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Disclosure requirements for the Group Erste&Steiermärkische Bank d.d. as of 31 December 2015

Zagreb, May 2016.

Sud upisa u registar: Trgovački sud u Rijeci MBS: 040001037 ▫ Matični broj: 3337367 × OIB: 23057039320 × IBAN: HR9524020061031262160 × SWIFT/BIC: ESBCHR22 ▫ Temeljni kapital 1.698.417.500,00 kn, uplaćen u cijelosti i podijeljen na 16.984.175 dionica, svaka nominalne vrijednosti 100,00 kn.
Uprava: Christoph Schoefboeck, Borislav Centner, Martin Hornig, Slađana Jagar, Zdenko Matak ▫ Predsjednik Nadzornog odbora: Andreas Gottschling

Disclosure requirements according to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 and according to article 165 of Credit Institution Act for the Group Erste&Steiermärkische Bank d.d. as of 31 December 2015, as follows:

1. GENERAL INFORMATION

DISCLOSURE REQUIREMENTS COVERED: ART. 436 (a) CRR

Erste&Steiermärkische Bank d.d. Rijeka (the "Bank") is subject to the requirements for disclosure in accordance to the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 ("CRR").

The Bank was established in 1954 and was entered into the Court Register as a joint stock company on 24 January 1990, and represents the parent company of Erste Bank Croatia ("Group"). The Bank's registered head office is at Jadranski trg 3a, Rijeka, the Republic of Croatia.

The Bank is licensed to conduct commercial banking activities in the Republic of Croatia. The Bank's main operations are as follows:

- accepting deposits from the clients and deposits placement,
- granting loans, issuing guarantees and letters of credit to the individuals, companies, public and other clients,
- treasury operations in the interbank market,
- trust management and investment banking services,
- performing domestic and international payments,
- providing banking services through an extensive branch network in the Republic of Croatia.

The Bank's share capital, fully subscribed, amounts to HRK 1,698,417,500.00 and is divided into 16,984,175 ordinary shares. Until December 30, 2015, all shares of the Bank held the company ESB Holding GmbH, and as of December 30, 2015, all shares of the Bank hold companies Erste Group Bank AG (10,023,326 shares or 59.02%) and Steiermärkische Bank und Sparkassen AG (6,960,849 shares or 40.98%).

Return on asset for the Group and the Bank as of 31 December 2015 amounted 1.2% and 1.7%, respectively.

1.1. GOVERNING BODIES

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (2) (a-d) CRR

The Bank's Rulebook on Organization determines clear organizational structure with well-defined, transparent and consistent lines of authority and responsibility within the Bank, in order to avoid any possible conflict of interests. The composition, duties and responsibilities of the Management Board and the Supervisory Board members are determined by the Articles of Association, Rules of Procedure of the Management Board and the Rules of Procedure of the Supervisory Board. Pursuant to the Decision made on 15 May 2014, the Supervisory Board has established following Committees:

- Remuneration Committee,
- Nomination Committee and
- Risk Committee

as determined by the relevant laws.

Risk committee has three members, the president and Supervisory Board members, from which members are from Management Board. In 2015 Risk Committee had one session writing, on which have adopted four decisions. Number of management positions within the Group with the members of the governing bodies is 37.

1.1. GOVERNING BODIES (CONTINUED)

Supervisory Board

Andreas Gottschling	President
Sava Ivanov Dalbokov	Deputy President
Mag. Franz Kerber	Member
Mag. Reinhard Ortner	Member
Hannes Frotzbacher	Member
Dr. Judit Agnes Havasi	Member
Mag. Renate Veronika Ferlitz	Member

Management Board

The Bank is represented jointly by two members of the Management Board or by one member of the Management Board together with the procurator.

Christoph Schoefboeck	Member until 12 May, 2015 (President as of 13 May 2015)
Petar Radaković	President until 30 April 2015
Borislav Centner	Member
Slađana Jagar	Member
Zdenko Matak	Member
Martin Hornig	Member

Procurators

On 31 December 2015, the Bank has no procurator.

The Management Board of the Bank made, with prior approval of the Supervisory Board the Policy for the Bank Management Board Members Selection and Suitability Assessment which governs the following:

1) general conditions to be fulfilled by the Candidate for the President and a Member of the management Board, and the Management Board as a whole, considering the targeted structure and especially:
   - their specific competence,
   - the required expertise, skills and experience necessary to fulfil the obligations under their jurisdiction,
   - a requirement for continuous education,
   - a request for committed fulfilment of obligations under their jurisdiction.
2) administrative Service responsible for performing the suitability assessment of the Candidate,
3) suitability Assessment procedure, including time scheduled for submission of documents, deadlines and method of the procedure execution, method by which an assessed person responds and procedure results reporting,
4) information and documents which the Candidate should submit to the Bank to perform the assessment,
5) situations and circumstances which may cause the necessity for Extraordinary Suitability Assessment of the President or Members of the Management Board Members,
6) form and method of filing the documents of suitability assessment procedure,
7) the procedure of permanent education of the Supervisory Board Members in order to ensure their knowledge is continuously suitable.

1.1. GOVERNING BODIES (CONTINUED)

The objective and scope of the Policy is:

1) compliance of the Bank's operations with the relevant rules which regulate suitability of the Members of the Management Board,
2) transparent and precise determination of conditions the Candidate has to fulfil before appointment to the position of the President or a Member of the Management Board,
3) professional education, experience and competences, as well as good reputation of the President of the Management Board and each Member of the Management Board and the Management Board as a whole, in order to ensure that the Bank's business operations are compliant with the relevant regulations and that the interests of the Bank's customers are protected,
4) avoidance of the conflict of interests especially between private interests of the President and the Members of the Management Board and the Bank's interest when private interests affects or may affect impartiality of these persons in execution of their functions,
5) establishment and maintenance of effective corporate management aimed at risks mitigation and enhancement of the Bank's performance quality and transparency.

1.2. RISK POLICY AND STRATEGY

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (1) CRR

Introduction

Financial risk is in certain areas managed primarily on the Bank level (particularly related to legal obligations that applies only to the Bank), while in some areas it is monitored and managed at the Group level as deemed appropriate by the Management Board. The disclosures included in this note refer to the Group.

Risk is present in all Bank's activities but it is managed through the identification, measurement and monitoring of limits set for the associated risk. The Bank has adopted a risk management system that aims to achieve optimal levels of profitability with an acceptable level of risk. The risk management system has been established as the active management of credit, market, liquidity risk and operational risk, as well as all other risks that may arise through regular Bank business.

Risk monitoring and control is achieved through a clear organizational structure with defined roles and responsibilities

The risk management system

Supervisory Board

The Supervisory Board has the responsibility to monitor the overall risk process within the Bank.

Management Board

The Management Board and Supervisory Board in part that requires their approval, through the recognition and adoption of acts that define and regulate the operations of the Bank, are authorized to determine the procedures and are responsible for their implementation.

1.2. RISK POLICY AND STRATEGY (CONTINUED)

The Management Board, and in particular the Bank's chief risk officer ("CRO") performs 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 appetite approved by the Management Board. 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.

The Management Board 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 limit setting for the relevant risks are performed at the operating entity level within the Bank.

The Management Board is supported by several divisions established to perform operating risk control functions and exercise strategic risk management responsibilities.

Risk Management Division

Risk management division is responsible for setting the grounds for effective risk management and managing and control of decisions that are related to the Bank's risk exposure.

Risk management division is also responsible for developing strategy and management principle, setting the framework, policies and limits of acceptable risk exposure and is responsible for implementation and maintenance of procedures which enables independent control process.

Risk management division is obligated to revise internal acts within its responsibility, to do appropriateness controls and impact analysis and, if necessary, any alignments for the upcoming period.

Credit Risk Management Division

The Credit Risk Management Division implements credit risk management and monitors the balance of credit portfolios of clients that are categorized as belonging to the Corporate Sector, Retail Sector, and the Financial Markets Division. The Division analyses requests for credits, and based on them, issues opinion on the credit risk from the risk perspective. It analyses the projects and evaluates its eligibility for financing from the risk perspective. It also performs an analysis of the Bank's overall exposure to the client and controls the payment of outstanding debts to the Bank.

Collection and Work-out Division

The Collection and Work-out Division is in charge of managing collection and bad placements by means of a continuous and systematic development of solutions to eliminate and reduce risks in dealing with work-out clients which includes coordination of early collection, restructuring, voluntary and forced collection.

Asset and Liability Management Division ("ALM")

ALM has the responsibility of managing the Bank's assets and liabilities as well as the overall financial structure. It is primarily responsible for the funding and liquidity risk of the Bank.

Internal Audit Division

The processes of risk management are regularly reviewed by the internal audit function, which examines both the adequacy of procedures and their compliance by the Bank. The results of assessment are reported to the Management Board along with its findings and recommendations.

1.2. RISK POLICY AND STRATEGY (CONTINUED)

Risk measurement and reporting

Bank risks are measured using a method which reflects both the expected losses likely to arise in normal circumstances and unexpected losses which are an estimate of the maximum loss based on statistical methods. The models use probabilities derived from historical experience, adjusted to reflect real economic conditions and their validity is regularly tested.

Risk monitoring and controlling is primarily performed based on limits set by the Bank. The limits reflect the market conditions and business strategy, as well as the risk that the Bank is willing to assume.

In addition, the Bank monitors and measures the overall risk bearing capacity in relation to total risk exposure with all risk types and activities.

Information obtained from all businesses activity is examined and processed in order to analyze, control and identify signs of early risks.

The Management Board and Supervisory Board are briefed on regularly bases about portfolio quality with various aspects of risk and are provided with all information necessary for understanding the credit risk to which the Bank is exposed. The reports contain detailed information on exposures, ratings, concentration and changes in risk profile. The Risk Management Division prepares additional reports which provide information necessary for proactive risk management of the credit portfolio and the timely identification of any deterioration in the quality of the credit portfolio, which may result in material losses for the Bank.

With the aim of prudent risk management, the Bank applies the method of early detection of increased credit risk by monitoring all the relevant information on the level of individual portfolio, as well as individual client, with the prediction of changes in variables in the future, which primarily includes the current client's behavior in settling obligations and monitoring information from the market. Monitoring market conditions (including the monitoring of macro-economic variables, as well as their evaluation of the future period), changes in rating and days overdue ensures the early detection of increased credit risk.

On a daily basis, the responsible members of the Management Board gets information on the utilization of market limits, analysis, value at risk (“VaR“) as well as other changes related to the risk exposure. These changes in risk exposure are reported in the form of an aggregated report.

1.2. RISK POLICY AND STRATEGY (CONTINUED)

The flow of information on risk

DISCLOSURE REQUIREMENTS COVERED: ART 435 (2) (e) CRR

The Bank collects information about the client based on client's obligatory to update and deliver information to the Bank (each time a new loan application is submitted and via client duties to regularly submit updated information), via various externally available information, but also based on the client's current business operations with the Bank. The collected data is, before use and entry into the operating system of the Bank, checked on several levels. This is to ensure adequate availability of information needed for efficient and prudent risk management of individual client, but also the portfolio as a whole.

Furthermore, all the information needed to successfully manage risk, effective management of risk-weighted assets and capital requirements are regularly filled in a central database that is used for risk management, and quality of that data is also regularly controlled. This ensures adequate, accurate, well structured, centralized and long-term database of information on the basis of which the Bank can monitor the status of the portfolio, a single client or a specific set of data on a certain day, as well as changes in the variables and the portfolio over time. This ensures centralized analysis, model development, uniform way of calculating the indicators and segmentation throughout the Bank and the Group.

The information is further transfer to management through regular reporting (predefined schedule and scope of the report) as well as *ad hoc* reporting on the risks that ensures the timely availability of high quality and accurate information to governing bodies to ensure adequate risk management and the Bank itself.

Data loss resulting from inadequate or failed internal processes, people and systems or from external events are located in a centralized database for the purpose of control and efficient management and reporting of operational risk. That ensures consistent tracking of historical data and operational risk management in accordance with the best practices.

Risk mitigation

The Bank has a strategy of accepting risk as well as policies that include risk monitoring procedures and guidelines for overcoming risks. Policies are regularly, but at least on an annual basis, updated and adapted to ensure appropriate risk alignment, capital levels and business performance.

As part of the overall risk management, the Bank uses derivatives and other financial instruments to manage exposure resulting from changes in interest rates, foreign exchange rates, equity risks, credit risks, and exposures arising from forward transactions.

The Bank actively uses collateral to reduce its credit risk.

1.2. RISK POLICY AND STRATEGY (CONTINUED)

Risk concentration

Risk concentration arises when changes in external factors may cause a significant number of clients of similar business activities or the same economic characteristics are unable to meet their contractual obligations to the Bank. Concentration shows sensitivity of achieving the Bank results towards development of events affecting a particular market segment. Risk is managed through avoiding excessive concentration of risk through specific guidelines to focus on maintaining a diversified portfolio.

Risk profile of the institution

A key function of each credit institution is risk-taking in a conscious and selective manner and professional managing. Proactive policy and risk strategy that is promoted by the Group aims to achieve a balance between risk and return in order to achieve adequate and sustainable return on equity.
The Group uses risk management and control system that is proactive and adapted to their own risk profile and business. It is based on a clear strategy that is consistent with the Group's business strategies and focuses on the early identification and management of risks and trends. Further, to achieve the internal objective of implementation of efficient and effective risk management, risk management and control system are designed to be compliant with external, especially regulatory requirements.

Group's aims at achieving balanced risk and return in order to generate a sustainable growth and adequate return on equity. Therefore the Group policy is to ensure that risks are assumed in the context of the bank’s business, recognized at an early stage and properly managed. This is achieved by fully integrating risk management into daily business activities, strategic planning and developing the business consistently with the defined risk appetite.

1.2. RISK POLICY AND STRATEGY (CONTINUED)

Risk management is governed by following principles:

1. Core risk management responsibilities embedded in Management Board & appropriately delegated to divisional committees to ensure execution and oversight; Supervisory Board regularly monitors risk profile
2. Risk management governance ensures full oversight of risk and sound execution of risk strategy incl. appropriate monitoring and escalation of issues materially impacting EBC group risk profile
3. Independent expert Risk functions with clear accountability for proactive management of material risks
4. Risk strategy defined based on EBC Group risk appetite statement and strategic guidelines to ensure full alignment of risk, capital and performance targets
5. Stress testing and concentration risk analysis conducted to ensure sound risk management in line with risk strategy & EBC Group RAS and holistic awareness of risks.
6. All material risks managed and reported in coordinated manner via risk management processes
7. Modelling and measurement approaches implemented for quantifying risk and capital demand (where applicable) and regular validation
8. Data and effective systems, processes and policies as critical component of risk management capability
9. Policy framework clearly defines key requirements related to creating, classifying, approving, implementing and maintaining policies across EBC Group

Due to the business strategy of the Group, the key risks for the Group are credit risk, market risk, liquidity risk and operational risk, as well as currency-induced credit risk. The Group focuses also on the management of macroeconomic risk and concentrations risk within risk types. The Group continually strives to improve existing methods and processes in all areas of risk management.

The 2015 was marked by a clear management strategy, which among other things, entailed an increase in the risk costs, and thus increase coverage. Furthermore, a key focus was also on the Revision of asset quality ("AQR") as well as the strengthening of risk management and ensure compliance with new regulatory requirements from European Central Bank ("ECB") and EBA with successful result by Group. Additionally, the emphasis was on strengthening managing of the risks and ensuring compliance with new regulatory requirements. The Bank uses the Internet as a medium for the publication of data according to Art. 434 CRR. Details are available on the website of Erste&Steiermärkische Bank d.d. where the Annual report for 2015 can be found in which the key data and ratios which provide a comprehensive overview of how the management of the Group's operations and risk management can be seen.

The Group defines risk strategy and risk appetite through the annual strategic planning process in order to have appropriate compliance of risk, capital and target values of profitability. Risk appetite is a strategic statement expressing the maximum level that the Group is willing to take in order to achieve a business objective. It consists of a series of key measures of risk appetite that provide a quantitative approach to risk management from which "top-down" limits are derived, creating a holistic view of the capital, financing and so called "risk-return trade offs" as well as qualitative statements in the form of business principles that form part of the strategic guidelines for risk management.

