



ERSTE&STEIERMÄRKISCHE BANK D.D.

Jadranski trg 3a, 51000 Rijeka

Tel: 072 37 5000

Fax: 072 37 6000

Ivana Lučića 2, 10000 Zagreb

Tel: 072 37 1000

Fax: 072 37 2000

www.erstebank.hr

erstebank@erstebank.hr

Disclosure requirements for the Group Erste&Steiermärkische Bank d.d. as of 31 December 2022

pursuant to Part Eight of the Capital Requirements Regulation (CRR)

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, Hannes Frotzbacher, Martin Hornig, Zdenko Matak, Chairman of the
Supervisory Board: Willibald Cernko

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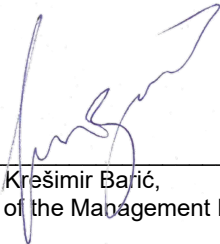
Overview of disclosed notes in the Disclosure Requirements

The disclosure is according to Part Eight of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amended by Regulation (EU) 2019/876, hereinafter referred to as the Capital Requirements Regulation (CRR). In addition, report complies with the requirements set in Commission Implementing Regulation (EU) 2021/637 of 15 March 2021, EBA Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07) and other disclosure related guidelines.

The disclosures required are made in accordance with the formal policies and internal processes, systems and controls.

All amounts have been expressed in HRK million.

Quantitative data have been presented mainly based on supervisory reporting data points, as per reviewed mapping tool, issued by EBA.



Krešimir Barić,
Member of the Management Board



Hannes Frotzbacher,
Member of the Management Board

Zagreb, April 2023

Qualitative Template	Quantitative Template	Description	Article in CRR	Chapter
EU OVA		Institution risk management approach	Article 435(1)	Risk management at EBC Group
EU OVB		Disclosure on governance arrangements	Article 435(2)	Risk management at EBC Group
EU OVC		ICAAP information	Points (a) and (c) of Article 438	Own funds requirements and risk-weighted exposure amounts
	EU KM1	Key metrics template	Points (a) to (g) of Article 447 and point (b) of Article 438	Scope of application
	EU OV1	Overview of risk weighted exposure amounts	Point (d) of Article 438	Own funds requirements and risk-weighted exposure amounts
EU CCA		Main features of regulatory own funds instruments and eligible liabilities instruments	Points (b) and (c) of Article 437	Own Funds
EU CC1		Composition of regulatory own funds	Points (a), (d), (e) and (f) of Article 437	Own Funds
	EU CC2	Reconciliation of regulatory own funds to balance sheet in the audited financial statements	Point (a) of Article 437	Own Funds
EU LIA		Explanations of differences between accounting and regulatory exposure amounts	Points (b) and (d) of Article 436	Scope of application
EU LIB		Other qualitative information on the scope of application	Points (f), (g) and (h) of Article 436	Scope of application
	EU LI1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	Point (c) of Article 436	Scope of application
	EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	Point (d) of Article 436	Scope of application
	EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	Point (b) of Article 436	Scope of application
	EU CCyB1	Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer	Point (a) of Article 440	Capital buffers
	EU CCyB2	Amount of institution-specific countercyclical capital buffer	Point (b) of Article 440	Capital buffers
EU LRA		Disclosure of the leverage ratio	Points (d) and (e) of Article 451(1)	Leverage ratio
	EU LR1 - LRSum	Summary reconciliation of accounting assets and leverage ratio exposures	Article 451(1) (b)	Leverage ratio
	EU LR2 - LRCom	Leverage ratio common disclosure	Article 451(1) (a) and Article 451(1) (b); Article 451(3) (taking into account, where applicable, Article 451(1) (c) and Article 451(2))	Leverage ratio
	EU LR3 - LRSpl	Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	Article 451(1) (b)	Leverage ratio
EU CRA		General qualitative information about credit risk	Points (a), (b), (d) and (f) of Article 435(1)	Risk management at EBC Group
EU CRB		Additional disclosure related to the credit quality of assets	Points (a) and (b) of Article 442	Credit risk quality
	EU CR1	Performing and non-performing exposures and related provisions	Points (c) and (f) of Article 442	Credit risk quality
	EU CR1-A	Maturity of exposures	Point (g) of Article 442	Credit risk quality
	EU CR2	Changes in the stock of non-performing loans and advances	Point (f) of Article 442 CRR	Credit risk quality
	EU CR2a	Changes in the stock of non-performing loans and advances and related net accumulated recoveries	Points (c) and (f) of Article 442	Credit risk quality
	EU CQ1	Credit quality of forborne exposures	Point (c) of Article 442	Credit risk quality
	EU CQ2	Quality of forbearance	Point (c) of Article 442	Credit risk quality
	EU CQ3	Credit quality of performing and non-performing exposures by past due days	Point (d) of Article 442	Credit risk quality
	EU CQ4	Quality of non-performing exposures by geography	Points (c) and (e) of Article 442	Credit risk quality
	EU CQ5	Credit quality of loans and advances by industry	Points (c) and (e) of Article 442	Credit risk quality
	EU CQ6	Collateral valuation - loans and advances	Point (c) of Article 442	Credit risk quality
	EU CQ7	Collateral obtained by taking possession and execution processes	Point (c) of Article 442	Credit risk quality
	EU CQ8	Collateral obtained by taking possession and execution processes – vintage breakdown	Point (c) of Article 442	Credit risk quality
EU CRC		Disclosure of the use of credit risk mitigation techniques	Points (a) to (e) of Article 453	Credit risk mitigation techniques
	EU CR3	CRM techniques overview: Disclosure of the use of credit risk mitigation techniques	Point (f) of Article 453	Credit risk mitigation techniques
	EU CR4	Standardised approach -Credit risk exposure and CRM effects	Article 453 (g), Article 453 (h), Article 453 (i) and Article 444 (e)	Use of the standardized approach to credit risk
	EU CR7 -A	IRB approach – Disclosure of the extent of the use of CRM techniques	Article 453 (g)	Use of the IRB Approach to credit risk
EU CRD		Disclosure of the use of standardised approach	Points (a) to (d) of Article 444	Use of the standardized approach to credit risk
	EU CR5	Standardised approach	Point (e) of Article 444	Use of the standardized approach to credit risk

