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# Disclosure requirements for the Group Erste&Steiermärkische Bank d.d. as of 31 December 2017

**Zagreb, May 2018**

Registered at the Commercial Court in Rijeka MBS: 040001037 · Company No./MB: 3337367 · VAT ID: HR23057039320 · IBAN: HR9524020061031262160 · SWIFT/BIC: ESBCHR22 · Equity of 1,698,417,500 HRK paid in total and divided in 16,984,175 shares, nominal value of the share is 100.00 HRK · Management Board: Christoph Schoefboeck, Borislav Centner, Martin Hornig, Slađana Jagar, Zdenko Matak · Chairman of the Supervisory Board: Willibald Cernko

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 ("CRR") and according to Article 165 and 166. of Credit Institution Act for the Group Erste&Steiermärkische Bank d.d. as of 31 December 2017, as follows:

*(in HRK million)*

## OVERVIEW OF DISCLOSED NOTES IN THE ANNUAL REPORT

| CRR Article | Disclosure description | Note in Annual Report | Page number in Annual Report |
|---|---|---|---|
| 436 (b)-(e) | Regulatory Scope of Consolidation | 41. Own funds and capital requirements | 207-211 |
| 437(1)(a) | Statement of financial position reconciliation | 41. Own funds and capital requirements | 214-217 |
| 437(1)(d)(e) | Own funds during transitional period | 41. Own funds and capital requirements | 218-228 |

# 1. GENERAL INFORMATION

## DISCLOSURE REQUIREMENTS COVERED: ART. 436 (a) CRR

Erste&Steiermärkische Bank d.d. („Bank”) was established in 1954 and was entered into the Court Register as a joint stock company on 24 January 1990. The Bank’s registered head office is at Jadranski trg 3a, Rijeka, the Republic of Croatia.

The Bank is the holding company for the Erste Bank Croatia Group (“Group”) that operates in the Republic of Croatia, Republic of Montenegro, Republic of Slovenia and Republic of Macedonia.

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 institutions 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. 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%).

## 1.1. GOVERNING BODIES

In its business, the Bank applies highest ethical standards of corporate governance and individual behaviour. The Bank's work environment has to be exempt from any inappropriate impacts and behaviour which is prescribed by the Bank's internal regulations and is in accordance with the standards of Erste Group.

The Bank's internal act established a general framework for the prevention of conflicts of interest in identified areas where a potential conflict of interest could arise (identifying and monitoring the risk of conflict of interest). The Bank's internal act prescribe general principles for managing conflicts of interest, concerning of investment services and activities of the Bank, in the performance of outside activities, business gifts, confidential information, linkage and establishing a clear and documented decision-making process.

The Bank brings appropriate measures and establishes procedures for adequately managing conflict of interest.

### 1.1. GOVERNING BODIES (CONTINUED)

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.

**Supervisory Board**

| | |
|---|---|
| Willibald Cernko | President |
| Sava Ivanov Dalbokov | Deputy President |
| Mag. Franz Kerber | 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 | President |
| Borislav Centner | Member |
| Slađana Jagar | Member |
| Zdenko Matak | Member |
| Martin Hornig | Member |

**Procurators**

On 31 December 2017, the Bank has no procurator.

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 of which one is the president and comprises Supervisory Board members. In 2017 Risk Committee had one session in writing, on which have adopted three decisions.

Number of management positions within the Group with the members of the governing bodies is 42.

### 1.1. GOVERNING BODIES (CONTINUED)

General Assembly of the Bank made, with prior approval of the Management Board and the Supervisory Board, the Suitability Policy which governs the following related to the Management Board members:

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,
6) form and method of filing the documents of suitability assessment procedure,
7) the procedure of permanent education of the President and members of the Management Board members in order to ensure their knowledge is continuously suitable.

The objective and scope of the Policy, related to the Management Board members, 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 a 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 affect 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.

Staffing plan for Management Board Funcions is created by Erste Group Bank AG. The diversity and inclusion policy was adopted for 2017, and it regulates the principles of diversity and inclusion that Erste Group undertakes to respect. In line with CRD IV, the Management Board of Erste Group Bank AG has set targets for the entire Group which defines that top management should be 35% of women (Boards members and B-1 directors) by 2019 and 35% of women in Supervisory Boards by 2019. This target only applies to banks as this applies to EU financial institutions and ESB Group will try to apply this percentage to it's management.

## 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 obligation 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.

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.

### 1.2. RISK POLICY AND STRATEGY (CONTINUED)

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 loans 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.

#### 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.

### 1.2. RISK POLICY AND STRATEGY (CONTINUED)

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.

Risk Management Division / Operational, Market and Liquidity Risk Management Department monitors and reports of market risk. Market risk may arise in Trading Book as well as in Banking Book. Trading book means all positions in financial instruments and commodities held by an institution either with trading intent, or in order to hedge positions held with trading intent. Position part of the Trading Book if position is taken by a designated trading unit and with trading intent. Positions which do not fulfill the relevant criteria for the trading book are instead assigned to the Banking book. Market risk of specific products is measured by the sensitivity limits (PVBP, CRPV, FX Delta, Equity Delta), Stop Loss limits and VaR. Value at Risk (VaR) calculation is performed in ESB using Erste Group’s MRS system.

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

#### Information flow of risk

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

The Bank collects information about the client based on client’s obligation 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.

### 1.2. RISK POLICY AND STRATEGY (CONTINUED)

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.

**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 aim 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, market, liquidity and funding risk and non-financial risk, as well as currency-induced credit risk and business/strategic 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.

In 2017 management continued to focus on critical NPL portfolios and on improvement of overall portfolio quality. NPL portfolio sales contributed to the clean-up activities as well as write-offs. In 2018 the focus will remain on optimizing the risk costs resulting from the workout portfolio.

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 2017 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)

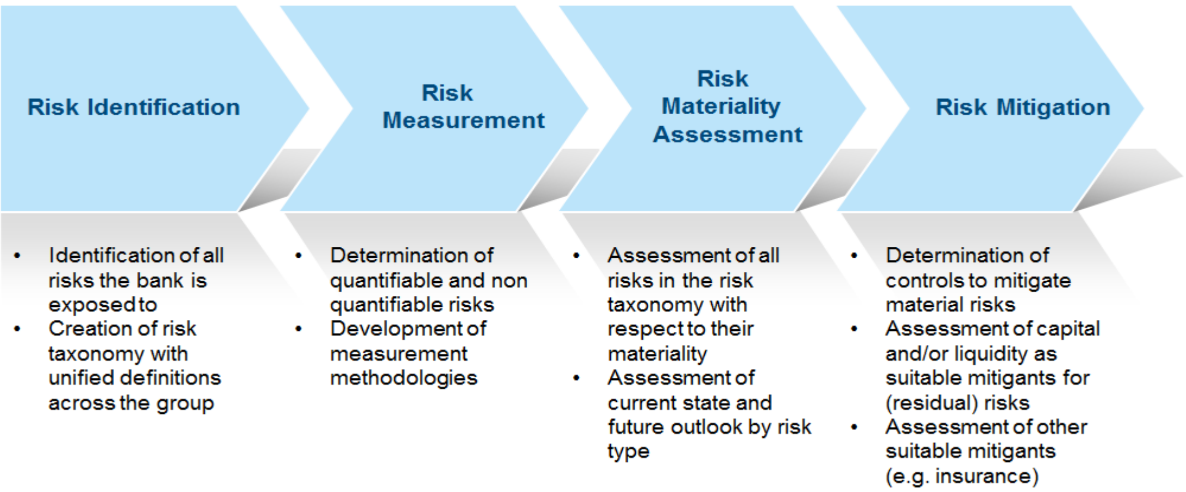
The key objective of the appetite for risk is:

- ensure that the Group at all times has sufficient funds to support operations and the absorption 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, market, non-financial, liquidity and funding 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. 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 taken risk level. 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 2017 the relevant risk appetite indicators have evolved within defined limits, except for risk earnings ratio, which has breached the trigger level (amber). This breach is under management supervision.

## 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 to which the Group is exposed in order to determine the necessity of calculating capital requirements for certain risk types.

In addition to applying advanced methods for calculating capital requirements, ICAAP is also considering external factors such as 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 level of capital that is sufficient to cover all risks to which the Group is exposed. ICAAP should also provide management with a stressed view on economic capital adequacy based on severe but plausible scenario. The risk capacity calculation thus includes both stressed economic capital and a stressed coverage potential. 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 from 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 coverage potential. Total eligible amount of risk-taking in relation to the internal capital represents the economic capital adequacy. Stressed economic capital adequacy puts into relation stressed economic capital and stressed coverage potential. Stressed economic capital adequacy puts into relation stressed economic capital and stressed coverage potential. The results are analyzed within the Risk Management Division, and 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.

*(in HRK million)*

## 2. 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.

**EU OV1: Overview of RWAs**

| | | | RWAs | | Minimum capital requirements |
|---|---|---|---|---|---|
| | | | 31.12.2017 | 31.12.2016 | 31.12.2017 |
| | **1** | **Credit risk (excluding CCR)** | **36,895** | **36,629** | **2,952** |
| Article 438(c)(d) | 2 | Of which the standardised approach | 10,505 | 11,176 | 840 |
| Article 438(c)(d) | 3 | Of which the foundation IRB (FIRB) approach | 18,695 | 17,854 | 1,496 |
| Article 438(c)(d) | 4 | Of which the advanced IRB (AIRB) approach | 5,998 | 5,876 | 480 |
| Article 438(d) | 5 | Of which equity IRB under the simple risk-weighted approach or the IMA | 604 | 627 | 48 |
| **Article 107 Article 438(c)(d)** | **6** | **CCR** | **120** | **456** | **10** |
| Article 438(c)(d) | 7 | Of which mark to market | 120 | 456 | 10 |
| Article 438(c)(d) | 8 | Of which original exposure | - | - | - |
| | 9 | Of which the standardised approach | - | - | - |
| | 10 | Of which internal model method (IMM) | - | - | - |
| Article 438(c)(d) | 11 | Of which risk exposure amount for contributions to the default fund of a CCP | - | - | - |
| Article 438(c)(d) | 12 | Of which CVA | 26 | 231 | 2 |
| **Article 438(e)** | **13** | **Settlement risk** | **-** | **-** | **-** |
| **Article 449(o)(i)** | **14** | **Securitisation exposures in the banking book (after the cap)** | **-** | **-** | **-** |
| | 15 | Of which IRB approach | - | - | - |
| | 16 | Of which IRB supervisory formula approach (SFA) | - | - | - |
| | 17 | Of which internal assessment approach (IAA) | - | - | - |
| | 18 | Of which standardised approach | - | - | - |
| **Article 438 (e)** | **19** | **Market risk** | **354** | **244** | **28** |
| | 20 | Of which the standardised approach | - | - | - |
| | 21 | Of which IMA | - | - | - |
| **Article 438(e)** | **22** | **Large exposures** | **-** | **-** | **-** |
| **Article 438(f)** | **23** | **Operational risk** | **5,739** | **5,787** | **459** |
| | 24 | Of which basic indicator approach | 1,763 | 1,856 | 141 |
| | 25 | Of which standardised approach | 3,976 | 3,931 | 318 |
| | 26 | Of which advanced measurement approach | - | - | - |
| **Article 437(2), Article 48 and Article 60** | **27** | **Amounts below the thresholds for deduction (subject to 250% risk weight)** | **-** | **-** | **-** |
| **Article 500** | **28** | **Floor adjustment** | **-** | **-** | **-** |
| | **29** | **Total** | **43,108** | **43,116** | **3,449** |

*(in HRK million)*

## 2. CAPITAL REQUIREMENTS (CONTINUED)

For exposures subject to Part Three, Title II, Chapter 3 of the CRR (IRB approach) the variations of RWAs over the period are analyzed.

### EU CR8 – RWA flow statements of credit risk exposures under the IRB approach

Most significant changes on risk weight assets are driven by change of asset size and asset quality:

| | | RWA amounts | Capital requirements |
|---|---|---|---|
| 1 | RWAs as at the end of the previous reporting period | 25,565 | 2,045 |
| 2 | Asset size | 2,026 | 162 |
| 3 | Asset quality | (1,813) | (145) |
| 4 | Model updates | 393 | 31 |
| 5 | Methodology and policy | - | - |
| 6 | Acquisitions and disposals | - | - |
| 7 | Foreign exchange movements | (94) | (8) |
| 8 | Other | - | - |
| 9 | RWAs as at the end of the reporting period | **26,077** | **2,085** |

## 2.1. 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 and (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

## 2.1. 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) | subordinated loan | subordinated loan | subordinated loan | subordinated loan |
| 3. | Governing law(s) of the instrument | Croatian Law | 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 and (sub-) consolidated | solo and (sub-) consolidated | solo and (sub-) consolidated | solo and (sub-) consolidated | solo and (sub-) consolidated |
| 7. | Instrument type (types to be specified by each jurisdiction) | subordinated loan | subordinated loan | subordinated loan | subordinated loan |
| 8. | Amount recognised in regulatory capital (currency in million, as of most recent reporting date) | 225 HRK | 225 HRK | 190 HRK | 423 HRK |
| 9. | Nominal amount of instrument | 30,000,000.00 EUR | 30,000,000.00 EUR | 30,000,000.00 EUR | 80,000,000.00 EUR |
| 9.a | Issue price | N/A | 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 | 11 December 2017 | 19 March 2015 | 19 March 2015 | 10 July 2014 |
| 12. | Perpetual or dated | dated | dated | dated | dated |
| 13. | Original maturity date | 11 December 2024 | 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 |

“N/A“ not applicable

The table is continued on the next page.

*(in HRK million)*

## 2.1. CAPITAL INSTRUMENTS' MAIN FEATURES (CONTINUED)

| | | Tier 2 Capital instruments | | | |
|---|---|---|---|---|---|
| | ***Coupons/ dividends*** | | | | |
| 17. | Fixed or floating dividend/ coupon | N/A | N/A | N/A | N/A |
| 18. | Coupon rate and any related index | N/A | 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) | 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

## 2.1. 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 value 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 bears one voting right on General Assembly. Bank’s shares are conducted in central depository and Clearing Company Inc., Zagreb. Dividends are paid out to shareholders according to their share in capital. Every increase or 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.

**Subordinated loans** shown in table main capital’s features meet the conditions regulated by Article 63 CRR for recognition asTier II capital instruments.

*(in HRK million)*

## 3. COUNTERPARTY CREDIT RISK

### DISCLOSURE REQUIREMENTS COVERED: ART. 439 CRR

Counterparty credit risk ("CCR") 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 ("VaR").

**EU CCR1 – Analysis of CCR exposure by approach**

| | | Notional | Replacement cost/current market value | Potential future credit exposure | EEPE | Multiplier | EAD post CRM | RWAs |
|---|---|---|---|---|---|---|---|---|
| 1 | Mark to market | | 52 | 149 | | | 148 | 53 |
| 2 | Original exposure | - | | | | | - | - |
| 3 | Standardised approach | | - | | | - | - | - |
| 4 | IMM (for derivatives and SFTs) | | | | - | - | - | - |
| 5 | Of which securities financing transactions | | | | - | - | - | - |
| 6 | Of which derivatives and long settlement transactions | | | | - | - | - | - |
| 7 | Of which from contractual cross-product netting | | | | - | - | - | - |
| 8 | Financial collateral simple method (for SFTs) | | | | | - | - | - |
| 9 | Financial collateral comprehensive method (for SFTs) | | | | | | 1.418 | 40 |
| 10 | VaR for SFTs | | | | | | - | - |
| **11** | **Total** | | | | | | | **93** |

Exposure to counterparty credit risk after credit risk mitigation from derivative transactions as at 31 December 2017 was HRK 57 million. Counterparty credit risk exposure is calculated on the basis of mark-to-market method.

*(in HRK million)*

## 3. COUNTERPARTY CREDIT RISK (CONTINUED)

### EU CCR2 – CVA capital charge

| | | Exposure Value | RWAs |
|---|---|---|---|
| 1 | Total portfolios subject to the advanced method | - | - |
| 2 | (i) VaR component (including the 3× multiplier) | - | - |
| 3 | (ii) SVaR component (including the 3× multiplier) | - | - |
| 4 | All portfolios subject to the standardised method | 77 | 26 |
| EU4 | Based on the original exposure method | - | - |
| **5** | **Total subject to the CVA capital charge** | **77** | **26** |

Bank's credit exposure to counterparty credit risk is calculated based on the standardized method and shows the stability during the reported period.

### EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk.

| | Exposure Classes | RW | | | | | | | | | | Total | of which Unrated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 0% | 2% | 4% | 10% | 20% | 50% | 70% | 75% | 100% | 150% | | |
| 1 | Central governments or central banks | - | - | - | - | - | - | - | - | - | - | - | - |
| 2 | Regional government or local authorities | - | - | - | - | - | - | - | - | - | - | - | - |
| 3 | Public sector entities | - | - | - | - | - | - | - | - | - | - | - | - |
| 4 | Multilateral development banks | - | - | - | - | - | - | - | - | - | - | - | - |
| 5 | International organisations | - | - | - | - | - | - | - | - | - | - | - | - |
| 6 | Institutions | - | - | - | - | - | - | - | - | - | - | - | - |
| 7 | Corporates | - | - | - | - | - | - | - | - | 56 | - | 56 | 56 |
| 8 | Retail | - | - | - | - | - | - | - | - | - | - | - | - |
| 13 | Institutions and corporates with a short term credit assessment | - | - | - | - | - | - | - | - | - | - | - | - |
| 16 | Other items | - | - | - | - | - | - | - | - | - | - | - | - |
| **17** | **Total** | - | - | - | - | - | - | - | - | **56** | | **56** | **56** |

*(in HRK million)*

## 3. COUNTERPARTY CREDIT RISK (CONTINUED)

### EU CCR4 – IRB approach – CCR exposures by portfolio and PD scale

| Exposure class | PD scale | EAD post CRM | Average PD | Number of obligors | Average LGD | Average maturity | RWA | RWA density |
|---|---|---|---|---|---|---|---|---|
| Institutions | 0.00 do <0.15 | 1,140 | 0.14% | 1 | 1% | - | 7 | 1% |
| Institutions | 0.15 do <0.25 | - | 0.00% | - | 0% | - | - | 0% |
| Institutions | 0.25 do <0.50 | - | 0.00% | - | 0% | - | - | 0% |
| Institutions | 0.50 do <0.75 | - | 0.00% | - | 0% | - | - | 0% |
| Institutions | 0.75 do <2.50 | 8 | 1.83% | 2 | 1% | - | - | 4% |
| Institutions | 2.50 do <10.00 | 78 | 3.96% | 2 | 2% | - | 4 | 6% |
| Institutions | 10.00 do <100.00 | 19 | 10.24% | 1 | 3% | - | 2 | 13% |
| Institutions | 100.00 (Default) | - | 0.00% | - | 0% | - | - | 0% |
| Institutions | **Sub-total** | **1,245** | **0.55%** | **6** | **1%** | **-** | **13** | **1%** |
| | **Total (all portfolios)** | **1,509** | **1.14%** | **32** | **2%** | **-** | **37** | **3%** |

| Exposure class | PD scale | EAD post CRM | Average PD | Number of | Average LGD | Average maturity | RWA | RWA density |
|---|---|---|---|---|---|---|---|---|
| Corporate | 0.00 do <0.15 | - | 0.00% | - | 0% | - | - | 0% |
| Corporate | 0.15 do <0.25 | 170 | 0.23% | 1 | 4% | - | 4 | 3% |
| Corporate | 0.25 do <0.50 | - | 0.00% | - | 0% | - | - | 0% |
| Corporate | 0.50 do <0.75 | - | 0.69% | 2 | 45% | - | 1 | 81% |
| Corporate | 0.75 do <2.50 | 42 | 1.61% | 14 | 17% | - | 13 | 32% |
| Corporate | 2.50 do <10.00 | 17 | 7.74% | 6 | 5% | - | 2 | 14% |
| Corporate | 10.00 do <100.00 | 35 | 22.81% | 3 | 2% | - | 4 | 10% |
| Corporate | 100.00 (Default) | - | 0.00% | - | 0% | - | - | 0% |
| Corporate | **Sub-total** | **264** | **3.92%** | **26** | **6%** | **-** | **24** | **9%** |
| | **Total (all portfolios)** | **1,509** | **1.14%** | **32** | **2%** | **-** | **37** | **3%** |

*(in HRK million)*

## 3. COUNTERPARTY CREDIT RISK (CONTINUED)

### EU CCR5-A i EU CCR5-B – Impact of netting and collateral held on exposure values

| | | Gross positive fair value or net carrying amount | Netting benefits | Netted current credit exposure | Collateral held - financial collateral | Net credit exposure |
|---|---|---|---|---|---|---|
| 1 | Derivatives | 149 | - | - | 92 | 57 |
| 2 | SFTs | 2,078 | - | - | 2,019 | 1 |
| 3 | Cross-product netting | - | - | - | - | - |
| **4** | **Total** | **2,227** | **-** | **-** | **2,111** | **58** |

The Bank exchanges financial collaterals for repo and derivatives exposure. The majority of the derivatives are contracted through regular business with the clients, during which the closing of the positions with Erste Group Bank AG is done.

### Collateral assurance

Bank employs repurchase agreements and master netting agreements (on-balance sheet and off-balance sheet netting) 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 the hands of a lender as collateral in case that the debtor 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 2017 published on the web site of the Bank under Note 12 Derivatives held for trading.

DISCLOSURE REQUIREMENTS COVERED: ART. 439 (c), (e) AND (f) CRR

Wrong-way risk is the risk that occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. In short it arises when default risk and credit exposure increase together. Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC derivatives. For the CVA the adjustment is driven by the expected positive exposure and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Bank’s credit quality. The bank has implemented an approach, where the modelling of the expected exposure is based on option replication strategies. This modelling approach is considered for the most relevant portfolios and products. The probability of default of counterparties which are not traded in an active market is determined from internal PDs mapped to a basket of liquid companies being present in the central European market. Thereby market based valuation concepts have been incorporated.

Counterparties with liquid bond or CDS markets are valued by the respective single-name market based PD derived from the prices. The Bank’s probability of default has been derived from the buy-back levels of the Bank’s issuances.

*(in HRK million)*

## 4. 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 client. 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

| Net credit risk exposure by exposure category | Loans, deposits, interest claims and other claims | Securities | Off balance sheet items | Derivatives |
|---|---|---|---|---|
| | Total amount | Total amount | Total amount | Total amount |
| Exposure to central governments or central banks | 10,699 | 8,792 | 65 | - |
| Exposure to regional governments and local authorities | 895 | - | 28 | - |
| Exposure to public sector entities | 2,689 | 156 | 189 | - |
| Exposure to institutions (credit institutions and investment firm) | 2,222 | 126 | 193 | 96 |
| Exposure to multilateral development banks | - | 247 | - | - |
| Exposure to corporates | 15,082 | 313 | 8,544 | 54 |
| Exposure to retail | 19,049 | - | 2,490 | - |
| Exposures secured by mortgages on immovable property | 828 | - | - | - |
| Exposures in default [1] | **676** | **-** | **4** | **-** |
| Exposures to subjects of collective investments undertakings (CIU) | **-** | **139** | **-** | **-** |
| Other exposures | **859** | **-** | **-** | **-** |
| Equity exposures | **207** | **-** | **-** | **-** |
| **TOTAL** | **53,206** | **9,773** | **11,513** | **150** |

[1] In accordance to Art. 112 CRR exposures in default are shown in STD approach.

*(in HRK million)*

## 4. CREDIT RISK (CONTINUED)

### EU CRB-B – Total and average net amount of exposures

| | | Net exposure at the end of the period | Average net exposure over the period |
|---|---|---|---|
| 1 | Central governments or central banks | 12,159 | 12,622 |
| 2 | Institutions | 2,419 | 3,367 |
| 3 | Corporates | 19,315 | 18,518 |
| *4* | *Of Which: Specialised Lending* | *2,532* | *2,276* |
| *5* | *Of Which: SME* | *10,279* | *10,129* |
| 6 | Retail | 16,349 | 15,867 |
| *7* | *Secured by real estate property* | *5,936* | *5,877* |
| *8* | *SME* | *395* | *402* |
| *9* | *Non-SME* | *5,541* | *5,475* |
| *10* | *Qualifying Revolving* | - | - |
| *11* | *Other Retail* | *10,413* | *9,990* |
| *12* | *SME* | *489* | *489* |
| *13* | *Non-SME* | *9,924* | *9,501* |
| 14 | Equity | 197 | 206 |
| **15** | **Total IRB approach** | **50,439** | **50,580** |
| 16 | Central governments or central banks | 7,398 | 7,419 |
| 17 | Regional governments or local authorities | 924 | 990 |
| 18 | Public sector entities | 3,035 | 3,998 |
| 19 | Multilateral Development Banks | 247 | 62 |
| 20 | International Organisations | - | - |
| 21 | Institutions | 217 | 238 |
| 22 | Corporates | 4,677 | 4,854 |
| *23* | *of which: SME* | *2,073* | *2,300* |
| 24 | Retail | 5,190 | 4,972 |
| *25* | *of which: SME* | *573* | *566* |
| 26 | Secured by mortgages on immovable property | 828 | 782 |
| *27* | *of which: SME* | *91* | *87* |
| 28 | Exposures in default | 680 | 561 |
| 29 | Items associated with particularly high risk | - | - |
| 30 | Covered bonds | - | - |
| 31 | Claims on institutions and corporates with a short-term credit assessment | - | - |
| 32 | Collective investments undertakings (CIU) | 139 | 155 |
| 33 | Equity exposures | 10 | 29 |
| 34 | Other exposures | 858 | 871 |
| 35 | **Total SA approach** | **24,203** | **24,931** |
| **36** | **Total** | **74,642** | **75,511** |

*(in HRK million)*

## 4. CREDIT RISK (CONTINUED)

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (e) CRR

### EU CRB-C – Geographical breakdown of exposures

| | | Regional Department West | Regional Department Rijeka | Regional Department Central Croatia | Regional Department South | Regional Department Istra | Regional department Slavonija | Total Croatia |
|---|---|---|---|---|---|---|---|---|
| 1 | Central governments or central banks | 10,477 | - | - | - | - | - | **10,477** |
| 2 | Institutions | 154 | - | - | - | - | - | **154** |
| 3 | Corporates | 10,773 | 1,842 | 1,998 | 2,678 | 702 | 891 | **18,884** |
| *4* | Of Which: Specialised Lending | 1,871 | 37 | 65 | 371 | 32 | 45 | **2,421** |
| *5* | Of Which: SME | 4,005 | 1,377 | 1,762 | 1,895 | 667 | 551 | **10,257** |
| 6 | Retail | 4,730 | 3,529 | 3,250 | 2,308 | 1,214 | 1,264 | **16,295** |
| *7* | Secured by real estate property | 2,087 | 1,199 | 880 | 857 | 456 | 404 | **5,883** |
| *8* | SME | 42 | 75 | 102 | 88 | 39 | 49 | **395** |
| *9* | Non-SME | 2,045 | 1,124 | 778 | 769 | 417 | 355 | **5,488** |
| *10* | Qualifying Revolving | - | - | - | - | - | - | **-** |
| *11* | Other Retail | 2,643 | 2,330 | 2,370 | 1,451 | 758 | 860 | **10,412** |
| *12* | SME | 77 | 93 | 118 | 114 | 49 | 38 | **489** |
| *13* | Non-SME | 2,566 | 2,237 | 2,252 | 1,337 | 709 | 822 | **9,923** |
| 14 | Equity | 104 | 10 | - | - | - | - | **114** |
| **15** | **Total IRB approach** | **26,238** | **5,381** | **5,248** | **4,986** | **1,916** | **2,155** | **45,924** |
| 16 | Central governments or central banks | 6,335 | - | - | - | - | - | **6,335** |
| 17 | Regional governments or local authorities | 655 | 3 | 68 | 65 | 15 | 6 | **812** |
| 18 | Public sector entities | 2,573 | - | 2 | 2 | 301 | - | **2,878** |
| 19 | Multilateral Development Banks | - | - | - | - | - | - | **-** |
| 20 | International Organisations | - | - | - | - | - | - | **-** |
| 21 | Institutions | 59 | - | - | - | - | - | **59** |
| 22 | Corporates | 3,450 | 68 | 91 | 101 | 30 | 24 | **3,764** |
| *23* | of which: SME | 1,582 | 2 | 56 | 62 | 13 | 16 | **1,731** |
| 24 | Retail | 3,355 | - | - | - | - | - | **3,355** |
| *25* | of which: SME | 532 | - | - | - | - | - | **532** |
| 26 | Secured by mortgages on immovable property | - | - | - | - | - | - | **-** |
| *27* | of which: SME | - | - | - | - | - | - | **-** |
| 28 | Exposures in default | 658 | - | 2 | - | - | - | **660** |
| 29 | Items associated with particularly high risk | - | - | - | - | - | - | **-** |
| 30 | Covered bonds | - | - | - | - | - | - | **-** |
| 31 | Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | **-** |
| 32 | Collective investments undertakings (CIU) | 139 | - | - | - | - | - | **139** |
| 33 | Equity exposures | 2 | - | - | - | - | - | **2** |
| 34 | Other exposures | 628 | - | - | - | - | - | **628** |
| **35** | **Total SA approach** | **17,854** | **71** | **163** | **168** | **346** | **30** | **18,632** |
| **36** | **Total** | **44,092** | **5,452** | **5,411** | **5,154** | **2,262** | **2,185** | **64,556** |

*(in HRK million)*

## 4. CREDIT RISK (CONTINUED)

### EU CRB-C – Geographical breakdown of exposures (continued)

| | | EU countries | Other European countries | United States of America | Other countries | Subtotal other countries | Total |
|---|---|---|---|---|---|---|---|
| 1 | Central governments or central banks | 710 | 596 | 376 | - | **1,682** | **12,159** |
| 2 | Institutions | 2,233 | 1 | 13 | 18 | **2,265** | **2,419** |
| 3 | Corporates | 58 | 373 | - | - | **431** | **19,315** |
| *4* | Of Which: Specialised Lending | 47 | 64 | - | - | **111** | **2,532** |
| *5* | Of Which: SME | - | 22 | - | - | **22** | **10,279** |
| 6 | Retail | 37 | 10 | 4 | 3 | **54** | **16,349** |
| *7* | Secured by real estate property | 37 | 9 | 4 | 3 | **53** | **5,936** |
| *8* | SME | - | - | - | - | **-** | **395** |
| *9* | Non-SME | 37 | 9 | 4 | 3 | **53** | **5,541** |
| *10* | Qualifying Revolving | - | - | - | - | **-** | **-** |
| *11* | Other Retail | - | 1 | - | - | **1** | **10,413** |
| *12* | SME | - | - | - | - | **-** | **489** |
| *13* | Non-SME | - | 1 | - | - | **1** | **9,924** |
| 14 | Equity | - | 1 | 82 | - | **83** | **197** |
| **15** | **Total IRB approach** | 3,038 | 981 | 475 | 21 | **4,515** | **50,439** |
| 16 | Central governments or central banks | 2 | 1,061 | - | - | **1,063** | **7,398** |
| 17 | Regional governments or local authorities | - | 112 | - | - | **112** | **924** |
| 18 | Public sector entities | 157 | - | - | - | **157** | **3,035** |
| 19 | Multilateral Development Banks | - | - | - | 247 | **247** | **247** |
| 20 | International Organisations | - | - | - | - | **-** | **-** |
| 21 | Institutions | 155 | 3 | - | - | **158** | **217** |
| 22 | Corporates | 53 | 843 | 5 | 12 | **913** | **4,677** |
| *23* | of which: SME | 26 | 315 | 1 | - | **342** | **2,073** |
| 24 | Retail | 884 | 951 | - | - | **1,835** | **5,190** |
| *25* | of which: SME | - | 41 | - | - | **41** | **573** |
| 26 | Secured by mortgages on immovable property | 2 | 825 | - | 1 | **828** | **828** |
| *27* | of which: SME | - | 91 | - | - | **91** | **91** |
| 28 | Exposures in default | 6 | 11 | 3 | - | **20** | **680** |
| 29 | Items associated with particularly high risk | - | - | - | - | **-** | **-** |
| 30 | Covered bonds | - | - | - | - | **-** | **-** |
| 31 | Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | **-** | **-** |
| 32 | Collective investments undertakings (CIU) | - | - | - | - | **-** | **139** |
| 33 | Equity exposures | - | - | 8 | - | **8** | **10** |
| 34 | Other exposures | 2 | 228 | - | - | **230** | **858** |
| **35** | **Total SA approach** | 1,261 | 4,034 | 16 | 260 | **5,571** | **24,203** |
| **36** | **Total** | 4,299 | 5,015 | 491 | 281 | **10,086** | **74,642** |

*(in HRK million)*

## 4. CREDIT RISK (CONTINUED)

### EU CRB-D – Concentration of exposures by industry or counterparty types

The maximum credit exposure to any client, except to the Republic of Croatia and the CNB as of 31 December 2017 is HRK 1,267 million (2016: HRK 1,180 million) before and after taking into account collateral and other credit enhancements.

| | | Public adminis-tration | Financial and insurance services | Mining | Information and communi-cation | Hotels and restaurants | Trade | Other service activities | Manufa-cturing | Agriculture and forestry | Transpor-tation | Subtotal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Central governments or central banks | 11,729 | 331 | - | 87 | - | - | - | - | - | - | **12,147** |
| 2 | Institutions | - | 2,419 | - | - | - | - | - | - | - | - | **2,419** |
| 3 | Corporates | - | 59 | 139 | 414 | 2,108 | 4,180 | 363 | 4,802 | 1,019 | 624 | **13,708** |
| *4* | *of which: Specialised Lending* | - | - | - | - | 688 | 61 | 51 | 126 | 15 | 3 | **944** |
| *5* | *of which: SME* | - | 38 | 40 | 129 | 996 | 2,691 | 287 | 2,706 | 634 | 517 | **8,038** |
| 6 | Retail | - | 1 | 1 | 16 | 154 | 166 | 42 | 123 | 111 | 73 | **687** |
| *7* | *Secured by real estate property* | - | - | - | 3 | 74 | 71 | 20 | 59 | 56 | 24 | **307** |
| *8* | *of which: SME* | - | - | - | 3 | 74 | 71 | 20 | 59 | 56 | 24 | **307** |
| *9* | *of which: Non-SME* | - | - | - | - | - | - | - | - | - | - | **-** |
| *10* | *Qualifying Revolving* | - | - | - | - | - | - | - | - | - | - | **-** |
| *11* | *Other Retail* | - | 1 | 1 | 13 | 80 | 95 | 22 | 64 | 55 | 49 | **380** |
| *12* | *of which: SME* | - | 1 | 1 | 13 | 80 | 95 | 22 | 64 | 55 | 49 | **380** |
| *13* | *of which: Non-SME* | - | - | - | - | - | - | - | - | - | - | **-** |
| 14 | Equity | - | 143 | - | 2 | - | - | - | - | - | - | **145** |
| **15** | **Total IRB approach** | **11,729** | **2,953** | **140** | **519** | **2,262** | **4,346** | **405** | **4,925** | **1,130** | **697** | **29,106** |

