

## **Erste Bank a.d. Novi Sad**

**Pillar III disclosure of data and information  
as at 30 June 2014**

## **GENERAL INFORMATION**

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## 1. INTRODUCTION

Erste Bank a.d. Novi Sad (hereinafter referred as "the Bank"), member of Erste Bank Group, prepared Disclosure Report on data and information (hereinafter referred as "Disclosure Report" or "Report") as at 30 June 2014.

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 and 91/2010) and according to National Bank of Serbia Decision on Disclosure of Data and Information by Banks ("Official Gazette of the Republic of Serbia", no. 45/2011).

The information presented in this document relates to the Bank as single entity information, without consolidation of dependent legal entity unless otherwise specified (for more information on the Erste Bank a.d. Banking group see chapter 4 BANKING GROUP).

The data 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.

The 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](http://www.erstebank.rs/rs/O_nama/Izvestaji)).

## 2. REGULATORY CAPITAL

### 2.1. REGULATORY CAPITAL STRUCTURE

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.

As at 30 June 2014 the Bank has the following regulatory capital structure:

	<i>RSD '000</i>
<b>Qualifying capital</b>	
Nominal value of paid-in shares, other than cumulative preference shares	10,040,000
Share premium	124,475
Reserves from profit	3,091,087
Retained earnings from previous years	1,071,176
Intangibles	-344,008
Regulatory compliance values - Unrealized losses on securities available for sale	-1,868
Regulatory compliance values - Required reserves for estimated losses on balance sheet assets and off-balance sheet items	-3,779,453
<b>Core capital</b>	<b>10,201,409</b>
Subordinated liabilities	1,808,236
Part of positive revaluation reserves	32,705
<b>Supplementary capital</b>	<b>1,840,941</b>
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 entities	-93,560
<b>Deductions from capital</b>	<b>-93,560</b>
<i>Of which: reduction of Core capital</i>	<i>46,780</i>
<i>Of which: reduction of Supplementary capital</i>	<i>46,780</i>
<b>Total core capital</b>	<b>10,154,629</b>
<b>Total supplementary capital</b>	<b>1,794,161</b>
<b>Total capital</b>	<b>11,948,790</b>

Table 1: Regulatory capital structure

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

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 proscribed by the Law on Banks.

## 2.2. KEY FEATURES OF REGULATORY CAPITAL ITEMS

### 2.2.1. CORE CAPITAL

#### Share capital

As at 30 June 2014 nominal value of paid-in shares, other than cumulative preference shares, i.e. subscribed and paid-in share capital, of the Bank comprised 1,004,000 ordinary shares with a nominal value of RSD 10,000 each. During 2014<sup>th</sup> there were no changes in share capital.

The major shareholder of the Bank is Erste Group Bank Ceps Holding GmbH, Vienna holding 74 % of the shares as at 30 June 2014.

The shareholder structure of the Bank as at 30 June 2014 is as follows:

Shareholder	Number of shares	In %
Erste Group Bank Ceps Holding GmbH, Beč	742,960	74.0
Steiermärkische Bank und Sparkassen AG, Grac	261,040	26.0
<b>Total</b>	<b>1,004,000</b>	<b>100.0</b>

Table 2: Shareholders structure

#### Share premium

Share premium amounting to RSD 124,475 thousand as at 30 June 2014 resulted from a positive difference between the selling price of the shares and their nominal value.

#### Reserves from profit

Reserves from profit amount to RSD 3,091,087 thousand as at 30 June 2014. Reserves from profit amounted to RSD 2,534,108 thousand as at December 31<sup>st</sup> 2013 and were increased by RSD 556,979 thousand from the 2013 retained earnings, in accordance with the General Assembly's Decision dated March 28<sup>th</sup> 2014.

#### Other

Retained earnings from previous years of RSD 1,071,176 thousand refer to actuary gain determined in accordance with IAS 19.

Deductible items from Core Capital as at 30 June 2014 were: Intangible assets (RSD 344,008 thousand), unrealized losses on securities available for sale (RSD 1,868 thousand) and required reserves for estimated losses on balance sheet assets and off-balance sheet items (RSD 3,779,453 thousand).