EU CRE	Disclosure of the use of the IRB approach to credit risk	Points (a) to (f) of Article 452	Use of the IRB Approach to credit risk
EU CR6	IRB approach – Credit risk exposures by exposure class and PD range	Point (g)(i)-(v) of Article 452	Use of the IRB Approach to credit risk
EU CR6 -A	Scope of the use of IRB and SA approaches	Point (b) of Article 452	Use of the IRB Approach to credit risk
EU CR8	RWEA flow statements of credit risk exposures under the IRB approach	Point (h) of Article 438	Use of the IRB Approach to credit risk
EU CR9	IRB approach – Back-testing of PD per exposure class (fixed PD scale)	Point (h) of Article 452	Use of the IRB Approach to credit risk
EU CR10	Specialised lending and equity exposures under the simple riskweighted approach	Point (e) of Article 438	Own funds requirements and risk-weighted exposure amounts
EU CCRA	Disclosure of exposures to counterparty credit risk	Points (a) to (d) of Article 439	Counterparty credit risk
EU CCR1	Analysis of CCR exposure by approach	Points (f), (g), and (k) of Article 439	Counterparty credit risk
EU CCR2	Transactions subject to own funds requirements for CVA risk	Point (h) of Article 439	Counterparty credit risk
EU CCR3	Standardised approach – CCR exposures by regulatory exposure class and risk weights	Point (l) of Article 439 referring to point (e) of Article 444	Counterparty credit risk
EU CCR4	IRB approach – CCR exposures by exposure class and PD scale	Point (l) of Article 439 referring to point (g) of Article 452	Counterparty credit risk
EU CCR5	Composition of collateral for CCR exposures	Point (e) of Article 439	Counterparty credit risk
EU MRA	Disclosure of the use of standardised approach and internal model for market risk	Points (a) to (d) of Article 435(1)	Market risk
EU MR1	Market risk under the standardised approach	Article 445	Market risk
EU LIQA	Disclosure of liquidity requirements	Articles 435(1) and 451a(4)	Liquidity Risk
EU LIQB	Qualitative information on LCR, which complements template EU LIQ1	Article 451a(2)	Liquidity Risk
EU LIQ1	Quantitative information of LCR	Article 451a(2)	Liquidity Risk
EU LIQ2	Net Stable Funding Ratio	Article 451a(3)	Liquidity Risk
EU IRRBBA	Qualitative information on interest rate risks of non-trading book activities	Article 448	Interest rate risk
EU IRRBB1	Quantitative information of interest rate risks of non-trading book activities	Points (a) and b) of Article 448	Interest rate risk
EU PV1	Prudent valuation adjustments (PVA)	Point (e) of Article 436	Scope of application
EU AE4	Disclosure of encumbered and unencumbered assets	Article 443	Other risks
EU AE1	Encumbered and unencumbered assets	Article 443	Other risks
EU AE2	Collateral received and own debt securities issued	Article 443	Other risks
EU AE3	Sources of encumbrance	Article 443	Other risks
EU ORA	Disclosure of operational risk	Articles 435(1), 446 and 454	Operational Risk
EU OR1	Operational risk own funds requirements and risk-weighted exposure amounts	Articles 446 and 454	Operational Risk
EU REMA	Disclosure of remuneration policy	Points (a), (b), (c), (d), (e), (f), (j) and (k) of Article 450(1) and of Article 450(2)	Remuneration policy
EU REM1	Remuneration awarded for the financial year	Point (h)(i)-(ii) of Article 450(1)	Remuneration policy
EU REM2	Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)	Point (h)(v)-(vii) of Article 450(1)	Remuneration policy
EU REM3	Deferred remuneration	Point (h)(iii)-(iv) of Article 450(1)	Remuneration policy
EU REM5	Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)	Point (g) of Article 450(1) in accordance with Articles 433a, 433b and 433c	Remuneration policy
COV- 19 Template 1	Information on loans and advances subject to legislative and non-legislative moratoria		Other risks
COV- 19 Template 2	Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria		Other risks
COV- 19 Template 3	Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis		Other risks

Table 1: Overview of disclosed notes in the Disclosure Requirements

Overview of non-applicable disclosures

The following table provides an overview of the Articles of the CRR not covered by the Disclosure Report or included in other disclosures with an explanation of reasons for non-disclosure in this report.