*(in HRK million)*

## 4. CREDIT RISK (CONTINUED)

### EU CRB-D – Concentration of exposures by industry or counterparty types (continued)

| | | Public adminis-tration | Financial and insurance services | Mining | Information and communi-cation | Hotels and restaurants | Trade | Other service activities | Manufa-cturing | Agriculture and forestry | Transpor-tation | Subtotal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 16 | Central governments or central banks | 842 | 6,160 | - | - | - | - | - | - | - | - | **7,002** |
| 17 | Regional governments or local authorities | 920 | - | - | - | - | - | - | - | - | - | **920** |
| 18 | Public sector entities | 11 | 157 | - | - | - | - | 4 | - | 30 | 370 | **572** |
| 19 | Multilateral Development Banks | - | 247 | - | - | - | - | - | - | - | - | **247** |
| 20 | International Organisations | - | - | - | - | - | - | - | - | - | - | - |
| 21 | Institutions | - | 157 | - | - | - | - | - | - | - | - | **157** |
| 22 | Corporates | 9 | 802 | 44 | 31 | 40 | 1,178 | 195 | 384 | 93 | 373 | **3,149** |
| *23* | of which: SME | - | 130 | 20 | 3 | 14 | 1,039 | 121 | 183 | 46 | 124 | **1,680** |
| 24 | Retail | 1 | 2 | 3 | 22 | 62 | 162 | 121 | 122 | 33 | 252 | **780** |
| *25* | of which: SME | - | - | 3 | 8 | 35 | 106 | 54 | 89 | 18 | 125 | **438** |
| 26 | Secured by mortgages on immovable property | - | - | - | - | 16 | 133 | 5 | 12 | 5 | 14 | **185** |
| *27* | of which: SME | - | - | - | - | 8 | 24 | 2 | 5 | 4 | 1 | **44** |
| 28 | Exposures in default | - | 146 | - | 4 | 1 | 325 | 1 | 19 | 84 | 1 | **581** |
| 29 | Items associated with particularly high risk | - | - | - | - | - | - | - | - | - | - | - |
| 30 | Covered bonds | - | - | - | - | - | - | - | - | - | - | - |
| 31 | Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | - | - | - | - | - |
| 32 | Collective investments undertakings (CIU) | - | - | - | - | - | - | - | - | - | - | - |
| 33 | Equity exposures | - | 8 | - | - | - | - | - | - | - | - | **8** |
| 34 | Other exposures | - | - | - | - | - | - | - | - | - | - | - |
| **35** | **Total SA approach** | **1,783** | **7,679** | **47** | **57** | **119** | **1,798** | **326** | **537** | **245** | **1,010** | **13,601** |
| **36** | **Total** | **13,512** | **10,632** | **187** | **576** | **2,381** | **6,144** | **731** | **5,462** | **1,375** | **1,707** | **42,707** |

*(in HRK million)*

## 4. CREDIT RISK (CONTINUED)

### EU CRB-D – Concentration of exposures by industry or counterparty types (continued)

| | | Professional and scientific services | Energy | Constru-ction | Real estate and housing | Health and social services | Educa-tion | Private households | Other | Art, entertain-ment and recreation | Subtotal | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Central governments or central banks | 12 | - | - | - | - | - | - | - | - | **12** | **12,159** |
| 2 | Institutions | - | - | - | - | - | - | - | - | - | **-** | **2,419** |
| 3 | Corporates | 1,328 | 1,149 | 1,906 | 856 | 71 | 21 | - | - | 276 | **5,607** | **19,315** |
| *4* | *of which: Specialised Lending* | 139 | 464 | 472 | 503 | - | - | - | - | 10 | **1,588** | **2,532** |
| *5* | *of which: SME* | 561 | 74 | 1,207 | 167 | 70 | 20 | - | - | 142 | **2,241** | **10,279** |
| 6 | Retail | 68 | 3 | 65 | 12 | 29 | 14 | 15,463 | 3 | 5 | **15,662** | **16,349** |
| *7* | *Secured by real estate property* | 32 | 1 | 22 | 6 | 15 | 9 | 5,539 | 3 | 2 | **5,629** | **5,936** |
| *8* | *of which: SME* | 32 | 1 | 22 | 6 | 15 | 9 | - | 1 | 2 | **88** | **395** |
| *9* | *of which: Non-SME* | - | - | - | - | - | - | 5,539 | 2 | - | **5,541** | **5,541** |
| *10* | *Qualifying Revolving* | - | - | - | - | - | - | - | - | - | **-** | **-** |
| *11* | *Other Retail* | 36 | 2 | 43 | 6 | 14 | 5 | 9,924 | - | 3 | **10,033** | **10,413** |
| *12* | *of which: SME* | 36 | 2 | 43 | 6 | 14 | 5 | - | - | 3 | **109** | **489** |
| *13* | *of which: Non-SME* | - | - | - | - | - | - | 9,924 | - | - | **9,924** | **9,924** |
| 14 | Equity | 51 | - | - | 1 | - | - | - | - | - | **52** | **197** |
| **15** | **Total IRB approach** | **1,459** | **1,152** | **1,971** | **869** | **100** | **35** | **15,463** | **3** | **281** | **21,333** | **50,439** |

*(in HRK million)*

## 4. CREDIT RISK (CONTINUED)

### EU CRB-D – Concentration of exposures by industry or counterparty types (continued)

| | | Professional and scientific services | Energy | Constru-ction | Real estate and housing | Health and social services | Educa-tion | Private households | Other | Art, entertain-ment and recreation | Subtotal | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 16 | Central governments or central banks | - | - | - | - | - | - | - | 396 | - | **396** | **7,398** |
| 17 | Regional governments or local authorities | - | - | - | - | - | - | - | 4 | - | **4** | **924** |
| 18 | Public sector entities | 1 | - | 2,142 | - | 302 | 9 | - | 7 | 2 | **2,463** | **3,035** |
| 19 | Multilateral Development Banks | - | - | - | - | - | - | - | - | - | **-** | **247** |
| 20 | International Organisations | - | - | - | - | - | - | - | - | - | **-** | **-** |
| 21 | Institutions | - | - | - | - | - | - | - | 60 | - | **60** | **217** |
| 22 | Corporates | 99 | 336 | 424 | 489 | 73 | 2 | - | - | 105 | **1,528** | **4,677** |
| *23* | of which: SME | 56 | 142 | 155 | 3 | 12 | - | - | - | 25 | **393** | **2,073** |
| 24 | Retail | 51 | 42 | 76 | 13 | 30 | 5 | 4,193 | - | - | **4,410** | **5,190** |
| *25* | of which: SME | 14 | 32 | 51 | 3 | 9 | - | 26 | - | - | **135** | **573** |
| 26 | Secured by mortgages on immovable property | 5 | 7 | 14 | - | 50 | - | 567 | - | - | **643** | **828** |
| *27* | of which: SME | 3 | - | - | - | - | - | 44 | - | - | **47** | **91** |
| 28 | Exposures in default | 7 | - | 23 | 3 | - | - | 66 | - | - | **99** | **680** |
| 29 | Items associated with particularly high risk | - | - | - | - | - | - | - | - | - | **-** | **-** |
| 30 | Covered bonds | - | - | - | - | - | - | - | - | - | **-** | **-** |
| 31 | Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | - | - | - | **-** | **-** |
| 32 | Collective investments undertakings (CIU) | - | - | - | - | - | - | - | 139 | - | **139** | **139** |
| 33 | Equity exposures | - | - | - | - | - | - | - | 2 | - | **2** | **10** |
| 34 | Other exposures | - | - | - | - | - | - | - | 858 | - | **858** | **858** |
| **35** | **Total SA approach** | **163** | **385** | **2,679** | **505** | **455** | **16** | **4,826** | **1,466** | **107** | **10,602** | **24,203** |
| **36** | **Total** | **1,622** | **1,537** | **4,650** | **1,374** | **555** | **51** | **20,289** | **1,469** | **388** | **31,935** | **74,642** |

*(in HRK million)*

## 4. CREDIT RISK (CONTINUED)

### Exposure categories according to remaining maturity

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (f) CRR

### EU CRB-E – Maturity of exposures

| | | On demand | <= 1 year | > 1 year <= 5 year | > 5 year | No stated maturity | Total |
|---|---|---|---|---|---|---|---|
| 1 | Central governments or central banks | - | 3,402 | 7,685 | 1,072 | - | 12,159 |
| 2 | Institutions | - | 2,279 | 134 | 6 | - | 2,419 |
| 3 | Corporates | 47 | 8,831 | 4,100 | 6,337 | - | 19,315 |
| *4* | *of which: Specialised Lending* | 1 | 272 | 555 | 1,704 | - | 2,532 |
| *5* | *of which: SME* | 37 | 4,691 | 2,258 | 3,293 | - | 10,279 |
| 6 | Retail | 7 | 2,068 | 3,290 | 10,984 | - | 16,349 |
| *7* | *Secured by real estate property* | - | 61 | 334 | 5,541 | - | 5,936 |
| *8* | *of which: SME* | - | 50 | 110 | 235 | - | 395 |
| *9* | *of which: Non-SME* | - | 11 | 224 | 5,306 | - | 5,541 |
| *10* | *Qualifying Revolving* | - | - | - | - | - | - |
| *11* | *Other Retail* | 7 | 2,007 | 2,956 | 5,443 | - | 10,413 |
| *12* | *of which: SME* | 1 | 203 | 189 | 96 | - | 489 |
| *13* | *of which: Non-SME* | 6 | 1,804 | 2,767 | 5,347 | - | 9,924 |
| 14 | Equity | - | 197 | - | - | - | 197 |
| **15** | **Total IRB approach** | **54** | **16,777** | **15,209** | **18,399** | **-** | **50,439** |
| 16 | Central governments or central banks | 307 | 6,275 | 422 | 240 | 154 | 7,398 |
| 17 | Regional governments or local authorities | 4 | 59 | 511 | 350 | - | 924 |
| 18 | Public sector entities | - | 28 | 1,113 | 1,894 | - | 3,035 |
| 19 | Multilateral Development Banks | - | - | 247 | - | - | 247 |
| 20 | International Organisations | - | - | - | - | - | - |
| 21 | Institutions | 114 | 80 | 2 | - | 21 | 217 |
| 22 | Corporates | 115 | 2,883 | 1,106 | 572 | 1 | 4,677 |
| *23* | *of which: SME* | 88 | 1,434 | 408 | 142 | 1 | 2,073 |
| 24 | Retail | 81 | 2,875 | 2,105 | 129 | - | 5,190 |
| *25* | *of which: SME* | 5 | 70 | 469 | 29 | - | 573 |
| 26 | Secured by mortgages on immovable property | 8 | 118 | 363 | 339 | - | 828 |
| *27* | *of which: SME* | 4 | 14 | 68 | 5 | - | 91 |
| 28 | Exposures in default | 407 | 236 | 36 | 1 | - | 680 |
| 29 | Items associated with particularly high risk | - | - | - | - | - | - |
| 30 | Covered bonds | - | - | - | - | - | - |
| 31 | Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - | - |
| 32 | Collective investments undertakings (CIU) | - | 139 | - | - | - | 139 |
| 33 | Equity exposures | 8 | 2 | - | - | - | 10 |
| 34 | Other exposures | 125 | 82 | 484 | 64 | 103 | 858 |
| **35** | **Total SA approach** | **1,169** | **12,777** | **6,389** | **3,589** | **279** | **24,203** |
| **36** | **Total** | **1,223** | **29,554** | **21,598** | **21,988** | **279** | **74,642** |

## 4. CREDIT RISK (CONTINUED)

### 4.1. 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 approved, 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, implementation of the internal ratings model method for the following exposure categories:

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.

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

### The structure of internal rating systems and relations 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 a developed system 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 the asset class where a 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 distinguished with the aim of meaningful differentiation of risk and consistent estimates of risk parameters. Within the system for the rating assignment 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 | 5 |
| SME | | 13 | 5 |
| Corporate | Specialized Lending | 13 | 5 |
| | Other | 13 | 5 |
| Institutions | Local authorities | 13 | 5 |
| | Other | 13 | 5 |
| Sovereign | | 13 | 5 |

Rating is revised and updated:

- after processing of 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 Retail asset class
- after occurrence of the default
- annualy, with the annual review
- annualy, after receiving financial data
- whenever the new information arises which might have an impact on the rating.

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

### The structure of internal rating systems and relations between internal and external ratings (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 setting limits. Consequently, the use of rating systems influences 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 default (“PD”) following rating categories is always greater than the PD 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") thus 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 inadequate, 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 | Group | |
|---|---|---|---|
| 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 |

### 4.1. 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 PDs 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 from both risk management perspective and perspective of optimizing 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 earnings ratio etc.

The business strategy of the Bank limits possibility 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 customers. 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.

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

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.

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 systems, 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, central banks, insurance companies and investment funds ratings are calculated in conjunction with the EGB. Central governments and central banks ratings are 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. Small and medium-sized enterprises include the behavior of the client at all active accounts that the client has with the Bank in calculation of rating in addition to selected financial data and “soft fact” information, and 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.

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

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 (aka 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 over time.

**Description of factors that impacted realized losses during the previous period**

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (h) CRR

Improved macroeconomic conditions compared to the previous period had an impact on the portfolio of the Group in the form of improved portfolio distribution, the NPL ratio decrease and decrease of average probability of default. The default rate in corporate segment and small and medium-sized enterprises showed a continuous trend of decrease compared to the previous period reaching the level below the long-term average. The default rate in retail banking recorded a slight decrease and it is at the border level with long-term average. The significant decrease in partially recoverable and completely recoverable placements rate is recorded at the total portfolio as a consequence, not only because of the improved economic situation but also because of portfolio optimization.

The level of non-performing loans coverage also shows a slight decrease and is at a comfortable level beyond 100%.

**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.

Additionally, the validation of risk parameters is performed annually. If necessary, as a part of validation results, the additional remedy measures can be defined for every rating method, i.e. for risk parameters, which would lead to the model optimization in the future.

*(in HRK million)*

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

### EU CR9 – IRB approach – Backtesting of PD per exposure class

| Exposure class | PD range | External rating equivalent | Weighted average PD | Arithmetic average PD by obligors | Number of obligors | | Defaulted obligors in the year | Of which new obligors | Average historical annual default rate |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | End of previous year | End of the year | | | |
| Central governments and central banks | 0.0002 to <0.015 | Very strong | 0.01% | 0.01% | 1 | 1 | - | - | na |
| Central governments and central banks | 0.015 to <0.030 | Strong | 0.02% | 0.02% | 1 | 1 | - | - | na |
| Central governments and central banks | 0.030 to <0.031 | Medium Grade | 0.03% | 0.03% | - | 1 | - | - | na |
| Central governments and central banks | 0.05 to <0.15 | Speculative | 0.10% | 7.88% | 22 | 11 | - | - | na |
| Central governments and central banks | 0.25 to <1.50 | Very Speculative | 1.24% | 1.24% | 2 | 2 | - | - | na |
| Central governments and central banks | 10.00 to <100.00 | Substandard | 13.71% | 13.71% | - | 5 | - | - | na |

| Exposure class | PD range | External rating equivalent | Weighted average PD | Arithmetic average PD by obligors | Number of obligors | | Defaulted obligors in the year | Of which new obligors | Average historical annual default rate |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | End of previous year | End of the year | | | |
| Institutions | 0,10 to <0,15 | Strong | 0.14% | 0.14% | 25 | 24 | - | - | na |
| Institutions | 0,15 to <0,19 | Upper Medium Grade | 0.17% | 0.17% | 15 | 11 | - | - | na |
| Institutions | 0,19 to <0,25 | Medium Grade | 0.20% | 0.20% | 6 | 7 | - | - | na |
| Institutions | 0,25 to <0,30 | Lower Medium Grade | 0.29% | 0.29% | 8 | 7 | - | - | na |
| Institutions | 0,30 to <0,50 | Speculative | 0.40% | 0.40% | 5 | 8 | - | - | na |
| Institutions | 0,50 to <0,70 | More Speculative | 0.60% | 0.60% | 4 | 1 | - | - | na |
| Institutions | 0,70 to <1,00 | Very Speculative | 0.98% | 0.98% | 2 | 1 | - | - | na |
| Institutions | 1,00 to <2,00 | Vulnerable | 1.83% | 1.83% | 8 | 4 | - | - | na |
| Institutions | 2,00 to <5,00 | Very Vulnerable | 3.96% | 3.96% | 3 | 4 | - | - | na |
| Institutions | 5,00 to <25,00 | Special Mention | 10.24% | 10.24% | 2 | 2 | - | - | na |
| Institutions | 25,00 to <100,00 | Substandard | 29.00% | 28.08% | 13 | 20 | - | - | na |

