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# Disclosure requirements for the Group Erste&Steiermärkische Bank d.d. as of 30 June 2019

**Zagreb, October 2019**

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 2019, as follows:

*(in HRK million)*

## OVERVIEW OF DISCLOSED NOTES IN THE DISCLOSURE REQUIREMENTS

The disclosure of the templates according to Guidelines EBA/GL/2016/11 (Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013) can be found in the following chapters:

| Qualitative Template | Quantitative Template | Description | Chapter |
|---|---|---|---|
| EU LI3 | | Outline of the differences in the scopes of consolidation (entity by entity) | 1.1 Scope of consolidation |
| EU OVA | | Institution risk management approach | 1.2. Risk policy and strategy |
| | EU OV1 | Overview of RWA | 3. Capital requirements |
| EU CRA | | General qualitative information about Credit Risk | 1.2. Risk policy and strategy |
| EU CRE | | Qualitative disclosures related to IRB models | 5.1. Credit risk |
| EU CRB-A | | Additional disclosure related to the credit quality of assets | 6. Credit risk adjustments |
| | EU CR1-A | Credit quality of exposures by exposure classes and instruments | 6. Credit risk adjustments |
| | EU CR1-B | Credit quality of exposures by industry or counterparty types | 6. Credit risk adjustments |
| | EU CR1-C | Credit quality of exposures by geography | 6. Credit risk adjustments |
| | EU CR1-D | Ageing of past-due exposures | 6. Credit risk adjustments |
| | EU CR1-E | Non-performing and forborne exposures | 6. Credit risk adjustments |
| | EU CR2-A | Changes in stock of general and specific credit risk adjustment | 6. Credit risk adjustments |
| | EU CR2-B | Changes in stock of defaulted loans and debt securities | 6. Credit risk adjustments |
| EU CRD | | Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk | 5.1. Use of the IRB approach to credit risk |
| | EU CR4 | Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects | 11. Credit risk mitigation techniques |
| | EU CR5 | Standardised approach | 5.1. Use of the IRB approach to credit risk |
| | EU CR6 | IRB - Credit risk exposures by portfolio and PD range | 5.1. Use of the IRB approach to credit risk |
| | EU CR8 | RWA flow statements of credit risk exposures under the IRB approach | 3. Capital requirements |
| | EU CR10 | IRB (specialised lending and equities) | 5.1. Use of the IRB approach to credit risk<br>10. Exposures in Equity not included in the Trading book |
| EU CRC | | Qualitative disclosure requirements related to credit risk mitigation techniques | 11. Credit risk mitigation techniques |
| | EU CR3 | Credit risk mitigation techniques – overview | 11. Credit risk mitigation techniques |
| EU CCRA | | Qualitative disclosure requirements related to CRR | 4. Counterparty credit risk |
| | EU CCR1 | Analysis of counterparty credit risk (CCR) exposure by approach | 4. Counterparty credit risk |
| | EU CCR2 | Credit valuation adjustment (CVA) capital charge | 4. Counterparty credit risk |
| | EU CCR3 | Standardised approach of CCR exposures by regulatory portfolio and risk weights | 4. Counterparty credit risk |
| | EU CCR4 | IRB – CCR exposures by portfolio and PD scale | 4. Counterparty credit risk |
| | EU CCR5-A | Impact of netting and collateral held on exposure values | 4. Counterparty credit risk |
| | EU CCR5-B | Composition of collateral for CCR exposure | 4. Counterparty credit risk |
| EU MRA | | Quantitative disclosure requirements related to Market risk | 8. Market risk exposure |
| | EU MR1 | Market risk under standardised approach | 8. Market risk exposure |

## OVERVIEW OF DISCLOSED NOTES IN THE DISCLOSURE REQUIREMENTS (CONTINUED)

### Disclosure according to Part VIII of Regulation (EU) No 575/2013 are on following pages:

## OVERVIEW OF DISCLOSED NOTES IN THE DISCLOSURE REQUIREMENTS (CONTINUED)



## LIST OF PICTURES

## 1. GENERAL INFORMATION

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

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

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

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

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

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

## 1.1. 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 2019 | 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 |
| 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

**EU OVA, EU CRA** - 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 Group 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 Group 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 Group.

*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 provides overall supervision of risk and capital management of Group and is responsible for defining and implementing a comprehensive and aligned business and risk strategies for the Group.

The Board member responsible for risk management, i.e. the Bank's chief risk officer ("CRO") ensures the consideration of Group particularities within Group ICAAP standards. CRO of the Bank is responsible for the Group implementation, maintenance and adherence to Erste Group standards after their respective local Board approval. This includes, but is not limited to, ensuring the availability of resources and infrastructure. CRO of the Bank reviews the regular Group results/reports, draws conclusions and takes decisions within his/her responsibility as a member of the Board of Directors.

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 Group's risk exposure.

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

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

## 1.2. RISK POLICY AND STRATEGY (CONTINUED)

*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 analysis requests for loans and based on them, issues opinion on the credit risk from the risk perspective. It analysis 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.

*Non-Financial Risk Division*

Non-Financial Risk Division is responsible for setting the grounds for effective management and monitoring od non-financial risks which includes operational risks, compliance risk, fraud risk and risk of money laundering and terrorism financing. Non-Financial Risk Division is also responsible for developing management principles, setting the framework and policies and is responsible for implementation and maintenance of procedures which enables independent control process.

*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

The Group 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 Group 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, 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 Group 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 Group 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 Group. 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. Therefore, Group has implemented a comprehensive system for the identification, measurement, control, reporting and management of risk concentrations. This is of key importance for securing the long-term viability of every single credit institution especially in phases with an adverse macroeconomic environment.

#### Risk profile of the institution

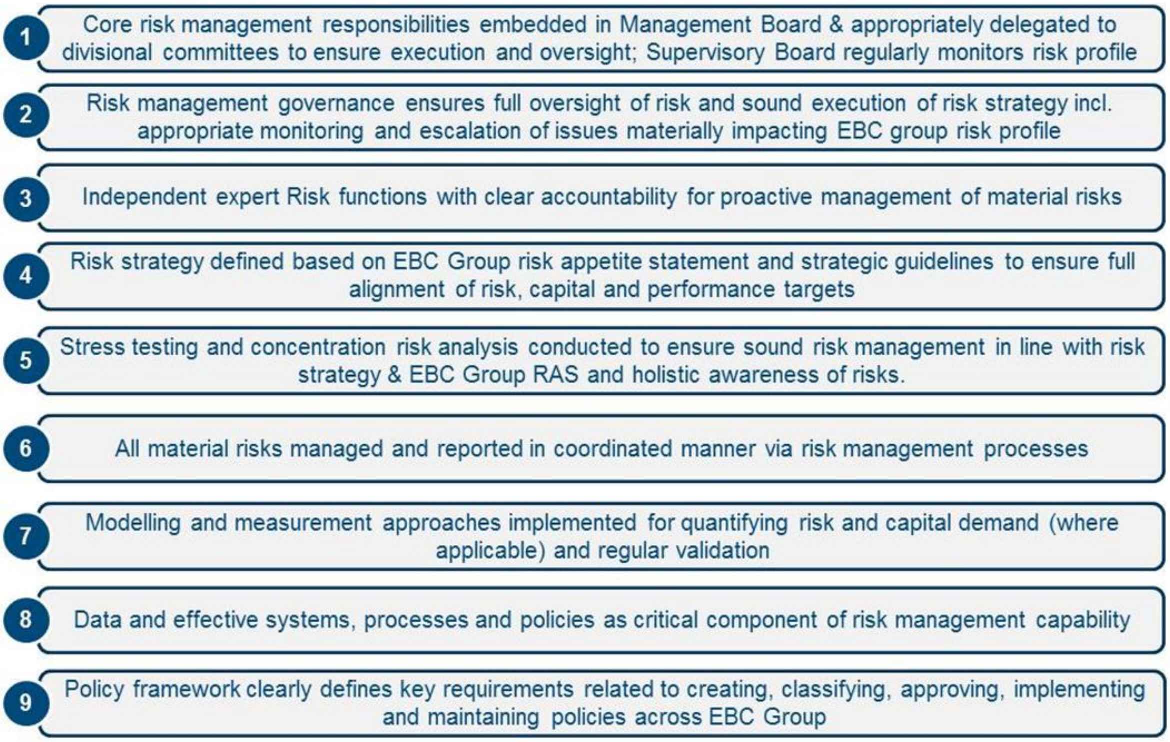
A key function of each credit institution is risk-taking in a conscious and selective manner and professional managing. Proactive policy and risk strategy that is promoted by the Group aims to achieve a balance between risk and return in order to achieve adequate and sustainable return on equity.
The 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.

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

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.

