Erste Bank a.d. Novi Sad

Basel 2 Pillar III disclosure of data and information for the year ended 31 December 2014

GENERAL INFORMATION

ERSTE BANK A.D. NOVI SAD

Head office: Bulevar Oslobođenja Street No. 5, 21 000 Novi Sad, Serbia
Registration number: 08063818
Tax identification number: 101626723
SWIFT: GIBARS22
Internet homepage: www.erstebank.rs
E-mail: info@erstebank.rs
Info telephone: 0800 201 201

Contents

DEFINITIONS

Economic capital	Amount of capital needed to cover all the Bank's risks using economical measures to ensure its sustainability
Internal capital	Amount of capital, including capital like components, according to the Bank's internal definitions
Price Value Basis Point	Measurement of risk of change in portfolio value caused by changing interest rate for one basis point. Can be calculated only for instruments whose value is sensitive to changes in interest rates
Internal Capital Adequacy Assessment process	Process and systems established to determine the level of internal capital adequate to cover materially significant risk types the Bank faces, different from those provided by the National Bank of Serbia Decision on Capital Adequacy of Banks
Liquidity Coverage Ratio	Ratio of Stock of high-quality liquid assets and Total net cash outflows over the next 30 days
Net Stable Funding Ratio	Ratio of Available amount of stable funding and Required amount of stable funding
Regulatory capital	Amount of capital charges according to National Bank of Serbia Decision on Capital Adequacy of Banks
Risk Profile	Bank's assessment of the structure and level of risks it is or could be exposed to in its operations
Value at Risk	The largest possible loss in the Bank's portfolio during a specified time period and within a given interval of confidence

ABBREVIATIONS

ALM	Asset and Liabilities Management
BIA	Basic Indicator Approach
CRM	Credit Risk Mitigation
CRO	Credit Risk Officer
ICAAP	Internal Capital Adequacy Assessment Process
IRB	Internal Ratings Based Approach
LCR	Liquidity Coverage Ratio
NSFR	Net Stable Funding Ratio
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
ECA	Economic Capital Adequacy
NBS	National bank of Serbia
p.a.	per annum
PVBP	Price Value Basis Point
VaR	Value-at-Risk
RCC	Risk-bearing Capacity Calculation
PD	Probability of Default
EAD	Exposure at Default
LGD	Loss Given Default
RSD	Republic of Serbia Dinar
RWA	Risk Weighted Assets
AMA	Advanced Measurement Approach

1. INTRODUCTION

Erste Bank a.d. Novi Sad (hereinafter referred as "the Bank"), member of Erste Bank Group (hereinafter referred as "ERSTE Group"), prepares Disclosure Report on data and information (hereinafter referred as "Disclosure Report" or "Report") as at 31 December 2014 and for the year then ended.

This Report gives the reader an opportunity to gain comprehensive overview of the current risk profile and the risk and capital management systems of the Bank. The Report comprises particularly the qualitative and quantitative data and/ or information falling in the following areas:

- risk management strategy and policies;
- capital structure;
- capital adequacy;
- internal capital adequacy assessment process;
- Bank's exposure to risks and approaches for risk measurement and assessment.

The Report fulfils the disclosure requirements according to article 51a of the Law on banks ("Official Gazette of the Republic of Serbia", no. 107/2005, 91/2010 and 14/2015) and according to National Bank of Serbia Decision on Disclosure of Data and Information by Banks ("Official Gazette of the Republic of Serbia", no. 125/2014 and 4/2015).

Pursuant to the Decision on Disclosure of Data and Information by Banks, the Bank is obliged to disclose qualitative and quantitative data and/or information, within the scope of the said Decision, once a year, as at 31 December. Additionally, quantitative data and/or information are required to be disclosed also as at 30 June.

Activities that ensure correctness and adequacy of data and/or information published within the scope of the Disclosure Report are subject to an independent audit.

The Report is available at the Bank's website (http://www.erstebank.rs/rs/O_nama/Izvestaji).

The data and/or information in this Report are presented in Republic of Serbia Dinars ("RSD") currency and all values are rounded to the nearest thousand (RSD '000), except when otherwise indicated.

2. RISK MANAGEMENT SYSTEM

2.1. RISK MANAGEMENT SYSTEM, STRATEGY AND POLICIES

Having in mind its area of business, the Bank is susceptible to different risks in its operations and therefore the presence of risks is a general attribute of Bank's different business activities. Related, the Bank has established a comprehensive and reliable risk management system which is based on its clear risk management strategy and integrated in all its business activities, thus ensuring that the Bank's risk profile is in line with its established risk appetite.

Risk management system comprises management of all risks the Bank is or can be exposed to in its operations and encompasses risk identification, measurement and/ or assessment, mitigation and monitoring, including supervision and reporting on risks. In addition to meeting the internal goal of effective and efficient risk management, Bank's risk management system has been developed to fulfil external, and in particular, regulatory requirements.

Bank's proactive risk management strategy aims at achieving an optimal acceptable level of risks so as to minimize potential adverse effects to the Bank's capital and financial performance, while at the same time complying with the principles of stability, safety, liquidity and rentability.

The risk management strategy is described and defined in details within the following Bank's documents: Risk Materiality Assessment Policy, Risk-bearing Capacity Calculation Policy, Stress Testing Policy and Risk Appetite Statement Policy. The documents layout the summary and definitions of all risks the Bank is or may be exposed to, long-term goals determined by the bank's business policy and strategy, as well as propensity to risks defined in accordance with these goals, main principles of risk assumption and risk management, risk materiality assessment, methodology on capital requirements calculation, stress testing methodology as well as other main principles of the internal capital adequacy assessment process.

Bank's acceptable level of risk, i.e. its risk appetite, represents the structure and maximum level of risks the Bank is willing to take from strategic point of view. Bank's risk appetite is consistent with the Bank's strategic and business plans. Ensuring that the Bank is performing its operations in accordance with determined risk appetite is achieved through regular budgeting process for the following year as well as for the following four years, through implementation of operating goals for individual risk types and operating limits, securing in such a manner integration of risk management system in all Bank's operations.

The Bank has established policies and processes according to the defined risk management strategy which provide sufficient support and guidance to achieve strategic goals and regulatory compliance related to management of individual risks, as well as procedures related to the Bank's regular reporting in relation to the risk management. Policies and procedures framework is comprehensive, centrally stored, transparent and accessible for relevant stakeholders.

Given the Bank's business strategy, the key risks for the Bank are credit risk, market risks and operational risk. The Bank also focuses on managing liquidity, concentration risks, strategic, FX-induced and residual risk. In addition to managing these risks, the Bank's control and risk management framework, as well as Bank's stress testing process, take account of other significant risks faced by the Bank.

2.2. ORGANISATION OF RISK MANAGEMENT

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits.

The Management Board and the Executive Committee are ultimately responsible for risk management. The Executive Committee, and in particular the Executive Committee member in charge of risks (Chief Risk Officer - CRO), has to perform its oversight function within the Bank's risk management structure. Risk control and management functions within the Bank are performed based on the business and risk strategies approved by the Managing Board and risk management framework. The CRO is responsible for the implementation of and adherence to the risk control and risk management strategies across all risk types and business lines. While the Executive Committee and, in particular the CRO, ensure the availability of appropriate infrastructure and staff as well as methods, standards and processes to that effect, the actual identification, measurement, assessment, approval, monitoring, steering, and setting limits for the relevant risks are performed at the operating level. The Executive Committee is supported by several separate independent units and/ or bodies established to perform operational risk control functions and exercise strategic management responsibilities.

Risk Management is committed to the following units/bodies:

Risk Management Division

Risk Management Division, being a separate organisational structure functionally and organizationally separated from Bank's risk underwriting activities, is responsible for risk management system within the Bank.

Responsibilities of the Risk Management Division encompass the following:

- Identification and measurement and/or assessment of Bank's exposure to individual risk types;
- Risk monitoring, including risk supervision, analysis and reporting on individual risk types amount, their sources and consequences;
- Measurement and/or assessment of Bank's risk profile and capital adequacy;
- Monitoring of parameters influencing Bank's risk exposure position, primarily including management and optimisation of credit portfolio quality and risk cost;
- Development, application and validation of quantitative risk measurement methods and models, being element of business decision making;
- Developing strategies and proposing Bank's risk exposure limits per different risk types, as well as monitoring of the fulfilment of the same;
- Quantification of stress testing results of changes in economic environment and macroeconomic conditions that influence Bank's financial position and capital;
- Risk assessment of new products and processes introduction and outsourcing activities;
- Defining methodologies, rules, policies and procedures for risk management in accordance with applicable regulatory framework, Erste Group standards, good business practice as well as Bank's specific circumstances;
- Enabling of consistency and transparency within the process for identification, measurement, management, supervision and reporting on risks;
- Establishment of business practice and development of risk oriented culture by raising employees' awareness on risk management.

Considering different areas of business it covers and with the aim of efficient performance of its responsibilities, Risk Management Division is divided into the following organization units:

- Retail Risk Management Department;
- Corporate Risk Management Department;
- Workout and Restructuring Department;
- Strategic Risk Management Department.

The following diagram presents an overview of Bank's Risk Management Division organisation structure, showing its Departments and associated Units, thus presenting Division's respective control governance.

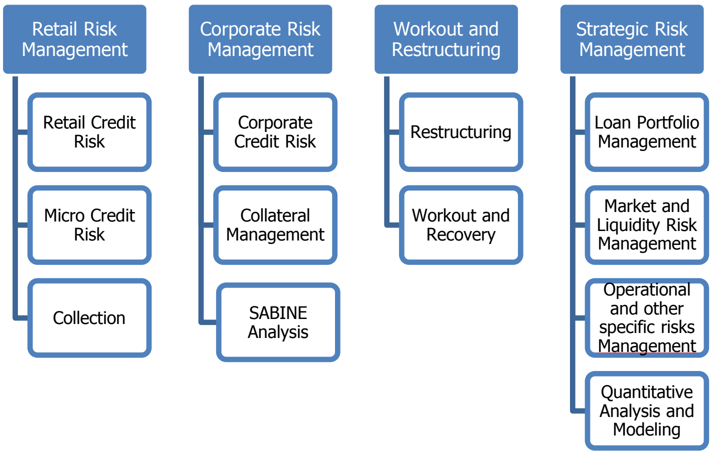


Figure 1: Strategic Risk Management Division organisation

Retail Risk Management Department focuses on retail business, encompassing private individuals and micro clients. It coordinates retail credit risk management processes and standards, primarily through retail clients underwriting process. The Department is also responsible for collection process from non-performing clients (private individuals only) as well as provision of different credit risk analysis and reports on the Bank's retail business.

Corporate Risk Management Department is the operative credit risk management function for Bank's corporate business clients. It is responsible for the formal verification, recommendation and approval of all credit risks of corporate clients. Department is also responsible for management and monitoring of collaterals provided by Bank's corporate clients.

Workout and Restructuring Department is responsible for collection from as well as restructuring of non-performing accounts in the corporate and micro clients segments.

Strategic Risk Management Department is responsible for macro-managing the Bank's risk portfolios, provision of adequate risk measurement methodologies and tools as well as an appropriate risk control and policy framework.

Credit Committee

Credit Committee as decision making authority is responsible for loan underwriting and approving Bank exposure towards customers. Committee is organised in five levels (CC1 to CC5) depending on the total client limit, its collateral coverage and rating. Any decision has to follow the 4-eye-principle suggesting that any decision has to be signed by two competent decision makers (approval authorities).

Assets and Liability Management Committee

Assets and Liability Management Committee (ALCO) monitors Bank's exposure towards the risks coming from the structure of its balance sheet liabilities and receivables and off-balance sheet items, suggests measures for interest rate risk and liquidity risk management, and conducts other operations foreseen by Bank's internal regulation and National Bank of Serbia regulation.

Asset and Liability Management Department

Asset and Liability Management Unit is organized as an independent organizational unit that reports directly to the Executive Committee of the Bank. It is primarily responsible for management of funding and liquidity position of the Bank, determination of the indicative price of the Bank's products (FTP system), as well as management of interest rate risk and strategic management of the balance sheet currency structure.

Internal Audit Department

Internal Audit conducts independent evaluation of Risk management processes, regularly performs assessment of the Bank's internal control system - its adequacy, reliability and efficiency, and reports their findings to Bank's management and Audit Committee.

Compliance Department

Compliance Department is an independent organizational unit, primarily responsible for identification and monitoring of compliance risk as well as management of this risk. Compliance risk comprehends of: risk of regulatory sanctions, risk of financial loss and reputational risk that may arise from non-compliance of the Bank with applicable laws regulations, standards of operations, as well as good business practice.
Department is also responsible for management of security risks (assessment, risk mitigation measure proposal and monitoring of risks related to security).
Organizationally, Compliance Department consist of four units:

- Central compliance Unit– risks of compliance with regulation, risks related to securities within the scope of conflict of interests risk and reputational risk management;
- Anti-money laundering Unit– anti-money laundering and terrorism financing risks;
- Financial crime risks management Unit– risks of internal and external frauds, criminal actions, non-compliance with regulation and Bank's internal policies, risk of unethical behaviour;
- Security Risks Unit – information security, physical and technical protection, business continuity and crisis management plan.

