ERSTE&STEIERMÄRKISCHE BANK D.D.

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Disclosure requirements for the Group Erste&Steiermärkische Bank d.d. as of 31 December 2019

Zagreb, April 2020

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

Disclosure requirements according to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms ("CRR") and according to Article 165 and 166 of Credit Institution Act for the Group Erste&Steiermärkische Bank d.d. as of 31 December 2019, as follows:

(in HRK million)

OVERVIEW OF DISCLOSED NOTES IN THE ANNUAL REPORT

CRR Article	Template	Disclosure description	Note in Annual Report	Page number in Annual Report
436 (b)-(e)	EU LI3	Regulatory Scope of Consolidation	43. Own funds and capital requirements	244
437(1)(a)	EU LI1	Statement of financial position reconciliation	43. Own funds and capital requirements	248-251
436 (b)	EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	43. Own funds and capital requirements	251-252
437(1)(d)(e)	-	Own funds during transitional period	43. Own funds and capital requirements	253-259
436	EU LIA	Explanations of differences between accounting and regulatory exposure amount	43. Own funds and capital requirements	250

OVERVIEW OF DISCLOSED NOTES IN THE DISLOSURE 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) and EBA/GL/2018/10 (Guidelines on disclosure of non-performing and forborne exposures) can be found in the following chapters:

Qualitative Template	Quantitative Template	Description	Chapter
EU OVA		Institution risk management approach	1.2. Risk policy and strategy
	EU OV1	Overview of RWA	2. Capital requirements
EU CRA		General qualitative information about Credit Risk	1.2. Risk policy and strategy
EU CRE		Qualitative disclosures related to IRB models	4. Credit risk
EU CRB-A		Additional disclosure related to the credit quality of assets	5. Credit risk adjustments
	EU CRB-B	Total and average net amount of exposures	4. Credit risk
	EU CRB-C	Geographical breakdown of exposures	4. Credit risk
	EU CRB-D	Concentration of exposures by industry or counterparty types	4. Credit risk
	EU CRB-E	Maturity of exposures	4. Credit risk
	EU CR1-A	Credit quality of exposures by exposure classes and instruments	5. Credit risk adjustments
	Template 1	Credit quality of forborne exposures	5. Credit risk adjustments
	Template 2	Quality of forbearance	5. Credit risk adjustments
	Template 3	Non-performing and forborne exposures	5. Credit risk adjustments

(in HRK million)

OVERVIEW OF DISCLOSED NOTES IN THE DISCLOSURE REQUIREMENTS (CONTINUED)

Qualitative Template	Quantitative Template	Description	Chapter
	Template 4	Performing and non-performing exposures and related provisions	5. Credit risk adjustments
	Template 5	Quality of non-performing exposures by geography	5. Credit risk adjustments
	Template 6	Credit quality of loans and advances by industry	5. Credit risk adjustments
	Template 7	Collateral valuation – loans and advances	5. Credit risk adjustments
	Template 8	Changes in the stock of non-performing loans and advances	5. Credit risk adjustments
	Template 9	Collateral obtained by taking possession and execution processes	5. Credit risk adjustments
	Template 10	Collateral obtained by taking possession and execution processes – vintage breakdown	5. Credit risk adjustments
	EU CR2-A	Changes in stock of general and specific credit risk adjustment	5. Credit risk adjustments
	EU CR2-B	Changes in stock of defaulted loans and debt securities	5. Credit risk adjustments
EU CRD		Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk	4.1. Use of the IRB approach to credit risk
	EU CR4	Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects	12. Credit risk mitigation techniques
	EU CR5	Standardised approach – exposures by asset classes and risk weights	4.1. Use of the IRB approach to credit risk
	EU CR6	IRB - Credit risk exposures by portfolio and PD range	4.1. Use of the IRB approach to credit risk
	EU CR8	RWA flow statements of credit risk exposures under the IRB approach	2. Capital requirements
	EU CR9	IRB – Backtesting of probability of default (PD) per portfolio	4.1. Use of the IRB approach to credit risk
	EU CR10	IRB (specialised lending and equities)	4.1. Use of the IRB approach to credit risk 11. Exposures in Equity not included in the Trading book
EU CRC		Qualitative disclosure requirements related to credit risk mitigation techniques	12. Credit risk mitigation techniques
	EU CR3	Credit risk mitigation techniques – overview	12. Credit risk mitigation techniques
EU CCRA		Qualitative disclosure requirements related to CRR	3. Counterparty credit risk
	EU CCR1	Analysis of counterparty credit risk (CCR) exposure by approach	3. Counterparty credit risk
	EU CCR2	Credit valuation adjustment (CVA) capital charge	3. Counterparty credit risk
	EU CCR3	Standardised approach of CCR exposures by regulatory portfolio and risk weights	3. Counterparty credit risk
	EU CCR4	IRB – CCR exposures by portfolio and PD scale	3. Counterparty credit risk
	EU CCR5-A	Impact of netting and collateral held on exposure values	3. Counterparty credit risk
	EU CCR5-B	Composition of collateral for CCR exposure	3. Counterparty credit risk
EU MRA		Quantitative disclosure requirements related to Market risk	7. Market risk exposure
	EU MR1	Market risk under standardised approach	7. 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)

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 North Macedonia.

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

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

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

1.1. GOVERNING BODIES

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

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

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

The Bank’s Rulebook on Organization determines clear organizational structure with well-defined, transparent and consistent lines of authority and responsibility within the Bank, in order to avoid any possible conflict of interests.

The composition, duties and responsibilities of the Management Board and the Supervisory Board members are determined by the Articles of Association, Rules of Procedure of the Management Board and the Rules of Procedure of the Supervisory Board.

1.1. GOVERNING BODIES (CONTINUED)

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

SUPERVISORY BOARD

Willibald Cernko	President
Georg Bucher	Deputy President
Ingo Bleier	Member
Hannes Frotzbacher	Member (until January 1, 2020)
Judit Agnes Havasi	Member
Walburga Seidl	Member
Nikolai Leo de Arnoldi	Member

As of 31 December 2019, the Supervisory Board members held the following supervisory board mandates or similar functions in the companies as it follows:

Willibald Cernko

Erste Bank der Österreichischen Sparkasse AG, member of the Management Board

Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft, deputy chairman of the Supervisory Board

Oesterreichische Kontrollbank Aktiengesellschaft, deputy chairman of the Supervisory Board

SOS-Kinderdorf, member of the Supervisory Board

Steiermärkische Bank und Sparkassen Aktiengesellschaft, member of the Supervisory Board

s Wohnbaubank AG, chairman of the Supervisory Board

Tiroler Sparkasse Bankaktiengesellschaft Innsbruck, chairman of the Supervisory Board

Haftungsverbund GmbH, member of the Advisory Board

Haftungsverbund GmbH (Shareholders Committee – member)

Haftungsverbund GmbH (Control Board- member)

Hannes Frotzbacher

Intermarket Bank AG, member of the Supervisory Board

Erste Bank a.d., Novi Sad, member of the Board of directors

Ingo Bleier

Erste Group Bank AG, member of the Management Board

Erste Bank der oesterreichischen Sparkassen AG, member of the Supervisory Board

Oesterreichische Kontrollbank, member of the Supervisory Board

Erste Bank a.d. Novi Sad, chairman of the Board of Directors

Georg Bucher

Steiermärkische Bank und Sparkassen AG, member of the Management Board

SKW Privatstiftung, member of the Management Board

Christine Kunz GmbH, director

Kärntner Sparkasse AG, member of the Supervisory Board

s IT Solutions AT Spardat GmbH, member of the Supervisory Board

Sparkassen IT Holding AG, member of the Supervisory Board

Erste Bank a.d. Novi Sad, member of the Board of directors

Banka Sparkasse d.d. Ljubljana, member of the Supervisory Board

SKB Industrieholding GmbH, member of the Supervisory Board

Sparkasse Bank Makedonija a.d. Skopje, member of the Supervisory Board

1.1. GOVERNING BODIES (CONTINUED)

Walburga Seidl

Steiermärkische Bank und Sparkassen AG, member of the Management Board
Bankhaus Krentschker, member of the Supervisory Board
Sparkasse Bank Makedonija, member of the Supervisory Board
sLeasing Süd GmbH&COKG, member of the Advisory Board

Judit Agnes Havasi

Vienna Insurance Group Wiener Städtische Versicherung AG, member of the Management Board
Wiener Städtische Versicherung AG, member of the Supervisory Board
Die Zweite Wiener Vereins-Sparcasse, member of the Supervisory Board
UNION Vienna Insurance Group Bitosito Zrt., member of the Supervisory Board
Komunálna poist'ovna, a.s., Vienna Insurance Group, member of the Supervisory Board
Kooperativa pist'ovna, a.s., Vienna Insurance Group, member of the Supervisory Board

Nikolai Leo de Arnoldi

DE ARNOLDI GmbH, member of the Management Board

MANAGEMENT BOARD

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

Christoph Schoefboeck	President
Borislav Centner	Member
Slađana Jagar	Member (until January 1, 2020)
Zdenko Matak	Member
Martin Hornig	Member
Krešimir Barić	Member (as of January 1, 2020)
Hannes Frotzbacher	Member (as of February 1, 2020)

As of 31 December 2019, the Management Board members held the following supervisory board mandates or similar functions in the following companies:

Christoph Schoefboeck

Erste & Steiermärkische S-Leasing d.o.o., president of the Supervisory Bord
Erste Factoring d.o.o. – deputy president of the Supervisory Board
Erste Bank Ad Podgorica, member of Board of directors

Slađana Jagar

Erste nekretnine d.o.o., president of the Supervisory Board
Erste Bank Ad Podgorica, president of the Board of directors

Martin Hornig

Valetudo d.o.o.– member of the company

1.1. GOVERNING BODIES (CONTINUED)

Borislav Centner

Zagrebačka burza d.d., deputy president of the Supervisory Board
Erste & Steiermärkische S-Leasing d.o.o., member of the Supervisory Board
IR Real estate leasing u likvidaciji, deputy president of the Supervisory Board
Erste Factoring d.o.o., president of the Supervisory Board
Erste nekretnine d.o.o., deputy president of the Supervisory Board
Erste Bank AD Podgorica, member of the Board of directors

Zdenko Matak

Erste Card Club d.o.o., president of the Supervisory Board
Erste d.o.o., member of the Supervisory Board

PROCURATORS

On 31 December 2019, the Bank has no procurator.

Pursuant to the Decision made on 15 May 2014, the Supervisory Board has established following Committees:

- Remuneration Committee,
- Nomination Committee and
- Risk Committee

as determined by the relevant laws.

The Supervisory Board also established the Audit committee, who helps the Supervisory Board in its work. In 2019, the Audit Committee held four meetings and made one decision in writing. The Risk committee, Remuneration committee and the Nomination committee has three members of which one is the president and comprises Supervisory Board members. The Nomination Committee in 2019 held two meetings and made ten decisions without convening a meeting. Remuneration Committee held two meetings and made ten decision in a written form without convening meeting, while Risk Committee held five meetings and made two decisions in a written form without convening a meeting.

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

1) general conditions to be fulfilled by the candidate for the President and a member of the Management Board, member of the Supervisory Board and the key function holders and the Management Board and the Supervisory Board as a whole, considering the targeted structure and especially:
   - good reputation, honesty and integrity,
   - the required expertise, skills and experience necessary to fulfil the obligations under their jurisdiction
   - their specific competence to express their independence in mind and the absence of a conflict of interest that cannot be managed in a manner that ensures the independence of mind,
   - a requirement for onboarding and continuous education,
   - a request for committed fulfilment of obligations under their jurisdiction,
   - collective suitability.

1.1. GOVERNING BODIES (CONTINUED)

2) administrative service responsible for performing the suitability assessment of the candidate,
3) suitability assessment procedure, including time scheduled for submission of documents, deadlines and method of the procedure execution, method by which an assessed person responds and procedure results reporting,
4) information and documents which the candidate should submit to the Bank to perform the assessment,
5) situations and circumstances which may cause the necessity for extraordinary suitability assessment of the president or members of the Management Board, members of the Supervisory Board and the key function holders,
6) form and method of filing the documents of suitability assessment procedure,
7) the procedure of onboarding education of the President and members of the Management Board and the Supervisory board members in order to facilitate their clear understanding of the Bank's structure, business model, risk profile and governance arrangements and the role of the members within them and the procedure of permanent education of the President and members of the Management Board and the Supervisory Board members in order to ensure their knowledge is continuously suitable.

The objective and scope of the Policy, related to the Management Board members, is:

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

Staffing plan for Management Board Functions is created by Erste Group Bank AG.

The diversity and inclusion policy was adopted for 2019, and it regulates the principles of diversity and inclusion that Erste Group undertakes to respect.

In line with CRD IV, the Management Board of Erste Group Bank AG has set targets for the entire Group which defines that top management should be 35% of women (Boards members and B-1 directors) by the end of 2020 and 35% of women in Supervisory Boards by the end of 2020. This target concerns banks only as it is relevant for EU financial institutions. ESB Group in Croatia will, in accordance with the Decision of the Croatian National Bank on the assessment of the suitability of the chairperson of the management board, members of the management board, members of the supervisory board and key function holders in a credit institution, Article 24 (4), set target of having 35% women within top management structure (Board and Supervisory board) of the Bank and other companies of ESB Group by the end of 2020.

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 Group 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 ("CRO") ensures the consideration of Group particularities within Group ICAAP standards. EBC CRO 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. EBC CRO reviews the regular Group results/reports, draws conclusions and takes decisions within his/her responsibility as a member of the EBC 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.

1.2. RISK POLICY AND STRATEGY (CONTINUED)

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

Credit Risk Management Division

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

Collection and Work-out Division

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

Asset and Liability Management Division ("ALM")

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

Internal Audit Division

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

Risk measurement and reporting

The Group's 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 and liquidity 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, BP01, Stress test), 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. Also, Market and Liquidity Risk Management Department is responsible for operational liquidity measurement which involves regular reporting/reconciliation of the input data, maintenance of all implemented tools for monitoring and measuring of the liquidity risk as well as processing of the results. It is also responsible for supervision in the context of the development of liquidity risk measures, monitoring the limit utilization level and for the preparation of the reports in the area of liquidity risk.

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.

1.2. RISK POLICY AND STRATEGY (CONTINUED)

This ensures centralized analysis, model development, uniform way of calculating the indicators and segmentation throughout the Bank and the Group.
The information is further transfer to management through regular reporting (predefined schedule and scope of the report) as well as *ad hoc* reporting on the risks that ensures the timely availability of high quality and accurate information to governing bodies to ensure adequate risk management and the EBC 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 updated regularly, at least on an annual basis, 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 Group actively uses collateral to reduce its credit risk.

Risk concentration

Risk concentration refers to the negative consequences which may arise due to exposure concentration towards significant number of clients with similar business activities or same/similar economic characteristics resulting in inability to carry out the contractual liabilities towards the Bank and other Group members. Risk concentration may arise also due to high exposure towards one individual or group of connected clients. Concentration shows sensitivity of achieving the Group results to the 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, the 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 a 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 its own risk profile and business.

1.2. RISK POLICY AND STRATEGY (CONTINUED)

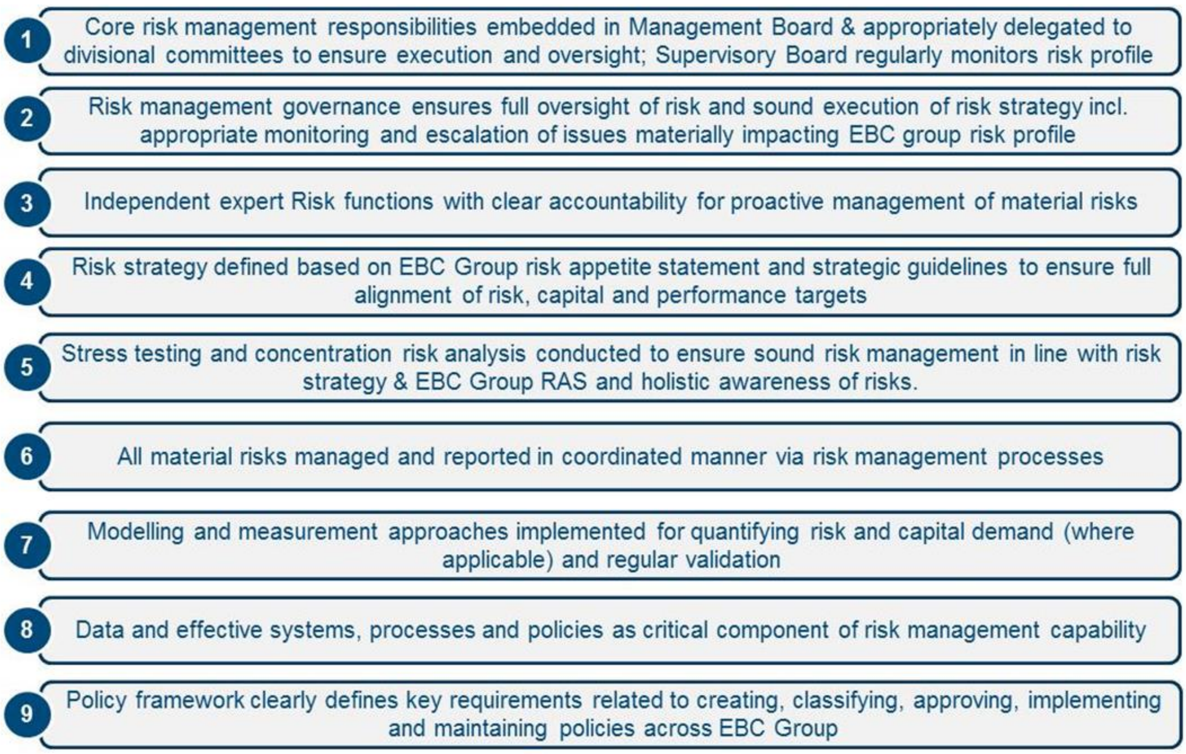
It is based on a clear strategy that is consistent with the Group's business strategies and focuses on the early identification and management of risks and trends. Further, to achieve the internal objective of implementation of efficient and effective risk management, risk management and control system are designed to be compliant with external, especially regulatory requirements.