Disclosure requirement	CRR article	Disclosure requested in the CRR article	Reason for non-applicable disclosure
Disclosure of own funds	Point (f) of Article 437	Where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated.	EBC Group does not disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in the CRR.
Disclosure of own funds and eligible liabilities	Article 437a	Disclosure of own funds and eligible liabilities for institutions subject to Article 92a and 92b.	EBC Group is not classified as GSII
Disclosure of key metrics and overview of risk-weighted exposure amounts	Point (f) of Article 438	EU INS1 - Insurance participations	Not applicable for EBC Group
	Point (g) of Article 438	EU INS2 - Financial conglomerates information on own funds and capital adequacy ratio	
Disclosure of own funds requirements and exposures to counterparty credit risk	Point (h) of Article 438	EU CCR7 – RWEA flow statements of CCR exposures under the IMM	EBC Group doesn't apply IMM for RWEA calculation
	Point (i) of Article 439	EU CCR8 – Exposures to CCPs	EBC Group doesn't have exposures to CCPs.
	Point (j) of Article 439	EU CCR6 – Credit derivatives exposures	Erste Group does not use credit derivatives as credit mitigation technique.
	Point (k) of Article 439	Estimate of α if the institution has received the permission of the competent authorities to estimate α .	Erste Group does not apply any own estimates of the scaling factor.
Disclosure of indicators of global systemic importance	Article 441	G-SIIs shall disclose, on an annual basis, the values of the indicators used for determining their score in accordance with the identification methodology referred to in Article 131 of Directive 2013/36/EU.	EBC Group is not classified as GSII
Disclosure of key metrics	Article 447 (h)	Disclosure of their own funds and eligible liabilities ratios and their components, numerator and denominator, as calculated in accordance with Articles 92a and 92b and broken down at the level of each resolution group, where applicable.	EBC Group is not classified as GSII
Disclosure of exposures to securitisation positions	Article 449	Qualitative and quantitative disclosure requirements related to securitisation exposures: EU-SECA, EU SEC1, EU SEC2, EU SEC3, EU SEC4 and EU SEC5	Not applicable in EBC Group
Disclosure of the use of credit risk mitigation techniques	Point (j) of Article 453	EU CR7 – IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques	Erste Group does not use credit derivatives as credit mitigation technique.
Disclosure of the use of the IRB approach to credit risk	Point (f) of Article 180(1)	EU CR9.1 –IRB approach – Back-testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1) CRR)	Not applicable in EBC Group
Disclosure of the use of internal market risk models	Points (a), (b), (c), (f) of Article 455	EU MRB: Qualitative disclosure requirements for institutions using the internal Market Risk Models	Not applicable in EBC Group
	Point (d) of Article 455	EU MR3 - IMA values for trading portfolios	
	Point (e) of Article 455	EU MR2-A - Market risk under the internal Model Approach (IMA)	
	Point (g) of Article 455	EU MR4 - Comparison of VaR estimates with gains/losses	
	Point (h) of Article 438	EU MR2-B - RWA flow statements of market risk exposures under the IMA	
Disclosure of remuneration policy	Point (i) of Article 450	EU REM4 - Remuneration of 1 million EUR or more per year	EBC doesn't have employees whose total annual remuneration in the financial year amounts to or exceeds the equivalent of 1 million EUR.
Disclosure of environmental, social and governance risks (ESG risks)	Article 449a	Quantitative disclosure related to ESG risks - Templates 1 - 10	Disclosure of quantitative information on ESG risks is fulfilled at the level of the Parent Institution.

Table 2: Overview of non-applicable disclosures

List of abbreviations

ALCO	Asset Liability Committee
ALM	Asset Liability Management
AQR	Asset Quality Review
CCF	Credit Conversion Factor
CMLL	Calculated Maximum Lending Limit
CCR	Counterparty Credit Risk
CRD IV	Capital Requirements Directive 2013/36 EU
CET1	Common Equity Tier 1
CIU	Collective Investment Undertakings
CLA	Credit Loss Allowances
CRM	Credit Risk Mitigation
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CVA	Credit Valuation Adjustments
EAD	Exposure at Default
EBA	European Banking Authority
ECB	European Central Bank
EGB	Erste Group Bank AG
EVA	Economic Value Added
FLI	Forward-looking information
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IRB	Internal Ratings Based Approach
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIP	Loss Identification Period
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
OLL	Operating Lending Limit
PD	Probability of Default
PVBP	Price Value of a Basis Point
QRD	Quantitative Research Department
RAS	Risk Appetite Statement
RbLL	Rating based Lending Limit
SKDD	Central Depository and Clearing Company

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Introduction

General information

DISCLOSURE REQUIREMENTS Art. 436 (a) CRR

Erste&Steiermärkische Bank d.d. (hereinafter referred to as Bank) was established in 1954 as the Riječka banka d.d. 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 and has been operating under this name since 1 August 2003.