*(in HRK million)*

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

### EU CR9 – IRB approach – Backtesting of PD per exposure class (continued)

| Exposure class | PD range | External rating equivalent | Weighted average PD | Arithmetic average PD by obligors | Number of obligors | | Defaulted obligors in the year | Of which new obligors | Average historical annual default rate |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | End of previous year | End of the year | | | |
| Total Retail | na | na | 10.68% | 14.16% | 347,759 | 334,684 | 5,754 | 390 | na |
| Of which: secured by real estate property | na | na | 11.42% | 11.93% | 18,749 | 18,449 | 279 | 2 | na |
| Of which: Retail | 0.00 to<0.15 | na | 0.22% | 0.22% | 27,408 | 28,485 | 48 | - | 0.27% |
| | 0.15 to<0.20 | na | 0.27% | 0.27% | 47,676 | 41,432 | 204 | - | 0.35% |
| | 0.20 to<0.40 | na | 0.36% | 0.36% | 62,128 | 64,054 | 317 | - | 0.42% |
| | 0.40 to<0.80 | na | 0.77% | 0.77% | 52,148 | 50,019 | 527 | - | 0.81% |
| | 0.80 to<1.90 | na | 1.74% | 1.74% | 36,053 | 30,673 | 766 | - | 1.80% |
| | 1.90 to<4.50 | na | 2.21% | 2.21% | 19,594 | 14,808 | 507 | - | 2.22% |
| | 4.50 to<10.50 | na | 8.24% | 8.23% | 13,025 | 8,757 | 679 | - | 8.12% |
| | 10.50 to<100.00 | na | 23.51% | 23.51% | 42,296 | 47,102 | 2,186 | - | 23.59% |
| | 100.00 | na | 100.00% | 100.00% | 27,702 | 27,316 | - | 365 | 100.00% |
| Of which: Oneway bookkeeping | 0.00 to<1.53 | na | 1.59% | 1.59% | 234 | 142 | 1 | - | 0.19% |
| | 1.53 to<2.00 | na | 1.59% | 1.59% | 335 | 274 | 1 | - | 0.58% |
| | 2.00 to<2.20 | na | 1.84% | 1.84% | 244 | 192 | 2 | - | 0.73% |
| | 2.20 to<3.00 | na | 2.32% | 2.32% | 336 | 251 | 1 | - | 1.27% |
| | 3.00 to<4.00 | na | 3.27% | 3.27% | 449 | 404 | 2 | - | 2.34% |
| | 4.00 to<5.00 | na | 4.52% | 4.52% | 474 | 373 | 10 | - | 3.37% |
| | 5.00 to<7.00 | na | 6.21% | 6.21% | 418 | 358 | 6 | - | 5.71% |
| | 7.00 to<12.00 | na | 10.68% | 10.68% | 450 | 318 | 25 | - | 10.49% |
| | 12.00 to<22.00 | na | 16.10% | 16.10% | 88 | 44 | 11 | - | 24.53% |
| | 22.00 to<100.00 | na | 25.60% | 25.59% | 1,229 | 302 | 43 | - | 23.25% |
| | 100.00 | na | 100.00% | 100.00% | 753 | 709 | - | 7 | 100.00% |

*(in HRK million)*

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

### EU CR9 – IRB approach – Backtesting of PD per exposure class (continued)

| Exposure class | PD range | External rating equivalent | Weighted average PD | Arithmetic average PD by obligors | Number of obligors | | Defaulted obligors in the year | Of which new obligors | Average historical annual default rate |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | End of previous year | End of the year | | | |
| Total Retail | na | na | 10.68% | 14.16% | 347,759 | 334,684 | 5,754 | 390 | na |
| Of which: double bookkeeping | 0.00 to<1.00 | na | 0.95% | 0.95% | 162 | 102 | 2 | - | 0.13% |
| | 1.00 to<1.20 | na | 1.13% | 1.13% | 437 | 331 | 2 | - | 0.29% |
| | 1.20 to<1.90 | na | 1.45% | 1.45% | 421 | 348 | - | - | 0.81% |
| | 1.90 to<2.50 | na | 2.09% | 2.09% | 675 | 418 | 4 | - | 1.21% |
| | 2.50 to<3.50 | na | 3.03% | 3.07% | 865 | 664 | 11 | - | 2.36% |
| | 3.50 to<5.00 | na | 4.53% | 4.53% | 876 | 616 | 19 | - | 3.58% |
| | 5.00 to<7.80 | na | 7.24% | 7.24% | 675 | 456 | 28 | - | 6.96% |
| | 7.80 to<12.00 | na | 11.00% | 11.47% | 1,487 | 440 | 44 | - | 10.82% |
| | 12.00 to<22.00 | na | 21.07% | 21.07% | 198 | 46 | 21 | - | 27.87% |
| | 22.00 to<100.00 | na | 35.63% | 35.63% | 7,457 | 14,243 | 287 | - | 37.99% |
| | 100.00 | na | 100.00% | 100.00% | 1,454 | 1,005 | - | 18 | 100.00% |

*(in HRK million)*

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

### EU CR9 – IRB approach – Backtesting of PD per exposure class (continued)

| Exposure class | PD range | External rating equivalent | Weighted average PD | Arithmetic average PD by obligors | Number of obligors | | Defaulted obligors in the year | Of which new obligors | Average historical annual default rate |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | End of previous year | End of the year | | | |
| Total Corporate | na | na | 19.01% | 25.40% | 4,814 | 5,299 | 79 | 24 | na |
| Of which: specialised lending | na | na | 29.54% | 33.69% | 205 | 240 | 9 | 1 | na |
| Of which: Corporate without specialised lending | 0.00 to<0.60 | Extremely Strong | 0.48% | 0.48% | 184 | 224 | - | - | 0.20% |
| | 0.60 to<0.85 | Very Strong | 0.69% | 0.82% | 208 | 183 | - | - | 0.34% |
| | 0.85 to<1.14 | Strong | 0.90% | 1.04% | 201 | 206 | - | - | 0.73% |
| | 1.14 to<1.39 | Upper Medium Grade | 1.06% | 1.06% | 351 | 305 | 2 | - | 0.66% |
| | 1.39 to<2.10 | Medium Grade | 1.79% | 1.79% | 363 | 365 | 3 | - | 1.54% |
| | 2.10 to<3.10 | Lower Medium Grade | 2.58% | 2.54% | 367 | 276 | 4 | - | 2.17% |
| | 3.10 to<5.00 | Speculative | 3.98% | 3.89% | 283 | 206 | 5 | - | 3.83% |
| | 5.00 to<7.00 | More Speculative | 6.06% | 5.74% | 257 | 163 | 10 | - | 6.51% |
| | 7.00 to<9.06 | Very Speculative | 8.61% | 8.30% | 154 | 77 | 7 | - | 9.87% |
| | 9.06 to<10.00 | Vulnerable | 9.28% | 8.37% | 147 | 70 | 3 | - | 10.49% |
| | 10.00 to<12.00 | Very Vulnerable | 10.42% | 10.57% | 269 | 100 | 7 | - | 9.97% |
| | 12.00 to<17.00 | Special Mention | 15.65% | 15.49% | 126 | 85 | 4 | - | 13.64% |
| | 17.00 to<100.00 | Substandard | 22.86% | 22.91% | 885 | 2,081 | 25 | - | 20.56% |
| | 100.00 | Default | 100.00% | 100.00% | 814 | 718 | - | 23 | 100.00% |

*(in HRK million)*

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

**EU CR9 – IRB approach – Backtesting of PD per exposure class (continued)**

| Exposure class | PD range | External rating equivalent | Weighted average PD | Arithmetic average PD by obligors | Number of obligors | | Defaulted obligors in the year | Of which new obligors | Average historical annual default rate |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | End of previous year | End of the year | | | |
| Total Corporate | na | *na* | 19.01% | 25.40% | 4,814 | 5,299 | 79 | 24 | na |
| Of which: SME | 0.00 to<0.60 | Extremely Strong | 0.48% | 0.48% | 179 | 217 | - | - | 0.20% |
| | 0.60 to<0.85 | Very Strong | 0.69% | 0.83% | 199 | 175 | - | - | 0.34% |
| | 0.85 to<1.14 | Strong | 1.06% | 1.06% | 189 | 192 | - | - | 0.73% |
| | 1.14 to<1.39 | Upper Medium Grade | 1.06% | 1.06% | 321 | 280 | 1 | - | 0.66% |
| | 1.39 to<2.10 | Medium Grade | 1.79% | 1.79% | 331 | 334 | 3 | - | 1.54% |
| | 2.10 to<3.10 | Lower Medium Grade | 2.58% | 2.57% | 343 | 249 | 4 | - | 2.17% |
| | 3.10 to<5.00 | Speculative | 3.98% | 3.92% | 252 | 182 | 1 | - | 3.83% |
| | 5.00 to<7.00 | More Speculative | 6.02% | 6.00% | 219 | 135 | 3 | - | 6.51% |
| | 7.00 to<9.06 | Very Speculative | 8.66% | 8.54% | 128 | 67 | 1 | - | 9.87% |
| | 9.06 to<10.00 | Vulnerable | 9.49% | 9.01% | 117 | 54 | 2 | - | 10.49% |
| | 10.00 to<12.00 | Very Vulnerable | 10.42% | 10.67% | 160 | 71 | 3 | - | 9.97% |
| | 12.00 to<17.00 | Special Mention | 15.64% | 15.46% | 110 | 79 | 4 | - | 13.64% |
| | 17.00 to<100.00 | Substandard | 22.86% | 22.88% | 578 | 1,657 | 21 | - | 20.56% |
| | 100.00 | Default | 100.00% | 100.00% | 730 | 630 | - | 15 | 100.00% |

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

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (h) CRR

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

| Exposure categories | Losses as of 31 December 2017 | | Losses as of 31 December 2016 | | Changes in Value adjustment in % |
|---|---|---|---|---|---|
| | 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 governments or central banks | 9 | 4 | 9 | 4 | 0% |
| Exposure to institutions | 1 | 1 | 4 | 1 | 0% |
| Exposure to corporate | 1,395 | 2,013 | 1,431 | 2,009 | 0% |
| Exposure to retail | 1,099 | 1,087 | 1,119 | 1,116 | 3% |
| There of exposure to SME | 139 | 143 | 157 | 159 | 10% |
| Exposure to retail customers secured by real estate | 452 | 411 | 480 | 420 | 2% |
| Other exposure to retail | 508 | 533 | 482 | 537 | 1% |
| Exposure to equity investments | 3 | - | 3 | - | - |
| Other | - | - | - | - | - |
| **TOTAL** | **2,507** | **3,105** | **2,566** | **3,130** | **1%** |

### 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 governments 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 which the RW is assigned in a way that the RW for the institutions is 1 rating category worse than the RW of a domicile country of the institution( in accordance with Art.121 CRR)
Option 2, RW is based on the external rating (in accordance with Art.120 CRR).

*(in HRK million)*

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

#### Standard & Poor's rating

External ratings issued by Standard & Poor's ("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 governments 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)*

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

**Breakdown of exposures under the standardised approach by asset class and risk weight**

**EU CR5 – STANDARDISED APPROACH**

DISCLOSURE REQUIREMENTS COVERED: ART. 444 (e) CRR

Exposures post conversion factor and post risk mitigation techniques:

| | Exposure classes | Risk weight | | | | | | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 0% | 2% | 4% | 10% | 20% | 35% | 50% | 70% | 75% | 100% | 150% | 250% | |
| 1 | Central governments or central banks | 6,101 | - | - | - | - | - | - | - | - | 1,061 | - | 234 | **7,396** |
| 2 | Regional governments or local authorities | - | - | - | - | 329 | - | - | - | - | 578 | - | - | **907** |
| 3 | Public sector entities | 11 | - | - | - | 159 | - | - | - | - | 60 | - | - | **230** |
| 4 | Multilateral Development Banks | 282 | - | - | - | - | - | - | - | - | - | - | - | **282** |
| 5 | International Organisations | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| 6 | Institutions | - | - | - | - | 161 | - | - | - | - | 45 | - | - | **206** |
| 7 | Corporates | - | - | - | - | - | - | - | - | - | 3,116 | - | - | **3,116** |
| 8 | Retail | - | - | - | - | - | - | - | - | 3,997 | - | - | - | **3,997** |
| 9 | Secured by mortgages on immovable property | - | - | - | - | - | 578 | 250 | - | - | - | - | - | **828** |
| 10 | Exposures in default | - | - | - | - | - | - | - | - | - | 330 | 347 | - | **677** |
| 11 | Items associated with particularly high risk | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| 12 | Covered bonds | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| 13 | Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| 14 | Collective investment undertakings | - | - | - | - | - | - | - | - | - | 139 | - | - | **139** |
| 15 | Equity | - | - | - | - | - | - | - | - | - | 7 | - | 3 | **10** |
| 16 | Other items | 170 | - | - | - | - | - | - | - | - | 734 | - | - | **904** |
| **17** | **Total** | **6,564** | **-** | **-** | **-** | **649** | **578** | **250** | **-** | **3,997** | **6,070** | **347** | **237** | **18,692** |

*(in HRK million)*

### 4.1. 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 | 12,162 | - |
| Exposure to institutions | 2,420 | - |
| Exposure to corporates | 21,328 | - |
| Exposure to retail | - | 17,436 |
| Equity exposures | 197 | - |
| Securitization | - | - |
| Other exposures | 2,572 | - |
| **TOTAL** | **38,679** | **17,436** |

**EU CR10 – IRB (specialised lending)**

| Regulatory categories | Remaining maturity | On-balance-sheet amount | Off-balance-sheet amount | Risk weight | Exposure amount | RWAs | Expected losses |
|---|---|---|---|---|---|---|---|
| Category 1 | Less than 2.5 years | - | - | 50% | - | - | - |
| | Equal to or more than 2.5 years | 711 | 238 | 70% | 901 | 494 | 4 |
| Category 2 | Less than 2.5 years | 10 | 18 | 70% | 14 | 130 | - |
| | Equal to or more than 2.5 years | 874 | 159 | 90% | 990 | 875 | 8 |
| Category 3 | Less than 2.5 years | 14 | - | 115% | 14 | 16 | - |
| | Equal to or more than 2.5 years | 149 | 22 | 115% | 166 | 180 | 5 |
| Category 4 | Less than 2.5 years | 38 | - | 250% | 38 | 93 | 3 |
| | Equal to or more than 2.5 years | 96 | 40 | 250% | 126 | 289 | 10 |
| Category 5 | Less than 2.5 years | 44 | - | 0% | 44 | - | 22 |
| | Equal to or more than 2.5 years | 813 | 1 | 0% | 814 | - | 407 |
| **Total** | **Less than 2.5 years** | **106** | **18** | | **110** | **239** | **25** |
| | **Equal to or more than 2.5 years** | **2,643** | **460** | | **2,997** | **1,838** | **434** |

*(in HRK million)*

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

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

### EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range

### FIRB approach – Exposures to central governments or central banks

| PD scale | Original on-balance-sheet gross exposures | Off-balance-sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of obligors | Average LGD | Average maturity | RWAs | RWA density | EL | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0.00 to <0.15 | 11,564 | 41 | 65% | 14,907 | 0.09% | 14 | 45% | 2.5 | 4,369 | 29% | 6 | |
| 0.15 to <0.25 | - | - | 0% | - | 0.00% | - | 0% | - | - | 0% | - | |
| 0.25 to <0.50 | - | - | 0% | - | 0.00% | - | 0% | - | - | 0% | - | |
| 0.50 to <0.75 | - | - | 0% | - | 0.00% | - | 0% | - | - | 0% | - | |
| 0.75 to <2.50 | 598 | 21 | 75% | 592 | 1.24% | 2 | 45% | 2.5 | 624 | 105% | 3 | |
| 2.50 to <10.00 | - | - | 0% | - | 0.00% | - | 0% | - | - | 0% | - | |
| 10.00 to <100.00 | - | - | 0% | - | 13.71% | 5 | 45% | 2.5 | - | 228% | - | |
| 100.00 (Default) | - | - | 0% | - | 0.00% | - | 0% | - | - | 0% | - | |
| **Subtotal** | **12,162** | **62** | **66%** | **15,499** | **0.13%** | **21** | **45%** | **2.5** | **4,993** | **32%** | **9** | **4** |
| **Total (all portfolios)** | **53,347** | **8,549** | **39%** | **50,915** | **9.67%** | **340,092** | **39%** | **1.4** | **24,731** | **49%** | **2,505** | **3,105** |

*(in HRK million)*

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

**EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range (continued)**

**FIRB approach – Exposures to institutions**

| PD scale | Original on-balance-sheet gross exposures | Off-balance-sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of obligors | Average LGD | Average maturity | RWAs | RWA density | EL | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0.00 to <0.15 | 2,219 | 103 | 50% | 2,167 | 0.14% | 24 | 8% | 1.5 | 182 | 8% | - | |
| 0.15 to <0.25 | 46 | 21 | 57% | 46 | 0.18% | 18 | 45% | 2.5 | 25 | 55% | - | |
| 0.25 to <0.50 | 40 | 2 | 69% | 46 | 0.38% | 14 | 45% | 2.5 | 34 | 74% | - | |
| 0.50 to <0.75 | - | - | 0% | - | 0.60% | 1 | 45% | 2.5 | - | 104% | - | |
| 0.75 to <2.50 | 13 | - | 0% | 13 | 1.83% | 5 | 19% | 1.3 | 7 | 57% | - | |
| 2.50 to <10.00 | 78 | - | 0% | 78 | 3.96% | 4 | 3% | 0.5 | 6 | 8% | - | |
| 10.00 to <100.00 | 24 | - | 0% | 25 | 13.52% | 21 | 12% | 0.9 | 16 | 67% | 1 | |
| 100.00 (Default) | - | - | 0% | - | 0.00% | - | 0% | - | - | 0% | - | |
| **Subtotal** | **2,420** | **126** | **52%** | **2,375** | **0.42%** | **87** | **9%** | **1.5** | **270** | **11%** | **1** | **1** |
| **Total (all portfolios)** | **53,347** | **8,549** | **39%** | **50,915** | **9.67%** | **340,092** | **39%** | **1.4** | **24,731** | **49%** | **2,505** | **3,105** |