Risk management is governed by following principles:

**Picture 1: Risk management principles**




In the frame of the annual Risk Materiality Assessment (RMA) Group performs the identification and materiality  assessment of the different risks it is exposed to, thus providing a comprehensive and holistic view of the risk profile of the Group. Insights generated by the assessment are used to improve risk management practices and further mitigate risks within the Group.The key risks for the Group are credit risk, market risk, liquidity and funding risk, operational risk and other risks (strategic, reputational, compliance, macroeconomic risk). The Group uses a wide range of risk management framework and mitigation techniques to reduce risks or – where possible – avoid them altogether. These include a stringent limit and internal control framework and setting boundaries for risk-taking in line with the risk appetite framework.
In 2019 management focus will stay on reducing critical NPL portfolios and on improvement of overall portfolio quality. The Bank uses the internet as a medium for the publication of data according to Art. 434 CRR.

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

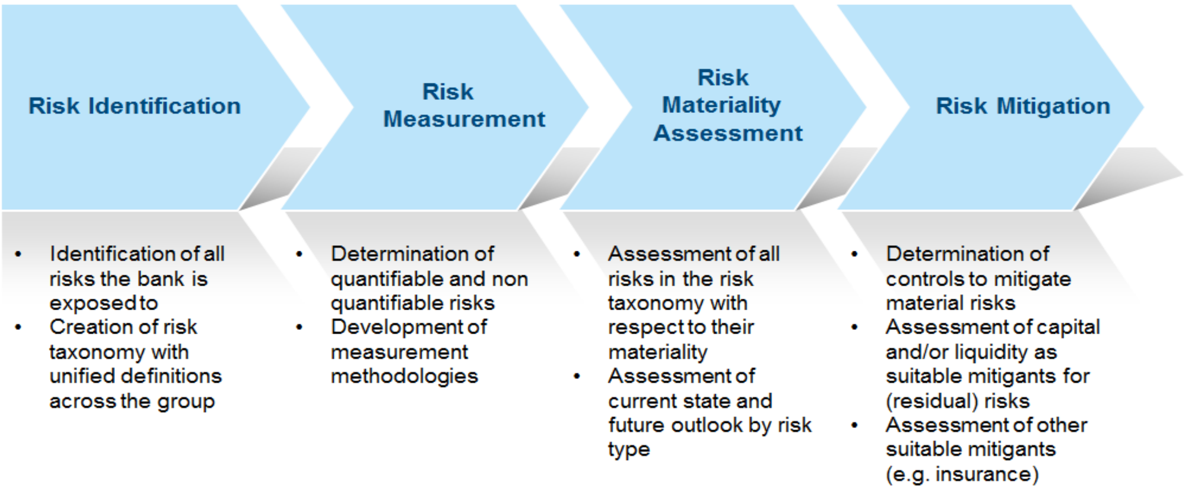
The Group defines risk strategy and risk appetite through the annual strategic planning process in order to have appropriate compliance of risk, capital and target values of profitability. Risk appetite statement is a strategic statement expressing the maximum level that the Group is willing to take 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. The key objectives of the Group Risk Appetite Statement are to:

- ensure that Group has sufficient resources to support business at any given point in time and absorb stress market events,
- set ultimate boundaries of Group's risk-return target setting,
- define levels at which detailed analysis, escalation and mitigation strategies are triggered,
- provide the basis for ongoing monitoring through the risk report discussed regularly by the Management and Supervisory Boards,
- form a key input into the annual strategic planning process,
- preserve and promote stakeholders' perception of the Group's financial strength and the robustness of its controls and systems.
- represent the key factor for the remuneration program at Group and local level as the determination of the annual bonus pool, which requires the relevant core metrics to be within the Group and subsidiaries' RAS.

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 analysis 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.

**Picture 2: Risk assessment process**



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

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. Any breach requires a discussion if the strategy change or remediation measure is needed.

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 2019 the relevant risk appetite indicators have evolved within defined limits.

#### Internal Capital Adequacy

DISCLOSURE REQUIREMENTS COVERED: ART. 438 (a) CRR

Internal capital adequacy assessment process ("ICAAP") is based on an economic view and determines whether the bank has sufficient capital for covering all risks it is exposed to.

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.

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.

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

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.

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. The combination of comprehensive quantitative and qualitative analysis results in grades that defines materiality of each risk type and forms the overall risk profile (Risk Taxonomy) across the Group. In addition to the current status of the risk types, RMA provides the information on the expected development of the risk profile in the future (one-year horizon). The Risk Materiality can be classified in four categories: high, medium, low and irrelevant. Based on the final risk materiality assessment for each categorie the specific principals, which are in line with assessment, are defined. 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.

## 1. OWN FUNDS (CONTINUED)

### Table 2: Own funds per 30 June 2019

| | in HRK million | (A) 30.06.2019 | (B) Regulation (EU) No 575/2013 article reference |
|---|---|---|---|
| **Common Equity Tier 1: instruments and reserves** | | | |
| 1 | Capital instruments and the related share premium accounts | 3,499 | 26(1), 27, 28, 29 |
| | of which: Ordinary shares | 1,698 | EBA list 26(3) |
| | of which: Share premium | 1,801 | EBA list 26(3) |
| | of which: instrument type 3 | - | EBA list 26(3) |
| 2 | Retained earnings | 4,717 | 26(1)(c) |
| 3 | Accumulated other comprehensive income (and other reserves) | 349 | 26(1) |
| 3a | Funds for general banking risks | 86 | 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** | **8,651** | Sum of rows 1 to 5a. |
| **Common Equity Tier 1 (CET1) capital:regulatory adjustments** | | | |
| 7 | Additional value adjustments (negative value) | (17) | 34, 105 |
| 8 | Intangible assets (net of related tax liabilities) (negative amount) | (343) | 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 | - | 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 institutionof 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 | (47) | |
| 20a | The exposure amount of the following items which quality 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.

## 2. OWN FUNDS (CONTINUED)

### Table 2: Own funds per 30 June 2019

| | in HRK million | (A) 30.06.2019 | (B) Regulation (EU) No 575/2013 article reference |
|---|---|---|---|
| 22 | Amount exceeding 15% threshold (negative amount) | - | 48(1) |
| 23 | of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities | - | 36(1)(i), 48(1)(b) |
| 24 | Empty set in the EU | - | |
| 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)** | **(408)** | Sum of rows 7 to 20a, 21, 22 and 25a to 27 |
| **29** | **Common Equity Tier 1 (CET1) capital** | **8,243** | 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: clasified as equity under applicable accounting standards | - | |
| 32 | of which: clasified as liabilities under applicable accounting standards | - | |
| 33 | Amount of qualified items reffered 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 artificialy 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 entitis (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 entitis (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)** | **8,243** | Sum of rows 29 and 44 |
| **Tier 2 (T2) capital: instruments and provisions** | | | |
| 46 | Capital instruments and the related share premium accounts | 738 | 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 | 181 | 62(c) and (d) |
| **51** | **Tier 2 (T2) capital before regulative adjustments** | **919** | |
| **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.

## 2. OWN FUNDS (CONTINUED)

### Table 2: Own funds per 30 June 2019

| | in HRK million | (A) 30.06.2019 | (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** | **919** | Row 51 minus row 57 |
| **59** | **Total capital = (TC=T1+T2)** | **9,162** | Sum of rows 45 and 58 |
| **60** | **Total risk weighted assets** | **46,973** | |
| **Capital ratios and buffers** | | | |
| **61** | Common Equity Tier 1 (as a percentage of the risk exposure amount) | **17,55%** | 92(2)(a) |
| **62** | Tier 1 (as a percentage of the risk exposure amount) | **17,55%** | 92(2)(b) |
| **63** | Total capital (as a percentage of the total risk exposure amount) | **19,50%** | 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) | **6,75%** | 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) | 11 | 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) | 181 | 62 |
| 79 | Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach | 30,222 | 62 |
| **Capital instruments subject to phase-out arrangements (only applicable between 1 January 2014 and 1 January 2022)** | | | |
| 80 | Current cup 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 redemtions 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) |

*(in HRK million)*

## 2. CAPITAL REQUIREMENTS

### DISCLOSURE REQUIREMENTS COVERED: ART. 438 CRR

The total amount of capital requirements are measured in relation to regulatory capital. The amount 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 |
|---|---|---|---|---|---|
| | | | 30.06.2019 | 31.03.2019 | 30.06.2019 |
| | 1 | **Credit risk (excluding CCR)** | **41,142** | **40,154** | **3,291** |
| Article 438(c)(d) | 2 | Of which the standardised approach | 11,003 | 10,580 | 880 |
| Article 438(c)(d) | 3 | Of which the foundation IRB (FIRB) approach | 21,850 | 21,494 | 1,748 |
| Article 438(c)(d) | 4 | Of which the advanced IRB (AIRB) approach | 6,284 | 6,175 | 503 |
| Article 438(d) | 5 | Of which equity IRB under the simple risk-weighted approach or the IMA | 651 | 604 | 52 |
| **Article 107 Article 438(c)(d)** | **6** | **CCR** | **159** | **141** | **13** |
| Article 438(c)(d) | 7 | Of which mark to market | 122 | 119 | 10 |
| Article 438(c)(d) | 8 | Of which original exposure | - | - | - |
| | 9 | Of which the standardised approach | - | - | - |
| | 10 | Of which internal model method (IMM) | - | - | - |
| Article 438(c)(d) | 11 | Of which risk exposure amount for contributions to the default fund of a CCP | - | - | - |
| Article 438(c)(d) | 12 | Of which CVA | 37 | 22 | 3 |
| **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** | **125** | **226** | **10** |
| | 20 | Of which the standardised approach | 125 | 226 | 10 |
| | 21 | Of which IMA | - | - | - |
| **Article 438(e)** | **22** | **Large exposures** | **-** | **-** | **-** |
| **Article 438(f)** | **23** | **Operational risk** | **5,547** | **5,549** | **444** |
| | 24 | Of which basic indicator approach | 593 | 595 | 47 |
| | 25 | Of which standardised approach | 4,954 | 4,954 | 397 |
| | 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** | **46,973** | **46,070** | **3,758** |

*(in HRK million)*

## 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 | 29,574 | 2,366 |
| 2 | Asset size | 496 | 40 |
| 3 | Asset quality | 147 | 11 |
| 4 | Model updates | - | - |
| 5 | Methodology and policy | - | - |
| 6 | Acquisitions and disposals | - | - |
| 7 | Foreign exchange movements | (77) | (6) |
| 8 | Other | - | - |
| 9 | RWAs as at the end of the reporting period | 30,140 | 2,411 |

Previous reporting period is 31 March 2019

The increase of the risk weighted assets compared to the previous reporting period is mainly coused by asset size increase.

