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Disclosure requirements for the Group Erste&Steiermärkische Bank d.d. as of 30 June 2018

Zagreb, October 2018

Disclosure requirements according to the Article 433 'Frequency of disclosure' of the 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"), Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 and according to Article 165 and 166. of Credit Institution Act for the Group Erste&Steiermärkische Bank d.d. as of 30 June 2018, as follows:

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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 and Republic of Slovenia.

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. SCOPE OF CONSOLIDATION

DISCLOSURE REQUIREMENTS COVERED: ART. 436 CRR

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

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

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

1.1. SCOPE OF CONSOLIDATION (CONTINUED)

Table 1: Presentation of the scope of consolidation

Entities within the different scopes of consolidation

	30 June 2018				
	IFRS Full	IFRS Equity	CRR Full	CRR Proportional	CRR De Minimis
Credit institutions:					
Erste bank a.d. Podgorica, Montenegro	x	-	x	-	-
Financial institutions, financial holding companies and mixed financial holding companies:					
Erste & Steiermärkische S-Leasing d.o.o.	x	-	x	-	-
Erste Card d.o.o., Slovenia	x	-	x	-	-
Erste Factoring d.o.o. za factoring	x	-	x	-	-
ERSTE CARD CLUB d.o.o. za financijsko posredovanje i usluge	x	-	x	-	-
Diners Club International Mak d.o.o.e.l., Skopje	x	-	x	-	-
Ancillary service undertakings, investment firms and asset management companies:					
Erste Nekretnine d.o.o.	x	-	-	-	x
S Immorent Zeta d.o.o.	-	x	-	-	x
Erste Group IT HR d.o.o.	x	-	-	-	x
Izbor nekretnina d.o.o.	x	-	-	-	x
Other companies					
Erste d.o.o. društvo za upravljanje obveznim mirovinskim fondom	-	x	-	-	-

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 2018 management continued to focus on critical NPL portfolios and on improvement of overall portfolio quality. Regular repayment and write-offs have contributed to portfolio optimization. By the end of the 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.

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)

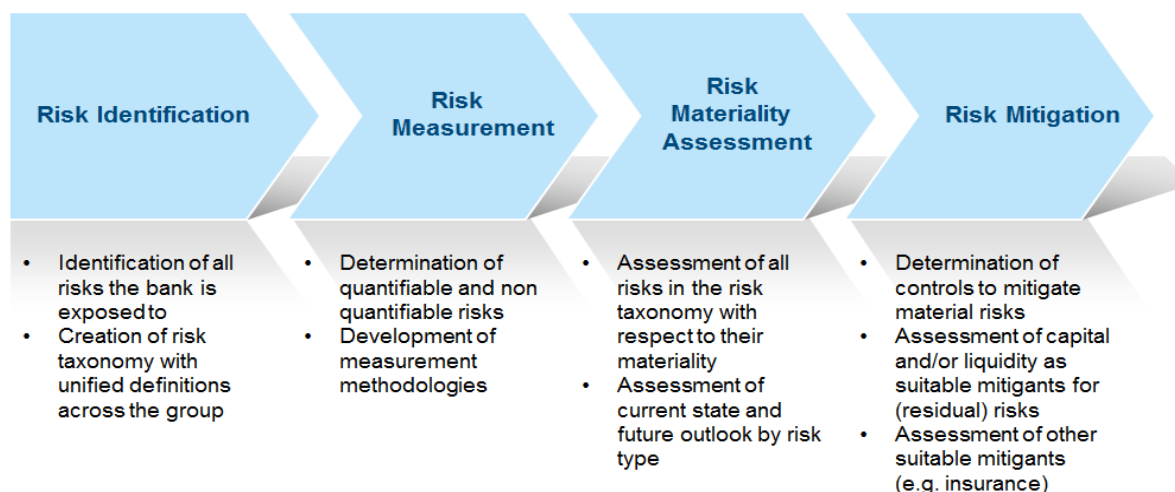
The key objective of the appetite for risk is:

- 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 2018 the relevant risk appetite indicators have evolved within defined limits.

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 of 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.

2. OWN FUNDS

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

All requirements as defined in the CRR, ZOKI and the aforementioned technical standards are fully applied by the Group for regulatory purposes and for the disclosure of prudential requirements.

Based on the Regulation (EU) 2017/2395 of the European Parliament and of the Council, the Group does not apply the transitional period for mitigating the impact of IFRS 9 on own funds that arise from the calculation of the expected credit loss.

The table below presents the composition of the regulatory capital based on the Commission Implementing Regulation (EU) No 1423/2013 on the disclosure of own funds published in the Official Journal of the EU.

Disclosure requirements

(in HRK million)