The Bank is the holding company for the Erste Bank Croatia Group (hereinafter referred to as Group or EBC Group) that operates in the Republic of Croatia and Republic of Montenegro.

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%).

In this Disclosure Requirements, ultimate parent of the Group, Erste Group Bank AG is referred as Erste Group.

Disclosure policy and structure

The current Disclosure Report of the EBC Group meets the disclosure requirements of Part Eight of the CRR. In addition, report complies with the requirements set in Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 and other disclosure related guidelines.

The Disclosure Report provides comprehensive disclosures on risks, risk management and capital management. The main document is published once a year, even though specific information is published more often pursuant to the Commission Implementing Regulation (EU) 2021/637.

The EBC Group has opted for the Internet as the medium for publishing its disclosures under Article 434 (1) CRR. Details are available on the website of the Bank at <https://www.erstebank.hr/en/about-us/financial-reports-and-announcements> in the section "Disclosure Requirements".

The EBC Group Disclosure Policy, supplemented by a series of operating procedures, sets out the overarching principles and guidelines used by the Group in order to fulfil its disclosure requirements under Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 as well as the processes in place to establish, review and approve the actual disclosures.

The regulatory framework of Basel 3

Implementation of Basel 3 in the European Union (EU)

On 26 June 2013, the European Parliament adopted the new capital and liquidity requirements for the implementation of Basel 3 in the EU - Capital Requirements Directive IV ("CRD IV", Directive (EU) 2013/36/EU) and the Capital Requirements Regulation ("CRR", Regulation (EU) No. 575/2013). On 20 May 2019, the amendments to the Capital Requirements Directive (CRD V) and the Capital Requirements Regulation (CRR II) were published in the Official Journal of the EU. The application of the new regulatory requirements for credit institutions and investment firms became effective as of 28 June 2021, with partial applicability date from May 2019. As of this time, EBC Group has been calculating regulatory capital and regulatory capital requirements according to Basel 3.

The "Three Pillars" were introduced for the first time under Basel 2. The objectives of this framework are: more risk sensitive capital allocation (Pillar 1 – Minimum Capital Requirements), more detailed regulatory assessment of material risk categories (Pillar 2 - Supervisory Review Process) and increased market transparency (Pillar 3 – Market Discipline). Basel 3 enlarged the scope of these requirements. Reforms introduced by latest Basel 3 framework aim to strengthen regulation, supervision and risk management of the banking sector, especially by improving banking sector's ability to absorb shocks arising from financial and economic stress, improving management and governance of risk and strengthening banks' transparency and disclosures.

Pillar 1 – Minimum requirements

As introduced by Basel 2, Pillar 1 covers the calculation of capital requirements for credit risk, market risk and operational risk. As such, it details the different methods available for calculating risk weighted assets for the three risk types and provides information on the eligibility criteria for the constituents of the capital base. Under Basel 3, a leverage exposure requirement was introduced to complement the minimum risk-based capital requirements.

Basel 3 extended minimum requirements to also cover liquidity in addition to capital. In this regard, Pillar 1 specifies the requirements for the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), with the latter not yet a binding requirement in the EU.

Pillar 2 – Supervisory review process

Pillar 2 requires banks to conduct an internal capital adequacy assessment process (ICAAP) to demonstrate that they have implemented methods and procedures to safeguard capital adequacy with due attention to all material risks. The ICAAP supplements the minimum regulatory requirements of Pillar 1. It considers a broader range of risk types as well as risk and capital management capabilities.

In parallel to the introduction of Pillar 1 requirements for liquidity through the Basel 3 framework, the ICAAP was complemented with an internal liquidity adequacy assessment process (ILAAP) to ensure banks have implemented processes and tools to safeguard the adequacy of their funding and liquidity.

Furthermore, Pillar 2 requires supervisors to conduct a Supervisory Review and Evaluation Process (SREP) to assess the soundness of banks' ICAAP and ILAAP and take any appropriate actions that may be required.

Pillar 3 – Market discipline

Taking account of Pillar 1 (Minimum Capital Requirements) and Pillar 2 (Supervisory Review Process), Pillar 3 aims to increase market transparency by providing information on the scope of application, regulatory capital, risk positions, risk measurement approaches and therefore, the capital adequacy of a bank.

Risk management at EBC Group

Risk policy and strategy

DISCLOSURE REQUIREMENTS Art. 435 (1) CRR: EU OVA, EU CRA

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. Disclosed information in this Chapter 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.

Risk management organisation

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. 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. CRO reviews the regular Group results/reports, draws conclusions and takes decisions within his/her responsibility as a member of the Board of Directors.

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

Risk Management Division

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

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

Risk management division revises internal acts within its responsibility, performs appropriate control and impact analysis and, if necessary, any alignments for the upcoming period.