*(in HRK million)*

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

**FIRB approach – Exposures to corporates without specilased lending**

| PD scale | Original on-balance-sheet gross exposures | Off-balance-sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of obligors | Average LGD | Average maturity | RWAs | RWA density | EL | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0.00 to <0.15 | 16 | - | 0% | 16 | 0.14% | 3 | 45% | 2.5 | 8 | 52% | - | |
| 0.15 to <0.25 | 180 | 10 | 0% | 170 | 0.23% | 1 | 4% | 0.5 | 4 | 3% | - | |
| 0.25 to <0.50 | 551 | 384 | 42% | 327 | 0.48% | 227 | 41% | 2.5 | 148 | 45% | 1 | |
| 0.50 to <0.75 | 940 | 639 | 28% | 455 | 0.69% | 185 | 41% | 2.5 | 257 | 57% | 1 | |
| 0.75 to <1.00 | - | - | 0% | - | 0.88% | 4 | 45% | 2.5 | - | 84% | - | |
| 1.0 to <2.50 | 6,822 | 3,484 | 40% | 4,671 | 0.01% | 889 | 41% | 2.5 | 3,839 | 82% | 28 | |
| 2.50 to <3.50 | 2,066 | 628 | 37% | 1,659 | 2.59% | 280 | 41% | 2.5 | 1,601 | 97% | 18 | |
| 3.50 to <5.00 | 1,962 | 609 | 47% | 1,617 | 3.99% | 205 | 42% | 2.5 | 1,906 | 118% | 27 | |
| 5.00 to <7.00 | 1,316 | 365 | 31% | 1,015 | 6.19% | 160 | 39% | 2.5 | 1,282 | 126% | 25 | |
| 7.00 to <9.00 | 352 | 73 | 49% | 302 | 8.66% | 74 | 41% | 2.5 | 428 | 142% | 11 | |
| 9.00 to <10.00 | 357 | 186 | 56% | 195 | 9.50% | 48 | 36% | 2.4 | 245 | 125% | 7 | |
| 10.00 to <15.00 | 1,021 | 243 | 45% | 509 | 0.10% | 94 | 36% | 2.5 | 534 | 105% | 15 | |
| 15.00 to <30.00 | 753 | 210 | 32% | 608 | 0.19% | 2,159 | 39% | 2.4 | 1,140 | 187% | 45 | |
| 30.00 to <100.00 | - | - | - | - | 0.34% | 13 | 45% | 1.6 | - | 207% | - | |
| 100.00 (Default) | 1,763 | 48 | 57% | 1,740 | 100.00% | 718 | 44% | - | - | 0% | 760 | |
| **Subtotal** | **18,099** | **6,879** | **39%** | **13,284** | **16.55%** | **5,060** | **40%** | **2.1** | **11,392** | **86%** | **938** | **1,316** |
| **Total (all portfolios)** | **53,347** | **8,549** | **39%** | **50,915** | **9.67%** | **340,092** | **39%** | **1.4** | **24,731** | **49%** | **2,505** | **3,105** |

*(in HRK million)*

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

### FIRB approach – Exposures to corporates, specialized lending

| PD scale | Original on-balance-sheet gross exposures | Off-balance-sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of obligors | Average LGD | Average maturity | RWAs | RWA density | EL | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Category 1 | 977 | 239 | 74% | 916 | 0.80% | 56 | 50% | - | 623 | 68% | 4 | |
| Category 2 | 1,033 | 177 | 75% | 989 | 1.60% | 45 | 50% | - | 875 | 88% | 8 | |
| Category 3 | 186 | 22 | 75% | 180 | 5.60% | 21 | 50% | - | 196 | 109% | 5 | |
| Category 4 | 175 | 40 | 73% | 164 | 16.00% | 47 | 50% | - | 383 | 233% | 13 | |
| Category 5 | 858 | 1 | 87% | 858 | 100.00% | 71 | 50% | - | - | 0% | 429 | |
| **Subtotal** | **3,229** | **479** | **75%** | **3,107** | **29.54%** | **240** | **50%** | **-** | **2,077** | **67%** | **459** | **697** |
| **Total (all portfolios)** | **53,347** | **8,549** | **39%** | **50,915** | **9.67%** | **340,092** | **39%** | **1.4** | **24,731** | **49%** | **2,505** | **3,105** |

*(in HRK million)*

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

### AIRB approach – Exposures to retail (SME)

| PD scale | Original on-balance-sheet gross exposures | Off-balance-sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of obligors | Average LGD | Average maturity | RWAs | RWA density | EL | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0.00 to <0.15 | - | - | - | - | - | - | - | - | - | 0% | - | |
| 0.15 to <0.25 | - | - | 0% | - | 0.00% | - | 0% | - | - | 0% | - | |
| 0.25 to <0.50 | - | - | 0% | - | 0.00% | - | 0% | - | - | 0% | - | |
| 0.50 to <0.75 | - | - | 0% | - | 0.00% | - | 0% | - | - | 0% | - | |
| 0.75 to <1.00 | 8 | 4 | 67% | 7 | 0.95% | 102 | 46% | - | 3 | 39% | - | |
| 1.00 to <1.25 | 66 | 13 | 76% | 63 | 1.13% | 331 | 38% | - | 23 | 37% | - | |
| 1.25 to <1.50 | 79 | 14 | 81% | 77 | 1.45% | 348 | 37% | - | 33 | 43% | - | |
| 1.50 to <2.50 | 160 | 18 | 88% | 158 | 1.93% | 1,277 | 37% | - | 72 | 46% | 1 | |
| 2.50 to <3.50 | 178 | 18 | 92% | 177 | 3.11% | 1,067 | 37% | - | 98 | 55% | 2 | |
| 3.50 to <5.00 | 156 | 19 | 96% | 155 | 4.53% | 989 | 38% | - | 100 | 65% | 3 | |
| 5.00 to <10.00 | 107 | 12 | 96% | 107 | 6.90% | 814 | 39% | - | 81 | 75% | 3 | |
| 10.00 to <20.00 | 83 | 10 | 97% | 83 | 11.09% | 793 | 39% | - | 70 | 85% | 4 | |
| 20.00 to <50.00 | 33 | - | 70% | 33 | 28.86% | 14,600 | 35% | - | 39 | 117% | 3 | |
| 50.00 to <100.00 | - | - | 0% | - | 0.00% | - | 0% | - | - | 0% | - | |
| 100.00 (Default) | 157 | - | 100% | 155 | 100.00% | 2,463 | 39% | - | 31 | 21% | 123 | |
| **Subtotal** | **1,027** | **108** | **89%** | **1,015** | **19.56%** | **22,784** | **38%** | **-** | **550** | **54%** | **139** | **143** |
| **Total (all portfolios)** | **53,347** | **8,549** | **39%** | **50,915** | **9.67%** | **340,092** | **39%** | **1.4** | **24,731** | **49%** | **2,505** | **3,105** |

*(in HRK million)*

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

### AIRB approach – Exposures to retail

| PD scale | Original on-balance-sheet gross exposures | Off-balance-sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of obligors | Average LGD | Average maturity | RWAs | RWA density | EL | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0.00 to <0.15 | - | - | 0% | - | 0.00% | - | 0% | - | - | 0% | - | |
| 0.15 to <0.25 | 1,522 | 242 | 11% | 1,307 | 0.22% | 28,485 | 31% | - | 184 | 14% | 1 | |
| 0.25 to <0.35 | 2,839 | 276 | 13% | 2,600 | 0.27% | 41,431 | 32% | - | 449 | 17% | 2 | |
| 0.35 to <0.50 | 4,152 | 249 | 14% | 3,939 | 0.36% | 64,054 | 35% | - | 877 | 22% | 5 | |
| 0.50 to <0.75 | - | - | 0% | - | 0.00% | - | 0% | - | - | 0% | - | |
| 0.75 to <1.00 | 3,080 | 89 | 16% | 3,006 | 0.77% | 50,018 | 37% | - | 1,082 | 36% | 8 | |
| 1.00 to <2.00 | 1,759 | 28 | 20% | 1,737 | 1.74% | 30,672 | 36% | - | 892 | 51% | 11 | |
| 2.00 to <2.50 | 802 | 6 | 29% | 798 | 2.21% | 14,809 | 36% | - | 442 | 55% | 6 | |
| 2.50 to <10.00 | - | - | 0% | - | 0.00% | - | 0% | - | - | 0% | - | |
| 10.00 to <100.00 | 905 | 3 | 15% | 902 | 15.25% | 55,864 | 36% | - | 911 | 101% | 49 | |
| 100.00 (Default) | 1,350 | 2 | 14% | 1,348 | 100.00% | 26,567 | 35% | - | 610 | 45% | 878 | |
| **Subtotal** | **16,409** | **895** | **14%** | **15,635** | **10.11%** | **311,900** | **35%** | **-** | **5,447** | **35%** | **960** | **944** |
| **Total (all portfolios)** | **53,347** | **8,549** | **39%** | **50,915** | **9.67%** | **340,092** | **39%** | **1.4** | **24,731** | **49%** | **2,505** | **3,105** |

## 5. CREDIT RISK ADJUSTMENTS

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

The receivables arising from the contractual relationship, and that the borrower has not settled within the agreed period considered due but unpaid receivables of the Bank. "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 Central National Bank’s (“CNB”) procedures and IFRS 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 the 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 allocated on individual placements 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 that are not deemed to be impaired on the respective placement or for exposures to defaulted customers that are not deemed to be impaired using quantitative impairment test on individual placement.

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.

Other information regarding Restructured Exposure for Disclosure purposes in accordance with Article 442 (a) and (b) of the Regulation is published in the Annual Report for 2017 on the Bank's website within Note 34.

## 5. CREDIT RISK ADJUSTMENTS (CONTINUED)

Other information related to restructured exposure for disclosure purposes in accordance with Article 442 (a) and (b) of the CRR is disclosed in the Annual Report for 2017 on the Bank's website under Note 34.

The calculation of specific allowances allocated on individual placements is performed either on an individual basis (in case of significant customers) or rule-based (for homogeneous groups of exposures of similar credit risk).
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 proscribed in internal acts and respecting regulation of Croatian National Bank. 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 probability of default (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 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)*

## 5. CREDIT RISK ADJUSTMENTS (CONTINUED)

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (g) CRR

### EU CR1-A: Credit quality of exposures by exposure classes and instruments

| | | Gross carrying values of | | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
|---|---|---|---|---|---|---|---|---|
| | | Defaulted exposures | Non-defaulted exposures | | | | | (a+b-c-d) |
| | | a | b | c | d | e | f | |
| 1 | Central governments or central banks | - | 12,162 | 3 | - | - | - | 12,159 |
| 2 | Institutions | - | 2,420 | 1 | - | - | - | 2,419 |
| 3 | Corporates | 2,621 | 18,707 | 2,013 | - | 327 | 385 | 19,315 |
| 4 | Of Which: Specialised Lending | 858 | 2,371 | 697 | - | 102 | 115 | 2,532 |
| 5 | Of Which: SME | 1,191 | 9,994 | 906 | - | 176 | 81 | 10,279 |
| 6 | Retail | 1,504 | 15,933 | 1,088 | - | 118 | 102 | 16,349 |
| 7 | Secured by real estate property | 642 | 5,705 | 411 | - | 40 | 52 | 5,936 |
| 8 | SME | 84 | 381 | 70 | - | 8 | (3) | 395 |
| 9 | Non-SME | 558 | 5,324 | 341 | - | 32 | 55 | 5,541 |
| 10 | Qualifying Revolving | - | - | - | - | - | - | - |
| 11 | Other Retail | 862 | 10,228 | 677 | - | 78 | 50 | 10,413 |
| 12 | SME | 71 | 492 | 74 | - | 6 | 2 | 489 |
| 13 | Non-SME | 791 | 9,736 | 603 | - | 72 | 48 | 9,924 |
| 14 | Equity | - | 197 | - | - | - | (4) | 197 |
| **15** | **Total IRB approach** | **4,125** | **49,419** | **3,105** | **-** | **445** | **483** | **50,439** |

*(in HRK million)*

## 5. CREDIT RISK ADJUSTMENTS (CONTINUED)

### EU CR1-A: Credit quality of exposures by exposure classes and instruments (continued)

| | | Gross carrying values of | | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
|---|---|---|---|---|---|---|---|---|
| | | Defaulted exposures | Non-defaulted exposures | | | | | (a+b-c-d) |
| | | a | b | c | d | e | f | |
| 16 | Central governments or central banks | - | 7,404 | 6 | - | - | - | 7,398 |
| 17 | Regional governments or local authorities | - | 943 | 19 | - | - | (2) | 924 |
| 18 | Public sector entities | - | 3,036 | 1 | - | - | (1) | 3,035 |
| 19 | Multilateral Development Banks | - | 247 | - | - | - | - | 247 |
| 20 | International Organisations | - | - | - | - | - | - | - |
| 21 | Institutions | - | 221 | 4 | - | - | - | 217 |
| 22 | Corporates | 1,248 | 4,743 | 66 | - | 128 | 476 | 5,925 |
| 23 | Of which: SMEs | 139 | 1,967 | 33 | - | 77 | 58 | 2,073 |
| 24 | Retail | 403 | 5,288 | 98 | - | 67 | (22) | 5,593 |
| 25 | Of which: SMEs | 63 | 512 | 2 | - | - | (1) | 573 |
| 26 | Secured by mortgages on immovable property | - | 854 | 26 | - | - | - | 828 |
| 27 | Of which: SMEs | - | 103 | 12 | - | - | - | 91 |
| 28 | Exposure in default | 1,651 | - | 971 | - | 179 | 478 | 680 |
| 29 | Items associated with particularly high risk | - | - | - | - | - | - | - |
| 30 | Covered bonds | - | - | - | - | - | - | - |
| 31 | Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | - |
| 32 | Collective investments undertakings | - | 139 | - | - | - | - | 139 |
| 33 | Equity exposures | - | 10 | - | - | - | - | 10 |
| 34 | Other exposures | - | 858 | - | - | 1 | 45 | 858 |
| **35** | **Total standardised approach** | **1,651** | **23,743** | **1,191** | **-** | **196** | **496** | **24,203** |
| **36** | **Total** | **5,776** | **73,162** | **4,296** | **-** | **640** | **979** | **74,642** |
| 37 | Of which: Loans | 5,722 | 51,598 | 4,139 | - | 624 | 934 | 53,181 |
| 38 | Of which: Debt securities | - | 9,804 | 7 | - | - | 19 | 9,797 |
| 39 | Of which: Off-balance-sheet exposures | 54 | 11,610 | 150 | - | 16 | 26 | 11,514 |

*(in HRK million)*

## 5. CREDIT RISK ADJUSTMENTS (CONTINUED)

### EU CR1-B – Credit quality of exposures by industry or counterparty types

| | | Gross carrying values of | | Specific credit risk adjustment Defaulted exposures | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
|---|---|---|---|---|---|---|---|---|
| | | Defaulted exposures | Non-defaulted exposures | | | | | (a+b-c-d) |
| | | a | b | c | d | e | f | g |
| 1 | Agriculture, forestry and fishing | 158 | 1,298 | 81 | - | 22 | 15 | 1,375 |
| 2 | Mining and quarrying | 39 | 175 | 27 | - | 1 | 1 | 187 |
| 3 | Manufacturing | 468 | 5,387 | 393 | - | 139 | 99 | 5,462 |
| 4 | Energy and water supply | 33 | 1,564 | 59 | - | 5 | 31 | 1,538 |
| 5 | Construction | 627 | 4,559 | 537 | - | 106 | 117 | 4,649 |
| 6 | Trade | 1,371 | 5,604 | 831 | - | 107 | 468 | 6,144 |
| 7 | Transportation | 61 | 1,703 | 58 | - | 1 | 9 | 1,706 |
| 8 | Hotels and restaurants | 550 | 2,223 | 392 | - | 6 | 18 | 2,381 |
| 9 | Information and communication | 11 | 575 | 10 | - | 14 | (3) | 576 |
| 10 | Financial and insurance services | 187 | 10,493 | 47 | - | - | 68 | 10,633 |
| 11 | Real estate and housing | 229 | 1,325 | 180 | - | 32 | 22 | 1,374 |
| 12 | Professional and scientific services | 209 | 1,591 | 178 | - | 30 | 18 | 1,622 |
| 13 | Other service activities | 108 | 728 | 105 | - | - | 4 | 731 |
| 14 | Public administration | - | 13,538 | 26 | - | - | (1) | 13,512 |
| 15 | Education | - | 52 | 1 | - | - | (1) | 51 |
| 16 | Health and social services | 4 | 560 | 9 | - | - | - | 555 |
| 17 | Art, entertainment and recreation | 6 | 393 | 10 | - | 6 | (2) | 389 |
| 18 | Private households | 1,715 | 19,922 | 1,348 | - | 170 | 81 | 20,289 |
| 19 | Exterritorial organisations | - | - | - | - | - | - | - |
| 20 | Other | - | 1,472 | 4 | - | 1 | 35 | 1,468 |
| 21 | *of which: loans* | *5,722* | *51,598* | *4,139* | - | *624* | *934* | *53,181* |
| 22 | *of which: debt securities* | - | *9,804* | *7* | - | - | *19* | *9,797* |
| 23 | *of which: off-balance-sheet* | *54* | *11,610* | *150* | - | *16* | *26* | *11,514* |

*(in HRK million)*

## 5. CREDIT RISK ADJUSTMENTS (CONTINUED)

### EU CR1-C – Credit quality of exposures by geography

| | Gross carrying values of | | Specific credit risk adjustment Defaulted exposures | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
|---|---|---|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | | | | | (a+b-c-d) |
| | a | b | c | d | e | f | |
| CROATIA | 5,627 | 63,018 | 4,089 | - | 622 | 961 | 64,556 |
| Regional Department West | 3,967 | 42,953 | 2,829 | - | 512 | 834 | 44,091 |
| Regional Department Central Croatia | 573 | 5,276 | 439 | - | 42 | 37 | 5,410 |
| Regional department Slavonia | 201 | 2,151 | 167 | - | 21 | 27 | 2,185 |
| Regional Department Rijeka | 302 | 5,406 | 255 | - | 22 | 24 | 5,453 |
| Regional Department South | 446 | 4,999 | 291 | - | 13 | 33 | 5,154 |
| Regional Department Istra | 138 | 2,233 | 108 | - | 12 | 6 | 2,263 |
| EU COUNTRIES | 38 | 4,300 | 39 | - | - | (1) | 4,299 |
| OTHER EUROPEAN COUNTRIES | 105 | 5,073 | 163 | - | 1 | 7 | 5,015 |
| LATIN AMERICA | - | - | - | - | - | - | - |
| UNITED STATES OF AMERICA | 5 | 488 | 2 | - | - | 1 | 491 |
| OTHER COUNTRIES | 1 | 283 | 3 | - | 17 | 11 | 281 |
| **Total** | **5,776** | **73,162** | **4,296** | **-** | **640** | **979** | **74,642** |