1.2. RISK POLICY AND STRATEGY (CONTINUED)

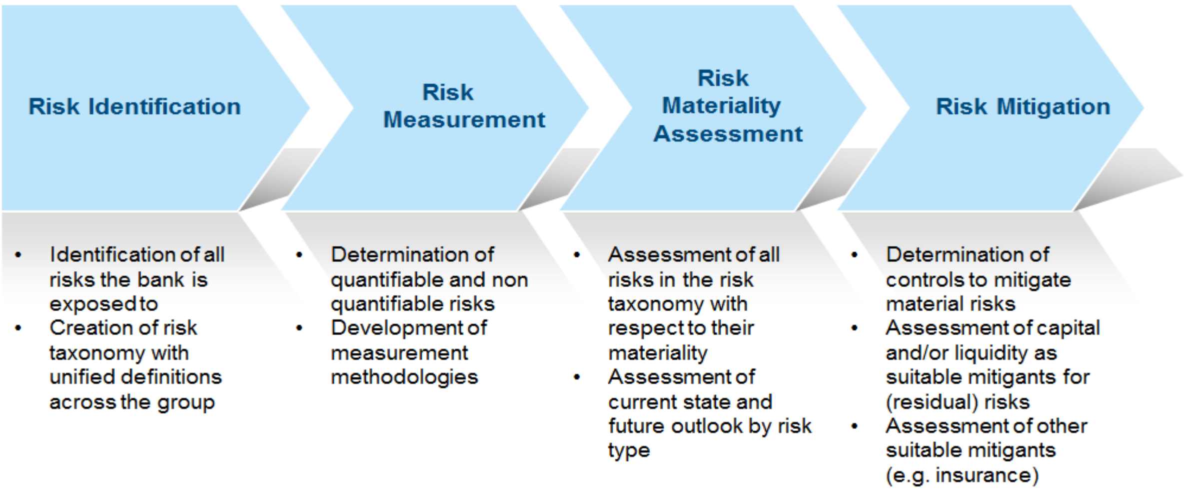
The key objective of the appetite for risk is:

- ensure that the Group at all times has sufficient funds to support operations and the submission of potential stress conditions as a result of certain market conditions,
- define the risk-taking limits while ensuring an adequate level of return and
- preservation and promotion of financial stability perception of the Group in the market and the robustness of its own systems and controls.

Key measures of risk appetite include basic indicators (e.g. capital adequacy, leverage ratio, etc.) as well as indicators for credit risk, including currency-induced credit risk, market, operational and liquidity risk. In order to ensure that the defined risk appetite is operationally efficient, indicators are classified as target values, limits or principles with the main differences mechanisms that are triggered in the event of exceeding a certain level.

As part of its risk strategy, the Bank analyses its actual risk profile and determines a target risk profile based on its strategic goals. The target risk profile is a result of the risk assessment process in combination with the boundaries set by the business strategy and the risk appetite framework.

The risk assessment process is outlined in the figure below:



The target value is basically carried out as part of the planning process, in which the final plan is aligned with defined objectives. Trigger levels within the risk appetite are defined in a way that takes into account the regulatory requirements and the basic expectations of sustainable financial profile, which may vary over time depending on market conditions, competition and investor expectations. A significant deviation from the target/limit triggers certain management actions in order to define a “cure“ plan within the next 12 months. To allow an effective overview of the risk appetite, regular checks and reports are performed for the senior management, which at all times have an insight into the current state of the level of risk taken. Business Principles which are defined within the risk appetite are applied *ex ante*, including qualitative strategic statements, and are implemented through strategies, guidelines, regulations and policies for risk management.

During 2015 the relevant risk appetite have evolved within defined limits, except risk costs that are mainly affected by the current market conditions as a result of the impact of CHF loan conversion into EUR denominated loans.

1.2. RISK POLICY AND STRATEGY (CONTINUED)

Internal Capital Adequacy

DISCLOSURE REQUIREMENTS COVERED: ART. 438 (a) CRR

Internal capital adequacy assessment process ("ICAAP") takes the risk materiality assessment as a basis in order to determine the necessity of calculating capital demand for certain risk types or not.

In addition to applying advanced methods for calculating capital requirements, ICAAP is also considering external factors and includes the results of the comprehensive stress test. New methods and calculation methodology are constantly considered. In order to improve the stress testing, the Bank seeks to carry out constant reviews of the scenarios and define new ones. The Bank seeks to take into consideration new products with the aim of identifying potential risks.

ICAAP is used to assess the capital adequacy of the Group, or coverage potential by comparing it with the accepted risk at the Group level. The objective of the ICAAP is a clear definition of such a level of capital that is sufficient to cover all risks to which the Group is exposed. The process of assessing capital adequacy is designed in such a way that the Management and Supervisory Board at any time are able to assess all the risks to which the Group is or might be exposed.

By determining the coverage potential the Group indirectly sets the maximum level of risk that is willing to accept, and consequently, actively manages its risks. Through ICAAP apart adequacy assessment internal capital planning is carried out. Planning of internal capital also ensures maintaining its capital levels that can fully support the factors such as the expected growth in loans, future funding sources and their usage, dividend policy and changes in the minimum amount of regulatory capital.

The framework of internal capital adequacy assessment reflects the risk strategy and limits set where ICAAP serves as a comprehensive management model.

The Group adheres to the basic principles in the assessment of internal capital adequacy reflecting expectations of the regulator taking into account the principles of good business practice:

1. a process of internal capital adequacy assessment is established with the level of capital in accordance with the risk profile of the Group,
2. the Management Board is responsible for establishing the ICAAP on overall Group level,
3. ICAAP is prescribed in detail with management functions (Management Board and Supervisory Board) taking responsibility for the results and the implementation of actions in accordance with them,
4. ICAAP is an integral part of the Group management,
5. regular review of the ICAAP process ,
6. ICAAP is comprehensive and based on the risks taken,
7. in the assessment of internal capital adequacy, future trends are also taken into account,
8. ICAAP is based on adequate measurement and risk assessment methods,
9. the result of the internal capital adequacy assessment must be reasonable and in accordance with the risks taken,
10. the results of assessment of internal capital adequacy are taken into consideration during the planning and budgeting process as well as in creating of a business strategy of the Group.

1.2. RISK POLICY AND STRATEGY (CONTINUED)

The process consists of the quantification of risk-taking capacity (the sum of all material risks) in relation to the capital coverage potential. Total eligible amount of risk-taking in relation to the internal capital represents the economic capital adequacy. The result of this is analyzed within the Risk Management Division, and the results are reported to the Management Board and the Asset and Liability Committee ("ALCO") as part of the quarterly ICAAP report and in case of over-utilization, in accordance with the "traffic lights" system, specific actions are proposed, i.e. undertaken to reduce risk exposure or increase internal capital. As for the risk materiality assessment, all risk types to which the Group is exposed are considered, i.e., all the risks that exist in the processes and systems of the Group on the portfolio and product level. Risks taken are divided into significant requiring a capital coverage and risks that do not need a capital coverage or risks that do not require capital protection as they are assessed as immaterial or managed in a different way (e.g. through stress testing or through a risk control system). Identification of all risk types and determining their exposure value is based on a comprehensive risk assessment, according to individual operations, products and activities.

The Group continually assesses the risk profile and regularly revises the ICAAP process, at the same time developing methodologies for the assessment of other risk types in order to establish, i.e. improve the efficiency of the risk management on the Group level.

2. SCOPE OF CONSOLIDATION

Regulatory Scope of Consolidation

In the following pages the Group fulfills the disclosure requirements according to CRR, in detail articles 436 (b) – (e) CRR and articles 437 (1) (a) – (f) CRR.

Regulatory Requirements

Since 1 January 2014, the Group has been calculating the regulatory capital and the regulatory capital requirements according to Basel III. The requirements were implemented within the EU by the CRR and the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 ("CRD IV") that were enacted in national law in Croatian Credit institutions Act ("ZOKI"), as well as within various technical standards issued by the European Banking Authority ("EBA").
All requirements as defined in the CRR, ZOKI and the aforementioned technical standards are fully applied by the Group for regulatory purposes and for the disclosure of regulatory information.

Accounting Principles

The financial and regulatory figures published by the Group are based on International financial reporting standards ("IFRS"). Eligible capital components derive from the Statement of financial position and Statement of profit or loss which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scope of consolidation (for details see the following chapter "Comparison of consolidation for accounting purposes and regulatory purposes") and for items where the regulatory treatment is not equal to the accounting requirements.
The uniform closing date of the consolidated financial statements and consolidated regulatory figures of the Group is the 31 December of each respective year.

Comparison of consolidation for accounting purposes and regulatory purposes

DISCLOSURE REQUIREMENTS COVERED: ART. 436 (b) CRR

Scope of Consolidation

Details regarding the accounting scope of consolidation are disclosed in chapter B "Significant accounting policies" especially under section b) "Basis of consolidation" of Annual report.
The regulatory scope of consolidation is used as a synonym for the scope of consolidation that follows the regulatory requirements for consolidation as defined by the CRR and Croatian national bank ("CNB") which introduces the requirements of the CRD IV into national law.

Regulatory scope of consolidation

The regulatory scope of consolidation is defined in Part One, Title II, Chapter 2 Section 3 of the CRR.
The definition of entities to be consolidated for regulatory purposes are mainly defined in articles 4 (1) (3) and (16) to (27) CRR in conjunction with the articles 18 and 19 CRR. Based on the relevant sections in article 4 CRR, entities to be consolidated are determined based on the business activity of the relevant entities.

2. SCOPE OF CONSOLIDATION (CONTINUED)

Main differences between the accounting scope and the regulatory scope based on the different requirements as defined within IFRS and CRR:

- based on the CRR, mainly credit institutions pursuant to article 4 (1) (1) CRR, investment firms pursuant to article 4 (1) (2) CRR, ancillary services undertakings pursuant to article 4 (1) (18) CRR and financial institutions pursuant to article 4 (1) (26) CRR have to be considered within the regulatory scope of consolidation. Under IFRS all other entities not required to be consolidated under CRR, such as insurance undertakings, must be included in the accounting scope of consolidation.
- exclusion of entities from the regulatory scope of consolidation can be applied based on article 19 CRR. According to article 19 (1) CRR, entities can be excluded from the regulatory scope if their total assets and off balance sheet items are less than the lower amount of either EUR 10 million or 1% of total assets and off balance sheet items of the parent company. The Group makes use of article 19 (1) CRR.
- according to article 19 (2) CRR, entities can also be excluded if the limits defined in article 19 (1) CRR are exceeded, but are not relevant for regulatory purposes. Exclusion of entities based on article 19 (2) CRR needs prior approval of the competent authorities. For entities that exceed the limits as defined in article 19 (1) CRR by insignificant amounts, the Group makes use of article 19 (2) CRR and follows the requirements for the approval process as defined within this article. The Group does not apply article 19 (2) CRR for credit institutions and investment firms.

Consolidation methods

For the calculation of consolidated own funds, the Group generally applies the same consolidation methods as used for accounting purposes.

Consideration of consolidation methods for the calculation of consolidated own funds pursuant to the CRR

The amounts used for the calculation of the own funds derive from the Statement of financial position according to IFRS. The amounts that are used as the basis for calculation of own funds are recalculated based on the definition of the regulatory scope of consolidation pursuant to the CRR. The difference between the IFRS Statement of financial position and the regulatory Statement of financial position is the difference in the scope of consolidation as shown under title “Statement of financial position reconciliation”.

Consideration of non-consolidated financial sector entities and deferred tax assets that rely on future profitability arising from temporary differences within the calculation of consolidated Common Equity Tier 1 of the Group

Carrying amounts representing the investments in financial sector entities as defined in article 4 (27) CRR that are not fully consolidated or considered by using the at equity consolidation method for regulatory purposes have to be deducted from the own funds based on the requirements as defined in articles 36 (1) (h), 45 and 46 CRR for non-significant investments and articles 36 (1) (i), 43, 45, 47 and 48 CRR for significant investments.

2. SCOPE OF CONSOLIDATION (CONTINUED)

For these purposes, non-significant investments are defined as investments in financial sector entities in which the participation is equal to or less than 10% of Common Equity Tier 1 (“CET1”) of the relevant financial sector entities, while significant investments are defined as investments that are above 10% of the CET1 of the relevant financial sector entities. To determine the participation in the relevant financial sector entities, these participations are calculated based on the direct, indirect and synthetic holdings in the relevant entities. According to article 46 (1) (a) CRR, holdings in non-significant investments have to be deducted only if the total amount for such investments, including Additional Tier 1 (“AT1”) items according to article 56 (c) and 59 CRR and Tier 2 items according to article 66 (c) and 70 CRR, exceeds a defined threshold of 10% in relation to CET1 of the reporting institution. Deduction shall be applied to the amount that exceeds the 10% threshold. Amounts that are equal to or less than 10% of the CET1 of the reporting institution are applied with the appropriate risk weights according Part 3, Title II, Chapter 2 respectively Chapter 3 and if necessary according to the requirements of Part 3, Title IV within the risk weighted assets based on the requirements according to article 46 (4) CRR.

For the deduction of significant investments in the CET1 of financial sector entities, a threshold is defined in article 48 (2) CRR. According to article 48 (2) CRR, significant investments in the CET1 of financial sector entities have only to be deducted if they exceed 10% of the CET1 of the reporting institution. If 10% threshold is exceeded, the deduction is limited to the amount by which the defined threshold is exceeded. The remaining amount has to be considered within the calculation of the risk weighted assets (“RWA”). The risk weight (“RW“) is defined at 250% according to article 48 (4) CRR.
In addition to the aforementioned threshold, a combined threshold for the deduction of significant investments according to article 36 (1) (i) CRR and for deferred tax assets that rely on future profitability and arise from temporary differences according to article 36 (1) (c) CRR as well as according to article 38 CRR is defined in article 48 (2) CRR. The combined threshold according to article 48 (2) CRR is defined at 17.65% of the CET1 of the reporting institution. If the threshold is exceeded, the exceeding amount has to be deducted from the CET1 of the reporting institution. The remaining amount has to be considered within the RWAs according to article 48 (3) CRR. A 250% RW shall be applied for the amount not exceeding the 17.65% threshold according to article 48 (4) CRR.

Beside the 17.65% combined threshold, a 10% threshold related to the CET1 capital of the reporting institution is applied for deferred tax assets that rely on future profitability and arising from temporary differences according to article 48 (3) CRR. In case the amount of deferred tax assets that rely on future profitability and which arise from temporary differences exceeds the threshold of 10% of CET1 of the reporting institution the exceeding amount has to be deducted from the CET1 of the reporting institution. The amount that is equal to or less than the threshold as defined in article 48 (3) CRR has to be considered within the calculation of RWAs with a 250% RW according to article 48 (4) CRR.

At the reporting date, the Group did not exceed any of the aforementioned thresholds.

2. SCOPE OF CONSOLIDATION (CONTINUED)

Threshold calculations according to articles 46 and 48 CRR

in HRK million	2015
Non-significant investments in financial sector entities	
Threshold (10% of CET1)	631
Holdings in CET1	(3)
Distance to threshold	**628**
Significant investments in financial sector entities	
Threshold (10% of CET1)	631
Holdings in CET1	(2)
Distance to threshold	**629**
Deferred tax assets	
Threshold (10% of CET1)	631
Deferred tax assets dependent on future profitability and arises from temporary differences	(271)
Distance to threshold	**360**
Combined threshold for deferred tax assets and significant investments	
Threshold (17.65% of CET1)*	947
Deferred tax assets dependent on future profitability and arises from temporary differences and CET1 instruments of financial sector entities where the institution has a significant investment	(273)
Distance to threshold	**674**

*In transition period (from 1 January 2014 until 31 December 2017) threshold percentage is 15% in accordance with article 470 CRR.

Presentation of the scope of consolidation

Entities within the different scopes of consolidation

	2015				
	IFRS Full	**IFRS Equity**	**CRR Full**	**CRR Proportional**	**CRR De Minimis**
Credit institutions:					
Erste bank a.d. Podgorica, Montenegro	x	-	x	-	-
Financial institutions, financial holding companies and mixed financial holding companies:					
Erste & Steiermärkische S-Leasing d.o.o.	x	-	x	-	-
Erste Card d.o.o., Slovenia	x	-	x	-	-
Erste Factoring d.o.o. za factoring	x	-	x	-	-
ERSTE CARD CLUB d.o.o. za financijsko posredovanje i usluge	x	-	-	-	-
Ancillary service undertakings, investment firms and asset management companies:					
Erste nekretnine d.o.o.	x	-	-	-	x
S Immorent Zeta d.o.o.	-	x	-	-	x
S IT Solutions HR d.o.o	-	x	-	-	x
Other companies					
Immokor Buzin d.o.o.	-	x	-	-	-
Erste d.o.o. društvo za upravljanje obveznim mirovinskim fondom	-	x	-	-	-

2. SCOPE OF CONSOLIDATION (CONTINUED)

Changes within the fully consolidated entities within the regulatory scope of consolidation

During 2015 there were changes in regulatory scope of fully consolidated entities. As of 1 January 2015, the Bank merged 100% owned company, Erste Delta d.o.o., whose major item in the Statement of financial position was a property in Zagreb in amount of HRK 216 million. Second change refers to Erste nekretnine d.o.o. that was deconsolidated in second half of the year 2015. For regulatory scope of consolidation the reason for deconsolidation was the decrease of total assets below minimum requirements set by article 19 (1) CRR.

Impediments to the transfer of own funds

DISCLOSURE REQUIREMENTS COVERED: ART. 436 (c) CRR

Currently there are no restrictions or significant impediments to the transfer of financial funds or regulatory capital within the group of credit institutions. Further details can be found in chapter B “Significant accounting policies” within Annual report.

Total capital shortfall of all subsidiaries not included in the consolidation

DISCLOSURE REQUIREMENTS COVERED: ART. 436 (d) (e) CRR

As of 31 December 2015, there was no capital shortfall at any of the companies of the Group not included in consolidation.

3. OWN FUNDS

Own funds according to Basel III consists of Common equity Tier 1 (“CET 1“), Additional Tier 1 capital (“AT 1“) and Tier 2 capital (“T2“). According to article 92 CRR credit institutions are required to fulfill following requirements; CET 1 capital ratio in amount of 4.5%, Tier 1 capital ratio in amount of 6% and total capital ratio in amount of 8%. Except regulatory minimum ratios, the Group is obliged to cover capital buffers in amount of 2.5%.