**2.2.2. SUPPLEMENTARY CAPITAL****Subordinated liabilities**

Outstanding balance of subordinated liabilities, fulfilling criteria for inclusion in Supplementary capital, is as follows as at 30 June 2014:

<b>Creditor</b>	<b>Loan Currency</b>	<b>Initially Contracted amount in currency</b>	<b>Maturity date</b>	<b>RSD '000</b>	
				<b>Balance as at 30 June 2014</b>	<b>In %</b>
EGB Ceps	EUR	10,800,000	20 Dec 2015	357,280	17.1
Erste GCIB	EUR	15,000,000	27 Dec 2021	1,736,780	82.9
<b>Total</b>		<b>25,800,000</b>		<b>2,094,060</b>	<b>100.0</b>

Table 3: Subordinated liabilities composition

Subordinated long-term loan granted by Erste Group Bank Ceps Holding GmbH, Vienna was granted on 20 December 2005 in the amount of EUR 10,800,000 for the period of 10 years with a 5 year grace period and interest rate equal to quarterly EURIBOR increased by 2.4% per annum. In accordance with the loan agreement, loan principal is repayable in 21 quarterly repayments and the first repayment is due upon the end of the grace period.

Subordinated long-term loan granted by Erste GCIB Finance, Amsterdam was granted on 27 December 2011 in the amount of EUR 15,000,000 for the period of 10 years with a 5 year grace period and interest rate equal to quarterly EURIBOR increased by 3.65% per annum. In accordance with the loan agreement, loan principal is repayable in 21 quarterly repayments and the first repayment is due upon the end of the grace period.

In accordance with NBS Decision on Capital Adequacy by Banks, subordinated term debt included in Supplementary capital is, during the last five years to maturity, reduced by a cumulative discount factor of 20% per year and consequently shall not be included in Supplementary capital in the last year of maturity. Accordingly, contracted amount of subordinated long-term loan granted by Erste Group Bank Ceps Holding GmbH, Vienna has been reduced by a respective discount factor.

The table below summarises amount of subordinated liabilities included in Supplementary capital as at 30 June 2014:

<b>Creditor</b>	<b>RSD '000</b>
	<b>Supplementary capital</b>
Erste Group Bank Ceps Holding GmbH, Vienna	71,456
Erste GCIB Finance, Amsterdam	1,736,780
<b>Total</b>	<b>1,808,236</b>

Table 4: Supplementary capital composition

**Part of revaluation reserves**

Revaluation reserves refer to securities quoted on the stock exchange and which are once a month aligned to the current market price. Based on these alignments, the Bank has realised positive revaluation reserves of RSD 32,705 thousand (after tax deduction).

**2.2.3. DEDUCTIONS FROM CAPITAL**

Items deductible from capital are deducted from Core and Supplementary capital in the manner that 50% is deducted from Core capital and 50% from Supplementary capital.

Direct investments in financial sector entities (in an amount exceeding 10% of their capital) amount to RSD 93,560 thousand as at 30 June 2014 and were used as deductible item from capital.

### 3. CAPITAL ADEQUACY

#### 3.1. REGULATORY CAPITAL REQUIREMENTS

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 30 June 2014 capital adequacy ratio amounted to 20.75%.

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.

##### 3.1.1. CREDIT RISK

The table below shows an overview of total minimum capital requirements to cover credit risk as at 30 June 2014. The credit risk capital requirement is broken down into exposure classes as follows:

	<i>RSD '000</i>
<b>Exposure class</b>	<b>Capital requirement</b>
Central Governments and Central Banks	-
Local Governments and Local Authorities	17,988
Public Administrative Bodies	2,810
Institutions	470,298
Corporates	3,081,768
Retail	1,653,240
Exposures secured by residential property	464,423
Past due exposures	78,215
Shares in Investment Funds	-
Other items	142,769
<b>Total</b>	<b>5,911,514</b>

Table 5: Capital requirements for credit risk per exposure class

##### 3.1.2. MARKET RISKS

As at 30 June 2014, the Bank calculated regulatory minimum capital requirements to cover price risk on debt securities and foreign exchange risk.

	<i>RSD '000</i>
<b>Market risks</b>	<b>Capital requirement</b>
Capital requirement for price risk on debt securities	59,754
Capital requirement for foreign exchange risk	39,382
<b>Total</b>	<b>99,136</b>

Table 6: Capital requirement for market risks

##### 3.1.3. OPERATIONAL RISK

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

As at 30 June 2014, capital requirement for operational risk totalled RSD 899,944 thousand.