## 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) | 222 HRK | 156 HRK | 121 HRK | 240 HRK |
| 9. | Nominal amount of instrument | 30,000,000.00 EUR | 30,000,000.00 EUR | 30,000,000.00 EUR | 80,000,000.00 EUR |
| 9.a | Issue price | N/A | N/A | N/A | N/A |
| 9.b | Redemption price | N/A | N/A | N/A | N/A |
| 10. | Accounting classification | liability - amortised cost | liability - amortised cost | liability - amortised cost | liability - amortised cost |
| 11. | Original date of issuance | 11 December 2017 | 19 March 2015 | 19 March 2015 | 10 July 2014 |
| 12. | Perpetual or dated | dated | dated | dated | dated |
| 13. | Original maturity date | 11 December 2024 | 31 December 2022 | 19 March 2022 | 09 July 2021 |
| 14. | Issuer call subject to prior supervisory approval | no | no | no | no |
| 15. | Optional call date, contingent call dates and redemption amount | N/A | N/A | N/A | N/A |
| 16. | Subsequent call dates, if applicable | N/A | N/A | N/A | N/A |

"N/A" not applicable

The table is continued on the next page.

(in HRK million)

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

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

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

“N/A“ not applicable

### 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 Depositary and Clearing Company ("SKDD") under RIBA-R-A mark and has no maturity. Each share bears one voting right on General Assembly. Bank's shares are conducted in central depository and Clearing Company Inc., Zagreb. Dividends are paid out to shareholders according to their share in capital. Every increase or decrease of paid up capital has to be based on decision by General Assembly. Instruments are not secured neither are covered with guarantee which upgrade status from creditor.

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

## 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 | | 4 | 147 | | | 147 | 85 |
| 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) | | | | | | 3,277 | 37 |
| 10 | VaR for SFTs | | | | | | - | - |
| **11** | **Total** | | | | | | | **122** |

*(in HRK million)*

### 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 | 128 | 37 |
| EU4 | Based on the original exposure method | - | - |
| **5** | **Total subject to the CVA capital charge** | **128** | **37** |

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 | - | - | - | - | - | - | - | - | 41 | - | 41 | 41 |
| 8 | Retail | - | - | - | - | - | - | - | - | - | - | - | - |
| 13 | Institutions and corporates with a short term credit assessment | - | - | - | - | - | - | - | - | - | - | - | - |
| 16 | Other items | - | - | - | - | - | - | - | - | - | - | - | - |
| **17** | **Total** | - | - | - | - | - | - | - | - | **41** | | **41** | **41** |

*(in HRK million)*

## 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 | 2,660 | 0.14% | 1 | 0.84% | - | 15 | 0.55% |
| Institutions | 0.15 do <0.25 | - | 0.00% | - | 0.00% | - | - | 0.00% |
| Institutions | 0.25 do <0.50 | 410 | 0.29% | 1 | 5.27% | - | 23 | 5.52% |
| Institutions | 0.50 do <0.75 | - | 0.00% | - | 0.00% | - | - | 0.00% |
| Institutions | 0.75 do <2.50 | - | 0.00% | - | 0.00% | - | - | 0.00% |
| Institutions | 2.50 do <10.00 | 30 | 3.96% | 1 | 0.00% | - | - | 0.00% |
| Institutions | 10.00 do <100.00 | 201 | 10.24% | 2 | 0.00% | - | - | 0.00% |
| Institutions | 100.00 (Default) | - | 0.00% | - | 0.00% | - | - | 0.00% |
| Institutions | **Sub-total** | **3,301** | **0.81%** | **5** | **1.33%** | **-** | **37** | **1.13%** |
| | **Total (all portfolios)** | **3,383** | **0.91%** | **42** | **1.84%** | **-** | **82** | **2.41%** |

### 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 | - | 0.48% | 1 | 45.00% | - | - | 43.62% |
| Corporate | 0.50 do <0.75 | 1 | 0.69% | 2 | 45.00% | - | 1 | 83.61% |
| Corporate | 0.75 do <2.50 | 35 | 1.46% | 12 | 42.99% | - | 29 | 81.24% |
| Corporate | 2.50 do <10.00 | 41 | 6.30% | 7 | 2.05% | - | 3 | 6.49% |
| Corporate | 10.00 do <100.00 | 4 | 22.86% | 15 | 45.00% | - | 12 | 291.64% |
| Corporate | 100.00 (Default) | - | 0.00% | - | 0.00% | - | - | 0.00% |
| Corporate | **Sub-total** | **81** | **4.98%** | **37** | **22.61%** | **-** | **45** | **54.74%** |
| | **Total (all portfolios)** | **3,383** | **0.91%** | **42** | **1.84%** | **-** | **82** | **2.41%** |

*(in HRK million)*

## 4. COUNTERPARTY CREDIT RISK (continued)

### Table 12: EU CCR5-A – 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 | 147 | - | - | 68 | 79 |
| 2 | SFTs | 3,631 | - | - | 3,573 | 58 |
| 3 | Cross-product netting | - | - | - | - | - |
| **4** | **Total** | **3,778** | **-** | **-** | **3,641** | **137** |

### Table 13: EU CCR5-B – Composition of collateral for CCR exposure

| | Collateral used in derivative transactions | | | | Collateral used in SFTs | |
|---|---|---|---|---|---|---|
| | Fair value of collateral received | | Fair value of posted collateral | | Fair value of collateral received | Fair value of posted collateral |
| | Segregated | Unsegregated | Segregated | Unsegregated | | |
| Cash | 68 | - | - | - | - | - |
| Securities | - | - | - | - | 1,728 | 2,095 |
| **Total** | **68** | **-** | **-** | **-** | **1,728** | **2,095** |

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.

**4. COUNTERPARTY CREDIT RISK (continued)**

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

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

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

*(in HRK million)*

## 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 14: 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 | 10,304 | 11,346 | 144 | - |
| Exposure to regional governments and local authorities | 1,052 | - | 387 | - |
| Exposure to public sector entities | 2,296 | - | 8 | - |
| Exposure to multilateral development banks | 4,380 | - | 223 | 68 |
| Exposure to institutions (credit institutions and investment firm) | 0 | - | - | - |
| Exposure to corporates | 18,095 | 326 | 9,132 | 79 |
| Exposure to retail | 21,595 | - | 3,057 | - |
| Exposures secured by mortgages on immovable property | 906 | - | - | - |
| Exposures in default [1] | 229 | - | 21 | - |
| Exposures to subjects of collective investments undertakings (CIU) | 140 | - | - | - |
| Other exposures | 745 | - | - | - |
| Equity exposures | 260 | - | - | - |
| **TOTAL** | **60,002** | **11,672** | **12,972** | **147** |

[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

**EU CRE** - 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

EU CRD - 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 risk groups, depending on the assessed level of risk, as follows:

- risk group A1 = exposures without significant increase in credit risk since initial recognition and classify in stage 1
- risk group A2 = exposures with significant increase in credit risk since initial recognition and classify in stage 2
- risk group B = partially recoverable exposures and classify in stage 3
- risk group C = completely unrecoverable exposures and classify in stage 3.

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 15: 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 |

### 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 is revised and updated:

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

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 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.

## 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)

### Table 16: Mapping of internal rating and the rating of external rating agencies

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

### 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.

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

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.

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.

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

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.

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%.

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

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

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (i) CRR

Following the regulatory requirements regarding IFRS 9 validation, a well-defined credit risk assessment and measurement process contains an effective model validation process to ensure that the credit risk assessment and measurement models are able to generate accurate, consistent and unbiased predictive estimates, on an ongoing basis. This includes establishing policies and procedures which set out the accountability and reporting structure of the model validation process, internal rules for assessing and approving changes to the models, and reporting of the outcome of the model validation. The IFRS9 validation for the Group is performed by the Erste Group, i.e. Risk Cost Governance and Validation unit.