2.3. RISK MANAGEMENT REPORTING SYSTEM

A reporting framework is vital to provide the Bank's management with steering relevant information. Adequacy in terms of scope, quality and timelines is necessary to enable management to adequately and timely respond to the actual and foreseeable risk developments.

Monitoring and controlling risks is, among other, achieved through a comprehensive reporting system supported by establishment of limits. The limits reflect the business strategy and market environment of the Bank, as well as the level of risks the Bank is willing to accept. Risk exposure and its development are compared against different limits set in order to ensure adequate risk profile of the Bank.

Information compiled from all operating activities are being examined and processed in order to identify, analyse and control new risks. This information is presented and explained to the Management Board, Executive Committee, Asset and Liabilities Management Committee as well as heads of respective units. Such reports sufficiently inform about the total exposure to different risk types, regions and countries, industries and customer groups, customer and other concentrations, market risk measurements, liquidity ratios, departure from established limits, etc. Reports are prepared and provided on a daily, weekly, monthly or quarterly basis, but as well upon request.

The most important credit risk reports contain information on the development of volumes in each of the business areas, the quality of the portfolio by rating grades, movements of different risk indicators, accepted collateral values and risk provisions levels, as well as detailed risk-relevant information on customers at risk of default or already defaulted. The reports serve as a basis for the reviews of the credit policy for the business areas as well as their business and risk strategy.

Reporting on market risks comprises measurement of the market risk in the trading book based on Value at Risk (VaR) and Price Value Basis Point (PVBP) measurements. Additionally, external regulatory reporting on market risk, to which the Bank can be exposed to in respect of its banking book and trading book positions, covers balance of net open currency position.

Operational risk reports cover development and analysis of different operating risk events and key risk indicators.

The most important reports on liquidity risk encompass reports on liquidity indicator, daily dinar and foreign exchange liquidity, the five-daily liquidity as well as Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) ratios as required by Basel III standard.

The Bank calculates and reports the interest rate risk separately by each important currency (currency exposure more than 5% of the balance sheet), in particular EUR and RSD. Analysis is done on monthly or quarterly basis, based on the type of the interest rate risk analysed. Furthermore, report on market overview is also prepared monthly for ALCO meetings.

In addition to the above said, the Bank quarterly presents comprehensive report on risks to the Management Board that includes all relevant information needed to estimate the risks the Bank is exposed to.

Additional reports on risk management are prepared to ensure that all business units have access to comprehensive, necessary and updated information.

2.4. RISK MITIGATION

In the course of a lending transaction, the Bank expects the debt repayment primarily through the future cash flow that is generated by the debtor. In order to supplement this debt repayment and to minimize any loss from a potential default of the debtor the Bank takes collateral security. The Bank takes as much collateral security as possible, with collaterals that can be easily and quickly realized being advantageous. The possibility of taking collateral is dependent on the actual market situation and business competition. Efficiency in credit risk mitigation technique is measured and managed by monitoring time period needed for collateral realization and deviation of collateral realized values from expected values of realisation.

All acceptable types of collateral, as well as regulation of valuation and management of the same, are detailed in an exhaustive Collateral catalogue. Standard collateral types accepted by the Bank are as follows: real estate mortgages, mortgages on movables and receivables, deposits, as well as bank guarantees or guarantees of the Republic of Serbia, but also other types defined by the Collateral catalogue. The items of collateral acceptable in secured lending according to this catalogue are constituted (i.e. become effective as collateral) in compliance with the applicable national laws. This involves valuing and categorising the items of collateral and using them to mitigate credit risk according to their category.

3. CAPITAL AND CAPITAL ADEQUACY

3.1. REGULATORY CAPITAL

The Bank complied with the articles of the National Bank of Serbia Decision on Capital Adequacy of Banks (Official Gazette of the Republic of Serbia No. 46/2011, 6/2013 and 51/2014) on calculating the regulatory capital.

Total eligible regulatory capital is the sum total of Core capital and Supplementary capital minus deductions:

- The Core capital consists of share capital, share premium, reserves from profit and retained earnings from previous years, as well as deductions for intangible assets and regulatory valuation adjustments related to IFRS / IAS (unrealized losses on securities available for sale and required reserve for estimated losses on balance sheet assets and off-balance sheet items).
- Supplementary capital consists of subordinated liabilities and part of the positive revaluation reserves arising from the effects of changes in fair value of fixed assets, securities and other assets that, in accordance with IAS / IFRS, are recorded in favour of the reserves.
- Deductions from capital consist of investments in other financial sector entities in the amount exceeding 10% of the capital of these persons.

The Bank manages its capital structure and performs adjustments in accordance with economic conditions and risks related to the Bank's operations.

The Bank's objectives in managing capital are:

- To ensure compliance with the requirements of the National Bank of Serbia;
- To provide the level and structure of capital that can support the expected growth of placements;
- To ensure the long-term ability to continue operating while ensuring returns to shareholders and benefits for other stakeholders;
- To provide a strong capital base to support the further development of the Bank.

Additionally, in the course of its operations, the Bank ensures that its capital never declines below the RSD equivalent value of EUR 10,000,000 at the official NBS middle exchange rate, as prescribed by the Law on Banks.

The Bank's shareholders are Erste Group Bank CEPS HOLDING GMBH, Vienna, with 74%interest and Steiermarkische Bank und Sparkassen AG, Graz, with 26% interest in the Bank's share capital.

In accordance with the Decision on Disclosure of Data and Information, information on Bank's capital is further provided in the following insets:

- Form PI-PAK (Inset 1) - the detailed structure of the regulatory capital of the Bank as at 31 December 2014 (with references to the position of the balance sheet assets set out in Inset 3 provided);
- Form PI-FIKAP (Inset 2) - data on main features of financial instruments included in calculation of Bank's capital;
- Form PI-UPK (Inset 3) - the balance sheet of the Bank, prepared in accordance with IAS / IFRS standards with breakdown and references to items enabling link to the positions included in Capital reports prepared in accordance with the decision on reporting on capital adequacy of banks (Inset 1 – form PI-KAP).

Inset 1 - Form PI-KAP

Data on Bank's capital position

(RSD thousand)

No	Item	Amount	Data source reference to Inset 3
I	TOTAL CORE CAPITAL	11,345,727	
1.	CORE CAPITAL BEFORE DEDUCTIONS	14,326,737	
1.1.	Par value of paid-in shares, except cumulative preferential shares	10,040,000	a
1.2.	Share premium	124,475	b
1.3.	Reserves from profit	3,091,087	v
1.4.	Retained earnings from previous years	1,071,176	g
1.5.	Profit of the current year		d
1.6.	Minority participations in subordinate companies		đ
1.7.	Other positive consolidated reserves		e
2.	DEDUCTIBLES FROM CORE CAPITAL	2,981,010	
2.1.	Losses from previous years		ž
2.2.	Loss of the current year		z
2.3.	Intangible assets	389,351	i
2.4.	Acquired own shares, except cumulative preferential shares		j
2.5.	Amount of shares received in pledge, except cumulative preferential shares		k
2.6.	Regulatory value adjustments:	2,591,659	
2.6.1.	Unrealised losses on securities available for sale	2,234	l
2.6.2.	Other net negative revaluation reserves		lj
2.6.3.	Gains on bank liabilities measured at fair value due to the change in bank's credit rating		m
2.6.4.	Required reserve from profit for estimated losses on balance-sheet assets and off-balance sheet items of the bank	2,589,425	
2.7.	Other negative consolidated reserves		n
II	TOTAL SUPPLEMENTARY CAPITAL	1,391,404	
1.	SUPPLEMENTARY CAPITAL BEFORE DEDUCTIONS	1,391,404	
1.1.	Par value of paid in cumulative preferential shares		nj
1.2.	Share premium on cumulative preferential shares		o
1.3.	Part of revaluation reserves of the bank	60,863	p
1.4.	Hybrid instruments		r
1.5.	Subordinated liabilities	1,330,541	s
1.6.	Overallocation of impairment allowances, provisions and required reserves from profit relative to expected losses		
2.	DEDUCTIBLES FROM SUPPLEMENTARY CAPITAL	0	
2.1.	Acquired own cumulative preferential shares		t
2.2.	Receivables in respect of balance-sheet assets and off-balance sheet items of the bank secured by a hybrid instrument or subordinated liability		
2.3.	Amount of cumulative preferential shares received in pledge		ć
2.4.	Amount of capital in excess of limitations on supplementary capital		
III	TOTAL CAPITAL	12,643,571	
1.	TOTAL CAPITAL BEFORE DEDUCTIONS	12,737,131	
2.	DEDUCTIBLES FROM CAPITAL	93,560	
	Of which reduction in core capital	46,780	
	Of which reduction in supplementary capital	46,780	
2.1.	Direct or indirect investment in banks and other financial sector persons that exceed 10% of the capital of such banks and/or other financial sector persons	93,560	(u+f+h)
2.2.	Investment in hybrid instruments and subordinated liabilities of other banks and financial sector persons in which the bank has direct or indirect investment that exceeds 10% of the capital of such persons		
2.3.	Total amount of direct and indirect investment in banks and other financial sector persons in the amount of up to 10% of their capital, as well as investment in their hybrid instruments and subordinated liabilities that exceeds 10% of the sum of core and supplementary capital of the bank for which the calculation of capital is made		
2.4.	The amount by which qualified participation in non-financial sector persons has been exceeded		
2.5.	Underallocation of impairment allowances, provisions and required reserves from profit relative to expected losses		
2.6.	The amount of exposure to free deliveries if the counterparty failed to fulfil its obligation within four working days		
2.7.	Receivables from and potential liabilities toward persons related to a bank or employees in the bank which the bank has negotiated under the terms that are more favourable than the terms negotiated with other parties		
IV	NOTES		
	Positive/negative difference between total impairment allowances for balance sheet assets, provisions for losses on off-balance sheet items and required reserves from profit on the one hand, and total estimated losses under IRB approach on the other		
	Amount of impairment allowances, provisions and required reserves from bank's profit		
	Of which on a group basis		
	Of which on an individual basis		
	Amount of expected losses under IRB approach		
	Gross amount of subordinated liabilities	2,063,203	

Inset 2 - Form PI-FIKAP

Main features of financial instruments included in calculation of Bank's capital

No.	Instrument features	The share capital of the Bank	The subordinated loan granted by Erste Group Bank Ceps Holding GmbH, Vienna	The subordinated loan granted by Erste GCIB Finance, Amsterdam
1.	**Issuer**	**Erste Bank ad Novi Sad**	**Erste Bank ad Novi Sad**	**Erste Bank ad Novi Sad**
2.	**Treatment as per legislation**			
2.1.	Treatment as per the Decision on Capital Adequacy of Banks	Core capital instrument	Supplementary capital instrument	Supplementary capital instrument
2.2.	Individual/group/individual and group level of inclusion of instrument in capital on group level	Individual and group	Individual and group	Individual and group
2.3.	Type of instrument	Ordinary shares	Subordinated debt issued in the form of financial instrument	Subordinated debt issued in the form of financial instrument
3.	**Amount recognised for the purpose of calculating regulatory capital (in RSD thousand, as at the last reporting date)**	Amount of 10,164,474 thousand RSD is recognized for the purposes of calculating regulatory capital (nominal value plus share premium in the amount of 124.474 thousand RSD).	Not included in the calculation of regulatory capital (in accordance with the provisions of the Capital Adequacy Decision), since less then a year remains until maturity date.	Amount of 1,330,541 thousand RSD recognised as suplementary capital. This amount is calculated by applying the appropriate reduction weights for commitments in the last five years before maturity (cumulative 20% per year) in accordance with the Capital Adequacy Decision.
4.	**Nominal value of instrument**	10,040,000 thousand RSD	EUR 10,800,000	EUR 15,000,000
5.	**Accounting classification**	Share capital	Liability – depreciated amount	Liability – depreciated amount
6.	**Initial date of issuance of instrument**	August 2005 (date of acquisition of Novosadska banka a.d by members of Erste Group shown)	20.12.2005	27.12.2011
7.	**Instrument with or with no maturity date.**	No maturity date	maturity date	maturity date
7.1.	**Original maturity**	No maturity date	20.12.2015	27.12.2021
8.	**Does the issuer have call option**	No	No	No
8.1.	First day of activating call option right activation	-	-	-
8.2.	Subsequent dates of call option activation (if applicable)	-	-	-
9.	***Coupons/dividends***		refering to interest on subordinated loan	refering to interest on subordinated loan
9.1.	Fixed or variable dividends/coupons	Variable	Variable	Variable
9.2.	Full, partial or no discretion regarding the time of payment of dividends/coupons	Full discretion	No discretion	No discretion
9.3.	Full, partial or no discretion regarding the amount of dividends/coupons	Full discretion	No discretion	No discretion
9.4.	Step up option	No	No	No
9.5.	Non-cumulative or cumulative dividends/coupons	Non-cumulative	Non-cumulative	Non-cumulative
10.	**Convertible or non-convertible instrument**	Non-convertible	Non-convertible	Non-convertible
10.1.	If convertible, terms under which conversion may take place	-	-	-
10.2.	If it is convertible, specify if it is partially or fully convertible	-	-	-
10.3.	If it is convertible, rate of conversion.	-	-	-
10.4.	If it is convertible, mandatory or voluntary conversion	-	-	-
10.5.	If it is convertible, specify instrument to which it is converted.	-	-	-
10.6.	If it is convertible, the issuer of the instrument to which it is converted.			
11.	**Write-off option**	No	No	No
11.1.	If there is write-off option, specify terms under which the write-off may take place.	-	-	-
11.2.	If there is write-off option, specify if partial or full	-	-	-
11.3.	If there is write-off option, spefify if temporary or permanent write-off	-	-	-
11.4.	If the write-off is temporary,specify terms of re-recognition	-	-	-
12.	**Type of an instrument which will be paid off directly before the said instrument during liquidation**	Subordinated debt issued in the form of financial instrument	Other	Other

