ERSTE BANK A.D. NOVI SAD

SEPARATE 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 separate financial statements present fairly, in all material respects, the financial position of Erste Bank a.d. Novi Sad (the "Bank") as at 31 December 2023, and the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

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

- the income statement for the year ended 31 December 2023;
- the statement of other comprehensive income for the year ended 31 December 2023;
- the balance sheet as at 31 December 2023;
- the statement of changes in equity for the year ended 31 December 2023;
- the statement of cash flows for the year ended 31 December 2023; and
- the notes to the 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 financial statements section of our report.

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

Independence

We are independent of the Bank in accordance with the International 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 financial statements

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

This version of our report/the accompanying documents is a translation from the original, which was prepared in Serbian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Reporting on the other information

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

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

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

In addition, in light of the knowledge and understanding of the Bank 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 financial statements

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

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

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

Auditor’s responsibilities for the audit of the financial statements

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

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

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

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

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

Refer to the original signed Serbian version

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

Belgrade, 21 March 2024

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

(in thousand RSD)

POSITION	Note	2023	2022
Interest income	4	21,947,005	13,449,523
Interest expense	4	(7,322,903)	(3,245,537)
Net interest income		**14,624,102**	**10,203,986**
Fee and commission income	5	5,406,192	4,994,549
Fee and commission expense	5	(1,769,931)	(1,644,525)
Net fee and commission income		**3,636,261**	**3,350,024**
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 and currency clause effects	9	-	66.954
Net foreign exchange losses and currency clause effects	9	(56,821)	-
Net loss from impairment of financial assets that are not valued at fair value through profit and loss	10	(2,377,136)	(2,473,449)
Net loss from derecognition of financial instruments valued at amortized cost	11	(46,833)	(63,474)
Other operating income	12	73,460	75,093
TOTAL NET OPERATING INCOME		**16,000,097**	**11,192,483**
Cost of salaries, contributions and other personnel expenses	13	(3,496,988)	(2,874,407)
Depreciation costs	14	(972,382)	(663,358)
Other income	15	754,367	454,456
Other expenses	16	(6,325,508)	(5,724,078)
PROFIT BEFORE TAX		**5,959,586**	**2,385,096**
Income tax	17	(394,675)	(26,338)
Deferred tax loss	17	(17,837)	(14,386)
PROFIT AFTER TAX	33	**5,547,074**	**2,344,372**

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

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

(in thousand RSD)

POSITION	Note	2023	2022
PROFIT FOR THE YEAR	33	**5,547,074**	**2,344,372**
Components of other comprehensive income that cannot be reclassified to profit or loss:			
Actuarial gain (loss)		(39,926)	37,888
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:			
Negative effects of changes in value of debt instruments valued through other comprehensive income		354,484	(917,599)
Profit from taxes related to other comprehensive results of the period		(51,847)	132,962
Total (positive)negative other comprehensive result		**293,950**	**(753,449)**
TOTAL POSITIVE RESULT FOR THE YEAR		**5,841,024**	**1,590,923**

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Novi Sad, 21 March 2024

Tajana Orozović
Data Management Department Head

Suzan Tanriyar
Executive Committee Member

Jasna Terzić
Executive Committee President

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	60,299,087	54,676,263
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	22,520,151	10,346,771
Loans and receivables to customers	22	227,402,294	217,007,877
Investment in subsidiaries	23	93,560	93,560
Intangible assets	24	4,143,494	3,192,108
Fixed assets	24	3,210,941	3,100,408
Investment property	24	50,142	52,659
Current tax asset	17	112,946	129,231
Deferred tax assets	17	272,884	342,595
Fixed assets held for sale and assets of discontinued operations	25	11,902	11,902
Other assets	26	1,717,766	1,177,375
TOTAL ASSETS		**379,236,896**	**352,460,758**
LIABILITIES AND EQUITY			
LIABILITIES			
Derivative liabilities	27	527,626	744,020
Deposits and other liabilities due to banks, other financial institutions and central Bank	28	60,166,726	68,822,072
Deposits and other financial liabilities due to customers	29	255,444,374	227,765,769
Subordinated liabilities	30	8,859,124	7,077,148
Provisions	31	1,532,540	1,938,039
Current tax liabilities	17	394,675	26,338
Other liabilities	32	4,066,344	3,682,908
TOTAL LIABILITIES		**330,991,409**	**310,056,294**
Equity	33		
Share capital and share premium		21,325,154	21,325,154
Retained earnings		5,547,074	2,344,372
Reserves		21,373,259	18,734,938
TOTAL EQUITY		**48,245,487**	**42,404,464**
TOTAL LIABILITIES AND EQUITY		**379,236,896**	**352,460,758**

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

ERSTE BANK a.d. NOVI SAD 1

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
Balance as at 1 January 2022	**14,107,500**	**3,704,504**	**16,968,156**	**111,070**	**2,409,161**	**37,300,391**
Increase in capital value	1,665,000	1,848,150	-	-	-	3,513,150
Total negative other comprehensive income	-	-	-	(753,450)	-	(753,449)
Profit for the year	-	-	-	-	2,344,372	2,344,372
Transfer from profit to reserves	-	-	2.409.161	-	(2,409,161)	-
Balance as at 31 December 2022	**15,772,500**	**5,552,654**	**19,377,317**	**(642,380)**	**2,344,372**	**42,404,464**
Balance as at 1 January 2023	**15,772,500**	**5,552,654**	**19,377,317**	**(642,380)**	**2,344,372**	**42,404,464**
Increase in capital value	-	-	-	-	-	-
Total negative other comprehensive income	-	-	-	293,950	-	293,950
Profit for the year	-	-	-	-	5,547,074	5,547,074
Transfer from profit to reserves	-	-	2,344,372	-	(2,344,372)	-
Balance as at 31 December 2023	**15,772,500**	**5,552,654**	**21,721,689**	**(348,430)**	**5,547,074**	**48,245,487**

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

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	**27,663,272**	**19,026,378**
Interest receipts	21,485,498	13,551,065
Fee and commission receipts	5,436,329	5,064,148
Receipts of other operating activities	667,984	336,073
Dividend receipts and profit sharing	73,461	75,092
Cash used in operating activities	**19,637,715**	**12,759,141**
Interest payments	6,663,548	3,104,636
Fees and commission payments	1,769,932	1,670,968
Payments to and on behalf of employees	3,448,786	2,852,259
Taxes, contributions and other duties paid	783,466	375,740
Payments for other operating expenses	6,971,983	4,755,538
Net cash inflows from operating activities prior to increases or decreases in loans and deposits	**8,025,557**	**6,267,237**
Decrease in placements and increase in deposits and other liabilities	**41,227,708**	**21,460,904**
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	38,425,122	21,460,904
Increase in loans and decrease in deposits received and other liabilities	**21,765,740**	**26,436,682**
Increase in loans and receivables from banks, other financial organizations, central bank and customers	21,765,740	22,560,431
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/outflows from operating activities before income tax	**27,487,525**	**1,291,459**
Paid income tax	16,219	109,647
Net cash inflows/outflows from ordinary activities	**27,471,306**	**1,181,812**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Cash inflows from investment activities	**374,104**	**11,766**
Inflows from investing in investment securities	374,104	-
Inflows from investing in intangible assets, PP&E	-	11,766
Cash outflows from investment activities	**2,168,877**	**2,471,144**
Outflows from investing in intangible assets, property, plant and equipment	2,168,877	2,471,144
Net cash outflows from investment activities	**1,794,772**	**2,459,378**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	**1,821,152**	**10,724,728**
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	-	3,668,847
Other inflows from financing activities	39,176	-
Cash outflows from financing activities	**20,100,400**	**2,019,583**
Cash outflows from borrowings	20,100,400	-
Other outflows from financing activities	-	2,019,583
Net cash inflows from financing activities	-	**8,705,145**
Net cash outflows from financing activities	**18,279,248**	-
TOTAL NET CASH INFLOWS	**71,086,236**	**51,223,776**
TOTAL NET CASH OUTFLOWS	**63,688,950**	**43,796,198**
NET INCREASE IN CASH	**7,397,285**	**7,427,579**
CASH AT THE BEGINNING OF THE YEAR	**26,403,498**	**18,908,966**
POSITIVE FOREIGN EXCHANGE DIFFERENCES	**5,014,705**	**10,540,018**
NEGATIVE FOREIGN EXCHANGE DIFFERENCES	**5,071,527**	**10,473,065**
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

ERSTE BANK 1 NOVI SAD

1. GENERAL INFORMATION

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

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

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

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

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

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

The Bank is headquartered in Novi Sad, at no. 5, Bulevar Oslobođenja St. The Bank operates through 3 business centres, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Bank's unconsolidated financial statements (the "financial statements") as at and for the year ended 31 December 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.

The attached financial statements are presented in the form prescribed by the Decision on Forms and Contents of Positions in Forms of Financial Statements for Banks ("Official Gazette of the Republic of Serbia" No. 93/2020).

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

The accompanying financial statements represent unconsolidated financial statements of the Bank. The Bank prepared on the same date also the consolidated financial statements in accordance with IFRS.

These standalone 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 Bank's functional and presentation currency. All transactions executed in other than functional currencies are treated as foreign currency transactions.

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

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

A) 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 Bank:

- ***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 unconsolidated Financial Statements (continued)
A) Adoption of New or Revised Standards and Interpretations (continued)

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 unconsolidated 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 unconsolidated 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. Interest income and expenses

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

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

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

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

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

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

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

2.3. Fee and Commission Income and Expenses

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

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

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

Fees for the provision of services over a period of time are recorded in relevant period 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4. Foreign Exchange Translation

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

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

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

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

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

2.5 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.

2.5.1. Methods of measuring financial instruments

a) Amortised cost and Effective interest rate

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

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

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

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

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

Interest income is calculated as follows:

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

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

b) Fair value

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5.2. Initial recognition and measurement

a) Initial recognition

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

b) Initial measurement

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

"Day 1" Profit

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

2.5.3 Classification and subsequent measurement

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

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

The Bank classified the financial assets into the following categories:

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

Subsequent valuation of financial assets depends on their classification.

2.5.3.1. Financial assets at amortised cost

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.3 Classification and subsequent measurement

2.5.3.2 Financial assets at fair value through other comprehensive income

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

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

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

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

2.5.3.3 Financial assets at fair value through profit and loss

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

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

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

2.5.3.4 Reclassification of financial assets

The Bank reclassifies financial assets only when it changes its business model. If the Bank changes its business model for financial assets management, it will apply reclassification 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 Bank during 2023.

2.5.3.5 Equity instruments

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

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

2.5.4 Impairment of financial instruments under IFRS 9

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

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

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

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

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

1) Stage 1

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

   b) Financial assets which fulfil the low credit risk conditions

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

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

2) Stage 2

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

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

3) Stage 3

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

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

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

2.5.5. Derecognition of financial assets and liabilities

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

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

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

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

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

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

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

2.5.6. Restructured loans

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

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

Forbearance represents restructuring conditioned with:

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

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

2.5.7. Issued Financial Instruments and Other Financial Liabilities

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

2.6. 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.

2.7. Cash and Cash Equivalents

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

2.8. 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".

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

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

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

2.10. Investments in Subsidiaries

Subsidiary is an entity over which the Bank has control. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Investments in the subsidiaries in the standalone financial statements of the Bank are recorded at purchase price, and subsequent valuation is made at the purchase price less allowance for impairment.

As at 31 December 2023, the Bank owns 75% of the ownership of the company S Leasing doo, Beograd (Note 23).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11. 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 license	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.

2.12. Property, Plant and Equipment and Investment Property

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13. Impairment of Non-Financial Assets

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

2.14. Accounting for leases by the Bank as a lessee

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

2.15. Provisions, Contingent Liabilities and Contingent Assets

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16. Employee Benefits

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

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

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

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

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

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

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

(c) Short-Term Compensated Absences

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

(d) Allocation of free shares

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 Groupe 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 Group shares, including additional incentive by the Bank (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"

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17. Guarantees

In the ordinary course of business, the Bank 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 Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required settling any financial obligations arising as a result of the guarantee.

Any increase in the liability relating to the financial guarantees is recognized in the income statement within the item "Net expenses / income based on (reduction) from impairment of financial assets not measured at fair value through profit or loss. The premium received is recognized in the income statement within the fee and commission, based on the type of fee. The Bank records certain types of fees on an one-off basis, while those which 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 unamortised amount at initial recognition and (ii) the best estimate of the cost of the needs for the settlement of the contract at the end of the reporting period discounted to the present value.

2.18. Repossessed Assets

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18. Repossessed Assets (continued)

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

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

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

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

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

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

2.19. Taxes and Contributions

(a) Income Taxes

Current Income Tax

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

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

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

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)

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

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

(a) SPPI assessment

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

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

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

The discrepancy in the interest rate and the period of its update relates to variable interest rates for loans where the reference interest rate is not adjusted in terms of tenor and the update period (such as when the 3M EURIBOR is adjusted more often, i.e. every month or less, 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 Bank tested its placements with contracted "old rates" qualitatively, as well as a number of placements that have contracted interest maturity with the update period, quantitatively and all placements have passed the benchmark test.

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

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

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Business model assessment

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

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

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

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

Business models of the Bank:

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

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

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

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

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

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

(c) Credit Loss Allowance

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

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

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(d) Determining the Fair Value of Financial Instruments

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

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

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

(e) Provisions for litigation

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

When making provisions, the Bank assesses the probability of any negative outcomes in these disputes, as well as the extent of probable and reasonable estimated losses, and for those with a probable negative outcome, makes provisions in the amount of the client's request as per lawsuit increased for default interest, attorney's fees and court costs.