Following the regulatory requirements, IFRS 9 validation procedure can be separated into the 3 main chapters:

1. Model input:
   a) Credit institutions should have internally established quality and reliability standards on data (historical, current and forward-looking information) used as model inputs.
   b) Data used to estimate ECL allowances should be relevant to the credit institutions' portfolios and, as far as possible, accurate, reliable and complete.
2. Model design:
   a) IFRS 9 validation should assess that the underlying theory of the model is conceptually sound, recognized and generally accepted for its intended purpose.
   b) From a forward-looking perspective, validation should also assess the extent to which the model, at the overall model and individual risk factor level, can take into consideration changes in the economic or credit environment, as well as changes to portfolio business profile or strategy, without significantly reducing model robustness.
3. Model output:
   a) Credit institutions should have internally established standards for acceptable model performance.
   b) Where performance thresholds are significantly breached, remedial actions up to the extent of model re-calibration or re-development should be taken.

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

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (g) CRR

**Table 17: Specific credit risk adjustments in the preceding period for each exposure class in IRB approach**

| Exposure categories | Losses as of 30 June 2019 | | Losses as of 31 December 2018 | |
|---|---|---|---|---|
| | 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 | 10 | 19 | 10 | 19 |
| Exposure to institutions | 1 | 8 | 1 | 5 |
| Exposure to corporate | 1,006 | 1,251 | 1,139 | 1,401 |
| Exposure to retail | 1,106 | 1,172 | 1,145 | 1,218 |
| There of exposure to SME | 113 | 101 | 116 | 106 |
| Exposure to retail customers secured by real estate | 432 | 410 | 465 | 458 |
| Other exposure to retail | 674 | 762 | 680 | 760 |
| Exposure to equity investments | 4 | - | 3 | - |
| Other | - | - | - | - |
| **TOTAL** | **2,127** | **2,450** | **2,298** | **2,643** |

### Area of application and usage of external credit ratings

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

The Bank uses the IRB approach for determining minimum capital requirements according to Basel III regulation. Standardized approach ("STD") is applied for certain asset classes and business lines for which the Bank has an approval for permanent partial usage in accordance with the CNB decision (No. ERODB-1-020/11-ŽJ-ŽR). Further, certain legal provisions can cause application of STD approach.

External ratings are partially used for certain asset classes for RWA calculation in STD approach. If the external rating is available, the risk weight has to be determined according to Option 2[2], otherwise Option 1 is applied.

Following external ratings are used:

### OECD external sovereign rating

OECD external sovereign rating is applied for following exposure categories:

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

[2] In STD approach, 2 different approaches for RW determination for institutions can be applied: Option 1, in which the RW is assigned in a way that the RW for the institutions is 1 rating category worse than the RW of a domicile country of the institution( in accordance with Art.121 CRR)
Option 2, RW is based on the external rating (in accordance with Art.120 CRR).

*(in HRK million)*

## 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 18: 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 19: Mapping of risk weights in accordance with the credit quality grade and exposure class**

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

*(in HRK million)*

### 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 20: 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 | 5,790 | - | - | - | - | - | - | - | - | 1,153 | - | 129 | **7,072** |
| 2 | Regional governments or local authorities | - | - | - | - | 770 | - | - | - | - | 450 | - | - | **1,220** |
| 3 | Public sector entities | 23 | - | - | - | 2 | - | - | - | - | 46 | - | - | **71** |
| 4 | Multilateral Development Banks | 7 | - | - | - | - | - | - | - | - | 0 | - | - | **7** |
| 5 | International Organisations | - | - | - | - | - | - | - | - | - | 0 | - | - | **-** |
| 6 | Institutions | - | - | - | - | 231 | - | 25 | - | - | 11 | - | - | **267** |
| 7 | Corporates | - | - | - | - | - | - | - | - | - | 3,793 | - | - | **3,793** |
| 8 | Retail | - | - | - | - | - | - | - | - | 4,998 | - | - | - | **4,998** |
| 9 | Secured by mortgages on immovable property | - | - | - | - | - | 664 | 242 | - | - | - | - | - | **906** |
| 10 | Exposures in default | - | - | - | - | - | - | - | - | - | 127 | 106 | - | **233** |
| 11 | Items associated with particularly high risk | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| 12 | Covered bonds | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| 13 | Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| 14 | Collective investment undertakings | - | - | - | - | - | - | - | - | - | 140 | - | - | **140** |
| 15 | Equity | - | - | - | - | - | - | - | - | - | 19 | - | 2 | **21** |
| 16 | Other items | 176 | - | - | - | - | - | - | - | - | 595 | - | - | **771** |
| **17** | **Total** | **5,996** | **-** | **-** | **-** | **1,003** | **664** | **267** | **-** | **4,998** | **6,334** | **106** | **131** | **19,499** |

*(in HRK million)*

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

**Table 21: 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 | 14,741 | - |
| Exposure to institutions | 4,417 | - |
| Exposure to corporates | 23,704 | - |
| Exposure to retail | - | 19,276 |
| Equity exposures | 239 | - |
| Securitization | - | - |
| Other exposures | 3,606 | - |
| **TOTAL** | **46,707** | **19,276** |

**Table 22: EU CR10 – IRB (specialised lending)**

| Regulatory categories | Remaining maturity | On-balance-sheet amount | Off-balance-sheet amount | Risk weight | Exposure amount | RWAs | Expected losses |
|---|---|---|---|---|---|---|---|
| Category 1 | Less than 2.5 years | 167 | 53 | 50% | 193 | 92 | - |
| | Equal to or more than 2.5 years | 2,097 | 251 | 70% | 2,292 | 1,587 | 9 |
| Category 2 | Less than 2.5 years | 39 | 22 | 70% | 52 | 36 | - |
| | Equal to or more than 2.5 years | 960 | 230 | 90% | 1,132 | 993 | 9 |
| Category 3 | Less than 2.5 years | 3 | 4 | 115% | 7 | 8 | - |
| | Equal to or more than 2.5 years | 120 | 32 | 115% | 144 | 158 | 4 |
| Category 4 | Less than 2.5 years | 9 | - | 250% | 9 | 24 | 1 |
| | Equal to or more than 2.5 years | 97 | - | 250% | 97 | 233 | 8 |
| Category 5 | Less than 2.5 years | 230 | 1 | 0% | 231 | - | 116 |
| | Equal to or more than 2.5 years | 208 | - | 0% | 208 | - | 104 |
| **Total** | **Less than 2.5 years** | **448** | **80** | | **492** | **160** | **117** |
| | **Equal to or more than 2.5 years** | **3,482** | **513** | | **3,873** | **2,971** | **134** |

*(in HRK million)*

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

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

**Table 23: EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range**

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

| PD scale | Original on-balance-sheet gross exposures | Off-balance-sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of obligors | Average LGD | Average maturity | RWAs | RWA density | EL | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0.00 to <0.15 | 14,038 | 143 | 87% | 17,165 | 0.11% | 20 | 45% | 2.5 | 5,342 | 31% | 8 | |
| 0.15 to <0.25 | - | - | 0% | - | 0.00% | - | 0% | - | - | 0% | - | |
| 0.25 to <0.50 | 62 | - | 0% | 62 | 0.29% | 1 | 45% | 2.5 | 35 | 56% | - | |
| 0.50 to <0.75 | - | - | 0% | - | 0.00% | - | 0% | - | - | 0% | - | |
| 0.75 to <2.50 | 435 | - | 0% | 436 | 1.11% | 1 | 45% | 2.5 | 443 | 102% | 2 | |
| 2.50 to <10.00 | - | - | 0% | - | 0.00% | - | 0% | - | - | 0% | - | |
| 10.00 to <100.00 | 62 | - | 0% | 62 | 0.00% | 1 | 0% | 2.5 | 155 | 250% | - | |
| 100.00 (Default) | - | - | 0% | - | 0.00% | - | 0% | - | - | 0% | - | |
| **Subtotal** | **14,597** | **143** | **87%** | **17,725** | **0.13%** | **23** | **45%** | **2.5** | **5,975** | **34%** | **10** | **19** |
| **Total (all portfolios)** | **53,194** | **8,944** | **37%** | **58,801** | **6.79%** | **365,068** | **39%** | **1.4** | **28,216** | **48%** | **2,123** | **2,450** |

*(in HRK million)*

## 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

### FIRB approach – Exposures to institutions

| PD scale | Original on-balance-sheet gross exposures | Off-balance-sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of obligors | Average LGD | Average maturity | RWAs | RWA density | EL | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0.00 to <0.15 | 3,177 | 9 | 85% | 3,185 | 0.14% | 21 | 5% | 0.9 | 188 | 6% | - | |
| 0.15 to <0.25 | 213 | 179 | 51% | 305 | 0.17% | 14 | 45% | 2.5 | 176 | 58% | - | |
| 0.25 to <0.50 | 562 | 8 | 60% | 567 | 0.29% | 13 | 16% | 1.1 | 140 | 25% | 1 | |
| 0.50 to <0.75 | 25 | - | 0% | 25 | 0.60% | 4 | 45% | 2.5 | 20 | 82% | - | |
| 0.75 to <2.50 | 7 | - | 0% | 7 | 1.83% | 5 | 45% | 2.5 | 9 | 134% | - | |
| 2.50 to <10.00 | 32 | - | 0% | 32 | 3.96% | 3 | 4% | 0.7 | 4 | 12% | - | |
| 10.00 to <100.00 | 204 | - | 0% | 204 | 10.26% | 13 | 1% | 0.5 | 6 | 3% | - | |
| 100.00 (Default) | - | - | - | - | - | - | - | - | - | - | - | |
| **Subtotal** | **4,220** | **196** | **53%** | **4,325** | **0.68%** | **73** | **10%** | **1.0** | **543** | **13%** | **1** | **8** |
| **Total (all portfolios)** | **53,194** | **8,944** | **37%** | **58,801** | **6.79%** | **365,068** | **39%** | **1.4** | **28,216** | **48%** | **2,123** | **2,450** |