### EU CR1-D – Ageing of past-due exposures

Analysis of accounting on-balance-sheet past-due exposures regardless of their impairment status:

| | | a | b | c | d | e | f |
|---|---|---|---|---|---|---|---|
| Gross carrying values | | ≤ 30 days | > 30 days ≤ 60 days | > 60 days ≤ 90 days | > 90 days ≤ 180 days | > 180 days ≤ 1 year | > 1 year |
| 1 | Loans | 770 | 41 | 58 | 96 | 1,026 | 2,570 |
| 2 | Debt securities | 2 | 1 | - | - | - | - |
| 3 | Total exposures | 772 | 42 | 58 | 96 | 1,026 | 2,570 |

*(in HRK million)*

## 5. CREDIT RISK ADJUSTMENTS (CONTINUED)

### EU CR1-E – Non-performing and forborne exposures

| | | Gross carrying values of performing and non-performing exposures | | | | | | | Accumulated impairment and provisions and negative fair value adjustments due to credit risk | | | | Collaterals and financial guarantees received | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Of which performing but past due > 30 days and <= 90 days | Of which performing forborne | Of which non-performing | | | | On performing exposures | | On non-performing exposures | | On non-performing exposures | Of which forborne exposures |
| | | | | | | Of which defaulted | Of which impaire | Of which forborne | | Of which forborne | | Of which forborne | | |
| 010 | Debt securities | 9,836 | 101 | - | - | - | - | - | (7) | - | - | - | - | - |
| 020 | Loans and advances | 55,855 | 664 | 321 | 5,830 | 5,752 | 5,752 | 1,079 | (492) | (26) | (3,645) | (553) | 997 | 339 |
| 030 | Off-balance-sheet exposures | 11,664 | - | 4 | 88 | 87 | - | 2 | (128) | - | (22) | - | 5 | - |

*(in HRK million)*

## 5. CREDIT RISK ADJUSTMENTS (CONTINUED)

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (i) CRR

### EU CR2-A: Changes in the stock of general and specific credit risk adjustments

| 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 | 3,389 | 1,855 | (20) | 936 | 634 | 15 | 3,654 |
| Provisions for identified losses for off balance exposure | 27 | 44 | - | 49 | - | - | 22 |
| Portfolio allowances | 493 | 685 | - | 685 | - | - | 493 |
| Off balance portfolio allowances | 134 | 217 | - | 223 | - | - | 128 |

### EU CR2-B: Changes in the stock of defaulted and impaired loans and debt securities

| | | a |
|---|---|---|
| | | **Gross carrying value defaulted exposures** |
| **1** | **Opening balance** | **5,283** |
| 2 | Loans and debt securities that have defaulted or impaired since the last reporting period | 2,167 |
| 3 | Returned to non-defaulted status | (277) |
| 4 | Amounts written off | (642) |
| 5 | Other changes | (696) |
| **6** | **Closing balance** | **5,835** |

## 6. 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 2017, the leverage ratio for the Group amounted to 10.69%. 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 2017, 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 | 65,925 |
| Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | (29) |
| (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 | 97 |
| Adjustments for securities financing transactions "SFTs" | 13 |
| Adjustment for off balance sheet items (i.e., conversion to credit equivalent amounts of off balance sheet exposures) | 4,091 |
| (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 |
| **Total leverage ratio exposure** | **70,098** |

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 2017.

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.

## 6. 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) | 63,937 |
| 2. | (Asset amounts deducted in determining Tier 1 capital) | (393) |
| 3. | Total on balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2) | 63,544 |
| **Derivative exposures** | | |
| 4. | Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin) | 52 |
| 5. | Add on amounts for PFE associated with all derivatives transactions (mark to market method) | 97 |
| 6. | Total derivative exposures (sum of lines 4 and 5) | 149 |
| **Securities financing transaction exposures** | | |
| 7. | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | 1,908 |
| 8. | Counterparty credit risk exposure for SFT assets | 13 |
| 9. | Total securities financing transaction exposures (sum of line 7 and 8) | 1,921 |
| **Other off balance sheet exposures** | | |
| 10. | Off balance sheet exposures at gross notional amount | 11,664 |
| 11. | (Adjustments for conversion to credit equivalent amounts) | (7,573) |
| 12. | Other off balance sheet exposures (sum of lines 10 and 11) | 4,091 |
| **Capital and total exposure measure** | | |
| 13. | Tier 1 capital | 7,451 |
| 14. | Leverage ratio total exposure measure (sum of lines 3, 6, 9, 12) | 69,705 |
| **Leverage ratio** | | |
| 15. | Leverage ratio | 10.69% |

### Management of the risk of excessive leverage

Leverage ratio is one of the core risk metric included in the EBC Group Risk Apetite Statement (“RAS”). The leverage ratio is planned as part of the annual forecasting and budgeting process. As a RAS metric, the development of the leverage ratio is regularly monitored by the Management Board and Supervisory Board and reported to relevant counterparties in Erste Holding.

### Factors influencing the development of leverage exposure

The overall leverage exposure in the year 2017 increased by 0.49% comparing to the year 2016 to HRK 69,705 million. This change mostly refers to the increase of the on balance exposure.

## 6. 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: | 65,858 |
| EU-2. | Trading book exposures | 2,116 |
| EU-3. | Banking book exposures, of which: | 63,742 |
| EU-4. | Covered bonds | - |
| EU-5. | Exposures treated as sovereigns | 19,738 |
| EU-6. | Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns | 3,741 |
| EU-7. | Institutions | 1,187 |
| EU-8. | Secured by mortgages of immovable properties | 6,735 |
| EU-9. | Retail exposures | 13,142 |
| EU-10. | Corporate | 14,479 |
| EU-11. | Exposure in default | 676 |
| EU-12. | Other exposures (e.g. equity, securitisations, and other non-credit obligation assets) | 4,044 |

## 7. 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 standardised approach.

**EU MR1 – Market risk under the standardised approach**

| | | RWAs | Capital requirements |
|---|---|---|---|
| | Outright products | | |
| 1 | Interest rate risk (general and specific) | 205 | 16 |
| 2 | Equity risk (general and specific) | - | - |
| 3 | Foreign exchange risk | 149 | 12 |
| 4 | Commodity risk | - | |
| | Options | | |
| 5 | Simplified approach | - | - |
| 6 | Delta-plus method | - | - |
| 7 | Scenario approach | - | - |
| 8 | Securitisation (specific risk) | - | - |
| **9** | **Total** | **354** | **28** |

In the reporting period, the Bank had stable capital requirements for market risk arising primarily from transactions with customers. Also, in the reporting period, the Bank had a capital requirement for foreign exchange risk only on 31 December 2017.

*(in HRK million)*

## 7. MARKET RISK EXPOSURE (CONTINUED)

### 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.

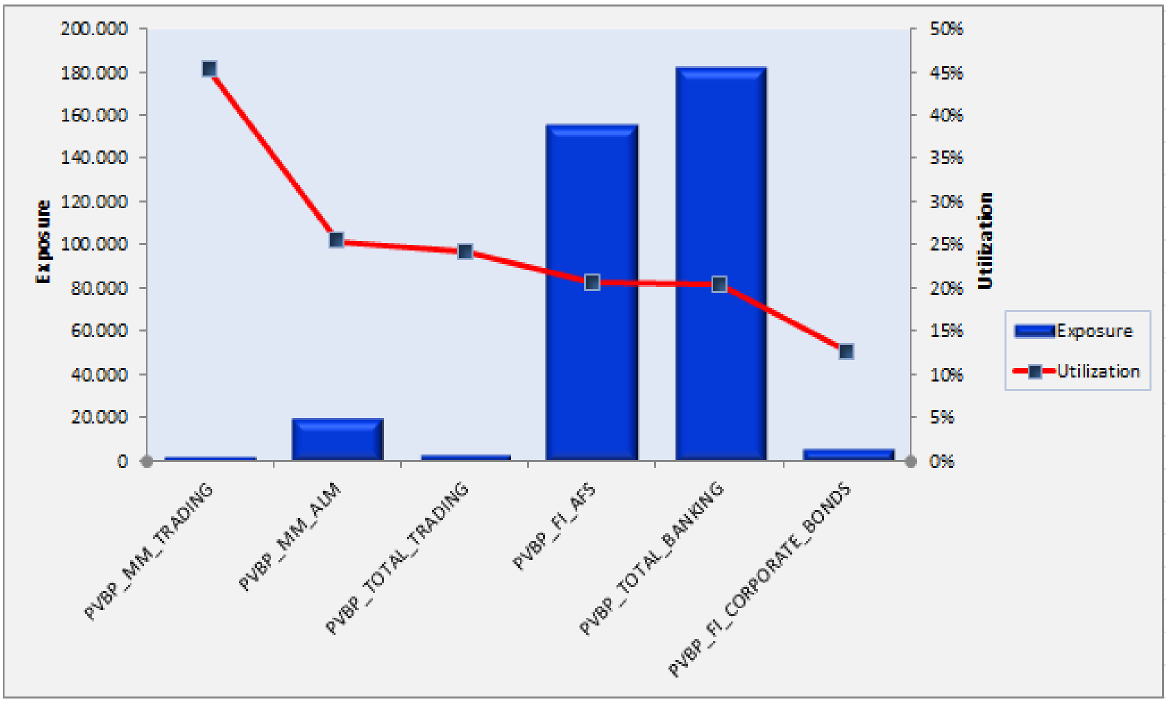
According to the VaR limits structure, at a confidence level of 99%, daily VaR limits are set, on the total trading book as well as the separate limits on the money market portfolio, fixed income portfolio, fx portfolio and shares. VaR limits are also introduced on fixed income corporates, money market 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 | 75 | 12 | 37 | 11 |
| Banking book – fixed income corporates | 5,2 | 0,6 | 3,4 | 0,5 |
| Banking book - Foreign exchange | 4,5 | 0,9 | 1,6 | - |
| Banking book - Money market | 23 | 10 | 14 | 9 |
| Trading book – fixed income trading | 1,1 | - | - | - |
| Trading book – Money market | 2,2 | 0,8 | 0,9 | - |

**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.

## 7. MARKET RISK EXPOSURE (CONTINUED)




Picture: Sensitivities for the interest rate curve move by one 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, the 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. The Bank, in this context, has established monthly and annual Stop loss limits individually for money market, fixed income securities and foreign currency business.

### Net interest income simulation

Net interest income simulation of the Group for the year 2018 shows that in case of increase of interest rates for 1% net interest income will increase for 4% or HRK 69 million. The cause of this effect is assets that has shorter period of changes in interest rates than the period watched. Internal net interest income limit was 6% which is bellow limit of 15%.

*(in HRK million)*

## 7. MARKET RISK EXPOSURE (CONTINUED)

Simulation of net interest income in the year 2018 on the basis of the data for 31 December 2017:

| | EUR | USD | HRK | CHF | TOTAL | in % |
|---|---|---|---|---|---|---|
| immediate parallel shock plus 200 bp | 71 | (1) | 60 | 3 | 135 | 7% |
| immediate parallel shock plus 100 bp | 38 | 0 | 30 | 1 | 69 | 4% |
| immediate parallel shock minus 100 bp | (85) | (3) | (33) | (2) | (124) | (6%) |
| immediate parallel shock minus 200 bp | (200) | (10) | (79) | (5) | (294) | (15%) |
| Internal net interest income limit | (50) | (10) | (59) | (1) | (119) | (6%) |

## 8. 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 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.

## 8. 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,
- 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, according to Croatian National Bank Decision on the management of interest rate risk in banking book (NN120/2016) and updated guidelines of the European Banking Authority ("EBA") on "Technical aspects of the management of interest rate risk arising from non-trading activities under the supervisory review process" ("EBA/GL/2015/08") , was as follows:

| **Currency**<br>***in HRK million*** | **Standard shock** |
|---|---|
| HRK | (245) |
| EUR | (53) |
| OTHER | (3) |
| **CHANGE IN THE ECONOMIC VALUE** | **301** |
| **REGULATORY CAPITAL** | **8,362** |
| **(CHANGE IN THE ECONOMIC VALUE / REGULATORY CAPITAL)*100** | **3.6%** |

## 9. LIQUIDITY RISK

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

In accordance with the EBA guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013 (EBA/GL/2017/1), disclosure requirements for the Bank are:

- **DISCLOSE RISK MANAGEMENT OBJECTIVES AND POLICIES FOR LIQUIDITY RISK**

**Strategies and processes in the management of the liquidity risk**

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 Bank 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 Bank 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.

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. For example, an estimate of future cash flows should be based on the remaining maturity period, using the latest possible settlement date for inflows and the earliest possible settlement date for the outflows;

**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.

The Bank defines, through the risk strategy, inter alia, the risk appetite for liquidity risk as a part of the risk appetite statement. Accordingly, key liquidity principles are defined to ensure that processes are in place to manage the liquidity risk profile and the strategic limits are set in the risk strategy. These are further translated into operating limits and liquidity risk management.

## 9. LIQUIDITY RISK (CONTINUED)

### Structure and organisation of the liquidity risk management function (authority, statute, other arrangements)

Organizational units involved in the liquidity risk management:

Asset and Liability Management Division (ALM) is in charge of liquidity management in co-operation with the Trading Department, responsible for adopting a liquidity and financing strategy and establishing short- and long-term financing plans for the Bank and the EBC Group, respecting regulatory and internal liquidity risk limits. The ALM consists of two groups - Liquidity and Investment Group and Analysis and FTP System Group.

Risk Management Division is responsible for the implementation of methods and models of control and liquidity risk management, measurement, monitoring, internal and regulatory reporting, participation in the determination of the limits and monitors all relevant limit usage. Initiate appropriate steps (escalation) in case of limit violation. Comprehensive and up-to-date documenting the models used for liquidity risk analysis and assessing liquidity risk materiality.

Internal Audit Division is tasked with periodically reviewing overall liquidity management framework as well as checking compliance with the applicable legal and regulatory framework.

Asset and Liability Management Committee (“ALCO”) is responsible for adopting and implementing strategies and methodologies for liquidity risk management as well as all necessary documentation, approval of the structure and limits, breaches, and action plan for settling within the limits. In crisis periods, approving liquidity enhancing actions. It is responsible for approving all new liquidity measuring tools implemented in the Bank in accordance with local regulations.

Management and Supervisory Board are responsible for the development of strategies, policies and practices for liquidity risk management and to ensure that the bank maintains sufficient liquidity to meet its obligations at all times.

Operating Liquidity Committee (“OLC”) is responsible for continuous market and liquidity monitoring, action plans and measures proposal, crisis management and communication.

### Scope and nature of liquidity risk reporting and measurement systems

In accordance with best market practices, exposure to liquidity risk is determined through regulatory prescribed measures and regular reports.

The monitoring of key liquidity risk indicators is performed from intraday to quarterly, and individual reports are processed and more frequently than defined if needed. Reporting is defined through regulatory reports (such as LCR, NSFR, ALMM, asset encumbrance, financing plans), internal reports (such as survival period analysis, structural liquidity gap’s, monthly report) and public disclosure (such as Annual Report, Pillar 3 Disclosure report).

The Risk Management Division is responsible for continuously and quickly identifying and measuring liquidity risk assessment and liquidity risk reporting. All regulatory requirements are reported at a solo level, while for the needs of internal reporting and liquidity monitoring, and within the

definition and management of risk appetite statement, liquidity indicators are monitored at a consolidated level for all credit institutions. Comprehensive reporting of liquidity measures is covered by monthly ALCO reports. In addition, for the purposes of Erste Group liquidity risk management, the Bank fully consolidated and reports on the liquidity coverage coefficient.

## 9. LIQUIDITY RISK (CONTINUED)

### Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants

The starting point for liquidity risk management is the definition and identification of various types of liquidity risk through liquidity risk management, risk assessment and the product approval process.

The risk appetite is part of the risk appetite statement and contains binding business activity limits in terms of liquidity considerations, supplementing the key principles of liquidity risk management and translated into operational liquidity risk limits included in everyday risk management procedures.

Management of short-term and long-term liquidity, including liquidity buffers, is the responsibility of the Asset and Liability Management Division. It includes setting a liquidity strategy and establishing a regular funding plan, as well as the development of contingency funding plans and the implementation of related early warning systems with respect to detecting the type and severity of liquidity stress events as early as possible.

The Bank has established a robust liquidity risk management framework that ensures it maintains sufficient liquidity, including a cushion of unencumbered, high quality liquid assets, to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources.

Stress testing is a key tool at the Bank's level of the risk management, reflecting portfolio characteristics and to ensure that current exposures remain in accordance with a bank’s established liquidity risk tolerance. Liquidity risk is also considered in a number of different types of stress testing exercises, including comprehensive stress testing, recovery planning and survival period analysis.

Risk tolerance defined in accordance with business plans, strategy adopted, overall risk appetite statement and the role of credit institution in the financial system has been defined.

### A declaration approved by the management body on the adequacy of liquidity risk management arrangements of the institution providing assurance that the liquidity risk management systems put in place are adequate with regard to the institution’s profile and strategy

Liquidity risk management is satisfactory, i.e. liquidity risk is managed in an adequate manner, effective limits, control systems and reporting lines, strategies and plan in case of crisis situations are established.