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

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

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

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

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

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

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

For each lease agreement, it is assessed whether it contains a lease, 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

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

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

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

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

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	770,812	274,816
– Public companies	736,899	428,664
– Corporate customers	7,431.686	3,808,038
– Entrepreneurs	274,271	164,612
– Public sector	2,336,040	2,393,058
– Retail customers	9.727.483	6.226.846
– Non-residents	465,192	82,093
– Agricultural producers	11,564	9,998
– Other customers	193.058	61.398
Total	**21,947,005**	**13,449,523**
Interest expense		
– Banks and other financial institutions	1,808,286	499,101
– Public companies	31,667	19,545
– Corporate customers	2,742,463	1,052,956
– 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	**7,322,903**	**3,245,537**
Net interest income	**14,624,102**	**10,203,986**

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	18,688,774	10.785.004
Based on obligatory reserve	153,189	92.349
Based on deposits	7,857	21.065
based on securities	2,322,942	2.372.918
Based on other placements	774,243	178.183
Total	**21,947,005**	**13,449,523**
Interest expenses		
Loan obligations	2,472,713	937,345
Based on securities	-	374,758
Based on deposits	4,212,657	1,813,956
Based on leasing IFRS 16	46,024	47,858
Other interest expenses	591,509	71,621
Total	**7,322,903**	**3,245,537**
Net interest income	**14,624,102**	**10,203,986**

5. FEE AND COMMISSION INCOME AND EXPENSES

In RSD '000

	2023	2022
Fee and commission income		
Loans operations	196,687	28,443
Securities	32,171	1,128
Guarantees and other warranties	458,552	388,862
Payments and payment card transactions	3,105,957	3,720,876
Foreign currency buying and selling	779,534	745,313
Other fees and commissions	833,291	109,927
Total	**5,406,192**	**4,994,549**
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	440,054	632,291
Total	**1,769,931**	**1,644,525**
Net fee and commission income	**3,636,261**	**3,350,024**

6. NET GAINS 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
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	4,910,347	10,123,192
Foreign exchange difference losses	(4,701,026)	(9,840,837)
Gains on currency clause effects	104,358	416,827
Losses on currency clause effects	(370,500)	(632,228)
Net income (expenses) of foreign exchange differences and currency clause effects	**(56,821)**	**66,954**

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. 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		
Gains from reversal of indirect write-offs of financial asset valued at amortized cost	10,066,582	7,409,821
Gains 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	**10,954,002**	**8,361,104**
Losses from impairment of financial asset not valued at FVTPL		
Expenses from indirect write-offs of financial asset valued at amortized cost	11,372,208	9,606,732
Expenses 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	**13,331,138**	**10,834,553**
Net losses from impairment of financial asset not valued at FVTPL	**(2,377,136)**	**(2,473,449)**

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)	(19,406)	(7,127)
- loans and advances to customers (Note 22)	(4,506,072)	(7,070,612)
- other assets (Note 26)	(112,723)	(94,234)
	(4,728,233)	**(7,196,168)**
Provisions for losses on off-balance sheet assets (Note 31)	(290,718)	(521,521)
Total losses from impairment of financial assets and credit risk off-balance sheet items	**(5,018,951)**	**(7,717,689)**
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)	4,950	6,251
- loans and advances to customers (Note 22)	4,123,456	4,979,602
- other assets (Note 26)	85,946	9,255
	4,341,270	**4,999,268**
Provisions for losses on off-balance sheet assets (Note 31)	565,044	245,564
Total gains from impairment of financial assets and credit risk off-balance sheet items	**4,906,314**	**5,244,831**
Net loss from impairment of indirect write-offs of placements and provisions	**(112,637)**	**(2,472,858)**

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
Dividend income and other income from shares	44,569	45,174
Total	**73,460**	**75,093**

13. COST OF SALARIES, CONTRIBUTIONS AND OTHER PERSONAL EXPENSE

		In RSD '000
	2023	**2022**
Net salaries and benefits	2,184,231	1,864,532
Payroll taxes and contributions charged to the employee	818,952	683,665
Retirement benefits, jubilee awards, bonuses and annual leave	354,824	189,384
Other staff costs	90,583	107,333
Gains from reversal of provisions (Note 31)	(18)	(9,216)
Provision expenses for retirement benefits and other provisions (Note 31)	48,416	38,709
Total	**3,496,988**	**2,874,407**

14. DEPRECIATION COSTS

		In RSD '000
	2023	**2022**
Depreciation expense:		
- Tangible assets (Note 24)	662,399	577,675
- Investment real estate (Note 24)	2,517	459
- Intangible assets (Note 24)	307,465	85,224
Total	**972,381**	**663,358**

15. OTHER INCOME

In RSD '000

	2023	2022
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	8,725	15,792
Income from sale of properties and intangible assets	25,035	28,252
Other income	300,139	109,005
Total	**754,367**	**454,456**

16. OTHER EXPENSES

In RSD '000

	2023	2022
Professional services	3,359,482	2,696,532
Donations and sponsorships	34,933	38,754
Marketing and advertising	269,135	219,317
Telecommunication services and postage	93,695	68,809
Insurance premiums	649,034	608,048
Rental cost	91,706	87,040
Cost of materials	179,336	157,076
Taxes and contributions payable	196,636	114,805
Maintenance of fixed assets and software	631,647	653,618
Losses on sale and disposal of fixed and intangible assets	313	297
Payroll contributions payable by the employer	423,684	373,329
Per diems and travel expenses	118,490	103,782
Training and counselling	41,027	34,400
Provision expenses for litigations (Note 31)	124,303	476,732
Other	112,086	91,539
Total	**6,325,508**	**5,724,078**

Structure of other expenses of the Bank presents the expenses by main service type used and paid by the Bank.
In 2023, other expenses increased in comparison to other expenses in 2022, mostly due to the increase in the expenses of professional services (RSD 662,940 thousand increase). The reason of the increase in these expenses is the increase in the costs of the IT services and maintenance of the new core bank system in the months following the implementation.

17. INCOME TAXES

(a) Components of income taxes

In RSD '000

	2023	2022
Current income tax expense	(394,675)	(26,338)
Loss from reduction of deferred tax assets and creation of deferred tax liabilities	(17,837)	(14,385)
Total	**(412,512)**	**(40,723)**

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
	2023	**2022**
Profit before tax	**5,959,586**	**2,385,095**
Income tax at the rate of 15%	**893,938**	**357,764**
Tax effects of expenses not recognized for the tax purposes	(18,297)	(545)
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	(3,312)
Total tax expense/(income) stated in the income statement	**412,512**	**40,724**
Effective interest rate	6.92%	1.71%

Deferred tax components

	as of 31 December 2023	
	Amount of temporary difference	**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
Deductible temporary difference per adjustment of securities to fair value – deferred tax assets	372,689	55,903
Deductible temporary difference from provisions for litigations – deferred tax assets	893,209	133,981
Deductible temporary difference from provisions for jubilee awards – deferred tax assets	171,509	25,726
Deductible temporary difference from provisions for pensions – deferred tax assets	172,204	25,831
Deductible temporary difference from provisions for pensions – actuarial gain – deferred tax liabilities	42,142	6,321
Deductible temporary difference from provisions from provisions for government securities – deferred tax liabilities	(4,914)	(737)
Balance as at 31 December 2023	**1,819,227**	**272,884**

17. INCOME TAXES (continued)

(c) Deferred tax components (continued)

	as of 31 December 2022	
	Amount of temporary difference	**Amount of deferred tax**
Deductible temporary difference per difference between the carrying value and tax base of fixed assets – deferred tax assets	160,047	24,007
Deductible temporary difference per adjustment of securities to fair value – deferred tax liabilities	770,842	115,626
Deductible temporary difference from provisions for litigations – deferred tax assets	1,099,191	164,880
Deductible temporary difference from provisions for jubilee awards – deferred tax assets	141,579	21,237
Deductible temporary difference from provisions for pensions – deferred tax assets	127,408	19,111
Deductible temporary difference from provisions for pensions – actuarial gain – deferred tax liabilities	2,216	332
Deductible temporary difference from provisions from provisions for government securities – deferred tax liabilities	(17,317)	(2,598)
Temporary differences based on the effects of IFRS 9	160,047	24,007
Balance as at 31 December 2022	**2,283,966**	**342,595**

(d) Changes in deferred taxes

		In RSD '000
	31 December 2023	**31 December 2022**
Balance of deferred tax assets (liabilities) as at 1 January	342,595	224,019
Effect of temporary tax differences credited to the income statement	(17,837)	(14,385)
Effect of temporary tax differences credited to equity	(51,874)	132,961
Balance of deferred tax assets as at 31 December	**272,884**	**342,595**

Creation of deferred tax assets in the amount of RSD 272,884 thousand in 2023 compared to RSD 342,595 thousand in 2022 had an effect on the income statement by decreasing amount of RSD 17,873 thousand and the effect through equity in the amount of RSD 51,874 thousand.

During 2023, the Bank made a profit after tax in the amount of RSD 5,547,074 thousand. This amount will be distributed in accordance with the Decision at the forthcoming Bank general meeting.

During 2023, the Bank presented the tax base from operation in the amount of RSD 2,631,166 thousand (15%: RSD 394,675 thousand). Further, during 2023, the Bank sold the shares of Alta bank a.d. Beograd and Beogradska berza a.d. and disclosed the total tax capital loss in the amount of RSD 8,257 thousand (15%: RSD 1,239 thousand). The Bank is entitled to use the disclosed capital loss for set-off with future capital gains in the next 5 years. Based on the disclosed tax capital loss, the Bank did not set up deferred tax assets in 2023.

During the year, the Bank pays income tax in the form of monthly advance payments, the amount determined on the basis of the tax return for the previous year. The final tax base, to which the prescribed corporate income tax rate of 15% applies is determined by the Bank's Tax Balance Sheet. The Bank reported current tax assets in the amount of RSD 112,945 thousand, which is the amount of the advance payments paid during 2020 (RSD 49,058 thousand), in 2021 (RSD 53,835 thousand), and in 2023 (RSD 10,053 thousand).

18. CASH AND FUNDS WITH THE CENTRAL BANK

In RSD '000

	31 December 2023	31 December 2022
In RSD		
Giro account	26,206,162	19,122,942
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	**30,085,627**
In foreign currencies		
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**	**54,676,263**

The 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 Central Bank 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 0,10% annually.

The obligatory foreign currency reserve represents the minimum foreign currency reserve set aside in accordance with the NBS Decision on Required Reserves of Banks with the National Bank of Serbia (Official Gazette of RS, nos. 76/2018) 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 currencies		
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 currencies		
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**
Minus: 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 Bank did not have any pledged financial assets. On 31 December 2022, the Bank had pledged financial assets. These are debt securities (bonds) pledged as part of a repo transaction with the NBS.

In the table, except for trading securities (FVTPL), all debt securities are classified in 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	804	**848**	245	3,556	**3,801**
Deposits	12,000	-	**12,000**	6,000	-	**6,000**
	19,026,715	**804**	**19,027,519**	**4,672,915**	**3,556**	**4,676,471**
In foreign currency						
Foreign currency accounts	606,939	-	**606,939**	690,505	-	**690,505**
Revocable deposits and loans	-	-	**-**	482	-	**482**
Loans	268,138	2,465,349	**2,733,487**	4,836,016	115,705	**4,951,721**
Deposits	96,262	-	**96,262**	4,693	-	**4,693**
Other placements	76,055	-	**76,055**	29,832	-	**29,832**
	1,047,394	**2,465,349**	**3,512,743**	**5,561,528**	**115,705**	**5,677,233**
Gross loans and receivables	**20,074,109**	**2,466,153**	**22,540,262**	**10,234,443**	**119,261**	**10,353,704**
Less: Impairment allowance			(20,111)			(6,933)
			(20,111)			**(6,933)**
Loans and receivables from banks and financial institutions			**22,520,151**			**10,346,771**

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					Impairment allowance				
	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)
Insurance companies	340	-	-	-	340	(6)	-	-	-	(6)
Financial leasing	283	-	-	-	283	-	-	-	-	-
Auxiliary activities in providing financial and insurance services	185	17	3	-	205	(3)	(4)	(2)	-	(9)
Foreign banks	12,020	-	-	-	12,020	(33)	-	-	-	(33)
	19,027,499	**17**	**3**	**-**	**19,027,519**	**(4,886)**	**(4)**	**(2)**	**-**	**(4,892)**
In foreign currency										
Financial leasing	2,681,204	-	-	-	2,681,204	(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)
	3,508,056	**4,687**	**-**	**-**	**3,512,743**	**(14,470)**	**(749)**	**-**	**-**	**(15,219)**
Total	**22,535,555**	**4,704**	**3**	**-**	**22,540,262**	**(19,356)**	**(753)**	**(2)**	**-**	**(20,111)**

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	842,232	732,924
Up to 30 days	19,026,671	4,672,859
From 3 to 12 months	205,054	4,828,660
Over 1 year	2,466,305	119,261
	22,540,262	**10,353,704**

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

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	**6,907**	**17,219**	**4,431**	**157**	**493**	**(3)**	**19,356**
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	(1)	12,166
Financial leasing	120	121	120	-	-	-	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	**0**	**2**	**-**	**-**	**-**	**-**	**2**
Auxiliary activities in providing financial and insurance services	**-**	2	-	-	-	**-**	2
TOTAL	**6,933**	**17,975**	**4,457**	**157**	**493**	**(4)**	**20,111**

The 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 Central Bank 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	1,056,495	214,630	**1,271,125**	625,896	885,533	**1,511,429**
	5,361,316	**54,891,981**	**60,253,297**	**3,485,469**	**54,828,388**	**58,313,857**
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	**16,792,274**	**217,525,573**	**234,317,847**	**19,407,871**	**204,115,083**	**223,522,954**
Less: Impairment allowance						
– Individual assessment			(1,010,562)			(1,542,735)
– Collective assessment			(5,904,991)			(4,972,342)
			(6,915,553)			**(6,515,077)**
Balance as of 31 December			**227,402,294**			**217,007,877**

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 as at 31 December 2023					Impairment allowances as at 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	6,626,524	3,551,102	-	-	10,177,626	(28,121)	(115,756)	-	-	(143,877)
Other companies	91,358,020	13,289,667	722,616	1,776,958	107,147,261	(561,218)	(557,987)	(523,746)	(934,431)	(2,577,382)
Entrepreneurs	886,770	165,155	167,666	-	1,219,591	(7,752)	(5,265)	(31,152)	-	(44,169)
Public sector	615,044	-	-	-	615,044	(1,951)	-	-	-	(1,951)
Retail	47,325,729	4,386,910	457,968	93,548	52,264,155	(86,207)	(195,896)	(182,268)	(1,192)	(465,563)
Foreign entities	7,636	-	-	-	7,636	(7)	-	-	-	(7)
Farmers	69,436	10,470	9,096	-	89,002	(667)	(1,395)	(9,009)	-	(11,071)
Other customers	2,412,055	12,651	119,529	-	2,544,235	(41,852)	(729)	(28,431)	-	(71,012)
	149,301,214	**21,415,955**	**1,476,875**	**1,870,506**	**174,064,550**	**(727,775)**	**(877,028)**	**(774,606)**	**(935,623)**	**(3,315,032)**
Total	**197,715,983**	**30,047,893**	**4,486,235**	**2,067,736**	**234,317,847**	**(1,109,796)**	**(1,553,566)**	**(3,231,947)**	**(1,020,244)**	**(6,915,553)**

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	**3,460,937**	**5,033,898**	**127,789**	**8,373**	**408,099**	**-**
Construction	217,309	3,882	173	-	2	-
Agriculture and food industry	172,995	3,789	48,471	-	394,701	-
Manufacturing industry	771,618	2,423,728	42,749	-	7,756	-
Production and supply of electricity	4,065	1,771,646	-	-	-	-
Trade	1,619,124	216,328	26,771	-	4,875	-
Services and tourism	675,826	614,525	9,625	8,373	765	-
Entrepreneurs	**117,610**	**133,317**	**19,831**	**-**	**5,235**	**-**
Retail	**6,203,162**	**1,524,379**	**568,795**	**50,108**	**661,587**	**10,742**
Farmers	**9,290**	**15,871**	**4**	**-**	**2,779**	**-**
Sector of other customers	**4,836**	**1,243**	**1,916**	**-**	**6,370**	**-**
Total	**9,795,835**	**6,708,708**	**718,335**	**58,481**	**1,084,070**	**10,742**

The change “From Stage 1 to Stage 2” was predominantly impacted by the quantitative criterion, i.e. PD change. The change “From Stage 2 to Stage 1” was predominantly impacted by the definition of new list of exemption from Stage 2 Overlay Rules prepared in November 2023.