The Group aims at achieving balanced risk and return in order to generate a sustainable growth and adequate return on equity. Therefore, the Group policy is to ensure that risks are 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.

Within the annual Risk Materiality Assessment (RMA) framework, the Group performs the identification and materiality assessment of the different risks it is exposed to, thus providing a comprehensive and holistic view of the Group's risk profile. During the risk materiality assessment process, all risk types to which the Group is exposed or might be exposed to are considered. The combination of comprehensive quantitative and qualitative analysis results in grades that define materiality of each risk type and form the overall risk profile of 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 category the specific principles are defined in line with the materiality grade.

Risk management is governed by following principles:

Picture 1: Principles of Risk management



1.2. RISK POLICY AND STRATEGY (CONTINUED)

Considering to the business strategy of the Group, the key risks for the Group are credit, market, liquidity and funding risk, non-financial risk, as well as currency-induced credit risk and business/strategic risk.
The Group focuses also on the management of macroeconomic risk and concentrations risk within risk types. The Group continually strives to improve existing methods and processes in all areas of risk management.
In 2019 management continued to focus on improvement of overall portfolio quality and decrease of NPL. The realized collection, portfolio improvement, as well as NPL portfolio sales and write-offs contributed to the activities of portfolio optimization and risk cost optimization (workout portfolio).

The Group uses the internet as a medium for the publication of data according to Art. 434 CRR. Details are available on the website of Erste&Steiermärkische Bank d.d. where the Annual report for 2019 can be found in which the key data and ratios which provide a comprehensive overview of how the management of the Group's operations and risk management can be seen.
The Group defines risk strategy and risk appetite through the annual strategic planning process in order to have appropriate compliance of risk, capital and target values of profitability. Risk appetite statement (RAS) is a strategic statement expressing the maximum level that the Group is willing to take in order to achieve business objectives.
It consists of a set of core risk metrics that provide quantitative direction for the overall risk-return steering, provides qualitative statements in the form of key risk principles that form part of guidelines for managing risks, sets the boundary for limits (strategic and operational) and target setting, and forms a key input into the annual strategic planning process, creating a holistic perspective on capital, liquidity and risk-return trade-offs.
In order to ensure the Group remains within the targeted risk profile, the Red-Amber-Green (RAG) guidance has been established and assigned to each core metric. This allows for appropriate lead time to decide on further actions and, if necessary, implement effective remediation measures. During 2019 the risk appetite statement indicators have remained within the defined limits.

The key objectives of the *Group Risk Appetite Statement* are to:

- Ensure that the Group has sufficient resources to support business at any given point in time and absorb stress market events,
- Set ultimate boundaries of the 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 the 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.

1.2 RISK POLICY AND STRATEGY (CONTINUED)

Group Risk Strategy, which is updated on an annual basis during the annual strategic planning process, defines the overall strategic direction of the Group in terms of risk-taking and sets strategic-level limits by risk type, which are derived from the Group Risk Appetite Statement (RAS).

The objectives of the Risk Strategy are to:

- describe the most relevant regulatory developments with main impact on future requirements and expectations towards the Group:
- set out the general principles and strategic pillars according to which risk taking must be performed across the Group;
- define key elements of the risk management framework and their integration to ensure an adequate and consistent implementation of this strategy;
- describe current risk profile and define risk management principles, strategic goals and initiatives for main risk types;
- formulate risk appetite and accordingly set strategic limits for supporting metrics for the main risk types, which are determined based on the overall risk appetite of the Group;
- provide overview about the Risk Committees and the key responsibilities;
- achieve a clear and holistic understanding of the pursued risk culture across the Group as a complement to the Statement of Purpose and the Code of Conduct.

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.

1.2 RISK POLICY AND STRATEGY (CONTINUED)

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 Group has the capacity to bear its acquired risks by comparing the Group’s risk portfolios across all risk types with the Group’s capital. The ICAAP framework is designed to support the management in managing risk portfolios as well as the coverage potential at all times, ensuring adequate capital capacity that reflects the nature and magnitude of the Group’s risk portfolio.

The internal capital adequacy is determined based on the Group’s risk-bearing capacity calculation quantifying coverage potential (internal capital) and internal capital requirements (economic capital) for relevant risks which are identified in the Risk Materiality Assessment. Internal capital requirements (economic capital) is then compared to internally available capital, i.e. the coverage potential. 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. In the stress testing process relevant and severe scenarios are assumed and the methods and models of testing are continuously being improved.

The internal capital adequacy is analyzed within the Risk Management Division and reported to the Management Board and the Asset and Liability Committee (“ALCO“) as part of the quarterly ICAAP report. 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.

In addition, to the assessment of current capital adequacy, through the ICAAP process future internal capital and internal capital requirements are planned. Planning of internal capital ensures maintaining the 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 minimally required levels of regulatory capital adequacy.
The framework of internal capital adequacy assessment reflects the risk strategy and limits set where ICAAP serves as a comprehensive management model.

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

(in HRK million)

2. CAPITAL REQUIREMENTS

DISCLOSURE REQUIREMENTS COVERED: ART. 438 CRR

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

Table 1: EU OV1 - Overview of RWAs

			RWAs		Minimum capital requirements
			30.09.2019	31.12.2019	31.12.2019
	1	**Credit risk (excluding CCR)**	**42,165**	**44,079**	**3,526**
Article 438(c)(d)	2	Of which the standardised approach	11,169	11,488	919
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach	22,778	22,069	1,766
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach	6,265	8,561	685
Article 438(d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	680	704	56
Article 107 Article 438(c)(d)	**6**	**CCR**	**148**	**129**	**10**
Article 438(c)(d)	7	Of which mark to market	123	104	8
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	25	25	2
Article 438(e)	**13**	**Settlement risk**	**-**	**-**	**-**
Article 449(o)(i)	**14**	**Securitisation exposures in the banking book (after the cap)**	**-**	**-**	**-**
	15	Of which IRB approach	-	-	-
	16	Of which IRB supervisory formula approach (SFA)	-	-	-
	17	Of which internal assessment approach (IAA)	-	-	-
	18	Of which standardised approach	-	-	-
Article 438 (e)	**19**	**Market risk**	**260**	**199**	**16**
	20	Of which the standardised approach	260	199	16
	21	Of which IMA	-	-	-
Article 438(e)	**22**	**Large exposures**	**-**	**-**	**-**
Article 438(f)	**23**	**Operational risk**	**5,548**	**5,548**	**444**
	24	Of which basic indicator approach	594	567	45
	25	Of which standardised approach	4,954	4,981	399
	26	Of which advanced measurement approach	-	-	-
Article 437(2), Article 48 and Article 60	**27**	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**-**	**-**	**-**
Article 500	**28**	**Floor adjustment**	**-**	**-**	**-**
	29	**Total**	**48,121**	**49,955**	**3,996**

(in HRK million)

2. CAPITAL REQUIREMENTS (CONTINUED)

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

Table 2: EU CR8 – RWA flow statements of credit risk exposures under the IRB approach

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

		RWA amounts	Capital requirements
1	RWAs as at the end of the previous reporting period[1]	30,997	2,480
2	Asset size	(425)	(34)
3	Asset quality	(320)	(26)
4	Model updates	-	-
5	Methodology and policy	2,231	178
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	108	9
8	Other	-	-
9	RWAs as at the end of the reporting period	**32,591**	**2,607**

The increase of the risk-weighted assets compared to the previous reporting period is mainly caused by methodological change, i.e. the implementation of the new PD methodology.

[1] The previous reporting period is 30.09.2019.

2.1. CAPITAL INSTRUMENTS' MAIN FEATURES

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

Table 3: 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

2.1. CAPITAL INSTRUMENTS' MAIN FEATURES (CONTINUED)

Table 4: 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)	221 HRK	134 HRK	99 HRK	181 HRK
9.	Nominal amount of instrument	30,000,000.00 EUR	30,000,000.00 EUR	30,000,000.00 EUR	80,000,000.00 EUR
9.a	Issue price	N/A	N/A	N/A	N/A
9.b	Redemption price	N/A	N/A	N/A	N/A
10.	Accounting classification	liability - amortised cost	liability - amortised cost	liability - amortised cost	liability - amortised cost
11.	Original date of issuance	11 December 2017	19 March 2015	19 March 2015	10 July 2014
12.	Perpetual or dated	dated	dated	dated	dated
13.	Original maturity date	11 December 2024	31 December 2022	19 March 2022	09 July 2021
14.	Issuer call subject to prior supervisory approval	no	no	no	no
15.	Optional call date, contingent call dates and redemption amount	N/A	N/A	N/A	N/A
16.	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A

“N/A“ not applicable

The table is continued on the next page.

(in HRK million)

2.1. CAPITAL INSTRUMENTS' MAIN FEATURES (CONTINUED)

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

“N/A“ not applicable

2.1. CAPITAL INSTRUMENTS' MAIN FEATURES (CONTINUED)

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

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

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

(in HRK million)

3. COUNTERPARTY CREDIT RISK

EU CCRA - 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 5: 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		39	164			164	82
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)						921	22
10	VaR for SFTs						-	-
11	**Total**							**104**

(in HRK million)

3. COUNTERPARTY CREDIT RISK (CONTINUED)

Table 6: 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	69	25
EU4	Based on the original exposure method	-	-
5	**Total subject to the CVA capital charge**	**69**	**25**

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

Table 7: 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	-	-	-	-	-	-	-	-	14	-	14	14
7	Corporates	-	-	-	-	-	-	-	-	54	-	54	54
8	Retail	-	-	-	-	-	-	-	-	-	-	-	-
13	Institutions and corporates with a short term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
16	Other items	-	-	-	-	-	-	-	-	-	-	-	-
17	**Total**	-	-	-	-	-	-	-	-	**68**		**68**	**68**

(in HRK million)

3. COUNTERPARTY CREDIT RISK (CONTINUED)

Table 8: 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	795	0.14%	1	1.15%	-	6	0.74%
Institutions	0.15 do <0.25	-	0.00%	-	0.00%	-	-	0.00%
Institutions	0.25 do <0.50	1	0.29%	1	45.00%	-	-	56.55%
Institutions	0.50 do <0.75	-	0.00%	-	0.00%	-	-	0.00%
Institutions	0.75 do <2.50	2	1.83%	1	45.00%	-	2	148.01%
Institutions	2.50 do <10.00	97	3.96%	1	0.00%	-	-	0.00%
Institutions	10.00 do <100.00	55	10.24%	2	0.00%	-	-	0.00%
Institutions	100.00 (Default)	-	0.00%	-	0.00%	-	-	0.00%
Institutions	**Sub-total**	**950**	**0.00%**	**6**	**0.00%**	**-**	**8**	**0.89%**
	Total (all portfolios)	**1,017**	**1.56%**	**31**	**2.51%**	**-**	**38**	**3.78%**

Table 9: EU CCR4 – IRB approach – CCR exposures by portfolio and PD scale (Corporate)

Exposure class	PD scale	EAD post CRM	Average PD	Number of	Average LGD	Average maturity	RWA	RWA density
Corporate	0.00 do <0.15	-	0.00%	-	0.00%	-	-	0.00%
Corporate	0.15 do <0.25	-	0.00%	-	0.00%	-	-	0.00%
Corporate	0.25 do <0.50	2	0.44%	4	45.00%	-	1	60.45%
Corporate	0.50 do <0.75	-	0.66%	1	45.00%	-	-	51.24%
Corporate	0.75 do <2.50	28	1.55%	16	48.65%	-	27	94.87%
Corporate	2.50 do <10.00	2	6.56%	3	45.00%	-	2	128.81%
Corporate	10.00 do <100.00	35	13.21%	1	0.00%	-	-	0.00%
Corporate	100.00 (Default)	-	0.00%	-	0.00%	-	-	0.00%
Corporate	**Sub-total**	**67**	**0.00%**	**25**	**0.00%**	**-**	**30**	**44.70%**
	Total (all portfolios)	**1,017**	**1.56%**	**31**	**2.51%**	**-**	**38**	**3.78%**

(in HRK million)

3. COUNTERPARTY CREDIT RISK (continued)

Table 10: 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	164	-	-	78	86
2	SFTs	957	-	-	936	21
3	Cross-product netting	-	-	-	-	-
4	**Total**	**1,121**	**-**	**-**	**1,014**	**107**

Table 11: EU CCR5-B - Composition of collateral for exposures to CCR

	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	78	-	-	-	-	-
Securities	-	-	-	-	489	447
Total	**78**	**-**	**-**	**-**	**489**	**447**

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.

Counterparty credit risk exposure is calculated on the basis of mark-to-market method.

Collateral assurance

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

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

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

Additional information for the purpose of Article 439 CRR can be found in the Annual report for the year 2019 published on the web site of the Bank under Note 13 Derivatives held for trading.

3. 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)

4. CREDIT RISK

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

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

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

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

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (c) CRR

Table 12: Total exposure amount sorted based on the exposure categories

Net credit risk exposure by exposure category	Loans and advances	Debt Securities	Off balance sheet items	Derivatives	Other
	Total amount	Total amount	Total amount	Total amount	Total amount
Exposure to central governments or central banks	9,286	11,629	25	-	210
Exposure to regional governments and local authorities	1,199	-	345	-	1
Exposure to public sector entities	1,431	-	30	-	-
Exposure to institutions (credit institutions and investment firm)	1,180	-	240	80	470
Exposure to multilateral development banks	-	135	-	-	-
Exposure to corporates	20,187	343	9,017	83	87
Exposure to retail	21,707	-	3,399	-	46
Exposures secured by mortgages on immovable property	981	-	-	-	-
Exposures in default [2]	246	-	34	-	9
Exposures to subjects of collective investments undertakings (CIU)	-	-	-	-	142
Other exposures	-	-	-	-	586
Equity exposures	-	-	-	-	274
TOTAL	**56,217**	**12,107**	**13,090**	**163**	**1,825**

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

(in HRK million)

4. CREDIT RISK (CONTINUED)

Table 13: EU CRB-B – Total and average net amount of exposures

		Net exposure at the end of the period	Average net exposure over the period
1	Central governments or central banks	14,340	14,347
2	Institutions	1,539	3,286
3	Corporates	22,600	22,505
4	*Of Which: Specialised Lending*	*4,519*	*4,300*
5	*Of Which: SME*	*11,369*	*11,374*
6	Retail	18,785	18,266
7	Secured by real estate property	6,627	6,273
8	*SME*	*424*	*414*
9	*Non-SME*	*6,203*	*5,860*
10	*Qualifying Revolving*	-	-
11	*Other Retail*	12,158	11,993
12	*SME*	*595*	*601*
13	*Non-SME*	*11,563*	*11,393*
14	Equity	253	241
15	**Total IRB approach**	**57,517**	**58,645**
16	Central governments or central banks	6,810	7,419
17	Regional governments or local authorities	1,545	1,438
18	Public sector entities	1,461	2,198
19	Multilateral Development Banks	135	34
20	International Organisations	-	-
21	Institutions	431	306
22	Corporates	7,116	5,664
23	*of which: SME*	*2,574*	*2,591*
24	Retail	6,367	6,249
25	*of which: SME*	*364*	*458*
26	Secured by mortgages on immovable property	981	936
27	*of which: SME*	*93*	*103*
28	Exposures in default	289	282
29	Items associated with particularly high risk	-	-
30	Covered bonds	-	-
31	Claims on institutions and corporates with a short-term credit assessment	-	-
32	Collective investments undertakings (CIU)	142	140
33	Equity exposures	21	20
34	Other exposures	586	728
35	**Total SA approach**	**25,884**	**25,414**
36	**Total**	**83,401**	**84,059**

(in HRK million)

4. CREDIT RISK (CONTINUED)

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (e) CRR

Table 14: EU CRB-C – Geographical breakdown of exposures

		Croatia	EU countries	Other European countries	Latin America	United States of America	Other countries	Total
1	Central governments or central banks	10,574	2,947	609	-	67	143	**14,340**
2	Institutions	196	1,333	1	-	5	4	**1,539**
3	Corporates	22,222	108	270	-	-	-	**22,600**
4	Of Which: Specialised Lending	4,387	86	46	-	-	-	**4,519**
5	Of Which: SME	11,369	-	-	-	-	-	**11,369**
6	Retail	18,666	64	36	1	8	10	**18,785**
7	Secured by real estate property	6,527	60	23	1	8	8	**6,627**
8	SME	424	-	-	-	-	-	**424**
9	Non-SME	6,103	60	23	1	8	8	**6,203**
10	Qualifying Revolving	-	-	-	-	-	-	**-**
11	Other Retail	12,139	4	13	-	-	2	**12,158**
12	SME	594	1	-	-	-	-	**595**
13	Non-SME	11,545	3	13	-	-	2	**11,563**
14	Equity	110	-	-	-	143	-	**253**
15	**Total IRB approach**	**51,768**	**4,452**	**916**	**1**	**223**	**157**	**57,517**
16	Central governments or central banks	5,735	3	1,072	-	-	-	**6,810**
17	Regional governments or local authorities	1,426	-	119	-	-	-	**1,545**
18	Public sector entities	1,461	-	-	-	-	-	**1,461**
19	Multilateral Development Banks	-	-	-	-	-	135	**135**
20	International Organisations	-	-	-	-	-	-	**-**
21	Institutions	56	364	3	-	-	8	**431**
22	Corporates	5,718	86	1,294	-	5	13	**7,116**
23	of which: SME	1,950	39	584	-	1	-	**2,574**
24	Retail	3,713	1,401	1,253	-	-	-	**6,367**
25	of which: SME	289	-	75	-	-	-	**364**
26	Secured by mortgages on immovable property	-	4	976	-	-	1	**981**
27	of which: SME	-	-	93	-	-	-	**93**
28	Exposures in default	243	12	32	-	2	-	**289**
29	Items associated with particularly high risk	-	-	-	-	-	-	**-**
30	Covered bonds	-	-	-	-	-	-	**-**
31	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	**-**
32	Collective investments undertakings (CIU)	142	-	-	-	-	-	**142**
33	Equity exposures	6	-	-	-	15	-	**21**
34	Other exposures	338	5	243	-	-	-	**586**
35	**Total SA approach**	**18,838**	**1,875**	**4,992**	**-**	**22**	**157**	**25,884**
36	**Total**	**70,606**	**6,327**	**5,908**	**1**	**245**	**314**	**83,401**

(in HRK million)

4. CREDIT RISK (CONTINUED)

Table 15: EU CRB-D – Concentration of exposures by industry or counterparty types

The maximum credit exposure to any client, except to the Republic of Croatia and the CNB as of 31 December 2019 is HRK 1,262 million (2018: HRK 1,140 million) before and after taking into account collateral and other credit enhancements.