Inset 3 - Form PI-UPK

Breakdown of elements in the Bank's Balance Sheet and references to positions included in regulatory capital (Inset 1)

Designation of item	Item	Balance sheet	References
A	**ASSETS**		
A.I	Cash and assets with the central bank	15,906,407	
A.II	Pledged financial assets		
A.III	Financial assets recognised at fair value through income statement and held for trading	6,077,169	
A.IV	Financial assets initially recognised at fair value through income statement		
A.V	Financial assets available for sale	2,571,624	
A.VI	Financial assets held to maturity	7,435,009	
A.VII	Loans and receivables from banks and other financial organisations	3,898,755	
A.VIII	Loans and receivables from clients	59,943,455	
A.IX	Change in fair value of hedged items		
A.X	Receivables arising from hedging derivatives		
A.XI	Investments in associated companies and joint ventures		
	Of which direct or indirect investments in banks and other financial sector person persons	0	u
A.XII	Investments into subsidiaries	93,560	
	Of which direct or indirect investments in banks and other financial sector persons	93,560	f
A.XIII	Intangible assets	389,351	i
A.XIV	Property, plant and equipment	704,054	
A.XV	Investment property	13,827	
A.XVI	Current tax assets	2,673	
A.XVII	Deferred tax assets	210,513	
A.XVIII	Non-current assets held for sale and discontinued operations		
A.XIX	Other assets	506,124	
	Of which direct or indirect investment in banks and other financial sector entities that exceed 10% of the capital of such banks and/or other financial sector entity		h
A.XX	**TOTAL ASSETS (AOP items from 0001 to 0019 in the balance sheet)**	**97,752,521**	
P	**LIABILITIES**		
PO	**LIABILITIES**		
PO.I	Financial liabilities recognised at fair value through income statement and held for trading	27,282	
PO.II	Financial liabilities initially recognised at fair value through income statement		
PO.III	Liabilities arising from hedging derivatives		
PO.IV	Deposits and other liabilities to banks, other financial organisations and central bank	18,433,395	
PO.V	Deposits and other liabilities to other clients	61,602,685	
PO.VI	Change in fair value of hedged items		
PO.VII	Own securities issued and other borrowings	0	
	Of which liabilities arising from hybrid instruments	0	r
PO.VIII	Subordinated liabilities	2,063,751	
	Of which subordinated liabilities included in bank's supplementary capital	1,330,541	s
PO.IX	Provisions	543,788	
PO.X	Liabilities under assets held for sale and discontinued operations		
PO.XI	Current tax liabilities		
PO.XII	Deferred tax liabilities		
PO.XIII	Other liabilities	422,801	
PO.XIV	**TOTAL LIABILITIES (AOP items from 0401 to 0413 in the balance sheet)**	83,093,702	
	CAPITAL		
PO.XV	**Share capital**	**10,164,475**	
	Of which nominal value of paid-in shares, except cumulative preferential shares	10,040,000	a
	Of which share premium on share capital, except cummulative preferential shares	124,475	b
	Of which nominal value of cumulative preferential shares		nj
	Of which share premium on cumulative preferential shares		o
PO.XVI	**Own shares**		
	Of which acquired own shares, except cumulative preferential shares		j
	Of which acquired own cumulative preferential shares		t
PO.XVII	**Profit**	**1,343,984**	
	Of which retained earnings from previous years	1,071,176	g
	Of which profit of the current year	272,808	
	Of which profit of the current year for which the General Assembly of the Bank adopted a decision on allocation to the core capital	0	d
PO.XVIII	**Loss**		
	Of which losses from previous years		ž
	Of which loss in the current year		z
PO.XIX	**Reserves**	**3,150,360**	
	Of which reserves from profit which represent element of core capital	3,091,087	v
	Of which other positive consolidated reserves	0	e
	Of which other negative consolidated reserves	0	n
	Of which other net negative revaluation reserves		lj
	Of which gains on bank liabilities measured at fair value due to the change in bank's credit rating		m
	Of which positive revaluation reserves created on the basis of effects of changes in fair value of fixed assets, securities and other assets which are, in accordance with IFRS/IAS, credited to these reserves.	60,863	p
	Of which unrealised losses on securities available for sale	2,234	l
	Of which tax liabilities	644	
PO.XX	**Unrealised losses**		
PO.XXI	**Non-controlling participation**		
	Of which minority participation in subordinated companies		đ
PO.XXII	**TOTAL CAPITAL** (result of adding up and/or subtracting the following balance sheet items: 0415-0416+0417-0418+0419+0420) ≥ 0	14,658,819	
PO.XXIII	**TOTAL CAPITAL SHORTFALL** (result of adding up and/or subtracting the following balance sheet items: 0415-0416+0417-0418+0419+0420) < 0		
PO.XXIV	**TOTAL LIABILITIES** (result of adding up and/or subtracting the following balance sheet items: 0414+0421-0422)	**97,752,521**	
В.П.	**OFF-BALANCE SHEET ITEMS**		
В.П.А.	Off-balance sheet assets	130,719,418	
	Of which amount of shares received in pledge, except cumulative preferential shares	0	k
	Of which amount of cumulative preferential shares received in pledge	0	ć
В.П.П.	Off-balance sheet liabilities	130,719,418	

3.2. REGULATORY CAPITAL ADEQUACY

Under Decision on Capital Adequacy of Banks, the full amount of the capital requirements is calculated and its relationship to the regulatory capital is established. The eligible regulatory capital must be available at least in the amount of the sum of minimum capital requirements.

The minimum capital requirements pursuant to the Decision on Capital Adequacy of Banks, i.e. capital adequacy ratio, of 12% were complied with at all times during the reporting period. As at 31 December 2014 capital adequacy ratio amounted to 20.49%.

Based on the business activities of the Bank, the following minimum capital requirements result for credit risk, market risks (i.e. price risk on debt securities and foreign exchange risk) and operational risk.

Capital requirement for credit risk is calculated by multiplying total credit risk-weighted assets by 12%. The Bank calculates credit risk-weighted assets by applying standardized approach for all asset classes.

As at 31 December 2014, the Bank calculated regulatory minimum capital requirements to cover price risk on debt securities as well as capital requirement for foreign exchange risk.
Regulatory minimum capital requirements for price risk on debt securities is calculated as sum of capital requirements for general and specific price risk on these securities, multiplied by 1.5. Capital requirement for general price risk on debt securities is calculated by applying duration method. As at 31 December 2014, the Bank was not exposed to specific price risk on debt securities.

Capital requirement for foreign exchange risk the Bank calculates as 12% of the sum of total net open foreign currency position and absolute value of net open position in gold.

For the calculation of regulatory capital requirements for operational risk the Bank uses Basic Indicator Approach (BIA).

An overview of before mentioned capital requirements calculated as at 31 December 2014 is given in prescribed form PI-AKB as Inset 4 that follows.

Inset 4 - Form PI-AKB

Bank's total capital requirements and capital adequacy ratio

(RSD thousand)

No	Name	Amount	Coverage by core capital	Coverage by supplementary capital
		1	2	3
I	CAPITAL	*12,643,571*		
1.	TOTAL CORE CAPITAL	11,298,947		
2.	TOTAL SUPPLEMENTARY CAPITAL	1,344,624		
II	CAPITAL REQUIREMENTS	7,405,329		
1.	CAPITAL REQUIREMENTS FOR CREDIT RISK, COUNTERPARTY RISK AND SETTLEMENT/DELIVERY RISK IN CASE OF FREE DELIVERIES	6,400,158	*6,400,158*	
1.1.	Standardised approach (SA)	53,334,652		
1.1.1.	*Exposures to central governments and central banks*	*0*		
1.1.2.	*Exposures to territorial autonomies and local self-government units*	*520,538*		
1.1.3.	*Exposures to public administrative bodies*	*144,377*		
1.1.4.	*Exposures to multilateral development banks*	*0*		
1.1.5.	*Exposures to international organisations*	*0*		
1.1.6.	*Exposures to banks*	*1,408,124*		
1.1.7.	*Exposures to corporates*	*31,413,389*		
1.1.8.	*Retail exposures*	*15,498,029*		
1.1.9.	*Exposures secured by real estate collateral*	*2,574,394*		
1.1.10.	*Past due items*	*523,430*		
1.1.11.	*High-risk exposures*	*0*		
1.1.12.	*Exposures in the form of covered bonds*	*0*		
1.1.13.	*Exposures in the form of open-end investment funds*	*0*		
1.1.14.	*Other exposures*	*1,252,372*		
1.2.	Internal Ratings Based Approach (IRB)			
1.2.1.	*Exposures to central governments and central banks*			
1.2.2.	*Exposures to banks*			
1.2.3.	*Exposures to corporates*			
1.2.4.	*Retail exposures*			
1.2.4.1.	*Retail exposures secured by real estate collateral*			
1.2.4.2.	*Qualifying revolving retail exposures*			
1.2.4.3.	*Other retail exposures*			
1.2.5.	*Equity exposures*			
1.2.5.1.	*Approach applied:*			
1.2.5.1.1.	*Simple Risk Weight Approach*			
1.2.5.1.2.	*PD/LGD Approach*			
1.2.5.1.3.	*Internal Models Approach*			
1.2.5.2.	*Types of equity exposures*			
1.2.5.2.1.	*Exchange traded equity exposures*			
1.2.5.2.2.	*Non-exchange traded equity exposures in sufficiently diversified portfolios*			
1.2.5.2.3.	*Other equity exposures*			
1.2.5.2.4.	*Equity exposures to which a bank applied Standardised Approach to credit risk*			
1.2.6.	*Exposures to other assets*			
2	CAPITAL REQUIREMENTS FOR SETTLEMENT/DELIVERY RISK ARISING FROM UNSETTLED TRANSACTIONS	0	*0*	
3	CAPITAL REQUIREMENTS FOR MARKET RISKS	105,226	*105,226*	
3.1.	Capital requirements for price, foreign exchange and commodity risks calculated under standardised approaches	105,226	*105,226*	
3.1.1.	*Capital requirements for price risk arising from debt securities*	*69,860*	*69,860*	
3.1.2.	*Capital requirements for price risk arising from equity securities*	*0*	*0*	
3.1.3.	*Capital requirements for foreign exchange risk*	*35,367*	*35,367*	
3.1.4.	*Capital requirements for commodity risk*	*0*	*0*	
3.2.	Capital requirements for price, foreign exchange and commodity risks calculated under the Internal Models Approach	0	*0*	
4	CAPITAL REQUIREMENTS FOR OPERATIONAL RISK	899,944	*899,944*	
4.1.	Capital requirements for operational risk calculated under the Basic Indicator Approach	899,944	*899,944*	
4.2.	Capital requirements for operational risk calculated under the Standardised Approach		*0*	
4.3.	Capital requirements for operational risk calculated under the Advanced Approach		*0*	
5	COVERAGE OF CAPITAL REQUIREMENTS	*7,405,329*	*7,405,329*	
III	CAPITAL ADEQUACY RATIO (%)	*20.49*		

4. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

4.1. PROCESS

The Internal Capital Adequacy Assessment Process (ICAAP) is established with the aim to assess and maintain on an on-going basis the internal capital that the Bank considers adequate to cover the nature and level of risks to which it is exposed. ICAAP essentially serves to assess as to whether the Bank can "afford" its acquired risks by comparing its risk portfolio across all material risk types with its internal capital (coverage potentials).

The ICAAP is designed to support the Bank's proactive and consistent risk management at all times, assuring adequate capital capacity reflecting the nature and level of the Bank's risk profile. The ICAAP defines the rules for quantification of all material risks to which the Bank is or can be exposed, irrespective of the regulatory requirements prescribed by the NBS Decision on Capital Adequacy of Banks.

Further on, ICAAP is designed to reflect capital strategy and assure proactive management of capital requirements. By means of planning internal capital, the Bank assures maintenance of such a level and structure of capital which can support expected portfolio growth, future sources of funds and their utilization, dividend policy as well as all changes in regulatory capital requirements.

