)	830,708
Agriculture	54,103	32,923	34,071	(32,184)	20,771
Public enterprises	238,829	243,390	301,455	(7,203)	173,561
Receivables from other clients	**177,821**	**423,420**	**255,812**	**(178,753)**	**166,676**
Total exposure	**6,890,376**	**6,515,382**	**5,004,977**	**(955,126)**	**7,444,381**
By category of receivables					
Non-problematic receivables	3,318,009	4,193,556	4,028,903	(534,211)	2,947,176
of which: restructured	37,736	209,040	356,003	329,417	220,190
Problematic receivables	3,572,368	2,321,826	976,074	(420,915)	4,497,204
of which: restructured	-	474,058	165,059	1,254,047	1,563,046
Total exposure	**6,890,376**	**6,515,382**	**5,004,977**	**(955,126)**	**7,444,381**

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Data on changes of impaired receivables in 2022:

In RSD thousand

	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 customers	**2,913,961**	**4,764,756**	**4,165,655**	**(269,139)**	**3,243,923**
Housing 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	130,559	36,517	20,713	(11,223)	135,140
Receivables from corporate clients	**2,586,066**	**4,272,130**	**2,375,299**	**(1013305)**	**3,469,592**
Large enterprises	79,302	319,434	141,730	(1,366)	255,640
Small and middle-sized enterprises	1,227,947	2,421,800	1,152,702	(450,037)	2,047,008
Micro sized enterprises and entrepreneurs	1,153,389	1,178,800	911,508	(547,392)	873,289
Agriculture	69,786	66,367	64,199	(17,850)	54,104
Public enterprises	55,642	285,729	105,160	3,340	239,551
Receivables from other clients	163,665	**190,068**	**520,165**	**353,948**	**179,516**
Total exposure	5,663,692	**9,226,954**	**7,069,119**	**(928,496)**	**6,893,031**
By category of receivables					
Non-problematic receivables	2,727,885	6,176,837	5,448,716	(135,552)	3,320,454
of which: restructured	727,175	40,196	62,402	(667,233)	37,736
Problematic receivables	2,935,807	3,050,117	1,620,403	(792,944)	3,572,577
of which: restructured	42,872	213,974	494,592	503,797	266,051
Total exposure	**5,663,692**	**9,226,954**	**7,069,116**	**(928,496)**	**6,893,031**

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Data on accrued income from interest and collected interest for the year ended 31 December 2023

In RSD thousand

	Interest income	Interest collected	Interest income on impaired receivables	Collected interest on impaired receivables
Receivables from retail customers	**16,197,871**	**13,924,938**	**826,197**	**457,234**
Housing loans	3,226,345	2,816,405	40,224	6,754
Consumer and cash loans	4,498,326	4,138,283	354,176	210,842
Transactions and credit cards	368,945	2,326,754	18,181	10,671
Other receivables	8,104,255	4,643,496	413,616	228,966
Receivables from corporate clients	**948,614**	**463,645**	**21,166**	**23,683**
Large enterprises	53,894	40,306	-	-
Small and middle-sized enterprises	184,482	137,969	-	4,903
Micro sized enterprises and entrepreneurs	249,418	273,833	19,368	15,455
Agriculture	10,746	10,715	1,793	3,320
Public enterprises	688,450	823	6	5
Receivables from other clients	**1,859,374**	**3,602**	**12,279**	**1,598**
Total receivables	**19,244,235**	**14,392,185**	**859,643**	**482,515**
By category of receivables				
Non-problematic receivables	18,384,145	10,739,146	-	-
of which: restructured	377,378	66,671	-	-
Problematic receivables	860,090	3,653,039	859,643	482,515
of which: restructured	209,560	648,577	209,560	35,170
Total receivables	**19,244,235**	**14,392,185**	**859,643**	**482,515**

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).

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

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

In RSD thousand

	Interest income	Interest collected	Interest income on impaired receivables	Collected interest on impaired receivables
Receivables from retail customers	**6,052,363**	**6,060,834**	**254,519**	**162,474**
Housing 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	47,815	42,684	6,263	2,374
Receivables from corporate clients	**4,681,368**	**4,327,127**	**101,168**	**71,600**
Large enterprises	673,377	653,813	1,879	1,912
Small and middle-sized enterprises	1,997,250	1,898,335	79,194	54,906
Micro sized enterprises and entrepreneurs	1,414,754	1,238,149	18,187	12,979
Agriculture	102,848	105,235	1,908	1,803
Public enterprises	493,139	431,595	-	-
Receivables from other clients	**2,642,613**	**2,654,249**	**8,906**	**4,747**
Total receivables	**13,376,344**	**13,042,210**	**364,593**	**238,821**
By category of receivables				
Non-problematic receivables	13,003,050	12,796,177	-	-
of which: restructured	32,598	30,109	-	-
Problematic receivables	373,294	246,033	364,593	238,821
of which: restructured	55,296	48,503	48,360	42,528
Total receivables	**13,376,344**	**13,042,210**	**364,593**	**238,821**

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Restructured Loans

Where possible, the Group 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 provide 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 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 longer 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 fulfil 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 instalment is not less than 50% of the initial instalment 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.

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

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

Data on restructured loans in 2023:

In RSD thousand

	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*
				of which: problematic receivables			
Receivables from retail customers	**102,307,749**	**(3770936)**	**895,934**	**546,941**	**(351,987)**	**0.88**	**182,422**
Housing loans	53,114,050	(480,029)	252,882	131,008	(44,678)	0.48	181,186
Consumer and cash loans	46,091,060	(3,108,874)	643,052	415,933	(307,309)	1.40	1,236
Transactions and credit cards	1,988,188	(126,308)	-	-	-	-	-
Other receivables	1,114,451	(55,725)	-	-	-	-	-
Receivables from corporate clients*	**123,173,362**	**(3,125,751)**	**2,903,387**	**2,164,486**	**(1,287,190)**	**2.27**	**986,624**
Division A	10,174,167	(1,479,046)	2,087,047	2,080,883	(1,163,004)	20.51	885,856
Divisions B, C and E	28,555,125	(382,692)	74,443	42,135	(1,878)	0.26	31,861
Division D	12,403,158	(256,064)	422,148	-	(62,640)	3.40	21,122
Division F	20,479,186	(171,793)	-	-	-	-	-
Division G	19,848,972	(351,951)	268,065	38,055	(55,032)	1.35	7,681
Divisions H, I and J	16,315,516	(194,022)	50,641	2,370	(3,811)	0.31	39,061
Divisions L, M and N	15,397,239	(290,183)	1,043	1,043	(825)	0.01	1,043
Receivables from other clients	**49,708,499**	**(547,693)**	**3,590,425**	**33,805**	**(144,059)**	**7.22**	**8,034**
Total receivables	**275,189,611**	**(7,444,381)**	**7,389,746**	**2,745,232**	**(1,783,236)**	**2.64**	**1,177,080**

35. RISK MANAGEMENT (continued)

35.2 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 in 2022:

In RSD thousand

	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	of which: problematic receivables			
Receivables from retail customers	**103,252,575**	**3,243,925**	**810,971**	**473,106**	**264,276**	**0.79**	**272,794**
Housing loans	55,487,301	460,571	314,733	169,248	73,822	0.57	251,436
Consumer 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	2,480,148	135,142	-	-	-	-	-
Receivables from corporate clients	**112,202,217**	**3,028,363**	**240,056**	**36,351**	**28,290**	**0.21**	**202,755**
Division A	8,966,834	1,076,714	11,470	-	3,314	0.13	11,470
Divisions B, C and E	27,914,136	474,211	72,525	12,567	1,303	0.26	68,538
Division D	10,801,949	332,779	-	-	-	-	-
Division F	14,137,724	410,357	-	-	-	0.00	-
Division G	17,413,898	253,604	50,360	22,473	12,972	0.29	24,803
Divisions H, I and J	12,146,789	158,397	103,307	-	9,710	0.85	97,944
Divisions L, M and N	20,820,887	322,301	2,394	1,311	991	0.01	-
Receivables from other clients	**32,690,421**	**620,743**	**27,196**	**21,280**	**11,221**	**0.08**	**5,405**
Total receivables	**248,145,213**	**6,893,031**	**1,078,223**	**530,737**	**303,787**	**0.43**	**480,954**

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Data on changes in restructured loans during 2023:

In RSD thousand

	Gross value at beginning of period	Receivables restructured 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 customers	**810,971**	**328,210**	**71,003**	**976,592**	**895,934**	**543,947**
Housing loans	314,733	136,457	29,425	291,335	252,882	208,204
Consumer and cash loans	496,238	191,753	41,578	685,257	643,052	335,743
Other receivables	-	-	-	-	-	-
Receivables from corporate clients	**267,252**	**4,310,936**	**-**	**2,390,510**	**6,490,351**	**5,062,117**
Large enterprises	13,824	282,361	-	229,407	229,407	207,034
Small and middle sized enterprises	185,211	470,008	-	1,931,423	2,213,783	1,027,210
Micro sized enterprises and entrepreneurs	59,264	6,434	-	229,680	490,067	392,901
Agriculture	8,953	3,550,660	-	-	6,434	64
Public enterprises	-	1,473	-	-	3,550,660	3,434,908
Receivables from other clients	**-**	**-**	**-**	**1,988**	**3,461**	**446**
Total receivables	**1,078,223**	**4,639,146**	**71,003**	**3,369,090**	**7,389,746**	**5,606,510**

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Data on changes in restructured loans during 2022:

	Gross value at the beginning of period	Receivables restructured 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 customers	**761,145**	**294,488**	**139,024**	**(105638)**	**810,971**	**546,695**
Housing 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	**847,176**	**112,265**	**25,113**	**(667,076)**	**267,252**	**227,741**
Large enterprises	-	13,824	-	-	13,824	13,814
Small and middle-sized enterprises	211,608	71,026	-	(97,423)	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
Public enterprises	-	-	-	-	-	-
Receivables from other clients	**-**	**-**	**-**	**-**	**-**	**-**
Total receivables	**1,608,321**	**406,753**	**164,137**	**(772,714)**	**1,078,223**	**774,436**

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Data on structure of restructured receivables according to measures of reschedule during 2023:

In RSD thousand

	Delay capitalisation	Grace period	Extension of maturity date	Change of interest rate	Partial write off	Other measures	Total
Receivables from retail customers	**429,297**	**5,262**	**126,827**	**41,159**	**5,117**	**12,705**	**895,934**
Housing loans	97,677	1,402	27,104	39,738	5,117	12,705	252,882
Consumer and cash loans	331,620	3,860	99,723	1,421	-	-	643,052
Transactions and credit cards	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-
Receivables from corporate clients	**83,761**	**5,849,220**	**88,819**	**-**	**-**	**-**	**6,490,351**
Large enterprises	-	7,681	-	-	-	-	229,407
Small and middle-sized enterprises	45,613	1,839,018	85,631	-	-	-	2,213,783
Micro sized enterprises and entrepreneurs	37,412	446,163	3,188	-	-	-	490,067
Agriculture	736	5,698	-	-	-	-	6,434
Public enterprises	-	3,550,660	-	-	-	-	3,550,660
Receivables from other clients	**1,988**	**1,473**	**-**	**-**	**-**	**-**	**3,461**
Total receivables	**515,046**	**5,855,955**	**215,646**	**41,159**	**5,117**	**12,705**	**7,389,746**

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

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

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

	Delay capitalisation	Grace period	Extension of maturity date	Change of interest rate	Partial write off	Other measures	Total
Receivables from retail customers	**465,607**	**4,343**	**586,952**	**623,054**	**8,423**	**50,943**	**810,971**
Housing 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
Receivables from corporate clients	**169,707**	**103,916**	**236,550**	**85,941**	-	**12,847**	**267,252**
Large enterprises	-	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.

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Loan concentration risk

Concentration risk represents a risk of incurring losses arising from the Group's large exposure to a certain group of borrowers or a single borrower. Credit risk concentration arises when a significant number of borrowers 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 Group performs detailed and comprehensive analyses of credit risk (and other risk) concentration per different dimensions (exposure classes, industries, collaterals, products, etc.).

The Group 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 Group 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 Group 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 Group 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 Group's Exposure to Certain Product Types ("Official Gazette of the RS", No. 103/2018 and 98/2020), on 31 December 2023, the Bank is fully compliant with the regulatory requirements prescribed by that decision.

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Data on concentration per sector and geographical region of exposure as of 31 December 2023:

In RSD thousand

	Belgrade region		Vojvodina		Šumadija 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 customers	**36,522,082**	**1,086,486**	**41,932,666**	**1,454,896**	**13,653,799**	**692,144**	**5,230,770**	**290,041**	**1,390,635**	**50,300**	**3,673**	**257**
Housing loans	24,184,729	144,452	21,436,864	260,567	4,946,228	99,246	1,849,966	9,461	178,951	-	3,586	-
Consumer and cash loans	11,186,314	865,858	19,411,960	1,127,929	8,275,433	546,306	3,224,259	238,868	1,165,357	48,776	-	-
Transactions and credit cards	358,597	25,076	959,078	59,695	393,337	27,607	106,585	10,018	46,327	1,524	87	257
Other receivables	792,442	51,100	124,764	6,705	38,801	18,985	49,960	31,694	-	-	-	-
Receivables from corporate clients*	**66,449,188**	**827,147**	**36,131,170**	**1,802,220**	**11,969,104**	**171,101**	**5,785,529**	**22,464**	**1**	**30**	**15,407**	**-**
Division A	1,432,749	557,554	5,771,639	1,744,470	562,288	81,173	24,248	45	-	-	-	-
Divisions B, C and E	8,205,466	107,498	11,682,725	34,406	4,900,354	18,903	3,595,691	10,082	-	-	-	-
Division D	7,341,606	56	2,059,615	22	2,096,035	10	905,805	9	-	-	-	-
Division F	15,062,055	10,023	3,730,219	472	1,431,216	3,461	235,501	6,240	-	-	-	-
Division G	10,403,164	57,375	7,661,597	16,196	1,114,051	31,707	544,647	4,797	-	30	15,407	-
Divisions H, I and J	12,045,937	86,329	2,657,823	3,225	1,148,786	17,171	355,081	1,162	-	-	-	-
Divisions L, M and N	11,958,211	8,313	2,567,552	3,428	716,373	18,675	124,556	129	1	-	-	-
Receivables from other clients	**44,777,142**	**315,445**	**1,961,907**	**108,827**	**1,366,621**	**41,474**	**378,851**	**8,628**	**1**	**196**	**749,406**	**2**
Total exposure	**147,748,412**	**2,229,078**	**80,025,743**	**3,365,943**	**26,989,524**	**904,719**	**11,395,150**	**321,133**	**1,390,637**	**50,526**	**768,486**	**259**

35. RISK MANAGEMENT (continued)

35.2 Credit Risk (continued)

Data on concentration per sector and geographical region of exposure during 2022:

In RSD thousand

	Belgrade region		Vojvodina		Sumaila 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	Non-problematic receivables	Non-problematic receivables	Non-problematic receivables	Non-problematic receivables	Non-problematic receivables	Non-problematic receivables	Non-problematic receivables
Receivables from retail customers	**37,891,345**	**720,431**	**42,104,407**	**1,116,663**	**11,556,679**	**464,018**	**8,286,620**	**299,599**	**793,302**	**15,244**	**4,238**	**29**
Housing loans	25,424,525	104,230	22,171,358	161,406	4,608,293	86,743	2,782,912	22,333	121,002	382	4,117	-
Consumer 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	1,015,042	58,721	770,158	45,488	302,094	33,430	195,803	35,890	22,952	420	121	29
Receivables from corporate clients	**59,127,566**	**452,693**	**35,290,448**	**1,901,808**	**9,429,989**	**92,655**	**5,883,721**	**21,097**	**2,240**	**-**	**-**	**-**
Division A	2,008,727	1,212	4,827,319	1,740,353	353,429	2	35,792	-	-	-	-	-
Divisions B, C and E	4,773,943	13,109	14,136,576	96,539	4,818,362	17,760	4,055,424	2,423	-	-	-	-
Division D	6,313,170	-	2,020,326	-	1,868,225	-	600,228	-	-	-	-	-
Division F	9,207,404	325,376	3,746,201	184	607,420	3,970	244,325	2,844	-	-	-	-
Division G	9,742,148	67,319	6,164,828	28,817	717,903	18,442	667,938	6,503	-	-	-	-
Divisions H, I and J	9,518,313	17,770	1,747,553	30,130	639,821	11,047	179,034	881	2,240	-	-	-
Divisions L, M and N	17,563,861	27,907	2,647,645	5,785	424,829	41,434	100,980	8,446	-	-	-	-
Receivables from other clients	**26,713,204**	**488,529**	**3,067,397**	**92,240**	**1,022,393**	**57,501**	**443,981**	**9,751**	**276**	**-**	**795,149**	**-**
Total exposure	**123,732,115**	**1,661,653**	**80,462,252**	**3,110,711**	**22,009,061**	**614,174**	**14,614,322**	**330,447**	**795,818**	**15,244**	**799,387**	**29**

35. RISK MANAGEMENT (continued)

35.2 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 Group overcomes risks related to credit risk through the same control processes and policies used for credit risk.

Counterparty Risk

The Group 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.

35.3. 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 times, 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 Balance Sheet Management Service.

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. Balance Sheet Management Service 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.

35. RISK MANAGEMENT (continued)

35.3. 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 2023 and 2022 the Bank had daily liquidity ratios above the regulatory prescribed level.

Broader liquidity ratio	**2023**	**2022**
Average during period	2.11	1.39
Highest	2.43	2.2
Lowest	1.78	1.1
at 31 December	2.10	2.11

Narrower liquidity ratio	**2023**	**2022**
Average during period	1.74	1.26
Highest	2.25	1.98
Lowest	1.43	1.00
at of 31 December	1.70	1.98

As of 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 Group 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 Group has established and monitors the internal limits for LCR, through Risk Awareness Report.

Market Risk and Liquidity Risk Management Unit within Strategic Risk and Data Analytics Management Division is responsible for calculating the indicators and Balance Sheet Management Service is in charge of the management of the indicators and projection of indicators. As of 31 December 2023 and 31 December 2022, the Group had Indicator of liquid assets coverage ratio above prescribed limit.

	As of 31 December 2023	**As of 31 December 2022**
PPLA	146.69 %	156.53%

In addition to calculating regulatory and internal indicators, the Group conducts a regular stress test for liquidity risk. Survival Period Analysis (SPA) is a basic tool for measuring the risk of non-solvency and basic indicator based on which the ability of a bank to survive internally defined stress scenarios. Three types of crisis (name crisis, market crisis and combined crisis) have been defined with two phases each (the first one is a serious crisis phase, followed by mild phase). Each of the crises has an assumed duration.

For the purpose of official reporting, stress test is implemented on monthly level. The calculations are available on weekly level, and the results are, for now, used only for monitoring. The bank has defined internal limits for SPA. Compliance with limits must be ensured on weekly and monthly level.

Since the end of 2023, a new methodology for the calculation of SPA indicators is used. SPA focuses on short-term time interval, up to 1 year and it measures the period during which the bank can continue its business under stress conditions and to meet all its liabilities. The methodology assumes the gradual and current closing of certain source of financing. Different assumptions are defined, e.g. assumptions of the settlement of positions which are due, assumptions of business deposit withdrawal, assumptions of withdrawal of unused credit lines and guarantees. For the cover of net outflow, high-liquidity assets are used (e.g. state securities decreased for adequate percentages of decrease, surplus of mandatory provisions, deposit facilities at NBS), as well as measures of improvement of liquidity (defined by Contingency Funding Plan).

35. RISK MANAGEMENT (continued)

35.3. Liquidity Risk and Financial Assets Management (continued)

Previous SPA methodology prescribed six different crises (mild name crisis, severe name crisis, mild market crisis, severe market crisis, mild combined crisis, and severe combined crisis). Every crisis had an assumed duration period. Based on the new methodology, assumptions used in the calculation are changed (e.g. additional percentages, in addition to the regulatory ones, of impairment for securities are used, various liquidity improvement measures are defined, set outflow percentages for unused credit lines are changed, etc.)

The Bank started using the new methodology developed by its parent bank (the previous one was also developed by the parent bank) after the migration to the new core bank IT system and DWH (data warehouse), following the alignment and technical setting of the local assumptions. Data source was changed after the migration to the new methodology. Currently, standardised set of the tables sent to the parent bank (the so-called BITA) is used. Based on this, various calculations/reports are created, not only within the liquidity risk domain, which is also used Erste Group-wide. The previous source was used solely for the purposes of liquidity risk reporting.

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. During the quantitative study of the impact of the introduction of NSFR indicators into the local regulatory framework, which was carried out by the National Bank of Serbia, the bank calculated and submitted the NSFR, in accordance with local regulatory requirements. After the test sending with the balance as of 31 March 2024, the Bank will calculate and submit NSFR to the National Bank of Serbia on a regular basis from 30 June 2024.

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.

As an additional way of managing liquidity risk, the Group produces a monthly report on the liquidity gap, in which positions are allocated either according to the agreed maturity or with assumptions for the allocation of positions that have no agreed maturity. The Market and Liquidity Risk Management Department is responsible for regular monitoring and reporting. The 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 Group, in accordance with the requirements of the parent bank, and based on EU regulations, monitors and reports the indicator of the NSFR (Net Stable Funding ratio). The indicator is defined as the relationship between elements that provide stable financing and elements that require stable funding, and serves to monitor structural liquidity risks, with a focus on long-term financing for the purpose of limitation of the use of short-term financing and financing incompatibility. The Bank has defined the internal limits for the NSFR indicator. During the quantitative study of the impact of the introduction of NSFR indicators into the local regulatory framework, which was carried out by the National Bank of Serbia, the Group calculated and submitted the NSFR, in accordance with local regulatory requirements. After the test sending with the balance as of 31 March 2024, the Bank will calculate and submit NSFR to the National Bank of Serbia on a regular basis from 30 June 2024.

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.

35. RISK MANAGEMENT (continued)

35.3. 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 of 31 December 2023 and 31 December 2022.