**3.2. QUANTITATIVE DISCLOSURES****3.2.1. CREDIT RISK**

Bank's gross credit risk exposure as at 30 June 2014 and average gross exposure in 2014 are shown in the table below:

<b>Exposure class</b>	<b>Exposure</b>	<b>In %</b>	<i>RSD '000</i>
			<b>Average Exposure</b>
Central Governments and Central Banks	20,871,884	15.8	23,295,478
Local Governments and Local Authorities	358,571	0.3	356,508
Public Administrative Bodies	23,918	0.0	21,532
Institutions	19,556,250	14.8	14,651,123
Corporates	38,801,444	29.4	37,688,154
Retail	23,438,269	17.8	23,156,949
Exposures secured by residential property	8,807,151	6.7	0
Past due exposures	11,446,953	8.7	11,660,265
Other items	8,607,956	6.5	8,362,383
<b>Total</b>	<b>131,912,396</b>	<b>100.0</b>	<b>119,192,392</b>

Table 7: Gross exposure by exposure class

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

<b>Geographic area</b>	<b>Exposure class</b>	<i>RSD '000</i>
		<b>Exposure</b>
Serbia	Central Governments and Central Banks	20,871,884
	Local Governments and Local Authorities	358,571
	Public Administrative Bodies	23,918
	Institutions	1,685,268
	Corporates	38,086,493
	Retail	23,263,146
	Exposures secured by residential property	8,718,559
	Past due exposures	11,445,344
	Other items	8,607,956
	<b>Total</b>	<b>113,061,137</b>
Austria	Institutions	10,031,442
	Corporates	492
	Retail	8,129
	<b>Total</b>	<b>10,040,063</b>
Other Countries	Institutions	7,839,540
	Corporates	714,460
	Retail	166,994
	Exposures secured by residential property	88,593
	Past due exposures	1,609
	<b>Total</b>	<b>8,811,197</b>
<b>Total</b>		<b>131,912,396</b>

Table 8: Gross Exposure by materially significant geographic areas and per exposure class

Table below gives a breakdown of Gross credit risk exposure by sector<sup>1</sup> 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.

<i>RSD '000</i>				
Exposure class	Sector	Exposure	Exposures with loan loss provisions	Loan loss provisions
Central Governments and Central Banks	Domestic fin. institutions	10,394,288	0	0
	Public sector	10,477,595	0	0
	<b>Total</b>	<b>20,871,884</b>	<b>0</b>	<b>0</b>
Local Governments and Local Authorities	Public sector	358,571	358,571	7,781
	<b>Total</b>	<b>358,571</b>	<b>358,571</b>	<b>7,781</b>
Public Administrative Bodies	Public sector	23,918	11,488	249
	<b>Total</b>	<b>23,918</b>	<b>11,488</b>	<b>249</b>
Institutions	Domestic fin. institutions	1,685,268	500,861	2,120
	Foreign entities	17,870,983	17,005,952	48,803
	<b>Total</b>	<b>19,556,250</b>	<b>17,506,812</b>	<b>50,923</b>
Corporates	Domestic fin. institutions	772,750	772,707	25,889
	Public companies	4,754,126	4,754,092	2,558
	Other domestic companies	32,025,399	31,234,222	772,952
	Entrepreneurs	151,919	151,919	3,208
	Foreign entities	699,191	671,179	4,922
	Agricultural producers	68,170	53,040	1,279
	Other counterparties	329,888	326,622	244,269
	<b>Total</b>	<b>38,801,444</b>	<b>37,963,781</b>	<b>1,055,078</b>
Retail	Public companies	6	6	0
	Other domestic companies	2,855,244	2,758,732	65,876
	Entrepreneurs	552,783	547,987	18,975
	Private individuals	19,732,509	17,184,017	557,519
	Foreign entities	27,518	108	71
	Agricultural producers	270,210	241,018	18,295
	<b>Total</b>	<b>23,438,269</b>	<b>20,731,867</b>	<b>660,735</b>
Exposures secured by residential property	Domestic fin. institutions	643	643	13
	Other domestic companies	911,198	911,198	21,441
	Entrepreneurs	45,076	45,076	1,070
	Private individuals	7,826,818	7,692,393	87,340
	Agricultural producers	23,415	21,677	900
<b>Total</b>	<b>8,807,151</b>	<b>8,670,988</b>	<b>110,763</b>	
Past due exposures	Domestic fin. institutions	169,252	169,252	95,109
	Other domestic companies	3,945,301	3,889,120	1,925,841
	Entrepreneurs	241,101	241,086	111,706
	Private individuals	2,184,931	2,183,176	1,194,486
	Agricultural producers	247,531	247,524	114,115
	Other counterparties	4,658,838	4,658,838	2,666,872
<b>Total</b>	<b>11,446,953</b>	<b>11,388,995</b>	<b>6,108,129</b>	
Other items	Domestic fin. institutions	8,301,491	8,207,931	87,459
	Other counterparties	306,465	290,128	3,756
	<b>Total</b>	<b>8,607,956</b>	<b>8,498,059</b>	<b>91,215</b>
<b>Total</b>		<b>131,912,396</b>	<b>105,130,562</b>	<b>8,084,874</b>