Credit Risk Management Division

The Credit Risk Management Division approves and monitors deals and limits to Retail and Corporate clients, maintenance and further enhancement of credit application approval process, participates in internal rating approval process, early and late collection process and early warning signals system. Division follows Group and regulatory standards in their responsibility in Corporate, Retail and Workout segments, implements it in local policies and procedures, monitors their adherence and control their implementation in subsidiaries. It monitor credit risk on deal, client/GCC (Group of connected customer) and portfolio level and creates reports mainly for internal purposes. Through dedicated workout departments it is in charge for business relationship with workout clients which includes collection of non-performing exposure by means of a continuous and systematic development of solutions to eliminate and reduce risks in dealing with work-out clients. It defines appropriate collection strategies toward clients or selected portfolios through distress restructurings or late collection process including litigation, pre-bankruptcy and bankruptcy proceedings, debt sale, debt settlements, write-offs or collection through repossessed asset.

Non-Financial Risk Division

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

Asset and Liability Management Division (“ALM“)

ALM has the responsibility of managing the Bank's assets and liabilities as well as the overall balance sheet 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.

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 macroeconomic 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 fulfil 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), Stop Loss limits, Stress test limit and VaR limits. Value at Risk (VaR) calculation is performed in the Bank 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.

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 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.

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 not existing (no exposure to risk). 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

1	Core Business Focus	<ul style="list-style-type: none"> EBC Group focuses on core markets / countries, business segments, products and relationship customers
2	Risk can be taken only within Risk Appetite	<ul style="list-style-type: none"> Compliance with the defined Risk Appetite contributes fundamentally to the continuity of the EBC Group by ensuring its capital adequacy and sound liquidity position Risk decisions are taken based on the approved risk policies and compliance with the standards is part of the risk assessment
3	Prudent Risk Management Governance	<ul style="list-style-type: none"> Responsibilities and governance for EBC Group-wide risk management are clearly defined EBC Management Board acts as ultimate responsible body, while Supervisory Board monitors risk profile EBC Group strengthens the 3 lines of defense (Business, Risk, Internal Audit)
4	Integrated Risk Management	<ul style="list-style-type: none"> All material risks are identified, measured, monitored and managed Model development and validation ensure that risk quantification methodologies are adequate, consistent and independently validated Erste Group aims at maintaining healthy asset quality Concentration risk is managed through various sets of limits
5	Consistent Strategic Framework	<ul style="list-style-type: none"> Risk Appetite Statement, Business Strategy and Risk Strategy, Lending standards ensure full alignment of risk, capital and performance targets
6	Forward Looking View	<ul style="list-style-type: none"> Regular activities ensure comprehensive view on risks and vulnerabilities, including Risk Planning, Stress Testing, Early Warning Systems, Recovery Plan Scenarios and Risk Concentration Analysis
7	Risk Culture	<ul style="list-style-type: none"> EBC Group strives to comply at all times with all laws and regulations applicable to EBC Group in the jurisdictions where it operates. Should there be instances where it is determined that EBC Group is not in compliance, programs and processes are in place that enable the EBC Group to act quickly to address any outstanding issues All employees are obliged to avoid actions and statements that could have a negative impact on EBC Group's reputation. All employees demonstrate highest ethical standards of conduct at all times as set by core values, adherence to Statement of Purpose (e.g. ask "Is it the right thing to do?") Put risk and its forward-looking assessment at the forefront of all decisions
8	Risk-Return Consideration	<ul style="list-style-type: none"> ICAAP results - economic capital and thus P2 RWA consumption – represent one of the key inputs used to calculate the Economic Value Added (EVA), being a key element in decision-making for transaction pricing (ex-ante) and performance monitoring (ex-post) of business segments and entities New RoTE is one of the key elements for monitoring risk-return Risk-return assessment is used for cascading of certain top-down limits (e.g. credit RWA), taking into account profitability vs. P1 and P2 RWA growth Key Performance Indicators (KPIs) are linked to Key Risk Indicators (KRIs)
9	Data Management and Automation	<ul style="list-style-type: none"> Focus on enhancement of infrastructure and data quality that enable all risks to be identified, assessed, managed and reported Focus on the digitalization and automation of processes, while ensuring sound information, communication and technology (ICT) risk management New Ensure sufficient cyber security risk Management Board oversight by establishing an integrated enterprise-wide cyber risk framework and three-lines-of-defense organization with mandated independent risk control function. New Ensure that investment and operating of IT and Security controls is prioritized using a risk-based approach

Figure 1: Principles of Risk management

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 2022 the Group focused on the crisis in Ukraine management, improvement of overall portfolio quality as well as on NPL management.

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 the Bank where the Annual report for 2022 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 2022, 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.

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).

To foster risk-return steering and ensure proactive management of the risk profile, Erste Group creates its RAS on a forward-looking basis. External constraints such as regulatory requirements create the floor and ceiling for the RAS and therefore the amount of risk Erste Group is willing to accept. In order to ensure that the Group remains within the targeted risk profile, a traffic light system was established and as-signed to the core metrics. This approach allows a timely delivery of information to the respective governance and the implementation of effective remediation measures.