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

In RSD thousand

	From 0–1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	Total on 31 December 2023
Liabilities per borrowings, deposits and securities	**48,470,273**	**24,208,467**	**92,475,027**	**124,542,706**	**44,171,414**	**333,867,887**
Subordinated liabilities	71,097	-	-	3,515,211	5,272,816	8,859,124
Total	48,541,370	24,208,467	92,475,027	128,057,917	49,444,230	342,727,011

Maturity Analysis of the Bank's Financial Liabilities

In RSD thousand

	From 0–1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	Total on 31 December 2022
Liabilities per borrowings, deposits and securities	35,008,558	18,396,175	92,898,535	118,360,715	45,314,675	**309,978,658**
Subordinated liabilities	37,804	-	-	-	7,039,344	**7,077,148**
Total	**35,046,362**	**18,396,175**	**92,898,535**	**118,360,715**	**52,354,019**	**317,055,806**

35. RISK MANAGEMENT (continued)

35.3. 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 thousand

	Up to 14 days	from 15 days to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	Total 2023
Contingent liabilities	311,988	509,651	4,978,750	16,138,255	23,770,972	2,414,286	48,123,902
Irrevocable commitments and letters of credit	66,569,793	172,767	1,188,543	4,297,607	6,582,428	1,196,808	80,007,946
Total	**66,881,781**	**682,418**	**6,167,293**	**20,435,862**	**30,353,400**	**3,611,094**	**128,131,848**

In RSD thousand

	Up to 14 days	from 15 days to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 5 years	more than 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**

35. RISK MANAGEMENT (continued)

35.3. 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") and German Development Bank ("KfW"), European Bank for Reconstruction and Development ("EBRD") and Council of Europe Development Bank ("CEB").

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. In December 2023, the Bank signed an agreement with KfW, for financing micro, small and medium enterprises for projects of green economy and rural business in Serbia in the amount of EUR 30 million. The funds from the credit line executed in December 2023 have not been drawn so far.

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 totalling EUR 40 million. During 2020 Bank has 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 August of the same year the Bank signed two more agreements, in the amount of EUR 25 million for the purpose of financing small and medium companies and for companies with middle capitalization in order to respond to the situation caused by COVID-19 crisis and in the amount of EUR 5 million for the financing micro, small and medium companies. 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. On 12 December 2023, the Bank signed an Agreement on long-term loan for EUR 25 million with Erste Bank der oesterreichischen Sparkassen AG.

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 2023 is presented in Note 27.

35. RISK MANAGEMENT (continued)

35.3. 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 thousand

	Up to 14 days	from 15 days to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	Total on 31 December 2023
ASSETS							
Cash and cash funds held at central Bank	60,299,066	-	-	-	-	-	60,299,066
Derivative receivables	56,542	8,508	4,798	33,027	402,833	166,696	672,404
Securities	166,527	1,367,190	1,274,952	1,676,576	37,416,319	16,827,761	58,729,325
Loans and receivables from banks and other financial organizations	19,814,219	-	-	24,023	334	-	19,838,576
Loans and receivables due from customers	3,476,418	947,539	6,247,789	21,728,813	112,492,500	103,013,595	247,906,654
Other assets	581,028	-	12	943	1,749,643	12,563	2,344,189
Total assets	**84,393,800**	**2,323,237**	**7,527,551**	**23,463,382**	**152,061,629**	**120,020,615**	**389,790,214**
LIABILITIES AND EQUITY							
Derivative liabilities	12,042	239	4,953	31,508	365,239	113,645	527,626
Deposits and liabilities due to banks and other financial institutions and NBS	16,982,896	2,895,453	1,803,623	16,213,516	37,592,917	2,935,108	78,423,513
Deposits and other liabilities to customers	192,866,813	6,616,200	11,663,108	27,835,652	12,450,462	4,012,139	255,444,374
Subordinated liabilities	-	-	-	-	-	-	-
Other liabilities	71,097	-	-	-	3,515,211	5,272,816	8,859,124
Total liabilities	**586,712**	**1,269**	**3,929**	**96,577**	**641,401**	**1,163,255**	**2,493,143**
Total equity	**-**	**-**	**-**	**-**	**-**	**48,245,487**	**48,245,487**
Total liabilities and equity	**210,519,560**	**9,513,161**	**13,475,613**	**44,177,253**	**54,565,230**	**61,742,450**	**393,993,267**
Liquidity gap as of: 31 December 2023	**(126125760)**	**(7189924)**	**(5948062)**	**(20713871)**	**97,496,399**	**58,278,164**	
31 December 2022	**(116248888)**	**(2145687)**	**(4279037)**	**(19913755)**	**65,331,736**	**74,125,303**	

35. RISK MANAGEMENT (continued)

35.3. 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 Group'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 of 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 Group monitors maturity compliance using statistical patterns of deferred demand deposits at expected maturities.

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

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

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

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

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

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

Identification, measurement, analysis and reporting of market risk exposures are managed by a separate organizational unit, i.e., Market and Liquidity Risk Management Department. Balance Sheet Management Unit and Market Risk Management Department monitor foreign exchange ratio on a daily basis with Balance Sheet Management 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:
- SVaR limit
- Limits of sensitivity (PVBP, CR01)
- Stop loss limits

35. RISK MANAGEMENT (continued)

35.4. 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 of 31 December 2023	As of 31 December 2022
Interest rate risk	9,721	14,999
FX Risk	375	1,508
Total	10,049	14,630

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 99,99%.

Stressed Value at Risk (SVaR) is conceptually similar to VaR (confidence level is 99%, retention period is 1 day), but the stress market period is used for the calculation of indicators. SVaR measures the maximum potential loss in the portfolio of financial instruments at a precisely defined time period caused by the change of prices of their parts, based on the historical data. The period considered the most stressful (which is periodically checked) is from the beginning of October 2008 to the end of September 2009 (one-year time series of data). SVaR is, as VaR calculated on daily level.

Calculations of VaR and SVaR are implemented in the technical solution implemented at the Erste Group level.

Two sensitivity limits, PVBP and CR01 are set.

Price Value of a Basis Point (PVBP) is the assumed change in the price of trading book positions due to the parallel shift of the yield curve by 1 basis point. The limit is defined by currencies (RSD, EUR, USD, and OTH) and at the total level.

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/SVaR and sensitivity limits are approved by the Bank's Executive Board, on the proposal of Strategic Risk and Data Analytics Management Division 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 and Data Analytics Management Division. 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 and Data Analytics Management Division.

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 Strategy and 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.

35. RISK MANAGEMENT (continued)

35.4. Market Risks (continued)

35.4.1 Interest Rate Risk

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

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

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

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

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

Economic Value of Equity (EVE) - a shock of +/- 200 basis points (with and without application of interest rate floor) for each individual currency and summing up the worst scenarios. For discounting a risk free curve is used. As of 30 June 2023, this indicator is no longer calculated and followed.

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. Since that EVE 1 is no longer a part of the framework for the interest risk management, since 31 December 2023 EVE 2 is renamed to EVE.

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.

35. RISK MANAGEMENT (continued)

35.4. Market Risks (continued)

35.4.1 Interest Rate Risk (continued)

In addition to indicators that measure the impact of interest rate changes on the economic value of equity, the Group has defined indicators through which to assess the impact of interest rate changes on net interest income. It uses shocks of +/- 200 basis points (without and with the application of floor for 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 behavioural models, the Group has also defined indicators that assess the risk of these models, changes in assumptions and scenarios for the calculation of interest rate risk indicators. The difference between the initial calculations and the calculations in accordance with the changed assumptions shows the impact of the applied models.

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

To calculate the internal capital requirement, the Group 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 Group's Executive Board is informed about interest rate risk exposures through a monthly report on market risk indicators in the banking book.

35. RISK MANAGEMENT (continued)

35.4. Market Risks (continued)

35.4.1 Interest Rate Risk (continued)

The following table shows the Group's exposure to the interest rate risk (Repricing Gap) as of 31 December 2023. Assets, liabilities, and currency swaps as off-balance sheet items are categorized by the earlier of interest repricing date and maturity date.

In RSD thousand

Category	Within a month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over a year	Total non-interest bearing	Total
Cash	5,000,914	-	-	-	-	8,522,521	13,523,456
Required reserves	24,627,434	-	-	-	-	22,148,196	46,775,630
Securities	1,437,496	1,885,982	701,914	1,497,748	53,052,900	-	58,576,041
Loans to banks	14,627,732	-	-	-	-	-	14,627,732
Loans to clients	64,665,528	85,762,599	25,705,105	7,651,720	66,144,998	-	249,929,950
Other assets	-	-	-	-	-	15,460,894	15,460,894
Total balance assets	**110,359,104**	**87,648,581**	**26,407,020**	**9,149,468**	**119,197,898**	**46,131,610**	**398,893,681**
FX Swap	31,153,715	8,216,891	-	-	-	-	39,370,606
Total assets	**141,512,819**	**95,865,472**	**26,407,020**	**9,149,468**	**119,197,898**	**46,131,610**	**438,264,287**
Liabilities to banks	12,886,488	8,880,964	10,010,365	5,819,335	9,283,089	158,252	47,038,493
Liabilities to financial institutions	10,059,867	13,596,442	9,463,312	6,234,034	2,315,534	-	41,669,189
Demand deposits	16,367,106	10,741,736	16,024,557	32,401,302	111,723,494	-	187,258,195
Term deposits	10,526,676	12,013,985	9,819,894	17,839,850	14,709,756	-	64,910,160
Other liabilities	-	-	-	-	-	9,024,319	9,024,319
Equity	-	-	-	-	-	48,993,325	48,993,325
Total balance liabilities equity	**49,840,136**	**45,233,127**	**45,318,128**	**62,294,521**	**138,031,873**	**58,175,896**	**398,893,681**
FX Swap	31,097,900	8,234,152	-	-	-	-	39,332,052
Total L+E	**80,938,036**	**53,467,279**	**45,318,128**	**62,294,521**	**138,031,873**	**58,175,896**	**438,225,733**
Net interest risk exposure as of 31 December 2023	**60,574,783**	**42,398,193**	**(18,911,109)**	**(53,145,052)**	**(18,833,975)**	**(12,044,286)**	**38,554**
Net interest risk exposure as of 31 December 2022	**64,192,976**	**71,193,426**	**(38,411,386)**	**(46,234,742)**	**(40,657,322)**	**(10,077,754)**	**5,199**

35. RISK MANAGEMENT (continued)

35.4. Market Risks (continued)

35.4.1 Interest Rate Risk (continued)

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

The following table presents the income statement's sensitivity to the reasonably anticipated changes of interest rates (1%) with other variables held constant. The income statement's sensitivity represents the effect of assumed changes in interest rates on the net interest income in one year and on financial assets and liabilities based on interest rates as of 31 December 2023 and 31 December 2022.

In RSD thousand

Currency	**Changes in percentage points**	**Income statement sensitivity as of 31 December 2023**	**Changes in percentage points**	**Income statement sensitivity as of 31 December 2022**
Increase in percentage:				
RSD	1%	88,515	1%	211,180
EUR	1%	338,364	1%	269,842
Decrease in percentage:				
RSD	1%	(66,631)	1%	(387,164)
EUR	1%	(493,464)	1%	(551,415)

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

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

Financial Market Division and Balance Sheet Management Service 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 compliance with internally set foreign currency limits 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 Group 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 2023, the Group continuously monitored the compliance of foreign exchange risk indicators, whereby the related indicator was of a level within the prescribed limit. At the end of each working day, the Group 's foreign currency exposure indicator was not more than 20% higher than the Group 's capital.

35. RISK MANAGEMENT (continued)

35.4. Market Risks (continued)

35.4.2. Foreign Exchange Risk (continued)

The following table shows the currencies in which the Group has significant exposure as of 31 December 2023 and 31 December 2022 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 thousand

Currency	Changes in currency rate (depreciation in %) as of 31 December 2023	Effect on profit and loss before taxes as of 31 December 2023	Changes in currency rate (depreciation in %) as of 31 December 2022	Effect on profit and loss before taxes as of 31 December 2022
EUR	2%	(6,094)	2%	(30,243)
CHF	4%	328	2%	48
USD	4%	523	2%	327

35. RISK MANAGEMENT (continued)
35.4. Market Risks (continued)

35.4.2. FX Risk
The following table presents the Group's exposure to foreign exchange risk as of 31 December 2023. The table includes assets and liabilities at their carrying amounts.

In RSD thousand

	EUR	USD	CHF	Other currencies	Total in FC	Total in RSD	Total
ASSETS							
Cash and cash funds held at central Bank	24,189,370	369,133	206,007	201,549	24,966,059	35,333,007	60,299,066
Pledged financial assets	-	-	-	-	-	-	-
Derivative receivables	602,561	-	-	-	602,561	69,843	672,404
Securities	8,823,109	1,585,321	-	-	10,408,430	48,320,895	58,729,325
Loans and receivables due from banks and other financial institutions	3,084,672	220,113	85,051	107,688	3,497,524	16,341,052	19,838,576
Loans and receivables due from customers	191,100,163	150,109	3,604	2	191,253,878	56,652,776	247,906,654
Investments in subsidiaries					-	118	118
Intangible assets	-	-	-	-	-	0	0
Fixed assets	-	-	-	-	-	4,177,396	4,177,396
Investment property	-	-	-	-	-	4,906,630	4,906,630
Current tax assets	-	-	-	-	-	50,142	50,142
Deferred tax assets	-	-	-	-	-	112,946	112,946
Fixed assets held for sale and assets of discontinued operations	-	-	-	-	-	291,499	291,499
Other assets	-	-	-	-	-	12,252	12,252
Total assets	**228,037,399**	**2,324,719**	**301,887**	**309,255**	**230,973,260**	**167,815,233**	**398,788,493**
LIABILITIES AND EQUITY							
Derivative liabilities	6,367	-	-	-	6,367	521,259	527,626
Deposits and liabilities due to banks and other financial institutions and NBS	54,119,225	15,765	345	687	54,136,022	24,287,113	78,423,135
Deposits and other liabilities to customers	85,589,154	99,499	63,774	-	85,752,427	169,691,947	255,444,374
Subordinated liabilities	71,097	-	-	-	71,097	8,788,027	8,859,124
Provisions	880	-	-	-	880	1,563,633	1,564,513
Current tax assets	-	-	-	-	-	394,675	394,675
Deferred tax liabilities	-	-	-	-	-	32,037	32,037
Other liabilities	827,108	41	1,854	1	829,004	3,814,241	4,643,245
Total liabilities	**140,613,831**	**115,305**	**65,973**	**688**	**140,795,797**	**209,092,932**	**349,888,729**
Total equity	-	-	-	-	-	48,899,764	48,899,764
Total liabilities and equity	**140,613,831**	**115,305**	**65,973**	**688**	**140,795,797**	**257,992,696**	**398,788,493**
Net foreign currency position as of:							
- 31 December 2023	**87,423,568**	**2,209,414**	**235,914**	**308,567**	**90,177,463**		
– 31 December 2022	**10,785,146**	**(3979799)**	**(4435508)**	**(981653)**	**1,388,185**		

35. RISK MANAGEMENT (continued)

35.5. Bank’s Risk Concentration

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

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

During 2023, the Group maintained the exposure risk indicators within the prescribed values. By implementing appropriate activities stipulated by the relevant procedures and decisions on loan approval, the 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 32(b)) and with the internal limits.

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

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

35.6. Bank's Investment Risks

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

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

During 2023, the Group maintained the investment risk indicators within the prescribed values and it ensured that investments were reconciled with the indicators prescribed by the National Bank of Serbia.

35.7. Country Risk

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

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

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

35. RISK MANAGEMENT (continued)

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

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

The Group 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 Group is insured from the usual risks and specific banking risks through the Program of insurance from operational risks. The usual risks include damages to property, burglary, theft (valuable property) and general responsibility. Specific risks include the 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 Group 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.

In order to ensure independent management and control of risk of IKT system, the Group has conducted the reorganization and instead of Operational and Other Non-Financial Risk Management Unit, it established Operational and Syber Risk Department. Inside the Department, apart from operations conducted by Operational and Other Non-Financial Risk Management Unit, an independent position of Cyber Risk Senior Expert has been established, with the purpose of executing development, verification and maintenance of the framework of the management of IKT risk (in accordance with internal policies, legal and regulatory requirements), to execute the monitoring over the implementation of activities of IKT risk management, indicators of risks and efficiency of controls and executes the escalation for identified IKT risks as a part of the risk treatment process.

35. RISK MANAGEMENT (continued)

35.8. Operational Risk (continued)

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, in the first phases of the fight against this disease, during 2020, 2021 and a great part of 2022, the Serbian authorities implemented numerous measures limiting the impact of COVID-19 in the country, working on the maintenance of public health and stability of economic flows. In the second half of 2022 and throughout 2023, a significant trend of decreasing the number of new cases of this disease was recorded, with significantly milder clinical pictures of the patients and a further trend of losing the potential of the virus, which in a broader sense moved it into the category of common health risks. At the state level, monitoring of trends related to pandemic risks and COVID-19 continued during 2023, while no trends were registered that would require interventions in the domain of additional measures regarding public health or economic activities, etc. Also, there were no negative impacts in that context even at the level of the Bank's corporate environment.

The general decrease of threats related to COVID-19 pandemic significantly decreased 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 2023, measured by the real movement of gross domestic product (GDP), recorded a growth of 2.5% compared to 2022.
According to the results of the Inquiry of the work effort in Q3 2023, the rate of employment amounts 50.7% while the rate of unemployment is 9.0%.
Average salaries without tax and contributions in 2023, in relation to the previous year, are nominally higher for 15.0% and in reality for 2.6%. The estimated annual inflation rate is 7.6%. Management is taking necessary measures to ensure business continuity, ensure continuous customer service and reduce negative impact on employees.

During 2023, the Group completed strategies and plans for ensuring the continuity of its business-critical processes in relation to scenarios of global pandemic threats such as COVID-19, and the Group's management continues in the future to monitor threats to business continuity and to take all necessary measures in order to business continuity was ensured, the continuous provision of services to clients was ensured and the negative impact on employees was reduced.

The Group has based business continuity strategy, including risks of pandemic situations, mostly on the work from home (for more than 90% employees in the back-office) as well as combined work from the facilities of the Group for the functions who cannot perform their business facilities remotely due to the nature of their needs and conditions of work, and additionally by work in shifts, decreased working hours and introduction fo workers of physical security in the sales facilities of the Bank. If necessary, the Group additionally informs clients on the possibility of using ATM zones, mBanking and netBanking, by which unnecessary crowds and queues would be avoided at the premises of the Bank, i.e. possible inability of delivery of certain services of the Group would be compensated by additional channels.

In accordance with the newly established work scenarios, the Group has implemented and regularly revised the 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 Group and the impossibility of field trips and the need to avoid contact with employees, the Group's control functions have been provided with additional monitoring and control tools: video surveillance system recordings, identification card access logs, action logs in the Group's information system, etc.

The pandemic response scenario is an integral part of the recovery plans and ensuring the continuity of business-critical activities.

35. RISK MANAGEMENT (continued)

35.8. Operational Risk (continued)

Business Continuity Management in Covid 19 (continued)

The Scenario Analysis workshops were organised and finalised in the last quarter of 2023. The basis of every Scenario Analysis includes the quantitative indicators based on historical events/losses supplemented with expert assessments of relevant business environment factors and control mechanism systems. Objective of this analysis is to determine the future Bank's risk profile though expert assessment of exposure to the risk events of operational risk that are unlikely, but can cause high material losses. Scenario Analysis includes the Environmental, Social, and Governance risks that additionally improve the identification of potential risk events and exposure to the environment, social, and governance risks. In 2023, no significant changes relative to 2022 were identified. It is concluded that is a low probability of loss exceeding EUR 10 million, except in categories Clients, products, and business procedures and Execution where adverse expectations relate to a potential adverse outcome of significant litigations. New risk drivers were emphasised at the workshops: prolonged implementation of remaining project of migration to the new core bank application and use of the workarounds as a response to the incidents and inadequate system operation combined with new regulatory requirements regarding changes and updating to still fragile and immature system. Increase in external threats due to further deterioration of the local economic and political situation and supply chain stability and business continuity due to potential growth of global critical areas, in addition to the existing ones (Russia-Ukraine, Israel-Hamas), and escalation to a global conflict, local deterioration of the situation in Kosovo and Metohija and spreading to the Central Serbia, ESG risks, significant adverse effect of bad weather events, and higher focus on “S – social risk” for the purpose of the reduction of talent risk and lack of resources with key skills in the area of risk management, compliance, ESG and IT that could be manifested through poor business monitoring, inadequate support of digitalisation progress, including digital skills, poor investment and lending activities, and inadequate business resistance level

During 2023, the Group successfully finished a very significant migration of the information system to the new environment of the main banking application and in that context, necessary changes of the scope of the business continuity plan was done, as well as comprehensive regular testing of business continuity plans and disaster recovery plans for all business critical activities which, apart from different scenarios of unavailability of resources of the information system included the scenarios which include the operations of employees from Home Office environment and in the circumstances of the new information system, showing as a result a high level of readiness of business critical functions of the Group for the response to different categories of risks, including the pandemic risks, with the achieved satisfactory time of recovery.

35.9. Capital Management

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

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

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

35. RISK MANAGEMENT (continued)

35.9. Capital Management (continued)

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

The Law on 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, 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, 89/2022 and 77/2023) 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, 137/2022, 48/2023 and 110/2023).

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 Group consists of basic and supplementary capital and defined deductible items, while risky balance and off-balance sheet assets are determined in accordance with the prescribed risk weight for all types of assets.

The capital 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 (prescribed 8%), the capital requirement for the risk of adjusting the credit exposure multiplied by the reciprocal value of the capital adequacy ratio (prescribed 8%), the capital requirement for operational risk multiplied by the reciprocal value of the capital adequacy ratios (prescribed 8%)and the risk weighted exposure for the risk of the counterparty.

The Group met the requirements of the Decision on Capital Adequacy of Banks when calculating the regulatory capital and during the reporting period it had the regulatory capital above the following prescribed minimums:

- 4.5%, for Common Equity Tier 1 capital ratio;
- 6%, for Tier 1 capital ratio;
- 8%, for capital ratio.

As of 31 December 2023, as well as during the entire 2023, the level of Group capital adequacy was completely complied with the regulations defining the minimum indicatory of capital adequacy defined by the Decision of the Bank Capital Adequacy, as well as additional regulatory capital requirements, which the National Bank of Serbia has defined for the Bank within the process of the comprehensive supervisory assessment (Supervisory Review and Evaluation Process – SREP).

Capital adequacy ratios, including all regulatory capital requirements and buffers, with the balance as of 31 December 2023, amounted:

- Common Equity Tier 1 capital ratio 16.71%;
- Tier 1 capital ratio 16.71%
- capital ratio 20.36%.