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	64,908	198,016
From 1 to 3 months	1,357,959	2,039,525
From 3 to 12 months	12,564,911	15,274,348
Over 1 year	217,525,573	204,115,083
	234,317,847	**223,522,954**

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	**1,232,657**	**522,615**	**324,515**	**93,206**	**769,496**	**2,006**	**-**	**353,323**	**1,109,796**	**47**	**1**
Public enterprises	9,279	34,313	2,232	10,292	129	-	-	701	52,224	-	-
Other companies	584,692	304,376	165,899	37,021	377,443	14	-	219,866	602,627	-	-
Entrepreneurs	14,485	15,749	2,686	934	13,595	-	-	7,612	22,499	-	-
Public sector	2,626	824	1,575	1,222	277	-	-	(16)	2,804	-	-
Farmers	-	389	-	84	3,813	(3)	-	4,928	1,585	-	-
Retail	604,892	157,075	147,940	23,789	373,552	1,995	-	119,795	386,054	47	1
Foreign entities	594	1	566	-	21	-	-	(1)	7	-	-
Other customers	16,089	9,888	3,617	19,864	666	-	-	438	41,996	-	-
Stage 2	**1,909,339**	**325,770**	**392,161**	**560,373**	**407,654**	**5,381**	**7**	**(447,475)**	**1,553,566**	**40**	**-**
Public enterprises	217,645	5	8,550	300	93,050	-	-	(237)	116,113	-	-
Other companies	833,576	171,077	188,390	143,207	109,786	(23)	7	(251,972)	597,682	-	-
Entrepreneurs	45,158	15,700	7,732	7,024	10,772	(1)	-	(16,257)	33,120	-	-
Public sector	227	291	227	117	-	-	-	77	485	-	-
Farmers	-	422	-	935	72	(2)	-	403	1,686	-	-
Retail	811,177	136,946	186,737	408,252	193,830	5,407	-	(179,025)	802,190	40	-
Foreign entities	21	2	20	-	-	-	-	(1)	2	-	-
Other customers	1,535	1,327	505	538	144	-	-	(463)	2,288	-	-
Stage 3	**3,320,593**	**774,080**	**2,100,820**	**1,228,632**	**105,040**	**10,152**	**944**	**105,294**	**3,231,947**	**181**	**19**
Other companies	1,366,969	267,072	1,331,824	293,767	4,646	11	95	28,624	619,878	-	4
Entrepreneurs	73,185	28,275	42,139	44,275	5,330	9	20	8,665	106,920	-	7
Retail	1,749,004	465,558	633,154	871,723	73,486	10,138	383	52,747	2,442,147	181	3
Public enterprises	-	61	-	-	-	-	11	11	61	-	-
Public sector	-	24	-	-	-	-	2	2	24	-	-
Farmers	-	4,886	-	3,003	2,365	(6)	-	11,782	17,300	-	-
Foreign entities	28	166	5	10	-	-	-	(1)	198	-	-
Other customers	131,407	8,038	93,698	15,854	19,213	-	433	3,464	45,419	-	5
POCI	**52,488**	**981,227**	**20,250**	**20,169**	**3,520**	**14**	**-**	**(9,884)**	**1,020,244**	**-**	**-**
Other companies	-	934,431	-	-	-	-	-	-	934,431	-	-
Retail	52,488	46,796	20,250	20,169	3,520	14	-	(9,884)	85,813	-	-
TOTAL	**6,515,077**	**2,603,692**	**2,837,746**	**1,902,380**	**1,285,710**	**17,553**	**951**	**1,258**	**6,915,553**	**268**	**20**

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	17,240,653	15,130,001
Manufacturing industry	25,590,539	25,875,507
Construction	18,000,149	11,661,171
Production and supply of electricity	15,944,212	15,411,402
Services and tourism	38,240,674	35,479,350
Agriculture and food industry	9,972,440	8,902,301
Retail	101,206,705	102,366,659
Domestic and foreign banks and other financial institutions	22,448,687	10,353,704
Public sector	2,310,066	2,340,264
Foreign legal entities	95,633	97,137
Farmers	132,575	138,746
Sector of other customers	2,601,339	2,956,930
Entrepreneurs	3,074,422	3,163,486
Public companies in bankruptcy	4	-
Other financial institutions in bankruptcy	11	-
TOTAL:	**256,858,109**	**233,876,658**

23. INVESTMENTS IN SUBSIDIARIES

In RSD '000

	31 December 2023	31 December 2022
S – Leasing d.o.o Srbija – 75% of share	93,560	93,560
Balance as of 31 December	**93,560**	**93,560**

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

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

In RSD '000

	Land and buildings	Equipment	Leased equipment / Right of Use Assets	Assets in progress	Total fixed assets	Investment property	Intangible assets in progress	Intangible assets
Cost								
Balance as at 1 January 2022	**823,891**	**1,861,438**	**2,391,015**	**247,071**	**5,323,415**	**-**	**1,541,934**	**1,612,259**
Additions	-	-	205,154	508,636	713,790	-	1,571,785	-
Transfers	45,240	282,230	-	(327,470)	-	-	(43,480)	43,480
Rebooking	(100,678)	70,570	(70,570)	-	(100,678)	100,678	-	-
Disposal and retirement	(13,274)	(61,419)	(62,802)	-	(137,495)	-	-	(13,359)
Balance as at 31 December 2022	**755,179**	**2,152,819**	**2,462,797**	**428,237**	**5,799,032**	**100,678**	**3,070,240**	**1,642,381**
Additions	-	-	304,168	534,177	838,345	-	1,259,644	-
Transfers	15,124	720,331		(735,455)	-	-	(3,990,502)	3,990,502
Rebooking	-	-	(8,461)	-	(8,461)	-	(760)	-
Disposal and retirement	-	(103,412)	(105,655)	-	(209,067)	-	-	(681,037)
Balance as at 31 December 2023	**770,303**	**2,769,738**	**2,652,849**	**226,959**	**6,419,850**	**100,678**	**338,619**	**4,951,846**
ACCUMULATED IMPAIRMENT ALLOWANCE								
Balance as at 31 December 2022	**350,038**	**1,161,439**	**762,196**	**-**	**2,273,673**	**-**	**-**	**1,448,532**
Rebooking	(47,560)	70,570	(70,570)	-	(47,560)	47,560	-	-
Amortisation (Note 14)	20,362	226,049	331,264	-	577,675	459	-	85,224
Disposal and retirement	(6,962)	(58,943)	(39,258)	-	(105,163)	-	-	(13,245)
Balance as at 31 December 2022	**315,878**	**1,399,115**	**983,632**	**-**	**2,698,625**	**48,019**	**-**	**1,520,511**
Amortisation (Note 14)	18,980	306,224	337,195	-	662,399	2,517	-	307,465
Disposal and retirement	-	(86,948)	(441,522)	-	(528,470)	-	-	(681,005)
Balance as at 31 December 2023	**334,858**	**1,618,391**	**1,255,660**	**-**	**3,208,909**	**50,536**	**-**	**1,146,971**
Non-written off value as at:								
31 December 2023	**435,445**	**1,151,346**	**1,397,189**	**226,959**	**3,210,941**	**50,142**	**338,619**	**3,804,875**
31 December 2022	**439,301**	**753,704**	**1,479,166**	**428,237**	**3,100,408**	**52,659**	**3,070,238**	**121,870**

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

The Bank has two facilities in ownership classified as investment property. Real estate fair value is RSD 130,544 thousand.

The Bank does not have any mortgaging properties to secure repayment of loan obligations. The net book value of the equipment as at 31 December 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 Bank has the property and movable assets. The right of use assets mostly relate to the facilities and, as at 31 December 2023, the net value is 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 Bank determined that there were no non-financial assets impairment indicators.

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

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

- at book value or
- fair value reduced for costs for sale

		In RSD '000
	31 December 2023	**31 December 2022**
Fixed assets intended for sale and assets from discontinued operations	11,902	11,902
Balance as of 31 December	**11,902**	**11,902**

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

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

Appraised market value of the asset held for sale amounts to RSD 22,831 thousand.

26. 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	12,072	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	48,743	7,632
– Receivables from employees	2,501	12,406
– Receivables from prepaid taxes and contributions	66	2,131
– Inventories	98,440	81,717
– Other receivables	776,021	23,526
– Other investments	27,005	27,006
– Other accruals	128,631	-
	1,619,748	**1,186,219**
In foreign currency		
Financial assets:		
– Receivables for accrued fees and commissions	782	-
– 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	4,560	47,025
– Receivables from employees	149	267
– Other non-financial receivables	206,552	850
	273,696	**157,238**
Gross other assets	**1,893,444**	**1,343,457**
Less: Impairment allowance	(175,678)	(166,082)
Balance as at 31 December	**1,717,766**	**1,177,375**

Other financial assets are valued at amortized cost.

In the position of other non-financial receivables, pass-through and suspense accounts as well as the receivables in the calculation are presented. The highest increase in other non-financial receivables in dinars as well as in foreign currency relates to the receivables under the card transactions.

26. 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	87,127	96,492
New impairment allowances	112,723	94,234
Reversal for impairment allowance	(85,946)	(9,255)
Direct write-offs	(24,900)	(140,358)
Foreign exchange difference	(9,645)	46,014
Balance of impairment allowances of financial assets as at 31 December	**79,359**	**87,127**
Balance of impairment allowances of non-financial assets as at 31 December	96,319	78,955
Balance as of 31 December	**175,678**	**166,082**

27. 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**

28. 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	2,808,585	-	**2,808,585**	1,120,604	-	**1,120,604**
Deposits for approved loans	-	-	**-**	-	1,255	**1,255**
Specific purpose deposits	15,262	-	**15,262**	14,975	-	**14,975**
Other deposits	873,345	985,000	**1,858,345**	4,431,732	884,000	**5,315,732**
Loans per repo transactions	200,000	-	**200,000**	5,846,245	-	**5,846,245**
Borrowings	-	-	**-**	-	3,322,865	**3,322,865**
Total	**3,897,192**	**3,258,731**	**7,155,923**	**11,413,556**	**4,208,120**	**15,621,676**
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	315,909	29,046,540	**29,362,449**	58,542	40,580,570	**40,639,112**
Other financial liabilities	10,735	-	**10,735**	27,064	-	**27,064**
Total	**22,536,502**	**30,474,301**	**53,010,803**	**10,540,820**	**42,659,576**	**53,200,396**
Balance as of 31 December	**26,433,694**	**33,733,032**	**60,166,726**	**21,954,376**	**46,867,696**	**68,822,072**

28. 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:

	31 December 2023	**In RSD '000** **31 December 2022**
Central bank	-	5,846,245
Bank in the country	9,808,751	5,122,160
Insurance companies	3,411,813	4,095,454
Financial leasing	277,132	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	32,174,088	44,862,429
Balance as of 31 December	**60,166,726**	**68,822,072**

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.

29. 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	1,319,230	**9,865,490**
Borrowings	12,365	1,715,272	**1,727,637**	-	2,040,012	**2,040,012**
Other financial liabilities	590,940	-	**590,940**	535,435	-	**535,435**
Total	**113,378,193**	**38,915,285**	**152,293,478**	**115,083,582**	**24,500,157**	**139,583,739**
Balance as of 31 December			**255,444,374**			**227,765,769**

29. 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	99,813,130
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	6,424,579
Farmers	1,206,687	1,229,781
Other customers	5,379,507	5,117,449
Balance as of 31 December	**255,444,374**	**227,765,769**

30. 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 a subordinated loan agreement with Erste Group Bank AG Vienna for the amount of EUR 30 million. 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 a subordinated loan agreement with Erste Group Bank AG Vienna in the amount of EUR 30 million. 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.

31. PROVISIONS

In RSD '000

	31 December2023	31 December2022
Provisions for losses per off-balance sheet items (a)	295,618	569,864
Provisions for long-term employee benefits (b):		
– retirement benefits	172,204	127,407
– jubilee awards	171,509	141,578
Provisions for litigations (c)	893,209	1,099,190
Balance as of 31 December	**1,532,540**	**1,938,039**

Changes in the provisions

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

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

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

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

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

31. 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 employee benefits		
Balance at the beginning of the year	268,987	315,871
Provisions in the period through P&L (Note 13)	48,416	38,709
Reversal of provisions during the year (Note 13)	(18)	(9,216)
Benefits paid during the year	(29,152)	(38,489)
Actuarial losses (+)/gains (-) based on jubilee awards	15,537	-
Actuarial losses (+)/gains (-) based on retirement benefits	39,925	(37,888)
	343,713	**268,987**
Provision for litigations		
Balance at the beginning of the year	1,099,187	1,045,849
Charge for the year (Note 16)	124,303	476,732
Used provision during the year	(288,321)	(423,591)
Other movements	(41,961)	197
	893,209	**1,099,187**
Balance as of 31 December	**1,532,540**	**1,938,039**

31. PROVISIONS (continued)

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

- Data on employees;
- Total work experience as at 31 December 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	26,045
b. Past service cost	2,259
c. Interest costs	22,371
d. Payments	(29,152)
Actuarial gains (-)/losses (+) for jubilee arising from:	**14,108**
a. Change in demographic assumptions	(2,472)
b. Change in financial assumptions	16,580
c. Change in experience assumptions	-
Actuarial gains (-)/losses (+) for severance payments arising from:	**39,096**
a. Change in demographic assumptions	18,320
b. Change in financial assumptions	20,776
c. Change in experience assumptions	-
Present value of employee benefits as at 31 December 2023	**343,714**

31. PROVISIONS (continued)

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

In RSD '000

Changes in 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**	**-**	**-**	**-**	**-**

32. OTHER LIABILITIES

	31 December 2023	In RSD '000 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	209,290	131,981
	247,088	**163,141**
Non-financial liabilities:		
Trade payables	11,528	65,262
Advances received	9,027	20,570
Liabilities for salaries	-	197
Liabilities for taxes, contributions, and other duties payable	79,299	244,509
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
	2,066,944	**1,618,476**
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	-	143,858
Advances received	3,188	3,407
Other liabilities	143,980	85,978
	147,168	**233,243**
Balance as of 31 December	**4,066,344**	**3,682,908**

Other financial liabilities are valued at amortized cost.