2. OWN FUNDS (CONTINUED) – Table 2: Own funds per 30 June 2018

in HRK million	(A) 30.06.2018	(B) Regulation (EU) No 575/2013 article reference
Common Equity Tier 1: instruments and reserves		
1 Capital instruments and the related share premium accounts	3,500	26(1), 27, 28, 29
of which: Ordinary shares	1,698	EBA list 26(3)
of which: Share premium	1,802	EBA list 26(3)
of which: instrument type 3	-	EBA list 26(3)
2 Retained earnings	4,000	26(1)(c)
3 Accumulated other comprehensive income (and other reserves)	237	26(1)
3a Funds for general banking risks	85	26(1)(f)
4 Amount of qualifying items referred to in Article 484(3) and the related share premium subject to phase out from CET 1	-	486(2)
5 Minority interests (amount allowed in consolidated CET1)	-	84
5a Independently verified interim profits net of any foreseeable charge or dividend	-	26(2)
6 Common Equity Tier 1 (CET1) capital before regulative adjustments	7,822	Sum of rows 1 to 5a.
Common Equity Tier 1 (CET1) capital:regulatory adjustments		
7 Additional value adjustments (negative value)	(22)	34, 105
8 Intangible assets (net of related tax liabilities) (negative amount)	(386)	36(1)(b), 37
9 Empty set in the EU	-	
10 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability, where the conditions in Article 38(3) are met) (negative amount)	-	36(1)(c), 38
11 Fair value reserves related to gains or losses on cash flow hedges	-	33(1)(a)
12 Negative amounts resulting from the calculation of expected loss amounts	(15)	36(1)(d), 40, 159
13 Any increase in equity that results from securitised assets (negative amount)	-	32(1)
14 Gains or loss on liabilities valued at fair value resulting from changes in own credit standing	(1)	33(1)(b)
15 Defined-benefit pension fund assets (negative amount)	-	36(1)(e), 41
16 Direct and indirect holdings by an institution of CET1 instruments (negative value)	-	36(1)(f), 42
17 Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities has reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36(1)(g), 44
18 Direct, indirect and synthetic holdings capital investments by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% and net of eligible short positions) (negative amount)	-	36(1)(h), 43, 45, 46, 49(2) and (3), 79
19 Direct, indirect and synthetic holdings capital investments by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% and net of eligible short positions) (negative amount)	-	36(1)(i), 43, 45, 47, 48(1)(b), 49(1) to (3), 79
20 CET1 capital elements or deductions - other	(43)	
20a The exposure amount of the following items which qualify for RW of 1250% where the institution opts for the deduction alternative	-	36(1)(k)
20b of which: qualifying holdings outside the financial sector (negative amount)	-	36(1)(k) point i), 89 to 91
20c of which: securitised positions (negative amount)	-	36(1)(k) point ii), 243(1)(b) 244(1)(b), 258
20d of which: free deliveries (negative amount)	-	36(1)(k) point iii), 379(3)
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38(3) are met) (negative amount)	-	36(1)(c), 38, 48(1)(a)

The table continues on the following page.

Disclosure requirements

(in HRK million)

2. OWN FUNDS (CONTINUED) – Table 2: Own funds per 30 June 2018

in HRK million	(A) 30.06.2018	(B) Regulation (EU) No 575/2013 article reference
22 Amount exceeding 15% threshold (negative amount)	-	48(1)
of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36(1)(i), 48(1)(b)
23 Empty set in the EU	-	
24	-	
25 of which: deferred tax receivables arising from temporary differences	-	36(1)(c), 38, 48(1)(a)
25a Losses for the current financial year (negative amount)	-	36(1)(a)
25b Foreseeable tax charges relating to CET 1 items (negative amount)	-	36(1)(l)
27 Qualifying AT1 deductions that exceed the AT 1 capital of the institution (negative amount)	-	36(1)(j)
28 Total regulatory adjustments to Common Equity Tier 1 (CET1)	(467)	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29 Common Equity Tier 1 (CET1) capital	7,355	Row 6 minus row 28
Additional Tier 1 (AT1) capital: instruments		
30 Capital instruments and the related share premium accounts	-	51, 52
31 of which: classified as equity under applicable accounting standards	-	
32 of which: classified as liabilities under applicable accounting standards	-	
33 Amount of qualified items referred to in Article 484(4) and the related share premium account subject to phase out from AT1	-	486(3)
34 Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	85, 86
35 of which: instruments issued by subsidiaries subject to phase out	-	486(3)
36 Additional Tier 1 capital items before regulatory adjustments	-	Sum of rows 30, 33 and 34.
Additional Tier 1: regulatory adjustments		
37 Direct and indirect capital investments by an institution of own AT 1 instruments(negative amount)	-	52(1)(b), 56(a), 57
38 Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	56(b), 58
39 Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56(c), 59, 60, 79
40 Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56(d), 59, 79
41 Empty set in the EU	-	
42 Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount) (negative amount)	-	56(e)
43 Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	Sum of rows 37 to 42
44 Additional Tier 1 (AT1) capital	-	Row 36 minus row 43
45 Tier 1 capital (T1=CET1 + AT1)	7,355	Sum of rows 29 and 44
Tier 2 (T2) capital: instruments and provisions		
46 Capital instruments and the related share premium accounts	943	62, 63
47 Amount of qualifying items referred to in Article 484(5) and the related share premium accounts subject to phase out from T2	-	486(4)
48 Qualifying own instruments included in consolidated T2 capital (including minority interests and AT 1 instruments not included in row 5 or row 34) issued by subsidiaries and held by third parties	-	87, 88
49 of which: instruments issued by subsidiaries subject to phase out	-	486(4)
50 Credit risk adjustments	190	62(c) and (d)
51 Tier 2 (T2) capital before regulative adjustments	1,133	
Tier 2 (T2) capital: regulatory adjustments		
52 Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63(b) (i), 66(a), 67
53 Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	66(b), 68

The table continues on the following page.

Disclosure requirements

(in HRK million)

2. OWN FUNDS (CONTINUED) – Table 2: Own funds per 30 June 2018

in HRK million	(A) 30.06.2018	(B) Regulation (EU) No 575/2013 article reference
54 Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	66(c), 69, 70, 79
55 Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	66(d), 69, 79
56 Empty set in the EU	-	
57 Total regulatory adjustments to Tier 2 (T2) capital	-	Sum of rows 52 to 56
58 Tier 2 (T2) capital	1,133	Row 51 minus row 57
59 Total capital = (TC=T1+T2)	8,488	Sum of rows 45 and 58
60 Total risk weighted assets	48,001	
Capital ratios and buffers		
61 Common Equity Tier 1 (as a percentage of the risk exposure amount)	15,32%	92(2)(a)
62 Tier 1 (as a percentage of the risk exposure amount)	15,32%	92(2)(b)
63 Total capital (as a percentage of the total risk exposure amount)	17,68%	92(2)(c)
64 Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systematic risk buffer, plus systematically important institution buffer expressed as a percentage of risk exposure amount)	10,00%	CRD 128, 129, 130, 131, 133
65 of which: capital conservation buffer requirement	2,50	
66 of which: countercyclical buffer requirement	-	
67 of which: systemic risk buffer requirement	3,00	
67a of which: Global systemic important Institution (G-III) or other Systematically Important Institution (O-SII) buffer	-	
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	5,50	CRD 128
69 [not relevant in the EU Regulation]	-	
70 [not relevant in the EU Regulation]	-	
71 [not relevant in the EU Regulation]	-	
Amounts below the threshold for deduction (before risk weighting)		
72 Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	8	36(1)(h), 46, 45, 56(c), 59, 60, 66(c), 69, 70
73 Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	46	36(1)(i), 45, 48
74 Empty set in the EU		
75 Deferred tax assets arising from temporary differences (amount below 10% of the threshold, net of related tax liability where the conditions in Article 38 (3) are met)		36(1)(c), 38, 48
Applicable caps on the inclusion of provisions in Tier 2		
76 Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	62
77 Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62
78 Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	190	62
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	31,710	62
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2014 and 1 January 2022)		
80 Current cap on CET1 instruments subject to phase out arrangements	-	484(3), 486(2) and (5)
81 Amount excluded from CET 1 due to cap (excess over cap after redemptions and maturities)	-	484(3), 486(2) and (5)
82 Current cap on AT1 instruments subject to phase out arrangements	-	484(4), 486(3) and (5)
83 Amount excluded from AT 1 due to cap (excess over cap after redemptions and maturities)	-	484(4), 486(3) and (5)
84 Current cap on T2 instruments subject to phase out arrangements	-	484(5), 486(4) and (5)
85 Amount excluded from T2 due to cap (excess over cap redemptions and maturities)	-	484(5), 486(4) and (5)