The Group is defined as systematically significant bank by the National Bank of Serbia.

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

The Framework for Integrated Risk and Capital Management as a concept established in the Group, as its key component, has the Internal Capital Adequacy Assessment Process (ICAAP). This framework is defined to support the 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.

35. RISK MANAGEMENT (continued)

35.9. Capital Management (continued)

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, 78/2017 and 116&2023) 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, 46/2018 and 116/2023).

35. RISK MANAGEMENT (continued)
35.9. Capital Management (continued)

The table below summarizes the structure of the Bank's capital as of 31 December 2023 and 31 December 2022 as well as the capital adequacy ratio:

In RSD thousand

	31 December 2023	31 December 2022
Tier I Capital		
CET1 Capital		
The amount of the basic share capital paid	15,772,500	15,772,500
Related emission premium with basic equity instruments	5,552,654	5,552,654
Profit from the current period which meets the conditions for the inclusion in the basic equity	500,128	426,527
Revaluation reserves and other unrealized gains	152,978	135,953
Unrealized losses	(209,466)	(275,475)
Other reserves	21,721,689	19,377,317
Additional value adjustments	(11,894)	(18,060)
Other intangible assets before deduction for related deferred tax liabilities	(4,176,589)	(3,221,977)
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	(6,905)	(11,190)
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	(6,495)	(15,438)
	39,288,600	**37,722,811**
Supplementary capital		
Subordinated liabilities	8,572,536	7,039,344
	8,572,536	**7,039,344**
Capital:	**47,861,136**	**44,762,155**
Risky balance and off-balance assets		
Capital requirement for credit risk, counterparty risk and risk of delivery / delivery on the basis of free delivery	16,850,935	16,029,810
Capital requirement for price risk	60,090	66,666
Capital requirement for foreign exchange risk	-	121,311
Capital requirement for operational risk	1,862,953	1,666,144
Capital requirement for the risk of adjusting credit exposure	35,267	8,061
Common Equity Tier 1 capital adequacy ratio	**16.71**	**16.87**
Tier 1 capital adequacy ratio	**16.71**	**16.87**
Capital Adequacy	**20.36**	**20.01**

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

35. RISK MANAGEMENT (continued)

35.9. Capital Management (continued)

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

In RSD thousand

	31 December 2023		31 December 2022	
	Risk assets	**Capital requirement**	**Risk assets**	**Capital requiremen t**
Total risk assets	235,115,568	18,809,245	223,649,903	17,891,992
Risk-weighted exposure to credit risk	210,636,687	16,850,935	200,372,626	16,029,810
Standardized approach	210,636,687	16,850,935	200,372,626	16,029,810
Exposure to market risks	751,127	60,090	2,349,709	187,977
Exposure to operational risk	23,286,912	1,862,953	20,826,801	1,666,144
Exposure to the risk of adjusting credit exposure	440,842	35,267	100,766	8,061

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 Group, which represents the ratio of the share capital, which is obtained as the sum of the basic share capital and additional basic capital in accordance with the decision regulating the capital adequacy of the bank, and the amount of exposure for the calculation of the leverage indicator, amounted to 9.25% as of 31 December 2023 (2022: 9.31%).

35. RISK MANAGEMENT (Continued)

35.10. 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 thousand

	As of 31 December 2023	**As of 31 December 2022**
CVA	14,324	2,337
DVA	(6,320)	(9,634)

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.

35. RISK MANAGEMENT (continued)

35.10. 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.

	As of 31 December 2023				As of 31 December 2022			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS	**2,738,716**	**9,663,607**	**19,567**	**12,421,890**	**7,061,218**	**10,232,302**	**26,478**	**17,319,998**
Securities	**2,738,716**	**8,991,203**	**19,567**	**11,749,486**	**7,061,218**	**9,414,145**	**26,478**	**16,501,842**
Debit securities								
Republic of Serbia bonds and T-bills	2,605,029	8,991,203	-	**11,596,232**	6,948,550	9,413,575	-	**16,362,125**
Equity securities								
Quoted shares	133,687	-	-	**133,687**	112,669	570	-	**113,239**
Shares that are not quoted	-	-	19,567	**19,567**	-	-	26,478	**26,478**
Derivative receivables	-	672,404	-	**672,404**	-	818,156	-	**285,448**
FINANCIAL LIABILITIES								**745,086**
Derivative liabilities	-	527,626	-	**527,626**	-	745,086	-	**745,086**

35. RISK MANAGEMENT (continued)

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

Changes in the level of financial instruments valued at fair value

In RSD thousand

	31 December 2023			31 December 2022		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Securities						
Transfer from Level 1	-	175,060	-	-	496,142	-
Transfer from Level 2	-	-	-	-	-	-
Transfer from Level 3	-	-	-	-	-	-
Acquisition, sale and derecogntion	(4,320,378)	(575,043)	-	(1,658,844)	(1,538,344)	-
Total	**(4,320,378)**	**(399,983)**	**-**	**(1,658,844)**	**(1,042,202)**	**-**

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

In RSD thousand

	As of 31 December 2023		As of 31 December 2022	
	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	175,060	-	496,142	-
Financial assets FVPL				
Bonds	11,367,735	-	-	-
Total	**11,542,795**	**-**	**496,142**	**-**

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

As of 31 December 2023, all bonds of the Republic of Serbia were almost completely classified to level FV 1 or level FV 2. The materially insignificant part was not classified in FV 1 or FV 2 level (these are securities valued at amortized value and held until maturity).

Bonds of the Republic of Serbia, which are valued at market value, are completely valued through quotation 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 thousand

	As of 31 December 2023		**As of 31 December 2022**	
FINANCIAL ASSETS	**Book value**	**Fair value**	**Book value**	**Fair value**
Securities held to maturity	47,127,482	44,764,369	45,078,301	46,371,025
Loans and receivables due from banks	24,839,490	24,904,716	5,414,498	5,423,195
Loans and receivables due from customers	247,906,654	259,682,492	235,837,684	242,203,529
Non-current assets held for sale	12,252	4,839,023	12,252	27,034
FINANCIAL LIABILITIES				
Deposits due to banks	78,423,135	79,597,495	82,161,390	81,984,544
Deposits due to customers	255,444,374	257,312,962	227,817,268	228,379,158

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.

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.

36. COMMITMENTS AND CONTINGENT LIABILITIES

(a) **Operating Lease Commitments**

The Group, as permitted by the standard, does not apply the provisions of IFRS 16 to following leases: leases of low value assets and short-term leases (leases with a shorter duration of 12 months).
In applying IFRS 16, the Group does not consider the following categories in determining the subject of a lease:

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

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

In RSD thousand

	31 December 2023	**31 December 2022**
up to 1 year	112	509
from 1 to 5 years	13,211	9,716
more than 5 years	20,020	26,915
	33,343	**36,540**

36. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(b) Litigation

As of 31 December 2023, the Bank had 8.863 initiated litigations in the total amount of RSD 471.100 thousand in which it had the status of the sued party (31 December 2022: RSD 1.563.743 thousand). The default interest based on disputes against the Bank amounts to RSD 186.749 thousand (31 December 2022: RSD 223.211 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 908,324 thousand as of 31 December 2023 (RSD 1.099.190 thousand as of 31 December 2022), 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 favourable to clients, 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 468,971 thousand.

After the date of the reporting period, the Bank received a total of 16 lawsuits regarding disputes regarding management fees. The Bank's management estimates that there will be no materially significant losses based on the outcome of ongoing court cases above the amount for which the provision was made.

As of 31 December 2023, S Leasing had 16 initiated court disputes in the total amount of RSD 248,585 thousand (the value of the subject of the dispute, i.e. the principal amount without statutory default interest) (31 December 2022: 21 initiated disputes, RSD 249,802 thousand dinars) in which he had the status of a defendant. Default interest on the basis of disputes against S Leasing amounts to RSD 229,106 thousand (31 December 2022: RSD 193,516 thousand dinars).

Based on the assessment of S Leasing's legal representatives in the aforementioned disputes, on 31 December 2023, S Leasing made a provision in the amount of RSD 15,115 thousand (31 December 2022: RSD 12,086 thousand dinars) for disputes for which is expected to be borne by S Leasing on this date. The management of S Leasing estimates that there will be no materially significant losses based on the outcome of ongoing court disputes above the amount for which the provision was made.

(c) Tax 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 become time-barred in a period of 5 years in relation to the year when the tax became due. Certain tax actions interrupt the calculation of the limitation period and after them the limitation period starts again. The absolute statute of limitations is 10 years and after that period the tax authorities lose the right to determine the tax liability (the statute of limitations does not apply to obligations based on mandatory social security contributions).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.

37. 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 of 31 October 2023 in total amount of RSD 297.277.303 thousand. Confirmed receivables amounted to RSD 253.232.145 thousand.

The amount of disputed receivables amounted to RSD 108,345 thousand and the Bank is in contact with clients in order to resolve conflicts.

The Bank is still in process of reconciliation of Open Balance Statements for which response was not received. We sent another mail for 200 clients with the note "if any response within 10 days was not received, the amount shall be considered as reconciled". For all clients for whom the sending was repeated, but who failed to provide the response within the defined period, it is input that they agree with OBS.

In accordance with Article 18 of the Law on Accounting, S Leasing has reconciled obligations and claims with its debtors and creditors, and there is reliable documentation about this.
S Leasing has provided clients with statements of open items (IOS) with the balance as of 31 December 2023, and there are no materially significant non-compliant items.
S leasing is still working on the reconciliation of the IOS for which the clients have not yet submitted an answer.

38. ADDITIONAL INFORMATION ON CASH FLOWS

In RSD thousand

	31 December 2023	31 December 2022
Cash	4,125,952	6,590,155
Gyro account	26,206,162	19,122,942
Foreign currency accounts with foreign banks	3,411,848	690,401
Balance at 31 December	**33,743,962**	**26,403,498**

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).

39. 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 2023.

40. 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 of 31 December 2022 and 31 December 2021 for certain foreign currencies are:

In RSD

	31 December 2023	31 December 2022
EUR	117.1737	117.3224
USD	105.8671	110.1515
CHF	125.5343	119.2543

Novi Sad, 21 March 2024

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

Tajana Orozović Data Management Department Head	Suzan Tanriyar Executive Committee Member	Jasna Terzić Executive Committee President

ERSTE BANK a.d. NOVI SAD

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 Group's equity is provided in the following attachments, namely:

- form PI-KAP (APPENDIX 1) - detailed structure of the Group 's regulatory capital as of 31 December 2023;
- form PI-FIKAP (APPENDIX 2) - basic characteristics of elements of regulatory capital;
- form PI-UPK (APPENDIX 3) - Balance sheet of the Group 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 2023.

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	500,128	note 10. pg. 2. It. 3.
4	Revaluation reserves and other unrealized gains	(56,488)	Note 7. pg. 1. Stipulate 4)
5	Reserves from profits and other reserves of the bank, except those for general banking risks	21,721,689	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)	43,490,483	

No.	Item	Amount	Link with OAK*	Reference to Appendix 3
	Common stock: regulatory adjustments and deductions			
9	Additional Value Adjustments (-)	(11,894)	note12. prg. 5.	PVA (eng. Prudent Valuation) is not integral part of balance
10	Intangible assets, including goodwill (less deferred tax liabilities) (-)	(4,176,589)	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 (-)	(6,905)	**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	**(2,779)**	**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 (-)	**(1,611)**	**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	(2,105)	
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)	**(4,201,883)**	
33	Share capital (difference between 8 and 30)	**39,288,600**	
	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)	**39,288,600**	

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	**8,572,536**	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)	**8,572,536**	
	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)	**8,572,536**	
55	Total capital (sum of 42 and 52)	**47,861,136**	
56	Total risk assets	**235,115,568**	note 3. prg. 2.
	Capital adequacy indicators and capital protective layers		
57	Indicator of the adequacy of share capital of the bank (%)	**16.71**	note 3. prg. 1. stipulate 1)
58	Indicator of adequacy of capital of the bank (%)	**16.71**	note 3. prg. 1. stipulate 2)
59	Bank's capital adequacy ratio (%)	**20.36**	note 3. prg. 1. stipulate 3)
60	Total requirements for protective layers of capital (%)***	**9.01**	note 433.
61	Basic share capital available to cover protective layers (%)****	**8.71**	

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.	Instrument characteristics	Bank share capital	Subordinated loan approved by Erste Group Bank AG, Am Belvedere 1, 11000 Vienna, Austria	Subordinated loan approved by Erste Group Bank AG, Am Belvedere 1, 11000 Vienna, Austria	Subordinated loan approved by Erste Group Bank AG, Am Belvedere 1, 11000 Vienna, Austria
1	Issuer	Erste Bank ad Novi Sad	Erste Group Bank AG, Am Belvedere 1, 11000 Vienna, Austria	Erste Group Bank AG, Am Belvedere 1, 11000 Vienna, Austria	Erste Group Bank AG, Am Belvedere 1, 11000 Vienna, Austria
1.1	Unique code (e.g. CUSIP, ISIN, or Bloomberg code for private placements)	ISIN: RSNOVBE23514, CFI ESVTFR	-	-	-
	Treatment in accordance with the regulations	-	-	-	-
2	Treatment in accordance with the Decision on Capital Adequacy of Banks	Tier 1 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
3	Standalone/(sub-)consolidated/standalone and (sub-)consolidated level of including instrument in capital at the group level	Standalone and group	Standalone and group	Standalone and group	Standalone and group
4.	Instrument type	Ordinary shares	Subordinated debt issued in the form of financial instrument	Subordinated debt issued in the form of financial instrument	Subordinated debt issued in the form of financial instrument
5.	Amount recognised for the purposes of calculating regulatory capital (in RSD thousand, as at the date of last reporting)	For the purposes of the regulatory capital calculation, RSD 15,772,500 thousand is recognised (nominal amount of paid out shares plus issue premium in the amount of RSD 5,552,654 thousand)	Tier 2 capital includes the amount of RSD 3,299,719 thousand meeting the conditions for inclusion, in accordance with the Decision on Capital Adequacy.	Tier 2 capital includes the amount of RSD 3,515,211 thousand meeting the conditions for inclusion, in accordance with the Decision on Capital Adequacy.	Tier 2 capital includes the amount of RSD 1,757,606 thousand meeting the conditions for inclusion, in accordance with the Decision on Capital Adequacy.
6.	Nominal instrument value	RSD 14,107,500 thousand	EUR 30,000,000	EUR 30,000,000	EUR 15,000,000
6.1.	Issue price	RSD 21,000.00 (for the last issue)	-	-	-
6.2.	Redemption price	-	-	-	-
7.	Accounting classification	Share capital	Liability – amortised value	Liability – amortised value	Liability – amortised value
8.	Instrument issuance date	Issue I: RSD 5,382,070 thousand on 16 June 2006 Issue II: RSD 1,735,310 thousand on 03 January 2007 Issue III: RSD 2,922,620 thousand on 27 December 2007 Issue IV: RSD 2,869,000 thousand on 12 July 2019 Issue V: RSD 1,198,500 thousand on 11 February 2021 Issue VI: RSD 1,665,000 thousand on 30 November 2022	10 September 2018	12 May 2022	15 November 2023
9.	Instruments with maturity date or instruments without maturity date	Without maturity date	With maturity date	With maturity date	With maturity date
9.1.	*Initial maturity date*	Without maturity date	10 September 2028	12 May 2032	14 November 2033
10.	Option of redemption by issuer based on prior consent by the relevant authority	No	No	No	No
10.1.	First date of activating redemption option, conditional dates of activating redemption option and redemption value	-	-	-	-
10.2.	Subsequent dates of activating redemption option (as applicable)	-	-	-	-
11.	Fixed or variable dividends/coupons	Variable	Variable	Variable	Variable

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

12.	Coupon rate and related indices	-	Interest on subordinated loan	Interest on subordinated loan	Interest on subordinated loan
13.	Existence of mechanism of obligatory dividend termination	-	-	-	-
14.1.	Complete discretion, partial discretion, or no discretion regarding the timing of dividend/coupon payment	Full discretion	No discretion	No discretion	No discretion
14.2.	Complete discretion, partial discretion, or no discretion regarding dividend/coupon amount	Full discretion	No discretion	No discretion	No discretion
15.	Possibility of step up or other redemption incentives	No	No	No	No
16.	Non-cumulative or cumulative dividends/coupons	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
17.	Convertible or non-convertible instrument	Non-convertible	Non-convertible	Non-convertible	Non-convertible
18.	If convertible, conditions at which conversion can occur	-	-	-	-
19.	If convertible, partially or as a whole	-	-	-	-
20.	If convertible, conversion rate	-	-	-	-
21.	If convertible, obligatory or voluntary conversion	-	-	-	-
22.	If convertible, instrument it is converted to	-	-	-	-
23.	If convertible, issuer of an instrument it is converted to	-	-	-	-
24.	Possibility of write-down	No	No	No	No
25.	If there is a possibility of write-down, conditions at which write-down can occur	-	-	-	-
26.	If there is a possibility of write-down, partially or as a whole	-	-	-	-
27.	If there is a possibility of write-down, permanent or temporary	-	-	-	-
28.	If write-down is temporary, conditions of re-recognition	-	-	-	-
29.	Instrument type which will, in the event of bankruptcy or winding up, be directly collected prior to the respective instrument	Subordinated debt issued in the form of financial instrument	Other	Other	Other
29.	Instrument type which will, in the event of bankruptcy or winding up, be directly collected prior to the respective instrument	Minority interests	Other	Other	Other
30.	Non-aligned characteristics of converted instruments	No	No	No	No
31.	List non-aligned characteristics, ig any	-	-	-	-

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	60,299,066	60,299,066
A.II	Pledged financial assets	-	-
A.III	Receivables from derivatives	672,404	672,404
A.IV	Securities	58,729,325	58,729,325
A.V	Loans and receivables from banks and other financial organizations	19,838,576	19,838,576
A.VI	Loans and receivables from customers	247,906,654	247,906,654
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	118	118
A.X	Investments in subsidiaries	-	-
A.XI	Intangible assets	4,177,396	4,177,396
A.XII	Fixed assets	4,906,630	4,906,630
A.XIII	Investment property	50,142	50,142
A.XIV	Current tax assets	112,946	112,946
A.XV	Deferred tax assets	291,499	291,499
A.XVI	Fixed assets intended for sale and discontinued operations	12,252	12,252
A.XVII	Other assets	1,791,485	1,791,485
A.XX	**TOTAL ASSETS (positions under EDP codes from 0001 to 0019 in the balance sheet)**	398,788,493	398,788,493
P	LIABILITIES AND EQUITY		
PO	LIABILITIES		
PO.I	Liabilities from derivatives	527,626	527,626
PO.II	Deposits and other financial obligations to banks, other financial organizations and the central bank	78,423,135	78,423,135
PO.III	Deposits and other financial obligations to other clients	255,444,374	255,444,374
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	8,859,124	8,859,124
PO.VIII	Provision	1,564,513	1,564,513
PO.IX	Liabilities from assets intended for sale and business assets that are being discontinued	-	-
PO.X	Current tax liabilities	394,675	394,675
PO.XI	Deferred tax liabilities	32,037	32,037
PO.XII	Other liabilities	4,643,245	4,643,245
PO.XIV	**TOTAL LIABILITIES (positions under EDP codes from 0401 to 0413 in the balance sheet)**	**349,888,729**	**349,888,729**

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	6,013,506	6,013,506
PO.XVIII	Loss	-	-
PO.XIX	Reserves	21,374,146	21,374,146
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	186,959	186,959
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	48,899,764	48,899,764
PO.XXIV	TOTAL LIABILITIES NAD EQUITY (the result of adding or subtracting the following AOP codes from the balance sheet: 0414+0422-0423)	**398,788,493**	**398,788,493**
	OFF-BALANCE SHEET ITEMS		
	ASSETS	580,223,360	580,223,360
	LIABILITIES	580,223,360	580,223,360

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	60,299,066	
A.II	Pledged financial assets	-	
A.III	Receivables from derivatives	672,404	
A.IV	Securities	58,729,325	
A.V	Loans and receivables from banks and other financial organizations	19,838,576	
A.VI	Loans and receivables from customers	247,906,654	
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	118	
A.X	Investments in subsidiaries	-	
A.XI	Intangible assets	4,177,396	d
A.XII	Fixed assets	4,906,630	
A.XIII	Investment property	50,142	
A.XIV	Current tax assets	112,946	
A.XV	Deferred tax assets	291,499	
A.XVI	Fixed assets intended for sale and discontinued operations	12,252	
A.XVII	Other assets	1,791,485	
A.XX	**TOTAL ASSETS (positions under EDP codes from 0001 to 0019 in the balance sheet)**	**398,788,493**	
P	LIABILITIES AND EQUITY		
PO	LIABILITIES		
PO.I	Liabilities from derivatives	527,626	
PO.II	Deposits and other financial obligations to banks, other financial organizations and the central bank	78,423,135	
PO.III	Deposits and other financial obligations to other clients	255,444,374	
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	8,859,124	
	Of which subordinated liabilities are included in the supplementary capital of the bank	8,572,536	đ
PO.VIII	Provision	1,564,513	
PO.IX	Liabilities from assets intended for sale and business assets that are being discontinued	-	
PO.X	Current tax liabilities	394,675	
PO.XI	Deferred tax liabilities	32,037	
PO.XII	Other liabilities	4,643,245	
PO.XIV	**TOTAL LIABILITIES (positions under EDP codes from 0401 to 0413 in the balance sheet)**	**349,888,729**	

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	6,013,506	
PO.XVIII	Loss	-	
PO.XIX	Reserves	21,374,146	
	Of which other reserves	21,721,689	g
	Of which revaluation reserves and other unrealized gains	152,978	v
	Of which unrealized losses	(209,466)	v
PO.XX	Unrealized losses		
	Non-controlling rights	186,959	
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	48,899,764	
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)	**398,788,493**	
В.П.	**OFF-BALANCE SHEET ITEMS**		
В.П.А.	ASSETS	580,223,360	
В.П.П.	LIABILITIES	580,223,360	

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**	47,861,136
1.	**TOTAL BASED SHARE CAPITAL**	39,288,600
2.	**TOTAL ADDITIONAL SHARE CAPITAL**	-
3.	**TOTAL SUPPLEMENTARY CAPITAL**	8,572,536
II	**CAPITAL REQUIREMENTS**	41,329,817
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**	16,850,935
1.1.	Standardized Access (SP)	*210,636,687*
1.1.1.	Exposures to countries and central banks	*0*
1.1.2.	Exposures to territorial autonomies and local self-government units	*409,816*
1.1.3.	Exposures to public administrative bodies	*17,824*
1.1.4.	Exposures to international development banks	-
1.1.5.	Exposure to international organizations	-
1.1.6.	Exposures to banks	*541,894*
1.1.7.	Exposures to companies	*115,193,418*
1.1.8.	Exposures to natural persons	*59,840,144*
1.1.9.	Exposures secured by real estate mortgages	*25,306,774*
1.1.10.	Exposures in default status	*2,582,638*
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	*180,289*
1.1.17.	Other exposures	*6,563,890*
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**	**751,128**
3.1.	Capital requirements for price, currency and commodity risk calculated using standardized approaches	**751,128**
3.1.1.	Capital requirement for price risk based on debt securities	**751,128**
	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	-*
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**	**23,286,912**
4.1.	Capital requirement for operational risk calculated using the basic indicator approach	
4.2.	Capital requirement for operational risk calculated using the standardized/alternative standardized approach	**23,286,912**
4.3.	Capital requirement for operational risk calculated using advanced approach	-
5	**CAPITAL REQUIREMENT FOR CREDIT EXPOSURE ADJUSTMENT RISK**	**440,842**
III	**STATE SHARE CAPITAL ADEQUACY INDICATOR (%)**	**16.71**
IV	**CAPITAL ADEQUACY INDICATOR (%)**	**16.71**
V	**CAPITAL ADEQUACY INDICATOR (%)**	**20.36**

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

CONSOLIDATED ANNUAL BUSINESS REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

CONSOLIDATED ANNUAL BUSINESS REPORT

1. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE GROUP

- **Introduction**

The consolidated annual business report includes information on Erste Bank a.d. Novi Sad (the "Bank") and its subsidiary S-Leasing doo Beograd. The consolidated annual business report of the Bank and the subsidiary (collectively: "the Group") has been prepared in accordance with Article 29 of the Law on Accounting (Official Gazette of RS, no. 73/2019 and 44/2021-other law).