*(in HRK million)*

### 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**

**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 adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0.00 to <0.15 | 225 | - | 0% | - | 0.00% | 9 | 0% | - | - | 0% | - | |
| 0.15 to <0.25 | 11 | - | 0% | 2 | 0.24% | 3 | 45% | 2.5 | 1 | 51% | - | |
| 0.25 to <0.50 | 470 | 529 | 33% | 607 | 0.48% | 298 | 42% | 2.5 | 302 | 50% | 1 | |
| 0.50 to <0.75 | 909 | 668 | 47% | 1,171 | 0.69% | 263 | 42% | 2.5 | 804 | 69% | 3 | |
| 0.75 to <1.00 | 25 | - | 50% | 7 | 0.92% | 12 | 44% | 2.5 | 6 | 81% | - | |
| 1.0 to <2.50 | 3,961 | 3,076 | 30% | 4,715 | 1.53% | 1,026 | 42% | 2.5 | 4,146 | 88% | 31 | |
| 2.50 to <3.50 | 2,573 | 1,110 | 32% | 2,870 | 2.59% | 374 | 42% | 2.5 | 2,960 | 103% | 31 | |
| 3.50 to <5.00 | 1,170 | 512 | 46% | 1,295 | 4.00% | 225 | 43% | 2.5 | 1,480 | 114% | 24 | |
| 5.00 to <7.00 | 596 | 244 | 33% | 644 | 6.19% | 168 | 40% | 2.4 | 799 | 124% | 17 | |
| 7.00 to <9.00 | 261 | 185 | 34% | 319 | 8.64% | 84 | 42% | 2.5 | 422 | 132% | 11 | |
| 9.00 to <10.00 | 306 | 141 | 36% | 357 | 9.50% | 55 | 42% | 2.5 | 542 | 152% | 14 | |
| 10.00 to <15.00 | 231 | 209 | 62% | 358 | 10.55% | 106 | 32% | 2.5 | 413 | 115% | 12 | |
| 15.00 to <30.00 | 169 | 182 | 32% | 228 | 20.38% | 2,311 | 40% | 2.5 | 407 | 179% | 19 | |
| 30.00 to <100.00 | 15 | 17 | 39% | 13 | 65.29% | 16 | 40% | 2.5 | - | 0% | 5 | |
| 100.00 (Default) | 1,372 | 15 | 43% | 1,378 | 100.00% | 677 | 43% | 2.5 | - | 0% | 587 | |
| **Subtotal** | **12,294** | **6,888** | **35%** | **13,964** | **12.45%** | **5,627** | **42%** | **2.5** | **12,282** | **88%** | **755** | **926** |
| **Total (all portfolios)** | **53,194** | **8,944** | **37%** | **58,801** | **6.79%** | **365,068** | **39%** | **1.4** | **28,216** | **48%** | **2,123** | **2,450** |

*(in HRK million)*

### 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**

**FIRB approach – Exposures to corporates, 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 adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Category 1 | 2,262 | 305 | 73% | 2,484 | 0.74% | 95 | 50% | - | 1,679 | 68% | 9 | |
| Category 2 | 999 | 251 | 74% | 1,184 | 1.56% | 70 | 50% | - | 1,028 | 87% | 9 | |
| Category 3 | 123 | 36 | 78% | 151 | 5.60% | 18 | 50% | - | 167 | 111% | 4 | |
| Category 4 | 107 | - | 75% | 107 | 16.00% | 45 | 50% | - | 257 | 241% | 9 | |
| Category 5 | 438 | 1 | 97% | 439 | 100.00% | 65 | 50% | - | - | 0% | 220 | |
| **Subtotal** | **3,929** | **593** | **73%** | **4,365** | **11.49%** | **293** | **50%** | **-** | **3,131** | **72%** | **251** | **325** |
| **Total (all portfolios)** | **53,194** | **8,944** | **37%** | **58,801** | **6.79%** | **365,068** | **39%** | **1.4** | **28,216** | **48%** | **2,123** | **2,450** |

*(in HRK million)*

### 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**

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

| PD scale | Original on-balance-sheet gross exposures | Off-balance-sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of obligors | Average LGD | Average maturity | RWAs | RWA density | EL | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0.00 to <0.15 | - | - | - | - | - | - | - | - | - | - | - | |
| 0.15 to <0.25 | - | - | - | - | - | - | - | - | - | - | - | |
| 0.25 to <0.50 | - | - | - | - | - | - | - | - | - | - | - | |
| 0.50 to <0.75 | - | - | - | - | - | - | - | - | - | - | - | |
| 0.75 to <1.00 | 9 | 12 | 69% | 17 | 0.95% | 140 | 46% | - | 7 | 39% | - | |
| 1.00 to <1.25 | 53 | 14 | 72% | 63 | 1.13% | 364 | 38% | - | 23 | 37% | - | |
| 1.25 to <1.50 | 45 | 14 | 73% | 55 | 1.45% | 305 | 39% | - | 24 | 43% | - | |
| 1.50 to <2.50 | 148 | 20 | 93% | 166 | 1.97% | 1,347 | 37% | - | 76 | 46% | 1 | |
| 2.50 to <3.50 | 179 | 21 | 93% | 198 | 3.11% | 1,218 | 38% | - | 111 | 56% | 2 | |
| 3.50 to <5.00 | 170 | 22 | 94% | 192 | 4.53% | 1,066 | 39% | - | 128 | 66% | 3 | |
| 5.00 to <10.00 | 115 | 16 | 93% | 130 | 6.89% | 872 | 40% | - | 97 | 75% | 4 | |
| 10.00 to <20.00 | 104 | 12 | 94% | 115 | 11.00% | 1,002 | 38% | - | 98 | 85% | 5 | |
| 20.00 to <50.00 | 34 | 0 | 88% | 34 | 27.93% | 18,662 | 37% | - | 40 | 118% | 4 | |
| 50.00 to <100.00 | - | - | - | - | - | - | - | - | - | - | - | |
| 100.00 (Default) | 111 | 1 | 100% | 112 | 100.00% | 1,760 | 39% | - | 7 | 7% | 94 | |
| **Subtotal** | **968** | **132** | **87%** | **1,082** | **15.03%** | **26,736** | **39%** | **-** | **611** | **56%** | **113** | **101** |
| **Total (all portfolios)** | **53,194** | **8,944** | **37%** | **58,801** | **6.79%** | **365,068** | **39%** | **1.4** | **28,216** | **48%** | **2,123** | **2,450** |

*(in HRK million)*

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

**Table 28: EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range**

**AIRB approach – Exposures to retail**

| PD scale | Original on-balance-sheet gross exposures | Off-balance-sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of obligors | Average LGD | Average maturity | RWAs | RWA density | EL | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0.00 to <0.15 | - | - | - | - | - | - | - | - | - | - | - | |
| 0.15 to <0.25 | 1,545 | 274 | 11% | 1,577 | 0.22% | 31,824 | 31% | - | 223 | 14% | 1 | |
| 0.25 to <0.35 | 3,054 | 320 | 16% | 3,105 | 0.27% | 47,066 | 33% | - | 538 | 17% | 3 | |
| 0.35 to <0.50 | 4,561 | 265 | 16% | 4,601 | 0.36% | 68,712 | 35% | - | 1,029 | 22% | 6 | |
| 0.50 to <0.75 | - | - | - | - | - | - | - | - | - | - | - | |
| 0.75 to <1.00 | 3,453 | 91 | 20% | 3,472 | 0.77% | 52,564 | 37% | - | 1,248 | 36% | 10 | |
| 1.00 to <2.00 | 1,642 | 30 | 34% | 1,652 | 1.74% | 26,551 | 36% | - | 847 | 51% | 10 | |
| 2.00 to <2.50 | 769 | 8 | 42% | 772 | 2.21% | 13,272 | 36% | - | 421 | 55% | 6 | |
| 2.50 to <10.00 | - | - | - | - | - | - | - | - | - | - | - | |
| 10.00 to <100.00 | 854 | 3 | 12% | 855 | 15.18% | 68,022 | 36% | - | 826 | 97% | 47 | |
| 100.00 (Default) | 1,306 | 1 | 10% | 1,306 | 100.00% | 24,305 | 36% | - | 541 | 41% | 910 | |
| **Subtotal** | **17,184** | **992** | **16%** | **17,340** | **8.86%** | **332,316** | **35%** | **-** | **5,673** | **33%** | **993** | **1,071** |
| **Total (all portfolios)** | **53,194** | **8,944** | **37%** | **58,801** | **6.79%** | **365,068** | **39%** | **1.4** | **28,216** | **48%** | **2,123** | **2,450** |