3. 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.

Table 3: EU OV1: Overview of RWAs

			RWAs		Minimum capital requirements
			30.06.2018	31.12.2017	30.06.2018
	1	Credit risk (excluding CCR)	41,810	36,895	3,345
Article 438(c)(d)	2	Of which the standardised approach	10,136	10,505	811
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach	23,671	18,695	1,894
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach	6,181	5,998	494
Article 438(d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	668	604	53
Article 107					
Article 438(c)(d)	6	CCR	186	120	15
Article 438(c)(d)	7	Of which mark to market	115	94	9
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	71	26	6
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	272	354	22
	20	Of which the standardised approach	272	354	22
	21	Of which IMA	-	-	-
Article 438(e)	22	Large exposures	-	-	-
Article 438(f)	23	Operational risk	5,733	5,739	459
	24	Of which basic indicator approach	1,757	1,763	141
	25	Of which standardised approach	3,976	3,976	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	48,001	43,108	3,840

3. 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.

Table 4: EU CR8 – RWA flow statements of credit risk exposures under the IRB approach

		RWA amounts	Capital requirements
1	RWAs as at the end of the previous reporting period	26,390	2,111
2	Asset size	2,051	164
3	Asset quality	(32)	(3)
4	Model updates	3,565	285
5	Methodology and policy	-	-
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	(300)	(24)
8	Other	-	-
9	RWAs as at the end of the reporting period	31,674	2,534

Most significant changes on risk weight assets for credit risk, compared to the last period, are driven by the change of rating models for Sovereign and change in asset size.

Disclosure requirements

(in HRK million)

3.1. CAPITAL INSTRUMENTS' MAIN FEATURES

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

Table 5: Capital instruments' main features (Common Equity Tier 1 instruments)

		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

3.1. CAPITAL INSTRUMENTS' MAIN FEATURES (CONTINUED)

Table 6: Capital instruments' main features (Tier 2 Capital instruments)

		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.

3.1. CAPITAL INSTRUMENTS' MAIN FEATURES (CONTINUED)

Table 6: Capital instruments' main features (Tier 2 Capital instruments)

	<i>Coupons/ dividends</i>	Tier 2 Capital instruments			
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

3.1. 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 Depository 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 as Tier II capital instruments.

4. 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”).

Table 7: 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		10	176			176	81
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)						1.310	34
10	VaR for SFTs						-	-
11	Total							115

Exposure to counterparty credit risk after credit risk mitigation from derivative transactions as at 30 June 2018 was HRK 15 million. Counterparty credit risk exposure is calculated on the basis of mark-to-market method.

4. COUNTERPARTY CREDIT RISK (continued)

Table 8: 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	200	71
EU4	Based on the original exposure method	-	-
5	Total subject to the CVA capital charge	200	71

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

Table 9: 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	-	-	-	-	-	-	-	-	80	-	80	80	
8	Retail	-	-	-	-	-	-	-	-	-	-	-	-	
13	Institutions and corporates with a short term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	
16	Other items	-	-	-	-	-	-	-	-	-	-	-	-	
17	Total	-	-	-	-	-	-	-	-	80	-	80	80	

4. COUNTERPARTY CREDIT RISK (continued)

Table 10: EU CCR4 – IRB approach – CCR exposures by portfolio and PD scale (Institutions)

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	1,206	0.14%	1	1.29%	-	10	0.83%
Institutions	0.15 do <0.25	-	0.00%	-	0.00%	-	-	0.00%
Institutions	0.25 do <0.50	-	0.00%	-	0.00%	-	-	0.00%
Institutions	0.50 do <0.75	-	0.00%	-	0.00%	-	-	0.00%
Institutions	0.75 do <2.50	21	1.83%	1	2.07%	-	1	4.22%
Institutions	2.50 do <10.00	42	3.96%	1	2.21%	-	3	5.98%
Institutions	10.00 do <100.00	68	10.24%	1	1.66%	-	4	6.71%
Institutions	100.00 (Default)	-	0.00%	-	0.00%	-	-	0.00%
Institutions	Sub-total	1,337	0.80%	4	1.35%	-	18	1.35%
	Total (all portfolios)	1,406	0.96%	25	1.92%	-	35	2.50%

Table 11: EU CCR4 – IRB approach – CCR exposures by portfolio and PD scale (Corporate)

Exposure class	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
Corporate	0.00 do <0.15	-	0.00%	-	0.00%	-	-	0.00%
Corporate	0.15 do <0.25	-	0.00%	-	0.00%	-	-	0.00%
Corporate	0.25 do <0.50	-	0.00%	-	0.00%	-	-	0.00%
Corporate	0.50 do <0.75	2	0.69%	2	45.00%	-	1	79.96%
Corporate	0.75 do <2.50	12	1.37%	11	49.74%	-	11	84.73%
Corporate	2.50 do <10.00	55	4.75%	8	3.57%	-	5	9.45%
Corporate	10.00 do <100.00	-	0.00%	-	0.00%	-	-	0.00%
Corporate	100.00 (Default)	-	0.00%	-	0.00%	-	-	0.00%
Corporate	Sub-total	69	4.03%	21	12.99%	-	17	24.89%
	Total (all portfolios)	1,406	0.96%	25	1.92%	-	35	2.50%

4. COUNTERPARTY CREDIT RISK (continued)**Table 12: 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	176	-	-	92	84
2	SFTs	1,742	-	-	1,673	69
3	Cross-product netting	-	-	-	-	-
4	Total	1,918	-	-	1,765	153

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.