The report is based on the audited financial information. A more detailed presentation of the business operation of the Group on the consolidated level is provided in the Notes to consolidated financial statements as of December 31, 2023.

- **About the Bank**

Erste Bank a.d. Novi Sad (the ''Bank'') is the oldest financial institution in the country. It was founded in 1864 as the first savings bank (Novosadska stedionica). At the beginning of August 2005, subsequent to the successful finalization of privatization process, Novosadska banka a.d. Novi Sad became a member of Erste Bank Group.

The Erste Group today have about 45.500 employees, serving around 16 million clients in seven countries (Austria, Serbia, Czech Republic, Slovakia, Hungary, Romania, Croatia).

The Erste Group began to build its tradition since 4th October 1819 when the „First Austrian Savings Bank" was founded as first saving bank in Central and Eastern Europe, antecedent of the Erste Group. Group is recognized as an institution that strives to, in addition to offering traditional services and products, constantly develop in accordance with the requirements of the modern market. The Erste Groupe offers its clients security and trust, as well as products and services of the highest quality.

In addition to retail banking, the Erste Groupe provides financing services as well as advisory services to legal entities in investing and accessing to international capital markets, public sector financing and interbank market operations.

The Erste Bank's focus is on retail, local communities and small and medium size enterprises. It insists on speed and quality of service, and thus contributes to stable and healthy growth. It continued to expand its customer base and increase market share in key segments. It pushes the boundaries in the areas of electronic banking and credit cards operations in the financial market of Serbia and tries to respond to all customer requests.

A responsible approach to financing is essentially embedded into Erste Bank's operations and strategic commitment to contribute to a sustainable future for customers, employees and the community. Recognizing climate change as one of the biggest global challenges of today's society, Erste Bank is committed to financing various projects of energy efficiency and renewable energy sources.

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

The Bank's headquarter is in Novi Sad, at number 5 Bulevar Oslobođenja Street. The Bank operates through 3 headquarters, 65 filials, 22 sub-filials and 2 counters.

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

As of December 31, 2023 the Bank had 1,367 employees (December 31, 2022: 1,296 employees).

As of December 31, 2023 members of the Bank's **Management Board** were:

1. Ingo Bleier, Chairman, Erste Group Bank AG, Vienna
2. Georg Bucher, Member, Vice President, Steiermärkische Bank und Sparkassen AG, Graz
3. David O'Mahony, member, Erste Group Bank AG, Vienna
4. Hannes Frotzbacher, member of Erste Group Bank AG, Vienna
5. Tijana Vještica, independent member, Belgrade,
6. Aleksandar Vlahović, member, independent member, Belgrade

As of December 31, 2023 members of the Bank's **Executive Board** were:

1. Jasna Terzić, Chairwoman of the Executive Board
2. Suzan Tanriyar, Member of the Executive Board
3. Nikola Stamenković, Member of the Executive Board
4. Andras Kaliszky, Member of the Executive Board

As of December 31, 2023 members of the Bank's Audit Committee were:

1. David Bichler, Chairman, Erste Group Bank AG, Vienna
2. Georg Bucher, member, Steiermärkische Bank und Sparkassen AG, Graz
3. Aleksandar Vlahović, independent member, Belgrade

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

S - Leasing doo Beograd (the ''Company'') was established in June 2003 as a limited liability company. The Company was registered with the Commercial Court of Belgrade on June 18, 2003 and registered with the Serbian Business Registers Agency under Decision number BD 33349/2005 dated June 7, 2005.

After the entry into force of the Law on Financial Leasing, the Company received a license to perform financial leasing operations pursuant to Decision of the National Bank of Serbia no. 622 of January 25, 2006. In accordance with the Decision on the management of lessor risks arising from the introduction of new products/services ("Official Gazette of the RS", No. 149/2020), the company is engaged in the provision of operational leasing services as of July 1, 2022. years.

As of December 31, 2013 the company's share capital comprised investments of the founders Steiermärkische Bank und Sparkassen AG, Graz, Austria (50,0%) and Immorent International Holding GmbH, Vienna, Austria (50,0%).

In 2014 the equity ownership structure of S-Leasing changed, so Erste Bank a.d., Novi Sad, Serbia became the majority owner of the company with a 75,0% equity interest, while Steiermärkische Bank und Sparkassen AG, Graz, Austria decreased its equity share in the Company to 25,0%.

The Company's principal business activity involves services of finance lease over movable assets to individuals and legal entities in the territory of the Republic of Serbia.

The Company's headquarter is in Beograd, at number 3a Milutina Milankovica Street.

As of December 31, 2023 the Company had 51 employees (December 31, 2022: 51 employees).

The Company's corporate ID number is 17488104, and its tax ID number (fiscal code) is 102941384.

Members of the Company's **Management Board** are:

1. Nikola Stamenković, Chairman, Erste Bank joint-stock company, Novi Sad
2. Daniel Kozel-Reumueller, Member, Steiermärkische Bank und Sparkassen AG, Graz
3. Goran Pecikoza, independent member of the Management Board

Members of the Company's **Executive Board** are:
1. Bojan Vračević, Chairman and
2. Vuk Vučević, member

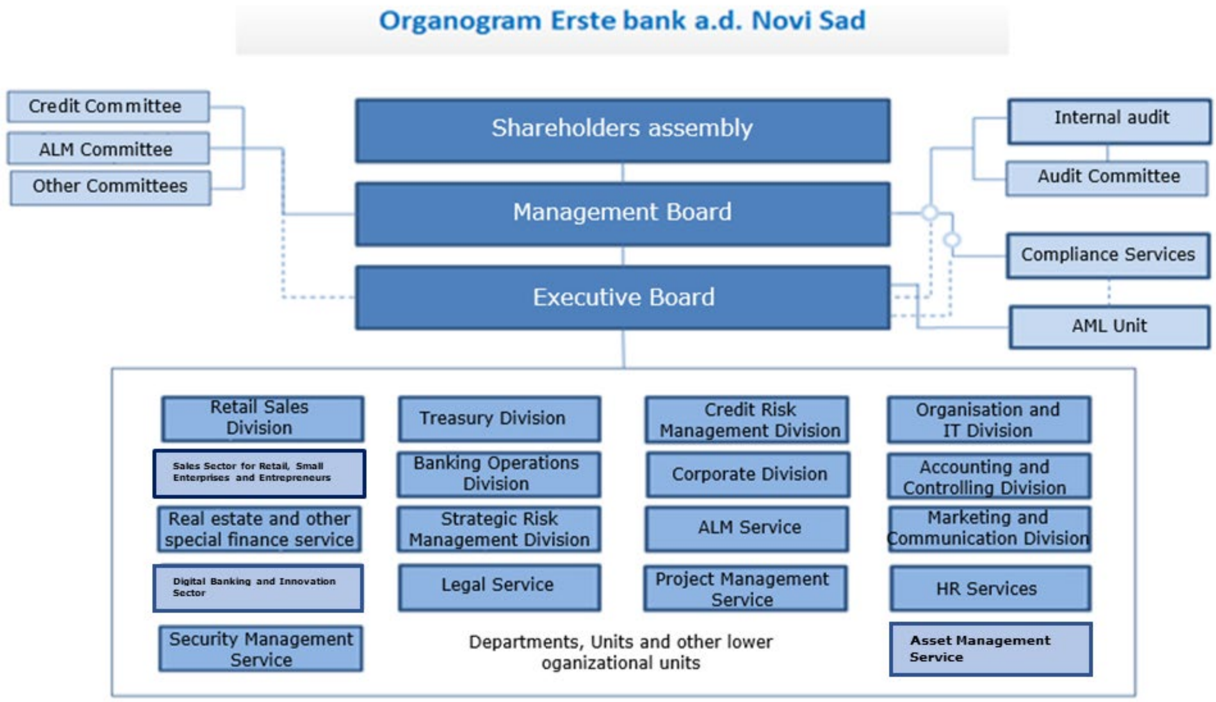
Note: From 01 February 2024, Vuk Vučević (former EXECOM Member) is a President of the Company Executive Committee, and Rastislav Drljić is a new EXECOM Member.

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

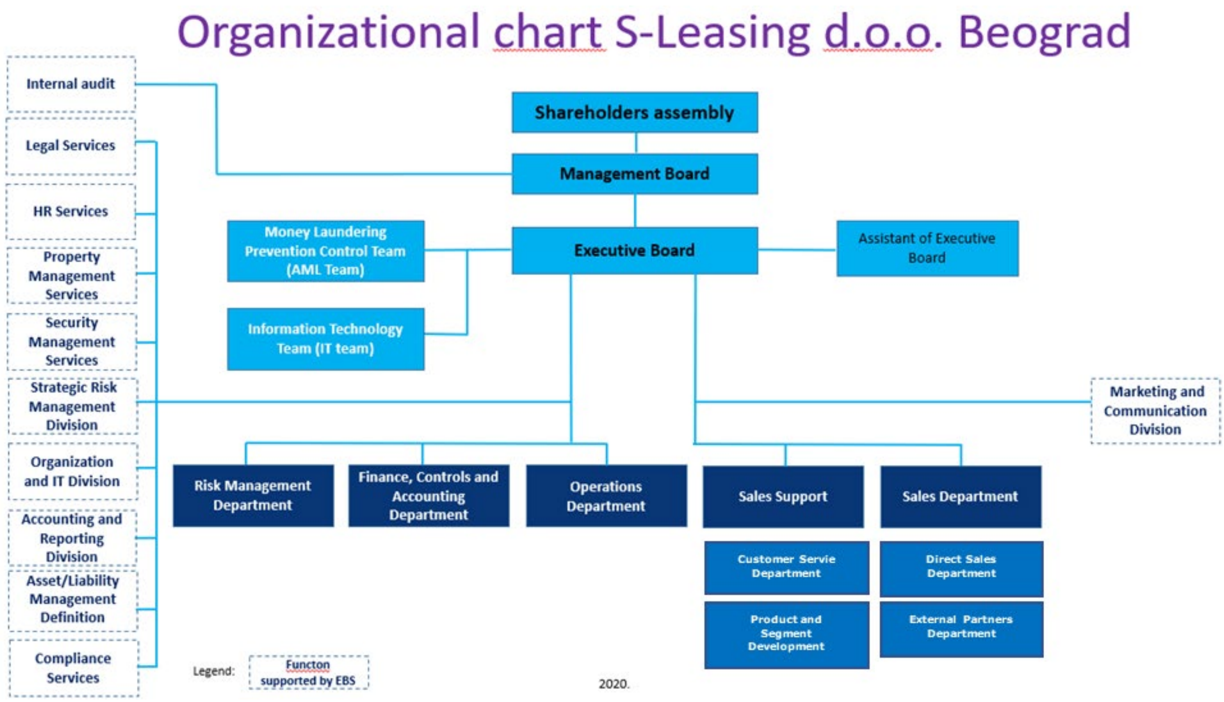
Figures in the accompanying report are stated in thousands of dinars, unless otherwise specified.

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

Organizational chart of the Bank is provided below:



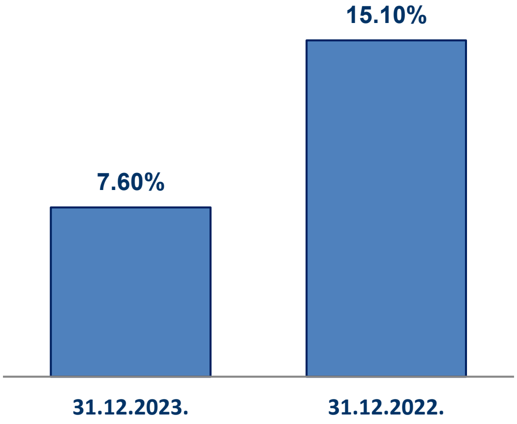
Organizational chart of the S-Leasing is provided below:



2. AUTHENTIC PRESENTATION OF THE GROUP'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL POSITION OF THE GROUP AND DATA RELEVANT FOR THE ASSESSMENT OF THE GROUP'S ASSETS

Macroeconomic conditions during 2023

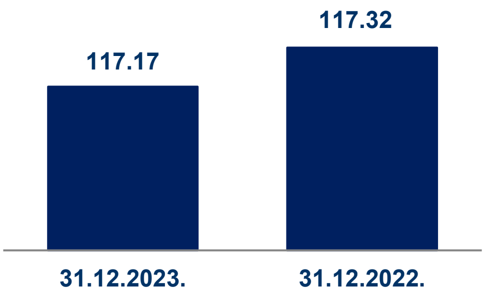
Inflation movement



Year-on-year inflation continued to slow down and amounted to 7.6% in December, which is almost twice as low as at the end of 2022.

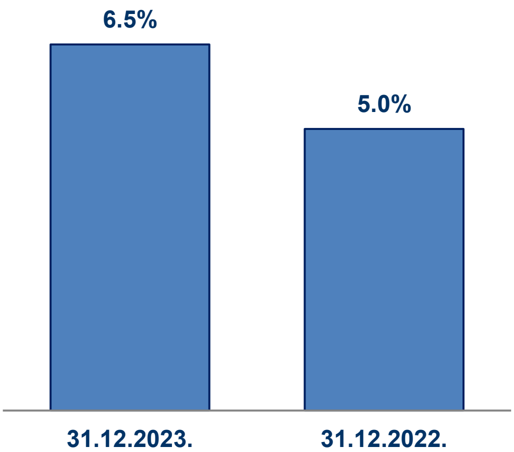
The continuation of the decrease in interannual inflation is expected in the coming period as well - inflation will continue to slow down and should return to the target limits in the middle of the year, and then approach the central value of the target of 3% at the end of 2024.

Kretanje kursa dinara



In 2023, the dinar appreciated against the euro, so and thus dinar decreased from 117.32 at the beginning of the year to 117.17 at the end of 2023.

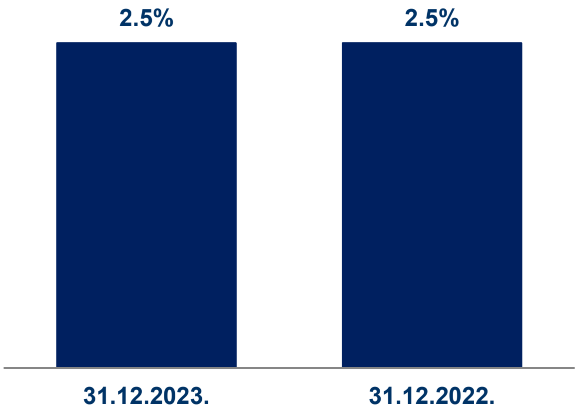
Key Policy Rate



During 2023, the NBS key policy rate was significantly increased from 5% to 6.5%.

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

GDP movement



According to the Republic Institute of Statistics, it was estimated that the total economic activity in the Republic of Serbia in 2023, measured by the real movement of gross domestic product (GDP), was the same as in 2022 and amounts to 2.5%.

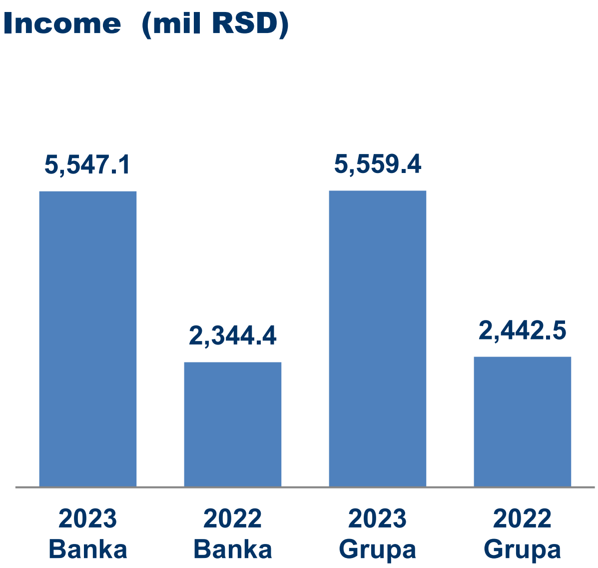
2. AUTHENTIC PRESENTATION OF THE GROUP'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL POSITION OF THE GROUP AND DATA RELEVANT FOR THE ASSESSMENT OF THE GROUP'S ASSETS (continued)

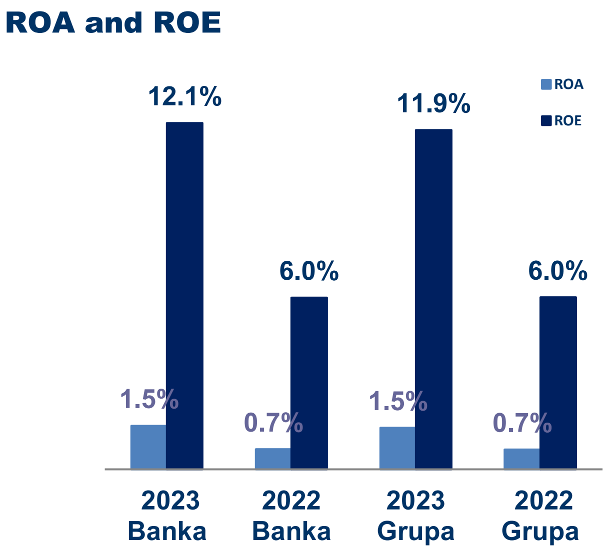
The Bank's operation indicators – comparative data 31 December 2023 and 2022
Income Statement
Income Statement structure for the year ended as of 31 December 2023 and 31 December 2022, including the growth percentages in relation to the previous year, is as:

in RSD thousands

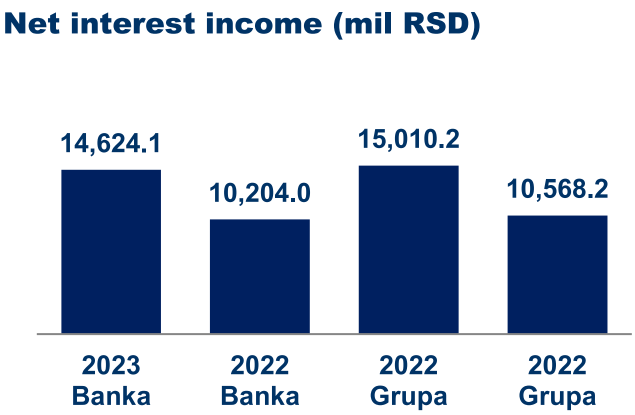
	Consolidated			Bank		
	01.01-31.12.2023	01.01-31.12.2022	% growth /(fall)	01.01-31.12.2023	01.01-31.12.2022	% growth /(fall)
INCOME AND EXPENSES FROM REGULAR BUSINESS OPERATIONS						
Interest income	22,783,964	13,965,775	63.14	21,947,005	13,449,523	63.18
Interest expenses	(7,773,764)	(3,397,531)	128.81	(7,322,903)	(3,245,537)	125.63
Interest Income	**15,010,200**	**10,568,244**	**42.03**	**14,624,102**	**10,203,986**	**43.32**
Fee and commission income	5,713,557	5,077,095	12.54	5,406,192	4,994,549	8.24
Fee and commission expenses	(1,833,184)	(1,677,811)	9.26	(1,769,931)	(1,644,525)	7.63
Gain from fee and commission	**3,880,373**	**3,399,284**	**14.15**	**3,636,261**	**3,350,024**	**8.54**
Net gain from change in fair value of financial instruments	127,809	21,578	492.31	127,809	21,578	492.31
Net loss from change in fair value of financial instruments	-	-	0.00	-	-	0.00
Net gain on derecognition of financial instruments at fair value	19,086	10,945	74.38	19,086	10,945	74.38
Net gain from hedging	169	826	-79.51	169	826	-79.51
Net income from FX and effects of the contracted FX clause	-	-	0.00	-	-	0.00
Net income from FX and effects of the contracted FX clause	0	67,277	0.00	-	66,954	0.00
Net expense from FX and effects of the contracted FX clause	(56,675)	0	0.00	(56,821)	0	0.00
Net expense from impairment of financial assets not valued at fair value through profit or loss	(2,515,579)	(2,528,852)	-0.52	(2,377,136)	(2,473,449)	-3.89
Net gain on derecognition of financial instruments valued at amortized cost	-	-	0.00	-	-	0.00
Net loss on derecognition of financial instruments valued at amortized cost	(46,833)	(63,474)	-26.22	(46,833)	(63,474)	-26.22
Other operating income	197,621	178,299	10.84	73,460	75,093	-2.17
TOTAL NET OPERATIONAL INCOME	**16,616,171**	**11,654,127**	**42.58**	**16,000,097**	**11,192,483**	**42.95**
Salary expenses, salary compensation and other personal expenses	(3,676,324)	(3,043,468)	20.79	(3,496,988)	(2,874,407)	21.66
Depreciation costs	(1,125,635)	(697,108)	61.47	(972,382)	(663,358)	46.58
Other income	760,391	454,552	67.28	754,367	454,456	65.99
Other expenses	(6,541,250)	(5,839,570)	12.02	(6,325,508)	(5,724,078)	10.51
INCOME BEFORE TAX	**6,033,353**	**2,528,533**	**138.61**	**5,959,586**	**2,385,096**	**149.87**
Income tax	(472,309)	(71,139)	563.92	(394,675)	(26,338)	1398.50
Deferred tax gain/loss	(1,652)	(14,888)	(88.90)	(17,837)	(14,386)	23.99
INCOME	**5,559,392**	**2,442,506**	**127.61**	**5,547,074**	**2,344,372**	**136.61**

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





In the period from January 1 to December 31, 2023, the bank incurred a net profit of RSD 5,547,074 thousand (2022: RSD 2,344,372 thousand), which represents an increase of 136.61% compared to the previous year. In the period from January 1 to December 31, 2023, the Group achieved a net income of RSD 5,559,392 thousand (2022: RSD 2,442,506thousand), which represents an increase of 127.61% compared to the previous year.