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

Currency of liability	1 January 2023		31 December 2023	
	Amount in currency	Amount in RSD	Amount in currency	AMOUNT IN RSD
RSD	-	13,905	-	17,503
Currency clause (EUR) - **Real estate**	5,748	674,336	5,235	613,461
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	**13,813**	**1,634,496**	**13,205**	**1,564,308**

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

33. EQUITY

(a) Structure of the Bank's Equity

The total Bank's equity as at 31 December 2022 amounts to RSD 48,245,487 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 5,547,074 thousand.

The total equity structure of the Bank 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	19,377,317
Revaluation reserves /iv/	(348,430)	(642,379)
Profit for the year	5,547,074	2,344,372
Balance as of 31 December	**48,245,487**	**42,404,464**

/i/ Share capital

As at 31 December 2023 the Bank's subscribed and paid in capital comprised of 1,577,250 ordinary shares with the par value of RSD 10,000 per share (31 December 2021: 1,577,250 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.

33. EQUITY (continued)

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

Performance indicators	Prescribed	31 December 2023	31 December 2022
1 Equity	Minimum EUR 10 million	EUR 404,477,281	EUR 378,150,269
2 Total capital adequacy ratio	Minimum 8 %	21.36	20.58
3 Tier 1 capital adequacy ratio	Minimum 6 %	17.51	17.32
4 Common Equity Tier 1 tier capital adequacy ratio	Minimum 4.5 %	17.51	17.32
5 Investments of the Bank	Maximum 60%	6.98	7.15
6 Exposure to related parties	No limit	4.54	4.61
7 Large and largest possible loans in relation to capital	Maximum 400%	67.70	27.83
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 %	148.21	157.10
10 Foreign exchange risk indicator	Maximum 20%	0.67	3.38
11 Exposure of the Bank to a group of related parties	Maximum 25%	19.56	16.75
12 Exposure of the Bank to a person related to a bank	No limit	4.47	3.94
13 Bank's investments in non-financial entities	Maximum 10%	0.06	0.06

34. OFF-BALANCE SHEET ITEMS

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

In RSD '000

	31 December 2023	31 December 2022
Operations on behalf of third parties (a)	500,948	528,953
Guarantees and other irrevocable commitments (b)	121, 131,848	113,904,104
Other off-balance sheet positions	451,590,563	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

In RSD '000

	31 December 2023	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

In RSD '000

	31.12.2023.	31.12.2022.
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.

34. OFF-BALANCE SHEET ITEMS (continued)

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

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

As at 31 December 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).

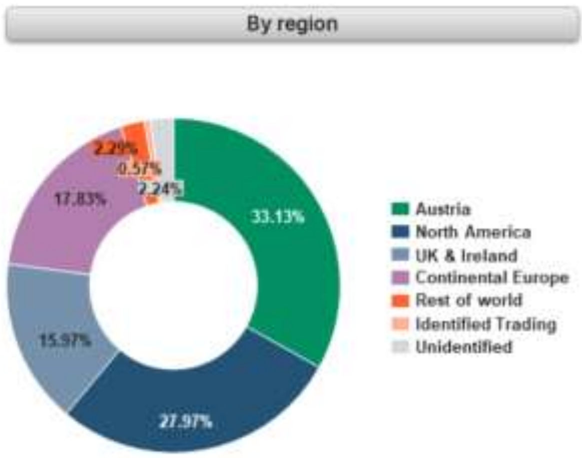
35. RELATED PARTY DISCLOSURES

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

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

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

Shareholder structure of Erste Group is as follows:



35. RELATED PARTY DISCLOSURES (continued)

a) Balance as at 31 December 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	2,695,775	623,138	4,935,596
Loans and receivables due from customers	-	106	-	253
Investments in subsidiaries	-	93,560	-	93,560
Property, plant and equipment	-	757,600	-	759,700
Other assets	1,818	29,350	3,381	2,942
	1,071,483	**3,576,391**	**1,414,357**	**5,792,051**
Liabilities				
Derivative liabilities	141,649	-	25,699	-
Deposits and other liabilities due to banks and other financial organisations	724,464	9,575,189	14,893,650	739,613
Deposits and other liabilities to customers	-	331,427	-	-
Subordinated liabilities	8,859,125	-	7,077,149	-
Provisions	20	6,029	24	2,492
Other liabilities	-	4,586	3,064	898,930
	9,725,258	**9,917,231**	**21,999,586**	**1,641,035**
Off-balance sheet items				
Guarantees and other surety issues	701,736	238,374	220,722	108,800
Irrevocable commitments	-	2,614,610-	-	2,328,399
Other off-balance sheet items	89,570	2,362,208	-	669,640
	791,306	**5,215,192**	**220,722**	**3,106,839**

35. 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	437,613	120,160	66,239	70,258
Interest expenses	(1,163,549)	(68,018)	(535,432)	(36,126)
Fee and commission income	77,793	55,239	66,812	54,233
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	88	-	286	-
Net loss on impairment of financial assets not valued at FV through profit and loss	-	(3,326)	-	(1,773)
Other operating income	-	-	-	11,193
Amortisation expenses	-	(106,147)	-	(91,345)
Other income	-	10	3,944	9,242
Other expense	(85,376)	(920,353)	(78,067)	(805,393)

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. In cross-border loans, the Bank is solely an agent and is not exposed to credit risk.

35. RELATED PARTY DISCLOSURES (continued)

Salaries and other benefits of the 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	5,921	5,697
Salaries and benefits of the Executive Committee members	137,538	162,679
Accrued income of the Executive Committee members	85,052	62,405
Total	**228,511**	**230,781**

Transfer prices

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

36. RISK MANAGEMENT

36.1 General

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

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

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

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

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

The 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 Bank has established separate independent bodies for managing and monitoring risks.

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

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 Bank.

Assets and Liabilities Management Committee (ALCO)

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

ALCO has and advisory role and its decisions are sent in the form of proposals for approval to the Executive 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.

36. RISK MANAGEMENT (continued)

36.1 Introduction (continued)

Non-financial Risk Management Committee

The Role of non-financial risk management committee is to discuss, suggest decision and validate questions from Bank's operational risk areas, with the application of Decision on the basis of expected profit of exposure to risk as well as implementation of corrective measures and activities of mitigation of risk to manage non-financial risks proactively (operational risk, reputation risk, compliance risk, legal risk, information 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 Bank's operations take place in accordance with the standards providing the function of an independent, objective assurance and advisory activities based on best banking practices. Through systematic and disciplined approach, the Internal Audit helps the Bank accomplish its objectives by evaluating and improving the effectiveness of risk management, control and managerial processes.

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

36. RISK MANAGEMENT (continued)

36.1. Introduction (continued)

Risk management and reporting (continued)

The responsibilities of the Credit Risk Management Division and Strategic Risk Management 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 Bank and its operations are particularly exposed to: credit risk, concentration risk, market risk, liquidity risk, and operational risk. The obtained information is presented and explained to the 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.

36. RISK MANAGEMENT (Continued)

36.1. Introduction (Continued)

Risk management and reporting (continued)

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

37.2. Credit Risk

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

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

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

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

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

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

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

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

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

The Bank complies with all standards of Erste Group AG from perspective of development of model of internal ratings and maintaining processes. All new models and modifications of already existing models in Bank (rating models and risk parameters) as well as methodological standards are examined by group commission, known as Holding Model Committee (HMC), which secures integrity across Group as well as consistency of model and methodology. Models are approved by Executive 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 Bank uses scale of 8 grades (A1/A2/B1/B2/C1/C2/D1/D2), for clients from retail sector, respectively scale of 13 grades (1/2/3/4a/4b/4c/5a/5b/5c/6a/6b/7/8) for all other categories. For clients that are in default status the Bank uses scale of 5 grades (R1-R5).

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

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

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

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

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

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

Monitoring and control of credit risk

Monitoring of credit risk

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

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

36. RISK MANAGEMENT (continued)

36.2. Credit Risk (continued)

Monitoring and control of credit risk (continued)

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

Early Warning Signals

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

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

Default status

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

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

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

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Default status (continued)

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

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

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

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

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

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

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

During 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.

36. RISK MANAGEMENT (continued)

36.2 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.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Maximum exposure to credit risk in balance sheet and off-balance sheet items. Maximum exposure to credit risk, in gross and net amount, without collaterals, as well as other items Bank does not consider to be exposed to credit risk, in accordance with balance sheet items as at 31 December 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	-	-	**-**	60,299,087	**60,299,087**
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	3,525,592	(15,268)	**3,510,324**	19,009,827	**22,520,151**
Loans and receivables due from customers	232,500,697	(6,914,692)	**225,586,005**	1,816,289	**227,402,294**
Investments in subsidiaries	-	-	**-**	93,560	**93,560**
Intangible assets	-	-	**-**	4,143,494	**4,143,494**
Property, plant and equipment	-	-	**-**	3,210,941	**3,210,941**
Investment property	-	-	**-**	50,142	**50,142**
Current tax assets	-	-	**-**	112,945	**112,945**
Deferred tax assets	-	-	**-**	272,885	**272,885**
Non-current assets held for sale and discontinued operations	-	-	**-**	11,902	**11,902**
Other assets	-	-	**-**	1,717,766	**1,717,766**
Balance sheet exposure	**295,455,775**	(6,957,717)	**288,498,058**	**90,738,838**	**379,236,896**
Guarantees and warranties	48,123,903	(120.534)	**48,003,369**	-	**48,003,369**
Assumed contingent liabilities	80,007,945	(175,084)	**79,887,411**	-	**79,887,411**
Other off-balance exposure	-	-	**-**	452,090,938	**452,090,938**
Total off balance exposure	**128,131,848**	**(295,618)**	**127,890,780**	**452,090,938**	**579,981,718**
Total exposure	**423,587,623**	**(7,253,335)**	**416,388,838**	**542,829,776**	**959,218,614**

In accordance with Bank’s policy, sources of credit risk are loans portfolio and receivables from customers, banks and other financial institutions, as well as off-balance exposure in form of financial guarantees and undertaken assumed liabilities, below in detail those exposures are presented by sector, category, status, collateral, maturity and value of collateral. Placements towards the National Bank of Serbia are deemed risk free placements by the Bank.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Overview of securities as at 31 December 2023:

In RSD '000

	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**	**4,914**	-
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**	**4,914**	-

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 2022:
- Moody's Investors Service Ba2 / stable outlook
- Fitch Ratings BB + / stable outlook
- Standard and Poor's BB + / stable outlook

36. RISK MANAGEMENT (continued)
36.2 Credit Risk (continued)

Maximum exposure to credit risk regarding balance sheet and off-balance sheet items.
Maximum exposure to credit risk, in gross and net amount, without collaterals, as well as other items Bank does not consider to be exposed to credit risk, in accordance with Balance sheet items as at 31 December 2022 is presented in the following table:

In RSD '000

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

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

[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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Overview of securities as at 31 December 2022:

In RSD '000

	Securities					
	Gross value			Accumulated allowance for impairment		
	AC	FVOCI	FVTPL	AC	FVOCI	FVTPL
Derivative receivables	-	-	**814,366**	-	-	-
Of which: Other	-	-	814,366	-	-	-
Securities	**45,078,301**	**11,501,841**	**5,000,001**	**64,500**	**-**	**-**
Of which: State bonds of the Republic of Serbia	44,583,300	11,389,172	4,972,952	64,500	-	-
Of which: Other	495,001	112,669	27,049	-	-	-
Total exposure	**45,078,301**	**11,501,841**	**5,814,367**	**64,500**	**-**	**-**

As at 31 December 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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Loans and receivables from customers, banks and other financial institutions

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

In RSD thousand

	Credit quality of non-problematic receivable			Problematic loans	Value of collateral*		The impact ofcollateral on reducing value of impairement
	High	Medium	Low		Nonblematic receivables	Problematic receivables	
Receivables from retail customers	**78,304,758**	**15,650,117**	**3,772,882**	**3,514,303**	**37,065,788**	**390,693**	**0**
Housing loans	45,186,424	6,088,155	1,511,866	513,725	36,992,758	388,692	0
Consumer and cash loans	31,701,526	9,215,487	2,160,191	2,827,738	67,758	2,001	0
Transactions and credit cards	1,416,715	346,470	100,825	124,177	5,272	0	0
Other receivables	93	5	0	48,663	0	0	0
Receivables from corporate clients	**108,818,301**	**10,836,867**	**609,518**	**2,893,281**	**33,367,814**	**1,361,425**	**1,154,197**
Large enterprises	22,728,822	1,978,290	221,966	0	12,587,516	0	9,992
Small and middle sized enterprises	53,012,799	4,218,605	39,924	2,489,825	16,242,331	1,163,381	991,229
Micro sized enterprises and entrepreneurs	20,922,777	4,592,757	330,047	385,123	4,468,331	197,271	152,976
Agriculture	59,538	37,193	17,579	18,265	69,636	773	0
Public enterprises	12,094,365	10,022	2	68	0	0	0
Receivables from other clients	31,633,980	604,802	80,860	138,436	64,082	183	93,157
Total receivables	**218,757,039**	**27,091,786**	**4,463,260**	**6,546,020**	**70,497,684**	**1,752,301**	**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).