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.

5. 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.

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (C) CRR

Table 13: The total and average amount of exposure classified according to different categories of exposure

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	9,575	9,560	50	-
Exposure to regional governments and local authorities	797	-	59	-
Exposure to public sector entities	2,363	158	8	-
Exposure to multilateral development banks	1,922	126	171	94
Exposure to institutions (credit institutions and investment firm)	-	-	-	-
Exposure to corporates	16,495	332	8,786	82
Exposure to retail	19,910	-	2,582	-
Exposures secured by mortgages on immovable property	824	-	-	-
Exposures in default ¹	481	-	7	-
Exposures to subjects of collective investments undertakings (CIU)	137	-	-	-
Other exposures	822	-	-	-
Equity exposures	203	26	-	-
TOTAL	53,529	10,202	11,663	176

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

5. CREDIT RISK (CONTINUED)

5.1. 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.

5.1. 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:

- risk group A1 = exposures without significant increase in credit risk since initial recognition
- risk group A2 = exposures with significant increase in credit risk since initial recognition
- risk group B = partially recoverable exposures
- risk group C = completely unrecoverable exposures.

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.

Table 14: 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,
- annually, with the annual review,
- annually, after receiving financial data,
- whenever the new information arises which might have an impact on the rating.

5.1. 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.

Table 15: Mapping of internal rating and the rating of external rating agencies:

	Agencies		Group
i n v e s t m e n t	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	
s p e c u l a t i v e	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
D E F A U L T	C	R1	Full Repayment Unlikely
	D	R2	90 Days
	D	R3	Rescheduling
	D	R4	Credit Loss
	D	R5	Bankruptcy

5.1. 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.

5.1. 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.

5.1. 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.

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

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (h) CRR

Table 16: Specific credit risk adjustments in the preceding period for each exposure class in IRB approach

Exposure categories	Losses as of 30 June 2018		Losses as of 31 December 2017	
	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	20	26	9	4
Exposure to institutions	1	4	1	1
Exposure to corporate	1,183	1,553	1,395	2,013
Exposure to retail	1,218	1,250	1,099	1,087
There of exposure to SME	144	141	139	143
Exposure to retail customers secured by real estate	483	466	452	411
Other exposure to retail	591	643	508	533
Exposure to equity investments	3	-	3	-
Other	-	-	-	-
TOTAL	2,425	2,833	2,507	3,105

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 2², 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).

5.1. 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.

Table 17: Mapping of risk ratings with credit quality grades:

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

Table 18: 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%

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

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

Table 19: 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	5,747	-	-	-	-	-	-	-	-	-	1,065	-	136	6,948
2	Regional governments or local authorities	-	-	-	-	336	-	-	-	-	-	480	-	-	816
3	Public sector entities	19	-	-	-	170	-	-	-	-	-	47	-	-	236
4	Multilateral Development Banks	17	-	-	-	-	-	-	-	-	-	-	-	-	17
5	International Organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	0
6	Institutions	-	-	-	-	225	-	12	-	-	-	11	-	-	248
7	Corporates	-	-	-	-	-	-	-	-	-	-	3,301	-	-	3,301
8	Retail	-	-	-	-	-	-	-	-	4,187	-	-	-	-	4,187
9	Secured by mortgages on immovable property	-	-	-	-	-	603	221	-	-	-	-	-	-	824
10	Exposures in default	-	-	-	-	-	-	-	-	-	-	223	260	-	483
11	Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	0
12	Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	0
13	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	0
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-	-	137	-	-	137
15	Equity	-	-	-	-	-	-	-	-	-	-	10	-	2	12
16	Other items	181	-	-	-	-	-	-	-	-	-	678	-	-	859
17	Total	5,964	-	-	-	731	603	233	-	4,187	5,952	260	138	18,068	

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

Table 20: 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	12,263	-
Exposure to institutions	2,058	-
Exposure to corporates	22,619	-
Exposure to retail	-	18,307
Equity exposures	217	-
Securitization	-	-
Other exposures	2,960	-
TOTAL	40,117	18,307

Table 21: EU CR10 – IRB (specialised lending and equities)

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	102	37	50%	114	55	-
	Equal to or more than 2.5 years	1,148	336	70%	1,407	968	6
Category 2	Less than 2.5 years	3	20	70%	10	7	-
	Equal to or more than 2.5 years	1,056	91	90%	1,132	995	9
Category 3	Less than 2.5 years	5	1	115%	6	6	-
	Equal to or more than 2.5 years	193	15	115%	204	207	6
Category 4	Less than 2.5 years	1	30	250%	22	55	2
	Equal to or more than 2.5 years	103	-	250%	103	241	8
Category 5	Less than 2.5 years	356	-	0%	356	-	178
	Equal to or more than 2.5 years	193	-	0%	193	-	96
Total	Less than 2.5 years	467	88		508	123	180
	Equal to or more than 2.5 years	2,693	442		3,039	2,411	125