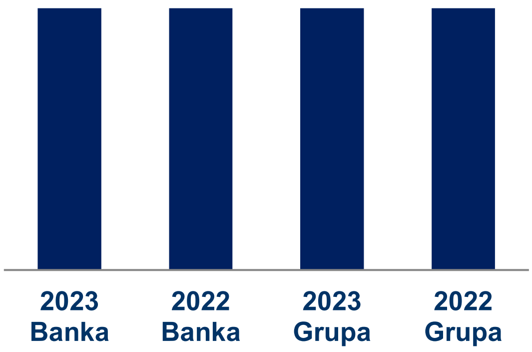


Interest income in 2023, at the level of the Group, amounts to RSD 22,783,964 thousand (2022: RSD 13,965,775 thousand), and compared to the previous year, they recorded an increase of 63.14%. The Bank's interest income in 2023 amounts to RSD 21.947.005 thousand (2022: RSD 13,449,523 thousand), and compared to the previous year, it recorded an increase of 63.18%.

Interest expenses in 2023, at the Group level, amount to RSD 7.773.764 thousand (2022: RSD 3,397,531 thousand), and compared to the previous year, they recorded an increase of 128.81%. The Bank's interest expenses in 2022 amount to RSD 7.322.903 thousand (2022: RSD 3,245,537, an increase of 125.63%).

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

Net fee and comission income (RSD mil.)



Income from fees and commissions in 2023, at the Group level, amount to RSD 5.713.557,00 thousand (2022: RSD 5,077,095 thousand), and in comparison to the previous year, they recorded an increase of 12.54%. Income from fees and commissions of the Bank in 2023 amounts to RSD 5.406.192 thousand (2022: RSD 4,994,549 thousand), and compared to the previous year, they recorded an increase of 8.24%.

Expenses from fees and commissions in 2023, at the level of the Group, amount to RSD 1,677,811 thousand (2022: RSD 1,677,811 thousand), and compared to the previous year, they recorded an increase of 9.26%. Expenses from fees and commissions of the Bank in 2023 amount to RSD thousand (2022: RSD 1,644,525 thousand), and compared to the previous year, they recorded an increase of 7.63%.

Net gain from change in fair value of financial instruments at the Group level amounts to RSD 127,809 thousand, of which the entire amount relates to the Bank.

Net gain on derecognition of financial instruments valued at fair value in 2023, at the Group level, it amounts to RSD 19,086 thousand, and the entire amount refers to the Bank.

The negative net effect of exchange rate differences in 2023, at the level of the Group, amounts to RSD 56.675 thousand, of which RSD 56.821 thousand is attributable to the Bank, and RSD 146 thousand to S Leasing.

Net expense from impairment of financial assets not valued at fair value through profit or loss in 2023, at the Group level, amounts to RSD 2,515,579 thousand, of which RSD 2,377,136 thousand is attributable to the Bank, and RSD 138.443 thousand to S Leasing.

Other operating income in 2023, at the Group level, amounts to RSD 197,621 thousand, of which RSD 73,460 thousand is attributable to the Bank, and RSD 124.161 thousand to S Leasing.

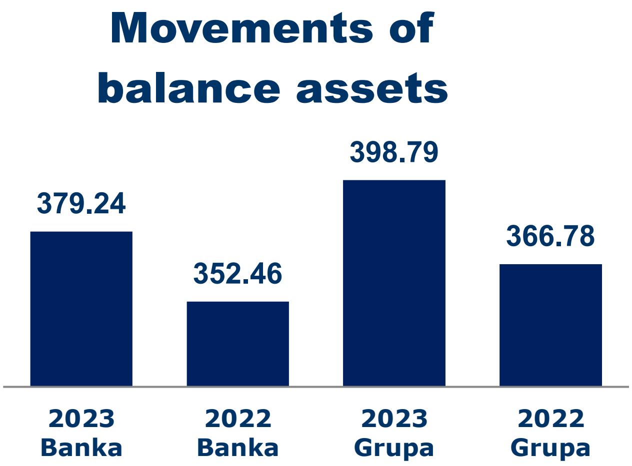
In the structure of total income and total expenses, in addition to interest and fees, other incomes have the largest share, that is, other expenses, salary expenses, net expenses based on the reduction of the impairment of financial assets that are not valued at fair value through the income statement and depreciation expenses.

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

(in thousand RSD)

Balance sheet	**Consolidated**					**Bank**				
	31.12.2023	**in %**	**31.12.2022**	**in %**	**% growth (fall)**	**31.12.2023**	**in %**	**31.12.2022**	**in %**	**% growth (fall)**
ASSETS										
Cash and funds at the central bank	60,299,066	15,12	54,676,245	14,91	10,28	60,299,087	15,90	54,676,263	15,51	10,28
Pledged financial assets	-	0,00	6,229,454	1,70	0,00	-	0,00	6,229,454	1,77	0,00
Receivables from derivatives	672,404	0,17	814,366	0,22	-17,43	672,404	0,18	814,366	0,23	-17,43
Securities	58,729.325	14,73	55,286,189	15,07	6,23	58,729,325	15,49	55,286,189	15,69	6,23
Loans and receivables from banks and other financial organizations	19,838,576	4,97	5,414,498	1,48	266,40	22,520,151	5,94	10,346,771	2,94	117,65
Loans and receivables from customers	247,906,654	62,16	235,837,684	64,30	5,12	227,402,294	59,96	217,007,877	61,57	4,79
Investments in associates and joint ventures	118	0,00	118	0,00	0,00	0,00	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	93.560	0,02	93.560	0,03	0,00
Intangible assets	4,177,396	1,05	3,221,977	0,88	29,65	4,143,494	1,09	3,192,108	0,91	29,80
Fixed assets	4,906,630	1,23	3,529,753	0,96	39,01	3,210,941	0,85	3,100,408	0,88	3,57
Investment property	50,142	0,01	52,659	0,01	0,00	50,142	0,01	52,659	0,01	0,00
Current tax assets	112,946	0,03	129,231	0,04	-12,60	112,946	0,03	129,231	0,04	-12,60
Deferred tax assets	291,499	0,07	345,086	0,09	-15,53	272,884	0,07	342,595	0,10	-20,35
Fixed assets intended for sale and discontinued operations	12,252	0,00	12,252	0,00	0,00	11,902	0,00	11,902	0,00	0,00
Other assets	1,791,485	0,45	1,233,864	0,34	45,19	1,717,766	0,45	1,177,375	0,33	45,90
TOTAL ASSETS	**398,788,493**	**100**	**366,783,376**	**100**	**8,73**	**379,236,896**	**100**	**352,460,758**	**100**	**7,60**
LIABILITIES AND EQUITY										
Liabilities from derivatives	527,626	0,13	744,020	0,20	-29,08	527.626	0,14	744,020	0,21	-29,08
Deposits and other obligations to banks and other financial organizations and the central bank	78,423,135	19,67	82,161,390	22,40	-4,55	60.166.726	15,87	68,822,072	19,53	-12,58
Deposits and other obligations to other customers	255,444,374	64,06	227,817,268	62,11	12,13	255.444.374	67,36	227,765,769	64,62	12,15
Subordinated liabilities	8,859,124	2,22	7,077,148	1,93	25,18	8,859,124	2,34	7,077,148	2,01	25,18
provision	1,564,513	0,39	1,977,734	0,54	-20,89	1,532,540	0,40	1,938,039	0,55	-20,92
Current tax liabilities	394,675	0,10	26,338	0,01	1398,50	394,675	0,10	26,338	0,01	1.398,50
Deferred tax liabilities	32,037	0,01	12,166	0,00	163,33	-	0,00	-	0,00	0,00
Other liabilities	4.643,245	1,16	3,921,236	1,07	18,41	4,066,344	1,07	3,682,908	1,04	10,41
TOTAL LIABILITIES	**349,888,729**	**87,74**	**323,737,300**	**88,26**	**8,08**	**330,991,409**	**87,28**	**310,056,294**	**87,97**	**6,75**
CAPITAL										
Share capital	21,325,154	5,35	21.325.154	5,81	0,00	21,325,154	5,62	21,325,154	6,05	0,00
Profit	6,013,505	1,51	2.801.565	0,76	114,65	5,547,074	1,46	2,344,372	0,67	136,61
Reserves	21,374,146	5,36	18.735.564	5,11	14,08	21,373,259	5,64	18,734,938	5,32	14,08
Non-controlling interests	186,959	0,05	183.793	0,05	1,72	-	-	-	-	-
TOTAL EQUITY	**48,899,764**	**12,26**	**43.046.076**	**11,74**	**13,60**	**48,245,487**	**12,72**	**42,404,464**	**12,03**	**13,77**
TOTAL LIABILITIES AND EQUITY	**398,788,493**	**100**	**366.783.376**	**100**	**8,73**	**379,236,896**	**100**	**352,460,758**	**100**	**7,60**

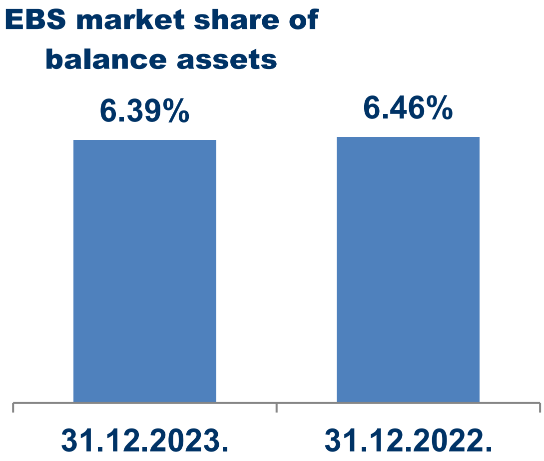
2. AUTHENTIC PRESENTATION OF THE GROUP'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL POSITION OF THE GROUP AND DATA RELEVANT FOR THE ASSESSMENT OF THE GROUP'S ASSETS (continued)



The total balance sheet amount of the Bank as of December 31, 2023 is RSD 379,236,896 thousand and records a growth in 2023 of 7.6% compared to December 31, 2022. The total balance amount on a consolidated basis as of December 31, 2023 amounts to RSD 398,788,937 thousand and records an increase in 2023 of 8.73% compared to December 31, 2022.

The National Bank of Serbia has not yet published the official balance sheets of the banks, therefore the data on the net assets of the market is not available and we expect it in March.

Based on our projection, we expect that the market share of the Bank's total assets in relation to the total assets of the banking market are slightly lower as compared to last year and at the end of 2023 it will amount to 6.4%



Cash and assets at the central bank in 2023, at the Group level, amount to 60,299,066 thousand RSD, of which RSD 60,299,087 is attributable to the Bank. Cash and assets at the central bank recorded a growth of 10,28% in 2023 compared to 2022.

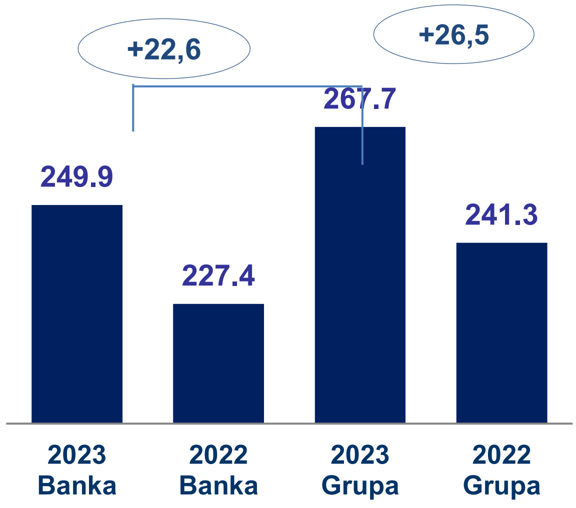
The Bank has no **Pledged financial assets** in 2023, while in 2022 they amounted to RSD 6,229,454 thousand, and the entire amount was attributable to the Bank.

Receivables based on derivatives in 2023, at the Group level, amount to RSD 672,404 thousand, and the entire amount is attributable to the Bank. Claims based on derivatives increased by 17.43% on December 31, 2023 compared to the same date in 2022.

Securities in 2023, at the level of the Group, amount to RSD 58,729,325 thousand, and the entire amount refers to the Bank. On December 31, 2023, the securities decreased by 6.23% compared to the same date in 2022.

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

Total loans granted

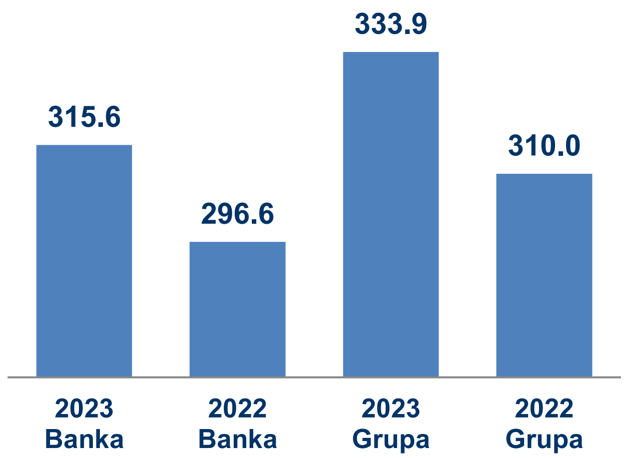


Loans and receivables from banks and other financial organizations in 2023, at the Group level, amount to RSD 19,838,576 thousand, and the most significant part of this amount refers to the Bank. Loans and receivables from banks and other financial organizations increased by 266,40% on December 31, 2023 compared to the same date in 2022.

Loans and receivables from customers on a consolidated basis as of December 31, 2023 amount to RSD 247,906,654 thousand, of which at the Bank level they amount to RSD 227,402,294 thousand, and at the level of S-Leasing they amount to RSD 20,504,360 thousand.

Loans and receivables from customers on a consolidated basis as of December 31, 2023 recorded an increase of 5.12% compared to the same date in 2022. Loans and receivables from the Bank's clients, as of December 31, 2023, increased by 4.79% compared to 2022.

Total deposits received



Deposits and other liabilities to banks and other financial organizations on a consolidated basis as of December 31, 2023 amount to RSD 78,423,135 thousand, of which at the Bank level they amount to RSD 60,166,726 thousand, while at the level of S-Leasing they amount to RSD 18,256,409 thousand.. Deposits and other liabilities to banks and other financial organizations on a consolidated basis as of December 31, 2023 recorded a decrease of 4.55% compared to the same date in 2022. Deposits and other liabilities to banks and other financial organizations of the Bank decreased by 12.58% on December 31, 2022 compared to the same date in 2022.

Deposits and other liabilities to other clients on a consolidated basis as of December 31, 2023 amount to RSD 255,444,374 thousand, and the largest part relates to the Bank. Deposits and other liabilities to other clients on a consolidated basis as of December 31, 2023 recorded a growth of 12.13% compared to the same date in 2022.

The maturity structure of the consolidated balance sheet as of December 31, 2023 is favourable. Permanent and long-term sources finance fixed assets and long-term assets.

The total capital of the Group as of December 31, 2023 amounts to RSD 48,899,765 thousand and records an increase of 13.60% compared to the same date in 2022. The total capital of the Bank amounts to RSD 48,245,487thousand as of December 31, 2023. In 2023, the Bank's total capital increased by 13.77% compared to the previous year.

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

RSD and FX Group sub-balances as of 31 December 2023 and 2022 are presented as follows:

	Consolidated					Bank				
	31.12.2023	**in %**	**31.12.2022**	**in %**	**% growth / fall**	**31.12.2023**	**in %**	**31.12.2022**	**in %**	**% growth / fall**
ASSETS										
Assets in RSD	167,815,233	42.08	148,822,158	40.57	12.76	168,767,996	44.50	148,562,512	42.15	13.60
Assets in foreign currency	230,973,260	57.92	217,961,218	59.43	5.97	210,468,900	55.50	203,898,246	57.85	3.22
Total assets	**398,788,493**	**100**	**366,783,376**	**100**	8.73	**379,236,896**	**100**	**352,460,758**	**100**	**7.60**
LIABILITIES										
Liabilities in RSD	257,992,696	64.69	150,210,343	40.95	71.75	259,655,135	68.47	149,931,098	42.54	73.18
Liabilities in foreign currency	140,795,797	35.31	216,573,033	59.05	-34.99	119,581,761	31.53	202,529,660	57.46	-40.96
Total liabilities	**398,788,493**	**100**	**366,783,376**	**100**	8.73	**379,236,896**	**100**	**352,460,758**	**100**	**7.60**

The dinar sub-balance of the Group's assets makes up 42.08% of total assets and records a growth of 12.76% in 2023, while the dinar sub-balance of the Group's liabilities makes up 64.69% of the Group's total liabilities and records a growth of 71.75% in 2023. However, the foreign currency sub-balance of the Group's assets is still more significant and makes up 57.92% of assets and records a growth of 5.97% compared to the previous year, while the FX sub-balance of the Group's liabilities is also more significant and makes up 35.31% of liabilities as of 31. December 2023, and recorded a growth of 34.99% compared to the previous year.

The dinar sub-balance of the Bank's assets makes up 40.57% of total assets and records a growth of 13.60% in 2023, while the dinar sub-balance of the Bank's liabilities makes up 40.95% of the Bank's total liabilities and records a growth of 11.64% in 2023. However, the foreign currency sub-balance of the Bank's assets is still more significant and constitutes 57.85% of assets and recorded a growth of 9.43% compared to the previous year, while the FX sub-balance of the Bank's liabilities is also more significant and constitutes 59.05% as of December 31, 2022, and recorded a growth of 10.70% compared to the previous year.

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

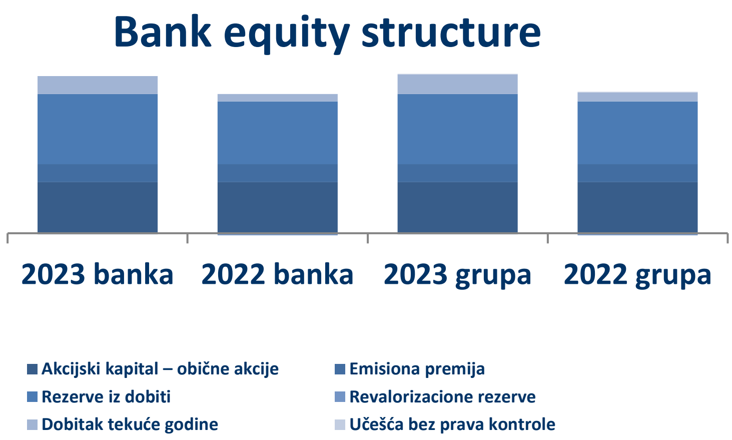
Equity

The capital of the Group as of December 31, 2023 amounts to RSD 48,899,764 thousand (December 31, 2022: RSD 43,046,076 thousand). The capital of the Bank as of December 31, 2023 amounts to RSD 48.245.487 thousand (December 31, 2022: RSD 42,404,464 thousand).

The Bank total capital structure is presented as follows:

In RSD thousands

	Consolidated		**Bank**	
	31.12.2023	**31.12.2022**	**31.12.2023**	**31.12.2022**
Share capital - ordinary shares	15,772,500	15,772,500	15,772,500	15,772,500
Share premium	5,552,654	5,552,654	5,552,654	5,552,654
Reserves from profit	21,721,689	19,377,943	21,721,689	19,377,317
Revaluation reserves	(347,543)	(642,379)	(348,430)	(642,379)
Profit for the year	6,013,505	2,801,565	5,547,074	2,344,372
Non-controlling interests	186,959	183,793	-	-
Balance as at December, 31	**48,899,764**	**43,046,076**	**48,245,487**	**42,404,464**

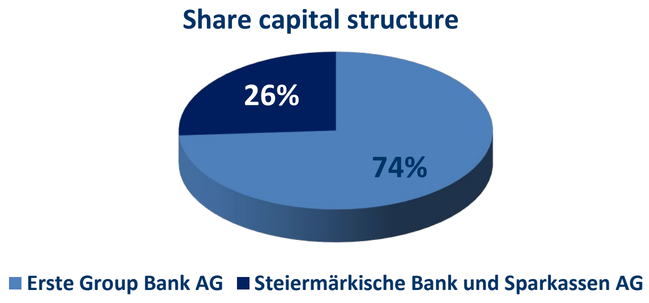


As of December 31, 2023, subscribed and paid-in capital of the Bank consists of 1,577,250 ordinary shares, each with a nominal value of RSD 10,000 (December 31, 2022: 1,410,750 ordinary shares with an individual nominal value of RSD 10,000).

The total Equity of the Bank as of December 31, 2023 is RSD 48.245.487 thousand and consists of share capital in the amount of RSD 15,772,500 thousand, issue premium in the amount of RSD 5,552,654 thousand, profit reserves and other RSD reserves 21,721,689 thousand, revaluation reserves in the amount of RSD (348,430) thousand and profit of the current period in the amount of RSD 5,547,074 thousand.

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

Equity (continued)



The majority shareholder of the Bank is Erste Group Bank AG, Vienna with a 74% share in the share capital as of December 31, 2023.