		Public administration and defence, compulsory social security	Financial and insurance services	Mining and quarrying	Information and communication	Accommodation and food service activities	Wholesale and retail trade	Administrative and support service activities	Manufacturing	Agriculture, forestry and fishing	Transport and storage	Professional, scientific and technical activities	Subtotal
1	Central governments or central banks	13,797	497	-	20	-	-	-	-	-	-	26	**14,340**
2	Institutions	-	1,539	-	-	-	-	-	-	-	-	-	**1,539**
3	Corporates	-	47	114	348	3,521	4,469	459	4,467	1,144	824	1,023	**16,416**
4	*of which: Specialised Lending*	-	-	-	14	1,189	154	16	216	39	2	133	**1,763**
5	*of which: SME*	-	43	11	211	1,069	2,696	405	2,798	792	445	620	**9,090**
6	Retail	-	2	1	23	150	169	38	138	174	73	81	**849**
7	*Secured by real estate property*	-	1	-	10	72	65	17	61	82	17	33	**358**
8	*of which: SME*	-	1	-	10	72	65	17	61	82	17	33	**358**
9	*of which: Non SME*	-	-	-	-	-	-	-	-	-	-	-	**-**
10	*Qualifying Revolving*	-	-	-	-	-	-	-	-	-	-	-	**-**
11	*Other Retail*	-	1	1	13	78	104	21	77	92	56	48	**491**
12	*of which: SME*	-	1	1	13	78	104	21	77	92	56	48	**491**
13	*of which: Non SME*	-	-	-	-	-	-	-	-	-	-	-	**-**
14	Equity	-	210	-	2	-	-	-	-	-	-	40	**252**
15	**Total IRB approach**	**13,797**	**2,295**	**115**	**393**	**3,671**	**4,638**	**497**	**4,605**	**1,318**	**897**	**1,170**	**33,396**

(in HRK million)

4. CREDIT RISK (CONTINUED)

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

		Public administration and defence, compulsory social security	Financial and insurance services	Mining and quarrying	Information and communication	Accommodation and food service activities	Wholesale and retail trade	Administrative and support service activities	Manufacturing	Agriculture, forestry and fishing	Transport and storage	Professional, scientific and technical activities	Subtotal
16	Central governments or central banks	722	5,820	-	-	-	-	-	-	-	-	-	**6,542**
17	Regional governments or local authorities	1,542	-	-	-	-	-	-	-	-	-	-	**1,542**
18	Public sector entities	19	-	-	2	-	-	-	-	-	1	-	**22**
19	Multilateral Development Banks	-	135	-	-	-	-	-	-	-	-	-	**135**
20	International Organisations	-	-	-	-	-	-	-	-	-	-	-	**-**
21	Institutions	-	376	-	-	-	-	-	-	-	-	-	**376**
22	Corporates	10	166	49	143	176	1,301	683	434	113	590	85	**3,750**
23	*of which: SME*	2	27	8	30	101	755	260	256	58	363	56	**1,916**
24	Retail	-	2	-	20	52	367	113	62	26	132	68	**842**
25	*of which: SME*	-	-	-	2	7	280	7	19	1	16	10	**342**
26	Secured by mortgages on immovable property	-	-	-	1	60	108	17	13	2	4	3	**208**
27	*of which: SME*	-	-	-	1	10	33	10	13	2	4	3	**76**
28	Exposures in default	2	-	-	-	8	44	10	19	57	12	11	**163**
29	Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	**-**
30	Covered bonds	-	-	-	-	-	-	-	-	-	-	-	**-**
31	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	**-**
32	Collective investments undertakings (CIU)	-	-	-	-	-	-	-	-	-	-	-	**-**
33	Equity exposures	-	15	-	-	-	-	-	-	-	-	-	**15**
34	Other exposures	62	11	-	10	6	32	24	18	2	6	17	**188**
35	**Total SA approach**	**2,357**	**6,525**	**49**	**176**	**302**	**1,852**	**847**	**546**	**200**	**745**	**184**	**13,783**
36	**Total**	**16,154**	**8,820**	**164**	**569**	**3,973**	**6,490**	**1,344**	**5,151**	**1,518**	**1,642**	**1,354**	**47,179**

(in HRK million)

4. CREDIT RISK (CONTINUED)

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

		Electricity, gas, steam and air condition-ning supply	Water supply	Constru-ction	Real estate activities	Human health services and social work activities	Educa-tion	Private house-holds	Other services	Other	Art, entertain-ment and recreation	Exter-ritorial organis-ations	Subtotal	Total
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	**-**	**14,340**
2	Institutions	-	-	-	-	-	-	-	-	-	-	-	**-**	**1,539**
3	Corporates	1,012	129	2,486	1,920	79	28	-	31	3	489	7	**6,184**	**22,600**
4	*of which: Specialised Lending*	611	-	700	1,439	-	-	-	6	-	-	-	**2,756**	**4,519**
5	*of which: SME*	6	83	1,347	287	75	27	-	24	3	427	-	**2,279**	**11,369**
6	Retail	1	2	89	11	29	14	17,766	13	-	10	1	**17,936**	**18,785**
7	*Secured by real estate property*	1	1	23	6	17	9	6,203	5	-	4	-	**6,269**	**6,627**
8	*of which: SME*	1	1	23	6	17	9	-	5	-	4	-	**66**	**424**
9	*of which: Non-SME*	-	-	-	-	-	-	6,203	-	-	-	-	**6,203**	**6,203**
10	*Qualifying Revolving*	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
11	*Other Retail*	-	1	66	5	12	5	11,563	8	-	6	1	**11,667**	**12,158**
12	*of which: SME*	-	1	66	5	12	5	-	8	-	6	1	**104**	**595**
13	*of which: Non-SME*	-	-	-	-	-	-	11,563	-	-	-	-	**11,563**	**11,563**
14	Equity	-	-	-	1	-	-	-	-	-	-	-	**1**	**253**
15	**Total IRB approach**	**1,013**	**131**	**2,575**	**1,932**	**108**	**42**	**17,766**	**44**	**3**	**499**	**8**	**24,121**	**57,517**

(in HRK million)

4. CREDIT RISK (CONTINUED)

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

		Electricity, gas, steam and air condition-ning supply	Water supply	Constr-uction	Real estate activities	Human health services and social work activities	Educa-tion	Private house-holds	Other services	Other	Art, entertain-ment and recreation	Exter-ritorial organis-ations	Subtotal	Total
16	Central governments or central banks	-	-	-	-	-	-	-	-	268	-	-	**268**	**6,810**
17	Regional governments or local authorities	-	-	-	-	-	-	-	-	3	-	-	**3**	**1,545**
18	Public sector entities	-	-	1,122	-	297	1	-	7	7	5	-	**1,439**	**1,461**
19	Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-	-	**-**	**135**
20	International Organisations	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
21	Institutions	-	-	-	-	-	-	-	-	55	-	-	**55**	**431**
22	Corporates	81	533	1,530	644	42	9	-	89	276	162	-	**3,366**	**7,116**
23	*of which: SME*	18	160	161	28	7	1	-	10	253	20	-	**658**	**2,574**
24	Retail	7	3	69	13	28	4	5,384	9	-	8	-	**5,525**	**6,367**
25	*of which: SME*	-	-	15	2	1	1	-	2	-	1	-	**22**	**364**
26	Secured by mortgages on immovable property	-	5	48	2	47	2	668	1	-	-	-	**773**	**981**
27	*of which: SME*	-	5	7	2	-	2	-	1	-	-	-	**17**	**93**
28	Exposures in default	-	-	2	-	-	1	123	-	-	-	-	**126**	**289**
29	Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
30	Covered bonds	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
31	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
32	Collective investments undertakings (CIU)	-	-	-	-	-	-	-	-	142	-	-	**142**	**142**
33	Equity exposures	-	-	-	-	-	-	-	-	6	-	-	**6**	**21**
34	Other exposures	-	1	8	2	5	-	8	2	371	1	-	**398**	**586**
35	**Total SA approach**	**88**	**542**	**2,779**	**661**	**419**	**17**	**6,183**	**108**	**1,128**	**176**	**-**	**12,101**	**25,884**
36	**Total**	**1,101**	**673**	**5,354**	**2,593**	**527**	**59**	**23,949**	**152**	**1,131**	**675**	**8**	**36,222**	**83,401**

(in HRK million)

4. CREDIT RISK (CONTINUED)

Exposure categories according to remaining maturity

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (f) CRR

Table 16: EU CRB-E – Maturity of exposures

		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Central governments or central banks	-	2,862	9,552	1,926	-	14,340
2	Institutions	-	1,282	73	184	-	1,539
3	Corporates	-	8,226	5,559	8,815	-	22,600
4	*of which: Specialised Lending*	-	141	1,413	2,965	-	4,519
5	*of which: SME*	-	5,254	2,452	3,663	-	11,369
6	Retail	1	2,196	3,975	12,613	-	18,785
7	*Secured by real estate property*	-	56	353	6,218	-	6,627
8	*of which: SME*	-	46	115	263	-	424
9	*of which: Non-SME*	-	10	238	5,955	-	6,203
10	*Qualifying Revolving*	-	-	-	-	-	-
11	*Other Retail*	1	2,140	3,622	6,395	-	12,158
12	*of which: SME*	1	263	232	99	-	595
13	*of which: Non-SME*	-	1,877	3,390	6,296	-	11,563
14	Equity	-	228	-	25	-	253
15	**Total IRB approach**	**1**	**14,794**	**19,159**	**23,563**	**-**	**57,517**
16	Central governments or central banks	1	921	280	5,351	257	6,810
17	Regional governments or local authorities	34	524	449	538	-	1,545
18	Public sector entities	-	26	32	1,402	1	1,461
19	Multilateral Development Banks	-	-	135	-	-	135
20	International Organisations	-	-	-	-	-	-
21	Institutions	-	53	7	-	371	431
22	Corporates	75	2,876	2,176	1,960	29	7,116
23	*of which: SME*	36	1,232	1,036	268	2	2,574
24	Retail	656	3,037	1,747	926	1	6,367
25	*of which: SME*	22	267	60	15	-	364
26	Secured by mortgages on immovable property	-	128	108	745	-	981
27	*of which: SME*	-	25	40	28	-	93
28	Exposures in default	79	132	57	21	-	289
29	Items associated with particularly high risk	-	-	-	-	-	-
30	Covered bonds	-	-	-	-	-	-
31	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
32	Collective investments undertakings (CIU)	-	-	-	-	142	142
33	Equity exposures	-	-	-	-	21	21
34	Other exposures	-	112	120	7	347	586
35	**Total SA approach**	**845**	**7,809**	**5,111**	**10,950**	**1,169**	**25,884**
36	**Total**	**846**	**22,603**	**24,270**	**34,513**	**1,169**	**83,401**

4. CREDIT RISK (CONTINUED)

4.1. 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 standardized approach is approved for:
   - subcategories of exposure: non-profit public companies which do not meet requirements set for public government entities; leasing companies; insurance companies; investment companies; 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 standardized approach.

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

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

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

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (b) CRR

EU CRD

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

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.

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 17: 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

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

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

Rating is revised and updated:

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

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, provision allocation, 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 for certain portfolios 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.

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

Table 18: Mapping of internal rating and the rating of external rating agencies

<table>
<tr><th></th><th>Agencies</th><th colspan="2">Group</th></tr>
<tr><td rowspan="10">Investment grade</td><td>Aaa/AAA</td><td>1</td><td>Extremely strong</td></tr>
<tr><td>Aa1/AA+</td><td rowspan="3">2</td><td rowspan="3">Very strong</td></tr>
<tr><td>Aa2/AA</td></tr>
<tr><td>Aa3/AA-</td></tr>
<tr><td>A1/A+</td><td rowspan="3">3</td><td rowspan="3">Strong</td></tr>
<tr><td>A2/A</td></tr>
<tr><td>A3/A-</td></tr>
<tr><td>Baa1/BBB+</td><td>4a</td><td>Upper Medium Grade</td></tr>
<tr><td>Baa2/BBB</td><td>4b</td><td>Medium Grade</td></tr>
<tr><td>Baa3/BBB-</td><td>4c</td><td>Lower Medium Grade</td></tr>
<tr><td rowspan="7">Speculative Grade</td><td>Ba1/BB+</td><td>5a</td><td>Speculative</td></tr>
<tr><td>Ba2/BB</td><td>5b</td><td>More Speculative</td></tr>
<tr><td>Ba3/BB-</td><td>5c</td><td>Very Speculative</td></tr>
<tr><td>B1/B+</td><td>6a</td><td>Vulnerable</td></tr>
<tr><td>B2/B</td><td>6b</td><td>Very Vulnerable</td></tr>
<tr><td>B3/B-</td><td>7</td><td>Special Mention</td></tr>
<tr><td>Caa1...
CCC, CC</td><td>8</td><td>Substandard</td></tr>
<tr><td rowspan="5">DEFAULT</td><td>C</td><td>R1</td><td>Full Repayment Unlikely</td></tr>
<tr><td>D</td><td>R2</td><td>90 Days</td></tr>
<tr><td>D</td><td>R3</td><td>Rescheduling</td></tr>
<tr><td>D</td><td>R4</td><td>Credit Loss</td></tr>
<tr><td>D</td><td>R5</td><td>Bankruptcy</td></tr>
</table>

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

Internal rating assignment process

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

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

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

The results of the rating system at the Bank level are used in determining the risk appetite, determination of limits on the portfolio level, but also on an individual basis, pricing products and others. Risk appetite sets and defines the limits that are important for the daily operations of the Bank/Group. Results of the rating system are applied in the form of indicators defined in the risk appetite statement, which is among other things related to risk-weighted assets, the solvency ratio, risk earnings ratio etc.

The business strategy of the Bank limits possibility of high concentration and ensures diversification of the portfolio, which is in addition ensured with establishment of decision-making process and risk management lending process already controlled by limits for individual segments of exposure. This is implemented through the aforementioned risk appetite, which is defined in the form of qualitative and quantitative indicators, taking into account the strategy of the Bank/Group, 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/Group 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 ("MLL"), 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 MLL's and the need to maintain the prevailing standards of loan approval, policy and standards for risk management and risk appetite. The essence of the MLL 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, maximum value for OLL is introduced under which the limit for each rating grade is calculated. The starting point is the MLL for each asset class, which represents maximum value for OLL for the best rating category, while to the poor rating categories lower limit is joined gradually.

Certain categories of exposure, with a focus on credit risk, are monitored through various reports.

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

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

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

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

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

The internal rating system of the Bank is implemented in the central operating system and automated as far as possible with precisely defined rules for determining the rating of the client, depending on its characteristics. For maintenance, control and validation of the internal rating system and the implementation of changes and upgrades to the internal rating system of the Bank, organizational units within the Risk Management Division, i.e. Risk Control functions are responsible, with clear separation of responsibilities and independent of the sales activities and operational decision-making on individual loan.

Central governments, central banks, insurance companies and investment funds ratings are calculated in conjunction with the EGB. Central governments and central banks ratings are differently calculated for industrial development in relation to developing countries. Scoring contains basic indicators and sub-indicators that are mostly based on the growth and development of the national economy and the financial stability of the country.

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

Rating for companies is calculated on the basis of selected financial data and "soft facts" of customer information. Small and medium-sized enterprises include the behavior of the client at all active accounts that the client has with the Bank in calculation of rating in addition to selected financial data and “soft fact” information. In rating calculation for specialized financing special circumstances and risk profile of the loan that is used as the basis of special projects are taken into account.

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

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

Description of factors that impacted realized losses during the previous period

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (h) CRR

Favorable macroeconomic conditions during 2019 continues to keep the portfolio quality at the satisfactory level. The default rate in corporate segment and small and medium-sized enterprises showed a slight increase compared to the previous period mainly as a consequence of the new default definition implementation, but keeping the level below the long-term average. The default rate in retail banking recording the decrease in first half of the year. However, with the new default definition implementation, the increase of default rate is noticeable what ultimately brings the default rate at the level oflong-term average.

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

Definitions, methods, and data for the estimation and validation of the risk parameters

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (c) (i) CRR

Probability of default

The PD represents the probability that a given customer will default within the subsequent twelve months (one-year PD). The PD is estimated internally for the portfolios Retail, Corporates, Banks and Sovereigns.

An updated PD methodology was approved and implemented in December 2019 to replace Lando and Skødeberg for most rating systems in Erste Group Bank AG. The new methodology focuses on recently issued regulatory guidance and its resulting PDs shall reflect long run average default rates on rating grade level. Additionally, when estimating PD, a safety margin or margin of conservatism is added for each portfolio in order to ensure a conservative estimate as per IRB Approach standards.

PDs for low default portfolios are calculated based on long term average default experience in the default rates. The estimations include conservative margins defined by the regulations. The regulatory floors on the minimal level of PD are applied. The difference between PDs and actual default rates arise due to long term average nature of PDs and conservative margins defined in the regulation that are applied in the PD estimation.

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

The validation of the PDs employs both qualitative and quantitative methods:

- review of the documentation
- review of the underlying model assumptions
- testing of data quality
- analysis of time series
- back-testing

In the quantitative validation, the estimated PDs are validated using the binomial test (back-testing). This involves comparing actual default rates with estimated probabilities of default. Qualitative methods comprise population distribution tests, time-series analysis of default rates and analysis of raw data. Both the qualitative and quantitative validation is performed annually in conjunction with the validation of the rating models by the independent validation function. Where appropriate, improvement measures are initiated depending on the results. The same also applies to the risk parameters LGD and CCF described below.

In the upcoming paragraphs, tables show the estimated PDs per exposure asset classes compared to average historical annual default rate based on minimum 10 years of history. From a Bank perspective, the PD estimates are higher than the actual default rates for all exposure classes, confirming the conservativeness of the estimates.