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Loans and receivables from customers, banks and other financial institutions

(a) Overview by credit quality of non-problematic receivables (retroactively simulated based on the new methodology) and value of collateral of those receivables as at 31 December 2022:

In RSD thousand

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

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

(b) Overview of gross and net exposure to credit risk by sector and category of receivables, means of collateral, maturity and value of collateral as at 31 December 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	**97,484,231**	**245,195**	**-**	**3,512,634**	**101,242,060**	**1,180,129**	**-**	**2,536,135**	**97,525,796**	**37,065,788**	**390,693**
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	98	-	-	48,663	**48,761**	-	-	-	**48,761**	-	-
Receivables from corporate clients	**118,737,423**	**1,527,282**	**1,973,557**	**919,705**	**123,157,967**	**1,425,587**	**985,054**	**694,405**	**120,052,921**	**33,367,814**	**1,361,425**
Large enterprises	24,240,551	688,527	-	-	**24,929,078**	199,174	-	-	**24,729,904**	12,587,516	-
Small and middle sized enterprises	56,728,815	542,513	1,792,834	696,991	**59,761,153**	570,933	959,487	502,411	**57,728,322**	16,242,331	1,163,381
Micro sized enterprises and entrepreneurs	25,653,769	191,829	180,723	204,383	**26,230,704**	484,351	25,567	174,472	**25,546,314**	4,468,331	197,271
Agriculture	108,641	5,670	-	18,264	**132,575**	3,271	-	17,461	**111,843**	69,636	773
Public enterprises	12,005,647	98,743	-	67	**12,104,457**	167,858	-	61	**11,936,538**	**-**	**-**
Receivables from other clients	24,889,932	7,429,710	116,073	22,363	**32,458,078**	**68,901**	**25,508**	**19,941**	**32,343,728**	**64,082**	**183**
Total exposure	**241,111,586**	**9,202,187**	**2,089,630**	**4,454,702**	**256,858,105**	**2,674,617**	**1,010,562**	**3,250,481**	**249,922,445**	**70,497,684**	**1,752,301**
By category of receivables					**0**	0			**0**		
Non-problematic receivables	**241,110,235**	**9,201,850**	**-**	**-**	**250,312,085**	2,674,232	**-**	**-**	**247,637,853**	**70,497,684**	**-**
of which: restructured	**4,612,923**	**31,591**	**-**	**-**	**4,644,514**	220,190	**-**	**-**	**4,424,324**	**190,873**	**-**
Problematic receivables	**1,351**	**337**	**2,089,630**	**4,454,702**	**6,546,020**	385	**1,010,562**	**3,250,481**	**2,284,592**	**-**	**1,752,301**
of which: restructured	**-**	**-**	**1,776,958**	**968,274**	**2,745,232**	0	**934,431**	**628,615**	**1,182,186**	**-**	**986,207**
Total exposure	**241,111,586**	**9,202,187**	**2,089,630**	**4,454,702**	**256,858,105**	**2,674,617**	**1,010,562**	**3,250,481**	**249,922,445**	**70,497,684**	**1,752,301**

36. RISK MANAGEMENT (continued)

36.2 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 at 31 December 2022:

In RSD thousand

	Unimpaired receivables[3]		Impaired receivables[4]			Accumulated impairment allowances				Value of collateral	
	Not past due	Past due	On individual basis	On collective basis	Total gross receivables	Impairment allowances on unimpaired receivables	On individual basis	On collective basis	Total net receivables	Unimpaired receivables	Impaired receivables
According to divisions											
Receivables from retail customers	**99,298,739**	**480,732**	**254,830**	**2,201,835**	**102,236,136**	**1,408,874**	**130,484**	**1,651,011**	**99,045,767**	**44,901,693**	**213,620**
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	1,290,091	50,633	145	122,840	1,463,709	21,015	137	60,434	1,382,123	11,759	-
Receivables from corporate clients	**112,976,830**	**446,694**	**2,349,007**	**121,329**	**115,893,860**	**1,712,391**	**1,371,143**	**88,778**	**112,721,548**	**19,587,090**	**1,239,402**
Large enterprises	21,277,793	51,830	41,208	-	21,370,831	190,692	13,607	0	21,166,532	4,968,352	41,208
Small and middle sized enterprises	44,612,188	211,041	2,181,701	11,740	47,016,670	608,849	1,285,043	6,938	45,115,840	7,139,705	1,175,227
Micro sized enterprises and entrepreneurs	33,117,799	171,016	102,393	96,558	33,487,766	655,730	58,314	72,173	32,701,549	6,477,686	14,761
Agriculture	2,768,411	11,375	23,705	13,031	2,816,522	30,196	14,179	9,667	2,762,480	1,001,347	8,206
Public enterprises	11,200,639	1,432	-	-	11,202,071	226,924	-	-	10,975,147	-	-
Receivables from other clients	**15,271,196**	**10,010**	**459,216**	**6,293**	**15,746,715**	**27,975**	**126,631**	**4,776**	**15,587,333**	**42,394**	**291,718**
Total exposure	**227,546,765**	**937,436**	**3,063,053**	**2,329,457**	**233,876,711**	**3,149,240**	**1,628,258**	**1,744,565**	**227,354,648**	**64,531,177**	**1,744,740**
By category of receivables											
Non-problematic receivables	227,423,812	935,575	-	-	228,359,387	3,130,394	-	-	225,228,993	64,478,610	-
of which: restructured	543,260	4,226	-	-	547,486	37,736	-	-	509,750	342,970	-
Problematic receivables	122,953	1,861	3,063,053	2,329,457	5,517,324	18,846	1,628,258	1,744,565	2,125,655	52,567	1,744,740
of which: restructured	105,908	1,317	128,882	294,630	530,737	15,706	63,539	186,806	264,686	42,517	95,467
Total exposure	**227,546,765**	**937,436**	**3,063,053**	**2,329,457**	**233,876,711**	**3,149,240**	**1,628,258**	**1,744,565**	**227,354,648**	**64,531,177**	**1,744,740**

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

(d) **Data on exposure to credit risk by sectors and categories of receivables, according to the impairment status and number of days past due as at 31 December 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	**81,296,915**	**15,979,055**	**355,536**	**96,253**	**1,669**	**605,429**	**1,162,162**	**433,872**	**405,605**	**905,567**
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	98	-	-	-	-	47,225	63	-	159	1,216
Receivables from corporate clients	115,018,334	**4,699,374**	**542,770**	**4,206**	**19**	**2,469,416**	**239,385**	**19,943**	**62,986**	**101,532**
Large enterprises	24,402,092	2,083	524,903	-	-	-	-	-	-	-
Small and middle sized enterprises	54,833,905	2,437,405	9	8	-	2,272,048	202,398	5,470	9,369	539
Micro sized enterprises and entrepreneurs	23,571,204	2,256,577	17,623	174	19	194,576	36,586	14,464	52,194	87,286
Agriculture	106,743	3,309	235	4,024	-	2,789	337	9	1,423	13,707
Public enterprises	12,104,390	-	-	-	-	3	64	-	-	-
Receivables from other clients	32,310,995	**8,568**	**25**	**54**	**0**	**1,841**	**49**	**7,505**	**6,797**	**122,243**
Total exposure	**228,626,244**	**20,686,997**	**898,331**	**100,513**	**1,688**	**3,076,686**	**1,401,596**	**461,320**	**475,388**	**1,129,342**
By category of receivables										
Non-problematic receivables	228,626,244	20,686,997	898,331	100,513	-	-	-	-	-	-
of which: restructured	4,535,953	104,349	2,038	2,174	-	-	-	-	-	-
Problematic receivables	-	-	-	-	1,688	3,076,686	1,401,596	461,320	475,388	1,129,342
of which: restructured	-	-	-	-	-	2,241,226	333,112	53,149	32,453	85,292
Total exposure	**228,626,244**	**20,686,997**	**898,331**	**100,513**	**1,688**	**3,076,686**	**1,401,596**	**461,320**	**475,388**	**1,129,342**

36. RISK MANAGEMENT (continued)
36.2 Credit Risk (continued)

(v) Data on exposure to credit risk by sectors and categories of receivables, according to the impairment status and number of days past due as at 31 December 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	**83,826,539**	**15,497,973**	**349,276**	**101,163**	**4,519**	**452,898**	**701,201**	**309,117**	**276,323**	**717,126**
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	923,120	408,718	6,018	2,835	34	50,979	8,167	9,866	16,982	36,990
Receivables from corporate clients	**122,423,442**	**6,202,775**	**78,483**	**31**	**-**	**76,559**	**887,179**	**391,983**	**1,037,829**	**542,295**
Large enterprises	21,287,121	42,502	-	-	-	-	41,208	-	-	-
Small and middle sized enterprises	42,799,009	1,972,908	51,313	-	-	36,350	817,362	325,750	992,444	21,535
Micro sized enterprises and entrepreneurs	30,835,979	2,442,116	10,720	-	-	32,529	28,483	32,506	36,363	69,070
Agriculture	2,742,278	37,288	189	31	-	7,680	126	12,384	314	16,232
Public enterprises	9,501,051	1,701,020	-	-	-	-	-	-	-	-
Receivables from other clients	**15,258,004**	**6,941**	**16,261**	**-**	**-**	**-**	**-**	**21,343**	**8,708**	**435,458**
Total exposure	**206,249,981**	**21,700,748**	**427,759**	**101,194**	**4,519**	**529,457**	**1,588,380**	**701,100**	**1,314,152**	**1,259,421**
By category of receivables										
Non-problematic receivables	206,167,603	21,673,304	420,681	97,799	-	-	-	-	-	-
of which: restructured	430,687	113,328	3,226	245	-	-	-	-	-	-
Problematic receivables	82,378	27,444	7,078	3,395	4,519	529,457	1,588,380	701,100	1,314,152	1,259,421
of which: restructured	69,661	27,091	7,078	3,395	-	158,492	148,130	29,924	18,969	67,997
Total exposure	**206,249,981**	**21,700,748**	**427,759**	**101,194**	**4,519**	**529,457**	**1,588,380**	**701,100**	**1,314,152**	**1,259,421**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

In RSD thousand

	Gross receivables value	Accumulated impairment allowance on total receivables	Gross value of problematic receivables: Total	Gross value of problematic receivables: of which: restructured receivables	Accumulated impairment allowance on total receivables	% of problematic receivables	Collateral value of problematic receivables
Receivables from retail customers	**101,242,059**	**3,715,211**	**3,514,303**	**546,941**	**2,535,903**	**3.47**	**390,693**
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	48,761	-	48,663	-	-	99.80	-
Receivables from corporate clients*	**107,846,411**	**2,754,908**	**2,618,412**	**2,164,486**	**1,555,627**	**2.32**	**1,182,193**
Division A	10,025,177	1,469,186	2,371,730	2,080,883	1,387,926	23.66	1,128,008
Divisions B, C and E	25,522,864	276,288	116,985	42,135	60,542	0.46	35,388
Division D	12,382,949	255,100	97	-	85	-	-
Division F	18,001,515	122,795	7,302	-	6,531	0.04	-
Division G	17,241,551	288,507	79,624	38,055	67,867	0.46	464
Divisions H, I and J	9,889,415	110,342	19,254	2,370	13,823	0.19	853
Divisions L, M and N	14,782,940	232,690	23,420	1,043	18,853	0.12	17,480
Receivables from other clients	**47,769,635**	**465,541**	**413,305**	**33,805**	**169,898**	**0.87**	**179,415**
Total receivables	**256,858,105**	**6,935,660**	**6,546,020**	**2,745,232**	**4,261,428**	**2.50**	**1,752,301**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

In RSD thousand

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

d)Data on changes of problematic receivables in 2023:

In RSD thousands

	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	2,565,497	1,430,758	175,381	175,182	-	199	306,329	3,514,303	977,785
Receivables from corporate and other clients	2,951,825	698,330	19,348	19,348	-	-	599,090	3,031,717	1,306,807
Total receivables	**5,517,322**	**2,129,088**	**194,729**	**194,530**	**-**	**199**	**905,419**	**6,546,020**	**2,284,592**

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Collateral and other means of protection against credit risk

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

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 Bank’s separate internal procedure that defines applicable instruments of credit risk reduction as well as terms of recognition of credit risk reduction instruments.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Basic types of credit protection instruments

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

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

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

Guarantees applied as immaterial credit protection are provided by:

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

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

Exposures secured by mortgages on real estate

Real estate is recognized as a protection instrument when all the requirements defined by the Decision on the capital adequacy of banks are met. The fulfilment of the prescribed requirements is a prerequisite for classifying the given exposure into a special class of exposure, exposures secured by mortgages on real estate, which are given a more favourable credit risk weight, instead of recognizing the effects of credit risk mitigation techniques. Bank exposure or parts of exposure with a fully secured mortgage on a residential property in which the owner resident or has leased that real estate under an appropriate contract (or intends to reside or lease it) - assigns a risk weight of 35% or exposures fully secured to mortgages on business real estate, assigns a risk weight of 50%.

Other types of credit protection instruments

Similar means of collateral in the form of financial assets for all approaches and methods are considered cash and cash equivalents deposited with the bank when all the requirements defined by the Decision on the capital adequacy of banks are fulfilled.

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

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on the type and value[5] of collateral and guarantees by sector providers and categories of receivables as at 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**

[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.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on the type and value[6] of collateral and guarantees by sector providers and categories of receivables as at 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**

[6] 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.

36. RISK MANAGEMENT (continued)

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

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

LTV Ratio

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

In RSD thousand

Value of LTV ratio*	Value of receivables secured by mortgage as at 31 December 2023	Value of receivables secured by mortgage as at 31 December 2022
Below 50%	14,269,984	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	**42,863,512**	**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 Bank has set up an adequate structure, tools and processes for the timely determination of credit risk losses. According to regulatory and accounting standards as well as economic considerations, the Bank regularly evaluates the need and establishes impairment allowances due to credit losses in order to cover the expected economic losses from financial assets.