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

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

Table 22: 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 adjustments and provisions
0.00 to <0.15	1,179	-	50%	1,281	0.02%	7	45%	2.5	134	10%	-	
0.15 to <0.25	-	-	0%	-	0.00%	-	0%	-	-	0%	-	
0.25 to <0.50	10,514	41	89%	13,585	0.29%	10	45%	2.5	7,652	56%	17	
0.50 to <0.75	73	8	75%	71	0.61%	1	45%	2.5	57	81%	-	
0.75 to <2.50	448	-	0%	448	1.11%	1	45%	2.5	455	102%	2	
2.50 to <10.00	-	-	0%	-	0.00%	-	0%	-	-	0%	-	
10.00 to <100.00	49	-	0%	50	39.12%	4	45%	2.5	124	250%	-	
100.00 (Default)	-	-	0%	-	0.00%	-	0%	-	-	0%	-	
Subtotal	12,263	49	85%	15,435	0.29%	23	45%	2.5	8,422	55%	19	26
Total (all portfolios)	55,246	8.671	41%	52,487	8.76%	362,825	40%	1.4	29,887	57%	2,421	2,833

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

Table 23: 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 adjustments and provisions
0.00 to <0.15	1,805	90	51%	1,760	0.14%	23	11%	1.2	199	11%	1	
0.15 to <0.25	47	25	51%	41	0.18%	13	45%	2.5	23	56%	-	
0.25 to <0.50	42	2	60%	50	0.36%	13	45%	2.5	36	72%	-	
0.50 to <0.75	-	-	0%	-	0.60%	2	45%	2.5	-	104%	-	
0.75 to <2.50	27	-	0%	27	1.82%	8	11%	0.9	9	32%	-	
2.50 to <10.00	67	22	0%	45	3.96%	5	5%	0.6	6	14%	-	
10.00 to <100.00	70	-	0%	70	10.38%	13	3%	0.6	9	13%	-	
100.00 (Default)	-	-	0%	-	0.00%	-	0%	-	-	0%	-	
Subtotal	2,058	139	51%	1,993	0.62%	77	12%	1.3	282	14%	1	4
Total (all portfolios)	55,246	8,671	41%	52,487	8.76%	362,825	40%	1.4	29,887	57%	2,422	2,833

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

Table 24: EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range (continued)

FIRB approach – Exposures to corporates without specialised 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 adjustments and provisions
0.00 to <0.15	-	-	0%	-	0.10%	1	45%	2.5	-	31%	-	
0.15 to <0.25	-	-	0%	-	0.23%	2	45%	2.5	-	50%	-	
0.25 to <0.50	810	553	42%	487	0.48%	252	41%	2.5	244	50%	1	
0.50 to <0.75	1,365	658	33%	904	0.69%	203	42%	2.5	616	68%	3	
0.75 to <1.00	-	-	50%	-	0.76%	4	45%	2.5	-	4%	-	
1.0 to <2.50	7,304	3,372	41%	4,952	1.42%	918	42%	2.5	4,258	86%	30	
2.50 to <3.50	3,029	809	44%	2,534	2.59%	312	43%	2.5	2,716	107%	28	
3.50 to <5.00	1,475	501	38%	1,134	3.99%	203	41%	2.4	1,245	110%	18	
5.00 to <7.00	929	177	37%	804	6.19%	146	39%	2.5	957	119%	19	
7.00 to <9.00	352	128	49%	277	8.63%	73	38%	2.5	332	120%	9	
9.00 to <10.00	755	264	56%	527	9.50%	64	44%	2.5	900	171%	22	
10.00 to <15.00	312	89	43%	233	10.43%	90	39%	2.5	318	137%	9	
15.00 to <30.00	955	340	38%	540	18.15%	2,166	38%	2.5	881	163%	35	
30.00 to <100.00	1	1	-	-	33.98%	17	45%	1.6	-	192%	-	
100.00 (Default)	1,642	37	58%	1,621	100.00%	658	43%	-	-	0%	704	
Subtotal	18,929	6,929	41%	14,013	14.68%	5,109	42%	2.2	12,467	89%	878	1,165
Total (all portfolios)	55,246	8,671	41%	52,487	8.76%	362,825	40%	1.4	29,887	57%	2,422	2,833

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

Table 25: EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range (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 adjustments and provisions
Category 1	1,623	374	73%	1,521	0.74%	67	50%	-	1,023	67%	6	
Category 2	1,170	110	74%	1,142	1.59%	56	50%	-	1,002	88%	9	
Category 3	214	16	75%	210	5.60%	24	50%	-	213	102%	6	
Category 4	134	30	73%	125	16.00%	41	50%	-	296	236%	10	
Category 5	549	-	-	549	100.00%	63	50%	-	-	0%	274	
Subtotal	3,690	530	73%	3,547	17.19%	251	50%	-	2,535	71%	305	388
Total (all portfolios)	55,246	8,671	41%	52,487	8.76%	362,825	40%	1.4	29,887	57%	2,422	2,833

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

Table 26: EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range (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 adjustments 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	14	8	69%	11	0.95%	128	47%	-	4	40%	-	
1.00 to <1.25	77	10	73%	75	1.13%	374	37%	-	27	36%	-	
1.25 to <1.50	58	11	71%	55	1.45%	303	39%	-	24	43%	1	
1.50 to <2.50	163	17	90%	161	1.93%	1,255	37%	-	72	45%	1	
2.50 to <3.50	187	17	98%	186	3.11%	1,100	37%	-	104	56%	2	
3.50 to <5.00	166	18	95%	166	4.53%	980	39%	-	111	67%	3	
5.00 to <10.00	143	15	93%	142	6.91%	886	39%	-	107	75%	4	
10.00 to <20.00	92	11	96%	91	11.10%	839	39%	-	76	83%	4	
20.00 to <50.00	42	1	94%	42	28.03%	15,388	35%	-	49	117%	4	
50.00 to <100.00	-	-	0%	-	0.00%	-	0%	-	-	0%	-	
100.00 (Default)	153	-	50%	153	100.00%	2,321	39%	-	28	19%	125	
Subtotal	1,095	108	88%	1,082	18.73%	23,574	38%	-	602	56%	144	141
Total (all portfolios)	55,246	8,671	41%	52,487	8.76%	362,825	40%	1.4	29,887	57%	2,422	2,833