## 6. CREDIT RISK ADJUSTMENTS

### EU CRB-A - 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 are considered due but unpaid receivables of the Bank. "Due" means the amount of principal, interest and other receivables which the counterparty has not settled on 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 and are described in internal policies. The Bank, in line with regulatory and accounting standards, evaluates the need and allocates credit risk allowances for expected losses 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:

- Credit loss allowances for identified losses that are allocated to exposure to performing clients i.e. those that are not in the default status or stage 1 and stage 2 provisions. Expected credit loss estimation is applied on collective basis and the expected credit losses (ECL) are calculated. For them, the methodology of expected credit loss is equal to the sum of the multiplication exposure and probability of default (PD) and loss given default (LGD) that are discounted to the present value. Depending on whether exposure is classified into stage 1 or stage 2, the time range of the expected credit loss is different. For exposures classified in Stage 1, the expected credit loss is calculated in the twelve-month period until the exposure to Stage 2 is calculated by calculating the lifetime expected credit loss.
- Credit loss allowances for identified losses that are allocated to exposure of clients in default or stage 3 provisions and are calculated on an individual or collective basis. In the case of individually non significant clients, the collective assessment (so-called Rule-based approach) is applied while individual approach is applied to individually significant clients. In case of ECL on financial assets of individually significant customers in default, estimates of expected future cash flows are based on more than one scenario to ensure the unbiased and probability weighted result.

## 6. CREDIT RISK ADJUSTMENTS (CONTINUED)

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 allowance 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.

The calculation of 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, 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 principle a one-year probability of default (PD) is applied to the calculation of stage 1 and stage 2 allowances. Through-the-cycle PDs are used. If the PD for a customer class is not specific enough, the Bank can use other estimation or more granular PD which might reflect default rate in a more accurate way.

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

*(in HRK million)*

## 6. CREDIT RISK ADJUSTMENTS (CONTINUED)

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (g) CRR

**Table 29: EU CR1-A: Credit quality of exposures by exposure classes and instruments**

| | | Gross carrying values of | | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
|---|---|---|---|---|---|---|---|---|
| | | Defaulted exposures | Non-defaulted exposures | | | | | (a+b-c-d) |
| | | a | b | c | d | e | f | |
| 1 | Central governments or | - | 14,740 | 19 | - | - | (12) | **14,721** |
| 2 | Institutions | - | 4,417 | 8 | - | - | 1 | **4,409** |
| 3 | Corporates | 1,853 | 21,851 | 1,251 | - | 726 | 40 | **22,453** |
| 4 | Of Which: Specialised Lending | 435 | 4,088 | 326 | - | 202 | 4 | **4,197** |
| 5 | Of Which: SME | 821 | 11,463 | 669 | - | 400 | 13 | **11,615** |
| 6 | Retail | 1,419 | 17,858 | 1,172 | - | 16 | 10 | **18,105** |
| 7 | Secured by real estate property | 543 | 6,036 | 410 | - | 2 | (30) | **6,169** |
| 8 | SME | 58 | 402 | 49 | - | 0 | (2) | **411** |
| 9 | Non-SME | 485 | 5,634 | 361 | - | 2 | (28) | **5,758** |
| 10 | Qualifying Revolving | - | - | - | - | - | - | **-** |
| 11 | Other Retail | 876 | 11,822 | 762 | - | 14 | 40 | **11,936** |
| 12 | SME | 54 | 586 | 52 | - | 2 | 3 | **588** |
| 13 | Non-SME | 822 | 11,236 | 710 | - | 12 | 37 | **11,348** |
| 14 | Equity | - | 239 | - | - | - | - | **239** |
| **15** | **Total IRB approach** | **3,272** | **59,105** | **2,450** | **-** | **742** | **39** | **59,927** |

*(in HRK million)*

## 6. CREDIT RISK ADJUSTMENTS (CONTINUED)

### Table 29: EU CR1-A: Credit quality of exposures by exposure classes and instruments (continued)

| | | Gross carrying values of | | | | | | Net values |
|---|---|---|---|---|---|---|---|---|
| | | Defaulted exposures | Non-defaulted exposures | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | (a+b-c-d) |
| | | a | b | c | d | e | f | |
| 16 | Central governments or central banks | - | 7,081 | 8 | - | - | (1) | **7,073** |
| 17 | Regional governments or local authorities | - | 1,444 | 5 | - | - | - | **1,439** |
| 18 | Public sector entities | - | 2,399 | 95 | - | - | 4 | **2,304** |
| 19 | Multilateral Development Banks | - | - | - | - | - | - | **-** |
| 20 | International Organisations | - | - | - | - | - | - | **-** |
| 21 | Institutions | - | 262 | - | - | - | - | **262** |
| 22 | Corporates | 419 | 5,285 | 374 | - | 144 | (5) | **5,330** |
| 23 | Of which: SMEs | 188 | 2,555 | 216 | - | 72 | 3 | **2,527** |
| 24 | Retail | 313 | 6,640 | 307 | - | 115 | 9 | **6,646** |
| 25 | Of which: SMEs | 28 | 701 | 24 | - | 2 | (2) | **705** |
| 26 | Secured by mortgages on immovable property | - | 924 | 18 | - | - | - | **906** |
| 27 | Of which: SMEs | - | 110 | 3 | - | - | - | **107** |
| 28 | Exposure in default | 732 | - | 482 | - | 247 | (6) | **250** |
| 29 | Items associated with particularly high risk | - | - | - | - | - | - | **-** |
| 30 | Covered bonds | - | - | - | - | - | - | **-** |
| 31 | Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | **-** |
| 32 | Collective investments undertakings | - | 140 | - | - | - | - | **140** |
| 33 | Equity exposures | - | 21 | - | - | - | - | **21** |
| 34 | Other exposures | - | 745 | - | - | - | - | **745** |
| **35** | **Total standardised approach** | **732** | **24,941** | **807** | **-** | **259** | **7** | **24,866** |
| **36** | **Total** | **4,004** | **84,046** | **3,257** | **-** | **1001** | **46** | **84,793** |
| 37 | Of which: Loans | *3,944* | *59,351* | *3,146* | - | *1001* | *49* | ***60,149*** |
| 38 | Of which: Debt securities | - | *11,703* | *31* | - | - | *(7)* | ***11,672*** |
| 39 | Of which: Off-balance-sheet exposures | *60* | *12,992* | *80* | - | - | *4* | ***12,972*** |

*(in HRK million)*

## 6. CREDIT RISK ADJUSTMENTS (CONTINUED)

### Table 30: EU CR1-B – Credit quality of exposures by industry or counterparty types

| | | 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 | Defaulted exposures | | | | (a+b-c-d) |
| | | a | b | c | d | e | f | g |
| 1 | Agriculture, forestry and fishing | 138 | 1,361 | 74 | - | 17 | 1 | 1,425 |
| 2 | Mining and quarrying | 20 | 181 | 15 | - | - | - | 186 |
| 3 | Manufacturing | 408 | 5,195 | 275 | - | 112 | 1 | 5,328 |
| 4 | Energy and water supply | 66 | 1,433 | 82 | - | 1 | 8 | 1,417 |
| 5 | Construction | 350 | 4,394 | 418 | - | 418 | (1) | 4,326 |
| 6 | Wholesale and retail trade | 449 | 6,480 | 364 | - | 171 | 4 | 6,565 |
| 7 | Transport and storage | 51 | 1,782 | 57 | - | 24 | 4 | 1,776 |
| 8 | Accommodation and food service activities | 317 | 4,143 | 224 | - | 26 | 25 | 4,236 |
| 9 | Information and communication | 3 | 497 | 4 | - | 5 | (8) | 496 |
| 10 | Financial and insurance services | 280 | 11,950 | 38 | - | - | (12) | 12,192 |
| 11 | Real estate activities | 134 | 2,513 | 120 | - | 9 | 1 | 2,527 |
| 12 | Professional and scientific services | 145 | 1,292 | 120 | - | 57 | (8) | 1,317 |
| 13 | Other business services | 72 | 1,386 | 74 | - | 35 | 5 | 1,384 |
| 14 | Public administration and defence, compulsory social security | - | 16,098 | 22 | - | - | 4 | 16,076 |
| 15 | Education | 2 | 40 | 1 | - | - | 0 | 41 |
| 16 | Human health services and social work activities | 1 | 537 | 17 | - | - | - | 521 |
| 17 | Art, entertainment and recreation | 5 | 572 | 12 | - | 2 | 1 | 565 |
| 18 | Private households | 1,563 | 22,679 | 1,340 | - | 124 | 21 | 22,902 |
| 19 | Exteritorial organisations | - | 10 | - | - | - | - | 10 |
| 20 | Other | - | 1,503 | - | - | - | - | 1,503 |
| *21* | *of which: loans* | *3,944* | *59,351* | *3,146* | - | *1001* | *49* | *60,149* |
| *22* | *of which: debt securities* | - | *11,703* | *31* | - | - | *(7)* | *11,672* |
| *23* | *of which: off-balance-sheet* | *60* | *12,992* | *80* | - | - | *4* | *12,972* |