Own funds of the Group consists of CET 1 and Tier 2. For disclosure purposes the Group follows article 437 CRR and requirements defined in Commission implementing Regulation (EU) No 1423/2013.

Above mentioned Regulation request to disclose following information:

- fully adjusted own funds with audited financial statements according to articles 32 - 35, 36, 56, 66, and 79 CRR (Note 3.1.),
- description of the main features of the CET 1, Additional Tier 1 and Tier 2 issued by the institutions according to articles 437 (1) (b) CRR (Note 4.1.),
- all conditions of CET 1 instruments, Additional Tier 1 and Tier 2 issued by institution (Note 4.1.),
- disclosure of types and amounts of own funds items during transitional period according to templates from EBA (Note 3.1.).

3. OWN FUNDS (CONTINUED)

Statement of financial position reconciliation

DISCLOSURE REQUIREMENTS COVERED: ART. 437 (1) (a) CRR

The table below represents the difference between the accounting scope of consolidation and the regulatory scope of consolidation

			2015
in HRK million	IFRS	effects - scope of consolidation	CRR
Assets			
Cash and cash equivalents	5,299	-	5,299
Financial assets - held for trading	233	-	233
Derivatives	61	-	61
Other trading assets	172	-	172
Financial assets - available for sale	6,824	-	6,824
Financial assets - held to maturity	1,432	-	1,432
Loans to and receivables from credit institutions	5,441	-	5,441
Loans to and receivables from customers	46,159	-	46,159
Property and equipment	1,221	-	1,221
Investment properties	20	-	20
Intangible assets	409	-	409
Investments in associates and joint ventures	61	(23)	38
Current tax assets	100	-	100
Deferred tax assets	415	-	415
Other assets	617	-	617
Total assets	**68,231**	**(23)**	**68,208**
Liabilities and equity			
Financial liabilities - held for trading	103	-	103
Derivatives	103	-	103
Financial liabilities measured at amortised costs	59,234	3	59,237
Deposits from banks	16,174	-	16,174
Deposits from customers	41,445	3	41,448
Debt securities issued	931	-	931
Other financial liabilities	684	-	684
Provisions	1,169	-	1,169
Current tax liabilities	5	-	5
Deferred tax liabilities	1	-	1
Other liabilities	608	-	608
Total liabilities	**61,120**	**3**	**61,123**
Total equity	**7,111**	**(26)**	**7,085**
Equity - attributable to non-controlling interests	201	-	201
Equity - attributable to owners of the parent	6,910	(26)	6,884
Total liabilities and equity	**68,231**	**(23)**	**68,208**

The differences between IFRS financial statements and financial statements in accordance with CRR scope of consolidation refers to the scope of companies included in mentioned balances. On position “Investments in associates and joint ventures” difference in the amount of HRK 23 million refers to investment in associates together with investment in Erste nekretnine d.o.o. that is not included in CRR scope of consolidation.

The same amount effects total equity through position “Retained earning” and “Loss for the year”. Details are shown in table “Total equity”.

Further details regarding the number of entities within the different scopes of consolidation are disclosed in table “Presentation of the scope of consolidation”.

3. OWN FUNDS (CONTINUED)

Total equity

in HRK million	IFRS	effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
						2015
Subscribed capital	1,698	-	1,698	-	1,698	a
Capital reserves	1,887	-	1,801	-	1,801	b
Capital instruments and the related share premium accounts	-	-	86	-	86	c
Retained earnings	3,847	(22)	3,825	(8)	3,817	d
Loss for the year	(816)	(3)	(819)	-	(819)	e
Other comprehensive income (OCI)	294	(1)	293	-	293	c
Available for sale reserve	366	-	366	-	366	
unrealized gains according to Art. 35 CRR	387	-	387	-	387	f
unrealized losses according to Art. 35 CRR	(21)	-	(21)	-	(21)	
Currency translation	3	-	3	-	3	
Deferred tax	(73)	-	(73)	-	(73)	
Other	(2)	-	(2)		(2)	
Equity attributable to owners of the parent	6,910	(26)	6,884	-	6,876	
Equity attributable to non-controlling interests	201	(201)	-	-	-	
Total equity	**7,111**	**(227)**	**6,884**	**(8)**	**6,876**	

Regulatory adjustments in the amount of HRK 8 million refer to retained earnings from Erste Delta d.o.o. that was merged with the Bank and at the time of the issue of Annual report this was not approved by General Assembly of the Bank to be eligible for inclusion within Own funds.

Further details regarding the development of IFRS equity are disclosed within Part III “Statement of Changes in Equity”.

Intangible assets

in HRK million	IFRS	effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
						2015
Intangible assets	**409**	**-**	**409**	**-**	**409**	
100% deductible from CET 1 acc. to transitional provisions	409	-	409	-	409	g

Details regarding the development of intangible assets are disclosed under Note 21 “Intangible assets”.

3. OWN FUNDS (CONTINUED)

Deferred Taxes

in HRK million	IFRS	effects - scope of consolidation	Own Funds	2015 Own funds disclosure table - reference
Deferred tax assets	**415**	**-**	**415**	
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	145	-	145	h
Deferred tax assets that rely on future profitability and arise from temporary differences	270	-	270	

Based on the threshold definition according to article 48 CRR deferred tax assets that rely on future profitability and arise from temporary differences are not deductible for the Group at year end 2015. In accordance with article 48 (4) CRR the non-deductible amount is risk weighted with 250% and considered within the credit risk. Deferred tax assets that rely on future profitability but do not arise from temporary differences are not subject to any threshold (i.e. are completely deducted from CET1).
Details regarding deferred tax assets are disclosed under Note 22 “Tax assets and liabilities”.

Subordinated liabilities

in HRK million	IFRS	effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	2015 Own funds disclosure table - reference
Tier 2 capital instruments	**1,072**	**-**	**1,072**	**(444)**	**1,258**	**i**
Subordinated loan	1,073	-	1,073	(4)	1,069	
Subordinated issues	629	-	629	(440)	189	

Details regarding subordinated liabilities are disclosed under Note 24 “Financial liabilities measured at amortised costs”.

Transitional provisions

The transitional provisions which are applied by the Group are based on the CNB’s decision on implementing standard of CRR.

3.1. OWN FUNDS DISCLOSURE

DISCLOSURE REQUIREMENTS COVERED: ART. 437 (1) (d) (e) CRR

The Group does not consider Art. 437 (1) (f) CRR for the calculation of consolidated own funds.

The table below presents the composition of the regulatory capital during the transitional period based on the Implementing Technical Standards on the disclosure of own funds published in the Official Journal of the EU. In column (A) is disclosed current amount, which considers all the transitional requirements, is disclosed. Column (C) discloses the residual amount, implying full CRR implementation. Column (D) provides reference on comparable figures related to IFRS equity, intangible assets, deferred tax assets and subordinated liabilities.

3.1. OWN FUNDS DISCLOSURE (CONTINUED)

in HRK million	(A) 2015	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
Common equity tier 1 (CET1) capital: instruments and reserves				
1 Capital instruments and the related share premium accounts	3,499	26 (1), 27, 28, 29, 26 (3)		
1a Ordinary shares	1,698	26 (3)		a
1b Share premium	1,801	26 (3)		b
2 Retained earnings	3,817	26 (1) (c)		d
3 Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	379	26 (1)		c
3a Fund for general banking risk	-	26 (1) (f)		
4 Amount of qualifying items referred to in article 484 (3) and the related share premium accounts subject to phase out from CET1	-	486 (2)		
Public sector capital injections grandfathered until 1 January 2018	-	483 (2)		
5 Minority Interests (amount allowed in consolidated CET1)	-	84, 479, 480		
5a Independently reviewed interim profits net of any foreseeable charge or dividend	(819)	26 (2)		e
6 CET1 capital before regulatory adjustments	**6,876**			
Common Equity Tier 1 (CET 1) capital: regulatory adjustments				
7 Additional value adjustments (negative amount)	(7)	34, 105		
8 Intangible assets (net of related tax liability) (negative amount)	(409)	36 (1) (b), 37, 472 (4)		g
9 Empty set in the EU	-			
10 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in article 38 (3) are met) (negative amount)	(145)	36 (1) (c), 38, 472 (5)		h
11 Fair value reserves related to gains or losses on cash flow hedges	-	33 (a)		
12 Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159, 472 (6)		
13 Any increase in equity that results from securitised assets (negative amount)	-	32 (1)		
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	33 (b)		
15 Defined benefit pension fund assets (negative amount)	-	36 (1) (e), 41, 472 (7)		
16 Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42, 472 (8)		
17 Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36 (1) (g), 44, 472 (9)		
18 Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)		
19 Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)		
20 Empty set in the EU	-			
20a Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	36 (1) (k)		
20b of which: qualifying holdings outside the financial sector (negative amount)	-	36 (1) (k) (i), 89 to 91		
20c of which: securitisation positions (negative amount)	-	36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258		
20d of which: free deliveries (negative amount)	-	36 (1) (k) (iii), 379 (3)		
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)		

The table is continued on the next page.

3.1. OWN FUNDS DISCLOSURE (CONTINUED)

in HRK million	(A) 2015	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
22 Amount exceeding the 15% threshold (negative amount)	-	48 (1)		
23 of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36 (1) (i), 48 (1) (b), 470, 472 (11)		
24 Empty set in the EU	-			
25 of which: deferred tax assets arising from temporary differences	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)		
25a Losses for the current financial year (negative amount)	-	36 (1) (a), 472 (3)		
25b Foreseeable tax charges relating to CET1 items (negative amount)	-	36 (1) (l)		
26 Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-			
26a Regulatory adjustments relating to unrealised gains and losses pursuant to articles 467 and 468	-			
of which: unrealised losses	-	467		
of which: unrealised gains	(387)	468		f
26b Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-	481		
27 Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	36 (1) (j)		
28 Total regulatory adjustments to Common equity Tier 1 (CET1)	**(948)**			
29 Common equity Tier 1 (CET1) capital	**5,928**			
Additional Tier 1 (AT1) capital: Instruments	**-**			
30 Capital instruments and the related share premium accounts	-	51, 52		
31 of which: classified as equity under applicable accounting standards	-			
32 of which: classified as liabilities under applicable accounting standards	-			
33 Amount of qualifying items referred to in article 484 (4) and the related share premium accounts subject to phase out from AT1	-	486 (3)		
Public sector capital injections grandfathered until 1 January 2018	-	483 (3)		
34 Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	-	85, 86, 480		
35 of which: instruments issued by subsidiaries subject to phase out	-	486 (3)		
36 Additional Tier 1 (AT1) capital before regulatory adjustments	**-**			
Additional Tier 1 (AT1) capital: regulatory adjustments				
37 Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52 (1) (b), 56 (a), 57, 475 (2)		
38 Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	56 (b), 58, 475 (3)		
39 Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (c), 59, 60, 79, 475 (4)		
40 Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (d), 59, 79, 475 (4)		

The table is continued on the next page.

3.1. OWN FUNDS DISCLOSURE (CONTINUED)

in HRK million	(A) 2015	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
41 Regulatory adjustments applied to AT1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (ie. CRR residual amounts)	-			
41a Residual amounts deducted from AT1 capital with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)		
Interim loss	-			
Shortfall of provisions to expected loss	-			
41b Residual amounts deducted from AT1 with regard to deduction from T2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	477, 477 (3), 477 (4) (a)		
reciprocal cross holdings in T2 instruments	-			
direct holdings of non-significant investments in the capital of other financial sector entities	-			
41c Amount to be deducted from or added to AT1 with regard to additional filters and deductions required pre- CRR	-	467, 468, 481		
possible filter to unrealised losses	-	467		
possible filter to unrealised gains	-	468		
42 Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)		
43 Total regulatory adjustments to Additional tier 1 (AT1) capital	**-**			
44 Additional Tier 1 (AT1) capital	**-**			
45 Tier 1 capital (T1 = CET1 + AT1)	**5,928**			
Tier 2 (T2) capital: Instruments and provisions	-			
46 Capital instruments and the related share premium accounts	1,258	62, 63		i
47 Amount of qualifying items referred to in article 484 (5) and the related share premium accounts subject to phase out from T2	-	486 (4)		
Public sector capital injections grandfathered until 1 January 2018	-	483 (4)		
48 Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	87, 88, 480		
49 of which: instruments issued by subsidiaries subject to phase-out	-	486 (4)		
50 Credit risk adjustments	165	62 (c) (d)		
51 Tier 2 (T2) capital before regulatory adjustment	**1,423**			
T2 capital: regulatory adjustments	-			
52 Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63 (b) (i), 66 (a), 67, 477 (2)		
53 Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	-	66 (b), 68, 477 (3)		
54 Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70, 79, 477 (4)		
54a of which: new holdings not subject to transitional arrangements	-			
54b of which: holdings existing before 1 January 2013 and subject to transitional arrangements	-			
55 Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	-	66 (d), 69, 79, 477 (4)		
56 Regulatory adjustments applied to T2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-			

The table is continued on the next page.

3.1. OWN FUNDS DISCLOSURE (CONTINUED)

in HRK million	(A) 2015	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
56a Residual amounts deducted from T2 with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)		
Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc.	-			
56b Residual amounts deducted from T2 with regard to deduction from AT1 during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	475, 475 (2) (a), 475 (3), 475 (4) (a)		
of which: reciprocal cross holdings in T1 instruments	-			
of which: direct holdings of non-significant investments in the capital of other financial sector entities	-			
56c Amounts to be deducted from or added to T2 with regard to additional filters and deductions required pre- CRR	-	467, 468, 481		
of which: possible filter to unrealised losses	-	467		
of which: possible filter to unrealised gains	-	468		
57 Total regulatory adjustments to Tier 2 (T2) capital	**-**			
58 Tier 2 (T2) capital	**1,423**			
59 Total capital (TC = T1 + T2)	**7,351**			
59a Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	44,274			
of which: items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	-	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)		
of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	-	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)		
Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	-	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)		
60 Total risk-weighted assets	**44,274**			
Capital ratios and buffers	-			
61 Common Equity Tier 1 (as a percentage of total risk exposure amount)	13.39%	92 (2) (a), 465		
62 Tier 1 (as a percentage of total risk exposure amount)	13.39%	92 (2) (b), 465		
63 Total capital (as a percentage of total risk exposure amount	16.60%	92 (2) (c)		
64 Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	10.00%	CRD 128, 129, 130		
65 of which: capital conservation buffer requirement	2.50%			
66 of which: countercyclical buffer requirement	-			
67 of which: systemic risk buffer requirement	3.00%			
67a of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	CRD 131		
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	5.50%	CRD 128		

The table is continued on the next page.

3.1. OWN FUNDS DISCLOSURE (CONTINUED)

in HRK million	(A) 2015	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
69 [non-relevant in EU regulation]	-			
70 [non-relevant in EU regulation]	-			
71 [non-relevant in EU regulation]	-			
Capital ratios and buffers	-			
72 Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	3	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)		
73 Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	2	36 (1) (i), 45, 48, 470, 472 (11)		
74 Empty set in the EU	-			
75 Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in article 38 (3) are met)	-	36 (1) (c), 38, 48, 470, 472 (5)		
Applicable caps on the inclusion of provisions in Tier 2	-			
76 Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	62		
77 Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62		
78 Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	165	62		
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	27,514	62		
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	-			
80 Current cap on CET1 instruments subject to phase-out arrangements	-	484 (3), 486 (2) & (5)		
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) & (5)		
82 Current cap on AT1 instruments subject to phase-out arrangements	-	484 (4), 486 (3) & (5)		
83 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3) & (5)		
84 Current cap on T2 instruments subject to phase-out arrangements	-	484 (5), 486 (4) & (5)		
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5), 486 (4) & (5)		

4. CAPITAL REQUIREMENTS

DISCLOSURE REQUIREMENTS COVERED: ART. 438 CRR

The total amount of capital requirements are measured in relation to regulatory capital. The amounts of capital have to be sufficient to cover the minimum capital requirements. The following capital requirements arise from credit risk, market risk and operational risk. Regulatory capital for the entire reporting period was sufficient.