The RAS traffic light system is defined as follows:

- _ RAS is green: The target risk profile is within the specified boundaries.
- _ RAS is amber: The undershooting or overshooting of a pre-defined threshold leads to an escalation to the designated governance and the discussion of potential remediation actions.
- _ RAS is red: The undershooting or overshooting of a pre-defined limit initiates an immediate escalation to the designated governance and a prompt implementation of remediation actions.

Moreover, stress indicators are defined for selected core metrics and integrated into the assessment of the stress test results. They are report-ed as early warning signals to the management board to support proactive management of the risk and capital profile.

In addition, supporting metrics and principles are defined by material risk type in the Group Risk Strategy based on Group RAS. These support implementation of the mid- to long-term strategy. Risk management governance ensures full oversight of risk decisions and sound execution of the Group risk strategy. Mitigating actions are undertaken as part of the regular risk management process to ensure that the Group remains within its RAS.

INFORMATION FLOW OF RISK

DISCLOSURE REQUIREMENTS Art. 435 (2) (e) CRR – EU OVB

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

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

This ensures centralized analysis, model development, uniform way of calculating the indicators and segmentation throughout the Bank and the Group. The information is further transfer to management through regular reporting (predefined schedule and scope of the report) as well as ad hoc reporting on the risks that ensures the timely availability of high quality and accurate information to governing bodies to ensure adequate risk management and the Group itself.

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

RISK 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.

Management bodies

DISCLOSURE REQUIREMENTS Art. 435 (2) (a) CRR

The Bank has a two-tier governance structure with a Management Board and a Supervisory Board as management bodies.

SUPERVISORY BOARD

Willibald Cernko	President
Georg Bucher	Deputy President
Ingo Bleier	Member
Roland Klimesch	Member
Judit Agnes Havasi	Member
Walburga Seidl	Member
Nikolai Leo de Arnoldi	Member

As of December 2022, the Supervisory Board members held the following supervisory board mandates or similar functions in the companies as it follows:

Willibald Cernko

- _ Erste Group Bank AG, president of the Management Board
- _ Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft, member of the Supervisory Board
- _ Oesterreichische Kontrollbank AG, member of the Supervisory Board
- _ SOS-Kinderdorf, member of the Supervisory Board
- _ Steiermärkische Bank und Sparkassen AG, member of the Supervisory Board
- _ s Wohnbaubank AG, president of the Supervisory Board
- _ Tiroler Sparkasse Bankaktiengesellschaft Innsbruck, member of the Supervisory Board
- _ Salzburger Sparkasse AG, president of the Supervisory Board
- _ Kärntner Sparkasse AG, member of the Supervisory Board

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
- _ 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
- _ s IT Solutions AT Spardat GmbH, member of the Supervisory Board
- _ Sparkasse Bank a.d. Skopje, member of the Supervisory Board

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, president of the Board of Directors

Roland Klimesch

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Judit Agnes Havasi

- _ Donau Versicherung AG Vienna Insurance Group, president of the Management Board
- _ Vienna-Life Lebensversicherung AG Vienna Insurance Group, 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

Walburga Seidl

- _ Steiermärkische Bank und Sparkassen AG, member of the Management Board
- _ Sparkasse Bank a.d. Skopje, 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
Zdenko Matak	Member
Martin Hornig	Member
Krešimir Barić	Member
Hannes Frotzbacher	Member

As of 31 December 2022, the Management Board members held the following supervisory board mandates or similar functions in the following companies:

Christoph Schoefboeck

- _ Erste Bank Ad Podgorica, president of the Supervisory Board
- _ Sparkasse Bank Bosnia and Herzegovina, member of the Supervisory Board

Zdenko Matak

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

Martin Hornig

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

Krešimir Barić

- _ Erste nekretnine d.o.o., president of the Supervisory Board
- _ Erste Card Club d.o.o., deputy president of the Supervisory Board
- _ Erste Bank AD Podgorica, deputy president of the Supervisory Board

Hannes Frotzbacher

- _ Erste&Steiermärkische S-leasing d.o.o., president of the Supervisory Board
- _ Erste Bank Ad Novi Sad, member of the Board of directors
- _ Banka Sparkasse Ljubljana, member of the Supervisory Board

PROCURATORS

On 31 December 2022, the Bank has no procurator.

RISK COMMITTEE OF THE SUPERVISORY BOARD

DISCLOSURE REQUIREMENTS Art. 435 (2) (d) CRR

In addition to the Remuneration Committee, the Nomination Committee and the Audit Committee, the Bank have had also established the Risk Committee of the Supervisory Board. Risk Committee is composed of the members of the Supervisory Board and shall consist of at least three members of which one shall be appointed as a President. The number of the members should be odd.