ICAAP as a management tool predominantly aims for:
- Analysis, monitoring and reporting of the Bank's risk profile;
- Analysis, monitoring and reporting of the Bank's capital supply;
- Analysis, monitoring and reporting of limits for economic capital consumption, escalating timely if necessary and making recovery recommendations;
- Providing the basis for the allocation of consumed capital;
- Considering the macroeconomic conditions and providing an outlook;
- Defining the scope of stress testing process run once a year;
- Executing or addressing actions requested by the management.

Internal capital adequacy assessment process encompasses the following phases:
- identification of materially significant risks;
- calculation of the amount of necessary internal capital for individual risks, i.e. economic capital;
- determination of the total internal capital;
- comparison of:
  - the amount of capital calculated in accordance with the Decision on Capital Adequacy of Banks (i.e. regulatory capital) and the amount of available internal capital;
  - the amount of minimum capital requirement in accordance with the Decision on Capital Adequacy of Banks and internal capital requirement;
  - total minimum capital requirement and total internal capital requirement (economic capital).

Within ICAAP, an internally designed model, Risk-bearing Capacity Calculation (RCC), has been developed in order to define the internal capital adequacy as required by the ICAAP. RCC measures the risks the Bank is exposed to and compares them to the internal capital the Bank has for covering such risks. It essentially determines whether the Bank can "afford" its acquired risks by comparing Bank's economic capital with its internal capital.

For the purpose of ICAAP, decision was made to solely consider risks defined as material within RCC via economic capital allocation. More specifically, economic capital is the amount of capital needed to cover all the Bank's material risks calculated by using economic measures, described further in this chapter, without consideration of any diversification effects. This economic capital is then compared to internal capital (coverage potentials). Internal capital differs from regulatory capital calculated in accordance with NBS Decision on Capital Adequacy of Banks.

In general, the entire coverage potential should be higher than or equal to the Bank's overall economic capital. For those purposes, the Bank has defined Economic Capital Adequacy (ECA) ratio, as one of measures for expressing and monitoring the Bank's risk appetite. The ratio between economic capital and coverage potential represents Economic Capital Adequacy (ECA) ratio (capital adequacy ratio under Pillar 2 – ICAAP adequacy):

$$ECA = \frac{EC}{CP}$$

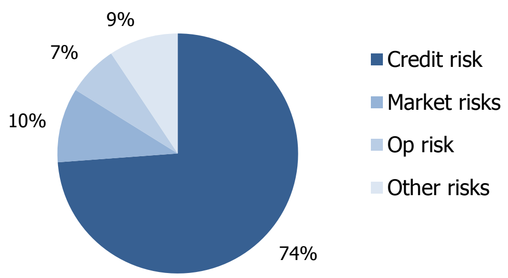
Additionally, a "traffic light " system has been deployed in order to signal the Bank's management the extent of Bank's available capital utilisation and to ensure sufficient time to respond to changes by taking relevant measures on either the economic capital or the coverage potential side.

The illustration on the right shows the distribution of risk types which form the economic capital of the Bank as at 31 December 2014.

Within the internal capital adequacy assessment process the Bank considers local regulatory requirements, namely the National Bank of Serbia Decision on Risk Management by Banks (Official Gazette of the Republic of Serbia No. 45/2011, 94/2011, 119/2012,123/2012, 23/2013-oth.decision, 43/2013 and 93/2013). At the same time the Bank complies with the Group standards[1].

Bank's ICAAP framework has been introduced in 2011.

Economic capital by risk types in %



The results of the risk-bearing capacity calculation are presented in the table below:

Risk-bearing capacity calculation as at 31 December 2014	***RSD '000***
Economic capital	10,783,091
Coverage potential	16,055,652
Economic Capital Adequacy (ECA)	**67.2%**

Table 1: Risk-bearing capacity calculation

4.2. MATERIAL RISKS

Materiality of risks was assessed on the basis of clear quantitative and qualitative factors defined for each risk type, while at the same time complexity of Bank's operations as well as particularities of surroundings where it performs its operations were taken into consideration.

By the risk materiality assessment process the Bank sees the following risk types as materially significant:

- credit risk
- market risk in the trading book
- interest rate risk in the banking book
- FX risk in the banking book
- operational risk
- liquidity risk
- concentration risk
- residual risk
- FX-induced risk
- macroeconomic risk
- reputational risk
- strategic risk.

[1] Group standards are in alignment with Basel 2 under Pillar 2 (Supervisory Review Process as stipulated in the EU directive no. 2006/48/EG).

The Bank calculates internal capital requirements for credit risk, market risk in the trading book, interest rate risk in the banking book, FX risk in the banking book operational risk, FX-induced risk, strategic risk and residual risk. Concerning the liquidity risk, concentration, macroeconomic, and reputational risk, the Bank does not calculate internal capital requirement directly, but encompasses them by computing Stress test loss.

The starting point for the credit risk measurement under ICAAP within the Bank is the Risk Weighted Assets as prescribed by and computed in accordance with regulatory Pillar 1 standards outlined in NBS Decision on Capital Adequacy of Banks (Credit risk RWA Pillar 1). Credit risk RWA Pillar 1 is further adjusted by certain add-ons (add-ins and/or deductions) and translated into RWA which is almost completely aligned with Basel III standards (namely Capital Requirements Regulation and Directive (CRR/CRD IV)). The only Pillar 2 add-on considered in the Bank is the one related to Grandfather equity. Once the RWA Pillar 2 is calculated, 12% are taken to receive internal capital requirement for credit risk.

For Market Risk within the trading book, the Bank uses a VaR approach based on daily historical simulation for the calculation of daily VaR at 99% confidence level, which is then scaled up to 1-year horizon and a confidence level of 99.9%.

Under ICAAP, for interest rate risk within the banking book the Bank applies historical simulation approach based on actual balance sheet positions of the Bank and the one year changes of interest rates in the preceding five years. The actual balance sheet positions (assets and liabilities) are re-valued using the scenario corresponding to the selected worst year on year changes of interest rates. The revaluation is performed via shifting up and down the interest rates by the same amount. Value of the market risk is, therefore, seen as the difference between larger decrease in the value of equity based on one of the two scenarios and equity value at current interest rate levels.

For ICAAP purposes, the Bank computes the internal capital requirement for FX risk in the banking book regardless the Bank's total net open FX position is greater or lower than 2% of its capital. The Bank applies 12% on the total net open FX position to calculate internal capital requirement for the FX risk in the banking book. Total long FX position is defined as the sum of all net long positions, where total short FX position is the sum of all net short positions. The greater between total long FX and the absolute value of total short FX position represents total net open FX position and the basis for the internal capital requirement computations.

For the purpose of assessment and measurement of operational risk and the calculation of its internal capital requirement, the Bank used to apply Basic Indicator Approach (BIA) while started applying Advanced Measurement Approach (AMA) in September 2012 under Pillar 2. Under this approach the Bank is allowed to develop its own statistical model to quantify required capital for operational risk. AMA framework includes set of operational risk management techniques proposed under Basel II capital adequacy rules for banking institutions.

The Bank uses Loss Distribution Approach for computing VaR in modelling Operational Risk capital requirement within AMA. The modelling of the aggregate loss distribution is done in two steps. First the single distributions of loss frequency and loss severity are computed and then these distributions are compounded to the loss distribution by applying Monte Carlo technique. The VaR for Operational Risk is generated for four modelling categories, which are based on the Basel typology.

Starting from the end of 2014, the Bank calculates internal capital requirements for three additional risks.

Taking into account the potential increase in credit risk for FX loans of unhedged borrowers, an internal model has been developed to measure the sensitivity of RWA of FX loans to worst 5-year changes of FX rate. Specifically the FX rate change impacts the portfolio in two ways. On one hand it changes the exposure value that is subject to credit risk, on the other hand it impacts PD as the creditworthiness of the client and credit risk mitigation prospect deteriorate. The FX scenario considers the most unfavorable rolling year-on-year FX change over a period of 5 years[2].

2 For year-end 2014, as the model was being developed, simulation was applied. In terms of rationale behind the number for end of 2014, the worst cost of risk for last 5 years for retail clients was applied to retail exposure denominated in foreign currencies as of year-end 2014. The same methodology will be applied until final model has been agreed with the Group.

Since year-end 2014, the Bank has started computing the internal capital requirement for strategic risk. The advanced model was developed with the Erste Group, the internal capital was calculated and then cascaded to local entities, including the Bank.

The model is based on analysis of the deviations between budgeted and realized monthly net operating result. The resulting time series is modeled using Extreme Value Theory by fitting the generalized Pareto distribution to model the tails. The choice of Extreme Value Theory is justified by the properties of the time series which strongly reject the normality assumption. Scaling from monthly to annual results is performed via linking Monte Carlo simulations from the model.

The Bank encompasses residual risk through stress testing process. Namely, within the stress test the Bank presumes that PI Mortgage loan loss provision grows at a faster pace (due to rising LGD) if the crisis situation occurs than for other segments and PI segment under normal circumstances. The difference occurring between percentage rise in PI Mortgage LLP and relative rise in the same risk calculated for other segments represents the add-on for residual risk. The outcome is deemed to be additional capital charge for credit risk arising from collateral and, therefore, represents economic capital for residual risk under ICAAP.

5. RISK TYPES

5.1. CREDIT RISK

5.1.1. RISK MANAGEMENT AND CONTROL

Credit risk is the risk that credit beneficiaries will not be able to fulfil contractual obligations to the Bank, whether fully or partially, that will generate the loss for the Bank.

Bank's business policy requires and foresees the maximum protection from credit risk, being the most important risk in the banking industry. By its internal by-laws, policies and procedures for credit risk management, the Bank has implemented an adequate credit risk management system so as to reduce the credit risk to an acceptable level.

The Bank's credit risk is caused by the debtor's creditworthiness, timeliness in the performance of obligations to the Bank as well as quality of the collateral.

The Bank controls and manages credit risk primarily by establishing rigorous processes for determining minimal creditworthiness of the debtor during the credit approval process and required collateralization level, as well as by regular monitoring of the same during the credit contract life, by defining different loan approval levels (reflecting skills and experience of employees), by establishing limits, which define the level of risk the Bank is willing to accept on the individual client, geographical area and industry basis as well as through monitoring of the said limits.

5.1.2. PAST DUE DEFINITION

The on-going Bank's assessment of the customers' ability to meet their obligations is carried out using a large number of risk management instruments. This includes consistent monitoring of the portfolio past due loans.

Trigger event for a potential impairment, i.e. loss event, implies that the Bank will be unable to collect all amounts according to the contractual terms (principal amount, interest and/or fees). A customer is deemed defaulted if a trigger event in accordance with the following definition has occurred:
- the obligor is more than 90 days overdue on any material credit obligation, or
- the obligor is considered unlikely to repay its credit obligations in full as he is experiencing financial difficulties, probability exists that he will enter financial restructuring, insolvency or liquidation procedures as well as other events that permit the conclusion that the obligor is unlikely to pay its credit obligations in full to the Bank.

The payments are considered past due as of the date when:
- the borrower did not make a contractually agreed payment in due time, and the amount concerned is significant[3];
- the borrower exceeded approved credit limit;
- the borrower drew down an unauthorized credit facility.

5.1.3. PROVISIONS OF BANK BALANCE SHEET ASSETS AND OFF-BALANCE SHEET ITEMS

Credit risk inherent in the banking business is taken into account through assessment of an allowance for impairment for lending recognised on the balance sheet and through provisions for off-balance sheet transaction (hereinafter: loan loss provisioning), in accordance with International Accounting Standards (IAS)/ International Financial Reporting Standards (IFRS).

Bank's loan loss provisioning includes Specific provision (individual or rule based) and Portfolio provision (collective impairment).

[3] Amount in delay is considered significant if larger than 1% of the loan exposure or RSD 10,000 (RSD 1,000 for Retail clients), depending which amount is higher.

Specific provision is assigned on exposures to defaulted customers which are found to be impaired. A loan is considered to be defaulted i.e. impaired when it is likely that the Bank will be unable to collect all amounts according to the contractual terms. Precisely, the Bank determines through the impairment test whether there is objective evidence of impairment of receivables from clients.

Portfolio provision (collective impairment) is applied on exposures to non-defaulted customers or to defaulted customers which are not found to be impaired. Portfolio provision calculation is used for incurred but not detected losses i.e. an actual impairment has not yet occurred. These placements are impaired even though there is no current evidence that credit risk losses have occurred, as experience indicates that some of them will become impaired over time. Portfolio provision is allocated to cover potential losses that are not captured in the provisions for individually assessed exposures and reflects incurred but not yet reported losses of the portfolio with no impairment signals.