Capital requirements by risk types	in HRK million
TOTAL CAPITAL REQUIREMENTS	**3,542**
1. CAPITAL REQUIREMENTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	**3,054**
Standardised approach	**852**
SA exposure classes excluding securitisation positions	852
1. Central governments or central banks	132
2. Regional governments or local authorities	58
3. Public sector entities	11
4. Multilateral Development Banks	-
5. International Organisations	-
6. Institutions	25
7. Corporates	318
8. Retail	201
9. Secured by mortgages on immovable property	19
10. Exposures in default	18
11. Items associated with particular high risk	-
12. Covered bonds	-
13. Claims on institutions and corporates with a short-term credit assessment	-
14. Collective investments undertakings (CIU)	11
15. Equity	1
16. Other items	58
Securitisation positions SA	-
of which: resecuritisation	-
IRB approach	**2,202**
IRB approaches when neither own estimates of LGD nor Conversion Factors are used	*1,486*
1. Central governments and central banks	419
2. Institutions	47
3. Corporates - SME	600
4. Corporates - Specialised Lending	94
5. Corporates - Other	326
IRB approaches when own estimates of LGD and/or Conversion Factors are used	*567*
1. Central governments and central banks	-
2. Institutions	-
3. Corporates - SME	-
4. Corporates - Specialised Lending	-
5. Corporates - Other	-
6. Retail - Secured by real estate SME	32
7. Retail - Secured by real estate non-SME	236
8. Retail - Qualifying revolving	-
9. Retail - Other SME	20
10. Retail - Other non-SME	279
Equity IRB	60
Securitisation positions IRB	-
of which: resecuritisation	-
Other non credit obligation assets	89
Capital requirements for contributions to the default fund of a CCP	**-**

4. CAPITAL REQUIREMENT (CONTINUED)

Capital requirements by risk types	in HRK million
2. TOTAL CAPITAL REQUIREMENTS FOR SETTLEMENT/DELIVERY	**-**
Settlement/delivery risk in the non-Trading book	-
Settlement/delivery risk in the Trading book	-
3. TOTAL CAPITAL REQUIREMENTS FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	**20**
Risk exposure amount for position, foreign exchange and commodities risks under standardised approaches (SA)	20
Traded debt instruments	5
Equity	-
Foreign Exchange	15
Commodities	-
Risk exposure amount for position, foreign exchange and commodities risks under internal models	-
4. TOTAL CAPITAL REQUIREMENTS FOR OPERATIONAL RISK	**457**
Basic indicator approach	153
Standardised / Alternative Standardised approaches	304
Advanced measurement approaches	-
5. ADDITIONAL CAPITAL REQUIREMENTS DUE TO FIXED OVERHEADS	**-**
6. TOTAL CAPITAL REQUIREMENTS FOR CREDIT VALUATION ADJUSTMENT	**11**
Advanced method	-
Standardised method	11
Based on original exposure method	-
7. TOTAL CAPITAL REQUIREMENTS RELATED TO LARGE EXPOSURES IN THE TRADING BOOK	**-**
8. OTHER CAPITAL REQUIREMENTS	**-**
of which: Additional stricter prudential requirements based on art. 458	-
of which: requirements for large exposures	-
of which: due to modified risk weights for targeting asset bubbles in the residential and commercial property	-
of which: due to intra financial sector exposures	-
of which: Additional stricter prudential requirements based on art. 459	-
of which: Additional risk exposure amount due to article 3 CRR	-

4.1. CAPITAL INSTRUMENTS' MAIN FEATURES

DISCLOSURE REQUIREMENTS COVERED: ART. 437 (1) (b) CRR

		Common Equity Tier 1 instruments
1.	Issuer	Erste&Steiermärkische Bank d.d.
2.	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	HRRIBARA0001
3.	Governing law(s) of the instrument	Art.167. and 169. Company law
	Regulatory treatment	
4.	Transitional CRR rules	Common Equity Tier 1
5.	Post-transitional CRR rules	Common Equity Tier 1
6.	Eligible at solo/(sub-) consolidated/ solo & (sub-) consolidated	solo and consolidated
7.	Instrument type (types to be specified by each jurisdiction)	ordinary shares
8.	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	1,698 HRK
9.	Nominal amount of instrument	1,698,417,500.00 HRK
9.a	Issue price	100.00 HRK
9.b	Redemption price	N/A
10.	Accounting classification	shareholders' equity
11.	Original date of issuance	20 November 1954
12.	Perpetual or dated	no maturity
13.	Original maturity date	no maturity
14.	Issuer call subject to prior supervisory approval	no
15.	Optional call date, contingent call dates and redemption amount	N/A
16.	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17.	Fixed or floating dividend/ coupon	floating
18.	Coupon rate and any related index	N/A
19.	Existence of a dividend stopper	No
20.a	Fully discretionary, partially discretionary or mandatory (in terms of timings)	fully discretionary
20.b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	fully discretionary
21.	Existence of step up or other incentive to redeem	No
22.	Noncumulative or cumulative	noncumulative
23.	Convertible or non-convertible	nonconvertible
24.	If convertible, conversion trigger(s)	N/A
25.	If convertible, fully or partially	N/A
26.	If convertible, conversion rate	N/A
27.	If convertible, mandatory or optional conversion	N/A
28.	If convertible, specify instrument type convertible into	N/A
29.	If convertible, specify issuer of instrument it converts into	N/A
30.	Write-down features	no
31.	If write-down, write-down triggers(s)	N/A
32.	If write-down, full or partial	N/A
33.	If write-down, permanent or temporary	N/A
34.	If temporary write-down, description of write-up mechanism	N/A
35.	Position in subordinated hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36.	Non-compliant transitioned features	no
37.	If yes, specify non-compliant features	N/A

“N/A“ not applicable

4.1. CAPITAL INSTRUMENTS' MAIN FEATURES (CONTINUED)

		Tier 2 Capital instruments			
1.	Issuer	Erste& Steiermärkische Bank d.d.	Erste& Steiermärkische Bank d.d.	Erste& Steiermärkische Bank d.d.	Erste& Steiermärkische Bank d.d.
2.	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	HRRIBAO177A1	subordinated loan	subordinated loan	subordinated loan
3.	Governing law(s) of the instrument	Capital Market Act	Croatian law	Croatian law	Croatian law
	Regulatory treatment				
4.	Transitional CRR rules	Tier 2 instrument	Tier 2 instrument	Tier 2 instrument	Tier 2 instrument
5.	Post-transitional CRR rules	Tier 2 instrument	Tier 2 instrument	Tier 2 instrument	Tier 2 instrument
6.	Eligible at solo/(sub-) consolidated/ solo & (sub-) consolidated	solo and consolidated	solo and consolidated	solo and consolidated	solo and consolidated
7.	Instrument type (types to be specified by each jurisdiction)	bonds	subordinated loan	subordinated loan	subordinated loan
8.	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	189 HRK	229 HRK	229 HRK	613 HRK
9.	Nominal amount of instrument	80,000,000.00 EUR	30,000,000.00 EUR	30,000,000.00 EUR	80,000,000.00 EUR
9.a	Issue price	100%	N/A	N/A	N/A
9.b	Redemption price	N/A	N/A	N/A	N/A
10.	Accounting classification	liability - amortised cost	liability - amortised cost	liability - amortised cost	liability - amortised cost
11.	Original date of issuance	18 July 2011	19 March 2015	19 March 2015	10 July 2014
12.	Perpetual or dated	dated	dated	dated	dated
13.	Original maturity date	18 July 2017	31 December 2022	19 March 2022	09 July 2021
14.	Issuer call subject to prior supervisory approval	no	no	no	no
15.	Optional call date, contingent call dates and redemption amount	N/A	N/A	N/A	N/A
16.	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A

The table is continued on the next page.

(in HRK million)

4.1. CAPITAL INSTRUMENTS' MAIN FEATURES (CONTINUED)

		Tier 2 Capital instruments			
	Coupons/ dividends				
17.	Fixed or floating dividend/ coupon	fixed	floating	floating	floating
18.	Coupon rate and any related index	6.5%	N/A	N/A	N/A
19.	Existence of a dividend stopper	no	no	no	no
20.a	Fully discretionary, partially discretionary or mandatory (in terms of timings)	mandatory	mandatory	mandatory	mandatory
20.b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	mandatory	mandatory	mandatory	mandatory
21.	Existence of step up or other incentive to redeem	no	no	no	no
22.	Noncumulative or cumulative	noncumulative	noncumulative	noncumulative	noncumulative
23.	Convertible or non-convertible	nonconvertible	nonconvertible	nonconvertible	nonconvertible
24.	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A
25.	If convertible, fully or partially	N/A	N/A	N/A	N/A
26.	If convertible, conversion rate	N/A	N/A	N/A	N/A
27.	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A
28.	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A
29.	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A
30.	Write-down features	no	no	no	no
31.	If write-down, write-down triggers(s)	N/A	N/A	N/A	N/A
32.	If write-down, full or partial	N/A	N/A	N/A	N/A
33.	If write-down, permanent or temporary	N/A	N/A	N/A	N/A
34.	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A
35.	Position in subordinated hierarchy in liquidation (specify instrument type immediately senior to instrument)	Liabilities are subordinated in relation to liabilities from ordinary debt securities, instruments are subordinated to Tier 1 capital			
36.	Non-compliant transitioned features	no	no	no	no
37.	If yes, specify non-compliant features	N/A	N/A	N/A	N/A

"N/A" not applicable

4.1. CAPITAL INSTRUMENTS' MAIN FEATURES (CONTINUED)

DISCLOSURE REQUIREMENTS COVERED: ART. 437 (1) (c) CRR

Ordinary shares of the Erste&Steiermärkische Bank d.d. represent fully subscribed share capital in amount of HRK 1,698,417,500.00 and it is fully paid. Bank's share capital is divided into 16,984,175 ordinary shares issued in dematerialized form, each par vale of HRK 100.00, which are registered at Central Depositary and Clearing Company ("SKDD") under RIBA-R-A mark and has no maturity. Each share bear one voting right on General assembly. Dividends are paid out to shareholders according to their share in capital. Every increase and decrease of paid up capital has to be based on decision by General assembly. Instruments are not secured neither are covered with guarantee which upgrade status from creditor.

Bonds are issued by the Bank in amount of EUR 80 million and are included in Tier 2 capital. Bonds are paid in total, with fixed maturity of minimum 5 years after payment day. They cannot be paid out or repurchase before maturity except if they were converted into shares excluding cumulative preferential shares. Bonds cannot be repaid in the case of bankruptcy or liquidation of the borrower until all obligations of the Group towards other depositors and creditors have been met. In case of bankruptcy or liquidation bonds cover the loss, while in normal regular activities loss cannot be covered with bonds. Bonds are unsecured, do not have guarantee from credit institution, real estate or other. Instrument is not a deposit and it is not included in Guarantee deposit scheme.

Subordinated debt are shown in Note 3 ("Subordinated liabilities") and according to article 63 CRR included in Tier 2.

5. COUNTERPARTY CREDIT RISK

DISCLOSURE REQUIREMENTS COVERED: ART. 439 CRR

Counterparty credit risk is calculated, monitored and controlled within credit risk management system. Limits for counterparty credit risk are monitored and setup within credit risk limits. Internal capital for counterparty credit risk is made on the basis of Value at Risk model.

Gross positive fair value of contracts, collateral held and net exposure to counterparty credit risk

Counterparty credit risk exposure	Gross positive fair value	Collaterals value	Net counterparty credit risk exposure from derivative transactions
	in HRK million	in HRK million	in HRK million
Interest rate contracts	7	2	10
Contracts concerning foreign-exchange rates and gold	54	97	194
Repurchase and reverse repurchase agreements	-	2,062	2,363
TOTAL	**61**	**2,161**	**2,567**

Exposure to counterparty credit risk from derivative transactions as at 31 December 2015 was HRK 204 million. Counterparty credit risk exposure is calculated on the basis of original exposure method.

Collateral assurance

Bank employs repurchase agreements and master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements. Master netting agreements are relevant for counterparties with multiple derivative contracts.

They provide for the net settlement of all the contracts in the event of default of any counterparty. Repurchase agreements are primary financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities stay in hands of lender as collateral in case that borrower defaults in fulfilling any of its obligations.

Collaterals used in these transactions are mostly high rated securities. When securities are used as collaterals additional haircuts are done depending on residual maturity of the collateral.

Additional information for the purpose of article 439 CRR can be found in the Annual report for the year 2015 under Note 12 Derivatives–held for trading.

(in HRK million)

6. CREDIT RISK

Credit risk represents the risk that exposes the Group and the Bank to the risk of incurred loss due to the default of a borrower. Credit risk management system includes all measures and rules determined by the applicable law regulations and internal regulations as well as to proactively comply with the guidelines and best practices of the Basel III standards.

The role of the Risk Management Division, Credit Risk Management Division and the Collection and Work-out Division is control in all parts of the loan approval process and further credit portfolio monitoring. This includes a review and quality assessment of the loan portfolio, the establishment and revision of adequate provisions for loan losses, per client and for the overall portfolio.

For this purpose, the classification of assets into risk groups is set, based on internal ratings of customers which follow best business practices of credit risk management.

The total and average amount of exposure classified according to different categories of exposure

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (c) CRR

Total credit risk exposure by exposure category	Loans, deposits, interest claims and other claims		Securities		Off balance sheet items		Derivatives	
	Total amount	Average amount	Total amount	Average amount	Total amount	Average amount	Total amount	Average amount
Exposure to central governments or central banks	14,740	14,535	7,785	7,528	114	110	-	-
Exposure to regional governments and local authorities	800	581	1	1	79	67	-	-
Exposure to public sector entities	2,679	2,553	-	-	256	147	-	-
Exposure to institutions (credit institutions and investment firm)	2,374	2,594	-	-	236	129	161	173
Exposure to corporates	19,594	20,444	146	128	5,975	4,971	43	80
Exposure to retail	20,738	20,671	-	-	2,111	2,197	-	4
Exposures secured by mortgages on immovable property	639	646	-	-	-	-	-	-
Exposures in default [1]	1,054	1,117	-	-	4	7	-	-
Exposures to subjects of collective investments undertakings (CIU)	-	-	138	143	-	-	-	-
Other exposures	3,097	2,835	-	-	-	-	-	-
Equity	231	158	-	-	-	-	-	-
TOTAL	**65,946**	**66,134**	**8,070**	**7,800**	**8,775**	**7,628**	**204**	**257**

[1] In accordance to Art. 112 CRR exposures in default are shown in STD approach. Remaining exposure in default are shown in IRB approach in chapter 6.1.

(in HRK million)

6. CREDIT RISK (CONTINUED)

Significant exposure categories by geographical area breakdown

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (d) CRR

Geographical area	Loans, deposits, interest claims and other claims	Securities	Off balance sheet items	Derivatives
CROATIA	60,673	5,546	7,648	66
Bjelovarsko-bilogorska	1,661	18	261	-
Brodsko-posavska	413	8	78	-
Dubrovačko-neretvanska	731	14	95	-
City of Zagreb	33,884	5,049	2,686	61
Istarska	2,648	25	838	3
Karlovačka	777	15	136	-
Koprivničko-križevačka	855	11	235	-
Krapinsko-zagorska	440	9	39	-
Ličko-senjska	640	5	75	-
Međimurska	651	7	137	-
Osječko-baranjska	1,745	26	269	-
Požeško-slavonska	437	4	73	-
Primorsko-goranska	5,333	178	1,044	1
Sisačko-moslavačka	766	16	82	-
Splitsko-dalmatinska	2,647	39	364	1
Šibensko-kninska	877	10	110	-
Varaždinska	886	12	195	-
Virovitičko-podravska	320	4	26	-
Vukovarsko-srijemska	629	9	136	-
Zadarska	1,637	27	297	-
Zagrebačka	2,696	60	472	-
OTHER EUROPEAN COUNTRIES	3,089	774	524	-
OTHER COUNTRIES	12	-	1	-
UNITED STATE OF AMERICA	81	-	4	-
EU COUNTRIES	2,091	1,750	598	138
TOTAL	**65,946**	**8,070**	**8,775**	**204**

(in HRK million)

6. CREDIT RISK (CONTINUED)

Exposure categories according to industry categories or counterparty

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (e) CRR

The maximum credit exposure to any client except to the Republic of Croatia and the CNB as of 31 December 2015 is HRK 1,017 million (2014: HRK 1,080 million) before and after taking into account collateral and other credit enhancements.