Within the scope of its competences and responsibilities and in accordance with the applicable laws, the Risk Committee particularly performs the following activities:

- _ advises and supports the Supervisory Board on overall current and future risk appetite and strategy, taking into account all types of risks, to ensure that they are in line with the business strategy, objectives, corporate culture and values of the Bank, and assist in overseeing the implementation of that strategy by senior management. The Management Board and the Supervisory Board of the Bank shall retain overall responsibility for risk management and overseeing the Bank,
- _ oversees the implementation of the strategies for capital as well as for all other relevant risks of a Bank in particular liquidity, market, credit, operational and reputational risks in order to assess their adequacy against the approved risk appetite and strategy,
- _ recommends the Supervisory Board the necessary adjustments to the risk strategy resulting from, inter alia, changes in the business model of the Bank, market developments or recommendations made by the risk management function,
- _ provides advice on the appointment of external consultants that the Supervisory Board may decide to engage for advice or support,
- _ reviews a number of possible scenarios, including stressed scenarios, to assess how the Bank's risk profile would react to external and internal events,
- _ oversees the alignment between all material financial products and services offered to clients and the business model and risk strategy of the Bank,
- _ reviews whether prices of liabilities and assets offered to the clients take fully into account the Bank's business model and risk strategy. Where prices do not properly reflect risks in accordance with the business model and risk strategy, presents a remedy plan to the Management Board,
- _ assesses the risks associated with the offered financial products and services and take into account the alignment between the prices assigned to and the profits gained from those products and services,
- _ assesses the recommendations of internal or external auditors and follow up on the appropriate implementation of measures taken,
- _ examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.

In 2022 Risk Committee held four meetings and made one decision in a written form without convening a meeting.

SUITABILITY POLICY

DISCLOSURE REQUIREMENTS Art. 435 (2) (b) CRR

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:

- _ 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.
- _ administrative service responsible for performing the suitability assessment of the candidate,
- _ 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,
- _ information and documents which the candidate should submit to the Bank to perform the assessment,
- _ 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,

- _ form and method of filing the documents of suitability assessment procedure,
- _ 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:

- _ compliance of the Bank's operations with the relevant rules which regulate suitability of the members of the Management Board,
- _ 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,
- _ 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,
- _ 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,
- _ establishment and maintenance of effective corporate management aimed at risks mitigation and
- _ enhancement of the Bank's performance quality and transparency.

Pursuant to the Policy, the members of the Supervisory Board have the professional knowledge, competences, and experience necessary to perform their functions of members of the Supervisory Board and every and each individual member of the Supervisory Board with his/her professional knowledge, competences and experience contributes to the collective suitability of the Supervisory Board. Accordingly, the Supervisory Board has a sufficient number of members with in at least each of the following areas:

- _ services provided by the credit institution and the main risks related to them;
- _ financial and capital markets, solvency and internal models;
- _ governance arrangements of the credit institution;
- _ accounting and reporting;
- _ control function responsibilities;
- _ information technology and security;
- _ local, regional and global markets, where applicable;
- _ the legal and regulatory framework;
- _ managerial skills and experience;
- _ strategic planning;
- _ the management of national and international groups and risks related to group structures.

Furthermore, the President and members of the Management Board have the professional knowledge, competences, and experience necessary to perform their functions of President and members of the Management Board and every and each individual member of the Management Board with his/her professional knowledge, competences and experience contributes to the collective suitability of the Management Board. Accordingly, the Management Board has a sufficient number of members with in at least each of the following areas:

- _ services provided by the credit institution and the main risks related to them;
- _ financial and capital markets, solvency and internal models;
- _ governance arrangements of the credit institution;
- _ accounting and reporting;
- _ control function responsibilities;
- _ information technology and security;
- _ local, regional and global markets, where applicable;
- _ the legal and regulatory framework;
- _ managerial skills and experience;
- _ strategic planning;
- _ the management of national and international groups and risks related to group structures.

DIVERSITY AND INCLUSION POLICY

DISCLOSURE REQUIREMENTS Art. 435 (2) (c) CRR

Erste Bank strives to create an environment that supports diversity and respect and appreciation of others. The principles of diversity and inclusion, which the Bank undertakes to apply, are defined in the Diversity and Inclusion Policy. This Policy outlines the framework and guidelines of diversity and inclusion within the Bank and the ESB Group. It defines guiding principles on how to best integrate diversity management into corporate culture and business. This local document is aligned with Group Diversity Management guidelines and policy.

According to the Group Diversity Management guidelines, and in accordance with Directive 2013/36 / EU (CRD IV) and 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, the Policy defines goals related to the structure of senior management and the share of women in these positions. The goals are defined for a period of five years, and are measured in two steps, in 2023 and 2025.

Targets for the share of women are set for two management levels:

- _ Supervisory Board and Management Board - the goals are: 23% by 2023 and 31% by 2025. At the end of 2022, share of women was 17%, which means that in the next year it is necessary to appoint one more female leader in these positions to reach the target.
- _ Management Board and B-1 - the goals are: 34% by 2023 and 41% by 2025. In 2022, with 36% of female leaders at this management level, target defined for 2023 has already been exceeded.