The following loan loss provisioning process is implemented in the Bank:

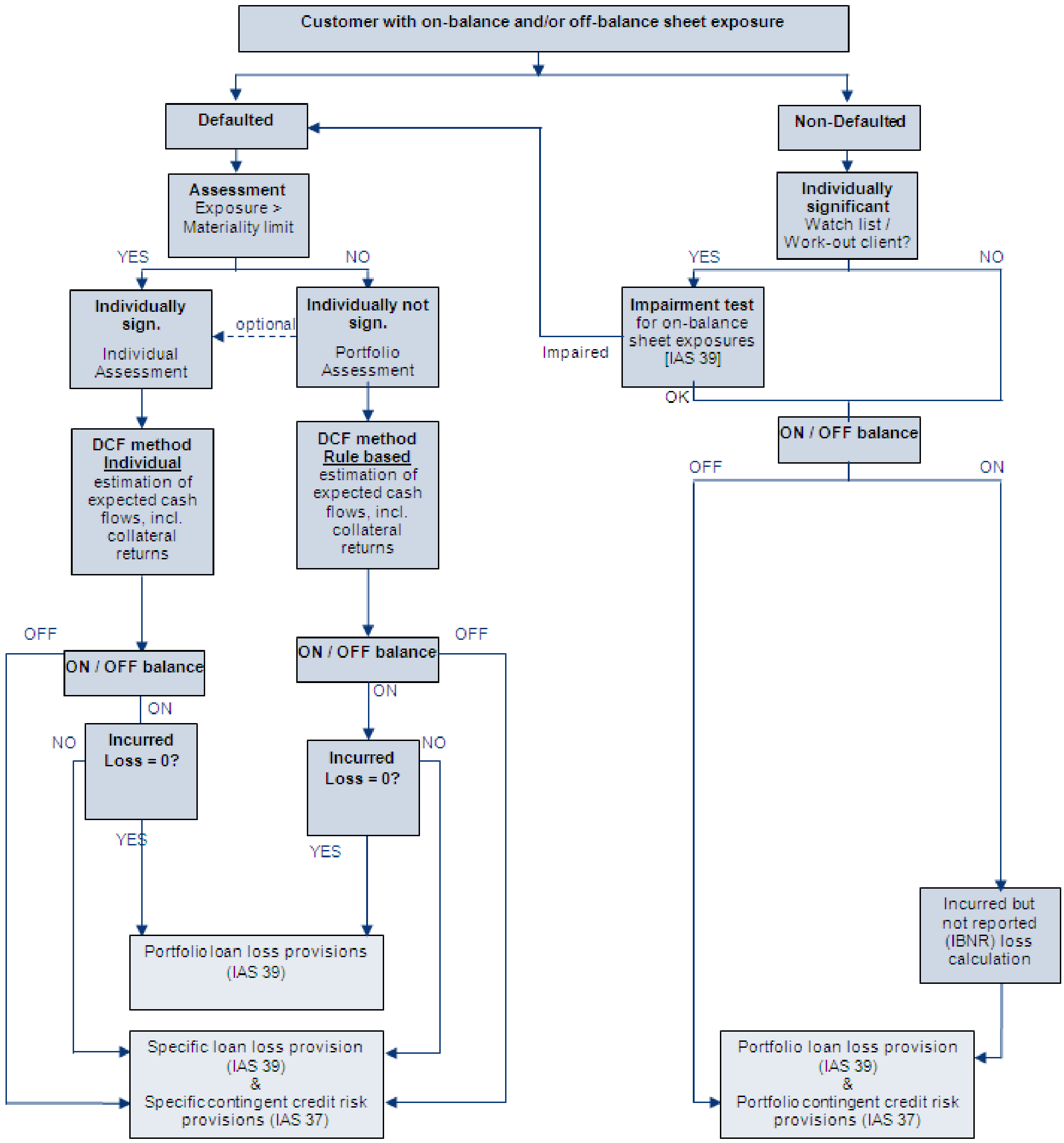


Figure 2: Loan loss provisioning process

Specific Provision assessment

For each impaired individually significant exposure specific loan loss calculation method based on discounted cash flow model must be applied.

Impaired exposures with a single customer that, in the aggregate, equal or exceed a materiality threshold of RSD 5,000 thousand are assumed to be individually significant. Individually significant impaired exposures are assessed individually using discounted cash flow method, where expected cash flows from redemption and foreclosure of collateral are estimated by the responsible Workout manager. The provisioning requirement is the difference between the book value of impaired exposure and the present value of expected cash flow from recoveries, discounted at the original effective interest rate for that exposure.

For non-significant impaired exposures, the calculation is done on a rule basis. Customers belonging to this sub-portfolio are divided by criteria of regularity of settling liabilities.

Portfolio Provision assessment

Loans which show no objective evidence of impairment are grouped on the grounds of similar credit risk characteristics and their respective provisioning is calculated depending on group characteristics and level of credit risk.

Portfolio loan loss provisioning is based on the Basel II expected loss calculation for credit risk, which represents quantification of expected loss in one year period, multiplied with the loss identification period (LIP).

Expected loss is the average amount of credit losses for the period of one year that the Bank should expect to incur per single receivable. It measures the anticipated average loss from a portfolio over a relevant time horizon and is calculated by multiplying following three credit risk parameters in accordance with Basel II standards:

- Probability of default (PD),
- Exposure at Default (EaD), and
- Loss given default (LGD)

The Bank reviews the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss experience through Back-Testing analysis that is conducted on yearly basis.

5.1.4. EXTERNAL RATING AGENCIES DATA

For risk weighted assets calculation purposes, Bank does not use external ratings by external rating agencies. For asset class Central Government and Central bank, Bank uses country risk classifications of the Participants to the Arrangement on Officially Supported Export Credits (OECD ratings).

Additionally, in compliance with Decision on Capital Adequacy, risk weights for exposures to Institutions are derived from remaining maturity and credit quality step of the domain country based on OECD rating.

Table below provides overview of OECD ratings to credit quality steps relevant for asset class Central Government and Central Bank:

OECD Country risk classification	0	1	2	3	4	5	6	7
Minimum export insurance premium assigned to the credit assessment	0	1	2	3	4	5	6	7
Risk Weight bands	0%	0%	20%	50%	100%	100%	100%	150%

Table 2: Assignments of risk weight to credit assessments from an export credit agency

Exceptionally, for exposures towards Republic of Serbia and National bank of Serbia, Bank uses preferential risk weight of 0% as prescribed by Decision on Capital Adequacy of Banks.

5.1.5. QUANTITATIVE DISLOSURES

Below is an overview of the Bank's gross credit risk exposure structure by exposure classes:

Exposure class	Total gross exposure	On-balance sheet assets	Off-balance sheet items*	Off-balance sheet items for which there can be no payments	Financial derivatives
Central Governments and Central Banks	18,055,972	17,088,305	0	967,666	0
Local Governments and Local Authorities	1,413,560	714,757	698,803	0	0
Public Administrative Bodies	162,542	131,904	30,637	0	0
Multilateral development banks	752,713	0	0	752,713	0
Institutions	18,926,571	3,612,082	787,738	14,488,853	37,898
Corporates	48,573,409	31,499,844	13,152,391	3,921,174	0
Retail	24,032,505	18,883,782	2,491,065	2,657,659	0
Exposures secured by residential property	9,797,849	9,354,008	159,064	284,777	0
Past due exposures	9,474,245	7,454,362	1,950	2,017,933	0
	0	0	0	0	0
Other items	85,531,089	9,658,634	186,274	75,686,180	0
Total	**216,720,455**	**98,397,679**	**17,507,923**	**100,776,955**	**37,898**

** Without items for which there can be no payments*

Table 3 - Exposure Structure

As the introduction of the new NBS Chart of Accounts (came into force on 31 December 2014) has significantly expanded the scope of booking off-balance sheet items in respect of which no payment can be made in the Bank's Balance Sheet, there was a significant change in structure and increase in overall gross exposure to credit risk[4] comparing to 31 December 2013 (increase of 81.4 million RSD in off-balance sheet items in respect of which no payments can be made). At the year-end 2014, afore mentioned off-balance sheet items make up to 46.5% of total gross credit exposure, therefore these items will be excluded from the further data with aim to provide more informative data on Bank's credit exposure.

Bank's average credit risk exposure in 2014th per exposure class is shown in the table below:

RSD '000

Exposure class	Exposure* 31/12/2014	Exposure* 31/12/2013	Average** Exposure	In %
Central Governments and Central Banks	17,088,305	26,046,889	20,836,983	*18.3*
Local Governments and Local Authorities	1,413,560	387,589	739,712	*0.6*
Public Administrative Bodies	162,542	11,789	56,906	*0.0*
Multilateral development banks	0	0	0	*0.0*
Institutions	4,437,718	6,449,311	5,986,895	*5.2*
Corporates	44,652,235	39,937,683	39,410,886	*34.6*
Retail	21,374,847	20,715,538	20,880,854	*18.3*
Exposures secured by residential property	9,513,072	8,292,091	9,150,484	*8.0*
Past due exposures	7,456,312	8,118,074	8,857,385	*7.8*
Other items	9,844,908	6,565,066	8,136,377	*7.1*
Total	**115,943,500**	**116,524,030**	**114,056,481**	***100.0***

** Without items for which there can be no payments*

***Annual average derived from quarterly data.*

Table 4: Gross exposure after accounting write-offs by exposure class

[4] calculated in accordance to NBS Decision on Capital adequacy

The following table gives comprehensive breakdown of Gross credit risk exposure into groups of materially significant geographical areas.

RSD '000

Geographic area	Exposure class	Exposure*
Serbia	Central Governments and Central Banks	17,088,305
	Local Governments and Local Authorities	1,413,560
	Public Administrative Bodies	162,542
	Institutions	272,746
	Corporates	44,462,989
	Retail	21,337,617
	Exposures secured by residential property	9,463,823
	Past due exposures	7,455,207
	Other items	9,844,908
	Total	111,501,698
Austria	Institutions	1,794,672
	Corporates	540
	Retail	247
	Exposures secured by residential property	7,773
	Total	1,803,231
Other Countries	Multilateral development banks	0
	Institutions	2,370,300
	Corporates	188,706
	Retail	36,984
	Exposures secured by residential property	41,476
	Past due exposures	1,105
	Total	2,638,570
Total		**115,943,500**

** Without items for which there can be no payments*

Table 5: Gross Exposure by materially significant geographic areas and per exposure class

Table below gives a breakdown of Gross credit risk exposure by sector[5] and exposure class with focus on exposures for which loan loss provision was made , as well as a comprehensive preview of Past due Exposure class.

RSD '000

Exposure class	Sector	Exposure*	Exposures with loan loss provisions	Loan loss provisions
Central Governments and Central Banks	Domestic fin. institutions	7,559,496	0	0
	Public sector	9,528,810	0	0
	Total	17,088,305	0	0
Local Governments and Local Authorities	Public sector	1,413,560	1,400,068	30,381
	Total	1,413,560	1,400,068	30,381
Public Administrative Bodies	Public sector	162,542	162,493	2920
	Total	162,542	162,493	2,920
Institutions	Domestic fin. institutions	272,746	240,966	791
	Foreign entities	4,164,972	4,159,107	39,630
	Total	4,437,718	4,400,072	40,421
Corporates	Domestic fin. institutions	535,872	535,816	1,847
	Public companies	7,228,450	2,868,655	82,054
	Other domestic companies	36,240,894	36,089,948	933,467
	Entrepreneurs	222,929	222,929	5,629
	Foreign entities	170,771	106,838	2,072
	Agricultural producers	32,558	32,558	981
	Other counterparties	220,761	219,000	211,309
	Total	44,652,235	40,075,743	1,237,359
Retail	Public companies	20,128	20,109	408
	Other domestic companies	2,757,914	2,678,009	76,351
	Entrepreneurs	588,789	586,420	22,068
	Private individuals	17,795,138	17,722,852	556,034
	Foreign entities	411	33	4
	Agricultural producers	212,466	212,448	7,026
	Total	21,374,847	21,219,872	661,890
Exposures secured by residential property	Other domestic companies	949,147	949,147	21,551
	Entrepreneurs	24,469	24,469	664
	Private individuals	8,519,798	8,519,798	109,102
	Agricultural producers	19,659	19,659	2,629
	Total	9,513,072	9,513,072	133,946
Past due exposures	Public companies	440,079	440,079	397,353
	Other domestic companies	3,310,012	3,309,896	2,133,186
	Entrepreneurs	188,938	188,720	131,178
	Private individuals	1,807,654	1,807,301	1,377,411
	Foreign entities	5	5	4
	Agricultural producers	174,422	174,407	138,988
	Other counterparties	1,535,201	1,535,117	1,079,340
	Total	7,456,312	7,455,525	5,257,459
Other items	Domestic fin. institutions	9,660,569	76,709	76,709
	Other counterparties	184,339	167,712	3,221
	Total	9,844,908	244,421	79,930
Total		**115,943,500**	**84,471,268**	**7,444,307**

** Without items for which there can be no payments*

Table 6: Gross Exposure by sector and exposure class with focus on exposures for which loan loss provision was made

[5] As defined in NBS instruction for collection and delivery of balances and account structure of loans, assets and liabilities of banks

Break down of Gross credit risk exposure into maturity buckets according to final loan maturity is shown in the next table:

RSD '000

	Exposure*			
Exposure class	**<1 years**	**1 – 3 years**	**>3 years**	**Total**
Central Governments and Central Banks	14,729,834	1,687,888	670,584	17,088,305
Local Governments and Local Authorities	42,403	79,993	1,291,165	1,413,560
Public Administrative Bodies	114,819	34,899	12,823	162,542
Institutions	3,882,588	555,130	-	4,437,718
Corporates	15,565,682	9,841,886	19,244,667	44,652,235
Retail	3,364,079	5,908,515	12,102,253	21,374,847
Exposures secured by residential property	263,679	555,264	8,694,130	9,513,072
Past due exposures	4,352,185	1,370,728	1,733,399	7,456,312
Other items	9,686,587	35,233	123,088	9,844,908
Total	**52,001,856**	**20,069,536**	**43,872,108**	**115,943,500**

** Without items in respect of which no payments can be made*

Table 7: Gross Exposure according to remaining maturity and principal exposure class

The table below shows changes in the amount of balance sheet impairment and probable losses on off balance sheet assets (i.e. loan loss provisioning):

RSD '000

Loan Loss Provision	
Provisions as at 01 January 2014	8,021,302
Provisions allocation during the year	11,413,667
Provisions release during the year	-9,580,204
Provisions write off during the year	-2,668,000
Other adjustments	257,543
Provisions as at 31 December 2014	**7,444,307**

Table 8: Loan loss provision movement

As at 31 December 2014, reserve for estimated losses and required reserve for estimated losses, calculated in accordance with National Bank of Serbia Decision on Classification of Bank Balance Sheet Assets and Off-balance Sheet Items, per counterparty type, amounted to[6]:

RSD '000

	Category of classification					
Counterparty type	**A**	**B**	**V**	**G**	**D**	**Total**
Domestic fin. institutions	293,150	495,198	20,266	0	0	808,614
Public companies	7,022,893	55,445	0	192,810	417,508	7,688,656
Other companies	26,792,417	10,596,146	1,404,885	1,299,545	3,240,305	43,333,298
Entrepreneurs	739,903	49,918	23,260	30,132	181,913	1,025,126
Public sector	38,078	1,538,025	0	0	0	1,576,103
Private individuals	24,376,849	906,038	114,430	682,342	2,042,931	28,122,590
Foreign entities	4,107,195	171,166	0	0	19,900	4,298,261
Agricultural producers	226,783	20,116	13,296	11,471	167,438	439,104
Other counterparties	158,378	23,831	2,378	82,869	1,672,846	1,940,302
Total exposure subject to classification	**63,755,646**	**13,855,883**	**1,578,515**	**2,299,169**	**7,742,841**	**89,232,054**
Reserve for estimated losses	**0**	**234,277**	**221,796**	**680,648**	**7,740,666**	**8,877,387**
Provisions	**876,445**	**298,855**	**152,051**	**443,496**	**5,673,460**	**7,444,307**
Required reserve for estimated losses	**0**	**35,952**	**128,056**	**354,397**	**2,071,020**	**2,589,425**

Table 9: Exposure by NBS classification category

[6] Exposure presented in the table differs from Exposure for RWA purposes as different principles are applied for the calculation of classification basis calculated in accordance with NBS Decision on classification of balance sheet assets and off-balance sheet items and RWA basis calculated in accordance with NBS Decision on capital adequacy by banks.

5.1.6. CREDIT RISK MITIGATION

Management and Control

In process of credit risk capital requirements calculation, whether a type of collateral is admitted for credit risk mitigation is decided by the Strategic Risk Management Department after determining whether applicable legal requirement prescribed by NBS Decision on Capital Adequacy of Banks are met. The items of collateral acceptable as credit hedging instruments are detailed in a separate Bank's internal policy defining eligible credit hedging instruments as well as criteria for recognition of an instrument as a credit risk mitigation technique.

Main Types of Material Credit Hedging

The Bank predominantly uses cash and cash equivalents deposited with the Bank as a mean of material credit protection.

Currently, the Bank does not use balance sheet and off-balance sheet netting for credit risk mitigation.

Main Types of Guarantors and Credit Derivative Counterparties

Guarantees used as immaterial credit hedge are provided by:

- Central Government – only Republic of Serbia guarantee eligible as at 31 December 2014. Preferential risk weight of 0% as prescribed by Decision on Capital Adequacy of Banks was applied;
- Commercial banks of sufficient credit quality – for claims with remaining maturity of three months or more secured by bank guarantee, the Bank assigns a risk weight that is assigned to the claims on the sovereign of the country of guarantor bank's incorporation or risk weight of 50%, depending which is less favourable.

Credit derivatives business has not been transacted during the reporting period.

Exposure Secured by Real Estate Collateral class

Residential real estate, i.e. buildings and land that are or will be occupied by the borrower or that are or will be rented, is acceptable as means of collateral when all applicable criteria prescribed by NBS Decision on Capital Adequacy of Banks are met. However, fulfilment of required criteria is treated as a precondition for classification of a given exposure into separate Exposure class with corresponding favourable risk weight rather than application of credit risk mitigation technique.

Quantitative Disclosures

The table below presents net exposure before and after the use of credit protection, i.e. adjustment for effects of CRM techniques, for every level of credit quality.

RSD '000

Exposure class	Risk weight band	Net Exposure* before CRM	Exposure* after CRM
Central Governments and Central Banks	0%	17,088,305	21,448,007
Local Governments and Local Authorities	50%	1,382,908	1,382,908
Public Administrative Bodies	100%	159,574	159,574
Institutions	20%	3,079,178	3,079,631
	50%	616,840	616,840
	100%	700,373	700,373
Corporates	100%	43,100,341	37,346,476
Retail	75%	20,097,192	19,866,195
	100%	196,074	181,987
Exposures secured by residential property	35%	7,390,388	7,390,388
	100%	1,813,677	1,813,677
Past due exposures	100%	524,262	523,444
	150%	209	209
Other items	0%	8,473,495	8,473,495
	100%	1,276,321	1,254,078
Total		**105,899,138**	**104,237,282**

** Without items for which there can be no payments*

Table 10: Net exposure before and after CRM per exposure class

Concentration risk from credit risk mitigation techniques is understood as the risk of a negative correlation that may arise from the use of these techniques. This may affect a single customer, but also a portfolio defined by region, industry or type of collateral. Correlation risk is monitored and identified in the course of portfolio monitoring through analysis of various customer segments per collateral type.

Gross exposure per exposure class is secured by the following amount of collateral type recognised as credit risk mitigation as at 31 December 2014:

RSD '000

Exposure class	Net Exposure* before CRM	Guarantees**	Cash deposit
Central Governments and Central Banks	17,088,305	-	-
Local Governments and Local Authorities	1,382,909	-	-
Public Administrative Bodies	159,574	-	-
Institutions	4,396,391	-	27,579
Shares in Investment Funds	-	-	-
Corporates	43,100,341	4,387,734	1,366,131
Retail	20,293,267	-	245,085
Exposures secured by residential property	9,204,065	-	-
Past due exposures	524,470	-	817
Other items	9,749,816	-	22,242
Ukupno	**105,899,138**	**4,387,734**	**1,661,854**

** Without items for which there can be no payments*
***Total amount of CRM acceptable guarantees refers to a State provided guarantee, resulting into substitution of exposure between Asset classes Corporates and Central Governments and Central Banks.*

Table 11: Net exposure and CRM by type of CRM instrument

5.2. COUNTERPARTY RISK

Counterparty risk is the risk that the counterparty will not fulfil its contractual obligations before the final settlement of financial obligations of the transaction.

The Bank carries out transactions in trading and banking book, which fall under the counterparty risk while doing business of

- financial derivatives
- repo and reverse-repo transactions.

Good management framework and control of the trading book risks as well as properly established system of internal exposure limits (toward single client and/or the type of product) provides the basis for this type of risk to be considered materially insignificant in terms of internal risk measurement.

For the purpose of calculating exposure base for positions that are subject to the calculation of capital requirements for counterparty credit risk the Bank uses:

- current exposure method for financial derivatives
- comprehensive method for calculating the adjusted value of the transaction and the collateral in case of repo and reverse-repo transactions.

As at 31 December 2014 the Bank's exposure to counterparty credit risk resulted from financial derivatives (FX swap transactions):

RSD '000

Exposure to counterparty risk per transaction type	Exposure amount
financial derivatives	37,898
Total	**37,898**

Table 12: Exposure to counter party risk

5.3. INTEREST RATE RISK

5.3.1. RISK MANAGEMENT AND CONTROL

Interest rate risk is the risk of a change in the market value of the balance sheet as a result of a certain change in the yield curve. Changes in the yield curve can have a negative effect on net interest income and the amounts of interest-sensitive income and expenses. These changes also affect the market value of assets, liabilities and off-balance sheet items, as the future payments (and thus also their present value) vary directly with changes in interest rates. As a consequence, an effective risk management process that keeps the impacts of interest rate changes on the Bank’s balance sheet within appropriate limits is of fundamental importance to the security and creditworthiness of the Bank.

5.3.2. RISK MEASUREMENT

In 2010, the Bank installed specific software that makes planning possible as well as the modelling of the interest rate risk behaviour and the influence on the balance sheet of the Bank. This methodology captures all significant sources of interest rate risk and calculates the effect of these sources changes on the balance sheet of the Bank. The data for the current portfolio, market data for the date of modelling in question and assumptions on future portfolio developments (volume, margins, etc.) are all entered into the software by the Bank’s employees. The software measures both the effect on net interest income and the market value of the banking book positions.

The data in the system is organised according to an account/ product structure. The account structure corresponds to that of the IRS/ IFRS balance sheet, while the product structure represents the currency and the interest rate related behaviour of the products in this group.

Key assumptions used in risk measurement

Products without fixed maturity are simulated based on maturity/ interest rate profile analyses done.

During the 2012th, in accordance with the recommendations of the Group, based on the analysis of historical data on the movement of deposits for the last 5 years, ALM adopted a new way of modelling this group of products. The analysis is based on the volatility of demand deposits in the ordinary course of business in the current volatile markets with split-up of private individuals and legal entities demand deposits.

Based on the analysis conducted, the obtained results are applied to form a profile of the interest rate for this type of product.

It was concluded that the demand deposits of the private individuals are more stable than legal entities demand deposits in all considered currencies; there is a slight difference between the volatility of local currency deposits and foreign currency deposits of legal entities observed on a monthly basis. Above described modelling for the deposits without agreed maturity is in effect from 01 January 2013. Due to observed changes in the volatility of Corporate Division demand deposits in local currency, additional statistical analyses of their historical developments were carried out during 2014. In accordance with the recommendations of the Erste Group, separate indices for the Small and Mediums Size legal entities segment and for deposits of Large Corporate/Public segments were formed. The new indices will come into force from January 01, 2015.

Modelling of corporate loans in EUR currency with administrative rate, overdrafts and credit card loans is conducted in accordance with group standards.

The Bank's risk option (optionality risk) is based on assumptions of premature repayment of loans and premature withdrawal of deposits derived from historical data for legal entities and private individuals taking into consideration two main currencies, RSD and EUR.

5.4. EXPOSURES ARISING FROM EQUITY INVESTMENTS IN THE BANKING BOOK

On January 15th 2014 the Bank made the payment of the agreed amount on the basis of concluded Contract of purchase and transfer of S-leasing doo shares with Steiermarkische Bank und Sparkassen AG and Erste Group Immorent International Holding GmbH. On the date of payment of the agreed amount, the Bank acquired 75% of stake in the share capital of the company S-leasing doo Serbia in such a way that it paid 25% owned by Steiermarkische Bank und Sparkassen AG and 50% owned by Immorent AG.

Also, the bank acquired a 19% stake in the share capital of the company S Rent doo Serbia by paying 19% stake to Immorent International Holding GMBH.

These investments were motivated by strategic objectives, aiming to offer clients a wider range of services, while both companies still remain members of Erste Group.

Bank's other equity investments in the banking book are mostly made prior to 2000th and priority purpose has not been achieving capital gains, profit sharing or strengthening the strategic position. Equity investments in other legal entities (shares in capital and securities of other legal entities) are result of the debt conversion to equity and have been mostly impaired.

The table below shows the structure and value of equity investments in the banking book as per 31 December 2014:

RSD '000

Investments in shares and equity	Valuation method	Value before impairment	Impairment	Value after impairment
Investments in subsidiaries (S-Leasing)	Initial cost method	93,560	0	93,560
Investments in other connected entities (S-Rent)	Initial cost method	27,005	0	27,005
Exchange-traded equity investments	valued at fair value (market price)	75,943	-42,328	33,615
Other equity investments	Initial cost method	115,370	-76,877	38,493
Total		**311,878**	**-119,205**	**192,673**

In 2014, Bank generated a loss for the preceding period arising from the closure of positions on equity investments in the amount of 16 thousand dinars.

Total unrealized gain, the total latent revaluation gains on equity investments at 31 December 2014 amounted to 42,494 thousand dinars.