Industry	Loans, deposits, interest claims and other claims	Securities	Off balance sheet items	Derivatives
Energy and water supply	561	-	136	3
Financial and insurance services	11,460	384	272	170
Construction	4,764	12	892	-
Hotels and restaurants	2,296	-	197	3
Communication	1,026	-	90	-
Public administration	7,072	7,407	200	22
Education	60	-	10	-
Other service activities	629	-	160	-
Agriculture, forestry and fishing	1,339	-	158	-
Real estate	1,218	-	213	1
Manufacturing	3,230	42	1,923	1
Transport	2,437	77	177	-
Mining	159	-	88	-
Private households	20,075	-	1,996	-
Professional activities	937	5	336	1
Trade	4,998	5	1,399	3
Art	225	-	135	-
Health and social services	180	-	281	-
Other	3,280	138	112	-
TOTAL	**65,946**	**8,070**	**8,775**	**204**

(in HRK million)

6. CREDIT RISK (CONTINUED)

Exposure categories according to remaining maturity

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (f) CRR

Remaining maturity	Loans, deposits, interest claims and other claims	Securities	Off balance sheet items	Derivatives
Exposure to central governments or central banks	**14,740**	**7,785**	**114**	**-**
up to 90 days	8,008	203	-	-
from 91 to 180 days	1,001	16	-	-
from 181 days to 1 year	1,736	1,726	-	-
> 1 year	3,995	5,840	114	-
Exposure to regional governments or local authorities	**800**	**1**	**79**	-
up to 90 days	37	-	2	-
from 91 to 180 days	32	-	-	-
from 181 days to 1 year	33	1	31	-
> 1 year	698	-	46	-
Exposure to public sector entities	**2,679**	**-**	**256**	**-**
up to 90 days	72	-	2	-
from 91 to 180 days	82	-	-	-
from 181 days to 1 year	145	-	-	-
> 1 year	2,380	-	254	-
Exposure to institutions	**2,374**	**-**	**236**	**161**
up to 90 days	2,333	-	188	134
from 91 to 180 days	38	-	10	9
from 181 days to 1 year	-	-	8	6
> 1 year	3	-	30	12
Exposure to corporates	**19,594**	**146**	**5,975**	**43**
up to 90 days	7,396	7	1,583	12
from 91 to 180 days	1,742	-	1,308	7
from 181 days to 1 year	1,610	17	1,802	15
> 1 year	8,846	122	1,282	9
Exposure to retail	**20,738**	**-**	**2,111**	**-**
up to 90 days	3,389	-	862	-
from 91 to 180 days	1,071	-	226	-
from 181 days to 1 year	1,110	-	526	-
> 1 year	15,168	-	497	-
Exposures secured by mortgages on immovable property	**639**	**-**	**-**	**-**
up to 90 days	4	-	-	-
from 91 to 180 days	69	-	-	-
from 181 days to 1 year	-	-	-	-
> 1 year	566	-	-	-
Exposures in default	**1,054**	**-**	**4**	**-**
up to 90 days	875	-	4	-
from 91 to 180 days	19	-	-	-
from 181 days to 1 year	-	-	-	-
> 1 year	160	-	-	-
Exposure to subjects of collective investments undertakings (CIU)	**-**	**138**	**-**	**-**
up to 90 days	-	138	-	-
from 91 to 180 days	-	-	-	-
from 181 days to 1 year	-	-	-	-
> 1 year	-	-	-	-
Other exposures	**3,097**	**-**	**-**	**-**
up to 90 days	185	-	-	-
from 91 to 180 days	-	-	-	-
from 181 days to 1 year	-	-	-	-
> 1 year	2,912	-	-	-
Exposure to equity	**231**	**-**	**-**	**-**
up to 90 days	-	-	-	-
from 91 to 180 days	-	-	-	-
from 181 days to 1 year	-	-	-	-
> 1 year	231	-	-	-
TOTAL	**65,946**	**8,070**	**8,775**	**204**

6.1. USE OF THE IRB APPROACH TO CREDIT RISK

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (a) CRR

Based on the Bank request from 17 May 2011, for issuance of approval for implementation of the internal rating-based approach for calculation of the credit risk weighted exposure amount, in accordance with the article 166 para 2 of the Decision on the Capital Adequacy of Credit Institutions (Official Gazette No. 1/09, 75/09, 2/10), the Governor of the Croatian National Bank made, pursuant to the article 43 para 2 item 9 of the Croatian National Bank Act (Official Gazette No. 75/08), the Article 128 para 1, item 1 and the article 135 para 1, 4 and 6 of the Credit Institutions Act (Official Gazette No. 117/08, 74/09, 153/09) and the article 166 para 3 of the Decision on the Capital Adequacy of Credit Institutions the following:

1. Founding IRB approach (“FIRB“) for exposures towards:
    - central governments and central banks
    - institutions and in relation to subcategories of the institution exposures banks, public government bodies and financial institutions to which the CNB issued approval for making business operations and which meet the same prudential requirements as credit institutions
    - corporations and
    - equity shares – simple risk weight approach.
2. Advanced IRB approach (“AIRB“) for exposure towards retail customers.
3. Gradual IRB approach implementation approval is given to:
    - the Bank for the category of exposure towards institutions, the exposure subcategory of local and regional self-management authority
    - the entities within the group of institutions in the Republic of Croatia: Erste Factoring d.o.o. and Erste bank a.d. Podgorica.
4. Permanent exemption or implementation of standardised approach for:
    - subcategories of exposure: non-profit public companies which do not meet requirements set for public government entities; leasing company; insurance company; investment company; all other unclassified exposures;
    - exposures towards counterparty credit risk;
    - exposures towards equity shares in companies whose credit commitments meet the requirements set for the 0% risk weight based on the standardised approach

The Bank started with the application of IRB approach with the reporting date as of 30 September 2011.

6.1. USE OF THE IRB APPROACH TO CREDIT RISK (CONTINUED)

The structure of internal rating systems and relation between internal and external ratings

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (b) CRR

Rating is used for measurement and assessment of level of risk that the client will not settle their obligations towards the Bank, and represents probability of default ("PD") within one year.

The Bank has system developed for rating assignment to the clients, whereby, according to the asset class that client belongs to, applies different rating. Rating R is assigned to the defaulted clients, independently of asset class where client belongs to, as defined in Basel III guidelines and regulations of the CNB. CNB and ESB rating is assigned to each client. CNB ratings are determined in accordance with CNB decision in three risk groups, depending on the assessed level of risk, as follows:

- completely recoverable placements -risk group A,
- partially recoverable placements- risk group B,
- completely unrecoverable placements- risk group C.

Each client rating has to be assigned according to their asset class. Rating is awarded by a certain rating method which is, in principle, in line with the class or sub-class of assets where the different asset classes are distinguish with the aim of meaningful differentiation of risk and consistent estimates of risk parameters. Within the system of assigning rating different rating systems are applied, depending on the asset class and sub-segment in which the client is classified. Risk Management Division develops rating methods for certain categories of exposure independently or in cooperation with Erste Group Bank AG. Each of the rating system is covered by a specific tool that is used to determine the rating. Some tools are used for multiple sub-segments.

Display of rating categories, depending on the asset class:

Asset class	Sub-classes	Number of rating categories for non- defaulted clients	Number of rating categories for defaulted clients
Retail	Retail	8	4
SME		10	5
Corporate	Specialized Lending	10	5
Other		13	5
Institutions	Local authorities	8	5
Other		13	5
Sovereign		13	5

Rating is revised and updated:

- after processing every new client's credit application
- after each change of client's asset class if a different method or different rating criteria within the expert opinions is prescribed in the new class
- monthly based on client's behavior on all of his/her active accounts in the Bank (Behavioral scoring) for clients which belong to asset class Retail
- after occurrence of the default
- annual, with the annual review
- annual, after receiving financial data
- whenever the new information arises which might have an impact on the rating.

6.1. USE OF THE IRB APPROACH TO CREDIT RISK (CONTINUED)

The structure of internal rating systems and relation between internal and external rating (continued)

Rating needs to be updated at least once a year even though it has not changed in relation to the currently valid rating.

The assigned rating directly affects the level of decision making, allocation of portfolio provision, pricing, and in certain cases the maximum maturity for each product and to set limits. Consequently, the use of rating systems affects the overall risk management of the Bank.

For the purpose of monitoring of overall life process of rating model and calculation parameters of risk, the Bank has established a system of organization with departments in charge of the development and validation of models, system and process monitoring, credit risk control, the collection and storage of relevant data and the establishment of IT systems. All ratings are designed so that the probability of PD following rating categories is always greater than the probability of default of the previous one while avoiding large concentration of clients in each rating category.

The annual validation is also carried out in the framework of Erste Group Bank AG ("EGB") by ensuring the independence of validation. For the initiation of the model development and the coordination and analysis of the results of the annual model validation Quantitative research department ("QRD") within Risk management division is in charge. If the annual validation shows that some of the models are in-adequate, QRD proposes changes or re-development of the model. The Bank also compares its rating models with ratings of foreign credit institutions and in case an external rating exists, it can be taken into account when determining the internal rating.

The picture shows the mapping of internal rating and the rating of external rating agencies:

	AGENCIES	EB	
investment grade	Aaa/AAA	1	Extremely Strong
	Aa1/AA+	2	Very Strong
	Aa2/AA		
	Aa3/AA-		
	A1/A+	3	Strong
	A2/A		
	A3/A-		
	Baa1/BBB+	4a	Upper Medium Grade
	Baa2/BBB	4b	Medium Grade
	Baa3/BBB-	4c	Lower Medium Grade
speculative grade	Ba1/BB+	5a	Speculative
	Ba2/BB	5b	More Speculative
	Ba3/BB-	5c	Very Speculative
	B1/B+	6a	Vulnerable
	B2/B	6b	Very Vulnerable
	B3/B-	7	Special Mention
	Caa1 ... CCC, CC	8	Substandard
DEFAULT	C	R1	Full Repayment Unlikely
	D	R2	90 Days
	D	R3	Rescheduling
	D	R4	Credit Loss
	D	R5	Bankruptcy

6.1. USE OF THE IRB APPROACH TO CREDIT RISK (CONTINUED)

Internal rating assignment process

The process of the internal rating involves exposure types, definitions, methods and data for estimation and validation of PD and loss given default (“LGD") and conversion factors ("CCF"), including assumptions used in estimating the above parameters and descriptions of material deviations from the definition of the status of default.

Usage of internal estimates for other purposes than calculation of risk weighted assets in accordance with CRR part III, Title II, Chapter 3

The Bank makes use of the internal rating system and applies the results in different areas of business for the purpose of quality portfolio management as from a risk management perspective and from the perspective of optimizing the portfolio and creating competitive advantage.

The results of the rating system at the Bank level are used in determining the risk appetite, determination of limits on the portfolio level, but also on an individual basis, pricing products and others. Risk appetite sets and defines the limits that are important for the daily operations of the Bank. Results of the rating system are applied in the form of indicators defined in the risk appetite statement, which is among other things related to risk-weighted assets, the solvency ratio, risk costs etc. The business strategy of the Bank limits the ability of high concentration and ensures diversification of the portfolio, which is in addition ensured with establishment of decision-making process and risk management lending process already controlled by limits for individual segments of exposure. This is implemented through the aforementioned risk appetite, which is defined in the form of qualitative and quantitative indicators, taking into account the strategy of the Bank, liquidity, risk and capital plans. The risk appetite is an important input parameter in the planning process and is part of the strategy of the Bank in the form of limits, target values and principles.

The maximum lending limit is the way to carry out the supervision and management of the risk inherent in individual clients or groups of connected clients. The concept of the maximum lending limit is based on a calculated maximum lending limit ("CMLL"), which represents the absolute upper limit for any exposure to an individual client or group of connected customers for the Group arising from the Group's capacity to take risks and to operating lending limit ("OLL") that does not exceed CMLL's / RbLL and the need to maintain the prevailing standards of loan approval, policy and standards for risk management and risk appetite. The essence of the CMLL is to ensure that the impact of the unexpected fulfillment of the obligations of the client with a large exposure to be in the zone, which will not substantially adversely affect the solvency. In order to make the limits risk, sensitive rating based lending limit is introduced ("RbLL") under which the limit for each rating grade is calculated. The starting point is the CMLL for each asset class, which represents RbLL for the best rating category, while to the poor rating categories lower limit is joined gradually.

Certain categories of exposure, with a focus on credit risk, are monitored through various reports. The reporting system includes a number of indicators of risk in the terms of the loan portfolio and strategy as well as specific information related to models like days past due, non-performing loans, risk costs, NPL coverage, portfolio distribution per ratings and industries, migration matrix, default rates and development of other risk parameters etc.

6.1. USE OF THE IRB APPROACH TO CREDIT RISK (CONTINUED)

Even during stress testing exercise internal assessment is used as an impact of stress scenarios on key risk parameters.

Internal assessment is also used in determining the price of the product and monitoring the profitability of a loan and risk margin taking into account the expected risk cost. The profitability monitoring system faces earnings on the individual customer on the one hand and the cost of funding, the cost of capital to cover the risk and risk cost on the other. The Bank uses risk parameters that are calculated within the IRB approach. The effect of the rating migration is taken into account through risk costs and is also reflected in the change of EVA ("Economic Value Added").

Explanation and review of control mechanisms of rating system, including a description of independence, accountability and rating system checks

The internal rating system of the Bank is implemented in the central operating system and automated as far as possible with precisely defined rules for determining the rating of the client, depending on its characteristics. For maintenance, control and validation of the internal rating system and the implementation of changes and upgrades to the internal rating system of the Bank, organizational units within the Risk Management Division, i.e. Risk Control functions are responsible, with clear separation of responsibilities and independent of the sales activities and operational decision-making on individual loan. Central governments and central banks ratings are calculated in conjunction with the EGB whereby differently calculated for industrial development in relation to developing countries. Scoring contains basic indicators and sub-indicators that are mostly based on the growth and development of the national economy and the financial stability of the country.

Rating for Banks, also in cooperation with EGB is calculated on the basis of quantitative indicators of financial statements, additional quantitative factors and a number of criteria for country risk in which the financial institution is located while the rating for local governments is calculated on the basis of quantitative and qualitative indicators that include selected financial data from the financial statements and the "soft facts" customer information.

Rating for companies is calculated on the basis of selected financial data and "soft facts" of customer information, while small and medium-sized enterprises further, except selected financial data and "soft facts" of information, the calculation of the rating takes into account the behavior of the client at all active accounts that the client has with the Bank, but it has a bigger impact on the final rating for the company with lower turnover and less impact on businesses with higher turnover. In rating calculation for specialized financing special circumstances and risk profile of the loan that is used as the basis of special projects are taken into account and the result of the calculation is an indicator that is based on eight criteria that include financial indicators and the "soft facts" information about the client and the project.

Rating for retail clients is based on the scoring of the client's creditworthiness on the basis of selected socio-demographic and financial data. At the same time, the rating is updated after processing each new loan application of the client on the basis of the latest data of the client (aka. Application scoring) and also on the basis of customer behavior on all active accounts that the customer has with the bank (so-called. Behavioral scoring). The final rating of the client is obtained as a time-weighted average of the results of the Application and Behavioral scoring, where Application scoring becomes less influential on the final rating of the passage of time.

6.1. USE OF THE IRB APPROACH TO CREDIT RISK (CONTINUED)

Description of factors that impacted realized losses during the previous period

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (h) CRR

Improved economic conditions compared to the previous period had an impact on the portfolio of the Group in the form of improved portfolio distribution, but also the risk parameters that are taken into account when defining the provision rates. The default rate has fallen by an average 18% compared to the previous period which reflected as portfolio optimization. In addition to the above noted a downward trend of the average PD rate has been noticed as a reflection of the improved economic trend. The default rate in corporate segment fell significantly compared to the previous period reaching the level below the long-term leverage after a long time. The default rate in retail banking also recorded a downward trend and is at the level of 2.77%, but still above long-term averages. Non-payment rates within small and medium-sized enterprises recorded a significant drop compared to the previous period.

The level of non-performing loans coverage is in line with business expectations and is at a comfortable level beyond 100%. In the last quarter of the year 2015 the conversion of CHF loans into loans denominated in EUR has been carried out showing impact in the allocated provisions.

Assessment of the institution with respect to the actual values within a longer time frame

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (i) CRR

The Bank assesses and compares the estimated losses (provisions) with the actual losses on annual basis for certain categories of exposure within the so-called back-testing analysis. Back-Testing represents testing the previous estimate of losses arising from the exposure to credit risk on the basis of historical loss data. Via Back-Testing of provisions the adequacy of allocated provisions is examined and the analysis provides an insight into the shortcomings, limitations and other problems that can lead to incorrect or inadequate calculation of provisions. Accordingly, the back-testing process, based on deficiencies found, serves as a guideline to potential improvement of the current methodology and the subsequent implementation of the proposed improvements.
The Bank performs back-testing for all types of provisions: specific provision allocated on individual basis, specific provision allocated on aggregated basis and portfolio provisions.

6.1. USE OF THE IRB APPROACH TO CREDIT RISK (CONTINUED)

Summarized comparison of expected loss and value adjustments by exposure categories:

Exposure categories	Losses as of 31 December 2015		Losses as of 31 December 2014	
	Expected loss (EL)	Value adjustment	Expected loss (EL)	Value adjustment
	in HRK million	in HRK million	in HRK million	in HRK million
Exposure to central bank or central state	9	4	12	7
Exposure to institutions	1	1	1	1
Exposure to commercial customers	2,340	2,834	3,114	3,264
Exposure to retail customers	1,530	1,523	1,619	1,511
There of exposure to SME	229	214	251	215
Exposure to retail customers secured by real estate	672	598	712	566
Other exposure to retail customers	858	925	907	945
Exposure to equity investments	5	-	2	-
Other	-	-	-	-
UKUPNO	**3,885**	**4,362**	**4,748**	**4,783**

Area of application and usage of external credit ratings

DISCLOSURE REQUIREMENTS COVERED: ART. 444 (a) - (d) CRR

The Bank uses the IRB approach for determining minimum capital requirements according to Basel III regulation, Standardized approach ("STD") is applied for certain asset classes and business lines for which the Bank has an approval for permanent partial usage in accordance with the CNB decision (No. ERODB-1-020/11-ŽJ-ŽR). Further, certain legal provisions can cause application of STD approach.
External ratings are partially used for certain asset classes for RWA calculation in STD approach. If the external rating is available, the risk weight has to be determined according to Option 2[2], otherwise Option 1 is applied.
Following external ratings are used:

OECD external sovereign rating

OECD external sovereign rating is applied for following exposure categories:

- Central government and Central banks
- Institutions where Option 1 is applied for exposures towards institutions for country of domicile (in accordance with article 121. paragraph 1 of CRR). In such cases, the rating is determined dependent on credit worthiness of the country of domicile of the counterparty.

2 In STD approach, 2 different approaches for RW determination for institutions can be applied: Option 1, in whith the RW is assigned in a way that the RW for 1 rating category worse then the country rating is used (in accordance with Art.121 CRR)
Option 2, RW is based on the exrernal rating (in accordance with Art.120 CRR).

(in HRK million)

6.1. USE OF THE IRB APPROACH TO CREDIT RISK (CONTINUED)

Standard & Poor's rating

External ratings issued by S&P rating agency are applied on certain portfolios. More specifically, the S&P external ratings of issuers of securities are used for determining the acceptability of financial collateral (bonds) and to calculate the impairment of volatility in accordance with article 244 paragraph 1 of the Regulation. If the issuer of the security is at the same time the borrower whose exposure is subject to STD approach and if the risk assessment is available from S&P and of the OECD, then the worse score is taken into account.