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

Table 27: EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range (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 adjustments and provisions
0.00 to <0.15	-	-	0%	-	0.00%	-	0%	-	-	0%	-	
0.15 to <0.25	1,597	249	11%	1,376	0.22%	29,207	31%	-	194	14%	1	
0.25 to <0.35	2,926	283	12%	2,678	0.27%	43,207	33%	-	465	17%	3	
0.35 to <0.50	4,436	251	13%	4,218	0.36%	66,316	35%	-	944	22%	5	
0.50 to <0.75	-	-	0%	-	0.00%	-	0%	-	-	0%	-	
0.75 to <1.00	3,312	91	19%	3,238	0.77%	51,716	37%	-	1,167	36%	9	
1.00 to <2.00	1,786	30	24%	1,763	1.74%	29,899	36%	-	903	51%	11	
2.00 to <2.50	810	7	30%	805	2.21%	14,665	36%	-	442	55%	7	
2.50 to <10.00	-	-	0%	-	0.00%	-	0%	-	-	0%	-	
10.00 to <100.00	912	4	19%	909	15.56%	71,945	36%	-	922	101%	50	
100.00 (Default)	1,432	1	11%	1,430	100.00%	26,836	36%	-	542	38%	989	
Subtotal	17,211	916	13%	16,417	10.18%	333,791	35%	-	5,579	34%	1,075	1,109
Total (all portfolios)	55,246	8,671	41%	52,487	8.76%	362,825	40%	1.4	29,887	57%	2,422	2,833

6. 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 exposures:

- 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 exposures impairment is carried out on a group basis.

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 in accordance with IFRS 9.

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:

- allowances allocated on individual exposures calculated for exposures to defaulted customers that are deemed to be impaired (stage 3 allowances);
- collective allowances (allowances for non defaulted client exposures, which are completely recoverable for Bank) methodology expected credit loss (ECL) is used. Different duration of ECL calculation depends on stage 1 or stage 2 of exposure. In stage 1 the credit loss allowances are calculated as 12-months ECL. In stage 2 the credit loss allowances are calculated as lifetime ECL.

For the calculation of stage 3 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.

6. CREDIT RISK ADJUSTMENTS (CONTINUED)

The calculation of stage 3 allowances allocated on individual exposures 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, stage 3 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.

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.

6. CREDIT RISK ADJUSTMENTS (CONTINUED)

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (g) CRR

Table 28: 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
1	Central governments or	-	12,263	26	-	-	(1)	12,237
2	Institutions	-	2,058	4	-	-	1	2,054
3	Corporates	2,190	20,429	1,554	-	236	(33)	21,065
4	Of Which: Specialised Lending	549	3,141	388	-	194	(8)	3,302
5	Of Which: SME	1,038	10,198	796	-	41	3	10,440
6	Retail	1,585	16,722	1,250	-	25	28	17,057
7	Secured by real estate property	646	5,662	466	-	7	(6)	5,842
8	SME	81	404	69	-	2	1	416
9	Non-SME	565	5,258	397	-	5	(7)	5,426
10	Qualifying Revolving	-	-	-	-	-	-	-
11	Other Retail	939	11,060	784	-	18	34	11,215
12	SME	72	539	72	-	3	3	539
13	Non-SME	867	10,521	712	-	15	31	10,676
14	Equity	-	217	-	-	-	-	217
15	Total IRB approach	3,775	51,689	2,834	-	261	(5)	52,630

6. CREDIT RISK ADJUSTMENTS (CONTINUED)

Table 28: 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
16	Central governments or central banks	-	6,960	11	-	-	10	6,949
17	Regional governments or local authorities	-	861	6	-	-	(1)	855
18	Public sector entities	-	2,621	92	-	-	26	2,529
19	Multilateral Development Banks	-	-	-	-	-	-	0
20	International Organisations	-	-	-	-	-	-	0
21	Institutions	-	260	1	-	-	-	259
22	Corporates	1,114	4,720	89	-	41	67	5,754
23	Of which: SMEs	142	2,347	28	-	2	(7)	2,461
24	Retail	356	5,531	97	-	40	(7)	5,790
25	Of which: SMEs Exposures in default	12	608	4	-	-	-	616
26	Secured by mortgages on immovable property	-	846	22	-	-	-	824
27	Of which: SMEs	-	113	8	-	-	-	105
28	Exposure in default	1,470	-	982	-	81	4	488
29	Items associated with particularly high risk	-	-	-	-	-	-	0
30	Covered bonds	-	-	-	-	-	-	0
31	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	0
32	Collective investments undertakings	-	137	-	-	-	-	137
33	Equity exposures	-	12	-	-	-	-	12
34	Other exposures	-	823	-	-	-	3	823
35	Total standardised approach	1,470	22,771	1,300	-	81	98	22,941
36	Total	5,245	74,460	4,134	-	342	93	75,571
37	Of which: Loans	5,199	52,349	4,019	-	341	78	53,529
38	Of which: Debt securities	-	10,242	40	-	-	6	10,202
39	Of which: Off-balance-sheet exposures	44	11,693	74	-	1	9	11,663

6. CREDIT RISK ADJUSTMENTS (CONTINUED)

Table 29: 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
1	Agriculture, forestry and fishing	153	1,185	72	-	1	2	1,266
2	Mining and quarrying	23	181	18	-	-	(9)	186
3	Manufacturing	430	5,376	337	-	12	-	5,469
4	Energy and water supply	32	1,431	42	-	-	(4)	1,421
5	Construction	562	4,275	547	-	25	15	4,290
6	Trade	1,194	5,870	827	-	51	64	6,237
7	Transportation	65	1,633	59	-	-	(13)	1,639
8	Hotels and restaurants	325	2,893	186	-	-	1	3,032
9	Information and communication	62	458	21	-	1	12	499
10	Financial and insurance services	182	9,692	96	-	-	7	9,778
11	Real estate and housing	226	1,781	180	-	-	(4)	1,827
12	Professional and scientific services	124	1,803	126	-	-	(12)	1,801
13	Other business services	118	963	106	-	-	4	975
14	Public administration	-	13,326	27	-	-	7	13,299
15	Education	-	48	1	-	-	-	47
16	Health and social services	3	530	18	-	-	-	515
17	Art, entertainment and recreation	6	606	12	-	-	2	600
18	Private households	1,740	20,752	1,458	-	59	17	21,032
19	Exterritorial organisations	-	3	-	-	-	-	3
20	Other	-	1,654	1	-	193	4	1,653
21	<i>of which: loans</i>	5,199	52,349	4,019	-	341	78	53,529
22	<i>of which: debt securities</i>	-	10,242	40	-	-	6	10,202
23	<i>of which: off-balance-sheet</i>	44	11,693	74	-	1	9	11,663