Loss given default

LGD is estimated at Erste Group for the retail portfolio for Pillar 1 purposes. LGD is defined as the expected economic loss after recoveries (from collateral and other repayments) as a percentage of EAD. Depending on data availability and local factors (e.g. processes, business needs), modelling is based either on a total recovery rate or on a combination of a redemption recovery rate (customer repayments) and a collateral recovery rate (proceeds of realisation of collateral). Depending on credit exposure, LGD is calculated taking into account proportionately allocated costs and a margin of conservatism. The risk drivers are identified, homogenous segments (pools) formed and a recovery rate calculated for every segment. This rate is directly incorporated into the modelling and estimation of LGD.

Regular validation of the LGD risk parameter is performed by the independent validation function once a year, using both qualitative and quantitative methods:

- review of the documentation
- review of the underlying model assumptions
- testing of data quality
- analysis of time series
- back-testing

(in HRK million)

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

The quantitative validation (back-testing) consists primarily of the comparison of actual and expected LGDs. Qualitative methods address the assessment of compliance with all relevant rules in the models (e.g., investigation of documentation and data quality).

The internal validation results showed that estimated LGDs for many portfolio segments for which the LGDs are calculated are not sufficient to cover the observed losses. This backtesting issue is mainly driven by significant write-off activities in 2017 due to portfolio sales. From a volume weight perspective the backtesting result would show no huge discrepancies given the fact that the majority of the portfolio is in the product pools where the observed losses are much lower than the estimated LGDs.

The table below shows the LGD back-testing results for defaulted customers (all closed defaults) on the long-term EAD-weighted average.

Table 19: LGD back-testing results for defaulted customers

Asset class	Average LGD estimates	Average annual observed LGD
Retail	35%	31%
There of: SME	35%	37%
There of: Private individuals	35%	30%

During 2019 a new Group wide LGD concept has been developed and in a course of this model the LGDS are re-estimated. Official implementation of the concept is expected at the beginning of 2021.

Credit conversion factor

The CCF is estimated internally in the Retail portfolio for Pillar 1 purposes. It is defined as the expected drawdown of off-balance sheet, non-derivative positions within twelve months on the condition that the customer defaults within this period. EAD represents current drawings plus the off-balance sheet non-derivative positions (that is, the available undrawn credit), multiplied by the CCF.

The CCF is estimated in a two-stage process: In the first step, empirical conversion rates are determined based on the data collected on defaulted customers. The conversion rate represents the relationship between the net credit increase from the reference date to the default date, on the one hand, and the available undrawn credit at the reference date on the other hand. The reference date is the date one year before default. The second step consists of the identification of risk drivers and, based on this, the segmentation and the estimation of the CCF for each homogeneous segment.

The estimates of CCFs are calculated by segment as the respective mean of all conversion rates per given segment over the entire period, plus a margin of conservatism allowance for estimation error. The relevant amount of error is determined based on a bootstrapping method.

(in HRK million)

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

Regular validation of the CCF risk parameter is performed by independent validation function once a year, using both qualitative and quantitative methods:

- review of the documentation
- review of the underlying model assumptions
- segmentation
- outlier rules
- use test
- approval of limits
- testing of data quality
- analysis of time series
- benchmarking

Quantitative methods consist primarily of the comparison of actual and expected CCFs. Qualitative methods are large population distribution tests, such as analysis of raw data and time series analysis of defaults, of conversion rates and of exposure at the reference date.

The following table presents the results of back-testing over the time period from year 2005 to 2018 based on the internal validation reports.

Table 20: The results of back-testing over the time period from year 2005 to 2018

Asset class	CCF estimates	Observed CCF	CCF used in RWA
Retail			
There of: SME	38,2%	54,6%	100%
There of: Private individuals	5,9%	2,3%	9,9%

(in HRK million)

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

Table 21: EU CR9 – IRB approach – Backtesting of PD per exposure class (Central governments and central banks)

Exposure class	PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
Central governments and central banks	0.00 to <0.008	Extremely strong	0.01%	0.01%	1	3	-	-	na
Central governments and central banks	0.008 to <0.015	Very Strong	0.01%	0.01%	1	1	-	-	na
Central governments and central banks	0.015 to <0.020	Strong	0.02%	0.02%	2	2	-	-	na
Central governments and central banks	0.020 to <0.035	Upper Medium Grade	0.03%	0.03%	1	1	-	-	na
Central governments and central banks	0.035 to <0.060	Medium Grade	0.06%	0.06%	1	1	-	-	na
Central governments and central banks	0.060 to <0.15	Lower Medium Grade	0.12%	0.12%	14	11	-	-	na
Central governments and central banks	0.15 to <0.30	Speculative	0.29%	0.29%	1	1	-	-	na
Central governments and central banks	0.30 to <10.00	Very Speculative	1.11%	1.11%	1	1	-	-	na
Central governments and central banks	10.00 to <100.00	Substandard	39.12%	39.12%	1	4	-	-	na

(in HRK million)

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

Table 22: EU CR9 – IRB approach – Backtesting of PD per exposure class (Institutions)

Exposure class	PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
Institutions	0.10 to <0.15		0.14%	0.14%	25	21	-	-	na
Institutions	0.15 to <0.19		0.17%	0.17%	6	8	-	-	na
Institutions	0.19 to <0.25		0.20%	0.20%	5	5	-	-	na
Institutions	0.25 to <0.30		0.29%	0.29%	6	13	-	-	na
Institutions	0.30 to <0.50		0.40%	0.40%	5	3	-	-	na
Institutions	0.50 to <0.70		0.60%	0.60%	3	3	-	-	na
Institutions	0.70 to <1.00		0.00%	0.00%	-	-	-	-	na
Institutions	1.00 to <2.00		1.83%	1.83%	5	4	-	-	na
Institutions	2.00 to <5.00		3.96%	3.96%	4	7	-	-	na
Institutions	5.00 to <25.00		10.24%	10.24%	6	2	-	-	na
Institutions	25.00 to <100.00		29.00%	29.00%	11	8	-	-	na

(in HRK million)

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

Table 23: EU CR9 – IRB approach – Backtesting of PD per exposure class (Retail)

Exposure class	PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
Total Retail	na		9.44%	15.70%	348,018	372,560	7,124	959	na
Of which: secured by mortgage	na		9.28%	10.50%	18,421	18,693	320	7	na
Of which: Privates	0.00 to<0.80		0.77%	0.77%	30,582	33,104	32	-	0.41%
	0.80 to<1.00		0.94%	0.94%	45,483	48,519	120	-	0.49%
	0.80 to<1.00		0.94%	0.94%	67,230	70,691	369	-	0.52%
	1.00 to<2.00		1.20%	1.20%	51,865	52,527	685	-	0.91%
	2.00 to<3.00		2.27%	2.28%	27,099	24,792	805	-	1.91%
	3.00 to<5.00		3.36%	3.36%	13,875	12,708	503	-	2.31%
	5.00 to<10.00		7.33%	7.33%	7,607	7,271	668	-	8.19%
	10.00 to<100.00		22.12%	22.12%	53,873	51,951	3,276	-	23.88%
	100.00		100.00%	100.00%	26,445	26,606	-	947	100.00%
Of which: Single Entry Bookkeeping	0.00 to<0.50		0.34%	0.34%	172	196	-	-	0.22%
	0.50 to<1.00		0.55%	0.55%	280	278	2	-	0.58%
	1.00 to<2.50		1.19%	1.19%	153	173	-	-	0.73%
	2.50 to<4.00		3.21%	3.34%	249	274	4	-	1.32%
	4.00 to<6.00		5.58%	5.88%	416	462	7	-	2.20%
	6.00 to<7.00		6.15%	6.59%	385	464	8	-	3.13%
	7.00 to<9.00		7.80%	8.29%	372	407	15	-	5.26%
	9.00 to<13.00		12.05%	15.07%	393	661	20	-	10.06%
	13.00 to<35.00		32.57%	34.46%	40	42	10	-	24.20%
	35.00 to<100.00		46.29%	44.73%	282	36,205	24	-	20.23%
	100.00		100.00%	100.00%	523	422	-	5	100.00%

(in HRK million)

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

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

Exposure class	PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
Total Retail	na		9.44%	15.70%	348,018	372,560	7,124	959	na
Of which: Double Entry Bookkeeping	0.00 to<0.30		0.26%	0.26%	109	128	-	-	0.13%
	0.30 to<0.80		0.45%	0.45%	394	415	5	-	0.37%
	0.80 to<1.20		0.90%	0.90%	350	335	5	-	0.87%
	1.20 to<2.50		1.57%	1.57%	436	488	12	-	1.25%
	2.50 to<4.00		3.97%	3.97%	710	782	20	-	2.21%
	4.00 to<5.00		4.31%	4.31%	626	670	16	-	3.39%
	5.00 to<8.00		7.52%	7.52%	469	473	25	-	6.58%
	8.00 to<15.00		13.16%	13.14%	466	535	28	-	10.65%
	15.00 to<40.00		34.44%	34.44%	58	42	6	-	27.80%
	40.00 to<100.00		44.70%	44.70%	16,382	309	459	-	35.58%
	100.00		100.00%	100.00%	694	630	-	7	100.00%

(in HRK million)

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

Table 24: EU CR9 – IRB approach – Backtesting of PD per exposure class (Corporate)

Exposure class	PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
Total Corporate	na		10.98%	29.60%	5,476	6,045	109	33	na
Of which: specialized lending	na		9.90%	15.24%	278	317	5	2	na
Of which: Corporate without specialized lending	0.00 to<0.40		0.29%	0.29%	269	298	1	-	0.15%
	0.40 to<0.60		0.44%	0.44%	234	237	1	-	0.41%
	0.60 to<0.90		0.66%	0.65%	225	237	1	-	0.65%
	0.90 to<2.00		1.00%	0.98%	314	353	4	-	0.68%
	2.00 to<2.30		2.18%	2.08%	378	412	5	-	1.56%
	2.30 to<3.00		2.46%	2.43%	324	373	10	-	2.07%
	3.00 to<4.50		3.50%	3.39%	219	235	5	-	3.67%
	4.50 to<6.00		4.59%	4.59%	161	151	10	-	6.18%
	6.00 to<9.00		6.38%	6.18%	95	93	4	-	9.42%
	9.00 to<11.00		9.32%	8.80%	84	72	6	-	10.37%
	9.00 to<11.00		9.83%	10.59%	100	122	1	-	9.59%
	11.00 to<15.00		13.24%	13.95%	80	78	6	-	13.01%
	15.00 to<100.00		42.23%	44.46%	2,132	2,428	50	-	20.39%
	100.00		98.21%	99.36%	583	639	-	31	100.00%

(in HRK million)

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

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

Exposure class	PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
Total Corporate	na		10.98%	29.60%	5,476	6,045	109	33	na
Of which: SME	0.00 to<0.40		0.29%	0.29%	257	284	1	-	0.15%
	0.40 to<0.60		0.44%	0.44%	213	225	1	-	0.41%
	0.60 to<0.90		0.66%	0.65%	215	227	1	-	0.65%
	0.90 to<2.00		1.00%	0.99%	282	314	4	-	0.68%
	2.00 to<2.30		2.18%	2.10%	326	359	5	-	1.56%
	2.30 to<3.00		2.44%	2.34%	282	325	8	-	2.07%
	3.00 to<4.50		3.49%	3.37%	200	201	3	-	3.67%
	4.50 to<6.00		4.67%	4.63%	141	119	9	-	6.18%
	6.00 to<9.00		6.67%	6.30%	80	67	4	-	9.42%
	9.00 to<11.00		9.30%	9.16%	63	53	5	-	10.37%
	9.00 to<11.00		9.61%	9.52%	54	46	-	-	9.59%
	11.00 to<15.00		13.24%	13.50%	72	72	5	-	13.01%
	15.00 to<100.00		42.51%	44.44%	1,736	1,718	41	-	20.39%
	100.00		99.64%	99.66%	512	499	-	10	100.00%

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

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (g) CRR

Table 25: Specific credit risk adjustments in the preceding period for each exposure class in IRB approach

Exposure categories	Losses as of 31 December 2019		Losses as of 30 June 2019		Changes in Value adjustment in %
	Expected loss (EL)	Value adjustment	Expected loss (EL)	Value adjustment	
	in HRK million	in HRK million	in HRK million	in HRK million	
Exposure to central governments or central banks	11	14	10	19	(26%)
Exposure to institutions	1	3	1	8	(63%)
Exposure to corporate	937	1,351	1,006	1,251	8%
Exposure to retail	1,073	1,060	1,106	1,172	(10%)
There of exposure to SME	121	107	113	101	6%
Exposure to retail customers secured by real estate	416	372	432	410	(9%)
Other exposure to retail	656	688	674	762	(10%)
Exposure to equity investments	4	-	4	-	-
TOTAL	**2,026**	**2,428**	**2,127**	**2,450**	**(1)%**

Area of application and usage of external credit ratings

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

The Bank uses the IRB approach for determining minimum capital requirements according to Basel III regulation. Standardized approach (“STD“) is applied for certain asset classes 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.

(in HRK million)

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

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[3], 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.

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 CRR. 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 26: 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 27: Mapping of risk weights in accordance with the credit quality grade and exposure classes

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%

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

(in HRK million)

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

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

Table 28: EU CR5 – Standardized 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%	Others	
1	Central governments or central banks	5,641	-	-	-	-	-	-	-	-	1,071	-	97	-	**6,809**
2	Regional governments or local authorities	-	-	-	-	937	-	-	-	-	402	-	-	-	**1,339**
3	Public sector entities	19	-	-	-	3	-	-	-	-	48	-	-	-	**70**
4	Multilateral Development Banks	143	-	-	-	-	-	-	-	-	-	-	-	-	**143**
5	International Organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
6	Institutions	-	-	-	-	366	-	8	-	-	32	-	-	-	**406**
7	Corporates	-	-	-	-	-	-	-	-	-	4,878	-	-	-	**4,878**
8	Retail	-	-	-	-	-	-	-	-	4,598	-	-	-	-	**4,598**
9	Secured by mortgages on immovable property	-	-	-	-	-	703	278	-	-	-	-	-	-	**981**
10	Exposures in default	-	-	-	-	-	-	-	-	-	45	217	-	-	**262**
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	-	-	-	-	-	-	-	-	-	142	-	-	-	**142**
15	Equity	-	-	-	-	-	-	-	-	-	21	-	-	-	**21**
16	Other items	194	-	-	-	-	-	-	-	-	288	-	-	148	**630**
17	**Total**	**5,997**	**-**	**-**	**-**	**1,306**	**703**	**286**	**-**	**4,598**	**6,927**	**217**	**97**	**148**	**20,279**

(in HRK million)

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

Table 29: 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	14,354	-
Exposure to institutions	1,543	-
Exposure to corporates	23,951	-
Exposure to retail	-	19,844
Equity exposures	253	-
Securitization	-	-
Other exposures	3,678	-
TOTAL	**43,779**	**19,844**

Table 30: EU CR10 – IRB (specialized 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	249	63	50%	298	144	-
	Equal to or more than 2.5 years	2,322	183	70%	2,466	1,709	10
Category 2	Less than 2.5 years	115	115	70%	203	141	1
	Equal to or more than 2.5 years	932	115	90%	1,018	896	8
Category 3	Less than 2.5 years	9	-	115%	9	10	-
	Equal to or more than 2.5 years	182	31	115%	205	230	6
Category 4	Less than 2.5 years	40	24	250%	58	144	5
	Equal to or more than 2.5 years	90	-	250%	90	204	7
Category 5	Less than 2.5 years	181	-	0%	181	-	91
	Equal to or more than 2.5 years	215	-	0%	215	-	107
Total	**Less than 2.5 years**	**594**	**202**		**749**	**439**	**97**
	Equal to or more than 2.5 years	**3,741**	**329**		**3,994**	**3,039**	**138**

(in HRK million)

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

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

Table 31: 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	13,642	25	97%	17,084	0.10%	19	45%	2.5	5,272	31%	8	
0.15 to <0.25	-	-	0%	-	0.00%	-	0%	-	-	0%	-	
0.25 to <0.50	51	-	0%	51	0.29%	1	45%	2.5	29	56%	-	
0.50 to <0.75	-	-	0%	-	0.00%	-	0%	-	-	0%	-	
0.75 to <2.50	561	-	0%	561	1.11%	1	45%	2.5	570	102%	3	
2.50 to <10.00	-	-	0%	-	0.00%	-	0%	-	-	0%	-	
10.00 to <100.00	75	-	0%	76	39.12%	5	45%	2.5	189	250%	-	
100.00 (Default)	-	-	0%	-	0.00%	-	0%	-	-	0%	-	
Subtotal	**14,329**	**25**	**97%**	**17,772**	**0.14%**	**26**	**45%**	**2.5**	**6,060**	**34%**	**11**	**14**
Total (all portfolios)	**50,918**	**8,774**	**37%**	**56,766**	**6.82%**	**378,813**	**41%**	**1.4**	**30,668**	**54%**	**2,021**	**2,428**

(in HRK million)

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

Table 32: 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	1,082	45	57%	1,108	0.14%	21	9%	1.2	88	8%	1	
0.15 to <0.25	30	157	51%	110	0.18%	13	45%	2.5	64	58%	-	
0.25 to <0.50	14	22	57%	27	0.29%	16	45%	2.5	20	72%	-	
0.50 to <0.75	25	7	50%	29	0.60%	3	45%	2.5	24	83%	-	
0.75 to <2.50	5	-	0%	4	1.83%	4	45%	2.5	6	146%	-	
2.50 to <10.00	100	-	0%	100	3.96%	7	1%	0.6	4	5%	-	
10.00 to <100.00	56	-	0%	56	10.37%	10	1%	0.5	2	4%	-	
100.00 (Default)	-	-	0%	-	0.00%	-	0%	-	-	0%	-	
Subtotal	**1,312**	**231**	**53%**	**1,434**	**0.83%**	**74**	**12%**	**1.3**	**208**	**15%**	**1**	**3**
Total (all portfolios)	**50,918**	**8,774**	**37%**	**56,766**	**6.82%**	**378,813**	**41%**	**1.4**	**30,668**	**54%**	**2,021**	**2,428**