*(in HRK million)*

## 6. CREDIT RISK ADJUSTMENTS (CONTINUED)

### Table 31: 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 | 3,841 | 69,856 | 3,048 | - | 822 | 50 | **70,649** |
| EU countries | 23 | 8,008 | 17 | - | - | - | **8,014** |
| Other european countries | 135 | 5,599 | 178 | - | 32 | (8) | **5,556** |
| Latin America | 0 | 1 | 0 | - | - | - | **1** |
| United States of America | 5 | 289 | 3 | - | - | - | **291** |
| Other countries | 0 | 293 | 11 | - | 147 | 4 | **282** |
| **Total** | **4,004** | **84,046** | **3,257** | **-** | **1,001** | **46** | **84,793** |

### Table 32: EU CR1-D – Ageing of past-due exposures

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

| | | a | b | c | d | e | f |
|---|---|---|---|---|---|---|---|
| Gross carrying values | | ≤ 30 days | > 30 days ≤ 60 days | > 60 days ≤ 90 days | > 90 days ≤ 180 days | > 180 days ≤ 1 year | > 1 year |
| 1 | Loans | 1,185 | 87 | 47 | 95 | 199 | 1,948 |
| 2 | Debt securities | - | - | - | - | - | 24 |
| 3 | Total exposures | 1,185 | 87 | 47 | 95 | 199 | 1,972 |

*(in HRK million)*

## 6. CREDIT RISK ADJUSTMENTS (CONTINUED)

**Table 33: EU CR1-E – Non-performing and forborne exposures**

| | | Gross carrying values of performing and non-performing exposures | | | | | | | Accumulated impairment and provisions and negative fair value adjustments due to credit risk | | | | Collaterals and financial guarantees received | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Of which performing but past due > 30 days and <= 90 days | Of which performing forborne | Of which non-performing | | | | On performing exposures | | On non-performing exposures | | On non-performing exposures | Of which forborne exposures |
| | | | | | | Of which defaulted | Of which impaire | Of which forborne | | Of which forborne | | Of which forborne | | |
| 010 | Debt securities | 11,728 | - | - | 1 | 1 | 1 | - | (31) | - | (1) | - | - | - |
| 020 | Loans and advances | 59,656 | 451 | 316 | 4,002 | 3,942 | 3,942 | 1,107 | (556) | (21) | (2,589) | (447) | 605 | 29 |
| 030 | Off-balance-sheet exposures | 13,051 | - | - | 60 | 60 | - | - | (69) | - | (11) | - | 17 | 11 |

*(in HRK million)*

## 6. CREDIT RISK ADJUSTMENTS (CONTINUED)

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (i) CRR

### Table 34: EU CR2-A: Changes in the stock of general and specific credit risk adjustments

| | | a |
|---|---|---|
| | | **Accumulated specific credit risk adjustment** |
| **1** | **Opening balance** | **3,621** |
| 1a | Restatement of opening balance - effects of changes in accounting policies | |
| 2 | Increases due to amounts set aside for estimated loan losses during the period | 117 |
| 3 | Decreases due to amounts reversed for estimated loan losses during the period | (149) |
| 4 | Decreases due to amounts taken against accumulated credit risk adjustments | (411) |
| 5 | Transfers between credit risk adjustments | 84 |
| 6 | Impact of exchange rate differences | - |
| 7 | Business combinations, including acquisitions and disposals of subsidiaries | - |
| 8 | Other adjustments | (5) |
| **9** | **Closing balance** | **3,257** |
| 10 | Recoveries on credit risk adjustments recorded directly to the statement of profit or loss | (35) |
| 11 | Specific credit risk adjustments recorded directly to the statement of profit or loss | 14 |

### Table 35: EU CR2-B: Changes in the stock of defaulted and impaired loans and debt securities

| | | a |
|---|---|---|
| | | **Gross carrying value defaulted exposures** |
| **1** | **Opening balance** | **4,835** |
| 2 | Loans and debt securities that have defaulted or impaired since the last reporting period | 338 |
| 3 | Returned to non-defaulted status | (167) |
| 4 | Amounts written off | (94) |
| 5 | Other changes | (908) |
| **6** | **Closing balance** | **4,004** |

## 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 2019, the leverage ratio for the Group amounted to 10.61%. 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 2019, while the Tier 1 capital is determined based on fully loaded Basel III definitions.

### Leverage exposure breakdown and reconciliation

**Table 36: LRSum template: Summary reconciliation of accounting assets and leverage ratio exposures Applicable**

| | in HRK million |
|---|---|
| Total assets as per published financial statements | 73,503 |
| Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | (40) |
| (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013) | - |
| Adjustments for derivative financial instruments | 97 |
| Adjustments for securities financing transactions "SFTs" | 42 |
| Adjustment for off balance sheet items (i.e., conversion to credit equivalent amounts of off balance sheet exposures) | 4,511 |
| (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 | - |
| **Total leverage ratio exposure** | **78,113** |

## 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 2019.

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 37: LRCom template: Leverage ratio common disclosure**

| | | in HRK million |
|---|---|---|
| **On balance sheet exposures (excluding derivatives and SFTs)** | | |
| 1. | On balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 71,899 |
| 2. | (Asset amounts deducted in determining Tier 1 capital) | (408) |
| 3. | Total on balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2) | 71,491 |
| **Derivative exposures** | | |
| 4. | Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin) | 50 |
| 5. | Add on amounts for PFE associated with all derivatives transactions (mark to market method) | 97 |
| 6. | Total derivative exposures (sum of lines 4 and 5) | 147 |
| **Securities financing transaction exposures** | | |
| 7. | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | 1,514 |
| 8. | Counterparty credit risk exposure for SFT assets | 42 |
| 9. | Total securities financing transaction exposures (sum of line 7 and 8) | 1,556 |
| **Other off balance sheet exposures** | | |
| 10. | Off balance sheet exposures at gross notional amount | 13,051 |
| 11. | (Adjustments for conversion to credit equivalent amounts) | (8,540) |
| 12. | Other off balance sheet exposures (sum of lines 10 and 11) | 4,511 |
| **Capital and total exposure measure** | | |
| 13. | Tier 1 capital | 8,243 |
| 14. | Leverage ratio total exposure measure (sum of lines 3, 6, 9, 12) | 77,705 |
| **Leverage ratio** | | |
| 15. | Leverage ratio | 10.61% |

### Management of the risk of excessive leverage

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

## 7. LEVERAGE RATIO (CONTINUED)

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

**Table 38: Template LRSpl: 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: | 73,455 |
| EU-2. | Trading book exposures | 1,556 |
| EU-3. | Banking book exposures, of which: | 71,899 |
| EU-4. | Covered bonds | - |
| EU-5. | Exposures treated as sovereigns | 21,651 |
| EU-6. | Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns | 3,348 |
| EU-7. | Institutions | 1,154 |
| EU-8. | Secured by mortgages of immovable properties | 7,031 |
| EU-9. | Retail exposures | 15,469 |
| EU-10. | Corporate | 18,038 |
| EU-11. | Exposure in default | 229 |
| EU-12. | Other exposures (e.g. equity, securitisations, and other non-credit obligation assets) | 4,979 |

## 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,
- Equites risk.

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

**Table 39: EU MR1 – Market risk under the standardised approach**

| | | RWAs | Capital requirements |
|---|---|---|---|
| | Outright products | | |
| 1 | Interest rate risk (general and specific) | 20 | 2 |
| 2 | Equity risk (general and specific) | - | - |
| 3 | Foreign exchange risk | 105 | 8 |
| 4 | Commodity risk | - | - |
| | Options | | |
| 5 | Simplified approach | - | - |
| 6 | Delta-plus method | - | - |
| 7 | Scenario approach | - | - |
| 8 | Securitisation (specific risk) | - | - |
| **9** | **Total** | **125** | **10** |

In the reporting period, the Group had stable capital requirements for market risk arising primarily from transactions with customers (Interest rate risk) and capital requirements for currency risk based on the calculation of the total net foreign exchange position.