6. CREDIT RISK ADJUSTMENTS (CONTINUED)

Table 30: 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	5,106	64,575	3,911	-	317	90	65,770
EU COUNTRIES	17	3,892	28	-	-	-	3,881
OTHER EUROPEAN COUNTRIES	116	5,396	181	-	25	3	5,331
LATIN AMERICA	-	1	-	-	-	-	1
UNITED STATES OF AMERICA	5	311	3	-	-	-	313
OTHER COUNTRIES	1	285	11	-	-	-	275
Total	5,245	74,460	4,134	-	342	93	75,571

Table 31: EU CR1-D – Ageing of past-due exposures

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

Gross carrying values		a	b	c	d	e	f
		≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans	891	73	26	83	281	2,633
2	Debt securities	105	28	-	-	27	403
3	Total exposures	996	101	26	83	308	3,036

6. CREDIT RISK ADJUSTMENTS (CONTINUED)

Table 32: 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 impaired	Of which forborne		Of which forborne		Of which forborne				
010	Debt securities	10,219	-	-	2	2	2	-	(41)	-	(2)	-	-	-
020	Loans and advances	55,963	490	238	5,320	5,228	5,228	1,510	(504)	(14)	(3,511)	(659)	809	7
030	Off-balance-sheet exposures	11,739	-	-	67	67	-	1	(60)	-	(16)	-	10	-

6. CREDIT RISK ADJUSTMENTS (CONTINUED)

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (i) CRR

Table 33: EU CR2-A: Changes in the stock of general and specific credit risk adjustments

		a
		Ukupni posebni ispravak vrijednosti za kreditni rizik
1	Opening balance	4,297
1a	Restatement of opening balance - effects of changes in accounting policies	123
2	Increases due to amounts set aside for estimated loan losses during the period	294
3	Decreases due to amounts reversed for estimated loan losses during the period	(322)
4	Decreases due to amounts taken against accumulated credit risk adjustments	(330)
5	Transfers between credit risk adjustments	111
6	Impact of exchange rate differences	-
7	Business combinations, including acquisitions and disposals of subsidiaries	-
8	Other adjustments	(40)
9	Closing balance	4,133
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	4,133
11	Specific credit risk adjustments recorded directly to the statement of profit or loss	(41)

Table 34: EU CR2-B: Changes in the stock of defaulted and impaired loans and debt securities

		a
		Gross carrying value defaulted exposures
1	Opening balance	5,839
2	Loans and debt securities that have defaulted or impaired since the last reporting period	297
3	Returned to non-defaulted status	(422)
4	Amounts written off	(342)
5	Other changes	(74)
6	Closing balance	5,297

7. 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 30 June 2018, the leverage ratio for the Group amounted to 10.38%. 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 30 June 2018, while the Tier 1 capital is determined based on fully loaded Basel III definitions.

Leverage exposure breakdown and reconciliation

Table 35: LRSum template: Summary reconciliation of accounting assets and leverage ratio exposures Applicable

	in HRK million
Total assets as per published financial statements	67,060
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(28)
(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	106
Adjustments for securities financing transactions "SFTs"	-
Adjustment for off balance sheet items (i.e., conversion to credit equivalent amounts of off balance sheet exposures)	4,152
(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	20
Total leverage ratio exposure	71,310

7. LEVERAGE RATIO (CONTINUED)

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 30 June 2018.

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.

Table 36: LRCom template: Leverage ratio common disclosure

	in HRK million
On balance sheet exposures (excluding derivatives and SFTs)	
On balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including	
1. collateral)	65,429
2. (Asset amounts deducted in determining Tier 1 capital)	(451)
Total on balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	
3. (sum of lines 1 and 2)	64,978
Derivative exposures	
4. Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	70
5. Add on amounts for PFE associated with all derivatives transactions (mark to market method)	106
6. Total derivative exposures (sum of lines 4 and 5)	176
Securities financing transaction exposures	
7. Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1,553
8. Counterparty credit risk exposure for SFT assets	-
9. Total securities financing transaction exposures (sum of line 7 and 8)	1,553
Other off balance sheet exposures	
10. Off balance sheet exposures at gross notional amount	11,740
11. (Adjustments for conversion to credit equivalent amounts)	(7,588)
12. Other off balance sheet exposures (sum of lines 10 and 11)	4,152
Capital and total exposure measure	
13. Tier 1 capital	7,355
14. Leverage ratio total exposure measure (sum of lines 3, 6, 9, 12)	70,859
Leverage ratio	
15. Leverage ratio	10.38%

Management of the risk of excessive leverage

Leverage ratio is one of the core risk metric included in the EBC Group Risk Appetite 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.

7. LEVERAGE RATIO (CONTINUED)

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

Table 37: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	in HRK million
EU-1. Total on balance sheet exposures (excluding derivatives, SFTs), of which:	66,982
EU-2. Trading book exposures	1,744
EU-3. Banking book exposures, of which:	65,238
EU-4. Covered bonds	-
EU-5. Exposures treated as sovereigns	19,135
EU-6. Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	3,317
EU-7. Institutions	808
EU-8. Secured by mortgages of immovable properties	6,632
EU-9. Retail exposures	14,102
EU-10. Corporate	16,345
EU-11. Exposure in default	481
EU-12. Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	4,418

8. 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,
- Equities 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.

Table 38: EU MR1 – Market risk under the standardised approach

		RWAs	Capital requirements
	Outright products		
1	Interest rate risk (general and specific)	65	5
2	Equity risk (general and specific)	-	-
3	Foreign exchange risk	207	16
4	Commodity risk	-	
	Options		
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	Securitisation (specific risk)	-	-
9	Total	272	21

8. 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.