(in HRK million)

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

Table 33: EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range (FIRB approach – Exposures to corporates without specialized lending)

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjust-ments and provisions
0.00 to <0.15	177	-	0%	-	0.07%	5	45%	2.5	-	25%	-	
0.15 to <0.30	483	516	36%	651	0.29%	305	42%	2.5	272	42%	1	
0.30 to <0.50	600	584	37%	790	0.44%	254	43%	2.5	432	55%	1	
0.50 to <0.75	611	781	41%	838	0.66%	265	43%	2.5	524	63%	3	
0.75 to <1.50	1,378	1,413	27%	1,650	1.02%	383	43%	2.5	1,311	79%	8	
1.50 to <2.25	2,668	1,183	35%	2,955	2.19%	427	43%	2.5	3,093	105%	28	
2.25 to <4.00	3,523	1,338	36%	3,910	2.77%	612	42%	2.5	4,100	105%	45	
4.00 to <5.00	396	256	49%	519	4.87%	138	42%	2.5	623	120%	11	
5.00 to <7.00	339	175	37%	386	6.88%	95	43%	2.5	553	143%	12	
7.00 to <9.00	39	5	50%	31	7.71%	27	42%	2.5	43	139%	1	
9.00 to <10.00	469	153	50%	545	9.71%	130	40%	2.5	814	149%	21	
10.00 to <15.00	113	52	70%	145	13.03%	107	29%	2.0	161	111%	5	
15.00 to <30.00	117	16	50%	23	18.65%	5	44%	2.5	1	5%	10	
30.00 to <100.00	183	183	20%	221	42.69%	2,440	42%	2.5	434	197%	39	
100.00 (Default)	1,184	150	13%	1,200	99.76%	640	43%	2.5	-	0%	517	
Subtotal	**12,280**	**6,805**	**35%**	**13,864**	**11.35%**	**5,833**	**42%**	**2.5**	**12,361**	**89%**	**702**	**1,004**
Total (all portfolios)	**50,918**	**8,774**	**37%**	**56,766**	**6.82%**	**378,813**	**41%**	**1.4**	**30,668**	**54%**	**2,021**	**2,428**

(in HRK million)

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

Table 34: EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range (FIRB approach – Exposures to corporates, specialized lending)

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjust-ments and provisions
Category 1	2,571	246	78%	2,764	0.71%	100	50%	-	1,853	67%	10	
Category 2	1,047	230	76%	1,221	1.47%	75	50%	-	1,037	85%	9	
Category 3	191	31	75%	214	5.60%	20	50%	-	240	112%	6	
Category 4	130	24	75%	148	16.00%	67	50%	-	348	233%	12	
Category 5	396	-	76%	396	100.00%	55	50%	-	-	0%	198	
Subtotal	**4,335**	**531**	**77%**	**4,743**	**9.90%**	**317**	**50%**	**-**	**3,478**	**73%**	**235**	**347**
Total (all portfolios)	**50,918**	**8,774**	**37%**	**56,766**	**6.82%**	**378,813**	**41%**	**1.4**	**30,668**	**54%**	**2,021**	**2,428**

(in HRK million)

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

Table 35: 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 <0.25	-	-	-	-	-	-	-	-	-	0%	-	
0.25 to <0.50	88	26	68%	105	0.40%	739	39%	2.5	21	20%	-	
0.50 to <0.75	30	1	86%	31	0.55%	278	35%	2.5	7	23%	-	
0.75 to <1.00	56	12	81%	66	0.90%	335	39%	2.5	22	33%	-	
1.00 to <1.25	13	2	72%	14	1.19%	173	35%	-	5	35%	-	
1.25 to <1.50	-	-	0%	-	0.00%	-	0%	-	-	0%	-	
1.50 to <1.75	64	14	87%	76	1.57%	488	39%	-	34	45%	-	
1.75 to <2.25	-	-	0%	-	0.00%	-	0%	-	-	0%	-	
2.25 to <3.50	26	3	94%	28	3.21%	275	38%	-	16	58%	-	
3.50 to <5.00	225	42	97%	266	4.13%	1,452	40%	-	170	64%	5	
5.00 to <10.00	241	24	93%	264	6.79%	1,787	37%	-	192	73%	7	
10.00 to <20.00	97	12	84%	108	12.74%	1,128	39%	-	93	86%	5	
20.00 to <50.00	21	-	94%	21	41.18%	36,452	44%	-	26	120%	4	
50.00 to <100.00	-	-	0%	-	0.00%	-	0%	-	-	0%	-	
100.00 (Default)	129	-	89%	129	96.73%	3,071	39%	-	21	16%	100	
Subtotal	**990**	**136**	**87%**	**1,108**	**16.20%**	**46,178**	**39%**	**-**	**607**	**55%**	**121**	**107**
Total (all portfolios)	**50,918**	**8,774**	**37%**	**56,766**	**6.82%**	**378,813**	**41%**	**1.4**	**30,668**	**54%**	**2,021**	**2,428**

(in HRK million)

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

Table 36: 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 <0.25	-	-	0%	-	0.07%	1	55%	-	-	11%	-	
0.25 to <0.35	-	-	0%	-	0.00%	-	0%	-	-	0%	-	
0.35 to <0.50	-	-	0%	-	0.00%	-	0%	-	-	0%	-	
0.50 to <0.80	1,712	299	15%	1,758	0.77%	33,104	31%	-	581	33%	4	
0.80 to <1.00	8,154	607	15%	8,244	0.94%	119,211	34%	-	3,168	38%	26	
1.00 to <2.00	3,473	93	17%	3,489	1.20%	52,525	37%	-	1,542	44%	16	
2.00 to <2.50	1,556	37	49%	1,574	2.27%	24,782	36%	-	889	56%	13	
2.50 to <5.00	745	6	26%	746	3.36%	12,708	36%	-	452	61%	9	
5.00 to <10.00	399	2	17%	400	7.33%	7,272	36%	-	301	75%	11	
10.00 to <100.00	317	1	44%	318	22.11%	51,968	36%	-	368	116%	25	
100.00 (Default)	1,316	1	10%	1,316	100.00%	24,814	35%	-	653	50%	847	
Subtotal	**17,672**	**1,046**	**17%**	**17,845**	**9.02%**	**326,385**	**35%**	**-**	**7,954**	**45%**	**951**	**953**
Total (all portfolios)	**50,918**	**8,774**	**37%**	**56,766**	**6.82%**	**378,813**	**41%**	**1.4**	**30,668**	**54%**	**2,021**	**2,428**

5. 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 at the contractual maturity date.

Impairment of investments (impairment) is carried out for placements:

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

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

The general principles and standards for credit risk allowances within the Bank follow the Central National Bank’s (“CNB”) procedures and IFRS are described in internal policies. The Bank, in line with regulatory and accounting standards, evaluates the need and allocates credit risk allowances for expected losses in accordance with IFRS 9.

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

During the process the Bank distinguishes between:

- Credit loss allowances for identified losses that are allocated to exposure to performing clients ie. 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 client 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.

5. CREDIT RISK ADJUSTMENTS (CONTINUED)

Other information regarding Restructured Exposure for Disclosure purposes in accordance with Article 442 (a) and (b) of the Regulation is published in the Annual Report for 2019 on the Bank's website within the Note 43.4.

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

For the calculation of credit loss allowances the risk parameters for the probability of default (PD) and loss given default (LGD) are used. The PD represents the likelihood of a borrower defaulting on its financial obligation (as per definition of default below), either over next 12 month (1Y PD) or over remaining lifetime (LT PD). LT PD is developed through observation of historical defaults from initial recognition through the lifetime of the loans. It is assumed to be same across all assets in the same portfolio and rating band. Which of the risk parameters, one year or lifetime, will be used depends on the stage of the specific exposure.

LGD represents the Group’s expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit exposure at the time of default (EAD).

Parameters are determined to reflect the risk as a “point-in-time” measure and with consideration of forward-looking information (“FLI”), which resulted in introducing a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. These are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where the baseline forecasts are, with a few exceptions, internally determined by Erste Group’s research department. Given multiple scenarios, the “neutral” PDs (and also LGDs, with a few exceptions) are adjusted through macro models which link relevant macroeconomic variables with risk drivers. Same macro-shift models as for external and internal stress test are employed. Forward looking information is incorporated for first three years of ECL measurement.

(in HRK million)

5. CREDIT RISK ADJUSTMENTS (CONTINUED)

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (g) CRR

Table 37: 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	e	f	(a+b-c-d)
1	Central governments or central banks	-	14,354	14	-	-	(15)	14,340
2	Institutions	-	1,542	3	-	-	(1)	1,539
3	Corporates	1,833	22,118	1,351	-	740	158	22,600
4	Of Which: Specialised Lending	396	4,470	347	-	204	44	4,519
5	Of Which: SME	806	11,217	654	-	314	23	11,369
6	Retail	1,438	18,407	1,060	-	20	(11)	18,785
7	Secured by real estate property	540	6,459	372	-	3	(56)	6,627
8	SME	62	414	52	-	-	(3)	424
9	Non-SME	478	6,045	320	-	3	(53)	6,203
10	Qualifying Revolving	-	-	-	-	-	-	0
11	Other Retail	898	11,948	688	-	17	45	12,158
12	SME	59	591	55	-	2	6	595
13	Non-SME	839	11,357	633	-	15	39	11,563
14	Equity	-	253	-	-	-	-	253
15	**Total IRB approach**	**3,271**	**56,674**	**2,428**	**-**	**760**	**131**	**57,517**

(in HRK million)

5. CREDIT RISK ADJUSTMENTS (CONTINUED)

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

		Gross carrying values of						
		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
		a	b	c	d	e	f	(a+b-c-d)
16	Central governments or central banks	-	6,818	8	-	-	(3)	6,810
17	Regional governments or local authorities	2	1,551	6	-	-	1	1,547
18	Public sector entities	-	1,516	55	-	-	(5)	1,461
19	Multilateral Development banks	-	146	11	-	-	6	135
20	International Organisations	-	-	-	-	-	-	-
21	Institutions	-	431	-	-	-	-	431
22	Corporates	254	7,267	270	-	178	11	7,251
23	Of which: SMEs	102	2,604	101	-	81	(15)	2,605
24	Retail	333	6,442	256	-	103	(2)	6,519
25	Of which: SMEs	37	367	28	-	3	(1)	376
26	Secured by mortgages on immovable property	-	993	12	-	-	-	981
27	Of which: SMEs	-	95	2	-	-	-	93
28	Exposure in default	589	-	300	-	267	2	289
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	-	142	-	-	-	-	142
33	Equity exposures	-	21	-	-	-	-	21
34	Other exposures	-	586	-	-	-	-	586
35	**Total standardised approach**	**589**	**25,913**	**618**	**-**	**281**	**8**	**25,884**
36	**Total**	**3,860**	**82,587**	**3,046**	**-**	**1,041**	**139**	**83,401**
37	Of which: Loans	3,638	55,484	2,905	-	1,041	98	56,217
38	Of which: Debt securities	1	12,143	37	-	-	(2)	12,107
39	Of which: Off-balance-sheet exposures	212	12,981	103	-	-	42	13,090

(in HRK million)

5. CREDIT RISK ADJUSTMENTS (CONTINUED)

DISCLOSURE REQUIREMENTS COVERED: EBA/GL/2018/10 GUIDELINES ON DISCLOSURE OF NON-PERFORMING AND FORBORNE EXPOSURES

Debt securities held for trading are included in the Templates 1 to 10.

Table 38: Template 1 - Credit quality of forborne exposures

		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
		Performing forborne		Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
		a	b	c	d	e	f	g	h
1	Loans and advances	316	869	869	869	(20)	(498)	186	181
2	*Central banks*	-	-	-	-	-	-	-	-
3	*General governments*	-	-	-	-	-	-	-	-
4	*Credit institutions*	-	-	-	-	-	-	-	-
5	*Other financial corporations*	-	-	-	-	-	-	-	-
6	*Non-financial corporations*	*232*	*691*	*691*	*691*	*(17)*	*(428)*	*143*	*141*
7	*Households*	*84*	*178*	*178*	*178*	*(3)*	*(70)*	*43*	*40*
8	Debt securities	-	-	-	-	-	-	-	-
9	Loan commitments given	-	1	1	1	-	(1)	-	-
10	**Total**	**316**	**870**	**870**	**870**	**(20)**	**(499)**	**186**	**181**

Table 39: Template 2 - Quality of forbearance

		Gross carrying amount of forborne exposures
	a	b
1	Loans and advances that have been forborne more than twice	1
2	Non-Performing forborne loans and advances that failed to meet non-performing exit criteria	575

(in HRK million)

5. CREDIT RISK ADJUSTMENTS (CONTINUED)

Table 40: Template 3 - Credit quality of performing and non-performing exposures by past due days

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
		a	b	c	d	e	f	g	h	i	j	k	l
1	Loans and advances	55,484	55,228	256	3,638	975	276	386	373	664	349	615	3,638
2	*Central banks*	*5,831*	*5,831*	-	-	-	-	-	-	-	-	-	-
3	*General governments*	*7,639*	*7,638*	*1*	*3*	*2*	-	-	-	-	*1*	-	*3*
4	*Credit institutions*	*1,187*	*1,185*	*2*	-	-	-	-	-	-	-	-	-
5	*Other financial corporations*	*92*	*92*	-	-	-	-	-	-	-	-	-	-
6	*Non-financial corporations*	*18,968*	*18,867*	*101*	*1,963*	*486*	*118*	*206*	*180*	*329*	*218*	*426*	*1,963*
7	*Of which SMEs*	*12,080*	*12,021*	*59*	*1,320*	*287*	*104*	*60*	*106*	*275*	*165*	*323*	*1,320*
8	*Households*	21,767	21,615	152	1,672	487	158	180	193	335	130	189	1,672
9	Debt securities	12,329	12,329	-	1	-	-	-	-	-	-	1	1
10	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-
11	*General governments*	*11,349*	*11,349*	-	-	-	-	-	-	-	-	-	-
12	*Credit institutions*	*627*	*627*	-	-	-	-	-	-	-	-	-	-
13	*Other financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-
14	*Non-financial corporations*	*353*	*353*	-	*1*	-	-	-	-	-	-	*1*	*1*
15	Off-balance-sheet exposures	12,981			212								212
16	*Central banks*	-			-								-
17	*General governments*	*403*			-								-
18	*Credit institutions*	*239*			-								-
19	*Other financial corporations*	*78*			-								-
20	*Non-financial corporations*	*8,980*			*183*								*183*
21	*Households*	*3,281*			*29*								*29*
22	**Total**	**80,794**	**67,557**	**256**	**3,851**	**975**	**276**	**386**	**373**	**664**	**349**	**616**	**3,851**

(in HRK million)

5. CREDIT RISK ADJUSTMENTS (CONTINUED)

Table 41: Template 4 - Performing and non-performing exposures and related provisions

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accu-mulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On perfo-rming expo-sures	On non-perfo-rming expo-sures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
1	Loans and advances	55,484	52,829	2,656	3,638	-	3,638	(543)	(364)	(177)	(2,362)	-	(2,362)	(386)	20,357	688
2	*Central banks*	*5,831*	*5,831*	*-*	*-*	*-*	*-*	*(3)*	*(2)*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
3	*General governments*	*7,639*	*7,596*	*43*	*3*	*-*	*3*	*(112)*	*(110)*	*(2)*	*(1)*	*-*	*(1)*	*-*	*2,915*	*-*
4	*Credit institutions*	*1,187*	*1,183*	*4*	*-*	*-*	*-*	*(4)*	*(4)*	*-*	*-*	*-*	*-*	*-*	*151*	*-*
5	*Other financial corporations*	*92*	*87*	*5*	*-*	*-*	*-*	*(2)*	*(1)*	*-*	*-*	*-*	*-*	*-*	*24*	*-*
6	*Non-financial corporations*	*18,968*	*17,888*	*1,080*	*1,963*	*-*	*1,963*	*(221)*	*(144)*	*(77)*	*(1,281)*	*-*	*(1,281)*	*(352)*	*10,304*	*470*
7	*Of which SMEs*	*12,080*	*10,855*	*673*	*1,320*	*-*	*1,320*	*(146)*	*(93)*	*(53)*	*(935)*	*-*	*(935)*	*(271)*	*6,346*	*316*
8	*Households*	*21,767*	*20,244*	*1,524*	*1,672*	*-*	*1,672*	*(201)*	*(103)*	*(98)*	*(1,080)*	*-*	*(1,080)*	*(34)*	*6,963*	*218*
9	Debt securities	12,329	11,913	207	1	-	1	(35)	(27)	(8)	(1)	-	(1)	-	-	-
10	*Central banks*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
11	*General governments*	*11,349*	*11,163*	*-*	*-*	*-*	*-*	*(10)*	*(10)*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
12	*Credit institutions*	*627*	*420*	*207*	*-*	*-*	*-*	*(16)*	*(8)*	*(8)*	*-*	*-*	*-*	*-*	*-*	*-*
13	*Other financial corporations*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
14	*Non-financial corporations*	*353*	*330*	*-*	*1*	*-*	*1*	*(9)*	*(9)*	*-*	*(1)*	*-*	*(1)*	*-*	*-*	*-*
15	Off-balance-sheet exposures	12,981	8,873	797	212	-	87	(82)	(67)	(15)	(22)	-	(22)	-	920	25
16	*Central banks*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
17	*General governments*	*403*	*401*	*-*	*-*	*-*	*-*	*(1)*	*(2)*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
18	*Credit institutions*	*239*	*239*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*6*	*2*
19	*Other financial corporations*	*78*	*37*	*3*	*-*	*-*	*-*	*(1)*	*-*	*-*	*-*	*-*	*-*	*-*	*4*	*-*
20	*Non-financial corporations*	*8,980*	*5,470*	*272*	*183*	*-*	*58*	*(68)*	*(55)*	*(13)*	*(15)*	*-*	*(15)*	*-*	*832*	*22*
21	*Households*	*3,281*	*2,726*	*522*	*29*	*-*	*29*	*(12)*	*(10)*	*(2)*	*(7)*	*-*	*(7)*	*-*	*78*	*1*
22	**Total**	**80,794**	**73,615**	**3,660**	**3,851**	**-**	**3,726**	**(660)**	**(458)**	**(200)**	**(2,385)**	**-**	**(2,385)**	**(386)**	**21,277**	**713**