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

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

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

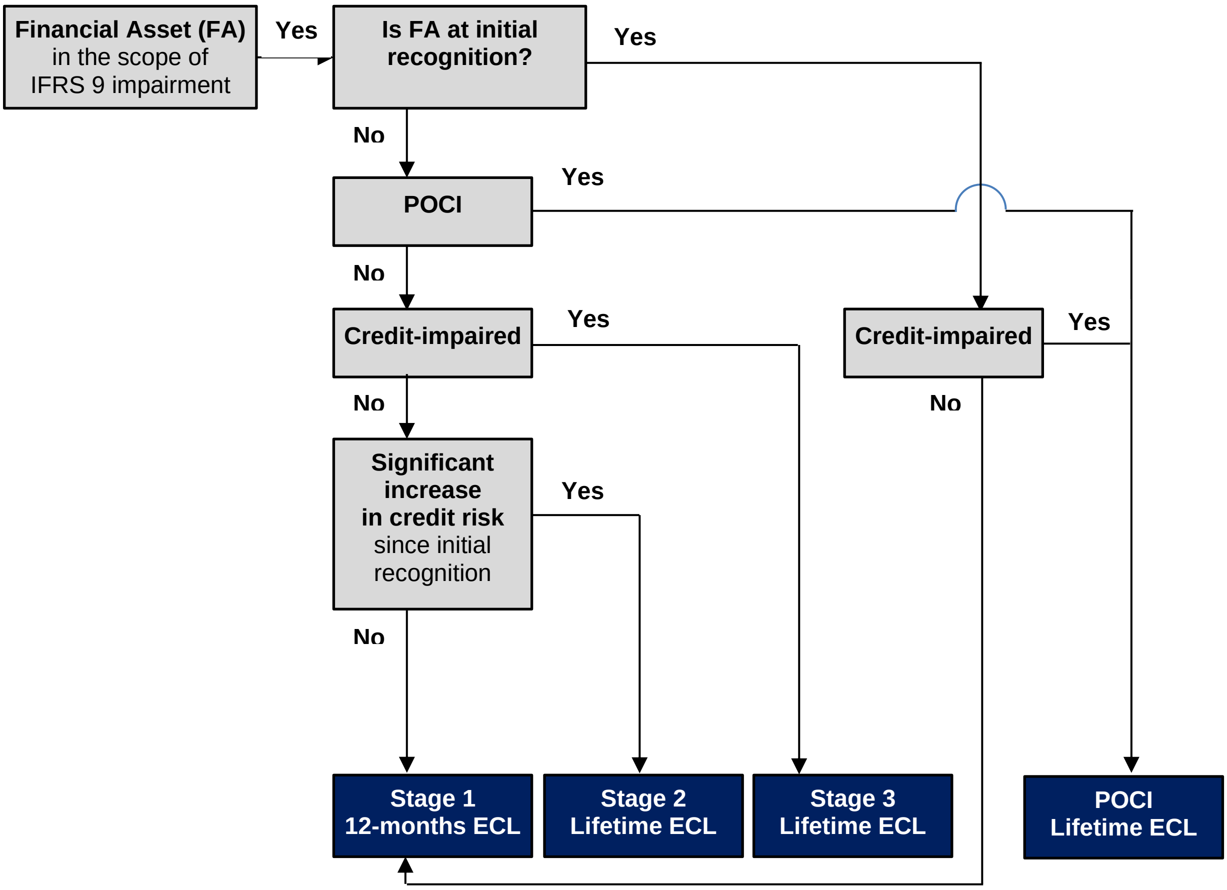
The objective of establishing an impairment allowances is to recognize expected credit losses over the life of all financial instruments, taking into account all reasonable and supporting information, including those relating to future events. Accordingly, financial assets that are relevant from the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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

The process of impairment of due to credit losses:



36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Stage 1

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

b) Financial assets meeting the requirements of low credit risk

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

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

Stage 2

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

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

Stage 3

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

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

POCI assets

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

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

Qualitative criteria

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Quantitative criteria

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

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

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

Calculation of expected credit losses

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

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

Where

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

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

It is calculated as:

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

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

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

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

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

36) $Off\text{-}Bal_{t0}$ is the off-balance amount booked at reporting date;

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

For financial assets that are in the status of non-obligation of liabilities (assigned rating R). In the Bank (based on the methodology provided by the Erste Group), for financial assets to defaulted customers, the lifetime expected credit loss is calculated as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original EIR.

The ECL can be estimated either on individual or collective basis.

1) The individual approach is applied in case of individually significant customers.
2) The collective assessment (or so-called rule-based approach) is applied in case of individually not significant clients

Individual approach

In case of ECL on financial assets of individually significant customers in default, the expected future cash flows have to be estimated individually by experts from work-out or late collection units.

More than one scenario of expected future cash flows shall be considered in ECL calculation to ensure the unbiased and probability weighted result.

In accordance with internal workout processes, typically the following scenarios should be accounted for:

1) Approved workout strategy which is the base scenario defined based on "going/gone concern";
2) Alternative base case, if applicable;
3) Contingency scenario (e.g. bankruptcy / liquidation);
4) Exit scenario (e.g. NPL sale).

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

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Where

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

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

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

Where

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

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

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

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);

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

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

Where:

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

Risk parameters used to calculate expected credit losses

PD 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.

36. RISK MANAGEMENT (continued)

36.2 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.

36. RISK MANAGEMENT (continued)

36.2 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 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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on changes of impaired receivables in 2023:

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	**2,456,420**	**1,480,262**	**-**	**133,698**	**-**	**290,350**	**3,512,634**	**976,499**
Housing loans	306,744	264,648	-	27,825	-	29,842	513,725	325,838
Consumer and cash loans	2,007,261	1,163,164	-	104,410	-	239,621	2,826,394	578,344
Transactions and credit cards	93,554	52,280	-	1,463	-	20,518	123,852	23,654
Other receivables	48,861	170	-	-	-	369	48,663	48,663
Receivables from corporate clients	**2,470,337**	**698,893**	**195,154**	**19,346**	**-**	**256,623**	**2,893,262**	**1,213,803**
Large enterprises	-	-	-	-	-	-	-	-
Small and middle sized enterprises	-	467,288	33,187	-	-	(2022536)	2,489,825	1,027,927
Micro sized enterprises and entrepreneurs	2,433,601	228,798	161,967	14,001	-	2,263,291	385,106	185,067
Agriculture	36,736	2,807	-	5,345	-	15,935	18,264	803
Public enterprises	-	-	-	-	-	(67)	67	6
Receivables from other clients	**465,509**	**10,516**	**-**	**2**	**-**	**337,587**	**138,436**	**92,987**
Total receivables	**5,392,266**	**2,189,671**	**195,154**	**153,046**	**-**	**884,560**	**6,544,332**	**2,283,289**

36. RISK MANAGEMENT (continued)

36.2 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	**1,848,332**	**1,226,253**	**114,346**	**268,383**	**43,494**	**-**	**2,456,665**	**675,170**
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	106,960	10,723	141	8,045	231	-	122,985	62,414
Receivables from corporate clients	**2,169,698**	**2,310,619**	**2,240,713**	**268,383**	**7,382**	**(21548)**	**2,470,336**	**1,010,415**
Large enterprises	62,756	-	-	-	-	(21548)	41,208	27,601
Small and middle sized enterprises	1,148,377	2,176,528	2,164,904	68,136	-	-	2,193,441	901,460
Micro sized enterprises and entrepreneurs	902,420	114,841	61,485	189,177	-	-	198,951	68,464
Agriculture	56,145	19,250	14,324	3,025	7,382	-	36,736	12,890
Public enterprises	-	-	-	8,045	-	-	-	-
Receivables from other clients	**166,780**	**8,708**	**5,988**	**-**	**-**	**-**	**465,509**	**334,102**
Total receivables	**4,018,030**	**3,545,580**	**2,361,047**	**536,766**	**50,876**	**(21548)**	**5,392,510**	**2,019,687**

36. RISK MANAGEMENT (continued)

36.2 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	**3,190,369**	**5,060,229**	**3,832,170**	**9,418,533**	**3,716,264**
Housing loans	460,571	1,151,961	1,117,513	2,289,015	480,086
Consumer and cash loans	2,624,079	3,744,123	2,604,652	6,834,474	3,109,588
Transactions and credit cards	24,133	164,120	110,005	295,019	126,590
Other receivables	81,586	25	-	25	-
Receivables from corporate clients	**3,172,312**	**578,384**	**580,071**	**1,093,191**	**3,105,046**
Large enterprises	204,299	-	-	200,448	199,174
Small and middle sized enterprises	1,900,830	-	-	2,032,831	2,032,831
Micro sized enterprises and entrepreneurs	786,217	311,910	253,094	(1641948)	684,390
Agriculture	54,042	32,895	34,021	33,607	20,732
Public enterprises	226,924	233,579	292,956	468,253	167,919
Receivables from other clients	**159,382**	**392,046**	**247,210**	**594,369**	**114,350**
Total exposure	**6,522,063**	**6,030,659**	**4,659,451**	**11,106,093**	**6,935,660**
By category of receivables					
Non-problematic receivables	3,130,394	3,804,153	3,725,915	7,076,085	2,674,232
of which: restructured	37,736	209,040	356,003	747,497	220,190
Problematic receivables	3,391,669	2,226,506	933,536	4,030,017	4,261,428
of which: restructured	266,051	474,058	165,059	2,202,162	1,563,046
Total exposure	**6,522,063**	**6,030,659**	**4,659,451**	**11,106,102**	**6,935,660**

36. RISK MANAGEMENT (continued)

36.2 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	**2,849,319**	**4,762,624**	**4,161,970**	**(259604)**	**3,190,369**
Housing loans	498,722	776,790	811,362	(3579)	460,571
Consumer and cash loans	2,260,789	3,912,388	3,296,691	(252407)	2,624,079
Transactions and credit cards	23,891	39,061	36,889	(1930)	24,133
Other receivables	65,917	34,385	17,028	(1688)	81,586
Receivables from corporate clients	**2,326,012**	**4,007,748**	**2,160,403**	**(1001045)**	**3,172,312**
Large enterprises	73,049	250,361	118,825	(286)	204,299
Small and middle sized enterprises	1,053,989	2,291,803	1,021,347	(423615)	1,900,830
Micro sized enterprises and entrepreneurs	1,079,073	1,138,561	872,097	(559320)	786,217
Agriculture	69,724	66,340	64,144	(17878)	54,042
Public enterprises	50,177	260,683	83,990	(54)	226,924
Receivables from other clients	**145,880**	**175,176**	**520,505**	**358,831**	**159,382**
Total exposure	**5,321,211**	**8,945,548**	**6,842,878**	**901,818**	**6,522,063**
By category of receivables					
Non-problematic receivables	2,608,270	5,921,852	5,264,503	(135225)	3,130,394
of which: restructured	727,175	40,196	62,402	(667233)	37,736
Problematic receivables	2,712,941	3,023,696	1,578,375	(766593)	3,391,669
of which: restructured	41,046	213,825	492,621	503,801	266,051
Total exposure	**5,321,211**	**8,945,548**	**6,842,878**	**(901,818)**	**6,522,063**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on 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).

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

In RSD thousand

	Interest income	Interest collected	Interest income on impaired receivables	Collected interest on impaired receivables
Receivables from retail customers	**6,018,344**	**6,027,777**	**254,413**	**161,820**
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	13,796	9,627	6,157	1,720
Receivables from corporate clients	**4,122,820**	**3,791,405**	**98,411**	**68,816**
Large enterprises	609,664	593,541	1,803	1,762
Small and middle sized enterprises	1,708,809	1,624,436	77,404	53,272
Micro sized enterprises and entrepreneurs	1,330,702	1,157,759	17,304	11,979
Agriculture	102,432	104,825	1,900	1,803
Public enterprises	371,213	310,844	-	-
Receivables from other clients	**2,634,252**	**2,646,236**	**7,997**	**4,057**
Total receivables	**12,775,416**	**12,465,418**	**360,821**	**234,693**
By category of receivables				
Non-problematic receivables	12,405,894	12,223,513	-	-
of which: restructured	32,598	30,109	-	-
Problematic receivables	369,522	241,905	360,821	234,693
of which: restructured	55,296	48,503	48,360	42,528
Total receivables	**12,775,416**	**12,465,418**	**360,821**	**234,693**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Restructured Loans

Where possible, the Bank seeks to reschedule or restructure loans rather than foreclose collaterals. This may involve extending the payment terms, reduction of the initially agreed interest rate, reduction of the annuity, partial write-off of receivables or any other modification to the original loan agreement provisions in a way that the client is granted more favourable conditions than were initially approved. Rescheduling or restructuring may be business rescheduling or forbearance restructuring.

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

Forbearance represents restructuring caused by:

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

Performing forbearance – represents starting category within forbearance principle and its granted in case of defined deterioration of client’s financial position, i.e. his creditworthiness registered delay in payment of over 30 days in last 3 months before submission of request to reschedule loan or other non-compliance with terms from contract. Minimal period of validity of this status is 2 years during which in the last 12 months client has to repay min 6,7 % of total debt per year (applies to Corporate) with delays in repayment not 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 installment is not less than 50% of the initial installment for retail clients and the client (valid for Corporate) has paid the minimum 6,7% of the principal in the last 12 months).

Non-performing forbearance is granted in following situations:

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

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

Distressed reprogram / restructuring (defaulted forbearance) is a form of restructuring that gives the client the status of default. This way covers the overall exposure (or its major part) and is always activated by a significant deterioration of the client's creditworthiness. Distress reprogram is granted whenever the client has a rating R3 at the moment of approval of the reprogram, when the client is not in employment (applies only to natural persons), and when the client is granted another reprogram, and less than 2 years have passed since the approval of the initial reprogram.

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

Data on restructured loans 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*
			Total	of which: problematic receivables			
Receivables from retail customers	**101,242,059**	**3,715,211**	**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	48,761	-	-	-	-	-	-
Receivables from corporate clients*	**107,846,411**	**2,754,908**	**2,903,387**	**2,164,486**	**1,287,190**	**2.57**	**986,624**
Division A	10,025,177	1,469,186	2,087,047	2,080,883	1,163,004	20.82	885,856
Divisions B, C and E	25,522,864	276,288	74,443	42,135	1,878	0.29	31,861
Division D	12,382,949	255,100	422,148	-	62,640	3.41	21,122
Division F	18,001,515	122,795	-	-	-	0.00	-
Division G	17,241,551	288,507	268,065	38,055	55,032	1.55	7,681
Divisions H, I and J	9,889,415	110,342	50,641	2,370	3,811	0.51	39,061
Divisions L, M and N	14,782,940	232,690	1,043	1,043	825	0.01	1,043
Receivables from other clients	**47,769,635**	**465,541**	**3,590,425**	**33,805**	**144,059**	**7.52**	**8,034**
Total receivables	**256,858,105**	**6,935,660**	**7,389,746**	**2,745,232**	**1,783,236**	**2.82**	**1,177,080**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

Data on restructured loans in 2022:

In RSD thousand

	Gross value of total receivables	Accumulated allowance for impairment	Gross restructured loans: Total	Gross restructured loans: of which: problematic receivables	Accumulated allowance for impairment for rescheduled receivables	% of restructured receivables	Value of collateral of restructured loans
Receivables from retail customers	**102,236,133**	**3,190,370**	**810,971**	**473,106**	**264,276**	**0.79**	**272,794**
Housing loans	55,487,299	460,571	314,733	169,248	73,822	0.57	251,436
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	1,463,708	81,587	-	-	-	-	-
Receivables from corporate clients	**98,711,796**	**2,758,518**	**240,056**	**36,351**	**28,290**	**0.24**	**202,755**
Division A	8,810,612	1,069,651	11,470	-	3,314	0.13	11,470
Divisions B, C and E	24,960,462	380,511	72,525	12,567	1,303	0.29	68,538
Division D	10,772,999	332,327	-	-	-	-	-
Division F	11,640,652	382,136	-	-	-	-	-
Division G	15,124,008	201,937	50,360	22,473	12,972	0.33	24,803
Divisions H, I and J	8,585,294	116,709	103,307	-	9,710	1.20	97,944
Divisions L, M and N	18,817,769	275,247	2,394	1,311	991	0.01	-
Receivables from other clients	**32,928,782**	**573,175**	**27,196**	**21,280**	**11,221**	**0.08**	**5,405**
Total receivables	**233,876,711**	**6,522,063**	**1,078,223**	**530,737**	**303,787**	**0.46**	**480,954**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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**	**4,309,463**	**-**	**2,390,510**	**6,490,351**	**5,062,117**
Large enterprises	13,824	-	-	229,407	229,407	207,034
Small and middle sized enterprises	185,211	282,361	-	1,931,423	2,213,783	1,027,210
Micro sized enterprises and entrepreneurs	59,264	470,008	-	229,680	490,067	392,901
Agriculture	8,953	6,434	-	-	6,434	64
Public enterprises	-	3,550,660	-	-	3,550,660	3,434,908
Receivables from other clients	**-**	**-** 1,473	**-**	**1,988**	**3,461**	**446**
Total receivables	**1,078,223**	**4,639,146**	**71,003**	**3,369,090**	**7,389,746**	**5,606,510**

36. RISK MANAGEMENT (continued)

36.2 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**	**(105,638)**	**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	**845,350**	**112,265**	**25,113**	**(665,250)**	**267,252**	**227,741**
Large enterprises	-	13,824	-	-	13,824	13,814
Small and middle sized enterprises	209,782	71,026	-	(95,597)	185,211	170,936
Micro sized enterprises and entrepreneurs	632,147	21,385	25,113	(569,155)	59,264	37,743
Agriculture	3,421	6,030	-	(498)	8,953	5,248
Public enterprises	-	-	-	-	-	-
Receivables from other clients	-	-	-	-	-	-
Total receivables	**1,606,495**	**406,753**	**164,137**	**(770,888)**	**1,078,223**	**774,436**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on 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.