Table 9: Gross Exposure by sector and exposure class with focus on exposures for which loan loss provision was made

<sup>1</sup> 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 below.

Exposure class	Exposure			Total
	<1 years	1 – 3 years	>3 years	
	Central Governments and Central Banks	18,059,183	2,112,133	
Local Governments and Local Authorities	28,141	36,949	293,481	358,571
Public Administrative Bodies	12,432	-	11,486	23,918
Institutions	18,997,993	3,257	555,000	19,556,250
Corporates	13,998,787	8,120,594	16,682,063	38,801,444
Retail	5,618,722	5,490,344	12,329,204	23,438,269
Exposures secured by residential property	442,981	246,571	8,117,600	8,807,151
Past due exposures	8,045,062	1,330,425	2,071,466	11,446,953
Other items	8,384,692	45,118	178,146	8,607,956
<b>Total</b>	<b>73,587,991</b>	<b>17,385,390</b>	<b>40,939,015</b>	<b>131,912,396</b>

Table 10: 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):

	<i>RSD '000</i>
<b>Loan Loss Provision</b>	
Provisions as at 1 January 2014	8,021,302
Provisions allocation during the year	5,156,962
Provisions release during the year	-4,073,923
Provisions write off during the year	-552,367
Other	-467,100
<b>Provisions as at 30 June 2014</b>	<b>8,084,874</b>

Table 11: Loan loss provision movement

The table below gives overview of exposure subject to classification<sup>2</sup>, reserve for estimated losses and required reserve for estimated losses calculated in accordance with the National Bank of Serbia Decision on Classification of Bank Balance Sheet Assets and Off-balance Sheet Items, per counterparty type and classification categories:

Counterparty type	Category of classification					Total
	A	B	V	G	D	
Domestic fin. institutions	522.431	621.050	112.216	644	134.025	1.390.366
Public companies	4.671.462	82.611	3	56	0	4.754.132
Other companies	22.406.485	9.027.953	1.443.754	1.643.561	3.865.509	38.387.262
Entrepreneurs	610.488	64.432	35.481	36.573	170.593	917.567
Public sector	0	382.489	280	0	0	382.769
Private individuals	23.235.636	747.924	123.266	543.510	1.758.960	26.409.296
Foreign entities	10.438.637	123.411	0	0	16.977	10.579.025
Agricultural producers	262.751	7.998	7.940	17.370	175.422	471.481
Other counterparties	262.241	32.397	11437	436.574	3.517.974	4.260.623
<b>Total exposure subject to classification</b>	<b>62.410.131</b>	<b>11.090.265</b>	<b>1.734.377</b>	<b>2.678.288</b>	<b>9.639.460</b>	<b>87.552.521</b>
<b>Reserve for estimated losses</b>	<b>0</b>	<b>201.753</b>	<b>244.010</b>	<b>789.869</b>	<b>9.632.954</b>	<b>10.868.586</b>
<b>Provisions</b>	<b>798.258</b>	<b>243.155</b>	<b>75.716</b>	<b>508.694</b>	<b>6.459.006</b>	<b>8.084.829</b>
<b>Required reserve for estimated losses</b>	<b>0</b>	<b>33.200</b>	<b>170.173</b>	<b>401.792</b>	<b>3.174.288</b>	<b>3.779.453</b>

Table 12: Exposure by NBS classification category

<sup>2</sup> 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.