The liquidity risk assessment is carried out within the Market and liquidity risk department, and the ALM and the Financial Markets Division. Continuous consideration of the adequacy of the methodologies used and the possibility of improving the overall process. Once a year during the audit documentation, the necessary changes are made as a result of changes in business practices, risk strategies etc. An internal audit is carried out by the competent organizational unit of the Bank, which can also detect certain weaknesses and deficiencies and make certain suggestions to improve the process, which are taken into account by the Risk Management Division. Liquidity risk is also considered in a number of different types of stress testing exercises including comprehensive stress testing, recovery plan, and survival period analysis. The key tool to measure insolvency risk is a survival period analysis, using a dynamic stress testing methodology.

*(in HRK million)*

## 9. LIQUIDITY RISK (CONTINUED)

**A concise liquidity risk statement approved by the management body succinctly describing the institution's overall liquidity risk profile associated with the business strategy. This statement shall include key ratios and figures (other than those already covered in Annex II of these guidelines) providing external stakeholders with a comprehensive view of the institution's management of liquidity risk, including how the liquidity risk profile of the institution interacts with the risk tolerance set by the management body**

The Bank has defined and implemented the EBC Group Risk Strategy, which is approved by the Management Board and the Supervisory Board on an annual basis. The EBC Group Risk Strategy defines, inter alia, the Risk Appetite for liquidity risk as a part of the Risk appetite statement. In line with the Risk appetite statement, key liquidity principles are defined to ensure that processes are in place to manage the liquidity risk profile and the strategic limits are set in the EBC Group Risk Strategy that are further translated into operating limits and liquidity risk management policies, and represent the key objectives to be met for the next years and demonstrate that the Bank is committed to further develop its liquidity risk management framework.

The liquidity risk profile of the institution approved by the management body is defined by the Risk appetite statement, which defines the minimum required level of the LCR ratio - the regulatory ratio to measure the exposure liquidity risk of a credit institution. The 2017 Risk appetite statement defined "green" (normal) zone above 110%, "amber" (warning zone) between 100% - 110% and "red" (crisis zone) below 100%.

The 2017 liquidity management strategy, approved by the bank's management body, based on the plan of the bank's balance sheet development for the next five business years, was the projection of the LCR regulatory ratio and for all of the projected years over the minimum defined ratio accepted by the Risk appetite statement:

| Projection | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| LCR | 174% | 158% | 151% | 152% | 155% |

The Bank also defines liquidity management in a local EBC group, and defined principles should be fulfilled in the liquidity management process of a local EBC group involving Erste Bank Podgorica, Erste Card Club, Erste Factoring and S-Leasing. ALM coordinates liquidity management in the local EBC group, while Group ALM is responsible for liquidity management in the Holding and throughout the Erste Group.

## 9. LIQUIDITY RISK (CONTINUED)

### • DISCLOSE LEVEL AND COMPONENTS OF THE LCR

| Scope of consolidation (solo) / Currency and units (HRK million) | | Total unweighted value (average) | | | | Total weighted value (average) | | | |
|---|---|---|---|---|---|---|---|---|---|
| Quarter ending on | | 31. March 2017 | 30. June 2017 | 30. September 2017 | 31. December 2017 | 31. March 2017 | 30. June 2017 | 30. September 2017 | 31. December 2017 |
| Number of data points used in the calculation of averages | | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 |
| **HIGH-QUALITY LIQUID ASSETS** | | | | | | | | | |
| 1 | **Total high-quality liquid assets (HQLA)** | | | | | **9,975** | **10,599** | **10,695** | **10,877** |
| **CASH-OUTFLOWS** | | | | | | | | | |
| 2 | **Retail deposits and deposits from small business customers, of which:** | **28,024** | **28,093** | **28,213** | **28,347** | **2,414** | **2,399** | **2,389** | **2,376** |
| 3 | *Stable deposits* | 8,565 | 8,960 | 9,356 | 9,790 | 428 | 448 | 468 | 489 |
| 4 | *Less stable deposits* | 19,459 | 19,133 | 18,857 | 18,557 | 1,986 | 1,951 | 1,921 | 1,887 |
| 5 | Unsecured wholesale funding | 12,531 | 12,205 | 11,712 | 11,572 | 4,631 | 4,552 | 4,381 | 4,487 |
| 6 | *Operational deposits (all counterparties) and deposits in networks of cooperative banks* | 6,161 | 6,521 | 6,710 | 6,847 | 1,309 | 1,389 | 1,424 | 1,447 |
| 7 | *Non-operational deposits (all counterparties)* | 6,371 | 5,631 | 4,950 | 4,646 | 3,322 | 3,111 | 2,905 | 2,962 |
| 8 | *Unsecured debt* | 0 | 52 | 52 | 78 | 0 | 52 | 52 | 78 |
| 9 | Secured wholesale funding | | | | | 0 | 0 | 0 | 0 |
| 10 | Additional requirements | 4,841 | 4,147 | 3,683 | 3,818 | 1,888 | 1,011 | 366 | 439 |
| 11 | *Outflows related to derivative exposures and other collateral requirements* | 1,545 | 663 | 22 | 93 | 1,545 | 663 | 22 | 93 |
| 12 | *Outflows related to loss of funding on debt products* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 13 | *Credit and liquidity facilities* | 3,296 | 3,483 | 3,661 | 3,725 | 343 | 348 | 344 | 346 |
| 14 | Other contractual funding obligations | 33 | 161 | 300 | 439 | 2 | 32 | 57 | 90 |
| 15 | Other contingent funding obligations | 2,238 | 2,245 | 2,278 | 2,361 | 168 | 140 | 114 | 118 |
| 16 | **TOTAL CASH OUTFLOWS** | | | | | 9,103 | 8,135 | 7,307 | 7,510 |
| **CASH-INFLOWS** | | | | | | | | | |
| 17 | Secured lending (e.g. reverse repos) | 1,400 | 1,727 | 2,090 | 2,242 | 85 | 95 | 85 | 66 |
| 18 | Inflows from fully performing exposures | 1,946 | 2,137 | 2,101 | 2,089 | 1,525 | 1,759 | 1,760 | 1,746 |
| 19 | Other cash inflows | 1,546 | 663 | 14 | 63 | 1,546 | 663 | 14 | 63 |

(in HRK million)

## 9. LIQUIDITY RISK (CONTINUED)

### DISCLOSE LEVEL AND COMPONENTS OF THE LCR (CONTINUED)

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| EU-19a | (Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies) | | | | | 0 | 0 | 0 | 0 |
| EU-19b | (Excess inflows from a related specialised credit institution) | | | | | 0 | 0 | 0 | 0 |
| 20 | **TOTAL CASH INFLOWS** | 4,892 | 4,527 | 4,205 | 4,394 | 3,156 | 2,517 | 1,859 | 1,875 |
| EU-20a | ***Fully exempt inflows*** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EU-20b | ***Inflows Subject to 90% Cap*** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EU-20c | ***Inflows Subject to 75% Cap*** | 4,892 | 4,527 | 4,205 | 4,394 | 3,156 | 2,517 | 1,859 | 1,875 |
| | | | | | | TOTAL ADJUSTED VALUE | | | |
| **21** | **LIQUIDITY BUFFER** | | | | | **9,975** | **10,599** | **10,695** | **10,877** |
| **22** | **TOTAL NET CASH OUTFLOWS** | | | | | **5,949** | **5,618** | **5,448** | **5,636** |
| **23** | **LIQUIDITY COVERAGE RATIO (%)** | | | | | 173% | 190% | 197% | 194% |

## 9. LIQUIDITY RISK (CONTINUED)

- **DISCLOSE FURTHER EXPLANATION OF THE ITEMS INCLUDED IN THE LCR DISCLOSURE TEMPLATE**

### Concentration of funding and liquidity sources

Concentration of funding occurs when the resource structure makes the Bank vulnerable to an individual event or individual factor, such as a significant and sudden withdrawal of funding or inadequate access to new funding sources.

The analysis should focus on concentrations across the funding providers, type of funding, high quality liquid assets and intra-group funding. A concentration risk assessment of funding providers based on the modified Herfindahl-Hirschman Index (HHI), conducted monthly. As a general liquidity management practice recommended by regulators, banks limit concentration in any one particular funding source or tenor. This is especially applicable to wholesale funding, which is more volatile than retail funding. The Bank must ensure that wholesale funding sources are sufficiently diversified to maintain timely availability of funds at the right maturities and at reasonable costs. Concentrations in funding sources and funding type are monitored by calculating the following ratios:

- concentration of top 10 counterparties or group of connected clients,
- concentration by product types, in particular retail and wholesale funding,
- concentration by currency (for all significant currencies),
- concentration of liquidity reserves.

### Derivative exposures and potential collateral calls

The Bank take into account the outflows and inflows provided for period of 30 calendar days from the exposure to derivative transactions on a net basis in accordance with Article 21 of the Commission Delegated Regulation (EU) 2015/61.
From 1 March 2017 the Bank is obliged to exchange collateral for OTC derivative transactions that are not settled by the Central Counterparty on (EMIR).
EMIR has mandated transparent reporting of OTC derivatives regulators, that regulators within the EU could monitor and, if necessary, investigate transactions that have not been concluded in accordance with legal regulations.
Contracting parties that are liable to apply the EMIR shall exchange collateral if they exceed the defined threshold and monitor the exposure and calculation of the collateral required for the use of a group web application that supports all regulatory and strategic collateral management needs.
Consequently, it is apparent that the Bank monitors and evaluates collateral daily, showing only the amount of required collateral. Additionally, the LCR reports an additional outflow that meets the collateral requirements that would arise from the impact of the adverse market scenario on the Historical Look-Back Approach (HLBA).

## 9. LIQUIDITY RISK (CONTINUED)

### Currency mismatch in the LCR

The Bank also insures the currency adjustment of its liquid assets and its net liquid outflows to prevent excessive currency mismatch endangering the Bank's ability to use liquidity buffers to fulfilling liquidity outflows in a particular currency during the stress period. The Bank fully secures currency adjustment, which is visible through the LCR ratio, in total, as well as for individual currencies, maintaining the same above the required regulatory level without additional restrictions on the LCR ratio or the share of net liquid outflows for individual currencies.

### A description of the degree of centralisation of liquidity management and interaction between the group's units

The Bank fully cooperates with the Group in the implementation of methodologies and regulations, thereby ensuring compliance with the Group. The Bank's approach is to collect data from a different data sources in entities and combine them with the centralized data to respond to liquidity reporting requirements. Also, this information is sent to the Holding as well, but the Bank independently compiles all regulatory and internal liquidity reports. Classification and aggregation rules of cash flows are implemented through internal systems and tools.

### Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile

The bank fully compliance the regulatory defined LCR ratio and is within the defined limit. Although the Bank's monthly reports on the LCR, the Bank daily monitors and compliance the regulatory LCR, both in total and in all significant currencies. In addition to the ratio itself, the Bank regularly monitors the composition of the liquidity buffer by asset level, meeting all defined limits within the Commission Delegated Regulation (EU) 2015/61.

## 10. OPERATIONAL RISK

Operational risk is a risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk definition includes legal risk and excludes strategic and reputational risk.
The Bank assesses reputational risk for assessment purposes due to the strong links with the operational risk (e.g. most of operational risk events have a strong impact in terms of reputation).

The operational risk management system includes the following:
1. the operational risk management strategy,
2. policy and other internal acts which define 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 of operational risk,
   - assessment, mitigation and acceptance of operational risk,
   - quantification of operational risk,
   - monitoring, controlling and reporting of operational risk.
5. business continuity management,
6. identification and maintenances of the capital requirement for operational risk.

### Operational Risk Management Process

The Bank identifies inherent and residual operational risk in all material activities processes and systems.
Operational risk is influenced by a large variety of factors which have to be considered when determining the operational risk exposure for the Bank. These factors can be grouped into categories, such as e.g. economic and business environment, processes and systems etc.
When determining the operational risk exposure for the Bank, qualitative and quantitative instruments have been applied.
The quantitative analysis of operational risk includes collection of internal and external loss event data where particular emphasis is put on the data classification and quality necessary for quantifying operational risk.
For the qualitative analysis a methodology for risk and control self-assessments is performed on a regular basis where for all identified high risks, for which internal controls are not adequate or efficient, corrective measures by relevant organizational unit have to be implemented, in order to mitigate identified operational risk.
An objective in the identification of operational risk is establishing key risk indicators which are measured and give a timely indication regarding changes in the operational risk profile.
In order to involve management of the Bank in the change management process, it is ensured that there is an approval process that fully assesses operational risk for all new products, activities, processes and systems. This process has to also cover recent significant corporate events (such as mergers, acquisitions, disposals and restructuring) or new markets.

## 10. OPERATIONAL RISK (CONTINUED)

In addition to the loss data collection, scenario analysis are implemented to analyse possible future losses which the Bank has not yet experienced.

The Bank's Management Board is informed on operational risk through Quarterly Report on Operational Risk and Local Operational Conduct Committee is held at minimum on a quarterly basis.

Managing of operational risk is conducted for all identified operational risk in all activities, products and processes of the Bank. Managing 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.
- **Acceptance** implies a formal decision on operational risk acceptance by the responsible decision body.

The overall accepted level of operational risk is managed by using the operational risk scaling matrix which is a combination of probability and impact of operational risk, and risk decision, in particular, the decision on mitigation or acceptance of operational risk identified through the specific instruments or in any decision which involves operational risk. All operational risk decisions are to be taken in consideration of adequately balanced risks, mitigation costs and benefits.

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.

The Bank's Management Board is informed on operational risk through Quarterly Report on Operational Risk and Local Operational Conduct Committee is held at minimum on a quarterly basis.

Business Continuity Management ensures that selected critical business processes for the Bank are continuously available, also in case of emergency or crisis through measures, planned for these situations including required acts of preparing and preventively measures for avoidance of risks to reduce their probability and consequences.

### Capital Requirement

The Bank is using the standardized approach (”TSA”) for the capital requirement calculation, according to the Title III of CRR, Article 317 while the Group Members are using Basic indicator approach (“BIA“) in accordance to the Article 315 of the same Title of CRR.

The Bank provides the operational risk capital requirement 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)*

## 11. EXPOSURES IN EQUITY NOT INCLUDED IN THE TRADING BOOK

DISCLOSURE REQUIREMENTS COVERED: ART. 447 CRR

### EU CR10: IRB (equities)

| Categories | On-balance sheet amount | Off-balance sheet amount | Risk weight | Exposure amount | RWA | Capital requirements |
|---|---|---|---|---|---|---|
| Exchange-traded equity exposures | 40 | - | 190% | 40 | 75 | 6 |
| Private equity exposures | 2 | - | 290% | 2 | 6 | - |
| Other equity exposures | 112 | - | 370% | 112 | 415 | 33 |
| **Total** | **154** | **-** | | **154** | **496** | **39** |

### 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 | **138** | |
| Unlisted, in sufficiently diversified portfolios | 137 | |
| Listed | 1 | 1 |
| Investments in non-financial institutions | **54** | |
| Unlisted, in sufficiently diversified portfolios | 54 | |
| Listed | - | - |
| 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.

## 12. 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. In process of origination and changes during loan approval collaterals must be collected in accordance with relevant procedures and decisions form high level management.

The following types of collaterals are accepted:

- Real estate (commercial and residential)
- Financial collateral (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 Bank’s internal acts. Collateral management policy is the high level 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 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.

## 12. 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 residential real estate revaluation has to be performed by authorized valuator at least every three years when the loan amount secured by a mortgage exceeds HRK 20 million. Between revaluations, once a year, monitoring process is done (desktop analysis).

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

Licensed appraisers:

- have to have the required qualification, competences and experience for determining the value of real estate,
- 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. Acceptance of instruments as collaterals is estimated in the Collection and Work-out Division and approved by Risk department.
Internal policies and procedures are prescribing rules for accepting collateral, monitoring procedures and booking their values.

*(in HRK million)*

## 12. CREDIT RISK MITIGATION TECHNIQUES (CONTINUED)

### EU CR3: Credit risk mitigation techniques – overview

| | | Exposure unsecured- Carrying amounts | Exposure to be secured | Exposure secured by collateral | Exposure secured by financial guarantees | Exposure secured by credit derivatives |
|---|---|---|---|---|---|---|
| 1 | Total loans | 48,573 | 7,180 | 3,703 | 3,477 | - |
| 2 | Total debt securities | 9,797 | - | - | - | - |
| 3 | **Total exposure** | **60,699** | **16,514** | **12,616** | **3,898** | **-** |
| 4 | of which defaulted | 2,121 | 26 | 24 | 2 | |

### EU CR4: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

| | Asset classes | Exposures before CCF and CRM | | Exposure post CCF and CRM | | RWA and RWA density | |
|---|---|---|---|---|---|---|---|
| | | On balance | Off balance | On balance | Off balance | RWA | RWA dencity |
| 1 | Central governments or central banks | 7,395 | 3 | 7,395 | 1 | 1,647 | 8,81 |
| 2 | Regional government or local authorities | 895 | 28 | 895 | 12 | 644 | 3,45 |
| 3 | Public sector entities | 2,846 | 189 | 228 | 2 | 92 | 0,49 |
| 4 | Multilateral development banks | 247 | - | 276 | 6 | - | - |
| 5 | International organisations | - | - | - | - | - | - |
| 6 | Institutions | 150 | 67 | 139 | 68 | 79 | 0,42 |
| 7 | Corporates | 3,378 | 1,300 | 2,685 | 430 | 3,048 | 16,31 |
| 8 | Retail | 3,698 | 1,492 | 3,689 | 309 | 2,998 | 16,04 |
| 9 | Secured by mortgages on immovable property | 828 | - | 828 | - | 318 | 1,7 |
| 10 | Exposures in default | 676 | 4 | 676 | - | 850 | 4,55 |
| 11 | Higher-risk categories | - | - | - | - | - | - |
| 12 | Covered bonds | - | - | - | - | - | - |
| 13 | Institutions and corporates with a short term credit assessment | - | - | - | - | - | - |
| 14 | Collective investment undertakings | 139 | - | 139 | - | 139 | 0,74 |
| 15 | Equity | 10 | - | 10 | - | 13 | 0,07 |
| 16 | Other items | 858 | - | 903 | - | 733 | 3,92 |
| 17 | **Total** | **21,120** | **3,083** | **17,863** | **828** | **10,561** | |

*(in HRK million)*

## 13. ASSET ENCUMBRANCE

### DISCLOSURE REQUIREMENTS COVERED: ART. 443 CRR

In 2017 median for the asset encumbrance ratio for the Group amounts 11.53%, and individually for the Bank amounts 12.46%. 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, loans from other financial institutions and owners as well as 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, pledge of asset to provide favorable financing sources and repo transactions. Obligatory reserve is a mandatory according to the CNB decision. In last two cases, pledged asset consists mostly of government debt securities and loans placements to government. 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** | **7,662** | | **58,440** | |
| 030 | Equity instruments | 137 | 137 | 137 | 137 |
| 040 | Debt securities | 1,906 | 1,919 | 7,264 | 7,297 |
| 120 | Other assets | 5,621 | | 50,924 | |

| | **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** | **230** | **2,103** |
| 150 | Equity instruments | - | 86 |
| 160 | Debt securities | 230 | 2,018 |
| 230 | Other collateral received | - | - |
| **240** | **Own debt securities issued other than own covered bonds or ABSs** | **-** | **-** |

## 13. 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 | **1,270** | **7,798** |

*(in HRK million)*

## 14. COUNTERCYCLICAL BUFFER REQUIREMENTS

### DISCLOSURE REQUIREMENTS COVERED: ART. 440 CRR

The Group calculates countercyclical buffer requirements at consolidated level. As of 31 December 2017 only a very small number of jurisdictions (Hong Kong, Norway and Sweden) applied countercyclical buffer rates of more than 0%, resulting in an overall countercyclical rate for the Group 0%.