The Bank shareholder's structure as at 31 December 2023 is as follows:

Name of shareholder	**Number of shares**	**Share in %**
EGB CEPS HOLDING GMBH	1,167,165	74.00
Steiermärkische Bank und Sparkassen AG, Grac	410,085	26.00
Total	**1,577,250**	**100.00**

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

3. NON-FINANCIAL REPORTING

3.1. INTRODUCTION

Since 2009, Erste Bank has defined its first Corporate Social Responsibility Strategy, that arose after extensive research and analysis, including an analysis of the context and environment in which the Bank operates, an analysis of the impact of its operations on society and the environment, as well as gathering input from of all relevant stakeholders, through various communication channels such as surveys, F2F meetings and participation in sectoral platforms and initiatives

In addition since 2009, the Bank has transparently presented its results and outcomes by publishing the annual Report on Corporate Social Responsibility under the name "The Bank is People". Since 2011, this report has been prepared according to the Global Reporting Initiative (GRI) methodology, the most comprehensive and globally represented methodology for sustainability reporting. According to the agreement between the GRI and the United Nations Global Compact (GDUN), the Bank's report responds to all requirements of the Communication on Progress (COP) of the GDUN. In addition, the 2015 Report provides an overview of activities aimed at promoting gender equality and empowering women, in accordance with the United Nations Principles for the Empowerment of Women, to which the Bank is a signatory. Also, since 2017, the Report provides insight into how the Bank contributes to the new UN Sustainable Development Goals, by reviewing past activities and results as well taking into account its impacts in the broader context of sustainability. Erste Bank's CSR report for 2023 will be published by the end of June 2024.

The basic elements of the Corporate Social Responsibility Strategy and all reports published so far in Serbian and English are available on the Bank's website:
https://www.erstebank.rs/sr/o-nama/drustveno-odgovorno-poslovanje

During 2022, the Bank defined strategic ESG guidelines in accordance with Erste Group's ESG strategy, the Bank's previous local strategy for corporate social responsibility and sustainability, as well as local trends. Also, the Bank improved the Sustainability Report for 2022, which was issued in 2023, in accordance with ESG frameworks.

3.2. ANTI-CORRUPTION AND BRIBERY ISSUES

One of the goals of our business model is to ensure trust in our Bank. Within the Business Compliance function, among other things, we deal with issues of fraud and corruption, as well as conflicts of interest, all with the aim of maintaining and strengthening customer confidence in our Bank and preserving its good reputation. The program covers safety and security issues and meets all international regulatory requirements and compliance standards.

To ensure that:

- We define standards and regular inspections in all relevant processes of business in order to identify and to prevent potentially illegal or unethical practices and in that purpose we use appropriate technical and management systems;
- We identify, report and do not execute suspicious transactions related to money laundering and terrorism financing, abuse of sensitive information, market manipulation and insider trading;
- We know our clients, and we only do business with those we identified in accordance with regulations and only in situations when we understand the client's business;
- We identify, resolve and/or disclose any potential conflicts of interest;
- We pursue strict anti-corruption and anti-bribery policies, prevent the giving and receiving of bribes and/or payments in order to speed up business procedures;
- We define arrangements which consists of rules, tools and channels for their implementation and sanctioning, all with the goals of ensuring adequate security and safety of our employees, property and reputation;
- We provide a pleasant and safe environment for all our clients, business partners and visitors;
- We provide regular training in the field of business compliance control, including regular training in the field of preventing money laundering, terrorism financing and targeted financial sanctions for all employees in the Bank;
- We encourage all employees to disclose all issues of concern, we provide whistleblower protection program (which ensures anonymity) and we control implementation of adequate measures if a violation has occurred, while respecting and protecting individual rights.
- We signed the Declaration on the fight against corruption of the UN Global Compact in Serbia and we are devoted to its implementation in daily business.

3. NON-FINANCIAL REPORTING (continued)

3.2. ANTI-CORRUPTION AND BRIBERY ISSUES (continued)

Prevention of frauds and misuse (continued)

Adopted internal documents are:
- General business conditions
- Code of Business Conduct
- Statute of Erste Bank a. d. Novi Sad
- Procedure for preventing conflicts of interest in Erste Bank a. d. Novi Sad (for Compliance Control Service and Bank Management)
- Gift Policy
- Conflict of interest policy and prevention of bribery and corruption
- Policy for managing reputational risk
- Guidelines for measuring reputational risk
- AML program to prevent money laundering and terrorist financing
- Compliance program with competition protection regulations
- Financial crime risk management policy
- Whistleblowing Protection Policy
- Whistleblowing Protection Procedure
- Procedures for determining the responsibility of employees
- Remuneration policy

In order to avoid conflicts of interests, the general principal that all employees must adhere to, and therefore all members of the Bank’s Executive and Management Board, is to recognize conflicts of interests and to report about it to Compliance Control Service without exception and without delay, as defined by the Conflict of Interest Management Procedure and the Conflict of Interest Management Policy.

Furthermore, in accordance with internal acts, in the case of Bank's employees and its external activities, the consent for them is given by the competent member of the Executive Board, on the recommendation of the Business Compliance Control Service. In the case of a member of the Executive Board, the necessary consent is given by the Management Board.

Prevention of fraud and abuse

In Erste Bank there are several departments that are dealing exclusively with prevention of fraud and abuse, FCM – Financial Crime Management, but to prevent abuse the constant involvement and support of all colleagues is needed. One of the basic tools for managing internal fraud is to report suspected fraud - the so-called Whistleblowing, where in addition to clients and partners, report can be done by Bank employees primarily with the aim of protecting the Bank, and thus their workplace and status, as well as the protection of Bank's clients. The Bank puts emphasis on fraud prevention and identification of possible frauds before they even happen, while from already detected cases the Bank draws conclusions in order to furthermore improve processes which can prevent these events, thus reducing the number of negative effects, bad placements and finally it makes future products cheaper for clients and the Bank more competitive in the market.

The Bank has a special Conflict of Interest and Securities Risk Management Department whose competence is risk management of all types of conflict of interest which may arise in connection with banking operations, as well as private activities of employees, including securities compliance risk and reputational risk. Special policies have been established to manage these risks, which aim is to protect clients in the field of business compliance risk, prevent abuse of capital markets and relevant compliance of information arising from special authorizations.

Moreover, Erste Bank is the member of Forum for the Prevention of abuse regarding credit operations, whose main goal is the efficient protection of Bank's clients, legal entities and individuals, from fraud and abuse in the procedure for approval and using the loan, as well as protection of banks themselves. The members of Forum exchange with each other anonymized data and information which are relevant for the fraud detection and prevention, such as the type of fraud, number of attempts, possible proposals for the protection from fraud. The Bank, as well as other members of the Forum, has the obligation to keep the data and information obtained in communication with other members of the Forum as a business secret, in accordance with regulations and acts of the Bank's business policy. Erste Bank's professional team from this field made a significant contribution to the establishment of the local branch of the world-renowned association ACFE - Association of Certified Fraud Investigators of Serbia. The bank also cooperates with the relevant committees of the Association of Banks of Serbia (UBS), which aim to mitigate the risk of financial crime.

When it comes to protection against corruption, Erste Bank implements the so-called zero tolerance policy for all actions that are illegal, including corruption. The Banks bases its activities on the prevention of behaviours that may lead to corruption, and those are: risks of conflict of interest, reputational risk and protection of competition. The bank has adopted the "Policy of Conflict of Interest and Prevention of Bribery and Corruption", Guidelines for Sponsorships and Donations as part of the Corporate Social Responsibility Strategy and Rulebook on Sponsorships and Donations in Sports, documents covering this matter, and according to which it is strictly forbidden any kind of corrupt behaviour. "Corruption Prevention Policy" from the guidance level it has become a level „A1“ document, i.e. the highest act adopted by Executive and Managing Board, which indicates the importance that the Bank gives to the topic of anti-corruption.

3. NON-FINANCIAL REPORTING (continued)

3.2. ANTI-CORRUPTION AND BRIBERY ISSUES (continued)

Prevention of frauds and misuse (continued)

The Bank observes a conflict of interest that arises from regular activities and in which participants are aware of the consequences, and a conflict of interest in which participants are brought with intent. In this context, two types of conflicts of interest are distinguished: internal - which refers to the Bank's employees, and external - which refers to the Bank's clients and business partners.

Internal conflict of interest that may indicate corruption is defined as any conflict that may arise among other as the difference between private and business interests of the employee, where private interest is expressed in money, while business interest is expressed in loyalty to the employer, respect for clients, enforcement and compliance with all regulations, preserving the reputation of the employer and one's own reputation, etc. Mechanisms to reduce this type of conflict of interest are raising employees' awareness of the Bank's organizational culture and policies regarding the commission of these acts, pointing out the consequences in the event of these acts, and mandatory reporting of private business activities of all employees and their analysis in the field of conflict of interest, the possibility of reporting perpetrators or suspicions of perpetrators through the Whistleblow process, the application of the Gift Policy, controls in the field of financial crime risk management and general prevention of conflicts of interest.

By external conflict of interest, the Bank means a conflict of interest of the client (or other business partner) between private interest in savings, more favourable conditions, easier and faster way to get money in general and interest in fair business, compliance, respect for banking institutions, etc. Mechanisms that reduce this type of conflict of interest, primarily, are the analysis of reputational risk in relation to the client and raising the level of awareness of employees to avoid these types of conflicts of interest, as well as advising employees on transferring activities that may lead to conflicts of interest to other organizational units where this conflict cannot be expressed or at least controlled, training on the consequences and importance of reporting suspected perpetrators, application of the Gift Policy, control in the field of financial crime risk management and prevention of conflicts of interest, mandatory application of an independent tender evaluation model, etc.

During 2023, a risk analysis of corruption was conducted in all business units of the Bank. This analysis is conducted every two years, with the obligation to revise, if new relevant information for the assessment appears, taking into account that for 2021 it was done within the framework for development of the risk register. Detected risks relate to the sales function, which interacts with customers, and therefore can give and receive any kind of incentive. Risks are avoided by permanent training, as well as control of gifts received by employees or gifts given by employees.

Employee awareness raising and targeted training are an extremely important part of the corruption risk management system. For the highest levels of management, if necessary, the so-called Tone at the top training related to general topics related to corruption and reputational risk is conducted. Also, management trainings include e-learning modules, as well as special presentations for specific positions. In the course of 2023, all four members of the Bank's Executive Board (100%) had a special targeted training on anti-corruption, along with passing the appropriate test.

The anti-corruption policies and procedures of the Bank are available to all employees through the internal portal, and it is the duty of all employees to regularly inform themselves about the newly adopted documents.

The topic of anti-corruption is an integral part of the training for all new employees, which is conducted once a month and includes training on non-financial risks, risks of financial crime, general provisions on conflict of interest, corruption and reputational risk. The aim of the training is to acquaint employees with zero tolerance, risks, ways of recognition, ways of reporting and escalating cases related to risk, relevant acts that need to be known and contact persons for any question in this area. Training is conducted in direct communication using presentations. Anti-corruption training has been integrated into the e-learning and e-testing system as part of anti-fraud training for all employees periodically, i.e. at least every two years, as well as the 'face to face' training system that Financial Crime Risk Management holds every year functions of the Bank. Anti-corruption training with the e-learning system and e-testing as part of anti-fraud training is carried out by presenting information, and then using a special application (TEA) employees are tested on the mentioned topics, with the aim of strengthening awareness of risks, the existence of regulations and acts in where it is located, as well as risk mitigation measures and persons in charge of risk management. In 2023, 81.74% of employees were tested on anti-corruption procedures and all of them successfully passed the test. After controlling the tests, all tested employees are pointed out to possible wrong answers given in the test, and continuous training is achieved even after the evaluation of the test.

In the area of prevention of money laundering and terrorist financing, a regulatory requirement was implemented and the risk of money laundering, terrorist financing and sanctions was assessed, and measures were provided to mitigate the assessed risks, all in order to protect the Bank from suspected money, and which is intended to finance terrorism and/or the abuse of the Bank and its clients by circumventing sanctions that are binding in the Republic of Serbia and the Erste Group.

3. NON-FINANCIAL REPORTING (continued)

3.2. ANTI-CORRUPTION AND BRIBERY ISSUES (continued)

Prevention of frauds and misuse (continued)

In the area of conflict of interest prevention, mandatory trainings are held every year for all employees of the Bank, including top management, namely general training for all employees, as well as an advanced training for the so-called confidentiality units as organizational units that, by the nature of their work, are in more frequent contact with information relevant to business compliance, which is why there is a greater potential for conflicts of interest. In 2023, 86% of Erste Bank employees and 83% of S Leasing employees passed these trainings. In addition, conflict of interest training is an integral part of every "Welcome to Erste" training, which all new employees of the Bank undergo. Extraordinary, in 2023, advanced "face-to-face" (F2F) training was held for all employees in all organizational units that work with legal entities, on the topic "Identification and acceptance of non-financial risk - novelties in the process of NFR and Responsible Financing Policy" by experts from Conflict of interest and Securities' risk management departments as well as the Bank's experts for responsible financing. Subject training was attended by 92% of the employees for whom it was intended.

In addition to strengthening internal capacities, the Bank communicates its policies and procedures in this area to clients and business partners, with the aim of a comprehensive approach to compliance risk prevention. Provisions related to anti-corruption and conflict of interest are an integral part of the General Terms and Conditions of Business, which are an integral part of the contract with each client, and are also publicly available on the Bank's website. Special meetings are held with clients and business partners for whom it is estimated that there is a need. In addition, on the official EBS website, partners and clients can find a notification regarding their rights, as well as an e-mail address through which they can report any illegal behaviour of the Bank's employees. Relevant information is also available to partners and clients in the annual Report on Corporate Social Responsibility.

Protection of competition

Free competition and compliance with the regulations on protection of competition are not only an important market principle, but also a strong business commitment and goal of the Bank.

Our approach to this topic means that:

- inform employees about behaviour that distorts free and fair competition and prohibit them from concluding business agreements that distort free and fair competition;
- we do not abuse our position on the market and ensure that all business mergers and acquisitions meet all applicable requirements prescribed by antitrust laws;
- We do not infringe the rights and interests of third parties when it comes to trademarks and intellectual property rights, and we protect our own, protected IP rights from potential misuse by third parties.

The competition program which Erste Bank has implemented since 2011 include several documents which are related to next key fields:

- Fair competitions – compliance with the principles of the Law on Protection of Competition for Employees
- Guidelines for the prevention of corruption - an integral part of Anti-Fraud Management Compliance
- What to do in the case of unannounced investigation
- Application form for permission to establish contact with the competition
- Procedure for acting in communication with regulatory bodies and other state bodies in direct and indirect control procedures.

Introduction to the program is included since 2013 in the regular training for new employees within „Welcome to Erste‟ welcoming process. The training includes raising awareness of the importance of the topic of competition protection and learning about the harmful consequences in case of violation of competition regulations.

3. NON-FINANCIAL REPORTING (continued)

3.3. IMPACT OF PRODUCTS AND SERVICES ON SOCIETY AND THE ENVIRONMENT

Financial inclusion - "Step by step" program

At Erste Bank, we believe that the prerequisites for a financially healthy society and its sustainable development are social and economic inclusion, the removal of barriers and the improvement of access to financial products and services for all citizens, regardless of their origin, status, level of professional education and type of education, structure employment, etc., noting that discrimination on any basis is strictly prohibited. Also, the Bank clearly defines the frameworks, rules, direction of action as well as the desired goals in accordance with the ESG agenda and is increasingly demanding respect for them from its clients, partners and suppliers, noting that it is ready to share knowledge and experience so that we can all understand better together the challenges in the best way and act more strongly towards the achievement of ESG goals.

We are particularly focused on innovations in the development of entrepreneurship, which we consider a pillar of economic growth and social prosperity. We are strategically focused on supporting the development of social entrepreneurship in Serbia, as one of the sustainable ways of solving social challenges, and in addition to creating inclusive programs and financial products and services, we also strive to improve citizens’ financial literacy so as to create preconditions for better economic sustainability of the entire society.

"Step by Step" is Erste Group's social banking program to promote financial stability and prosperity in our region. We provide customized banking services to people who are often not considered attractive clients by conventional banks, and therefore do not receive adequate services.

The program is designed to support beginners in business to create jobs, social entrepreneurships and civil society organizations for their capacity building and to empower their impact to the society. To give our customers a chance to improve their economic situation, we offer banking products such as current and savings accounts, insurance products and financing the initiation and development of their business ideas. By providing dedicated loans, we help our clients start a small business, finance the renovation of their houses, get higher education, increase their mobility and get the right to health care.

It is important to emphasize that we combine our products with trainings based on financial education and business training to help clients make good financial decisions. To ensure long-term success, we have an ongoing mentoring program to support overcoming financial and business challenges.

The goal of this program is to help improve the financial stability of our clients and to further support the region in reaching its potential for growth - systematically and sustainably.

In 2022 alone, through the "Step by Step" program, Erste Bank provided credit support to 84 startups and 3 civil society organizations in a total volume of RSD 122,566,816. We provided 360 hours of mentoring and educative support to startup clients, program users, while the social economy entities and civil society organizations had additional 100 hours of mentoring and educative support for their knowledge and capacity building.

The previous year was also marked by two events that enabled dialogue with representatives of the social economy and civil society organizations in order to learn and better understand their needs and present all the benefits of participating in our program. We are proud to be recognized as a relevant partner for improving the financial stability of our society's members and to have participated in 11 trainings, workshops and educations organized by partner organizations during this calendar year.

In December 2023, Erste Bank organized the first women’s’ entrepreneurship bazaar #believeinyourself in the "Jevremovac" Botanical Garden in Belgrade, which was attended by the Bank's clients, women entrepreneurs who recently started their own businesses, women who run social enterprises and work centres organizations dealing with social and economic empowerment and inclusion of women (who were victims of violence, persons with disabilities and young people without parental care). In the pre-holiday atmosphere, 11 companies presented themselves to a large number of visitors with a wide range of homemade cured meat products, organic sweets and cakes, over cosmetics made from natural ingredients, clothing, hand-sewn dolls for children, to holiday ikebana and decorations. The bank completely took over the entire organization of the event and covered all its costs, while additionally providing significant visibility to all participants through their own communication channels, enabling them to present their products and inspiring stories to the general public.

Cash loan for clients affected by the energy crisis

As part of the initiative to improve the financial health of its clients, in 2022, Erste Group initiated the introduction of a special credit product that would support clients affected by the energy crisis and high inflation.

Accordingly, EBS defined a cash loan with special conditions intended for loyal clients (who receive earnings/pension on a bank account for more than a year), and whose financial indicators indicated possible vulnerability in conditions of rising energy prices and the cost of living in general . Loans are granted up to the average monthly income with a repayment period of up to 12 months with an attractive interest rate (below the average annual inflation rate), so as not to be burdened by a loan war during the heating season.

What is important is that the loan is not defined as dedicated and if the clients have already provided firewood or considered that they do not need support for paying the heating bill, the funds from the loan could be used to cover other household expenses.

This practise has been continued in 2023 and 104 loans were granted, with a total amount of RSD 5,376,951.00.

3. NON-FINANCIAL REPORTING (continued)

3.3. IMPACT OF PRODUCTS AND SERVICES ON SOCIETY AND THE ENVIRONMENT(continued)

Investing into sustainable development

A responsible approach to financing is intrinsically woven into our business and our strategic commitment to contribute to a sustainable future for our customers, employees and community. Recognizing climate change as one of the biggest global challenges of today's society, Erste Bank, in accordance with its Responsible Financing Policy and Renewable Energy Financing Policy, is committed to financing various energy efficiency and renewable energy projects. Projects related to renewable energy sources imply very complex activities for both project holders and financial institutions. Funding is based on studies on the environmental impact of projects in the community where they are being built, approval by local authorities, compliance with all local laws and regulations, and compliance with specific standards for funding in this area.

Erste Bank, together with partners from the European Bank for Reconstruction and Development continued to actively works to promote energy efficiency in households via Green Economy Financing Program (GEFF) for the Western Balkans. In compliance with the program, the Bank offered the credit to its client lso in 2023 for energy efficiency loans for natural persons, which can be used for the replacement of glazing, adaptation of the residential facade, purchase of heating equipment or other purpose that contributes to economy and energy saving. Credit includes a financial incentive in the amount of 15% to 20% of the loan amount for individual apartments - it is a non-refundable amount of money paid by the EBRD with the support of the European Union. In addition, the funds returned through the financial incentive do not have a predefined purpose - that is, clients can freely use them for other needs of their household. With the aim of improving energy efficiency, during 2023, 106 credits to natural persons were realized in the amount of RSD 71.6 million.

Market analysis has shown that this loan really contributes to raising awareness, as well as seriously improving the energy efficiency of homes and reducing costs. On the other hand, it became more than clear that there is a challenge to support those who live in buildings because they are much more difficult to secure funds for larger joint investments in this area. Only a couple of banks grant loans to housing associations, and since last year, one of them is Erste Bank.

In October 2023, the Bank renewed cooperation with the European Bank for Reconstruction and Development (EBRD) through the Green Economy Financing Program (GEFF) for the Western Balkans, and through a defined pilot program, the Bank approved the first green loan for a residential community in Serbia. Three buildings in Svilajnac received 10 million dinars intended for the replacement of an impaired and outdated oil-fired boiler that brought enormous costs without satisfactory heating with a modern gas heating system. In addition, within the GEFF program, users continue to receive financial incentives provided by the European Union, which in this case will amount to three million dinars.

When it comes to legal entities, back in August 2021, Erste Bank signed an Agreement with the EBRD for a new credit line "SME CSP loan" - "EBRS Competitiveness Support Programme" line for energy efficiency. The EBRD CSP credit line is intended to finance investments by SME companies in the Republic of Serbia, which will help improve competitiveness and compliance with the technical standards of the EU Acquis Communautaire (Legal heritage of the European Union). From this credit line, numerous projects of solar panels, machines for the production and operation of the companies themselves, production facilities and the like are financed, as an improvement of the competitiveness of end users/SME companies in the Republic of Serbia, and all in accordance with EU directives in the fields of social, health and protection environment. The EBRD CSP Program contract was signed in the amount of EUR 5,000,000.00. From this credit line, clients are provided with grants (grants) in the amount of 15% of the approved loan, upon verification of projects. The line was also active in 2023.