Mapping of risk ratings with credit quality grades are applied as follows:

Standard & Poors	OECD country risk rating	Credit quality grade
AAA to AA-	0 to 1	1
A+ to A-	2	2
BBB+ to BBB-	3	3
BB+ to BB-	4 to 5	4
B+ to B-	6	5
CCC+ and below	7	6

Mapping of risk weights in accordance with the credit quality grade and exposure class:

CQS	Central government and Central banks	Institutions (Option 1)	Institutions (Option 2) Long term	Institutions (Option 2) Short term	Corporate
1	0%	20%	20%	20%	20%
2	20%	50%	50%	20%	50%
3	50%	100%	50%	20%	100%
4	100%	100%	100%	50%	100%
5	100%	100%	100%	50%	150%
6	150%	150%	150%	150%	150%

(in HRK million)

6.1. USE OF THE IRB APPROACH TO CREDIT RISK (CONTINUED)

The exposure values using standardised approach divided in credit quality steps

DISCLOSURE REQUIREMENTS COVERED: ART. 444 (e) CRR

Exposure category: Exposure to central governments or central banks

Credit quality step	Risk weight (%)	Exposure value before credit risk mitigation	Exposure value after credit risk mitigation
1	0	8,034	8,034
4	100	989	967
7	250	275	275
TOTAL		**9,298**	**9,276**

Amount deducted from own fund is HRK 145 million.

Exposure category: Exposure to regional governments or local authorities

Credit quality step	Risk weight (%)	Exposure value before credit risk mitigation	Exposure value after credit risk mitigation
2	20	135	129
3	50	13	13
4	100	727	696
TOTAL		**875**	**838**

Exposure category: Exposure to public sector entities

Credit quality step	Risk weight (%)	Exposure value before credit risk mitigation	Exposure value after credit risk mitigation
4	100	2,932	139
TOTAL		**2,932**	**139**

Exposure category: Exposure to institutions

Credit quality step	Risk weight (%)	Exposure value before credit risk mitigation	Exposure value after credit risk mitigation
2	20	295	278
3	50	-	6
4	100	261	259
TOTAL		**556**	**543**

(in HRK million)

6.1. USE OF THE IRB APPROACH TO CREDIT RISK (CONTINUED)

Exposure category: Exposure to Corporate

Credit quality step	Risk weight (%)	Exposure value before credit risk mitigation	Exposure value after credit risk mitigation
2	35	32	32
3	50	183	183
4	100	5,437	4,068
6	150	23	23
TOTAL		**5,675**	**4,306**

Exposure category: Exposure to Retail (including SME)

Credit quality step	Risk weight (%)	Exposure value before credit risk mitigation	Exposure value after credit risk mitigation
2	35	367	367
3	50	25	25
	75	4,316	3,347
4	100	61	61
6	150	77	77
TOTAL		**4,846**	**3,877**

Exposure category: Exposure to investment funds

Credit quality step	Risk weight (%)	Exposure value before credit risk mitigation	Exposure value after credit risk mitigation
4	100	138	138
TOTAL		**138**	**138**

Exposure category: Exposure to Equity

Credit quality step	Risk weight (%)	Exposure value before credit risk mitigation	Exposure value after credit risk mitigation
4	100	6	6
TOTAL		**6**	**6**

Exposure category: Other exposures

Credit quality step	Risk weight (%)	Exposure value before credit risk mitigation	Exposure value after credit risk mitigation
1	0	94	116
4	100	725	725
TOTAL		**819**	**841**

Amount deducted from own fund is HRK 140 million.

(in HRK million)

6.1. USE OF THE IRB APPROACH TO CREDIT RISK (CONTINUED)

Exposure category amounts (according to FIRB or AIRB approach)

DISCLOSURE REQUIREMENTS COVERED: ART.452 (d) CRR

Exposure category	Exposure category amount according to FIRB approach	Exposure category amount according to AIRB approach
Exposure to central governments or central banks	13,335	-
Exposure to institutions	2,210	-
Exposure to corporates	20,246	-
Exposure to retail	-	18,475
Equity exposures	225	-
Securitization	-	-
Other exposures	-	-
TOTAL	**36,016**	**18,475**

Exposures in specialized lending

Exposures in specialized lending	Risk weight	Exposure value	Risk weight asset
Remaining maturity lower then 2,5 years		**1,377**	**238**
Category 1	50%	165	105
Category 2	70%	62	52
Category 3	115%	33	81
Category 4	250%	-	-
Category 5	0%	1,117	-
Remaining maturity equal or higher then 2,5 years		**1,196**	**939**
Category 1	70%	613	517
Category 2	90%	118	125
Category 3	115%	120	297
Category 4	250%	-	-
Category 5	0%	346	-

(in HRK million)

6.1. USE OF THE IRB APPROACH TO CREDIT RISK (CONTINUED)

FIRB approach – Exposures to central governments or central banks

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (e) (j) CRR

Rating	Exposures to central governments or central banks			
	PD	EAD	Ø LGD u %	Ø risk weight in %
1	0.00	551	45	-
2	-	-	-	-
3	0.02	1,002	45	12.23
4	0.03	198	45	14.60
5	-	-	-	-
6	0.04	102	45	30.55
7	0.10	15,521	44	30.20
8	0.21	58	45	48.21
9	1.24	333	45	105.39
10	-	-	-	-
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
Default	-	-	-	-
TOTAL	**-**	**17,765**	**-**	**-**

FIRB approach – Exposures to institutions

Rating	Exposures to institutions			
	PD	EAD	Ø LGD u %	Ø risk weight in %
1	-	-	-	-
2	0.03	20	45	22.78
3	0.09	549	45	40.94
4	0.11	1,367	16	15.49
5	0.13	174	45	50.01
6	0.19	2	45	60.56
7	0.26	37	45	71.88
8	0.39	13	45	87.02
9	0.65	6	45	107.27
10	1.21	68	2	4.28
11	2.64	1	45	161.52
12	6.98	-	45	211.78
13	29.46	1	45	293.79
Default	100	-	45	-
TOTAL	**-**	**2,238**	**-**	**-**

(in HRK million)

6.1. USE OF THE IRB APPROACH TO CREDIT RISK (CONTINUED)

FIRB approach – Exposures to corporates

Rating	Corporate – other without LGD or conversion factor				Corporate – SME without LGD or conversion factor				Corporate - total (without specialized lending)				Corporate – specialized lending without LGD or conversion factor			
	PD	EAD	Ø LGD u %	Ø risk weight in %	PD	EAD	Ø LGD u %	Ø risk weight in %	PD	EAD	Ø LGD u %	Ø risk weight in %	PD	EAD	Ø LGD u %	Ø risk weight in %
1	0.36	25	43	51.26	0.36	873	18	14.77	0.36	898	19	15.78	1.09	156	50	67.15
2	0.66	16	28	49.88	0.66	170	43	49.86	0.66	186	42	49.87	2.14	650	50	87.49
3	1.12	60	45	101.88	1.12	418	44	73.92	1.12	478	44	77.45	5.60	118	50	105.93
4	1.34	150	45	107.88	1.34	692	44	75.93	1.34	842	44	81.63	16.00	152	50	248.04
5	1.43	543	45	112.95	1.56	1,138	44	83.38	1.51	1,681	44	92.94	-	-	-	-
6	2.30	339	43	119.24	2.30	1,242	43	88.03	2.30	1,581	43	94.71	-	-	-	-
7	3.75	248	45	144.34	3.72	936	44	110.50	3.73	1,184	44	117.59	-	-	-	-
8	1.44	429	45	166.14	5.91	695	43	115.76	4.20	1,124	44	135.01	-	-	-	-
9	8.54	346	44	188.96	8.64	319	43	134.60	8.59	665	43	162.87	-	-	-	-
10	9.14	19	38	161.61	9.14	294	41	134.53	9.14	313	41	136.19	-	-		-
11	9.98	127	43	188.02	9.92	315	40	126.53	9.94	442	41	144.19	-	-	-	-
12	9.94	112	44	225.87	14.89	457	42	186.02	13.92	569	43	193.83	-	-	-	-
13	22.90	220	34	171.75	22.65	291	42	169.50	22.76	511	38	170.47	-	-	-	-
Default	91.64	496	46	36.06	100.00	2,607	45	0.00	98.66	3,103	45	5.76	99.76	1,464	50	-
TOTAL	**-**	**3,130**	**-**	**-**	**-**	**10,447**	**-**	**-**	**-**	**13,577**	**-**	**-**	**-**	**2,540**	**-**	**-**

(in HRK million)

6.1. USE OF THE IRB APPROACH TO CREDIT RISK (CONTINUED)

AIRB approach – Exposures to retail

Rating	Retail – exposure covered with real estate SME				Retail – other, SME				TOTAL SME			
	PD	EAD	Ø LGD u %	Ø risk weight in %	PD	EAD	Ø LGD u %	Ø risk weight in %	PD	EAD	Ø LGD u %	Ø risk weight in %
1	0.86	6	42	36.04	0.86	5	52	38.87	0.86	11	46.40	37.39
2	1.05	42	36	37.51	1.06	36	41	35.09	1.06	78	38.36	36.38
3	1.47	51	37	48.03	1.48	48	43	40.58	1.47	99	39.72	44.42
4	2.17	38	36	62.70	2.17	45	43	45.68	2.17	83	39.82	53.47
5	3.17	75	37	76.76	3.17	81	41	47.45	3.17	156	38.89	61.57
6	4.68	67	37	99.13	4.68	77	43	51.63	4.68	144	40.55	73.85
7	7.20	53	36	117.70	7.18	72	43	53.60	7.19	125	39.91	80.65
8	10.74	42	35	132.92	10.74	59	43	59.78	10.74	101	39.36	90.13
9	20.14	6	39	177.51	19.52	7	41	72.35	19.80	13	39.93	119.14
10	31.26	21	35	164.67	32.49	11	40	83.84	31.69	32	36.68	136.63
Default	100.00	190	36	27.96	100.00	83	47	33.40	100.00	273	39.22	29.62
TOTAL	**-**	**591**	**-**	**-**	**-**	**524**	**-**	**-**	**-**	**1,115**	**-**	**-**

Rating	Retail – exposure covered with real estate which are not SME				Retail – other, which are not SME				TOTAL retail which is not SME			
	PD	EAD	Ø LGD u %	Ø risk weight in %	PD	EAD	Ø LGD u %	Ø risk weight in %	PD	EAD	Ø LGD u %	Ø risk weight in %
1	0.04	245	45	5.55	0.04	1,222	33	4.16	0.04	1,467	34.72	4.39
2	0.09	743	42	9.64	0.09	1,598	33	7.74	0.09	2,341	35.71	8.34
3	0.21	1,984	40	17.41	0.21	1,703	33	14.78	0.21	3,687	36.83	16.19
4	0.57	2,161	39	31.43	0.57	796	35	31.57	0.57	2,957	37.86	31.47
5	1.53	1,499	38	48.31	1.53	475	35	60.76	1.53	1,974	37.52	51.30
6	2.14	737	38	52.14	2.14	248	35	74.80	2.14	985	36.91	57.85
7	7.19	445	38	62.00	7.19	259	35	145.57	7.19	704	36.79	92.73
8	21.53	398	37	90.79	21.53	260	35	213.12	21.53	658	36.53	139.21
Default	100.00	1,059	38	59.56	100.00	886	35	97.71	100.00	1,945	36.87	76.94
TOTAL	**-**	**9,271**	**-**	**-**		**7,447**	**-**	**-**		**16,718**	**-**	**-**

7. CREDIT RISK ADJUSTMENTS

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (a) and (b) CRR

The obligations arising from the contractual relationship, and that the borrower has not settled within the agreed period considered due but unpaid liabilities. "Due" means the amount of principal, interest and other receivables which the counterparty has not settled the contractual maturity date.
Impairment of investments (impairment) is carried out for placements:

- for which there is evidence of losses arising from credit risk, on an individual basis
- for non-identified losses on an individual basis and for these placements impairment is carried out on a group basis (portfolio reserve).

An impairment loss is measured as the difference between the gross book value of assets and its recoverable amount and is recognized in the income statement in the period in which it is established. Impairment of financial assets is carried out if the recoverable amount, i.e., the present value of expected future cash flows of financial assets discounted by “original“ effective interest rate of these assets is less than its book value.

The general principles and standards for credit risk allowances within the Bank follow the CNB procedures, IFRS and are described in internal policies. The Bank, in line with regulatory and accounting standards, evaluates the need and allocates credit risk allowances for expected losses. Allowances are calculated:

- for financial assets carried at amortised cost (loans and receivables, financial assets held to maturity) in accordance with IAS 39, and
- for off balance liabilities (guarantees, loan commitments) in accordance with IAS 37.

The process of provisioning for credit losses includes the default on the customer level and impairment identification and the type of assessment (individual or collective). Customer level means, if one of the customer’s exposures is classified as defaulted then all of that customer’s exposures are classified as defaulted.
During the process the Bank distinguishes between:

- specific allowances calculated for exposures to defaulted customers that are deemed to be impaired, and
- collective allowances (allowances for incurred but not reported losses) calculated for exposures to non-defaulted customers or defaulted customers that are not deemed to be impaired.

For the calculation of specific allowances, the discounted cash flow model is applied. This means that a difference between carrying amount and net present value (“NPV“) of the expected cash flows leads to an impairment and defines the amount of the allowancing requirement. All estimated interest and redemption payments as well as estimated collateral recoveries and costs for selling and obtaining collateral are considered as expected cash flows.

7. CREDIT RISK ADJUSTMENTS (CONTINUED)

The calculation of specific allowances is performed either on an individual basis or rule-based. In case of significant customers, expected cash flows are estimated individually by the Collection and Work-out Division and the Credit Risk Management Division. A customer is considered as significant if the total exposure defined as the sum of all on balance and off balance sheet exposures exceeds a determined materiality limit. Otherwise, the customer is considered as insignificant and a rule-based approach is used for the calculation of the allowance. Under this approach, specific allowances are calculated as a multiplication of the carrying amount and the loss given default (“LGD“), where LGD reflects time in default or the stage of workout process.

Collective allowances are calculated on exposures to non-defaulted customers for which a default has not been detected or reported. The level of collective allowances depends on the carrying amount, the PD, the LGD and the loss identification period (“LIP“). The LIP parameter is critically examined and the back-testing of the LIP parameter is performed in form of an independent recalculation of the parameter in accordance with the Group methodology. Currently used LIP equals to 1.

According to the Group’s principles, a one-year PD is applied to the calculation of collective allowances. Through-the-cycle PDs are used. If the PD for a customer class is not specific enough the Bank can use other estimation or more granular PD which might reflect default rate in a more accurate way.

Collective allowances are calculated by Expected Loss (“EL“) methodology: using the Banks or Erste Group’s historical data about PD by rating, with calculated LGD by product types for Retail (private person) and LGD depending on the level of client’s collateralization for certain rating methods and assumed 45% LGD for all other client's.