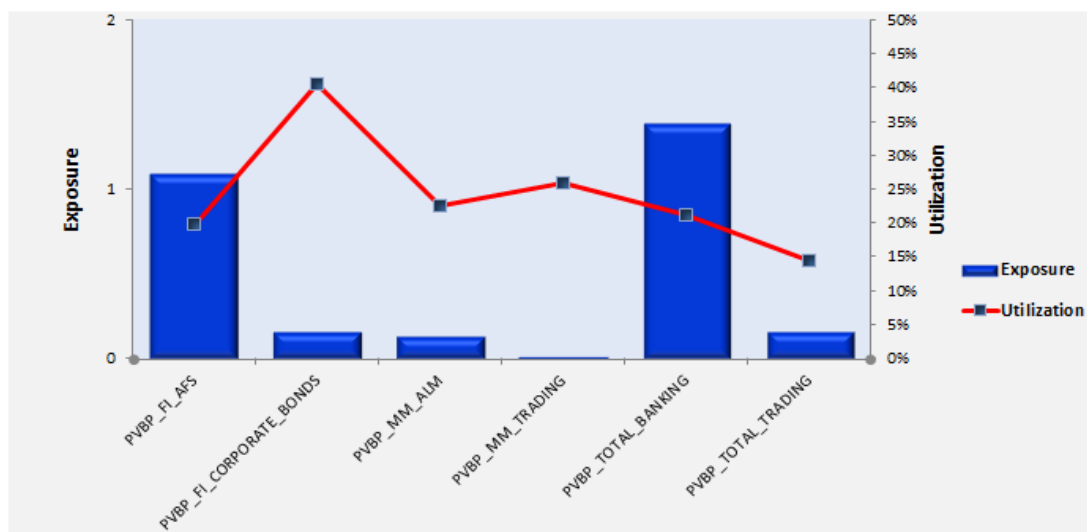
Table 39: VaR limits and Utilization

VaR limits and Utilization	Limit (HRK)	Exposure	Maximum	Minimum
Banking book – fixed income securities	74	13	14	11
Banking book – fixed income corporates	5,1	0,5	1,7	0,4
Banking book - Foreign exchange	4,4	0,9	1,1	-
Banking book - Money market	22	5,7	10	5,7
Trading book – fixed income trading	1,1	-	-	-
Trading book – Money market	2,2	0,5	0,8	0,4

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.

8. 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%.

Tablica 40: Simulation of net interest income for 2018, based on the data for 30 June 2018:

	EUR	USD	HRK	CHF	TOTAL	in %
immediate parallel shock plus 200 bp	84	(1)	38	4	125	6%
immediate parallel shock plus 100 bp	44	(1)	21	2	66	3%
immediate parallel shock minus 100 bp	(103)	(2)	(31)	(3)	(139)	(7%)
immediate parallel shock minus 200 bp	(221)	(7)	(78)	(6)	(312)	(15%)
Internal net interest income limit	(66)	(7)	(57)	(1)	(128)	(6%)

9. 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.

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.

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

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:

Table 41: Exposure of the Group to the interest rate risk in the banking book related to the regulatory capital

Currency in HRK million	Standard shock
HRK	(254)
EUR	(95)
OTHER	(9)
CHANGE IN THE ECONOMIC VALUE	358
REGULATORY CAPITAL	8,488
(CHANGE IN THE ECONOMIC VALUE / REGULATORY CAPITAL)*100	4.2%

10. EXPOSURES IN EQUITY NOT INCLUDED IN THE TRADING BOOK

DISCLOSURE REQUIREMENTS COVERED: ART. 447 CRR

Table 42: EU IRB (equities)CR10:

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	15	-	290%	15	45	4
Other equity exposures	119	-	370%	119	440	35
Total	174	-		174	560	45

Table 43: 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	149	
Unlisted, in sufficiently diversified portfolios	148	
Listed	1	1
Investments in non-financial institutions	66	
Unlisted, in sufficiently diversified portfolios	66	
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.

11. 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,

11. CREDIT RISK MITIGATION TECHNIQUES (CONTINUED)

- 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.

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.

11. CREDIT RISK MITIGATION TECHNIQUES (CONTINUED)

Banks authorized valuers are considered to be licensed appraisers and expert witnesses at Erste nekretnine d.o.o. and real estate valuers that are on the list of official Erste nekretnine d.o.o.

Erste nekretnine d.o.o. monitors authorized valuers 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.

Table 44: 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	50,531	5,966	2,769	3,197	-
2	Total debt securities	10,202	-	-	-	-
3	Total exposure	63,970	14,568	11,105	3,463	-
4	of which defaulted	1,733	29	24	5	-

11. CREDIT RISK MITIGATION TECHNIQUES (CONTINUED)

Table 45: 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 density
1	Central governments or central banks	6,947	2	6,947	-	1,404	7,77
2	Regional government or local authorities	797	59	797	19	547	3,03
3	Public sector entities	2,521	8	235	1	82	0,45
4	Multilateral development banks	-	-	6	11	-	-
5	International organisations	-	-	-	-	-	-
6	Institutions	227	32	228	21	62	0,34
7	Corporates	3,261	1,369	2,806	495	3,225	17,85
8	Retail	3,874	1,561	3,866	321	3,140	17,38
9	Secured by mortgages on immovable property	824	-	824	-	312	1,73
10	Exposures in default	481	7	481	3	614	3,40
11	Higher-risk categories	-	-	-	-	-	-
12	Covered bonds	-	-	-	-	-	-
13	Institutions and corporates with a short term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	137	-	137	-	137	0,76
15	Equity	12	-	12	-	15	0,08
16	Other items	821	-	858	-	678	3,75
17	Total	19,902	3,038	17,197	871	10,216	

12. COUNTERCYCLICAL BUFFER REQUIREMENTS

DISCLOSURE REQUIREMENTS COVERED: ART. 440 CRR

The Group calculates countercyclical buffer requirements at consolidated level.

Table 46: Institutions specific countercyclical capital buffer rate

Total risk exposure amount	31.136
Institutions specific countercyclical capital buffer rate	0.0%
Institutions specific countercyclical buffer requirement	-

13. 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 Depository and Clearing Company