In September 2022, Erste Bank signed an Agreement with the EBRD for a new credit line "EBRD Sustainable Reboot SME Programme" - a line for energy efficiency and renewable energy sources. The EBRD Reboot credit line is intended to finance investments of small and medium-sized enterprises in the Republic of Serbia, which will help improve competitiveness and compliance with the technical standards of the EU acquis Communautaire (Legal heritage of the European Union). From this credit line, as in the above-mentioned SME program, numerous projects of solar panels, machines for production and operation of the companies themselves, production facilities and the like are financed, as an improvement of the competitiveness of end users, and all in accordance with EU directives in the fields of social, health and environmental protection. The EBRD Reboot Program contract was signed in the amount of EUR 15,000,000.00. From this credit line, clients are provided with grants (grants) in the amount of 15% of the approved loan, upon verification of projects. The line was also active in 2023.

In 2023, the following funds were placed for energy efficiency (EE) and renewable energy projects (RES):

EBRD CSP 2021 (EE)	611,349
EBRD OIE 2022 Reboot Corporate	431,774
Bank funds	14,124,062
TOTAL:	15,167,185

The funds are intended for mini hydropower plants, biogas plants, wind farms, agricultural production and procurement of raw materials necessary for the operation of biogas plants, as well as investments into energy efficiency and other renewable energy sources' projects.

At the end of 2023, KfW Development Bank of Germany and Erste Bank Serbia signed a new credit line agreement in the total value of EUR 30 million to support green initiatives and the development of the competitiveness of micro, small and medium enterprises (MSMEs) and agricultural farms in rural areas of Serbia. A tranche of EUR 10 million will be directed at financing investments to improve the efficiency of using natural resources, recycle resources and reduce harmful emissions aimed for the environmental protection. From this tranche, Erste Bank will grant loans to micro, small and medium-sized enterprises, agricultural farms and local self-governments, which, upon successful completion of the project, shall have the opportunity to receive grants worth 10% of the loan amount. The second tranche, worth 20 million euros, is intended for various types of investments to strengthen the competitiveness of rural areas, also through lending to micro, small and medium enterprises and agricultural farms.

3.4. LABOUR RIGHTS AND WORK ENVIRONMENT CONDITIONS

As a responsible employer and the first choice employer, Erste Bank offers modern, attractive and motivating working environment for engaged and dedicated people, ready to extend their knowledge, advance in their careers and professionally develop. Concern for the satisfaction and motivation of our employees is at the top of the Bank's priorities, with guaranteed equal opportunities, protection of rights and transparent communication. We foster an inclusive and open corporate culture, respecting and appreciating each individual and his/her uniqueness, supporting him/her on the way to realizing its full potential. Discrimination on any basis is strictly prohibited.

With the goal of providing and improving the motivating working environment, we are focused on the next priority topics:

- Employees' labour rights enhancement
- Employee development and training
- Improvement of the financial health of employees
- Offering the equal opportunities
- Diversity of management and teams – as the source of strength
- Ensuring an inclusive work environment without discrimination on any basis
- Safety and health at work
- Social support for employees

Our approach to these complex topics is defined in the Bank's strategical documents, which are related to various HR fields and other issues related to employees:

- Collective agreement
- Code of Business Conduct
- Employment policy
- Training and development policy
- Reward policy
- Performance management policy
- Diversity and inclusion policy
- Human resources strategy
- Communication strategy
- Rulebook on safety and protection of health at work

3. NON-FINANCIAL REPORTING (continued)

3.4 LABOUR RIGHTS AND WORK ENVIRONMENT CONDITIONS (continued)

Cross-section of the structure of employees in Erste Bank, on 31.12.2023	EBS		SL	
	HC	%	HC	%
Total number of employees:	**1,367**		**51**	
M number + percentage	329	24%	21	41%
W number + percentage	1038	76%	30	59%
Managers total number (all levels of management)	**203**		**9**	
M number + percentage	92	45%	6	67%
W number + percentage	111	55%	3	33%
Aging structure of all employees:				
up to 30 years	248		6	
30 to 50	929		43	
over 50 years	190		2	
engagement type:				
indefinite	1,157		49	
determined	210		2	
full time job	1,365		50	
part time	2		1	
Executive directors on 31.12.2022	**22**		**5**	
men %	11	50%	3	60%
women %	11	50%	2	40%

Collective agreement

With the collective agreement as an expression of the agreement of the will of the Trade Union and the Bank, all employees of the Bank are guaranteed benefits above those stipulated by the Labour Law. After successful negotiations on 05.12.2023, a new Collective Agreement was concluded as a result of the willingness of both parties to actively work on improving the rights of employees in the forthcoming years and that represent the drivers and strength of changes and improvements that we constantly strive for. All key areas of the Labour Law relationship between employees and the Bank as an employer are regulated by this document, from establishing an employment relationship, rights and obligations of employees during the duration of the employment relationship, through training, safety and health to other relevant issues. The collective agreement applies to all employees of Erste Bank, and its entire content is available to colleagues on the Bank's internal portal. The new Collective Agreement brought changes, first of all, in the part of defining higher amounts of the lower salary threshold determined by pay grades, in accordance with the increase of the contracted salary for all employees of the Bank and the reduction of the amount of compensation for food expenses (hot meal) and holiday allowance. It also agreed to increase the number of days of annual leave based on social and economic criteria for people with disabilities from 1 to 3 working days. The mutual relations between the Employer and the Trade Union are also more clearly defined and improved by additional provisions.

Employee benefits:

- The severance pay upon retirement is higher than the legal minimum
- Severance pay in case of termination of employment on the basis of an excess of more than the legal minimum
- Collective insurance of employees against the consequences of an accident during the performance of work, as well as when arriving at and leaving work
- Compensation for damages due to injury at work or occupational disease in accordance with the law
- Reimbursement of necessary funeral expenses to immediate family members in the event of the death of an employee
- Reimbursement of necessary funeral expenses to members of the immediate family in the event of the death of the employee, as well as of a person with whom the employee lives in a common household, who is not a member of the immediate family
- Solidarity financial assistance to an employee due to a prolonged or severe illness of the employee or a member of his immediate family
- Solidarity financial assistance to an employee due to a difficult financial situation
- New Year's gift for employees' children up to ten years old
- gift to an employee for the birth of a child
- Jubilee award on the occasion of years spent working for the employer
  *The employer can provide the employee with a jubilee award on the occasion of marking another important event at the employer

3.NON-FINANCIAL REPORTING (continued)

3.4 LABOUR RIGHTS AND WORK ENVIRONMENT CONDITIONS (continued)

Employee benefits (continued)

- Maternity leave with guaranteed dynamics of salary payment and return to the workplace
- The right to special compensation during maternity leave, leave for child care and special child care as the difference between the amount of salary compensation paid by the state and the employee's last salary before the start of the leave
- Additional private health insurance - systematic examinations for employees
- Employee discounts for certain goods and services
- Higher amounts of certain salary allowances and other incomes compared to those determined by law (increased salary for work on a holiday, night work, salary allowance in case of temporary inability to work, etc.)

Safety at work

Occupational health and safety and social support for Erste Bank employees are taken care of by the Human Resources Department, the Safety Risk Management Department and the Trade Union, with the support of all other organizational parts of the Bank.

The security risk management service is responsible for physical protection, technical protection, information security, safety operations, business continuity management, fire protection, emergency situations, and occupational safety and health. Since 2019, the Bank has had an appointed Person for Occupational Safety and Health, while this function was previously performed by an externally hired company. Trainings are regularly organized for employees on the behaviour of employees in case of robbery and other emergency situations, trainings on the behaviour of employees with aggressive clients, basic training of employees in the field of fire protection, trainings for providing first aid (for which all managers and at least 2% of the total number of employees), training employees for safe and healthy work and training on how to use the Technical Protection System. In addition, procedures, instructions and advice are communicated to employees through intranet and the internal magazine Puls.

Safety and health at work in Erste Bank are regulated by the Rulebook on Safety and Health Protection at Work. In addition, the Instructions for reporting injuries at work, the Instructions for reporting accidents to Wiener Insurance, and the Employee Training Program for safe and healthy work are applied.

Erste Bank is committed to promoting health in the workplace in order to prevent diseases and improve the well-being of people at work. From 2022, private health insurance was introduced for all working colleagues. Also, more favourable insurance conditions for their family members (spouses and children) are provided. Further development of this benefit is planned, through improvement of the policy based on feedback received from employees.

In 2023, a total of eight work-related injuries were recorded at Erste Bank, three of which were injuries with serious consequences. Not a single injury was recorded in S-Leasing.

When it comes to safety and protection of life and health at work, the Collective Agreement elaborates the following topics in detail:

- Prevention and ban of the abuse at work (mobbing)
- collective insurance of employees
- protection of personal data
- maternity protection
- special child care
- protection against termination of the employment contract
- protection of persons with disabilities
- notice of temporary incapacity for work

The Collective Agreement clearly defines terms, bodies and authorities that, in addition to the Trade Union, control and enforce the agreed rights and obligations.

3. NON-FINANCIAL REPORTING (continued)

3.4 LABOUR RIGHTS AND WORK ENVIRONMENT CONDITIONS (continued)

Development and improvement

The development and training of employees is one of the most important strategic priorities of Erste Bank. Our approach to employee development includes training and development, creation of individual development plans, adequate resource planning, defining key positions, managing the succession plan, principles of remuneration and employee benefits, performance management and promotions. In addition to contributing to greater motivation and satisfaction of our employees, this comprehensive approach also enables us to constantly improve business processes.

Our employees have at their disposal prudently designed trainings from the market, local and international, as well as tailor made trainings, created under our requests and according to defined – specific needs. These trainings provide our employees acquisition of mandatory skills and knowledge so as to increase their competitiveness in an increasingly challenging labour market. In addition to internal trainings, Erste Bank allows employees to be referred to external trainings, as well as study periods with a guaranteed return to the workplace. We also offer our employees the opportunity to join the Erste Group's internal job market in all seven countries, which is part of our efforts to encourage mobility within the Group and become the most attractive employer on the financial market.

Professional training in 2023	EBS	SL
Time of trainings (h)	50.667	1.979
Costs (RSD)	48,889,000	4,851,000

3.5 ENVIRONMENT IMPACT OF THE OPERATIONS

Erste Bank's long-term strategic approach to environmental protection is reflected in continuous assessment of the impact of our business - we continue to decrease negative effects where possible, and with innovative solutions to contribute to the improvement of the environment and sustainability. Setting environmental goals, as well as monitoring indicators and measurement methods, are an integral part of our planning processes.

The Bank's operations are in compliance with all current regulations related to environmental protection. In addition, the Bank is guided in its operations by the ESG Strategy that linked and encompassed into single document many of the previous documents from the fields, such as: Principles of Environmental Protection, the Erste Group Energy Management Policy and the Waste Management Procedures.

Year after year, Erste Bank monitors its consumption and implements initiatives aimed at reducing consumption by all the most important parameters: energy, harmful gasses' emissions, water, waste, transport. Some of the most significant measures implemented by the Bank over the past years are:

- Development of the energy management system;
- Supply of electricity produced from renewable energy sources;
- Application of ecological standards in the arrangement of branches and headquarters;
- The use of certified materials for furnishing and decorating the space - the use of ecological materials, furniture and carpet flooring in the renovation and furnishing of buildings;
- Reduced work of own advertising features in accordance with the available possibilities;
- Installation of LED lighting - there is complete LED lighting in two administrative buildings;
- Changing the heating system in buildings where it is necessary;
- Programming of the air conditioning system in accordance with the working hours of the employees;
- Lease and purchase of vehicles that are more environmentally friendly;
- Use of video and telephone conferences with the aim of reducing business trips;
- Innovations in the printing system with the aim of reducing the consumption of energy, paper and toner.

Rational use of water

Water supply and wastewater disposal is performed by the distribution system for water supply (water supply) and wastewater disposal (sewerage) of public utility companies for production and distribution of water and sewage. Public utility companies for water production and distribution and sewerage perform daily water quality control in accordance with applicable legislation that is in line with EU and World Health Organization Directives.

The following is an approximate data on water consumption (m3/year) in accordance with the approximate average consumption from previous years according to the formula, in the way it monitors:

number of employees x approximate average water consumption per employee in m3/year = water consumption in m3 per/year

Water consumption in 2023
1296 * 9 m3 = 11,664.00 m3 per/year

3.5 ENVIRONMENT IMPACT OF THE OPERATIONS (continued)

Energy consumption and emissions

During 2023, the following initiatives aimed at improving internal energy efficiency were implemented:

- more than 70% of the total number of facilities in which the Bank operates are supplied from renewable energy sources, i.e. uses green energy;
- in several locations where the Bank operates, during the adaptation and relocation, the old air conditioners were replaced with new air conditioners that have an A energy efficiency label;
- at 14 locations, the old illuminated advertisements with fluo tubes were replaced with new illuminated advertisements equipped with LED lighting technology;
- The Bank recognized the importance of the use of electric vehicles in order to reduce the emission of harmful gases, so at the end of 2023 it continued with the purchase and supplemented the vehicle fleet with another 6, so that it currently has a total of 8 electric vehicles that are actively used;
- lighting electric lights with working hours were abolished in the entire network of the Bank's branches in order to achieve additional energy savings.

Electricity and heat consumption in 2023	
Electricity (KWh)	2,413,869
Thermal energy (KWh)	2,156,481
Energy intensity (KWh/m2) in 2023	186.43 KWh/ m^2

*per square meter of office space

Scope 1 and Scope 2 emissions are reported in the Bank's annual Corporate Social Responsibility Report, due to deadlines for calculating data at the Erste Group level.

Emissions that occur as a result of transport for our business sector in regular circumstances represent a material aspect, so this topic is among the priorities of Erste Bank. Fuel consumption, as well as emissions, have been monitored and recorded since 2013, including business trips, as well as employee transportation. The significance of the impact is determined based on the following criteria:

- CO2eq emissions based on annual mileage and annual fuel consumption of official vehicles

Erste Group's standards related to environmentally friendly vehicles, i.e. official vehicles with CO2eq limits of 120 to 140 g/km, especially contribute to the reduction of the mentioned impacts.

Waste management and recycling

Responsible waste management in Erste Bank is regulated by the internal document Wate Management Procedure.

Our daily business activities cause the generation of significant amounts of paper waste, which is why we are focused primarily on reducing the use of paper and the use of certified paper, as well as recycling. Since 2009, the Bank's publications, including the internal journal Pulse and other publications, have been printed exclusively on FSC (Forest Stewardship Council) certified paper, which means that wood, including paper, is obtained from forests that are managed responsibly and sustainably. This certificate represents the highest level of quality and sustainability assurance in the forestry, wood industry and paper industry.

When it comes to recycling, the Bank strives to positively impact sustainability by sorting and handing over its generated waste for recycling. Our business facilities in Novi Sad and Belgrade are equipped with bins for PET packaging and glass waste, as well as boxes for collecting office paper.

The reduction of generated waste was also contributed to by the initiative from 2014, when the Bank started using Konica Minolta's printing service, which released it from the obligation to collect toner (except for stocks from the previous period). This also reduces the amount of paper used.

Data on generated waste in 2022	
Hazardous waste	7.016 t
Non-hazardous waste	33.032 t

3. NON-FINANCIAL REPORTING (continued)

3.6 SUPPORT TO THE LOCAL COMMUNITY

Since the beginning of its operations in Serbia, Erste Bank has been striving to contribute to the further development of society and raise the quality of life in the communities in which it operates through its operations, strategic partnerships and proactive actions. The bank continued to support the development of civil society organizations, social enterprises, startups, as well as programs and initiatives in the fields of science, culture and art, financial education and inclusion, entrepreneurship, education and sports.

In accordance with its Corporate Social Responsibility and sustainable operations, ESG Agenda, and UN Sustainability Goals, Erste Bank continuously strategically and proactively invests in the community where it has its operations, listening to their needs and challenges, communicating daily with all interested parties, following modern trends of sustainable development. The Bank's support has long gone beyond financial support, and has included the exchange of knowledge and experience, educational and mentoring support, as well as the networking of various resources for the common good. The Bank believes that the synergy of different resources gives the best results and therefore strives to recognize quality partners, ideas, initiatives, programs and, by supporting them, changes society for the better. The bank is also actively trying to connect and network its partners in order to make the positive results of the program even greater.

Financial literacy

Financial literacy is one of the most important skills for the 21st century and a major challenge in today's society. Insufficiently financially literate citizens cannot realize their full potential, they are financially vulnerable and without access to jobs that can ensure financial stability and prosperity. Those who do not have access to financial services and education are often excluded from economic and social life. Financial literacy enhances and improves the financial wellbeing of the individual and community, enhances the development of entrepreneurship and enables microfinancing and participation within various financial contexts, which contributes to reducing the risk of poverty and economic growth, financial and social inclusion and stability.

Financial literacy is one of the pillars of our Bank's Corporate Social Responsibility Strategy, because it unequivocally contributes to the prosperity of each individual, and then society. As a financial institution, we see our responsibility, obligation and sincere desire to provide support, share knowledge and experience, give advice and empower the wider public (citizens of all ages and business beginners) in the field of financial education.

The Bank, also in 2023, continued with a realization of its complex and comprehensive program - #ErsteZnali, which consists of:

- #ErsteZnali, an educational online platform available to everyone;
- workshops and events on the topic of financial management and entrepreneurship development, with a special focus on youth and women;
- mentoring and advisory support for business beginners and future entrepreneurs;
- a special part of the program intended for the youngest with the aim of providing complete support for financial education through all points of development and education.

The financial education platform #ErsteZnali (https://ersteznali.rs/) , also in 2023 had around 6,000 registered users and significant number of visits, and tests performed by the users of the platform show an average improvement of about 70% for all those who attended the training. About 480 participants took part in financial management workshops and events this year. Evaluations after the workshop show that the participants significantly improve their knowledge and skills and have raised the level of their financial literacy.

In partnership with the Ministry of Education of Serbia, we launched the four-year pilot project "Money School for Elementary Pupil", with the goal of introducing financial literacy into elementary education. A plan and program of teaching in primary schools according to age groups in the area of financial literacy was prepared, training was organized for 350 participating teachers, the program is being implemented in approximately 200 schools from all over Serbia. The Conference with good practice examples was held, with 150 participants. The program shall continue next year, too.

The educational application "Guardians of the Dragon's Treasure", for children of age of 7 to 10, in 2023 recorded 10,000 users. This game is based on a previously published book, and then a children's play was also designed. The game is available to everyone via mobile phones and tablets.

The project of the Society of Mathematicians of Serbia with the aim of raising the level of financial literacy of secondary school students was supported, within the framework of which an analysis of the curriculum was carried out, a platform intended for teachers and students was created (https://fp.dms.rs/) and a competition was organized for students on topic: Financial literacy - a digital challenge in which more than 100 schools participated.

The "Step by Step" program also contributes to the development of financial literacy, through several elements:

- The online educational platform is aimed at helping in the creation of a business plan. The platform combines several modern types of content: presentations, video content, collaborations, etc. in order to enable users to acquire the necessary knowledge in the most acceptable way;

- Offline workshops defined according to the needs of program users with the aim of increasing their business capacity in several cities in Serbia in order to provide access to as many users as possible;
- One-year mentoring support to which every user of the program is entitled. Mentors are experienced entrepreneurs from various industries who, with their knowledge and experience, help new entrepreneurs to raise their businesses to a higher level.

Sponsorships and donations

Erste Bank strives to be supportive in creating conditions for a better quality of life in all communities where it is present. Considering that all of us as organizations, but also as individuals, are part of a wider environment in which we cannot progress without the progress of people and organizations around us, we are strategically focused on the development and promotion of corporate and individual philanthropy in Serbia.

The bank strategically supports organizations and institutions, programs and initiatives in the following areas:

- culture and art,
- popularization of science,
- entrepreneurship,
- financial literacy and inclusion
- sports.

Sponsorship and donations' decisions are also made in accordance with specific criteria and the available budget for a given year. In 2023 alone, the Bank supported over 50 projects and programs through the sponsorship and donation programs, with more RSD 15.5 million, while for the financial education and literacy programs, the Bank participated with some more than RSD 9 million. .

3.7 RESPECT FOR HUMAN RIGHTS

The approach to respect for human rights is defined in the Bank's Code of Business Conduct, which binds all members of the Executive Board, managers of all levels and all employees of Erste Bank. The code serves all Erste Bank employees as a guide that defines what our Bank considers to be ethical business, accepted values and principles, that is, appropriate business practice.

Erste Bank respects and promotes human rights in all its activities, and does not tolerate any form of discrimination.

To ensure this:

- we respect the ten principles of the UN Global Compact and apply them in all our relevant business processes;
- we do not discriminate on the basis of gender, age, marital status, family obligations, religion, political belief, sexual orientation, race, nationality, social or ethnic origin, disability, physical appearance or any other aspects that do not relate to our business.

Working environment

The prohibition of discrimination on any basis is an absolute prerequisite and foundation of our approach to responsibility in the work environment. In addition, the Bank applies the principle of providing equal opportunities, which applies to all stages of the employment relationship - from employment to opportunities for learning, development, and advancement. The Bank's employment policy was updated in 2019 with provisions that, among other things, refer to the specification of the principle of equal opportunities in the employment process and the storage of documentation obtained in the recruitment and selection process.

For years, the Bank has adopted the Diversity and Inclusion Policy, which emphasizes the importance of understanding and accepting diversity and its potential, creating equal opportunities and opportunities. This policy promotes the understanding and respect of each individual, its potentials, beliefs, ideas, and emphasizes the power of synergy of diversity that gives better results.

In 2018, the Bank supported the document UN Standards of Conduct for Businesses in the Fight Against Discrimination against Lesbian, Gay, Bi, Trans and Intersex Persons. We are proud to be among the first companies in Serbia that have publicly committed themselves to using their influence and their relationships with numerous local actors to advocate for greater equality of LGBTI persons, both among their employees and in the entire society.

The adopted principles of equality and respect for diversity are an integral part of the "Welcome to Erste" training, the aim of which is to acquaint all new employees of Erste Bank with employee rights, anti-discrimination principles, the principle of equal opportunities, and opportunities for professional development.

For more than ten years, Erste Bank has had an anti-mobbing counselling centre, which is made up of employees of the Bank from the Bank's Trade Union Board. The Counselling Center works in coordination with the competent bodies of the Ministry of Labor and Social Policy, the Labor Inspection and the Agency for the Prevention of Abuse at Work, and monitors the resolution of complaints filed on this basis. Complaints can also be submitted anonymously.