36. RISK MANAGEMENT (continued)

36.2 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.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Loan concentration risk

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

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

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

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

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

Policy of internal capital adequacy assessment (with the corresponding Procedure), the Bank has defined monitoring concentrations of credit risk for corporate customers, financial institutions and the state at the following levels: maximum limit of exposure and the highest level of operating limit of exposure by rating.

In addition, in accordance with the provisions of the Decision on Concentration Risk Management Based on the Bank's Exposure to Certain Product Types ("Official Gazette of the RS", No. 103/2018 and 98/2020), on 31 December 2023, the Bank is fully compliant with the regulatory requirements prescribed by that decision.

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Data on concentration per sector and geographical region of exposure as at 31 December 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	**35,729,661**	**1,059,905**	**41,807,969**	**1,448,937**	**13,615,008**	**673,817**	**5,180,810**	**281,087**	**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	21	24,519	67	746	10	658	-	22,740	-	-	0	-
Receivables from corporate clients*	**56,632,136**	**675,452**	**32,767,033**	**1,793,178**	**10,657,893**	**134,461**	**5,155,529**	**15,291**	**1**	**30**	**15,407**	**-**
Division A	1,401,143	557,554	5,670,108	1,739,902	561,300	74,229	20,896	45	-	-	-	-
Divisions B, C and E	7,391,493	73,547	10,121,938	34,394	4,553,976	484	3,338,472	8,560	-	-	-	-
Division D	7,330,751	56	2,055,684	22	2,092,245	10	904,172	9	-	-	-	-
Division F	13,148,531	3,311	3,507,487	472	1,261,768	120	76,427	3,399	-	-	-	-
Division G	8,609,161	35,723	7,087,369	12,510	1,005,269	29,374	444,721	1,987	-	30	15,407	-
Divisions H, I and J	7,038,330	3,848	2,003,815	2,450	548,180	11,794	279,836	1,162	-	-	-	-
Divisions L, M and N	11,712,727	1,413	2,320,632	3,428	635,155	18,450	91,005	129	1	-	-	-
Receivables from other clients	43,680,842	293,654	1,485,939	78,056	1,162,703	36,031	277,439	5,366	1	196	749,406	2
Total exposure	**136,042,639**	**2,029,011**	**76,060,941**	**3,320,171**	**25,435,604**	**844,309**	**10,613,778**	**301,744**	**1,390,637**	**50,526**	**768,486**	**259**

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

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

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

36. RISK MANAGEMENT (continued)

36.2 Credit Risk (continued)

Credit-related Risks

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

Counterparty Risk

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

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

37.3. Liquidity Risk and Financial Assets Management

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

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

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

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

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

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management (continued)

In addition to broader liquidity indicators, the Bank as well monitors the narrow liquidity ratio.

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

During 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 31 December	1.70	1.98

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

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

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 at 31 December 2023 and 31 December 2022, the Bank had Indicator of liquid assets coverage ratio above prescribed limit.

	As at 31 December 2023	**As at 31 December 2022**
PPLA	148,21%	157,10%

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

36. RISK MANAGEMENT (continued)

36.3. 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.

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management (continued)

Maturity Analysis of the Bank's Financial Liabilities

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

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

In RSD thousand

	From 0–1 months	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	**46,046,515**	**24,114,356**	**86,019,214**	**115,259,601**	**44,171,414**	**315,611,100**
Subordinated liabilities	71,097	-	-	3,515,211	5,272,816	8,859,124
Total	**46,117,612**	**24,114,356**	**86,019,214**	**118,774,812**	**49,444,230**	**324,470,224**

Maturity Analysis of the Bank's Financial Liabilities

In RSD thousand

	From 0–1 months	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	**34,177,894**	**18,257,086**	**89,035,346**	**109,949,493**	**45,168,022**	**296,587,841**
Subordinated liabilities	37,804	-	-	-	-	-
Total	**34,215,698**	**18,257,086**	**89,035,346**	**109,949,493**	**52,207,366**	**303,664,989**

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management (continued)

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

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

In RSD 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**

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management (continued)

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

For financing small and medium enterprises and small and medium infrastructure projects implemented by municipalities, the Bank has used the funds of the European Investment Bank ("EIB") 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 is signed two long-term contracts with EBRD for the purpose of financing micro, small and medium companies in amount of RSD 2,16 billion and RSD 40 million. In May 2021, the Bank signed an agreement with EBRD in the amount of RSD 1,2 billion for the purpose of financing of energy efficiency projects in the housing sector, while in 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 the amount of 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 28.

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management (continued)

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

Liquidity Gap Analysis – Financial Assets and Liabilities

In RSD 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	60,299,087	-	-	-	-	-	60,299,087
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	19,851,011	-	-	2,668,806	334	-	22,520,151
Loans and receivables due from customers	3,476,418	657,510	6,162,305	20,655,908	93,683,491	102,766,662	227,402,294
Other assets	506,463	-	12	943	1,437	12,563	521,418
Total assets	**84,356,048**	**2,033,208**	**7,442,067**	**25,035,260**	**131,504,414**	**119,773,682**	**370,144,679**
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	471,695	1,709,512	9,757,703	28,309,812	2,935,108	60,166,726
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	71,097	-	-	-	3,515,211	5,272,816	8,859,124
Other liabilities	311,338	-	3,929	64,299	341,448	1,131,218	1,852,232
Total liabilities	**210,244,186**	**7,088,134**	**13,381,502**	**37,689,162**	**44,982,172**	**13,464,926**	**326,850,082**
Total equity	**-**	**-**	**-**	**-**	**-**	**48,245,487**	**48,245,487**
Total liabilities and equity	**210,244,186**	**7,088,134**	**13,381,502**	**37,689,162**	**44,982,172**	**61,710,413**	**375,095,569**
Liquidity gap as at: 31 December 2023	**(125,888,138)**	**(5,054,926)**	**(5,939,435)**	**(12,653,902)**	**86,522,242**	**58,063,269**	
31 December 2022	**(116,074,376)**	**(1,574,349)**	**(2,525,116)**	**(13,478,220)**	**57,710,445**	**72,711,644**	

36. RISK MANAGEMENT (continued)

36.3. Liquidity Risk and Financial Assets Management (continued)

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

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

The previous table presents an analysis of the maturities for the Bank's financial assets and liabilities on the basis of agreed payment terms. The contractual maturities of assets and liabilities are determined on the basis of the remaining period at the balance sheet date in relation to the contractual maturity. The table does not include potential liabilities and irrevocable obligations that are shown in the table above. The maturity structure of assets and liabilities as at 31 December 2022 is based on agreed discounted amounts.

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

36.4. Market Risks

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

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

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

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

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

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

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

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

Identification, measurement, analysis and reporting of market risk exposures are managed by a separate organizational unit, i.e., Market and Liquidity Risk Management Department. 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

36. RISK MANAGEMENT (continued)
36.4. Market Risks (continued)

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

Exposure monitoring is done on a daily basis.

VaR in RSD '000	As 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 stricken 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.

36.4.1 Interest Rate Risk

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

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

36. RISK MANAGEMENT (continued)

36.4. Market Risks (continued)

36.4.1 Interest Rate Risk (continued)

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

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

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

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

In addition to indicators that measure the impact of interest rate changes on the economic value of equity, the Bank has defined indicators through which to assess the impact of interest rate changes on net interest income. It uses shocks of +/- 200 basis points (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 behavioral models, the Bank has also defined indicators that assess the risk of these models, changes in assumptions and scenarios for the calculation of interest rate risk indicators. The difference between the initial calculations and the calculations in accordance with the changed assumptions shows the impact of the applied models.

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

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

The limits are reviewed annually.

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

36. RISK MANAGEMENT (continued)

36.4. Market Risks (continued)

36.4.1 Interest Rate Risk (continued)

The following table shows the bank's exposure to the interest rate risk (Repricing Gap) as at 31 December 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	-	-	-	-	8,522,542	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	64,418,316	85,674,994	27,349,442	7,578,261	47,112,455	-	232,133,468
Other assets	-	-	-	-	-	13,600,570	13,600,570
Total balance assets	**110,111,892**	**87,560,976**	**28,051,356**	**9,076,009**	**100,165,356**	**44,271,308**	**379,236,896**
FX Swap	31,153,715	8,216,891	-	-	-	-	39,370,606
Total assets	**141,265,607**	**95,777,866**	**28,051,356**	**9,076,009**	**100,165,356**	**44,271,308**	**418,607,502**
Liabilities to banks	10,463,382	8,788,028	9,373,896	-	-	-	28,625,306
Liabilities to financial institutions	10,059,867	13,596,442	9,463,312	6,234,034	2,315,534	-	41,669,189
Demand deposits	16,512,998	10,741,736	16,024,557	32,401,302	111,723,494	-	187,404,087
Term deposits	10,526,676	12,013,985	9,819,894	17,839,850	14,709,756	-	64,910,160
Other liabilities	-	-	-	-	-	8,382,666	8,382,666
Equity	-	-	-	-	-	48,245,488	48,245,488
Total balance liabilities equity	**47,562,923**	**45,140,190**	**44,681,659**	**56,475,186**	**128,748,784**	**56,628,154**	**379,236,896**
FX Swap	31,097,900	8,234,152	-	-	-	-	39,332,052
Total L+E	**78,660,823**	**53,374,342**	**44,681,659**	**56,475,186**	**128,748,784**	**56,628,154**	**418,568,948**
Net interest risk exposure as at 31 December 2023	**62,604,784**	**42,403,525**	**(16,630,303)**	**(47,399,177)**	**(28,583,429)**	**(12,356,846)**	**38,554**
Net interest risk exposure as at 31 December 2022	**64,815,857**	**71,145,893**	**(37,175,647)**	**(39,312,981)**	**(49,936,680)**	**(9,531,242)**	**5,199**

Position loans to banks includes reverse repo transactions with the NBS, while position loans to clients includes loans towards financial institutions. Assets and accruals (account groups 19 and 29), interests and participations in other legal entities, and calculated interest receivables (account groups 02 and 08) are included in the other assets position. Position liabilities to banks also includes the subordinated liabilities of the bank. Other deferred income and accrued expenses (account groups 49 and 59) are included in the other liabilities position.

36. RISK MANAGEMENT (continued)

36.4. Market Risks (continued)

36.4.1 Interest Rate Risk (continued)

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

The following table presents the income statement's sensitivity to the reasonably anticipated changes of interest rates (1%) with other variables held constant. The income statement's sensitivity represents the effect of assumed changes in interest rates on the net interest income in one year and on financial assets and liabilities based on interest rates as at 31 December 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%	85,959	1%	337,889
EUR	1%	395,318	1%	484,542
Decrease in percentage:				
RSD	1%	(64,053)	1%	(381,298)
EUR	1%	(550,235)	1%	(577,226)

36.4.2. Foreign Exchange Risk

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

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

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

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

In 2023, the Bank continuously monitored the compliance of foreign exchange risk indicators, whereby the related indicator was at a level within the prescribed limit. At the end of each working day, the Bank's foreign currency exposure indicator was not more than 20% higher than the Bank's capital.

36. RISK MANAGEMENT (continued)

36.4. Market Risks (continued)

36.4.2. Foreign Exchange Risk (continued)

The following table shows the currencies in which the Bank has significant exposure as at 31 December 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 at 31 December 2023	Effect on profit and loss before taxes as at 31 December 2023	Changes in currency rate (depreciation in %) as of 31 December 2022	Effect on profit and loss before taxes as at 31 December 2022
EUR	2%	(6,094)	2%	(30,003)
CHF	2%	328	2%	48
USD	2%	523	2%	327

36. RISK MANAGEMENT (continued)
36.4. Market Risks (continued)

36.4.2. FX Risk

The following table presents the Bank's exposure to foreign exchange risk as at 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**	35,333,028	60,299,087
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**	19,022,627	22,520,151
Loans and receivables due from customers	170,595,803	150,109	3,604	2	**170,749,518**	56,652,776	227,402,294
Investments in subsidiaries	-	-	-	-	**-**	93,561	93,561
Intangible assets	-	-	-	-	**-**	4,143,494	4,143,494
Fixed assets	-	-	-	-	**-**	3,210,941	3,210,941
Investment property	-	-	-	-	**-**	50,142	50,142
Current tax assets	-	-	-	-	**-**	112,945	112,945
Deferred tax assets	-	-	-	-	**-**	272,885	272,885
Fixed assets held for sale and assets of discontinued operations	-	-	-	-	**-**	11,901	11,901
Other assets	237,524	43	7,225	16	**244,808**	1,472,958	1,717,766
Total assets	**207,533,039**	**2,324,719**	**301,887**	**309,255**	**210,468,900**	**168,767,996**	**379,236,896**
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	33,035,337	15,765	345	687	**33,052,134**	27,114,592	**60,166,726**
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	-	-	-	-	-	1,532,540	**1,532,540**
Current tax assets	-	-	-	-	-	394,675	**394,675**
Other liabilities	697,840	41	1,854	1	699,736	3,366,608	**4,066,344**
Total liabilities	**119,399.795**	**115,305**	**65,973**	**688**	**119,581,761**	**211,409,648**	**330,991,409**
Total equity	-	-	-	-	-	48,245,487	**48,245,487**
Total liabilities and equity	**119,399.795**	**115,305**	**65,973**	**688**	**119,581,761**	**259,655,135**	**379,236,896**
Net foreign currency position as at:							
- 31 December 2023	**88,133,244**	**2,209,414**	**235,914**	**308,567**	**90,887,139**		
– 31 December 2022	**10,765,547**	**(3,979,799)**	**(4,435,508)**	**(981,653)**	**1,368,586**		

36. RISK MANAGEMENT (continued)

36.5. Bank’s Risk Concentration

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

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

During 2023, the Bank maintained the exposure risk indicators within the prescribed values. By implementing appropriate activities stipulated by the relevant procedures and decisions on loan approval, the Bank kept the adequacy of its loans and receivables and investments in line with the performance indicators prescribed by the National Bank of Serbia (see Note 33(b)) and with the internal limits.