**3.2.2. CREDIT RISK MITIGATION****Quantitative Disclosures**

The table below presents net exposure (gross exposure less value adjustments and less required reserve for estimated losses) before and after the use of credit protection, i.e. adjustment for effects of CRM techniques, for every level of credit quality.

Exposure class	Risk weight band	RSD '000	
		Net Exposure	Exposure after CRM
Central Governments and Central Banks	0%	20,871,884	25,503,296
Local Governments and Local Authorities	50%	350,790	350,790
Public Administrative Bodies	100%	23,420	23,420
Institutions	20%	16,336,324	16,363,221
	50%	597,880	597,880
	100%	2,569,490	2,569,490
Corporates	100%	36,597,932	31,140,883
Retail	75%	22,045,463	21,813,200
	100%	310,930	294,612
	Exposures secured by residential property	35%	7,047,833
Past due exposures	100%	1,521,884	1,521,884
	100%	3,224,734	3,222,770
Other items	150%	59,207	59,207
	0%	6,809,442	6,809,442
	20%	5,613	5,613
	100%	1,675,372	1,649,946
<b>Total</b>		<b>120,048,197</b>	<b>118,973,486</b>

Table 13: Net exposure before and after CRM per exposure class

Net exposure per exposure class is secured by the following amount of collateral type recognised as credit risk mitigation as at 30 June 2014:

Exposure class	Net Exposure	RSD '000	
		Guarantees*	Cash deposit
Central Governments and Central Banks	20,871,884	-	-
Local Governments and Local Authorities	350,790	-	-
Public Administrative Bodies	23,420	-	-
Institutions	19,503,694	-	-
Corporates	36,597,932	4,658,309	798,740
Retail	22,356,393	-	248,581
Exposures secured by residential property	8,569,717	-	-
Past due exposures	3,283,941	-	1,965
Other items	8,490,427	-	25,425
<b>Total</b>	<b>120,048,197</b>	<b>4,658,309</b>	<b>1,074,711</b>

Table 14: Net exposure and CRM by type of CRM instrument

\* CRM acceptable guarantees refer to State provided guarantees and to lesser extent bank guarantee, resulting into substitution of exposure between Asset classes Corporates on one hand and Central Governments and Central Banks/Institutions on the other.

**3.2.3. COUNTER PARTY RISK**

As at 30 June 2014 the Bank's exposure to counterparty credit risk resulted from repo transactions and financial derivatives:

<i>RSD '000</i>	
<b>Exposure to counter party risk per transaction type</b>	<b>Exposure amount</b>
Financial derivatives	30,446
Repo transactions	2,002,077
<b>Total</b>	<b>2,002,077</b>

Table 15: Exposure to counter party risk

Specifically for repo transactions booked by the Bank on 30 June 2014, the counterparty is the National Bank of Serbia and collateral is not used as a means of eligible credit protection as the issuer of the collateral is the same as the counterparty.

## 4. BANKING GROUP

As of 1<sup>st</sup> of January 2014, Erste Bank ad Novi Sad is the parent legal entity in the group consisting of Erste Bank ad and financial leasing company S-Leasing doo, Belgrade.

Erste Bank ad has a 75% equity participation in S-Leasing on 30 June 2014.

The first consolidated statements regarding the calculation of capital adequacy, as well as part of the consolidated financial statements, the Bank prepares for the 30<sup>th</sup> of June 2014.

Basic financial data on a consolidated basis as at 30 June 2014 are given in the table below:

	<i>RSD '000</i>			
	<b>Erste banka ad</b>	<b>S-Leasing doo</b>	<b>Consolidation elimination</b>	<b>Bank group Consolidated</b>
Total Asset	99,976,607	3,363,669	-213,463	103,126,813
Total Liabilities	85,263,706	3,142,631	-119,903	88,286,434
Total Capital	14,712,901	221,038	-93,560	14,840,379

Table 16: Basic financial data on consolidated level

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 Bank group and substantiality of the information published in this document.

Novi Sad, 30 September 2014

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