(in HRK million)

5. CREDIT RISK ADJUSTMENTS (CONTINUED)

Table 42: Template 5 - Quality of non-performing exposures by geography

		Gross carrying/nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			of which non-performing		of which subject to impairment			
				Of which defaulted				
		a	b	c	d	e	f	g
1	**On-balance-sheet exposures**	**71,452**	**3,639**	**3,639**	**71,242**	**(2,941)**		**-**
2	Core Market - Austria	616	-	-	616	-		-
3	Core Market - Croatia	61,609	3,477	3,477	61,423	(2,740)		-
4	Core Market - Czech Republic	1	-	-	1	-		-
5	Core Market - Hungary	4	-	-	3	-		-
6	Core Market - Romania	-	-	-	-	-		-
7	Core Market - Serbia	13	1	1	13	-		-
8	Core Market - Slovakia	1,036	-	-	1,036	-		-
9	Emerging Markets	4,962	137	137	4,962	(163)		-
10	Other EU including Slovenia	3,021	13	13	2,998	(21)		-
11	Other Industrialized Countries	190	11	11	190	(17)		-
12	**Off-balance-sheet exposures**	**13,193**	**212**	**212**			**(104)**	
13	Core Market - Austria	6	-	-			-	
14	Core Market - Croatia	10,912	195	195			(91)	
15	Core Market - Czech Republic	-	-	-			-	
16	Core Market - Hungary	-	-	-			-	
17	Core Market - Romania	-	-	-			-	
18	Core Market - Serbia	1	-	-			-	
19	Core Market - Slovakia	-	-	-			-	
20	Emerging Markets	864	3	3			(7)	
21	Other EU including Slovenia	1,397	14	14			(5)	
22	Other Industrialized Countries	13	-	-			(1)	
23	**Total**	**84,645**	**3,851**	**3,851**	**71,242**	**(2,941)**	**(104)**	**-**

(in HRK million)

5. CREDIT RISK ADJUSTMENTS (CONTINUED)

Table 43: Template 6 - Credit quality of loans and advances by industry

		Gross carrying amount					Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which loans and advances subject to impairment	Accumulated impairment	
				Of which defaulted			
		a	b	c	d	e	f
1	Agriculture, forestry and fishing	1,023	121	121	1,023	(64)	-
2	Mining and quarrying	107	10	10	107	(8)	-
3	Manufacturing	3,492	483	483	3,492	(278)	-
4	Electricity, gas, steam and air conditioning supply	887	66	66	887	(74)	-
5	Water supply	330	3	3	330	(9)	-
6	Construction	1,302	293	293	1,302	(282)	-
7	Wholesale and retail	3,972	365	365	3,972	(298)	-
8	Transport and storage	969	63	63	969	(52)	-
9	Accommodation and food service activities	3,807	289	289	3,807	(196)	-
10	Information and communication	364	4	4	364	(5)	-
11	Financial and insurance services	28	1	1	28	(2)	-
12	Real estate activities	1,804	101	101	1,804	(80)	-
13	Professional, scientific and	1,434	100	100	1,434	(86)	-
14	Administrative and support service	818	55	55	818	(51)	-
15	Public administration and defence, compulsory social security	-	-	-	-	-	-
16	Education	21	1	1	21	(1)	-
17	Human health services and social work activities	177	1	1	177	(3)	-
18	Art, entertainment and recreation	350	3	3	350	(8)	-
19	Other services	46	4	4	46	(5)	-
20	**Total**	**20,931**	**1,963**	**1,963**	**20,931**	**(1,502)**	**-**

(in HRK million)

5. CREDIT RISK ADJUSTMENTS (CONTINUED)

Table 44: Template 7 - Collateral valuation – loans and advances

		Loans and advances											
			Performing		Non-performing								
							Past due > 90 days						
				Of which past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days		Of which past due > 90 days ≤ 180 days	Of which: past due > 180 days ≤ 1 year	Of which: past due > 1 years ≤ 2 years	Of which: past due > 2 years ≤ 5 years	Of which: past due > 5 years ≤ 7 years	Of which: past due > 7 years
1	Gross carrying amount	59,122	55,484	256	3,638	976	2,662	276	386	372	664	349	615
2	*Of which secured*	29,474	27,360	120	2,114	592	1,522	151	189	199	394	226	363
3	*Of which secured with immovable property*	19,202	17,425	30	1,777	478	1,299	124	63	165	368	225	354
4	*Of which instruments with LTV higher than 60% and lower or equal to 80%*	4,328	4,009		319	99	220						
5	*Of which instruments with LTV higher than 80% and lower or equal to 100%*	2,864	2,694		170	36	134						
6	*Of which instruments with LTV higher than 100%*	3,077	2,549		528	46	482						
7	Accumulated impairment for secured assets	1,651	348	4	1,303	189	1,114	71	53	159	312	195	324
8	Collateral												
9	*Of which value capped at the value of exposure*	16,624	16,034	28	590	316	274	38	17	40	95	48	36
10	*Of which immovable property*	14,130	13,570	23	560	297	263	37	16	33	94	48	35
11	*Of which value above the cap*	5,962	4,811	11	1,151	299	852	53	24	42	301	180	252
12	*Of which immovable property*	5,276	4,187	10	1,089	282	807	49	20	35	275	177	251
13	Financial guarantees received	5,961	5,814	-	147	2	145	29	109	6	1	-	-
14	Accumulated partial write-off	386	-	-	386	1	385	3	22	18	113	35	194

(in HRK million)

5. CREDIT RISK ADJUSTMENTS (CONTINUED)

Table 45: Template 8 - Changes in the stock of non-performing loans and advances

		Gross carrying amount	Related net accumulated recoveries
		a	b
1	**Initial stock of non-performing loans and advances**	**4,729**	
2	Inflows to non-performing portfolios	1,178	
3	Outflows from non-performing portfolios	2,269	
4	Outflow to performing portfolio	232	
5	Outflow due to loan repayment, partial or total	953	
6	Outflow due to collateral liquidations	305	303
7	Outflow due to taking possession of collateral	50	48
8	Outflow due to sale of instruments	184	103
9	Outflow due to risk transfers	-	-
10	Outflows due to write-offs	394	
11	Outflow due to other situations	151	
12	Outflow due to reclassification as held for sale	-	
13	**Final stock of non-performing loans and advances**	**3,638**	

Table 46: Template 9 - Collateral obtained by taking possession and execution processes

		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
		a	b
1	Property, plant and equipment (PP&E)	-	-
2	Other than PP&E	718	(90)
3	*Residential immovable property*	*320*	*(38)*
4	*Commercial immovable property*	*385*	*(48)*
5	*Movable property (auto, shipping, etc.)*	*1*	-
6	*Equity and debt instruments*	-	-
7	*Other*	*12*	*(4)*
8	**Total**	**718**	**(90)**

(in HRK million)

5. CREDIT RISK ADJUSTMENTS (CONTINUED)

Table 47: Template 10 - Collateral obtained by taking possession and execution processes – vintage breakdown

		Debt balance reduction		Total collateral obtained by taking possession									
						Foreclosed ≤ 2 years		Foreclosed > 2 years ≤ 5 years		Foreclosed > 5 years		Of which non-current assets held-for-sale	
		Gross carrying amount	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes
1	Collateral obtained by taking possession classified as PP&E	-	-	-	-								
2	Collateral obtained by taking possession other than that classified as PP&E	563	(139)	718	(90)	169	(13)	352	(30)	197	(47)	-	-
3	Residential immovable property	279	(67)	320	(38)	71	(4)	132	(5)	118	(29)	-	-
4	Commercial immovable property	277	(71)	385	(48)	86	(5)	219	(25)	80	(18)	-	-
5	Movable property (auto, shipping, etc.)	1	(1)	1	-	1	-	-	-	-	-	-	-
6	Equity and debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
7	Other	6	-	12	(4)	11	(4)	1	-	-	-	-	-
8	**Total**	**563**	**(139)**	**718**	**(90)**	**169**	**(13)**	**352**	**(30)**	**197**	**(47)**	**-**	**-**

(in HRK million)

5. CREDIT RISK ADJUSTMENTS (CONTINUED)

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (i) CRR

Table 48: 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	214
3	Decreases due to amounts reversed for estimated loan losses during the period	(284)
4	Decreases due to amounts taken against accumulated credit risk adjustments	(745)
5	Transfers between credit risk adjustments	230
6	Impact of exchange rate differences	-
7	Business combinations, including acquisitions and disposals of subsidiaries	-
8	Other adjustments	9
9	**Closing balance**	**3,045**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	(151)
11	Specific credit risk adjustments recorded directly to the statement of profit or loss	54

Table 49: 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	1,263
3	Returned to non-defaulted status	(1,381)
4	Amounts written off	(799)
5	Other changes	(67)
6	**Closing balance**	**3,851**

6. LEVERAGE RATIO

DISCLOSURE REQUIREMENTS COVERED: ART. 451 CRR

The leverage ratio represents the relationship between Tier 1 and the leverage exposure pursuant to Article 429 CRR. Essentially, the leverage exposure represents the sum of unweighted on balance sheet and off balance sheet positions considering valuation and risk adjustments as defined in the CRR.
As of 31 December 2019, the leverage ratio for the Group amounted to 11.44%. The calculation is based on the Delegated Regulation (EU) 2015/62 of 10 October 2014, which was published in the Official Journal of the European Union on 17 January 2015. As such, the ratio is calculated on period-end values as of 31 December 2019, while the Tier 1 capital is determined based on fully loaded Basel III definitions, i.e. not including any transitional provisions.

Leverage exposure breakdown and reconciliation

Table 50: LRSum form: Summary reconciliation of accounting assets and leverage ratio exposures:

	in HRK million
Total assets as per published financial statements	73,866
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(33)
(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	125
Adjustments for securities financing transactions "SFTs"	21
Adjustment for off balance sheet items (i.e., conversion to credit equivalent amounts of off balance sheet exposures)	4,744
(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	(16)
Total leverage ratio exposure	**78,707**

6. 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 31 December 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 51: LRCom form: 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)	73,291
2.	(Asset amounts deducted in determining Tier 1 capital)	(397)
3.	Total on balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	72,894
Derivative exposures		
4.	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	39
5.	Add on amounts for PFE associated with all derivatives transactions (mark to market method)	125
6.	Total derivative exposures (sum of lines 4 and 5)	164
Securities financing transaction exposures		
7.	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	487
8.	Counterparty credit risk exposure for SFT assets	21
9.	Total securities financing transaction exposures (sum of line 7 and 8)	508
Other off balance sheet exposures		
10.	Off balance sheet exposures at gross notional amount	13,193
11.	(Adjustments for conversion to credit equivalent amounts)	(8,449)
12.	Other off balance sheet exposures (sum of lines 10 and 11)	4,744
Capital and total exposure measure		
13.	Tier 1 capital	8,959
14.	Leverage ratio total exposure measure (sum of lines 3, 6, 9, 12)	78,310
Leverage ratio		
15.	Leverage ratio	11.44%

6. LEVERAGE RATIO (CONTINUED)

LRQua form: Free format text boxes for disclosure on qualitative items

Management of the risk of excessive leverage

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

Factors influencing the development of leverage exposure

The overall leverage exposure in the year 2019 increased by 6.46 % comparing to the year 2018 to HRK 78,310 million. This change mostly refers to the increase of the on balance exposure.

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

Table 52: LRSpl form: 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:	73,799
EU-2.	Trading book exposures	694
EU-3.	Banking book exposures, of which:	73,105
EU-4.	Covered bonds	-
EU-5.	Exposures treated as sovereigns	21,260
EU-6.	Exposures to regional governments, MDB, international organizations and PSE not treated as sovereigns	2,632
EU-7.	Institutions	740
EU-8.	Secured by mortgages on immovable properties	7,550
EU-9.	Retail exposures	15,183
EU-10.	Corporate	20,574
EU-11.	Exposure in default	255
EU-12.	Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	4,911

7. MARKET RISK EXPOSURE

EU MRA - 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 standardized approach.

Table 53: EU MR1 – Market risk under the standardized approach

		RWAs	Capital requirements
	Outright products		
1	Interest rate risk (general and specific)	54	4
2	Equity risk (general and specific)	-	-
3	Foreign exchange risk	144	12
4	Commodity risk	-	-
	Options		
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	Securitisation (specific risk)	-	-
9	**Total**	**198**	**16**

During the reporting period Bank (Group) had stable capital requirements for market risk arising primarily from derivative transactions (FX Swap, FX Forward and Interest Rate Swap) with clients and capital requirements for currency risk based on the calculation of the total net foreign exchange position.

(in HRK million)

7. MARKET RISK EXPOSURE (CONTINUED)

Value at Risk

Value at Risk ("VaR") describes what level of losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under normal market conditions and based on historical experience. Basic idea behind this historical model is taking into calculation the current portfolio and re-pricing its market value based on the previous market prices, VaR calculates maximum loss within the given confidence level which a Bank can endure in a predefined time period.

According to the VaR limits structure, at a confidence level of 99%, daily VaR limits are set, on the total trading book as well as the separate limits on the money market portfolio, fixed income portfolio, fx portfolio and shares. VaR limits are also introduced on fixed income corporates, money market banking book, money market trading book and fixed income securities in the banking and in the trading book. Limit utilization is monitored daily.

Table 54: VaR limits and utilization split by portfolio

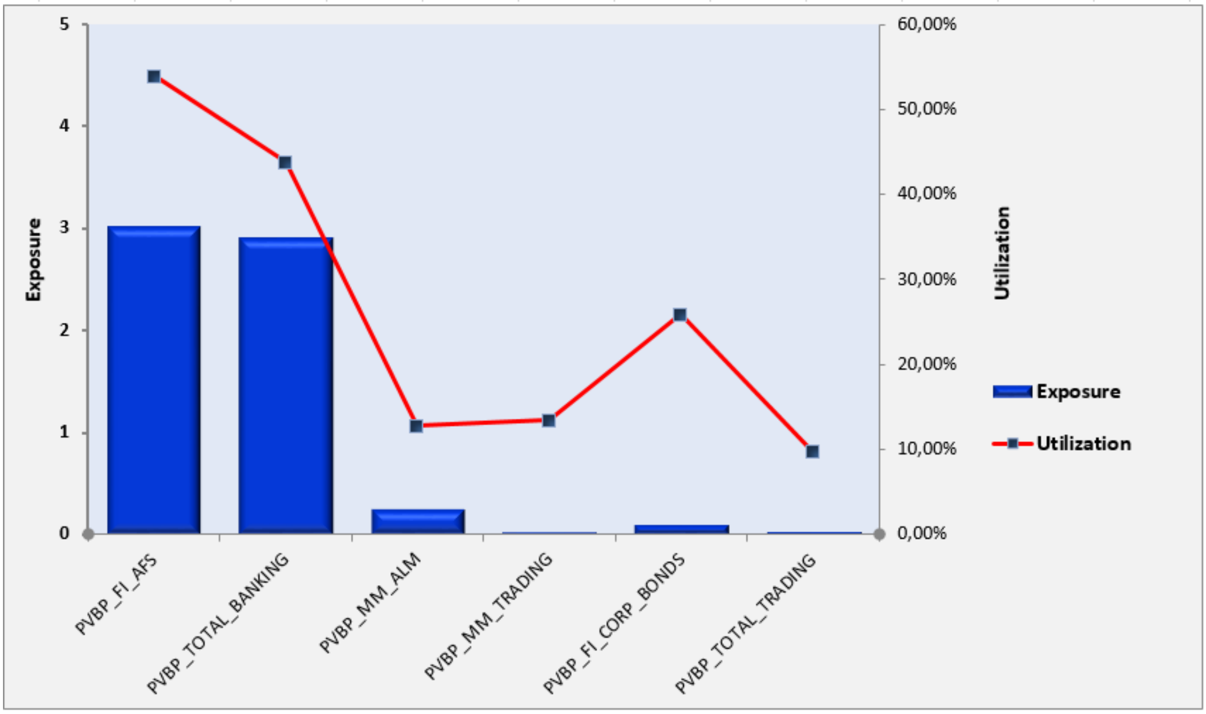
VaR limits and Utilization	Limit (HRK)	Exposure	Maximum	Minimum
Banking book – fixed income securities	74.4	12.9	17.2	12.2
Banking book – fixed income corporates	5.2	0.4	0.8	0.4
Banking book - Foreign exchange	4.5	0.2	1.5	-
Banking book - Money market	22.3	5.9	8.9	5.9
Trading book – fixed income trading	1.1	-	-	-
Trading book – Money market	2.2	0.07	1.7	-

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

For the purposes of the effective control of the Trading Book and separate positions in the Banking Book PVBP limits are set up separately for the money market portfolio as well as for the fixed income portfolio. Furthermore, PVBP limits for the separate desks are set up; Fixed income desk, Money market desk and FX desk. PVBP limits for corporate securities are set up, as well.

7. MARKET RISK EXPOSURE (CONTINUED)

Picture 2: Sensitivities for the interest rate curve move by 1 basis point



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

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

Net interest income simulation

Net interest income simulation of the Group for the year 2020 shows that in case of increase of interest rates for 1% net interest income will increase for 4% or HRK 92 million. The cause of this effect is assets that has shorter period of changes in interest rates than the period watched. Net interest income sensitivity was 5% which is bellow limit of 15%.

(in HRK million)

7. MARKET RISK EXPOSURE (CONTINUED)

Table 55: Simulation of net interest income in the year 2020 on the basis of the data for 31 December 2019:

	EUR	USD	HRK	TOTAL	in %
immediate parallel shock plus 200 bp	137	(5)	70	202	10%
immediate parallel shock plus 100 bp	61	(3)	34	92	4%
immediate parallel shock minus 100 bp	(78)	(2)	(51)	(131)	(6%)
immediate parallel shock minus 200 bp	(163)	(4)	(104)	(271)	(13%)
Internal net interest income limit	(44)	(3)	(64)	(111)	(5%)

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

DISCLOSURE REQUIREMENTS COVERED: ART. 448 CRR

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

1) 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) Option 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 behavioral 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.