The tables below set out the geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer as well as the institutions specific countercyclical buffer rate for the Group as of 31 December 2017. The table detailing the distribution of credit exposure has been simplified by listing individually only those countries which have communicated countercyclical buffer rates other than zero. Other countries are grouped.

| | General credit exposure | | Trading book exposure | | Securitisation exposure | | Own funds requirements | | | | Own funds requirements weights | Countercyclical capital buffer rate |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Exposure value-SA | Exposure value-IRB | Sum of long and short position of trading book | Value of trading book exposure for internal models | Exposure value for SA | Exposure value for IRB | Of which: General credit exposures | Of which: Trading book exposures | Of which: Securitisation exposures | Total | | |
| Republic of Croatia | 6,621 | 35,267 | - | - | - | - | 2,088 | 1 | - | 2,089 | 0.89 | 0.00% |
| Other European countries | 2,567 | 341 | - | - | - | - | 191 | - | - | 191 | 0.08 | 0.00% |
| EU countries | 428 | 81 | - | - | - | - | 32 | - | - | 32 | 0.01 | 0.00% |
| United states of America | 16 | 86 | - | - | - | - | 26 | - | - | 26 | 0.01 | 0.00% |
| Other countries | 15 | 4 | - | - | - | - | 1 | - | - | 1 | 0.00 | 0.00% |
| Norwey | - | 27 | - | - | - | - | 1 | - | - | 1 | 0.00 | 2.00% |
| Sweden | 2 | 3 | - | - | - | - | - | - | - | - | 0.00 | 2.00% |
| Czech Republic | - | 1 | - | - | - | - | - | - | - | - | 0.00 | 0.50% |
| Slovakia | - | - | - | - | - | - | - | - | - | - | 0.00 | 0.50% |
| Hong Kong | - | - | - | - | - | - | - | - | - | - | 0.00 | 1.25% |
| **TOTAL** | **9,649** | **35,810** | **-** | **-** | **-** | **-** | **2,339** | **1** | **-** | **2,340** | | |

*(in HRK million)*

### 14. COUNTERCYCLICAL BUFFER REQUIREMENTS (CONTINUED)

Institutions specific countercyclical capital buffer rate:

| | |
|---|---:|
| Total risk exposure amount | 29,274 |
| Institutions specific countercyclical capital buffer rate | 0.0% |
| Institutions specific countercyclical buffer requirement | - |

### 15. REMUNERATION POLICY

DISCLOSURE REQUIREMENTS COVERED: ART. 450 CRR

(1) In 2017 Remuneration Policy ("the Policy") was updated twice, for the first time in November 2016 and again in September 2017 in alignment with the Erste Group Remuneration Policy and Decision on Remuneration from 2017. The Policy of the ESB Group was adopted by the by the Bank's Management Board, Remuneration Committee and Supervisory Board, and is applied to the Bank and the ESB Group.

(2) This Policy provides a remuneration framework for Erste & Steiermärkische Bank Group on consolidated, sub-consolidated and institutional level, including non-financial institutions. Each institution of ESB Group adopted its own Remuneration Policy which is in line with this Policy.

(3) There were no significant changes in regard to the Policy of 2016. Main changes were alignments with Decision on remuneration from the Croatian National Bank (Official gazette No. 31/2017) or Remuneration Policy of Erste Group. Those changes affected better clarification of some definitions in the policy, including more clear connection between payment of variable remuneration and process of risk management.

(4) In accordance with the criteria set out in the Commission Delegated Regulation (EU) 604/2014, Bank adopted Procedure on the identification of material risk takers which describes tasks, responsibilities and main steps in process of identification, as well as documentation and approval of list of material risk takers for the Bank and ESB Group.

(5) The Bank founded the Remuneration Committee, the body of the Supervisory Board in charge of the decisions related to the Remuneration Policy and other activities as mentioned in Article 8 of Decision on Remuneration and 2.4. of the Guidelines on sound remuneration policies
Institutions which are part of ESB group and which are not specified as material do not have Remuneration Committees. The decisions related to the payment of variable remuneration are made by their Supervisory Boards on the proposal of the Bank's Management Board or other Board where appropriate.

**15. REMUNERATION POLICY (CONTINUED)**

Supervisory Board is adopting and maintaining the basic principles of the remuneration policy, as well as supervising its appropriate implementation. Implementation is subject of internal audit at least once a year in order to ensure alignment with regulations, policies and procedures adopted by Supervisory Board.

Responsibilities and duties of the Supervisory Board listed in the Policy are aligned with Decision on Remuneration of the Croatian National Bank. Design and execution of the Remuneration policy of each company of ESB group is coordinated by ESB Group HR, together with legal, risk, compliance and controlling.
Process of KPI setting is coordinated by ESB Group HR. ESB Group Risk Management and ESB Group Controlling monitor risk results and provide final performance assessment for respective goals within annual performance management cycle for the Bank, ESB Group and senior management. Malus and claw-back decisions are taken generally on a case by case basis by the Management Board, Human Resources and Compliance in case of identified staff who are not Board members and by the Remuneration Committee and Supervisory Board, in case of Management Board Members.
The identification of employees who are material risk takers in the Bank and individual companies of ESB Group is coordinated by ESB Group Human Resources in cooperation with business, legal, compliance and risk management functions.

6) Variable payments are related to the business success and paid for sustainable performance on the level of individual institution, group of institutions (Bank and ESB Group) and individual performance of employees.
Criteria for determining and payment of variable remuneration are connected with target achievement as part of regular annual cycle of performance and development management, and are defined by separate decisions and bonus schemes. Variable payments can be awarded and paid only if such a payment is sustainable related to the financial situation of the Group and the Bank and justified related to the business performance as well as individual 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.
At least the following criteria/indicators must be tracked:

- Financial results;
- Capital adequacy ratio;
- Fulfilment of the annual strategic indicators according to the strategy review and budget dialogues; and
- The risk, capital, liquidity and the probability as well as the time of realised profit.

Supervisory Board makes a decision on criteria that will be applied for bonus pool for each year, for separate categories of employees. Evaluation of those criteria will influence percentage of bonus pool eligible for payout for each category, which will be decided upon the end of business year.
The policy also defines types of bonus schemes that can be applied in the Bank or ESB Groups for variable payouts.
All employees can be eligible for payout if it is defined by particular rules in bonus schemes, or other rules in the Policy.

## 15. REMUNERATION POLICY (CONTINUED)

Changes in level of performance evaluation are effecting variable remuneration due to alignment of bonus pool with performance. The determination of the total volume of funds earmarked for variable remuneration (bonus pool) takes into account, besides the percentage entitlement of individual employees, also the overall performance of ESB group, each institution and the relevant risks that the each institution is exposed to. The determination of the bonus pool and pay-out from the bonus pool is subject to assessment of criteria related to performance and long-term sustainability. Bonus pool is adjusted by the multiplier, which can vary between 0% and 120%.

The bonus pool can be split into segments whereas different criteria/indicators can apply to these segments, although as a minimum the below mentioned criteria need to be applied.

The bonus pool is assessed according to at least the following criteria/indicators:

- Financial results;
- Capital adequacy ratio;
- Fulfilment of the annual strategic indicators according to the strategy review and budget dialogues; and
- The risk, capital, liquidity and the probability as well as the time of realised profit.

(7) 1. ESB Group promotes a remuneration system balancing the cash and non-cash reward and acknowledgment, as well as fixed and variable pay. The basis for the system of material remuneration and the principles of this Policy are:

- the business strategy, goals, corporate culture, values and long term interests of ESB Group;
- total performance of the Bank and ESB Group, the performance of the organisational unit or the divisionalized business and the performance of individual employees.

The system of material remuneration, fixed and variable, must be consistent, encourage healthy and efficient risk management and must not encourage the risk taking over the level of acceptance for the Bank or any other company of ESB Group individually or on the Group level.

2. The performance, as a basis for the payment of variable remuneration is measured by quantitative and qualitative goals. Quantitative goals are financial goals and other business specific goals, whereas qualitative goals can be customer satisfaction, operational quality, compliance and similar. All categories of employees, including top management have goals related to Erste Group competences, i.e. goals which define expected behavior standards, with minimum weight of 25%.

3. The variable remuneration is linked to sustainability and must not promote excessive risk-taking. Performance objectives and variable remuneration are in line with the strategic indicators, risk appetite, values and long-term interests of ESB Group and each institution of ESB Group. A variable remuneration considers:

- the risk, capital, liquidity, performance and the probability, as well as the time, of realised profits of the respective institution;
- the performance of the consolidated and single entity (ESB group and each institution separately);
- the performance of the business unit (department/division/institution) concerned, and
- the performance of the individual.

## 15. REMUNERATION POLICY (CONTINUED)

4. Variable remuneration is paid in cash, except for material risk takers it can be paid in cash and non-cash instruments.

The instrument to which 50% of variable remuneration is bound, are phantom shares of Erste Group Bank AG, the value of which is determined according to the average share price during the business year for which variable remuneration is granted or according to the value of regular share of Erste Group Bank AG on the date of granting the variable remuneration, in both cases the maximum value on the date of payment being the one on the date they are awarded. Phantom shares must be kept during the retention period of 1 year, which is the same for all material risk takers.

5. The fixed remuneration to the employees in control functions are structured in the following way:
- Fixed payments cannot be lower than 2/3 of total payment to an employee;
- Total annual fixed payments of an employee cannot be lower than 2 year average of total annual fixed payments of employees in the same pay grade or the employees performing duties of similar scope, complexity and responsibility.

Variable payouts are related to the performance management. Business lines and/or teams that are overseen by the control function must not have involvement in the decision making process that determines the compensation for the control functions.

6. Criteria for determination of fix and variable remuneration are aligned with the Decision on remuneration from the Croatian National Bank (Official Gazette No. 31/2017)

7. The evaluation of performance for material risk takers is taking into cosiderations period longer than one year, in order to ensure that the process of evaluation is based on long term success.

In accordance with that, 40% of variable pay of Identified staff will be deferred for the period of 3 to 5 years. The deferral period for members of the Bank's Management Board is 5 years, and for other Identified staff, the deferral period is 3 years. 50% of both upfront and deferred part of variable remuneration will be paid in phantom shares of Erste Group Bank AG. Value of pahntom shares is determined according to the average share price during the business year for which variable remuneration is granted or according to the value of regular share of Erste Group Bank AG on the date of granting the variable remuneration, in both cases the maximum value on the date of payment being the one on the date they are awarded.

Neither the Bank nor any institution of ESB group 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 financial standing of ESB Group is not endangered, stays secure and stable. Variable payments are considered as justified if their payment is based on the success of ESB group, individual institution, business unit and specific employee.

## 15. REMUNERATION POLICY (CONTINUED)

If an event of loss or substantial decrease in business results occurs, the variable payments will be decreased by applying one of the following measures:

- decrease of variable payments in the current year;
- decrease of variable payments already granted, but deferred and not yet paid (malus) and
- subsequent decrease of payments already granted and paid (claw back).

Variable payments in total are subject to decrease by activating the provisions on malus and claw back up to the amount of 100%.
ESB Group can apply malus or claw-back of any variable remuneration granted or paid within the last five years. Criteria for activating the provisions on malus and claw back are aligned with Decision on remuneration from the Croatian National Bank.

8. The Remuneration 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, while other companies of ESB Group are not defined as significant institutions. Still, all companies in the ESB Group have adopted Remuneration Policy aligned with this Policy.

9. Policy defines payout of sign-on bonus and severance payment in accordance with the Decision on remuneration from the Croatian National Bank. A material risk taker can receive a guaranteed bonus as a sign-on bonus paid out upfront in cash when hired as a new employee. Such sign-on bonus payments are limited to the first year of employment in the entity and are subject to the condition the institution has solid and sufficient equity capital. Severance payments must reflect performance achieved over time and must not reward failure or misconduct.

(8) For year 2017, General Assembly did not approve any payout with higher ratio between fix and variable remuneration.

(9) In the ESB Group different types of instruments are not used.

(10) In the ESB Group long-term incentive plans or uncommon rewarding practices are not used.

*(in HRK million)*

## 15. REMUNERATION POLICY (CONTINUED)

### Information on remuneration for all staff

| | Supervisory function | Management Board Function | Investment Banking | Retail Banking | Asset Management | Corporate Function | Independent Control Function | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Number of employees (Headcount) | 31 | 18 | | | | | | | 49 |
| Total number of staff (FTE) | | | 268.50 | 1,311.63 | - | 869.00 | 163.00 | 513.00 | 3,125.13 |
| Total amount of remuneration | - | 24 | 62 | 187 | - | 154 | 32 | 88 | 547 |
| of which: total amount of variable pay | - | 7 | 9 | 21 | - | 12 | 2 | 7 | 58 |

*(in HRK million)*

## 15. REMUNERATION POLICY (CONTINUED)

### Information on remuneration for Identified Staff

| | Supervisory function | Management Board Function | Investment Banking | Retail Banking | Asset Management | Corporate Function | Independent Control Function | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Number of Identified Staff (Headcount) | 31 | 18 | | | | | | | 49 |
| Total number of Identified Staff (FTE) | | | 7 | 6 | - | 24 | 8 | 26 | 71 |
| Number of identified Staff in senior management positions | | | 7 | 5 | - | 22 | 7 | 26 | 67 |
| Total amount of fixed pay (incl. Allowance, overtime) | - | 18 | 4 | 3 | - | 11 | 4 | 9 | 49 |
| of which in cash | - | 18 | 4 | 3 | - | 11 | 4 | 9 | 49 |
| of which senior management | | | 4 | 2 | - | 11 | 3 | 9 | *29* |
| of which other identified staff | | | - | 1 | - | 1 | - | - | *2* |
| of which in shares and share-related instruments | - | - | - | - | - | - | - | - | - |
| *of which in non cash instruments* | - | - | - | - | - | - | - | - | - |
| Total amount of variable pay | - | 6 | 1 | 1 | - | 3 | 1 | 1 | 13 |
| *of which in cash* | - | 3 | 1 | 1 | - | 2 | 1 | 1 | 9 |
| of which senior management | | | 1 | 1 | - | 2 | 1 | 1 | *6* |
| of which other identified staff | | | - | - | - | - | - | - | - |
| *of which in shares and share-related instruments* | - | 3 | - | - | - | 1 | - | - | 4 |
| of which senior management | | | - | - | - | 1 | - | - | 1 |
| of which other identified staff | | | - | - | - | - | - | - | - |
| *of which in non cash instruments* | - | - | - | - | - | - | - | - | - |

## 15. REMUNERATION POLICY (CONTINUED)

### Information on remuneration for Identified Staff

| | Supervisory function | Management Board Function | Investment Banking | Retail Banking | Asset Management | Corporate Function | Independent Control Function | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Total amount of variable deferred pay for year: | - | 4 | - | - | - | - | - | - | 4 |
| *of which in cash* | - | 2 | - | - | - | - | - | - | 2 |
| *of which in shares and share-related instruments* | - | 2 | - | - | - | - | - | - | 2 |
| *of which in non cash instruments* | - | - | - | - | - | - | - | - | - |
| *Article 450 h(iii)CRR – total amount of outstanding deferred variable remuneration awarded in previous periods and not in year N (in EUR)* | - | 8 | 1 | - | - | 1 | - | - | 10 |

## 16. 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
EBA – European Banking Authority
ECB – European Central Bank
EGB – Erste Group Bank AG
EVA – Economic Value Added
ICAAP – Internal Capital Adequacy Assessment
IFRS – International Financial Reporting Standards
LGD – Loss Given Default
LIP – Loss Identification Period
OLL – Operating Lending Limit
PD – Probability of Default
PVBP – Price Value of a Basis Point
QRD – Quantitative Research Department
RAS – Risk Appetite Statement
RbLL – Rating based Lending Limit
SKDD – Central Depositary and Clearing Company