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

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

36.6. Bank's Investment Risks

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

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

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

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

36.7. Country Risk

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

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

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

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

36. RISK MANAGEMENT (continued)

36.8. Operational Risk

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

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

Committee for Non-financial Risk Management of the Bank, in addition to an independent 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 Bank 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 Bank has defined and regularly reviews and updates internal acts which govern the Bank's exposure to operational risk, taking into account the compliance with the applicable regulatory framework and Group standards.

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

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

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

In order to ensure independent management and control of risk of IKT system, the Bank 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.

Business Continuity Management

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 2.3% 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 17.6%. Management is taking necessary measures to ensure business continuity, ensure continuous customer service and reduce negative impact on employees.

36. RISK MANAGEMENT (continued)

36.8. Operational Risk (continued)

During 2023, the Bank 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 Bank'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 Bank 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 Bank 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 for workers of physical security in the sales facilities of the Bank. If necessary, the Bank 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 Banks, i.e. possible inability of delivery of certain services of the Bank would be compensated by additional channels.

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

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

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 Bank 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 HomeOffice 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 Bank for the response to different categories of risks, including the pandemic risks, with the achieved satisfactory time of recovery.

36. RISK MANAGEMENT (continued)

36.9. Capital Management

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

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

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

The Law on Banks and relevant decisions of the National Bank of Serbia, which are fully compliant with the requirements of Basel 3 standards as of 30 June 2017, stipulates that banks must maintain a minimum capital of dinar equivalent of 10 million euros at the official middle exchange rate, as and to harmonize the scope and structure of its operations with the business indicators prescribed by the Decision on Risk Management ("Official Gazette of RS", No. 45/2011, 94/2011, 119/2012, 123/2012, 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 Bank consists of basic and supplementary capital and defined deductible items, while risky balance and off-balance sheet assets are determined in accordance with the prescribed risk weight for all types of assets.

The capital 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 Bank respected 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 Bank 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 17.51%;
- Tier 1 capital ratio 17.51%
- capital ratio 21.36%.

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

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

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

36. RISK MANAGEMENT (continued)

36.9. Capital Management

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).

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

The table below summarizes the structure of the Bank's capital as at 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
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)	(18060)
Other intangible assets before deduction for related deferred tax liabilities	(4,143,497)	(3,192,108)
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)
	38,821,564	**37,326,153**
Supplementary capital		
Subordinated liabilities	8,572,536	7,039,344
	8,535,841	**7,039,344**
Capital:	**47,394,100**	**44,365,497**
Risky balance and off-balance assets		
Capital requirement for credit risk, counterparty risk and risk of delivery / delivery on the basis of free delivery	15,836,246	15,435,120
Capital requirement for price risk	60,090	66,666
Capital requirement for foreign exchange risk	-	120,351
Capital requirement for operational risk	1,807,030	1,614,598
Capital requirement for the risk of adjusting credit exposure	35,267	8,061
Common Equity Tier 1 capital adequacy ratio	**17.51**	**17.32**
Tier 1 capital adequacy ratio	**17.51**	**17.32**
Capital Adequacy	**21.36**	**20.58**

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

36. RISK MANAGEMENT (continued)

36.9. Capital Management (continued)

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

In RSD thousand

	31 December 2023		31 December 2022	
	Risk assets	**Capital requirement**	**Risk assets**	**Capital requirement**
Total risk assets	221,732,916	17,738,633	215,559,956	17,244,796
Risk-weighted exposure to credit risk	197,953,077	15,836,246	192,939,005	15,435,120
Standardized approach	197,953,077	15,836,246	192,939,005	15,435,120
IRB approach	-	-	-	-
Exposure to risk of settlement /delivery (except for free delivery)	-	-	-	-
Exposure to market risks	751,127	60,090	2,337,710	187,017
Exposure to operational risk	22,587,870	1,807,030	20,182,475	1,614,598
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 Bank, which represents the ratio of the share capital, which is obtained as the sum of the basic share capital and additional basic capital in accordance with the decision regulating the capital adequacy of the bank, and the amount of exposure for the calculation of the leverage indicator, amounted to 9.7% as at 31 December 2023 (2022: 9.66%).

36. RISK MANAGEMENT (Continued)

36.10. Fair Value of Financial Assets and Liabilities

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

Evaluation model

Bonds

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

OTC derivatives

Valuation is aimed at discounting future cash flows using defined yield curves for a particular product and a specific currency. During 2021, the yield curves changed due to the transition from EONIA to ESTR rates. The derivative value thus obtained is adjusted for the Credit Valuation Adjustment (CVA) and the Debt Valuation Adjustment (DVA), as the credit default of the other counterparty and its own credit risk are not taken into account. CVA refers to credit risk adjustment of other agreements of the parties, while DVA refers to adjusting for own credit risk. The value of these adjustments depends on PD, LGD and exposure (NPV).

In RSD thousand

	As of 31 December 2023	**As of 31 December 2022**
CVA	14,324	2,337
DVA	(6320)	(9634)

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

Hierarchy of instruments that are valued at fair value

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

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

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

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

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

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

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

36. RISK MANAGEMENT (continued)

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

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

	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	-	**818,156**
FINANCIAL LIABILITIES	**-**	**527,626**	**-**	**527,626**	**-**	**745,086**	**-**	**745,086**
Derivative liabilities	-	527,626	-	**527,626**	-	745,086	-	**745,086**

36. RISK MANAGEMENT (continued)

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

Changes in the level of financial instruments valued at fair value

In RSD 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 derecognition	(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 at 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**	**-**

36. RISK MANAGEMENT (Continued)

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

As at 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 classified in FV 3level (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	47,007,566	44,644,453	45,078,301	46,371,025
Loans and receivables due from banks	27,521,065	27,586,291	10,346,771	10,363,388
Loans and receivables due from customers	227,402,294	239,178,132	217,007,877	223,373,722
Non-current assets held for sale	11,902	22,832	11,902	22,861
FINANCIAL LIABILITIES				
Deposits due to banks	60,166,726	61,341,086	68,822,072	68,643,817
Deposits due to customers	255,444,374	257,312,962	227,765,769	228,327,659

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.

37. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating Lease Commitments

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

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

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

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

In RSD thousand

	31 December 2023	**31 December 2022**
up to 1 year	112	107
from 1 to 5 years	13,211	9,716
more than 5 years	20,020	26,315
	33,343	**36,138**

(b) Litigation

As at 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 893,209 thousand as at 31 December 2023 (RSD 1,099,190 thousand as at 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 favorable 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.

(c) Taxation Risks

The Republic of Serbia tax legislation is in the process of ongoing reviews and changes occur frequently. In the Republic of Serbia, tax liabilities 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.

38. RECONCILIATION OF OUTSTANDING BALANCES OF RECEIVABLES AND LIABILITIES

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

The Bank sent its customers open items statements (OIS) as at 31 October 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 Open Balance Statements for which response has not been 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.

39. 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).

40. 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.

41. EXCHANGE RATES

The official middle exchange rates of the National Bank of Serbia were determined at the interbank foreign exchange market meeting. Exchange rates used for the translation of the foreign exchange positions of the balance sheet as at 31 December 2023 and 31 December 2022 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

ADDITIONAL TABLES

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

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

- form PI-KAP (APPENDIX 1) - detailed structure of the Bank's regulatory capital as of 31 December 2023;
- form PI-FIKAP (APPENDIX 2) - basic characteristics of elements of regulatory capital;
- form PI-UPK (APPENDIX 3) - Balance sheet of the Bank prepared in accordance with IAS/IFSI standards and broken prepared items that can be connected through references to the equity items from the Report on changes in equity prepared in accordance with the Decision regulating reporting bank's equity adequacy (APPENDIX 1).
- form PI-AKB (APPENDIX 4) - overview of calculated capital requirements as of 31 December 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	-	note 10. pg. 2. It. 3.
4	Revaluation reserves and other unrealized gains	(139,522)	Note 7. pg. 1. Stipulate 4)
5	Reserves from profits and other reserves of the bank, except those for general banking risks	19,377,317	Note 7. pg. 1. Stipulate 5)
6	Reserves for general banking risks	-	Note 7. pg. 1. Stipulate pod 6)
7	Share without controlling rights (minority shareholders) recognized in the issued share capital	-	
8	Issued share capital before regulatory adjustments and deductions (sum of 1 to 7)	**42,990,355**	

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) (-)	(4,143,497)	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	(2,799)	**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)	(4,168,791)	
33	Share capital (difference between 8 and 30)	38,821,564	
	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)	38,821,564	

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	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)	47,394,100	
56	Total risk assets	221,732,917	note 3. prg. 2.
	Capital adequacy indicators and capital protective layers		
57	Indicator of the adequacy of share capital of the bank (%)	**17.51**	note 3. prg. 1. stipulate 1)
58	Indicator of adequacy of capital of the bank (%)	**17.51**	note 3. prg. 1. stipulate 2)
59	Bank's capital adequacy ratio (%)	**21.37**	note 3. prg. 1. stipulate 3)
60	Total requirements for protective layers of capital (%)***	**8.90**	note 433.
61	Basic share capital available to cover protective layers (%)****	**9.51**	

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)	-	-	-	-

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

Annex 2 – Form PI-FIKAP (continued)

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

	Coupons/dividends	-	-	-	-
11.	Fixed or variable dividends/coupons	Variable	Variable	Variable	Variable
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, if 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	60,299,087	60,299,087
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	22,520,151	22,520,151
A.VI	Loans and receivables from customers	227,402,294	227,402,294
A.VII	Changes in fair value of items subject to hedging	-	-
A.VIII	Receivables from derivatives intended for hedging	-	-
A.IX	Investments in associates and joint ventures	-	-
A.X	Investments in subsidiaries	93,560	93,560
A.XI	Intangible assets	4,143,494	4,143,494
A.XII	Fixed assets	3,210,941	3,210,941
A.XIII	Investment property	50,142	50,142
A.XIV	Current tax assets	112,946	112,946
A.XV	Deferred tax assets	272,884	272,884
A.XVI	Fixed assets intended for sale and discontinued operations	11,902	11,902
A.XVII	Other assets	1,717,766	1,717,766
A.XX	**TOTAL ASSETS (positions under EDP codes from 0001 to 0019 in the balance sheet)**	379,236,896	379,236,896
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	60,166,726	60,166,726
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	1,532,540	1,532,540
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	0	0
PO.XII	Other liabilities	4,066,344	4,066,344
PO.XIV	**TOTAL LIABILITIES (positions under EDP codes from 0401 to 0413 in the balance sheet)**	330,991,409	330,991,409

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	5,547,074	5,547,074
PO.XVIII	Loss	-	-
PO.XIX	Reserves	21,373,259	21,373,259
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	48,245,487	48,245,487
PO.XXIII	TOTAL DEFICIENCY OF CAPITAL (the result of adding or subtracting the following AOP codes from the balance sheet: 0415-0416+0417-0418+0419-0420+0421) < 0	-	-
PO.XXIV	TOTAL LIABILITIES NAD EQUITY (the result of adding or subtracting the following AOP codes from the balance sheet: 0414+0422-0423)	379,236,896	379,236,896
	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	60,299,087	
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	22,520,151	
A.VI	Loans and receivables from customers	227,402,294	
A.VII	Changes in fair value of items subject to hedging	-	
A.VIII	Receivables from derivatives intended for hedging	-	
A.IX	Investments in associates and joint ventures	-	
A.X	Investments in subsidiaries	93,560	
A.XI	Intangible assets	4,143,494	d
A.XII	Fixed assets	3,210,941	
A.XIII	Investment property	50,142	
A.XIV	Current tax assets	112,945	
A.XV	Deferred tax assets	272,885	
A.XVI	Fixed assets intended for sale and discontinued operations	11,902	
A.XVII	Other assets	1,717,766	
A.XX	**TOTAL ASSETS (positions under EDP codes from 0001 to 0019 in the balance sheet)**	**379,236,896**	
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	60,166,726	
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	0	
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	1,532,540	
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	-	
PO.XII	Other liabilities	4,066,344	
PO.XIV	**TOTAL LIABILITIES (positions under EDP codes from 0401 to 0413 in the balance sheet)**	**330,991,409**	

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	5,547,074	
PO.XVIII	Loss	-	
PO.XIX	Reserves	21,373,259	
	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	-	
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	48,245,487	
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)	**379,236,896**	
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**	**47,394,100**
1.	**TOTAL BASED SHARE CAPITAL**	**38,821,564**
2.	**TOTAL ADDITIONAL SHARE CAPITAL**	**-**
3.	**TOTAL SUPPLEMENTARY CAPITAL**	**8,572,536**
II	**CAPITAL REQUIREMENTS**	**39,616,086**
1.	**CAPITAL REQUIREMENT FOR CREDIT RISK, COUNTERPARTY RISK, RISK OF REDUCING THE VALUE OF PURCHASED RECEIVABLES AND SETTLEMENT/DELIVERY RISK ON THE BASIS OF FREE DELIVERIES**	**15,836,246**
1.1.	Standardized Access (SP)	***197,953,077***
1.1.1.	Exposures to countries and central banks	***0***
1.1.2.	Exposures to territorial autonomies and local self-government units	***409,159***
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	***53,217,173***
1.1.8.	Exposures to natural persons	***110,885,025***
1.1.9.	Exposures secured by real estate mortgages	***25,306,774***
1.1.10.	Exposures in default status	***2,480,689***
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	***414,190***
1.1.17.	Other exposures	***4,680,349***
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	0
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**	**22,587,870**
4.1.	Capital requirement for operational risk calculated using the basic indicator approach	**22,587,870**
4.2.	Capital requirement for operational risk calculated using the standardized/alternative standardized approach	-
4.3.	Capital requirement for operational risk calculated using advanced approach	-
5	**CAPITAL REQUIREMENT FOR CREDIT EXPOSURE ADJUSTMENT RISK**	**440,842**
III	**STATE SHARE CAPITAL ADEQUACY INDICATOR (%)**	**17.51**
IV	**CAPITAL ADEQUACY INDICATOR (%)**	**17.51**
V	**CAPITAL ADEQUACY INDICATOR (%)**	**21.37**

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