Disclosures referring to accounting policies and valuation methods employed for equity investments in the banking book are presented in the Notes to financial statements for the year ended 31 December 2014, notes 2.6.5, 2.11, 3 (b-c).

6. BANKING GROUP

Starting from 15 January 2014, the Bank became a parent company in the Banking Group consisting of Erste Bank ad Novi Sad and Financial Leasing Company S-Leasing doo, Belgrade.

The consolidated financial statements which have been prepared for the year ended 31 December 2014 are the first financial statements that the Banking Group compiled in accordance with International Financial Reporting Standards. The Banking Group also prepares consolidated reports in accordance with the NBS Decision on Consolidated Supervision of Banking Group.

For both purposes, consolidation is performed by applying full consolidation method for the subsidiary S-Leasing.

In accordance with the NBS Decision on Disclosure of Data and Information by banks, information on Banking Group consolidated capital as at 31 December 2014, is further provided in the following insets:

- Form PI-PAK (Inset cons. 1) - the detailed structure of the regulatory capital on consolidated basis (with references to the position of the consolidated balance sheet assets set out in Inset cons 3 provided);
- Form PI-FIKAP (Inset cons. 2) - data on main features of financial instruments included in calculation of Banking Group regulatory capital;
- Form PI-UPK (Inset cons. 3) – consisting of two tables:
    - *Table 1* – comparison of the balance sheet compiled for the needs of supervision of the Banking Group on consolidated basis and consolidated balance sheet of the Banking Group compiled in compliance with the IAS and/or IFRS,
    - *Table 2* - consolidated balance sheet of the Banking group (prepared in accordance with IAS / IFRS standards) with breakdown and references to items enabling link to the positions included in Consolidated Capital report prepared in accordance with the Decision on reporting on capital adequacy of banks (Inset cons. 1 – form PI-KAP);
- Form PI-AKB (Inset cons. 4) – overview of Capital Requirement calculated on consolidated basis.

Inset cons. 1 - Form PI-KAP

Consolidated data on capital position of the Banking group

(RSD thousand)

No	Item	Amount	Reference to Table 2 in Inset cons. 3
I	**TOTAL CORE CAPITAL**	**11,420,800**	
1.	**CORE CAPITAL BEFORE DEDUCTIONS**	**14,438,940**	
1.1.	**Par value of paid-in shares, except cumulative preferential shares**	**10,040,000**	**a**
1.2.	**Share premium**	**124,475**	**b**
1.3.	**Reserves from profit**	**3,091,087**	**v**
1.4.	**Retained earnings from previous years**	**1,071,176**	**g**
1.5.	**Profit of the current year**	**0**	**d**
1.6.	**Minority participations in subordinate companies**	**43,100**	**đ**
1.7.	**Other positive consolidated reserves**	**69,103**	**e**
2.	**DEDUCTIBLES FROM CORE CAPITAL**	**3,018,140**	
2.1.	**Losses from previous years**	**0**	**ž**
2.2.	**Loss of the current year**	**33,363**	**z**
2.3.	**Intangible assets**	**393,118**	**i**
2.4.	**Acquired own shares, except cumulative preferential shares**	**0**	**j**
2.5.	**Amount of shares received in pledge, except cumulative preferential shares**	**0**	**k**
2.6.	**Regulatory value adjustments:**	**2,591,659**	
2.6.1.	Unrealised losses on securities available for sale	2,234	**l**
2.6.2.	Other net negative revaluation reserves	0	**lj**
2.6.3.	Gains on bank liabilities measured at fair value due to the change in bank's credit rating	0	**m**
2.6.4.	Required reserve from profit for estimated losses on balance-sheet assets and off-balance sheet items of the bank	2,589,425	
2.7.	**Other negative consolidated reserves**	0	**n**
II	**TOTAL SUPPLEMENTARY CAPITAL**	**1,391,404**	
1.	**SUPPLEMENTARY CAPITAL BEFORE DEDUCTIONS**	**1,391,404**	
1.1.	**Par value of paid in cumulative preferential shares**	**0**	**nj**
1.2.	**Share premium on cumulative preferential shares**	**0**	**o**
1.3.	**Part of revaluation reserves of the bank**	**60,863**	**p**
1.4.	**Hybrid instruments**	**0**	**r**
1.5.	**Subordinated liabilities**	**1,330,541**	**s**
1.6.	**Over-allocation of impairment allowances, provisions and required reserves from profit relative to expected losses**	**0**	
2.	**DEDUCTIBLES FROM SUPPLEMENTARY CAPITAL**	**0**	
2.1.	**Acquired own cumulative preferential shares**	**0**	**t**
2.2.	**Receivables in respect of balance-sheet assets and off-balance sheet items of the bank secured by a hybrid instrument or subordinated liability**	**0**	
2.3.	**Amount of cumulative preferential shares received in pledge**	**0**	**ć**
2.4.	**Amount of capital in excess of limitations on supplementary capital**	**0**	
III	**TOTAL CAPITAL**	**12,812,205**	
1.	**TOTAL CAPITAL BEFORE DEDUCTIONS**	**12,812,205**	
2.	**DEDUCTIBLES FROM CAPITAL**	**0**	
	Of which reduction in core capital	0	
	Of which reduction in supplementary capital	0	
2.1.	**Direct or indirect investment in banks and other financial sector persons that exceed 10% of the capital of such banks and/or other financial sector persons**	**0**	**(u+f+h)**
2.2.	**Investment in hybrid instruments and subordinated liabilities of other banks and financial sector persons in which the bank has direct or indirect investment that exceeds 10% of the capital of such persons**	**0**	
2.3.	**Total amount of direct and indirect investment in banks and other financial sector persons in the amount of up to 10% of their capital, as well as investment in their hybrid instruments and subordinated liabilities that exceeds 10% of the sum of core and supplementary capital of the bank for which the calculation of capital is made**	**0**	
2.4.	**The amount by which qualified participation in non-financial sector persons has been exceeded**	**0**	
2.5.	**Under-allocation of impairment allowances, provisions and required reserves from profit relative to expected losses**	**0**	
2.6.	**The amount of exposure to free deliveries if the counterparty failed to fulfil its obligation within four working days**	**0**	
2.7.	**Receivables from and potential liabilities toward persons related to a bank or employees in the bank which the bank has negotiated under the terms that are more favourable than the terms negotiated with other parties**	**0**	
IV	**NOTES**	**0**	
	Positive/negative difference between total impairment allowances for balance sheet assets, provisions for losses on off-balance sheet items and required reserves from profit on the one hand, and total estimated losses under IRB approach on the other	**0**	
	Amount of impairment allowances, provisions and required reserves from bank's profit	**0**	
	Of which on a group basis	0	
	Of which on an individual basis	0	
	Amount of expected losses under IRB approach	0	
	Gross amount of subordinated liabilities	**2,063,203**	

Inset cons. 2 - Form PI-FIKAP consolidated

Main features of financial instruments included in calculation of Bank's capital on consolidated basis

No.	Instrument features	The share capital of the Bank	The subordinated loan granted by Erste Group Bank Ceps Holding GmbH, Vienna	The subordinated loan granted by Erste GCIB Finance, Amsterdam	Minority interest in a subsidiary S-Leasing
1.	**Issuer**	**Erste Bank ad Novi Sad**	**Erste Bank ad Novi Sad**	**Erste Bank ad Novi Sad**	**S-Leasing doo Beograd**
2.	**Treatment as per legislation**				
2.1.	Treatment as per the Decision on Capital Adequacy of Banks	Core capital instrument	Supplementary capital instrument	Supplementary capital instrument	Core capital instrument
2.2.	Individual/group/individual and group level of inclusion of instrument in capital on group level	Individual and group	Individual and group	Individual and group	Group
2.3.	Type of instrument	Ordinary shares	Subordinated debt issued in the form of financial instrument	Subordinated debt issued in the form of financial instrument	Minority participations
3.	**Amount recognised for the purpose of calculating regulatory capital (in RSD thousand, as at the last reporting date)**	Amount of 10,164,474 thousand RSD is recognized for the purposes of calculating regulatory capital (nominal value plus share premium in the amount of 124.474 thousand RSD).	Not included in the calculation of regulatory capital (in accordance with the provisions of the Capital Adequacy Decision), since less then a year remains until maturity date.	Amount of 1,330,541 thousand RSD recognised as suplementary capital. This amount is calculated by applying the appropriate reduction weights for commitments in the last five years before maturity (cumulative 20% per year) in accordance with the Capital Adequacy Decision.	Minority interest in the capital (25%) is recognised in total amount of 43,100 thousand RSD (includes share capital, retained earnings from previous years and the deduction for losses in the current year).
4.	**Nominal value of instrument**	10,040,000 thousand RSD	EUR 10,800,000	EUR 15,000,000	The total paid up capital amounts to 60.455 thousand RSD, of which 25% are in the minority participation.
5.	**Accounting classification**	Share capital	Liability – depreciated amount	Liability – depreciated amount	Minority participations
6.	**Initial date of issuance of instrument**	August 2005 (date of acquisition of Novosadska banka a.d by members of Erste Group shown)	20.12.2005	27.12.2011	15.01.2014 (date when Erste Bank ad Novi Sad acquired 75% share in capital of S-Leasing shown)
7.	**Instrument with or with no maturity date.**	No maturity date	maturity date	maturity date	No maturity date
7.1.	**Original maturity**	No maturity date	20.12.2015	27.12.2021	No maturity date
8.	**Does the issuer have call option**	No	No	No	No
8.1.	First day of activating call option right activation	-	-	-	-
8.2.	Subsequent dates of call option activation (if applicable)	-	-	-	-
9.	***Coupons/dividends***		refering to interest on subordinated loan	refering to interest on subordinated loan	
9.1.	Fixed or variable dividends/coupons	Variable	Variable	Variable	Variable
9.2.	Full, partial or no discretion regarding the time of payment of dividends/coupons	Full discretion	No discretion	No discretion	Full discretion
9.3.	Full, partial or no discretion regarding the amount of dividends/coupons	Full discretion	No discretion	No discretion	Full discretion
9.4.	Step up option	No	No	No	No
9.5.	Non-cumulative or cumulative dividends/coupons	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
10.	**Convertible or non-convertible instrument**	Non-convertible	Non-convertible	Non-convertible	Non-convertible
10.1.	If convertible, terms under which conversion may take place	-	-	-	-
10.2.	If it is convertible, specify if it is partially or fully convertible	-	-	-	-
10.3.	If it is convertible, rate of conversion.	-	-	-	-
10.4.	If it is convertible, mandatory or voluntary conversion	-	-	-	-
10.5.	If it is convertible, specify instrument to which it is converted.	-	-	-	-
10.6.	If it is convertible, the issuer of the instrument to which it is converted.				
11.	**Write-off option**	No	No	No	No
11.1.	If there is write-off option, specify terms under which the write-off may take place.	-	-	-	-
11.2.	If there is write-off option, specify if partial or full	-	-	-	-
11.3.	If there is write-off option, spefify if temporary or permanent write-off	-	-	-	-
11.4.	If the write-off is temporary,specify terms of re-recognition	-	-	-	-
12.	**Type of an instrument which will be paid off directly before the said instrument during liquidation**	Minority participations	Other	Other	Subordinated debt issued in the form of financial instrument

Inset cons. 3 - Form PI-UPK consolidated

TABLE S1. Comparison of reports compiled for the needs of supervision of the Banking Group on a consolidated basis and consolidated financial reports of the Banking Group compiled in compliance with the IAS/IFRS:

Designation of item	Item	Consolidated balance sheet as disclosed in financial reports	Consolidated balance sheet under regulatory method and scope of consolidation
A	**ASSETS**		
A.I	Cash and assets with the central bank	15,906,407	15,906,407
A.II	Pledged financial assets		
A.III	Financial assets recognised at fair value through income statement and held for trading	6,077,169	6,077,169
A.IV	Financial assets initially recognised at fair value through income statement		
A.V	Financial assets available for sale	2,571,624	2,571,624
A.VI	Financial assets held to maturity	7,435,009	6,509,844
A.VII	Loans and receivables from banks and other financial organisations	3,898,755	3,898,755
A.VIII	Loans and receivables from clients	63,190,690	64,115,855
A.IX	Change in fair value of hedged items		
A.X	Receivables arising from hedging derivatives		
A.XI	Investments in associated companies and joint ventures	118	118
A.XII	Investments into subsidiaries	0	0
A.XIII	Intangible assets	393,118	393,118
A.XIV	Property, plant and equipment	712,025	712,025
A.XV	Investment property	13,827	13,827
A.XVI	Current tax assets	20,863	20,863
A.XVII	Deferred tax assets	210,553	210,553
A.XVIII	Non-current assets held for sale and discontinued operations	2,258	2,258
A.XIX	Other assets	523,021	523,021
A.XX	**TOTAL ASSETS (AOP items from 0001 to 0019 in the balance sheet)**	**100,955,437**	**100,955,437**
P	**LIABILITIES**		
PO	**LIABILITIES**		
PO.I	Financial liabilities recognised at fair value through income statement and held for trading	27,282	27,282
PO.II	Financial liabilities initially recognised at fair value through income statement		
PO.III	Liabilities arising from hedging derivatives		
PO.IV	Deposits and other liabilities to banks, other financial organisations and central bank	21,520,826	21,520,826
PO.V	Deposits and other liabilities to other clients	61,602,685	61,602,685
PO.VI	Change in fair value of hedged items		
PO.VII	Own securities issued and other borrowings		
PO.VIII	Subordinated liabilities	2,063,751	2,063,751
PO.IX	Provisions	558,347	558,347
PO.X	Liabilities under assets held for sale and discontinued operations		
PO.XI	Current tax liabilities		
PO.XII	Deferred tax liabilities		
PO.XIII	Other liabilities	444,886	444,886
PO.XIV	**TOTAL LIABILITIES (AOP items from 0401 to 0413 in the balance sheet)**	**86,217,777**	**86,217,777**
	CAPITAL		
PO.XV	Share capital	10,164,475	10,164,475
PO.XVI	Own shares		
PO.XVII	Profit	1,379,724	1,379,724
PO.XVIII	Loss		
PO.XIX	Reserves	3,150,360	3,150,360
PO.XX	Unrealized losses		
PO.XXI	Non-controlling participation	43,100	43,100
PO.XXII	**TOTAL CAPITAL (result of adding up and/or subtracting the following balance sheet items: 0415-0416+0417-0418+0419+0420) ≥ 0**	**14,737,660**	**14,737,660**
PO.XXIII	**TOTAL CAPITAL SHORTFALL (result of adding up and/or subtracting the following balance sheet items: 0415-0416+0417-0418+0419+0420) < 0**		
PO.XXIV	**TOTAL LIABILITIES (result of adding up and/or subtracting the following balance sheet items: 0414+0421-0422)**	**100,955,437**	**100,955,437**
В.П.	**OFF-BALANCE SHEET ITEMS**		
В.П.А.	Off-balance sheet assets	130,719,418	130,719,418
В.П.П.	Off-balance sheet liabilities	130,719,418	130,719,418

Table S2. Breakdown of elements in the consolidated Balance Sheet with references to Capital positions in form PI-KAP (Inset cons. 1)

Designation of item	Item	Balance sheet	References
A	**ASSETS**		
A.I	Cash and assets with the central bank	15,906,407	
A.II	Pledged financial assets		
A.III	Financial assets recognised at fair value through income statement and held for trading	6,077,169	
A.IV	Financial assets initially recognised at fair value through income statement		
A.V	Financial assets available for sale	2,571,624	
A.VI	Financial assets held to maturity	7,435,009	
A.VII	Loans and receivables from banks and other financial organisations	3,898,755	
A.VIII	Loans and receivables from clients	63,190,690	
A.IX	Change in fair value of hedged items		
A.X	Receivables arising from hedging derivatives		
A.XI	Investments in associated companies and joint ventures	118	
	Of which direct or indirect investments in banks and other financial sector person persons		**u**
A.XII	Investments into subsidiaries		
	Of which direct or indirect investments in banks and other financial sector persons		**f**
A.XIII	Intangible assets	393,118	**i**
A.XIV	Property, plant and equipment	712,025	
A.XV	Investment property	13,827	
A.XVI	Current tax assets	20,863	
A.XVII	Deferred tax assets	210,553	
A.XVIII	Non-current assets held for sale and discontinued operations	2,258	
A.XIX	Other assets	523,021	
	Of which direct or indirect investment in banks and other financial sector entities that exceed 10% of the capital of such banks and/or other financial sector entity		**h**
A.XX	**TOTAL ASSETS (AOP items from 0001 to 0019 in the balance sheet)**	**100,955,437**	
P	**LIABILITIES**		
PO	**LIABILITIES**		
PO.I	Financial liabilities recognised at fair value through income statement and held for trading	27,282	
PO.II	Financial liabilities initially recognised at fair value through income statement		
PO.III	Liabilities arising from hedging derivatives		
PO.IV	Deposits and other liabilities to banks, other financial organisations and central bank	21,520,826	
PO.V	Deposits and other liabilities to other clients	61,602,685	
PO.VI	Change in fair value of hedged items		
PO.VII	Own securities issued and other borrowings		
	Of which liabilities arising from hybrid instruments		**r**
PO.VIII	Subordinated liabilities	2,063,751	
	Of which subordinated liabilities included in bank's supplementary capital	1,330,541	**s**
PO.IX	Provisions	558,347	
PO.X	Liabilities under assets held for sale and discontinued operations		
PO.XI	Current tax liabilities		
PO.XII	Deferred tax liabilities		
PO.XIII	Other liabilities	444,886	
PO.XIV	**TOTAL LIABILITIES (AOP items from 0401 to 0413 in the balance sheet)**	86,217,777	
	CAPITAL		
PO.XV	**Share capital**	**10,164,475**	
	Of which nominal value of paid-in shares, except cumulative preferential shares	10,040,000	**a**
	Of which share premium on share capital, except cummulative preferential shares	124,475	**b**
	Of which nominal value of cumulative preferential shares		**nj**
	Of which share premium on cumulative preferential shares		**o**
PO.XVI	**Own shares**		
	Of which acquired own shares, except cumulative preferential shares		**j**
	Of which acquired own cumulative preferential shares		**t**
PO.XVII	**Profit**	**1,379,724**	
	Of which retained earnings from previous years (Erste Bank)	1,071,176	**g**
	Of which profit of the current year	272,808	
	Of which profit of the current year for which the General Assembly of the Bank adopted a decision on allocation to the core capital		**d**
	Of which loss in the current year (75% S-leasing)	33,363	**z**
	Of which other positive consolidated reserves	69,104	**e**
PO.XVIII	**Loss**		
	Of which losses from previous years		**ž**
PO.XIX	**Reserves**	**3,150,360**	
	Of which reserves from profit which represent element of core capital	3,091,087	**v**
	Of which other negative consolidated reserves		**n**
	Of which other net negative revaluation reserves		**lj**
	Of which gains on bank liabilities measured at fair value due to the change in bank's credit rating		**m**
	Of which positive revaluation reserves created on the basis of effects of changes in fair value of fixed assets, securities and other assets which are, in accordance with IFRS/IAS, credited to these reserves.	60,863	**p**
	Of which unrealised losses on securities available for sale	2,234	**l**
	Of which tax liabilities	644	
PO.XX	**Unrealised losses**		
PO.XXI	**Non-controlling participation**	**43,100**	
	Of which minority participation in subordinated companies	43,100	**đ**
PO.XXII	**TOTAL CAPITAL** (result of adding up and/or subtracting the following balance sheet items: 0415-0416+0417-0418+0419+0420) ≥ 0	**14,737,660**	
PO.XXIII	**TOTAL CAPITAL SHORTFALL** (result of adding up and/or subtracting the following balance sheet items: 0415-0416+0417-0418+0419+0420) < 0		
PO.XXIV	**TOTAL LIABILITIES** (result of adding up and/or subtracting the following balance sheet items: 0414+0421-0422)	**100,955,437**	
В.П.	**OFF-BALANCE SHEET ITEMS**		
В.П.А.	Off-balance sheet assets	130,719,418	
	Of which amount of shares received in pledge, except cumulative preferential shares		**k**
	Of which amount of cumulative preferential shares received in pledge		**ć**
В.П.П.	Off-balance sheet liabilities	130,719,418	

Inset cons. 4 - Form PI-AKB consolidated

Data on total capital requirements and capital adequacy ratio on consolidated basis

(RSD thousand)

No	Name	Amount	Coverage by core capital	Coverage by supplementary capital
		1	2	3
I	CAPITAL	*12,812,205*		
1.	TOTAL CORE CAPITAL	11,420,800		
2.	TOTAL SUPPLEMENTARY CAPITAL	1,391,404		
II	CAPITAL REQUIREMENTS	7,786,268		
1.	CAPITAL REQUIREMENTS FOR CREDIT RISK, COUNTERPARTY RISK AND SETTLEMENT/DELIVERY RISK IN CASE OF FREE DELIVERIES	6,763,652	*6,763,652*	
1.1.	Standardised approach (SA)	56,363,768		
1.1.1.	*Exposures to central governments and central banks*	*0*		
1.1.2.	*Exposures to territorial autonomies and local self-government units*	*522,037*		
1.1.3.	*Exposures to public administrative bodies*	*144,377*		
1.1.4.	*Exposures to multilateral development banks*	*0*		
1.1.5.	*Exposures to international organisations*	*0*		
1.1.6.	*Exposures to banks*	*1,408,124*		
1.1.7.	*Exposures to corporates*	*33,496,043*		
1.1.8.	*Retail exposures*	*16,373,970*		
1.1.9.	*Exposures secured by real estate collateral*	*2,574,394*		
1.1.10.	*Past due items*	*560,780*		
1.1.11.	*High-risk exposures*	*0*		
1.1.12.	*Exposures in the form of covered bonds*	*0*		
1.1.13.	*Exposures in the form of open-end investment funds*	*0*		
1.1.14.	*Other exposures*	*1,284,043*		
1.2.	Internal Ratings Based Approach (IRB)			
1.2.1.	*Exposures to central governments and central banks*			
1.2.2.	*Exposures to banks*			
1.2.3.	*Exposures to corporates*			
1.2.4.	*Retail exposures*			
1.2.4.1.	*Retail exposures secured by real estate collateral*			
1.2.4.2.	*Qualifying revolving retail exposures*			
1.2.4.3.	*Other retail exposures*			
1.2.5.	*Equity exposures*			
1.2.5.1.	*Approach applied:*			
1.2.5.1.1.	*Simple Risk Weight Approach*			
1.2.5.1.2.	*PD/LGD Approach*			
1.2.5.1.3.	*Internal Models Approach*			
1.2.5.2.	*Types of equity exposures*			
1.2.5.2.1.	*Exchange traded equity exposures*			
1.2.5.2.2.	*Non-exchange traded equity exposures in sufficiently diversified portfolios*			
1.2.5.2.3.	*Other equity exposures*			
1.2.5.2.4.	*Equity exposures to which a bank applied Standardised Approach to credit risk*			
1.2.6.	*Exposures to other assets*			
2	CAPITAL REQUIREMENTS FOR SETTLEMENT/DELIVERY RISK ARISING FROM UNSETTLED TRANSACTIONS		*0*	
3	CAPITAL REQUIREMENTS FOR MARKET RISKS	122,672	*122,672*	
3.1.	Capital requirements for price, foreign exchange and commodity risks calculated under standardised approaches	122,672	*122,672*	
3.1.1.	*Capital requirements for price risk arising from debt securities*	*69,860*	*69,860*	
3.1.2.	*Capital requirements for price risk arising from equity securities*	*0*	*0*	
3.1.3.	*Capital requirements for foreign exchange risk*	*52,812*	*52,812*	
3.1.4.	*Capital requirements for commodity risk*	*0*	*0*	
3.2.	Capital requirements for price, foreign exchange and commodity risks calculated under the Internal Models Approach		*0*	
4	CAPITAL REQUIREMENTS FOR OPERATIONAL RISK	899,944	*899,944*	
4.1.	Capital requirements for operational risk calculated under the Basic Indicator Approach	899,944	*899,944*	
4.2.	Capital requirements for operational risk calculated under the Standardised Approach	0	*0*	
4.3.	Capital requirements for operational risk calculated under the Advanced Approach	0	*0*	
5	COVERAGE OF CAPITAL REQUIREMENTS	*7,786,268*	*7,786,268*	
III	CAPITAL ADEQUACY RATIO (%)	*19.75*		

7. REFERENCE ON OTHER AND NON-DISCLOSED ITEMS

Given the size of the subsidiary company S-Leasing doo in relation to the size of the Erste Bank individually and the whole Bank group of Erste Bank ad Novi Sad, S-Leasing does not affect the assessment of the stability and the risk of the Banking Group and substantiality of the information published in this document.

With exception of chapter 6. BANKING GROUP, information presented in this document represent data and information relating to the Erste Bank ad as a single entity, without the the subsidiary.

Disclosures on credit risk required in situations when a bank applies IRB approach for capital requirements calculation, prescribed by NBS Decision on Disclosure of Data and Information by Banks, are not applicable as the Bank uses standardised approach for capital requirements calculation as at 31 December 2014.

Disclosures on market risks prescribed by NBS Decision on Disclosure of Data and Information by Banks are not applicable as the Bank does not apply internal models approach for the calculation of capital requirements for market risks. More details on market risks management are presented in Notes to financial statements for the year ended 31 December 2014, note 35.5.

Disclosures on operational risk prescribed by NBS Decision on Disclosure of Data and Information by Banks are not applicable as the Bank does not apply advanced approach for the calculation of capital requirements for operational risk. Details on the management of operational risk are presented in the Notes to financial statements for the year ended 31 December 2014, note 35.9.

Novi Sad, 29 May 2015

Approved by the Executive Committee of Erste Bank a.d., Novi Sad.