*(in HRK million)*

## 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 40: VaR limits and Utilization**

| VaR limits and Utilization | Limit (HRK) | Exposure | Maximum | Minimum |
|---|---|---|---|---|
| Banking book – fixed income securities | 74 | 13 | 17 | 12 |
| Banking book – fixed income corporates | 5.2 | 0.5 | 0.7 | 0.5 |
| Banking book - Foreign exchange | 4.4 | 0.7 | 0.7 | - |
| Banking book - Money market | 22.1 | 6.9 | 6.9 | 6.3 |
| Trading book – fixed income trading | 1.1 | - | - | - |
| Trading book – Money market | 2.2 | - | 0.2 | - |

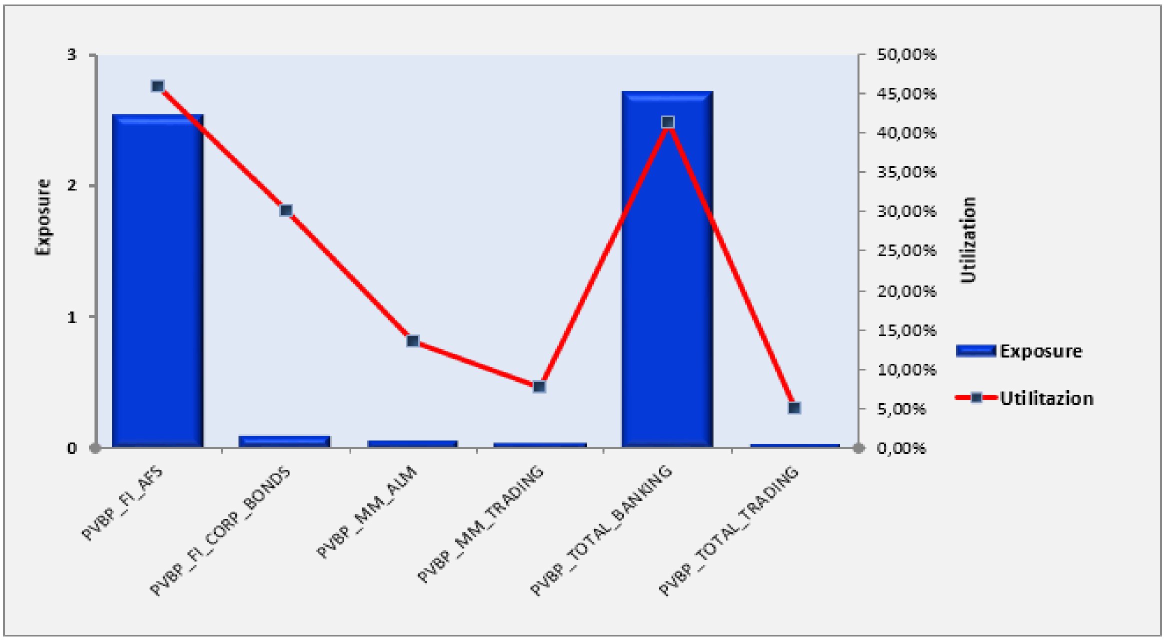
**Price Value of a Basis Point ("PVBP")** is the sensitivity limit that limits the risk of change in the portfolio value caused by parallel shift of the interest rate curve by one basis point.

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.

*(in HRK million)*

## 8. MARKET RISK EXPOSURE (continued)

### Picture 3 : 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 12 months shows that in case of increase of interest rates for 1% net interest income will increase for 3% or HRK 70 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%.

### Table 41: Simulation of net interest income for 12 months based on the data for 30 June 2019

| | EUR | USD | HRK | TOTAL | in % |
|---|---|---|---|---|---|
| immediate parallel shock plus 200 bp | 83 | 12 | 57 | 152 | 7% |
| immediate parallel shock plus 100 bp | 38 | 6 | 27 | 70 | 3% |
| immediate parallel shock minus 100 bp | (62) | (10) | (50) | (123) | (6%) |
| immediate parallel shock minus 200 bp | (126) | (22) | (104) | (252) | (12%) |
| Internal net interest income limit | (34) | (15) | (72) | (121) | (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) Gap 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. Can be subdivided into parallel repricing and yield-curve risk.
2) 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.
3) 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.). It can be further subdivided into automatic option risk and behavioural option risk.

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 prescribed 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 Management system decision (NN 96/2018) and Amending decision on Management system decision (NN 67/2019) 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/2018/02") , was as follows:

**Table 42: 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 | (252) |
| EUR | 142 |
| OTHER | (69) |
| **CHANGE IN THE ECONOMIC VALUE** | **179** |
| **REGULATORY CAPITAL** | **9,162** |
| **(CHANGE IN THE ECONOMIC VALUE / REGULATORY CAPITAL)*100** | **2.0%** |

*(in HRK million)*

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

DISCLOSURE REQUIREMENTS COVERED: ART. 447 CRR

**Table 43: EU CR10 - IRB (equities)**

| Categories | On-balance sheet amount | Off-balance sheet amount | Risk weight | Exposure amount | RWA | Capital requirements |
|---|---|---|---|---|---|---|
| Exchange-traded equity exposures | 40 | - | 190% | 40 | 75 | 6 |
| Private equity exposures | 2 | - | 290% | 2 | 7 | 1 |
| Other equity exposures | 154 | - | 370% | 154 | 569 | 45 |
| **Total** | **196** | **-** | | **196** | **651** | **52** |

**Table 44: 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 | **180** | |
| Unlisted, in sufficiently diversified portfolios | 180 | |
| Listed | - | - |
| Investments in non-financial institutions | **44** | |
| Unlisted, in sufficiently diversified portfolios | 44 | |
| 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

### **EU CRC** - 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 most commonly accepted:

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

Amount and type of collateral depends on the assessment of the counterparty credit risk. Eligible collateral are those that are in accordance with Basel III regulation and are appropriate to reduce the capital requirements in the calculation of the required own funds of the Bank. Basel III regulation lays down minimum requirements for each type of credit protection. In Collateral Catalog is indicated which minimum requirements has to be fulfilled for eligible collateral.

For reducing the capital requirements the Bank uses:

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

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

Collateral coverage is determined by collateral acceptable value where the valuation rate for collateral category used is defined in Bank’s internal acts. Collateral management policy is the high level document which, among others, prescribes:

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

### 11. CREDIT RISK MITIGATION TECHNIQUES (CONTINUED)

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, whether 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.

*(in HRK million)*

## 11. CREDIT RISK MITIGATION TECHNIQUES (CONTINUED)

Banks authorized valuators are considered to be licensed appraisers and expert witnesses at Erste nekretnine d.o.o. and real estate valuators that are on the list of official Erste nekretnine d.o.o.
Erste nekretnine d.o.o. monitors authorized valuators who are not their employees. Acceptance of instruments as collaterals is estimated in the Collection and Work-out Division and approved by Risk department.
Internal policies and procedures are prescribing rules for accepting collateral, monitoring procedures and booking their values.

**Table 45: EU CR3: Credit risk mitigation techniques – overview**

| | | Exposure unsecured-Carrying amounts | Exposure to be secured | Exposure secured by collateral | Exposure secured by financial guarantees | Exposure secured by credit derivatives |
|---|---|---|---|---|---|---|
| 1 | Total loans | 48,550 | 15,058 | 12,123 | 2,935 | - |
| 2 | Total debt securities | 11,673 | - | - | - | - |
| 3 | **Total exposure** | **71,825** | **16,574** | **13,531** | **3,043** | **-** |
| 4 | of which defaulted | 820 | 587 | 581 | 6 | - |

*(in HRK million)*

## 11. CREDIT RISK MITIGATION TECHNIQUES (CONTINUED)

### Table 46: EU CR4: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

| | Exposure classes | Exposures before CCF and CRM | | Exposure post CCF and CRM | | RWA and RWA density | |
|---|---|---|---|---|---|---|---|
| | | On balance | Off balance | On balance | Off balance | RWA | RWA dencity |
| 1 | Central governments or central banks | 7,072 | 1 | 7,072 | - | 1,476 | 7,57 |
| 2 | Regional government or local authorities | 1,052 | 387 | 1,052 | 168 | 604 | 3,10 |
| 3 | Public sector entities | 2,296 | 8 | 69 | 2 | 46 | 0,24 |
| 4 | Multilateral development banks | - | - | 7 | - | - | - |
| 5 | International organisations | - | - | - | - | - | - |
| 6 | Institutions | 235 | 27 | 240 | 27 | 70 | 0,36 |
| 7 | Corporates | 3,493 | 1,686 | 3,121 | 672 | 3,708 | 19,02 |
| 8 | Retail | 4,610 | 1,937 | 4,600 | 398 | 3,748 | 19,22 |
| 9 | Secured by mortgages on immovable property | 906 | - | 906 | - | 346 | 1,77 |
| 10 | Exposures in default | 229 | 21 | 229 | 4 | 286 | 1,46 |
| 11 | Higher-risk categories | - | - | - | - | - | - |
| 12 | Covered bonds | - | - | - | - | - | - |
| 13 | Institutions and corporates with a short term credit assessment | - | - | - | - | - | - |
| 14 | Collective investment undertakings | 140 | - | 140 | - | 140 | 0,72 |
| 15 | Equity | 21 | - | 21 | - | 25 | 0,13 |
| 16 | Other items | 745 | - | 771 | - | 595 | 3,05 |
| 17 | **Total** | **20,799** | **4,067** | **18,228** | **1,271** | **11,044** | |

## 12. COUNTERCYCLICAL BUFFER REQUIREMENTS

DISCLOSURE REQUIREMENTS COVERED: ART. 440 CRR

The Group calculates countercyclical buffer requirements at consolidated level.

**Table 47: Institutions specific countercyclical capital buffer rate**

| | |
|---|---|
| Total risk exposure amount | 32,565 |
| 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
RMA - Risk Materiality Assessment
RbLL – Rating based Lending Limit
SKDD – Central Depositary and Clearing Company