3. NON-FINANCIAL REPORTING (continued)

3.7 RESPECT FOR HUMAN RIGHTS (continued)

Erste Bank's internal formal complaint mechanisms related to labour rights include: designated support persons for protection against abuse at work, as well as an established list of mediators in case of initiating an internal protection procedure by our employees and persons engaged on any other basis. In the event of a report of discrimination on any basis, an ADR person is also appointed to receive such information and conduct further proceedings in connection with it. During 2023, there were no complaints related to human rights.

Also, in addition to protection against abuse at work and discrimination, the Bank also provides protection to whistleblowers in case of disclosure of information about violation of regulations, violation of human rights, exercise of public authority contrary to the purpose for which it was entrusted, danger to life, public health, safety, environment, as well as to prevent large-scale damage. The bank has appointed a person authorized to receive information and lead the procedure related to internal whistleblowing, and whistleblowers enjoy protection in accordance with the law.

Clients

The Code of Business Conduct includes and defines access to various areas related to human rights: availability of products and services, comprehensibility and transparency, responsible marketing, protection of personal data.

In accordance with the determination to encourage financial inclusion in all aspects, the administrative building in Belgrade, as well as 61 business units of the Bank, have been adapted to independent access for persons with disabilities. Thus, 70% of all our business facilities (the total number of business units also includes express branches) are accessible to people with disabilities. In addition, each branch has the possibility of working with clients in wheelchairs at tables of adequate height.

As of 2023, a total of 39 branches (59% branches) have tactile surfaces on the floor, which clearly guide visually impaired people to the nearest cash desk, the number of branches with wheelchair access is 31 (47% branches), while 22 (33% branches) branches are equipped with inductive loops that enable direct, uninterrupted communication between cashiers and people with hearing aids of the latest generation.

When it comes to marketing campaigns, the Code stipulates that they must be based on overall respect and must not contain images or messages that are offensive or inappropriate. In addition, our marketing materials are clear, balanced, credible and not misleading.

Erste Bank respects its clients' right to privacy and handles client data confidentially and with maximum care.

To ensure this:

- we guarantee maximum confidentiality when collecting, processing and storing client data;
- we do not disclose confidential information about clients without their consent, unless such disclosure is required by law;
- we require all employees to strictly observe the rules of confidentiality, even after termination of employment;
- we do not misuse client data;
- we require that our suppliers (service providers) also accept our privacy and data protection standards.

Clients can send objections related to any of the mentioned topics to Erste Bank in the following ways:

1. In the branches of Erste Bank, by filling in the form "Your opinion is important to us", i.e. the Form for the protection of rights related to personal data.

2. By email to the following addresses:

zalbe.stanovnistvo@erstebank.rs

zalbe.preduzeca@erstebank.rs

dpo@erstebank.rs

(exclusively in the case of complaints related to the protection of personal data and from the email address reported by the client to the Bank as a communication channel)

3. By mail to the address:

Erste Bank a.d. Novi Sad
Marketing Directorate / Marketing and Communication Sector
Milutin Milankovića 3a; 11070 New Belgrade

Information on communication channels is available to clients on the Bank's website.

3. NON-FINANCIAL REPORTING (continued)

3.7 RESPECT FOR HUMAN RIGHTS (continued)

Clients (continued)

Erste Bank's complaint management system includes the Complaints and Complaints Management Procedure,

Procedure - the process of submitting complaints by users of the insurance service, and instructions for the Repozza application, thanks to which all customer complaints, as well as their praise and suggestions, are gathered in one place, from where they are processed more quickly by the competent parts of the Bank. After recording the complaint, the competent service check all the client's statements and, after all the checks, the answer is forwarded to the client. During 2023, there were no cases of violation of client privacy and no complaints related to the loss of personal data about clients, nor were there any complaints related to respect for human rights.

Suppliers

Bearing in mind the complex and interconnected impacts of its business activities, Erste Bank strives to prevent potential negative indirect impacts on society and the environment.

Procurement decisions, at the Erste Group level and locally, also include an assessment of social and environmental impacts, which is carried out by filling out the Supplier Audit Questionnaire (SAQ) for suppliers whose turnover exceeds EUR 100,000. This questionnaire has been applied since April 2014 to ensure that the suppliers we cooperate with respect our standards, and the questionnaire ensures complete transparency and enables timely assessment and identification of risks before signing contracts with suppliers.

The SAQ questionnaire covers the following topics related to suppliers' impact on human rights: employment practices, practices related to occupational safety and health, discrimination and incidents in the work environment (such as harassment or abuse on a verbal, psychological, physical or sexual basis). , right to association and collective bargaining, remuneration and compensation, working hours, existence of appeal mechanisms, impact on the local community, risk of corruption, protection of competition, compliance with regulations, existence of appeal mechanisms, child labour, discrimination, forced labour.

Out of a total of 77 suppliers that had a turnover of over EUR 100,000 in 2023, 69 suppliers, or 89.61%, were subjected to an analytical review in relation to human rights.

4. ALL SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

After the reporting period, there were no events that would require corrections or disclosure in the notes to the consolidated financial statements for the year ended 31 December 2023.

5. DESCRIPTION OF EXPECTED DEVELOPMENT IN THE NEXT PERIOD

Erste Bank a.d. Novi Sad as bank group (the "Group") wants to remain one of the leading bank in Serbia that provides financial services to individuals and legal entities. The Group intends to achieve this goal through three priorities defined by the Erste Group, namely: high data quality, business growth in the retail and corporate segment, as well as clear management and governance.

In the retail segment, Group develops long-term cooperation with customers by continuous improvement of products and services, strong presence in the domestic market through a network of branches and alternative distribution channels, in order to meet customer needs and greater employee satisfaction, which should be reflected in customer development. experience, continuous and healthy growth, as well as increasing profitability.

In terms of business with legal entities, the Group intends to continue to be a reliable and long-lasting partner with its clients, which can be achieved by high quality and diversification of financial services, as well as professional relationship with clients in this segment, which will lead to greater profitability with the lowest possible risk.

The Group continuously, through the Risk Management Strategy, but also other business strategies, defines the target profile of risk exposure and portfolio structure with the primary goal of long-term business sustainability, compliance with domestic regulatory requirements and compliance with Erste Group standards.

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

The Group takes care of professional training and advanced training of its employees, especially those who perform risk identification, measurement and monitoring, taking into account the scope, type and risk exposure of the Group's operations, as well as the risk profile of the Group.

Erste Bank a.d. Novi Sad will continue to provide comprehensive support to the population and economy of Serbia in achieving their financial needs and goals. Business principles, which include focusing on continuous improvement of customer service, and constant improvement of internal organization and efficiency, will continue to be the basis of the Group's operations.

Group mission:

We are committed to improving the quality of life of people and communities by fostering financial stability, security and prosperity - honestly, fairly and with respect.

Our values:

RESPONSIBILITY
- we take responsibility for the development of the Group and ourselves

SUPPORT
- we listen, understand and help

TRUST
- we keep our word and build quality relationships

INNOVATION
- we encourage the new and constantly improve the existing ones

CREATION
- we create value for our clients, shareholders and ourselves

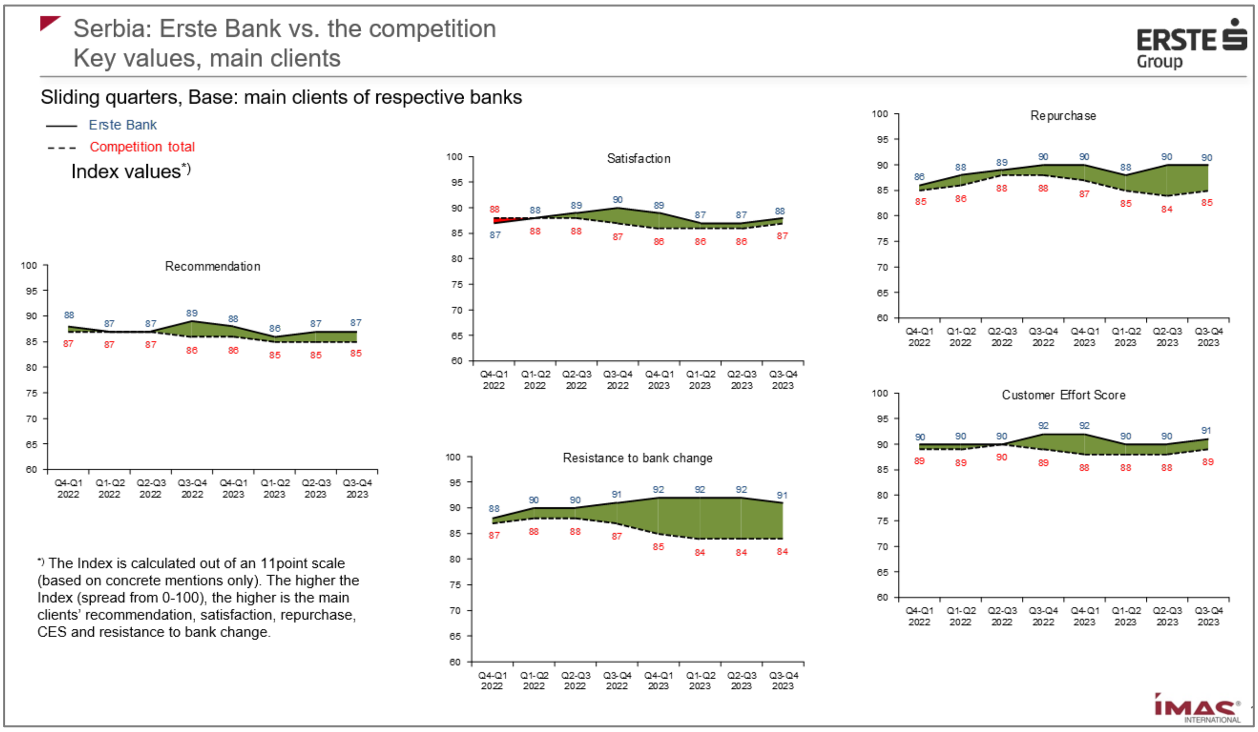
Detailed and precise implementation of the Strategy is done through the Action Plan, annual budgets, Credit Policies, Price Regulations, and other Group documents.

6. RESEARCH AND DEVELOPMENT ACTIVITIES FOR THE YEAR 2023

The company's activities in the field of research and development are presented for the Bank, as the holder of the Group.

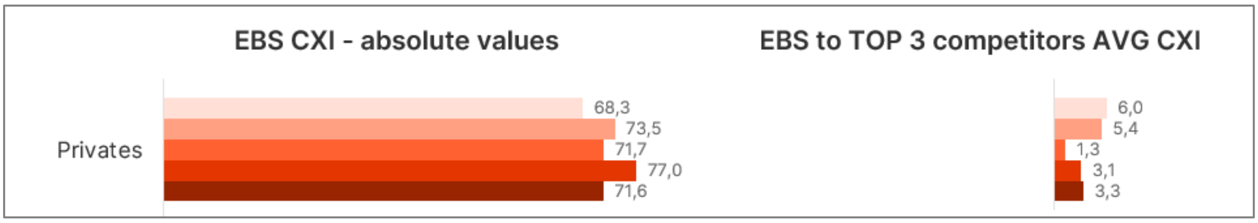
During 2023 the Bank continued to conduct regular market research and analyse the results of quantitative and qualitative research on the level of quality of service both at the market level and at the level of the Bank and special business units of the bank. With the engagement of independent market research agencies, measurements and analyses of the level of satisfaction and loyalty of clients of Erste Bank and other banks are conducted, as well as the quality of processes in Erste Bank.

Through the **"Banking Market Monitor"** survey, Erste Bank measures 6 key service quality parameters for both its clients and the clients of competing banks. The parameters of service quality that are measured are: trust, satisfaction, recommendation, ease of doing business with the bank, repurchase and the probability of changing the bank. **On all 6 observed service quality parameters, Erste Bank records a result that is above the competition average**. In this way, Erste Bank constantly measures its performance in relation to the market, and through the activities it carries out to improve the customer experience, it works to strengthen its position among the leading banks in the field of customer satisfaction.



Based on the results obtained through the **"Banking Market Monitor"** survey, Erste Bank calculates the Customer Experience Index - **CXI**. Observed at the bank level (included retail segment), **Erste Bank is on the second place in the market by CXI in 2023,** with an advantage of +3,3 over the Top 3 competitors.

Customer Experience Index –



6. RESEARCH AND DEVELOPMENT ACTIVITIES FOR THE YEAR 2023 (continued)

Erste Bank also conducts a Customer Satisfaction Survey with the service provided immediately after a certain event (**event-triggered research**). The events we observe are the opening of accounts (dinar and foreign currency), the making of deposits, the approval of cash loans, the approval of housing loans and the approval of loans for small businesses and entrepreneurs. Within a week after the client is provided with one of the above products / services, **we provide them with the opportunity to immediately, directly express their (dis)satisfaction with the service** and thus help us improve our quality of service. On a weekly basis, Erste Bank monitors customer responses and responds adequately.

In the course of 2023, **ad hoc research** was also carried out for the purposes of making business decisions, such as testing contractual documents for housing loans and researching the student segment. The bank also uses the results of the syndicated surveys Ipsos Financial Omnibus and Valicon All Finance.

The Bank provides support to its clients through its advanced complaint management and resolution system in which the quality of complaint resolution is paramount. In 2022, the Bank stood out from the competition in terms of the speed of resolving complaints. Based on the analysis and measurements during 2022, 79.56% of complaints were resolved within 7 days. The goal of the Bank is to constantly improve the quality of service, according to which the Bank is recognized as the leading Bank in the banking market of Serbia.

SPEED OF RESOLVING COMPLAINTS ON SERVICE AT THE BANK LEVEL IN THE PERIOD FROM 01.01. TO 31.12.2023				
Up to 24h	Up to 7 days	Up to 30 days	Over 30 days	Total
60.37%	17.67%	20.92%	1.04%	100%

Note: within S Leasing there were no written complaints in 2023.

In addition to continuously studying the needs and expectations of customers, the Bank within its organization systematically measures and improves customer satisfaction and uses it as a permanent tool for improving the quality of internal processes and service.

7. RISK EXPOSURE

Risk monitoring and management functions are the responsibility of the Division for Credit Risk Management and Division for Strategic Risk Management and Data Analysis, as separate organizational units in the Group. Risk management policies, risk management strategy and capital management strategy are related to the Group's strategy, and include defining the type of risk, ways of managing these risks and the degree of risk that the Group is willing to accept in order to achieve its business goals. Special attention is paid to full compliance with the relevant regulations of the National Bank of Serbia (NBS).

The responsibilities of the Division for Credit Risk Management and Division for Strategic Risk Management and Data Analysis include the following:

- Identifying and measuring or assessing the Group's exposure to certain types of risks;
- Monitoring of risks, including their supervision and control, preparation of analyses and reports on the amount of individual risks, their causes and consequences;
- Measurement or assessment as well as management of the Group's risk profile and capital adequacy;
- Monitoring the parameters that affect the position of the Group's exposure to risks, primarily including the management and optimization of asset quality and cost of risk;
- Development and application of quantitative models for risk management as elements in the process of advanced business decision-making and pricing of risk;
- Development of strategies and proposals for the Group's exposure limits by individual types of risks and their control;
- Quantifying the impact of changes in the economic cycle or stressful events on the financial position of the Group;
- Risk assessment of the introduction of new products and externalization of activities;
- Development of methodologies, procedures and policies for risk management in accordance with applicable legislation, Erste Group standards, good business practice and special needs of the Group;
- Development and implementation of various technical platforms and tools;

The Group adequately identifies the risks to which it is exposed and accordingly conducts its management activities, trying to avoid them or reduce them to acceptable levels.

Risk management in the Bank in the period from 01.01. until 31.12.2023 was carried out successfully, which is first of all reflected in the timely allocation of additional provisions for expected losses that will arise due to the COVID-19 crisis, then the compliance of operations with regulatory requirements for a moratorium, defined policies and procedures for risk management as well as their continuous improvement, constant focus Management and Executive Board on quality risk management, the use of modern technology in the work of the Group and its continuous improvement, as well as the adopted culture of risk management by the Bank's employees.

According to the latest conducted analysis of materiality assessment, the Group is exposed to the following substantially significant risks in its operations:

- Credit risk (including default risk, migration risk, credit interest rate risk, credit-interest rate risk, credit concentration risk and credit, and FX risk);
- Market risk in the trading book;
- Interest rate risk in the banking book;
- Operational risk;
- Liquidity risk;
- Strategic risk;
- Reputational risk;
- Macroeconomic risk (transverse risk that is reflected in all the above types of risk);
- (Geo)Political risk (transverse risk that is reflected in all the above types of risk);
- ESG risk.

Regardless of the fact that the Group calculates capital requirements under Pillar 1 and Pillar 2 for foreign exchange risk, counterparty risk and residual risk, they are not assessed as material risks in the last conducted assessment of the material significance of the risk.

7. RISK EXPOSURE (continued)

For material risks (except for those risks that are included in the risk management framework through a precisely established monitoring system and limits or through stress testing), the Group conducts quarterly assessment of internal capital adequacy in accordance with relevant methodologies and standards when calculating capital requirements and internal capital which is available to the bank to absorb these risks.

In addition, the Group continuously calculates capital requirements and capital based on the NBS decision in the field of capital adequacy when calculating capital adequacy ratios. In accordance with the above, the capital requirement for credit risk, counterparty risk and settlement / delivery risk based on free deliveries is calculated according to the standardized approach as well as the capital requirement for price risk using maturity methods and the capital requirement for operational risk using the basic approach indicators and capital requirements for credit exposure risk adjustment using a standardized approach.

Capital adequacy is calculated as the ratio of regulatory capital to risk assets as of December 31, 2022. The total capital of the Group consists of the share (share capital and additional share capital) and supplementary capital and defined deductible items, while balance and off-balance sheet assets under a risk are determined in accordance with prescribed risk weights for all types of assets. The Bank's capital adequacy indicator is equal to the ratio of the bank's capital and the sum of assets weighted by credit risk, the capital requirement for price risk from trading book activities multiplied by the reciprocal value of the capital adequacy indicator (prescribed 8%), the capital requirement for FX risk multiplied by the reciprocal value of the capital adequacy indicator (prescribed 8%), the capital requirement for the risk of credit exposure adjustment multiplied by the reciprocal value of the capital adequacy indicator (prescribed 8%), the capital requirement for operational risk multiplied by the reciprocal value of the capital adequacy indicator (prescribed 8%) and the risk of weighted exposures for the risk of the other contracting party.

In addition to the requirements defined in the form of minimum capital adequacy indicators and protective layers of capital, the Group is obliged to meet additional regulatory minimum capital requirements, defined in the Supervisory Review and Evaluation Process (SREP). Bank's capital adequacy ratio as of 31 December 2023 is 21.37%. On a consolidated basis, the capital adequacy ratio on 31 December 2023 is 20.36%.

The Group's **liquidity** is monitored and controlled by ensuring the Group's continuing ability to provide liquidity for the payment of customer deposits, financing the growth of assets and operating operations, as well as for settling other contractual obligations. The Group in the period from 01.01. to 31.12.2023 had an indicator of daily liquidity and an indicator of coverage by liquid assets above the legally prescribed level.

The Bank / Group manages its assets and liabilities in a way that ensures that it fulfils all its obligations at all times, as well as that its clients dispose of their funds in accordance with the agreed deadlines.

Interest rate risk management The Bank / Group aims to optimize the ratio of these effects in terms of the impact on net interest income on the one hand, and the economic value of capital on the other. The Assets and Liabilities Management Committee manages the maturity matching of assets and liabilities based on: Erste Group AG guidelines, macroeconomic analysis and forecasts, liquidity forecasting, analysis and forecasting of market interest rate trends for different asset and liability segments.

The Group's **foreign exchange position**, as a risk that there will be a change in the value of financial instruments and negative effects on the Group's financial result and capital due to changes in the exchange rate, was below the maximum prescribed level of the open foreign exchange position during 2023. The Bank and Group's currency risk indicator as of 31 December 2023 is 0.67% of the Bank's capital (Group), which is significantly below the prescribed maximum of 20% of capital.

7. RISK EXPOSURE (continued)

Group's performance indicators - compliance with regulatory indicators

The Group is obliged to harmonize the scope and structure of its operations and risky placements with the business indicators prescribed by the Law on Banks and relevant decisions of the National Bank of Serbia adopted on the basis of the said Law. In the period from January 1 to 31 December 2023, the Group continuously achieved the prescribed business indicators.

Performance indicators	Prescribed	31.12.2023	31.12.2022
1. Equity	Minimum		
	EUR 10 million	EUR 408,463,126	EUR 381,531,188
2. Total capital adequacy ratio	Minimum 8%	20.36	20.01
3. Tier 1 capital adequacy ratio	Minimum 6%	16.71	16.87
4. Common Equity Tier 1 capital adequacy ratio	Minimum 4,5%	16.71	16.87
5. Investments of the Group	Maximum 60%	6.91	7.09
6. Exposure to related parties	No limit	4.55	4.57
7. Large and largest possible loans in relation to capital	Maximum 400%	67.04	27.58
8. Liquidity:			
– liquidity indicator	Minimum 0,8	2.10	2.11
– narrower liquidity indicator	Minimum 0,5	1.70	1.98
9. LCR	Minimum 100%	146.69	156.53
10. Foreign exchange risk indicator	Maximum 20%	0.67	3.39
11. Exposure of the Group to a group of related parties	Maximum 25%	19.58	16.61
12. Exposure of the Group to a person related to a bank	No limit	4.55	3.90
13. Group's investments in non-financial entities	Maximum 10%	0.06	0.06

8. ALL MAJOR TRANSACTIONS WITH RELATED PARTIES

In its regular business operations, the Group conducts relations with its shareholders and other related parties. The Group enters into relations with the parent company - the majority shareholder Erste Group Banka AG, the other shareholder and members of the Erste Group. As of 31 December 2023, the sum of net exposure to persons related to the Group amounts to 4.55% of the Group's equity.

The Group did not grant conditions to persons related to the Group that are more favourable than the conditions granted to persons not related to the Group (acc. to Article 37 of the Law on Banks).

Novi Sad, 21 March 2024

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

Tajana Orozović Directorate for Data Management, Director	Suzan Tanriyar Member of the Executive Board	Jasna Terzić Chairwoman of the Executive Board