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

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

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

Exposure of the Group to the interest rate risk in the banking book related to the regulatory capital, according to Croatian National Bank Decision on the management of interest rate risk in banking book (NN120/2016) and updated guidelines of the European Banking Authority (“EBA”) on “Technical aspects of the management of interest rate risk arising from non-trading activities under the supervisory review process” (“EBA/GL/2018/02”), was as follows:

Table 56: 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	(375)
EUR	124
USD	27
OTHER	(34)
CHANGE IN THE ECONOMIC VALUE	**258**
REGULATORY CAPITAL	**9,790**
(CHANGE IN THE ECONOMIC VALUE / REGULATORY CAPITAL)*100	**2.6%**

9. LIQUIDITY RISK

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

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

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

Strategies and processes in the management of the liquidity risk

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

- Market liquidity risk, which is the risk that the Bank cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption, and
- Funding liquidity risk, which is the risk that the Bank will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition. Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full, on time in an economically justified way, while structural liquidity risk is the long-term risk of losses due to a change in the Bank's own refinancing cost or spread.
- Also, Bank differentiates between funding concentration risk which exists when the funding structure of the institution makes it vulnerable to a single event or a single factor, such as a significant and sudden withdrawal of funds or inadequate access to new funding and model risk relating to the underestimation of own funds requirements by regulatory approved models.

The governance is related to the defining main responsibilities for managing liquidity risk of all the involved stakeholders within the Bank as well as to the main documents which define principles and practices for the managing of the liquidity risk. The three setup of the governance incorporates the following key principles:

Conservatism - Measurement shall always be based on conservative estimations and assumptions. For example, an estimate of future cash flows should be based on the remaining maturity period, using the latest possible settlement date for inflows and the earliest possible settlement date for the outflows;

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

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

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

9. LIQUIDITY RISK (CONTINUED)

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

Organizational units involved in the liquidity risk management:
Asset and Liability Management Division (ALM) is in charge of liquidity management in co-operation with the Trading Department, responsible for adopting a liquidity and financing strategy and establishing short- and long-term financing plans for the Bank and the Group, respecting regulatory and internal liquidity risk limits. The ALM consists of two groups - Liquidity and Investment Group and Analysis and FTP System Group.
Risk Management Division is responsible for the implementation of methods and models of control and liquidity risk management, measurement, monitoring, internal and regulatory reporting, participation in the determination of the limits and monitors all relevant limit usage. Initiate appropriate steps (escalation) in case of limit violation. Comprehensive and up-to-date documenting the models used for liquidity risk analysis and assessing liquidity risk materiality.
Internal Audit Division is tasked with periodically reviewing overall liquidity management framework as well as checking compliance with the applicable legal and regulatory framework.
Asset and Liability Management Committee (“ALCO”) is responsible for adopting and implementing strategies and methodologies for liquidity risk management as well as all necessary documentation, approval of the structure and limits, breaches, and action plan for settling within the limits. In crisis periods, approving liquidity enhancing actions. It is responsible for approving all new liquidity measuring tools implemented in the Bank in accordance with local regulations.
Management and Supervisory Board are responsible for the development of strategies, policies and practices for liquidity risk management and to ensure that the bank maintains sufficient liquidity to meet its obligations at all times.
Operating Liquidity Committee (“OLC”) is responsible for continuous market and liquidity monitoring, action plans and measures proposal, crisis management and communication.

Scope and nature of liquidity risk reporting and measurement systems

In accordance with best market practices, exposure to liquidity risk is determined through regulatory prescribed measures and regular reports.
The monitoring of key liquidity risk indicators is performed from daily to quarterly, and individual reports are processed and more frequently than defined if needed. Reporting is defined through regulatory reports (such as LCR, NSFR, ALMM, asset encumbrance, financing plans), internal reports (such as survival period analysis, structural liquidity gap’s, monthly report) and public disclosure (such as Annual Report, Pillar 3 Disclosure report).
The Risk Management Division is responsible for continuously and quickly identifying and measuring liquidity risk assessment and liquidity risk reporting. All regulatory requirements are reported at a solo level, while for the needs of internal reporting and liquidity monitoring, and within the definition and management of risk appetite statement, some liquidity indicators are monitored at a consolidated level as well. Comprehensive reporting of liquidity measures is covered by monthly ALCO reports. In addition, for the purposes of Erste Group liquidity risk management, the Bank fully consolidated and reports on the liquidity coverage ratio.

9. LIQUIDITY RISK (CONTINUED)

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

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

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

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

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

Stress testing is a key tool at the Bank's level of the risk management, reflecting portfolio characteristics and to ensure that current exposures remain in accordance with a bank’s established liquidity risk tolerance.

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

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

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

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

(in HRK million)

9. LIQUIDITY RISK (CONTINUED)

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

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

The liquidity risk profile of the institution approved by the management body is defined by the Risk appetite statement, which defines the minimum required level of the LCR ratio - the regulatory ratio to measure the exposure liquidity risk of a credit institution. The 2019 Risk appetite statement defined "green" (normal) zone above EUR 160 milion (gap), "amber" (warning zone) between 105% - EUR 160 milion (gap), and "red" (crisis zone) below 105%.

The 2020 liquidity management strategy, approved by the bank's management body, based on the plan of the bank's balance sheet development for the next five business years, was the projection of the LCR regulatory ratio and for all of the projected years over the minimum defined ratio accepted by the Risk appetite statement:

Table 57: Projection of the LCR regulatory ratio

Projection	2019	2020	2021	2022	2023	2024
LCR	162%	156%	188%	166%	159%	182%

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

9. LIQUIDITY RISK (CONTINUED)

Table 58: Disclosure level and components of the LCR

Scope of consolidation (solo)		**Total unweighted value (average)**				**Total weighted value (average)**			
Currency and units (HRK million)									
Quarter ending on		**31 March 2019**	**30 June 2019**	**30 September 2019**	**31 December 2019**	**31 March 2019**	**30 June 2019**	**30 September 2019**	**31 December 2019**
Number of data points used in the calculation of averages		**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**
HIGH-QUALITY LIQUID ASSETS									
1	**Total high-quality liquid assets (HQLA)**					**13,670**	**14,064**	**14,025**	**13,847**
CASH-OUTFLOWS									
2	**Retail deposits and deposits from small business customers, of which:**	**30,270**	**30,944**	**31,420**	**31,849**	**2,506**	**2,561**	**2,596**	**2,627**
3	*Stable deposits*	10,891	11,118	11,342	11,564	545	556	567	578
4	*Less stable deposits*	19,379	19,826	20,077	20,285	1,961	2,005	2,029	2,049
5	Unsecured wholesale funding	13,835	14,240	14,551	14,625	5,703	5,958	6,054	6,307
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	8,518	8,567	8,694	7,503	1,812	1,813	1,836	1,590
7	*Non-operational deposits (all counterparties)*	5,318	5,672	5,857	7,122	3,891	4,145	4,218	4,718
8	*Unsecured debt*	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	4,086	4,149	4,224	4,333	734	759	778	839
11	*Outflows related to derivative exposures and other collateral requirements*	386	411	430	491	386	411	430	491
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	3,700	3,738	3,793	3,841	348	348	348	348
14	Other contractual funding obligations	502	571	615	663	262	355	418	483
15	Other contingent funding obligations	2,725	2,698	2,800	2,846	89	74	77	85
16	**TOTAL CASH OUTFLOWS**					**9,294**	**9,708**	**9,923**	**10,343**
CASH-INFLOWS									
17	Secured lending (e.g. reverse repos)	2,835	2,925	2,247	1,392	145	157	138	83
18	Inflows from fully performing exposures	1,446	1,552	1,627	1,685	1,118	1,208	1,279	1,327
19	Other cash inflows	271	292	318	404	271	292	318	404

(in HRK million)

9. LIQUIDITY RISK (CONTINUED)

Disclose level and components of the LCR (CONTINUED)

EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	**TOTAL CASH INFLOWS**	4,552	4,768	4,193	3,481	1,534	1,656	1,736	1,814
EU-20a	***Fully exempt inflows***	-	-	-	-	-	-	-	-
EU-20b	***Inflows Subject to 90% Cap***	-	-	-	-	-	-	-	-
EU-20c	***Inflows Subject to 75% Cap***	4,552	4,768	4,193	3,481	1,534	1,656	1,736	1,814
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**					**13,670**	**14,064**	**14,025**	**13,847**
22	**TOTAL NET CASH OUTFLOWS**					**7,760**	**8,051**	**8,187**	**8,529**
23	**LIQUIDITY COVERAGE RATIO (%)**					177%	176%	173%	164%

9. LIQUIDITY RISK (CONTINUED)

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

Concentration of funding and liquidity sources

Concentration of funding occurs when the resource structure makes the Bank vulnerable to an individual event or individual factor, such as a significant and sudden withdrawal of funding or inadequate access to new funding sources.
Pursuant to Article 22 of the Commission Delegated Regulation (EU) 2015/61 Bank calculates liquidity outflows by multiplying the remaining balances of the different categories or types of liabilities and off-balance sheet liabilities with rates at which outflow or withdrawal is expected.
During whole observed period unweighted value of cash outflows shows high share, on average 59%, of retail deposits and deposits from small business customers in total sources followed by unsecured wholesale funding with average share of 27%. The structure changes after the application of the corresponding rates at which this sources of funds are expected to run off or be drawn down in the next 30 days period in a way that largest share changes in favor of unsecured non-operative wholesale funding, since they are considered as less stable funding sources compared to, for example, Retail deposits.

Also, in accordance with Article 9 of the Commission Delegated Regulation (EU) 2015/61 Bank uses market value of its liquid assets which is, if necessary, reduced by the given corrective factors in order to calculate the liquidity coverage ratio. Such weighted value of the liquidity buffer was at a high levels, in average HRK 13,901 million, of which HRK 13,735 million or 99% relates to extremely high liquidity and credit quality assets or Level 1 assets. Out of this L1 assets, the largest share refers to the exposures to the central government followed by coins and banknotes, withdrawable central bank reserves and assets representing claims on or guaranteed by the multilateral developments banks and international organizations. This structure of the liquidity buffer enables Bank to maintain high level of the net outflows coverage during a 30-day stress period which should allow the conversion of liquid assets into cash without relying on the liquidity from central bank or government funds.

Derivative exposures and potential collateral calls

The Bank included outflows from derivatives as well as impact of an adverse market scenario on derivatives, financing transactions and other contracts in outflows related to derivative exposures and other collateral requirements.
The Bank take into account the outflows and inflows provided for period of 30 calendar days from the exposure to derivative transactions on a net basis in accordance with Article 21 of the Commission Delegated Regulation (EU) 2015/61. During observed period, outflows from derivatives in average amounted HRK 317 million.

9. LIQUIDITY RISK (CONTINUED)

From 1 March 2017 the Bank is obliged to exchange collateral for OTC derivative transactions that are not settled by the Central Counterparty on (EMIR).
EMIR has mandated transparent reporting of OTC derivatives regulators, that regulators within the EU could monitor and, if necessary, investigate transactions that have not been concluded in accordance with legal regulations.

Contracting parties that are liable to apply the EMIR shall exchange collateral if they exceed the defined threshold and monitor the exposure and calculation of the collateral required for the use of a Group web application that supports all regulatory and strategic collateral management needs.
Consequently, it is apparent that the Bank monitors and evaluates collateral daily, showing only the amount of required collateral. Additionally, the LCR reports an additional outflow that meets the collateral requirements that would arise from the impact of the adverse market scenario on the Historical Look-Back Approach (HLBA). The mentioned outflow in the observed period in average amounted HRK 113 million.

Currency mismatch in the LCR

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

A description of the degree of centralization of liquidity management and interaction between the Group's units

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

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

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

10. OPERATIONAL RISK

Operational risk is a risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk definition includes legal risk and excludes strategic and reputational risk.

The Bank assesses reputational risk for assessment purposes due to the strong links with the operational risk (e.g. most of operational risk events have a strong impact in terms of reputation).

The operational risk management system includes the following:

1. the operational risk management strategy,
2. policy and other internal acts which define general rules or principles, procedures and methods for operational risk management,
3. an organizational structure and resources for the operational risk management,
4. the operational risk management process which includes:
    - identification of operational risk,
    - assessment, mitigation and acceptance of operational risk,
    - quantification of operational risk,
    - monitoring, controlling and reporting of operational risk.
5. business continuity management,
6. identification and maintenances of the capital requirement for operational risk.

Operational Risk Management Process

Operational risk is influenced by a large variety of factors which have to be considered when determining the operational risk exposure for the Bank. These factors can be grouped into categories, such as e.g. economic and business environment, processes and systems etc.

When determining the operational risk exposure for the Bank, both qualitative and quantitative instruments are applied.

The quantitative analysis of operational risk includes collection of internal and external loss event data where particular emphasis is put on the data classification and quality necessary for quantifying operational risk.

For the qualitative analysis the Bank identifies inherent and residual operational risk in all material activities, processes and systems, or operational risk and control self-assessments are performed on a regular basis where for all identified high risks, for which internal controls are not adequate or efficient, corrective measures by relevant organizational unit have to be implemented, in order to mitigate identified operational risk.

For identification of operational risk key risk indicators have also been implemented, to predict trends in the operational risk exposure.

In order to involve management of the Bank in the change management process, it is ensured that there is an approval process that fully assesses operational risk for all new products, activities, processes and systems. This process has also to cover recent significant corporate events (such as mergers, acquisitions, disposals and restructuring) or new markets.

10. OPERATIONAL RISK (CONTINUED)

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

Managing operational risk is conducted for all identified operational risk in all activities, products and processes of the Bank. Managing operational risk implies preventive and corrective activities or methods, criteria and procedures with the goal of approval, avoidance, mitigation or transfer of identified risk;

- **Avoidance** implies non-undertaking of certain activities with the intent to prevent the operational risk arising from the concerned activities.
- **Mitigation and controlling** implies the improvement of business processes and practices and/or introduction of control to reduce the operational risk.
- **The transfer** implies the transfer of operational risk to third parties via insurance or other specific financial instruments.
- **Acceptance** implies a formal decision on identified operational risk acceptance by responsible decision body.

The overall accepted level of operational risk is managed by using the operational risk scaling matrix which is a combination of probability and impact of operational risk, and risk decision, in particular, the decision on mitigation or acceptance of operational risk identified through the specific instruments or in any decision which involves operational risk. Identified risks are accepted by relevant decision-making bodies depending on the final risk rating, and return should be integrative part of the decision in case there is quantifiable or/and qualify-able return.

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

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

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

Capital Requirement

The Bank is using the standardized approach (”TSA”) for the capital requirement calculation, according to the Title III of CRR, Article 317, as well as the Group Members Erste Card Club and S-Leasing, while other members apply Basic indicator approach (“BIA“) in accordance to the Article 315 of the same Title of CRR. The Bank provides the operational risk capital requirement in such a way that it is constantly adequate to the type, range and complexity of its services as well as to its operational risk exposure or possible exposure within its scope of services.

(in HRK million)

11. EXPOSURES IN EQUITY NOT INCLUDED IN THE TRADING BOOK

DISCLOSURE REQUIREMENTS COVERED: ART. 447 CRR

Table 59: EU CR10 - IRB (equities)

Categories	On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWA	Capital requirements
Exchange-traded equity exposures	39	-	190%	39	74	6
Private equity exposures, listed	3	-	290%	3	7	1
Other equity exposures	168	-	370%	168	623	50
Total	**210**	**-**		**210**	**704**	**57**

Table 60: Equity exposures 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	**52**	
Unlisted, in sufficiently diversified portfolios	51	
Listed	1	1
Investments in non-financial institutions	**207**	
Unlisted, in sufficiently diversified portfolios	207	
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 Bank’s website.

12. 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 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 held by the Bank or sold by the Bank in the case borrower went into default or the borrower not settling any other obligation towards the Bank, or in the case of insolvency or bankruptcy of the borrower,
- Non-material credit protection - the amount of credit protection priory agreed, which the collateral owner will pay to the Bank in the case borrower went into default or the borrower not settling any other obligation towards the Bank, or in the case of insolvency or bankruptcy of the borrower.

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

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

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

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

In the financial reports, acceptable value of collateral is capped by the exposure volume.

12. CREDIT RISK MITIGATION TECHNIQUES (CONTINUED)

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

Collateral revaluation is done periodically and is automated as far as possible.
For residential real estate value monitoring is performed with statistical methods. Previously determined real estate value is adjusted to market value considering trends in real estate market.
For those real estate which cannot undergo statistical valuation, either due to nature of the real estate or because of significant deviation compared to previous valuation or significant exposure toward to the client valuation is done for each particular real estate by a licensed appraiser.

For residential real estate revaluation has to be performed by authorized valuators 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.

Bank's 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, effective weight and monitoring and recording collateral values.

(in HRK million)

12. CREDIT RISK MITIGATION TECHNIQUES (CONTINUED)

Table 61: 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	43,624	12,593	9,242	3,351	-
2	Total debt securities	12,107	-	-	-	-
3	**Total exposure**	**72,451**	**14,629**	**11,196**	**3,433**	**-**
4	of which defaulted	809	670	558	112	-

Table 62: EU CR4 - Standardized approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

		Exposures before CCF and CRM		Exposure post CCF and CRM		RWA and RWA density	
	Asset classes	On balance	Off balance	On balance	Off balance	RWA	RWA dencity
1	Central governments or central banks	6,809	1	6,809	-	1,314	6.48
2	Regional government or local authorities	1,200	345	1,200	139	589	2.91
3	Public sector entities	1,431	30	57	13	48	0.24
4	Multilateral development banks	135	-	143	-	-	0.00
5	International organisations	-	-	-	-	-	0.00
6	Institutions	422	9	397	9	109	0.54
7	Corporates	5,384	1,732	4,104	774	4,782	23.58
8	Retail	4,146	2,221	4,140	458	3,433	16.93
9	Secured by mortgages on immovable property	981	-	981	-	379	1.87
10	Exposures in default	255	34	255	7	370	1.82
11	Higher-risk categories	-	-	-	-	-	0.00
12	Covered bonds	-	-	-	-	-	0.00
13	Institutions and corporates with a short term credit assessment	-	-	-	-	-	0.00
14	Collective investment undertakings	142	-	142	-	142	0.70
15	Equity	21	-	21	-	21	0.10
16	Other items	586	-	630	-	367	1.81
17	**Total**	**21,512**	**4,372**	**18,879**	**1,400**	**11,554**	

(in HRK million)

13. ASSET ENCUMBRANCE

DISCLOSURE REQUIREMENTS COVERED: ART. 443 CRR

In 2019 median for the asset encumbrance ratio for the Group amounts 12.36%, and individually for the Bank amounts 13.16%. The majority of the encumbered assets is result of the Bank's obligatory reserve. The Bank in Croatia is a typical commercial bank (credit institution) which as the most significant source of financing uses base of client's deposits, then deposits and loans from other financial institutions and owners as well as equity. The Bank as well as the Bank's owners provide the majority of funding sources for local subsidiaries. That is the main reason for low level of encumbered asset. Also, it's a good indicator how the Bank and the Group sufficiently manage the financing sources and liquidity position. The low level of encumbered asset is also an indicator that the Bank and the Group enjoys the confidence of the market and clients, so up to now there was no significant need to encumber asset in order to maintain existing financing lines and ensure new ones.