(in HRK million)

7. CREDIT RISK ADJUSTMENTS (CONTINUED)

Exposure amounts for impaired loans, past due exposures and changes in credit risk adjustments by industry

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (g) CRR

Industry	Impaired loans exposure	Value adjustments	Expenses (income from reversal) of allowances	Write offs	Past due exposure	Impaired off balance exposure	Off balance provisions	Expenses (income from reversal) of allowances from off balance exposures
Energy and water supply	28	9	2	-	8	-	-	-
Financial and insurance services	3	2	-	-	6	-	-	-
Construction	1,373	975	426	580	1,258	18	3	2
Hotels and restaurants	732	391	132	45	632	-	-	-
Communication	84	29	4	-	18	-	-	-
Public administration	-	-	(1)	11	7	-	-	-
Education	3	2	1	-	1	-	-	-
Other service activities	228	139	17	1	169	5	1	(3)
Agriculture, foresty and fishing	132	82	8	14	99	-	-	-
Real estate	296	135	48	117	273	-	-	-
Manufacturing	878	525	191	210	658	14	4	2
Transport	83	49	25	61	65	4	-	(1)
Mining	29	10	(1)	10	28	-	-	-
Private households	2,495	1,708	153	267	1,469	29	4	2
Professional activities	287	158	54	101	272	1	-	(1)
Trade	941	608	187	390	726	2	-	(1)
Art	76	23	17	9	19	-	-	-
Health and social services	13	12	3	1	13	-	-	-
TOTAL	**7,681**	**4,857**	**1,266**	**1,817**	**5,721**	**73**	**12**	**-**

(in HRK million)

7. CREDIT RISK ADJUSTMENTS (CONTINUED)

Exposure amounts for impaired loans, past due exposures and changes in credit risk adjustments by geographical area

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (h) CRR

Geographical area	Impaired loans exposure	Value adjustments	Expenses (income from reversal) of allowances	Write offs	Past due exposure	Impaired off balance exposure	Off balance provisions	Expenses (income from reversal) of allowances from off balance exposures
CROATIA	7,415	4,682	1,219	1,787	5,635	68	12	-
Bjelovarsko-bilogorska	248	148	21	15	190	1	-	(2)
Brodsko-posavska	70	48	10	20	53	-	-	-
Dubrovačko-neretvanska	183	97	40	129	148	1	-	-
Grad Zagreb	2,804	1,763	453	729	2,080	29	6	1
Istarska	611	345	76	101	526	2	1	1
Karlovačka	122	77	18	28	87	1	-	-
Koprivničko-križevačka	149	114	15	12	131	1	-	-
Krapinsko-zagorska	99	64	5	6	62	1	-	-
Ličko-senjska	57	41	4	2	44	-	-	-
Međimurska	149	70	16	29	90	2	-	-
Osječko-baranjska	262	185	67	96	168	4	1	(1)
Požeško-slavonska	37	24	-	2	24	-	-	-
Primorsko-goranska	558	338	94	147	423	3	1	-
Sisačko-moslavačka	154	112	22	24	125	1	-	-
Splitsko-dalmatinska	586	408	183	118	509	12	1	-
Šibensko-kninska	103	55	37	54	61	1	-	-
Varaždinska	200	125	21	69	147	1	-	-
Virovitičko-podravska	51	35	10	14	39	-	-	-
Vukovarsko-srijemska	114	73	32	83	86	1	-	-
Zadarska	279	155	31	18	181	1	-	-
Zagrebačka	579	405	64	91	461	6	2	1
OTHER EUROPEAN COUNTRIES	261	172	68	30	82	5	-	-
OTHER COUNTRIES	-	-	(23)	-	1	-	-	-
EU COUNTRIES	5	3	2	-	3	-	-	-
TOTAL	**7,681**	**4,857**	**1,266**	**1,817**	**5,721**	**73**	**12**	**-**

(in HRK million)

7. CREDIT RISK ADJUSTMENTS (CONTINUED)

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (i) CRR

The reconciliation of changes in the specific and general credit risk adjustments for impaired exposures

Changes in credit risk adjustments	Opening balances	Increase in credit risk adjustments	Other adjustments	Decrease of credit risk adjustments/reversal of credit risk adjustments	Write offs	Recoveries recorded directly in the income statement	Closing balance
Allowances	5,408	2,389	41	1,164	1,817	35	4,857
Provisions for identified losses for off balance exposure	12	80	4	84	-	-	12
Portfolio allowances	443	746	-	718	-	-	471
Off balance portfolio allowances	65	185	(3)	145	-	-	102

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (g) CRR

Specific credit risk adjustments in the preceding period for each exposure class in IRB approach

Exposure category	Credit risk adjustments 2015	Credit risk adjustments 2014	Changes in %
Exposure to central governments or central banks	4	7	(43%)
Exposure to institutions	1	1	-
Exposure to corporates	2,834	3,264	(13%)
Exposure to retail	1,523	1,511	1%
Exposures to retail secured by mortgages on immovable property	598	566	6%
Other exposures to retail	925	945	(2%)
of which to SME	214	215	0%
Equity exposure	-	-	-
Securitization position	-	-	-
Other asset	-	-	-
TOTAL	**4,362**	**4,783**	**9%**

8. LEVERAGE RATIO

DISCLOSURE REQUIREMENTS COVERED: ART. 451 CRR

The leverage ratio represents the relationship between Tier 1 and the leverage exposure pursuant to article 429 CRR. Essentially, the leverage exposure represents the sum of unweighted on balance sheet and off balance sheet positions considering valuation and risk adjustments as defined in the CRR.
As of 31 December 2015, the leverage ratio for the Group amounted to 9.01%. The calculation is based on the Delegated Regulation (EU) 2015/62 of 10 October 2014, which was published in the Official Journal of the European Union on 17 January 2015. As such, the ratio is calculated on period-end values as of 31 December 2015, while the Tier 1 capital is determined based on fully loaded Basel III definitions, i.e. not including any transitional provisions.

Leverage exposure breakdown and reconciliation

The table below provides a reconciliation of the Group's IFRS statement of financial position to total leverage exposure:

	in HRK million
Total assets as per published financial statements	68,231
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(23)
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with article 429(13) of Regulation (EU) No 575/2013)	-
Adjustments for derivative financial instruments	143
Adjustments for securities financing transactions "SFTs"	(387)
Adjustment for off balance sheet items (i.e. conversion to credit equivalent amounts of off balance sheet exposures)	3,607
(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with article 429(7) of Regulation (EU) No 575/2013)	-
(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with article 429(14) of Regulation (EU) No 575/2013)	-
Other adjustments	(1.511)
Total leverage ratio exposure	**70,060**

The following table provides a breakdown of the total leverage exposure measure into its main parts as well as the calculation of the period-end leverage ratio as of 31 December 2015.

The disclosure table has been aligned with the table proposed by the Implementing Technical Standards (EBA/ITS/2014/04rev1) published by the EBA on 15 June 2015.
Line items that were not relevant to the Group were omitted; therefore, the numbering of lines in the table is not consecutive.

8. LEVERAGE RATIO (CONTINUED)

		in HRK million
On balance sheet exposures (excluding derivatives and SFTs)		
1.	On balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	66,423
2.	(Asset amounts deducted in determining Tier 1 capital)	(561)
3.	Total on balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	65,862
Derivative exposures		
4.	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	61
5.	Add on amounts for PFE associated with all derivatives transactions (mark to market method)	143
6.	Total derivative exposures (sum of lines 4 and 5)	204
Securities financing transaction exposures		
7.	(Netted amounts of cash payables and cash receivables of gross SFT assets)	387
8.	Total securities financing transaction exposures (sum of line 7)	387
Other off balance sheet exposures		
9.	Off balance sheet exposures at gross notional amount	8.775
10.	(Adjustments for conversion to credit equivalent amounts)	(5,168)
11.	Other off balance sheet exposures (sum of lines 9 and 10)	3,607
Capital and total exposure measure		
12.	Tier 1 capital	6,315
13.	Leverage ratio total exposure measure (sum of lines 3, 6, 8, 11)	70,060
Leverage ratio		
14.	Leverage ratio	9.01%

Management of the risk of excessive leverage

Leverage ratio is a core risk metric included in the Group RAS. The leverage ratio is planned as part of the annual forecasting and budgeting process. As a RAS metric, the development of the Group leverage ratio is regularly monitored by the Management Board and reported in the Group Risk.

Factors influencing the development of leverage exposure

Details on the leverage exposure were disclosed for the first time as of 31 December 2015.

The overall leverage exposure increased by 1% to HRK 70,620 million. This change reflects a reduction in derivative exposure and an increase in off balance sheet credit exposures.

8. LEVERAGE RATIO (CONTINUED)

Split-up of on balance sheet exposures (excluding derivatives and SFTs)

		in HRK million
EU-1.	Total on balance sheet exposures (excluding derivatives, SFTs), of which:	66,639
EU-2.	Trading book exposures	387
EU-3.	Banking book exposures, of which:	66,252
EU-4.	Covered bonds	-
EU-5.	Exposures treated as sovereigns	22,059
EU-6.	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	3,461
EU-7.	Institutions	1,666
EU-8.	Secured by mortgages of immovable properties	8,031
EU-9.	Retail exposures	11,758
EU-10.	Corporate	15,714
EU-11.	Exposure in default	173
EU-12.	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	3,390

9. MARKET RISK EXPOSURE

DISCLOSURE REQUIREMENTS COVERED: ART. 445 CRR

Market risk is the risk from the potential impacts that external events can have on the valuation of the assets, liabilities and off balance sheet positions of the Bank and it is caused by the price changes respectively the changes in the financial markets and as such is divided into:

- Interest rate risk,
- FX Risk,
- Equites risk.

Management and the control of the market risk exposures and setting the limits are defined within the internal regulation, policies and procedures issued by Risk management division. Measurement and the control of the exposure to market risk is conducted throughout the Value at Risk limits system as well as sensitivities system ("PVBP", "FX Delta" and "Stop loss limits").
For the purposes of the capital charges, Bank is using the standardized approach.

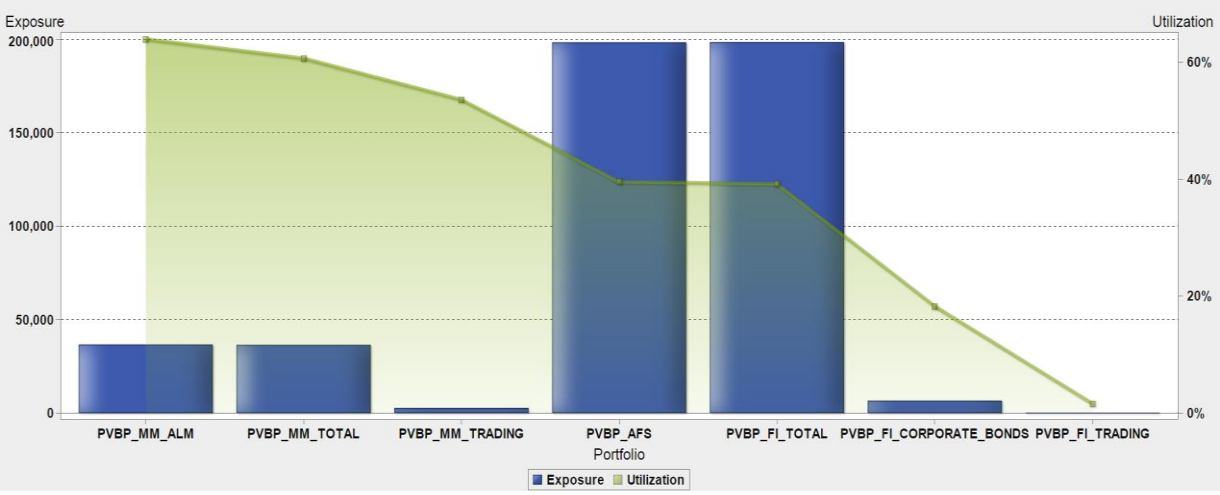
Value at Risk

Value at Risk ("VaR") describes what level of losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under normal market conditions and based on historical experience. Basic idea behind this historical model is taking into calculation the current portfolio and re-pricing its market value based on the previous market prices. VaR calculates maximum loss within the given confidence level which a Bank can endure in a predefined time period.
According to the VaR limits structure, at a confidence level of 99%, daily VaR limits are set, on the total trading book as well as the separate limits on the money market portfolio, fixed income portfolio, fx portfolio and shares. VaR limits are also introduced on fixed income corporates, money market banking book, money market trading book and fixed income securities in the banking and in the trading book. Limit utilization is monitored daily.

VaR limits and Utilization	Limit (HRK)	Exposure	Maximum	Minimum
Banking book – fixed income securities	31	17	18	7
Trading book – fixed income securities	2	-	-	-
Corporates – fixed income securities	3	2	2	-
Foreign exchange	1	-	-	-
Money market banking book	10	2	7	3
Money market trading book	1	1	2	2

9. MARKET RISK EXPOSURE (CONTINUED)

Price Value of a Basis Point ("PVBP") is the sensitivity limit that limits the risk of change in the portfolio value caused by parallel shift of the interest rate curve by one basis point.
For the purposes of the effective control of the Trading Book and separate positions in the Banking Book, PVBP limits are set up separately for the money market portfolio as well as for the fixed income portfolio. Furthermore, PVBP limits for the separate desks are set up; Fixed income desk, money market desk and FX desk. PVBP limits for corporate securities are set up, as well.



Picture: Sensitivities for the interest rate curve by 1 basis point

FX Delta measures the price sensitivity and presents the delta exposure (spot plus delta position for the options) to the currency risk. Based on that assumption, Bank has implemented FX Delta limits for all the significant currencies as well as for the total FX position of the Bank.

Stop Loss calculation shows the maximum loss for separate portfolios which the Bank can tolerate on monthly and yearly basis. Bank, in this context, has established monthly and annual Stop loss limits individually for money market, fixed income securities and foreign currency business.

(in HRK million)

9. MARKET RISK EXPOSURE (CONTINUED)

Net interest income simulation

Net interest income simulation for the year 2015 shows that in case of increase of interest rates for 1% net interest income will increase for 4.1% or HRK 2 million. The cause of this effect is assets that has shorter period of changes in interest rates than the period watched.

Simulation of net interest income in the year 2016 on the basis of the data for 31 December 2015:

	EUR	CHF	HRK	TOTAL	in %
immediate parallel shock plus 200 bp	92	9	2	103	8.1%
immediate parallel shock plus 100 bp	46	5	1	52	4.1%
immediate parallel shock minus 200 bp	(46)	(5)	(1)	(52)	(4.1%)
immediate parallel shock minus 200 bp	-	-	-	-	-

10. EXPOSURE TO INTEREST RATE RISK ON POSITIONS NOT INCLUDED IN THE TRADING BOOK

DISCLOSURE REQUIREMENTS COVERED: ART. 448 CRR

Under the interest rate risk in the banking book, there are following subtypes present within the context of the interest rate risk:

1) Repricing risk; the risk to the which a credit institution is exposed to due to the maturity mismatching in the maturity date (for fixed interest rates) and revaluing of interest rates (for variable interest rates) positions in the Banking Book,
2) Yield curve risk; the risk to the which a credit institution is exposed to due to changes in the shift of a form and a slope of the yield curve,
3) Basis risk; the risk to the which a credit institution is exposed to due to the difference in the reference interest rates for the instruments with similar characteristics in relation with maturity or time period before the next interest rate change,
4) Optionality risk; the risk to the which a credit institution is exposed to due to the options incorporated within the interest-sensitive positions (i.e. possible early repayment of loans, possible early withdrawal of deposits etc.).

The term Interest rate risk management implies the implementation of measures and decisions with the goal to minimize the negative effect of the balance sheet items sensitive to interest rate changes on the Bank's business stability i.e. the optimization of the overall Bank's interest income (short-term aspect). Moreover, the influence of the interest rate movement on the assumed economic value of the Bank's capital (long-term aspect) is monitored.

The interest rate risk within the Bank's business activities may be dually monitored:

a. through the structured exposure of the bank to the interest rate risk
b. through the positions in the interest-sensitive instruments on the currency, cash and bond market, i.e. the interest rate risk exposure of its trading book positions.

10. EXPOSURE TO INTEREST RATE RISK ON POSITIONS NOT INCLUDED IN THE TRADING BOOK (CONTINUED)

The following parameters influence on the Bank's interest rates definition:

- funding spread that includes all regulatory costs (obligatory reserves, currency of the paid obligatory reserves, the rate of minimum required foreign currency claims of banks relative to their foreign currency liabilities etc.),
- market interest rate movements for HRK and all relevant world currencies (EUR, USD, CHF),
- refinancing risk / credit risk of the Bank,
- refinancing risk / credit risk of the country,
- remaining maturity of Banking book,
- maturity mismatch in the banking book items,
- market competitiveness,
- Bank's strategy,
- currency,
- legal regulations (acting in accordance with the proscribed instruments of insurance),
- other.

Exposure of the Group to the interest rate risk in the banking book related to the regulatory capital was as follows:

Currency ***in HRK million***	**Shift 200bp**
HRK	(136)
EUR	(111)
CHF	347
USD	(57)
OTHER	(8)
CHANGE IN THE ECONOMIC VALUE	**35**
REGULATORY CAPITAL	**7,351**
(CHANGE IN THE ECONOMIC VALUE / REGULATORY CAPITAL)*100	**0.47%**

11. LIQUIDITY RISK

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (1) (a-d) CRR

The liquidity risk is defined in line with the principles set by the Basel Committee on Banking Supervision and the Croatian National Bank. Accordingly, a distinction is made between:

Market liquidity risk, which is the risk that the entity cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption, and

Funding liquidity risk, which is the risk that the entity will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition. Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full, on time in an economically justified way, while structural liquidity risk is the long-term risk of losses due to a change in the Bank's own refinancing cost or spread.

Governance

The governance is related to the main responsibilities for managing liquidity risk in the Bank and defining the rules and responsibilities of all the involved stakeholders within the Bank. For the appropriate management of liquidity risk a strategy, policies and practices are to be developed in accordance with the defined liquidity risk tolerance to ensure that the bank maintains sufficient liquidity.

The three setup of the governance incorporates the following key principles:

Conservatism

Measurement shall always be based on conservative estimations and assumptions.

Granularity

In the specification of any liquidity risk measure the entities shall always strive to define sufficiently granular data for the calculation which enables reasonable analysis on the dynamics of the results and sufficient drill-down capability to identify key risk drivers.

Timeliness

The Bank shall make effort to define input data and to set the frequency of reporting so that the information of the results is not outdated.

Asset and Liability Management Division is responsible for the efficient liquidity management as well as the structuring and management of the balance sheet in line with the strategic goals and guidelines whiles Risk Management Division is responsible for the continuous and timely identification and measurement of the liquidity risk and reporting on the liquidity risk in accordance with the external and internal regulation as well as for the methodology of the liquidity risk measurement and stress testing.

Measurement of the Liquidity Risk

The Bank applies Group's and regulatory standards, measurement methodologies and reports on liquidity risk. Risk Management Division is responsible for the continuous and timely identification and measurement of liquidity risk and reporting on liquidity risk in accordance with the external and internal regulation, reporting to ALCO Board about implemented decisions including data collection, modelling and implementing of assumptions, taking into account Bank's market features.

The survival period analysis ("SPA") is the key tool for measuring insolvency risk, thus focuses on the "dynamic" stress testing methodology for measuring liquidity risk. SPA is monitored separately for the major currencies EUR, CHF, USD, HRK and other currencies consolidated. The product structure gives a comprehensive overview of the entity's on balance and off balance sheet cash.

11. LIQUIDTY RISK (CONTINUED)

A process shall be established which ensures the timely update of the product structure in case of new product implementations or changes in the product attributes. Product mapping is reconciled with IFRS reporting package and is regularly monitored.

Risk measures using stress testing:

1. ordinary course of business
2. mild idiosyncratic crisis
3. severe idiosyncratic crisis
4. mild market
5. severe market crisis
6. combination of severe idiosyncratic and market crisis.

12. OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and excludes strategic risk.

The operational risk management system includes the following:

1. the operational risk management,
2. policy and other internal acts which defines general rules or principles, procedures and methods for operational risk management,
3. an organizational structure and resources for the operational risk management,
4. the operational risk management process which includes:
    - identification,
    - measurement (assessment),
    - control,
    - monitoring and
    - reporting,
5. business continuity management,
6. identification and maintenances of the capital adequacy for operational risk.

Operational Risk Management Process

Significant operational risk is considered to be an operational risk which might have a significant material effect on the financial result and or on the Group's assets. The operational risk and its significant presence in all activities, products and processes will be identified by the Group. The measurement (assessment) of operational risk includes the collecting and analysing of relevant data on identified operational risk upon which the measurement and level of operational risk is defined.

The identified operational risks will be measured (assessed) by the Group in all its activities, products and processes. The operational risk identification and measurement (assessment) system includes regular methods and partial methods applied in certain situations.

12. OPERATIONAL RISK (CONTINUED)

Managing is conducted on all the Group's identified operational risks in all its activities, products and processes.

The containing of operational risk implies preventive and corrective activities or methods, criteria and procedures with the goal of approval, avoidance, mitigation or transfer of identified risk.

- **Avoidance** implies non-undertaking of certain activities with the intent to prevent the operational risk arising from the concerned activities.
- **Mitigation and controlling** implies the improvement of business processes and practices and/or introduction of control to reduce the operational risk.
- **The transfer** implies the transfer of operational risk to third parties via insurance or other specific financial instruments.
- **Adopting** implies bringing of a formal decision on adopting operational risk by the competent authorities or the Bank's organization units.

The monitoring of the operational risk exposure implies a regular result analysis of identification and measurement (assessment) of operational risk and information on the operational risk control activities.

Exposure to operational risks is determined by methods of identification and measurement (assessment) of operational risk.

Capital Adequacy

The Bank, for the capital adequacy is using the standardized approach, according to the article 315 CRR while the Group Members are using Basic indicator approach ("BIA") in accordance to the article 316 CRR.

The Bank will provide the operational risk capital requirements in such a way that, constantly and on the Bank's individual level, provides the capital amount for the operational risk which is adequate to the type, range and complexity of its services as well as to its operational risk exposure or possible exposure within its scope of services.

(in HRK million)

13. EXPOSURES IN EQUITY NOT INCLUDED IN THE TRADING BOOK

DISCLOSURE REQUIREMENTS COVERED: ART. 447 CRR

Exposures in equity for which the Bank uses simple risk weight approach

Equity investments	Risk weight	Exposure value	Risk weighted exposure amount
Unlisted equity, in sufficiently diversified portfolios	190%	41	78
Listed equity	290%	11	31
Other equity exposures	370%	171	633

Exposures in equity in the Banking book

Equity investments in banking book	Comparison	
	On balance sheet amount	Market value
Investments in credit institutions	-	
Unlisted, in sufficiently diversified portfolios	-	
Investments in financial institutions	**90**	
Unlisted, in sufficiently diversified portfolios	89	
Listed	1	1
Investments in non-financial institutions	**109**	
Unlisted, in sufficiently diversified portfolios	98	
Listed	11	11
Investments in other institutions	-	
Unlisted, in sufficiently diversified portfolios	-	

Quoted equity instruments are measured at fair value on the basis of quoted prices, and fair value of unquoted equity instruments is estimated using adequate proportion of price and earnings, that is proportion of price and cash flows reflecting specific considerations of the issuer.

Accounting measurements and policies are shown within Annual report published on the Internet sites of the Bank.

14. CREDIT RISK MITIGATION TECHNIQUES

DISCLOSURE REQUIREMENTS COVERED: ART. 453 CRR

Collateral represents secondary source of payment, while the primary source of payment is customer cash payment. Collaterals also represent the credit risk protection.

Credit protection are collaterals pursuant to which the Bank has the right to act against the collateral issues in order to reduce the loss due to borrower is going into default (according to Manual of the internal system of clients and placements allocation) or the loss due to borrower not settling any other obligation toward the Bank. Recovery from collateral must be performed according to relevant payment procedures and payments from collateral must be documented and recorded in the system.

The following types of collaterals are accepted:

- Real estate (this includes both commercial and residential)
- Financial collateral (mainly securities and cash deposits)
- Guarantees (given mostly by states, banks and companies, all guarantees must have a minimum credit rating which is reviewed annually).

Amount and type of collateral depends on the assessment of the counterparty credit risk. Eligible collateral are those that are in accordance with Basel III regulation and are appropriate to reduce the capital requirements in the calculation of the required own funds of the Bank.

Basel III regulation lays down minimum requirements for each type of credit protection, in Collateral Catalog is indicated which minimum requirements has to be fulfilled for eligible collateral.

For reducing the capital requirements the Bank uses:

- Material credit protection - properties (collaterals) owned by the collateral issuer which can be hold by the Bank or sold by the Bank in the case borrower went into default or the borrower not settling any other obligation towards the Bank, or in the case of insolvency or bankruptcy of the borrower.
- Non-material credit protection - the amount of credit protection priory agreed, which the collateral owner will pay to the Bank in the case borrower went into default or the borrower not settling any other obligation towards the Bank, or in the case of insolvency or bankruptcy of the borrower.

Collateral revaluation is done periodically and is automated as far as possible.

Collateral coverage is determined by collateral acceptable value where the valuation rate for collateral category used is defined in Collateral management policy.

Collateral management policy is the level A document which, among others, prescribes:

- Definition and the role of collateral,
- Competencies and responsibilities in the Collateral management process,
- Standards for collateral valuation,
- Definition of effective interest rate,
- Eligibility of collateral.

Methods and conversion factor for collateral valuation are results of empirical research and experience in the liquidation of the collateral in Collection and Work-out Division which are based on collected data on the proceeds from the realization of collateral. Conversion factors are checked regularly, at least once per year, and are aligned with the realized collateral recovery. In the financial reports, acceptable value of collateral is capped by the exposure volume.

14. CREDIT RISK MITIGATION TECHNIQUES (CONTINUED)

Determining the value of collateral and their subsequent valuation, according to types of collateral, are carried out in accordance with the internal generated rules and in accordance with regulatory requirements. Collateral valuation is based on current market prices with an amount that can be recovered within a reasonable period being taken into account.

Collateral revaluation is done periodically and is automated as far as possible. In the course of monitoring changes of the value of real estate collateral that occurred since the previous valuation are observed and the actual market development (based on market indices) is reflected. Statistical method for real estate that cannot be done, weather due to nature of real estate, or significant deviation due to mentioned or significant exposure to client, revaluation is done by authorized valuator.

For commercial real estate revaluation has to be performed at least every three years, in between revaluations, once a year monitoring process is done.

Licensed appraisers:

- have to have the required qualification and experience. The degree of training, whereby external training and personal experience, has to be taken into account,
- should not be involved in the credit approval process, nor should they be involved in real estate market transactions,
- should not have any legal or business relation with the borrower, nor should they have their own interest concerning real estate appraisal value.

Banks authorized valuators are considered to be licensed appraisers and expert witnesses at Erste nekretnine d.o.o. and real estate valuators that are on the list of official Erste nekretnine d.o.o. Erste nekretnine d.o.o. monitors authorized valuators who are not their employees.

Internal acts are designed in defined rules and procedures for accepting collateral, monitoring and booking their values.

(in HRK million)

14. CREDIT RISK MITIGATION TECHNIQUES (CONTINUED)

Exposure considering credit risk mitigation – Standardised approach

SA Exposure class	Funded credit protection		Unfunded credit protection	
	Exposure value secured by financial collateral	Exposure value secured by other funded credit protection	Exposure value secured by guarantees	Exposure value secured by other unfunded credit protection
Exposures to regional governments or local authorities	-	-	-	-
Exposures to public sector entities	-	-	2,791	-
Exposures to institutions (credit institution and investment firms)	18	-	-	-
Exposures to corporates	530	-	7	-
Retail exposures	13	-	-	-
TOTAL	**561**	-	**2,798**	-

Exposure considering credit risk mitigation (without securitization positions) – IRB approach

IRB Exposure class	Funded credit protection		Unfunded credit protection	
	Exposure value secured by financial collateral	Exposure value secured by other funded credit protection	Exposure value secured by guarantees	Exposure value secured by other unfunded credit protection
Exposures to central governments or central banks	264	-	1,040	-
Exposures to institutions	951	-	-	-
Exposures to corporates	1,128	-	1,785	-
Retail exposures	988	-	11	-
Retail exposures secured by real estate	274	-	11	-
Other Retail exposures	714	-	-	-
of which exposure to SME	55	-	-	-
TOTAL	**3,331**	**-**	**2,836**	-

(in HRK million)

15. ASSET ENCUMBRANCE

DISCLOSURE REQUIREMENTS COVERED: ART. 443 CRR

In 2015 median for the asset encumbrance ratio for the Group amounts 8.10%, and individually for the Bank amounts 8.47%. The majority of the encumbered asset is result of the Bank's business activities. The Bank in Croatia is a typical commercial bank (accepting deposits and giving loans financial institution) which as the most significant source of financing uses client's deposits base, then deposits and loans from owners and equity. The Bank as well as the Bank's owners provide financing sources also for local subsidiaries. That is the main reason for low level of encumbered asset. Also, it's a good indicator how the Bank and the Group sufficiently manage the financing sources and liquidity position. The low level of encumbered asset is also an indicator that the Bank and the Group enjoys the confidence of the market and clients, so up to now there was no significant need to encumber asset in order to maintain existing financing lines and ensure new ones.

The main sources of encumbered asset are obligatory reserve, repo transactions and pledge of asset to provide favorable financing sources. Obligatory reserve is a mandatory according to the CNB decision. In last two cases, mostly there is a pledge of government debt securities. The difference is in transaction maturity profile. In transactions where the pledge is used to provide favorable financing sources the asset is encumbered for a longer period according the validity of the agreed financing line. While at repo activities, the asset is encumbered with goal to optimize short term liquidity position or with the purpose to participate in the inter-bank market in order to achieve additional income in the short run. This practice of asset encumbrance is a common for the Group, especially for the Bank as well as for the local financial market.

Form A - Asset		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
		010	040	060	090
010	**Assets of the reporting institution**	**5,451**		**65,726**	
030	Equity instruments	138	138	106	106
040	Debt securities	2,256	2,256	6,481	6,486
120	Other assets	2,399		59,307	

Form B – Collateral received		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	**Collateral received by the reporting institution**	**470**	**1,471**
150	Equity instruments	-	537
160	Debt securities	470	935
230	Other collateral received	-	-
240	**Own debt securities issued other than own covered bonds or ABSs**	**-**	**-**

(in HRK million)

15. ASSET ENCUMBRANCE (CONTINUED)

Form C – Encumbrance asset/collateral received and related obligation		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	2,721	5,922

16. REMUNERATION POLICY

DISCLOSURE REQUIREMENTS COVERED: ART. 450 CRR

Remuneration Policy (“the Policy“) provides a framework for fix and variable remuneration of employees of the Bank in accordance with ZOKI (Official Gazette of the Republic of Croatia No 159/2013), the Decision on Remuneration (Official Gazette of the Republic of Croatia No 73/2014), Commission Delegated Regulation (EU) No. 604/2014 and current with existing Group Variable Remuneration Policy.
The Policy is related to all remuneration paid to employees in cash and in kind, fix and variable, which the Bank pays to employees in exchange for their work. The Policy does not regulate the payments and benefits which are not dependent on the discretionary decision and which refer to all employees. The Policy takes into consideration the principle of proportionality, in accordance with article 4 of the Decision on Remuneration, which defines the Bank as significant credit institution.

The Remuneration Policy is adopted by the Management Board, with the approval of the Supervisory Board, which is responsible for the supervision of the implementation of this Policy.

The Policy is structured in a way to define the general requirements applicable to all employees and specific requirements, related to material risk takers. The Policy also regulates the remuneration of employees working in control functions and regulates the measures for the prevention of conflict of interest in determining the remuneration of employees.

The Policy pays a special attention to variable payments. Criteria for the determination and the payment of variable pay on the level of the Bank, organisational unit and employees, are related to the level of accomplishment of preset goals within the performance management cycle. The variable pay is related to the success of the business operation of the Bank and the success of the Group. Variable payments are paid for the sustainable success adjusted to risks, as well as the individual success of employees and the organisational unit. They will be awarded and paid only if such a payment is sustainable related to the financial situation of the Bank and justified related to the business performance. In case such a payment is not sustainable or does not reflect the good performance, it will not be paid or will be retained.

The performance of the Bank, organisational unit and individual performance are measured by quantitative goals (financial goals and other business specific goals) and qualitative goals (competencies, i.e. standard expected behavior of employees).

The Supervisory Board will make a separate decision on the criteria applied for each business year, for different categories of employees. The evaluation of the fulfilment of these criteria will determine the percentage of the total bonus opportunity which can be paid for certain categories of employees after the evaluation of individual performance. Such a percentage can be in the range from 0% to 120% of the bonus opportunity. Each payment of bonus below 100% represents a malus.

16. REMUNERATION POLICY (CONTINUED)

A decision on total bonus opportunity on annual level is made by the Management Board and confirmed by the Supervisory Board on the proposal of the Remuneration Committee. The decision on the payment of variable pay is made by the Supervisory Board, as follows:

- the decision on the total amount of variable pay which will be paid to all employees of the Bank for the performance period;
- on the individual level, the decision on the payments to the Management Board Members and the persons responsible for control functions;
- the decrease or non-payment of variable pay, including the activation of provisions on malus and claw back, in case a substantial deterioration of performance or losses occur.

While making the risk analysis and the analysis of employees to whom the specific requirements apply, the Bank took into consideration the internal organisation, the scope and complexity of operations, responsibilities of employees, the possibility to make business decisions, making a differentiation between job positions with significant influence to risk profile and support job positions which have no or little influence or cannot make important business decision which would lead to excessive risk taking. Other criteria are also taken into consideration as for example the condition in the employment market and competitiveness.

The evaluation of performance for the material risk takers (“MRT“) takes into consideration the long term aspect, in order to ensure that the process of evaluation is based on long term success.

In accordance with the above, the Bank will defer 40% of variable pay of MRT for the period of 3 to 5 years. The deferral period for members of the Management Board is 5 years, and for other MRT, the deferral period is 3 years. 50% of both upfront and deferred part of variable pay will be paid in instruments.

The instrument to which 50% of variable pay is bound, is phantom shares of Erste Group Bank AG, according to the average share price during the business year for which variable pay is granted, the maximum value being the one on the date they are rewarded. Phantom shares must be kept during the retention period of 1 year.

The Bank will not pay variable pay, nor transfer the rights from instruments, including the deferred part of already granted instalments, if such a payment is not sustainable or justified. Variable payments are considered as sustainable if, in the period from their award until their payment is due, the Bank’s financial standing is not endangered, stays secure and stable. Variable payments are considered as justified if their payment is based on the success of the Bank, business unit and specific employee.

The Bank will not apply the deferral of variable pay to those employees, identified as MRT in accordance with this Policy, if their annual variable remuneration does not exceed the amount of HRK 100.000 or if their annual variable remuneration does not exceed 30% of fix annual remuneration.

(in HRK million)

16. REMUNERATION POLICY (CONTINUED)

Remuneration amounts by the business area

Business area	Number of employees who receive remuneration	Fixed remuneration	Variable remuneration
Management board	6	9	4
Others	34	23	8
TOTAL	**40**	**32**	**12**

Total remuneration by categories of income received

Remuneration	Management Board and key management
Remuneration received	**44**
Fixed income	32
Variable income	11
Number of employees	40
Amounts and instruments of variable income	**12**
Cash	7
Financial instruments – shares underlying	5
Amount of deferred income	**9**
Income assessed during business year	6
Income paid out during business year	3
Amount of severance payments assessed during business year	**2**
Highest assessed amount to one employee	2
Number of employees severance payment is paid out	1

17. ABBREVIATIONS

ALCO – Asset Liability Management Committee

ALM – Asset Liability Management

AQR – Asset Quality Review

CCF – Credit Conversion Factor

CMLL – Calculated Maximum Lending Limit

CRD IV – Capital Requirements Directive 2013/36 EU

CRO – Chief Risk Officer

CRR – Capital Requirements Regulation 575/2013

QRD – Quantitative research department

EBA – European Banking Authority

ECB – European Central Bank

EGB – Erste Group Bank AG

EVA – Economic Value Added

ICAAP – Internal Capital Adequacy Assessment

LGD – Loss Given Default

LIP – Loss Identification Period

IFRS – International financial reporting standards

OLL – Operating Lending Limit

PD – Probability of Default

PVBP – Price Value of a Basis Point

RAS – Risk appetite statement

RbLL – Rating Based Lending Limit

SKDD – Central Depositary and Clearing Company