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

Table 63: Asset encumbrance – Form A – Asset

Form A - Asset		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
		010	040	060	090
010	**Assets of the reporting institution**	**9,219**		**64,237**	
030	Equity instruments	-	-	325	325
040	Debt securities	1,726	1,728	10,053	10,100
120	Other assets	7,493		53,858	

Table 64: Asset encumbrance – Form B – Collateral received

Form B – Collateral received		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	**Collateral received by the reporting institution**	**-**	**1,130**
150	Equity instruments	-	16
160	Debt securities	-	1,121
230	Other collateral received	-	-
240	**Own debt securities issued other than own covered bonds or ABSs**	**-**	**-**

13. ASSET ENCUMBRANCE (CONTINUED)

Table 65: Asset encumbrance – Form C – Encumbrance asset/collateral received and related obligation

Form C – Encumbrance asset/collateral received and related obligation		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	2,238	9,219

(in HRK million)

14. COUNTERCYCLICAL BUFFER REQUIREMENTS

DISCLOSURE REQUIREMENTS COVERED: ART. 440 CRR

The Group calculates countercyclical buffer requirements at consolidated level. As of 31 December 2019 jurisdictions Hong Kong, Norway, Sweden, Czech Republic, Slovakia, United Kingdom, Lithuania, Island, Bulgarien, Ireland, France and Danemark applied countercyclical buffer rates of more than 0%, resulting in an overall countercyclical rate for the institution of 0%. The table below sets out the geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer as well as the institutions specific countercyclical buffer rate for the Group as of 31 December 2019. The table detailing the distribution of credit exposure has been simplified by listing individually only those countries which have communicated countercyclical buffer rates other than zero. Other countries are grouped.

Table 66: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer as well as the institutions specific countercyclical buffer rate

	General credit exposure		Trading book exposure		Securitization exposure		Own funds requirements				Own funds requirements weights	Countercyclical capital buffer rate
	Exposure value-SA	Exposure value-IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitization exposures	Total		
Republic of Croatia	7,517	40,860	25	-	-	-	2,570	2	-	2,572	0.90	0.00%
Other European countries	3,361	301	-	-	-	-	207	-	-	207	0.07	0.00%
EU countries	583	152	-	-	-	-	45	-	-	45	0.02	0.00%
United states of America	23	151	-	-	-	-	44	-	-	44	0.02	0.00%
Other countries	8	9	-	-	-	-	1	-	-	1	0.00	0.00%
Norway	-	9	-	-	-	-	-	-	-	-	0.00	2.50%
Sweden	10	4	-	-	-	-	1	-	-	1	0.00	2.50%
Czech Republic	-	1	-	-	-	-	-	-	-	-	0.00	1.50%
Slovakia	-	-	-	-	-	-	-	-	-	-	0.00	1.50%
Hong Kong	-	-	-	-	-	-	-	-	-	-	0.00	2.00%
United Kingdom	10	4	-	-	-	-	1	-	-	1	0.00	1.00%
Denmark	-	-	-	-	-	-	-	-	-	-	0.00	1.00%
France	-	-	-	-	-	-	-	-	-	-	0.00	0.25%
Ireland	-	-	-	-	-	-	-	-	-	-	0.00	1.00%
Bulgarien	-	-	-	-	-	-	-	-	-	-	0.00	0.50%
Island	-	-	-	-	-	-	-	-	-	-	0.00	1.75%
Lithuania	-	-	-	-	-	-	-	-	-	-	0.00	1.00%
TOTAL	**11,512**	**41,491**	**25**	**-**	**-**	**-**	**2,869**	**2**	**-**	**2,871**		

(in HRK million)

14. COUNTERCYCLICAL BUFFER REQUIREMENTS (CONTINUED)

Table 67: Institutions specific countercyclical capital buffer rate

Total risk exposure amount	35,879
Institutions specific countercyclical capital buffer rate	0.0%
Institutions specific countercyclical buffer requirement	-

15. REMUNERATION POLICY

DISCLOSURE REQUIREMENTS COVERED: ART. 450 CRR

The 2018 Remuneration Policy of ("the Policy") of Erste & Steiermärkische Bank Group („Group") was updated at the end of 2018 and additionally on June 2019 with the aim of alignment with Erste Group Remuneration Policy valid for 2019. The Group Policy was adopted by the Bank's Management Board, Remuneration Committee and Supervisory Board, and is applied to the Bank and Group (includes companies consolidated by the Bank). In relation to 2018 Policy the most significant changes of policies and remuneration management practices are related to compliance with the Decision on remuneration policies and practices related to the provision of banking products and/or services to consumers, in accordance with the new CNB regulation and also defining the principle of equal treatment in relation to employee remuneration. Other changes were not significant and were related to the harmonization with Erste Group policy.

The Bank founded the Remuneration Committee, the body of the Supervisory Board in charge of the decisions related to the Remuneration Policy and other activities as mentioned in Article 8 of Decision on Remuneration. Institutions which are part of Group and which are not specified as material, do not have Remuneration Committees. The decisions related to the payment of variable remuneration and other decisions related to the implementation of Remuneration policies are made by their Supervisory Boards. The Bank's Remuneration committee had two meetings during 2019 and ten made per rollam and was in charge of making decisions which were then sent to the Supervisory Board for final approval. These decisions were related to the payment of variable remuneration, adoption of updated Remuneration Policy, adoption of company targets and targets of the Member of the Management Board, approval of list of identified staff and other relevant decision.

The Group Remuneration Policy defines a framework of fixed and variable remuneration of employees on consolidated and sub consolidated level. Each company consolidated by the Bank has its own Remuneration Policy which is harmonized with Group Remuneration Policy. There is no difference between the policies and practices of individual companies related to the way identified staff are treated as well as other staff in general.

Supervisory Board is adopting and maintaining the basic principles of the remuneration policy, as well as supervising its appropriate implementation. Responsibilities and duties of the Supervisory Board listed in the Policy are aligned with Article no.5 of the Decision on Remuneration of the Croatian National Bank.

15. REMUNERATION POLICY (CONTINUED)

Design and execution of the Remuneration policy of each company of Group is coordinated by the Bank's HR, together with legal, risk, compliance and controlling of each company.
Process of KPI setting, i.e. performance and development system is coordinated by the Bank's HR with close cooperation with controlling and risk (especially related to setting company targets, targets of the Management Board and top management) of the Bank and each individual companies.

Malus and claw-back decisions are taken generally on a case by case basis by the Management Board, Human Resources and Compliance in case of identified staff who are not Board members and by the Remuneration Committee and Supervisory Board, in case of Management Board Members.

The identification of employees who are material risk takers in the Bank and individual companies of the Group is coordinated by the Bank's Human Resources in cooperation with business, legal, compliance and risk management functions of the Bank and each individual companies.

Implementation of the Remuneration Policy is subject to internal audit at least once a year in order to ensure alignment with regulation, policies and procedures adopted by Supervisory Board.

Employees' salary is determined within the boundaries of the salary band, depending on the skills, competences, previous experience of a person related to this particular job position and internal and external job market situation. For the employees in control functions additionally is taken into consideration and 2 year average of total annual fixed payments of employees in the same pay grade.

Other fixed payments are determined by collective agreement and rules of procedure of each individual company which are based on predetermined criteria, as follows:

- monthly allowances: depending on the job circumstances (allowance for second shift, overtime, etc.), paid on a monthly basis, when relevant situation occurs.

- annual allowances – for special occasions (holiday allowance, child gift, Easter allowance etc)

Variable payments are related to the business success and paid for sustainable performance on the level of individual institution, group of institutions (the Bank and companies which the Bank consolidates) and individual performance of employees. Criteria for determining and payment of variable remuneration are connected with target achievement within the regular annual cycle of performance and development management, and are defined by separate decisions and variable schemes as well as employment contract of identified staff. Variable payments can be awarded and paid only if such a payment is sustainable related to the financial situation of the Bank and Group and justified related to the business performance as well as individual performance. In case such a payment is not sustainable or does not reflect the good performance, it will not be paid or will be retained.

15. REMUNERATION POLICY (CONTINUED)

The payment of variable remuneration must be related to:

- risks, capital, liquidity, performance and the probability, as well as the time, of realised profits of the respective institution;
- the performance of the consolidated and single entity (Group and each institution separately);
- the performance of the business unit (department/division/institution) concerned, and
- the performance of the individual consisting of the achievement of agreed targets and the way these business targets have been achieved, including the individual's risk behaviour according to Erste Group and Group strategy and policies.

One of the roles of the Supervisory Board is to make a decision, upon the recommendation of the Remuneration committee, on criteria that will be applied for determining bonus pool for each business year, for separate categories of employees. Evaluation of those criteria (minimum criteria are related to performance and long term sustainability) influences the percentage of bonus pool eligible for pay out for a certain business year. The decision on the percentage is made after the closure of each business year. Therefore, the bonus pool determined first at the beginning of a business year is revised after the evaluation period and can vary from 0% to 120%. Bonus pool can be divided in few parts and different criteria could be used for different segments of employees, with minimum criteria being:

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

The Remuneration Policy also defines the types of variable schemes which can be used in the Bank or other company of ESB Group for variable remuneration. All employees are eligible to variable payment, in accordance with criteria defined in particular schemes and other conditions stipulated in the Remuneration Policy. When creating variable remuneration schemes, the companies of the Group must ensure that cash and/or non cash forms of variable remuneration do not promote behaviours through which the employees could place their interests or company interests to the detriment of consumers.

The performance, as a basis for the payment of variable remuneration is measured by quantitative and qualitative goals. Quantitative goals are financial goals and other business specific goals, whereas qualitative goals for example are customer satisfaction, operational quality, compliance and similar. All categories of employees, including top management, have goals related to Erste Group competences, i.e. goals which define expected behaviour standards. The structure of the goals of the employees in control functions as well as the payment of their variable pay must not be related to the objectives of the business areas they control.

15. REMUNERATION POLICY (CONTINUED)

The evaluation of performance for material risk takers is taking into considerations period longer than one year, in order to ensure that the process of evaluation is based on long term success. In accordance with that, 40% of variable pay of Identified staff is deferred for the period of 3 to 5 years. The deferral period for members of the Bank's Management Board is 5 years, and for other Identified staff, the deferral period is 3 years. Variable payment is paid in cash, and variable payment of identified employees is paid 50% in cash and 50% in instruments. To identified staff for 2019 variable payments, determined in amount equal to or higher than 150 thousand EUR, percentage of deferred variable payment is 60% and is paid 100% in instruments with 5 year deferral. The instrument to which part of variable remuneration is bound, are phantom shares of Erste Group Bank AG, the value of which is determined according to the average share price during the business year for which variable remuneration is granted. Phantom shares must be kept during the retention period of 1 year, which is the same for all material risk takers.

Besides phantom shares, there is no other instrument used for variable remuneration in the Group.

Neither the Bank nor any company of the Group will pay variable remuneration, or transfer the rights from instruments, including the deferred part of already granted instalments, if such a payment is not sustainable or justified. Variable payments are considered as sustainable if, in the period from their award until their payment is due, the financial standing of the Bank and Group is not endangered, stays secure and stable. Variable payments are considered as justified if their payment is based on the success of the Group, individual institution, business unit and specific employee.

If an event of loss or substantial decrease in business results occurs, variable payments will be decreased by applying one of the measures defined by Article 37 of the Decision on remuneration.
Variable payments are subject to full decrease by activating the provisions on malus and claw back up to the amount of 100%.

The Bank or any other company of the Group can apply malus or claw-back of any variable remuneration granted or paid within the last five years. Criteria for activating the provisions on malus and claw back are aligned with Decision on remuneration from the Croatian National Bank.

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

Maximum amount of variable remuneration applied in the Group amounts to 100% of total fixed remuneration for identified staff and also all other staff. The General Assembly did not make any decisions related to higher ratio of variable / fixed remuneration for 2019.

(in HRK million)

15. REMUNERATION POLICY (CONTINUED)

Table 68: Information on remuneration for all staff

	Supervisory function	Management Board Function	Investment Banking	Retail Banking	Asset Management	Corporate Function	Independent Control Function	Total
Number of employees (Headcount)	7	14						21
Total number of staff (FTE)			67	1,672	-	1,319	197	3,253
Total amount of remuneration (in HRK mil.)	0.30	30.78	16.54	287.83	-	256.15	43.08	634.68
of which: total amount of variable pay (in HRK mil.)	-	11.36	2.98	35.85	-	21.95	3.61	75.75

(in HRK million)

15. REMUNERATION POLICY (CONTINUED)

Table 69: Information on remuneration for Identified Staff (MRTs)

	Supervisory function	Management Board Function	Investment Banking	Retail Banking	Asset Management	Corporate functions	Independent Control functions	Total
Number of Identified Staff (Headcount)	7	14						21
Total number of Identified Staff (FTE)			1	6	-	15	5	27
Number of Identified Staff in senior management positions			1	6	-	15	4	26
Total amount of fixed pay (in HRK mil.)	0.30	19.42	0.72	3.99	-	9.06	2.73	36.22
of which in cash	0.30	19.42	0.72	3.99	-	9.06	2.73	36.22
of which: senior management	0.30	19.42	0.72	3.99	-	9.06	2.28	35.77
of which: other identifies staff	-	-	-	-	-	-	0.45	0.45
of which in shares and shares-related instruments					-			-
of which in other non-cash instruments					-			-
Total amount of variable pay (in HRK mil.)	-	11.36	0.44	1.98	-	3.18	0.75	17.71
of which in cash	-	2.69	0.22	0.99	-	2.03	0.75	6.68
of which: senior management	-	2.69	0.22	0.99	-	2.03	0.67	6.60
of which: other identifies staff	-	-	-	-	-	-	0.08	0.08
of which in shares and shares-related instruments	-	8.67	0.22	0.99	-	1.15	-	11.03
of which: senior management	-	8.67	0.22	0.99	-	1.15	-	11.03
of which: other identifies staff	-	-	-	-	-	-	-	-
of which in other non-cash instruments	-				-		-	-
Total amount of variable deferred pay*(in HRK mil.)	-	6.85	0.18	0.80	-	0.92	-	8.75
of which in cash	-	1.39	0.09	0.40	-	0.46	-	2.34
of which in shares and shares-related instruments	-	5.46	0.09	0.40	-	0.46	-	6.41
of which in other non-cash instruments	-	-	-	-	-	-	-	-

* only Board members and senior managers have deffered variable pay

(in HRK million)

15. REMUNERATION POLICY (CONTINUED)

Table 70: Additional information on the total amount of variable pay (MRTs)

	Supervisory function	Management Board Function	Investment Banking	Retail Banking	Asset Management	Corporate functions	Independent Control functions	Total
Total amount of outstanding deferred variable remuneration granted in previous years	-	11.10	1.02	0.74	-	-	-	12.86
Total amount of outstanding deferred variable remuneration granted in previous years -vested parts	-	2.71	0.48	0.32	-	-	-	3.51
Total amount of outstanding deferred variable remuneration granted in previous years - non vested parts	-	8.39	0.54	0.42	-	-	-	9.35
Reduction of deferred payments from previous years based on performance adjustments	-	-	-	-	-	-	-	-
Number of employees who received guaranteed variable payments (sign-on bonus)	-	-	-	-	-	-	-	-
Total amount of guaranteeed variable payments (sign-on bonus)	-	-	-	-	-	-	-	-
Number of employees who received severance payments due to early termination	-	1.00	-	-	-	-	-	1
Total amount of severance payments due to early termination	-	1.70	-	-	-	-	-	1.7
Highest severance payment to a single person due to early termination	-	1.70	-	-	-	-	-	1.7
Number of employeees who received discretionary pension payments	-	-	-	-	-	-	-	-
Total amount of discretionary pension payments awarded	-	-	-	-	-	-	-	-
Total amount of variable remuneration awarded for multi-year periods under programmes which are not revolved annually	-	-	-	-	-	-	-	-

**in this Disclosure of Remuneration only those material risk takers which have a material impact on an institution's risk profile and have been determined on consolidated data have been taken into account.

16. ABBREVIATIONS

ALCO – Asset Liability Management Committee

ALM – Asset Liability Management

AQR – Asset Quality Review

CCF – Credit Conversion Factor

CMLL – Calculated Maximum Lending Limit

CRD IV – Capital Requirements Directive 2013/36 EU

CRO – Chief Risk Officer

CRR – Capital Requirements Regulation 575/2013

EBA – European Banking Authority

ECB – European Central Bank

EGB – Erste Group Bank AG

EVA – Economic Value Added

ICAAP – Internal Capital Adequacy Assessment

IFRS – International Financial Reporting Standards

LGD – Loss Given Default

LIP – Loss Identification Period

OLL – Operating Lending Limit

PD – Probability of Default

PVBP – Price Value of a Basis Point

QRD – Quantitative Research Department

RAS – Risk Appetite Statement

RbLL – Rating based Lending Limit

SKDD – Central Depositary and Clearing Company