	December 2022	Target 2023	Target 2025
Share of women, SB & MB	17%	23%	31%
Share of women, MB & B-1	36%	34%	41%

To achieve these goals, the Bank will continue to develop an inclusive corporate culture, break stereotypes related to gender roles and create a work environment that is flexible and ensures work-life balance. Special attention will be paid to educating management as decision makers and to creating benefits for the employees that support women in balancing career and family. In the process of planning successors for key positions, the Bank will implement diversity, focusing on gender, as one of the key criteria for the nomination of successors. This should ensure a gender-balanced base of future leaders and thus contribute to the inclusion of women in top managerial positions and breaking the "glass ceiling".

Besides gender, the Bank will consider other diversity dimensions such as age, professional experience or education when nominating successors for key positions.

Material risks at EBC Group

At EBC Group, the risk materiality assessment is performed for risk types to which a credit institution is or could be potentially exposed to. This Disclosure Report presents the qualitative and quantitative features of the following material risk types in detail:

- _ Credit risk
- _ Market risk (including market risks in the banking book)
- _ Operational risk
- _ Reputational risk
- _ Macroeconomic risk
- _ Political risk
- _ Environmental, Social and Governance (ESG) risks

In addition, this report describes other risk types as requested by CRR.

Scope of application

DISCLOSURE REQUIREMENTS Art. 436 (b) CRR

In the application of the Article 436 (b) CRR, Group is disclosing the differences due to scope of consolidation, followed by the differences between carrying amounts available in financial statements and exposure used for the regulatory purpose.

Accounting principles

The financial and regulatory figures published by the Group are based on IFRS. Eligible capital components derive from the Statement of financial position and Statement of profit or loss which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scope of consolidation and for items where the regulatory treatment is not equal to the accounting requirements.

The uniform closing date of the consolidated financial statements and consolidated regulatory figures of the Group is the 31 December of each respective year.

Scope of consolidation

Details regarding the accounting scope of consolidation are disclosed in chapter Scope of consolidation of Annual report available on the website of the Bank at <https://www.erstebank.hr/en/about-us/financial-reports-and-announcements>. The regulatory scope of consolidation is used as a synonym for the scope of consolidation that follows the regulatory requirements for consolidation as defined by the CRR and Croatian Credit Institutions Act (ZOKI) which introduces the requirements of the CRD IV into national law.

Regulatory scope of consolidation

The regulatory scope of consolidation is defined in Part One, Title II and Chapter 2 Section 3 of the CRR.

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

In addition, the following update according to Art 18 (7) applies: Where an institution has a subsidiary which is an undertaking other than an institution, a financial institution or an ancillary services undertaking or holds a participation in such an undertaking, it shall apply to that subsidiary or participation the equity method. That method shall not, however, constitute inclusion of the undertakings concerned in supervision on a consolidated basis.

The definition pursuant to CRR differs from the scope of consolidation according to IFRS, which also includes insurance companies and other entities, that are subject to full consolidation.

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

- Based on the CRR, mainly credit institutions pursuant to Article 4 (1) (1) CRR, investment firms pursuant to Article 4 (1) (2) CRR, ancillary services undertakings pursuant to Article 4 (1) (18) CRR and financial institutions pursuant to Article 4 (1) (26) CRR have to be considered within the regulatory scope of consolidation. Under IFRS all other entities not required to be consolidated under CRR, such as insurance undertakings, must be included in the accounting scope of consolidation.
- Exclusion of entities from the regulatory scope of consolidation can be applied based on Article 19 CRR. According to Article 19 (1) CRR, entities can be excluded from the regulatory scope if their total assets and off balance sheet items are less than the lower amount of either EUR 10 million or 1% of total assets and off balance sheet items of the parent company. The Group makes use of Article 19 (1) CRR.
- According to Article 19 (2) CRR, entities can also be excluded if the limits defined in Article 19 (1) CRR are exceeded, but are not relevant for regulatory purposes. Exclusion of entities based on Article 19 (2) CRR needs prior approval of the competent authorities. For entities that exceed the limits as defined in Article 19 (1) CRR by insignificant amounts, the Group apply Article 19 (2) CRR and follows the requirements for the approval process as defined within this article. The Group does not apply Article 19 (2) CRR for credit institutions and investment firms.
- According to Art 18 para 7 CRR an institution that has a subsidiary which is an undertaking other than an institution, a financial institution or an ancillary services undertaking or holds a participation in such an undertaking, shall apply to that subsidiary or participation the equity method. That method shall not, however, constitute inclusion of the undertakings concerned in supervision on a consolidated basis.

Consolidation methods

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

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

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

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

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

For these purposes, non-significant investments are defined as investments in financial sector entities in which the participation is equal to or less than 10% of Common Equity Tier 1 (CET1) of the relevant financial sector entities, while significant investments are defined as investments that are above 10% of the CET1 of the relevant financial sector entities. To determine the participation in the relevant financial sector entities, these participations are calculated based on the direct, indirect and synthetic holdings in the relevant entities. According to article 46 (1) (a) CRR, holdings in nonsignificant investments have to be deducted only if the total amount for such investments, including Additional Tier 1 (AT1) items according to article 56 (c) and 59 CRR and Tier 2 items according to article 66 (c) and 70 CRR, exceeds a defined threshold of 10% in relation to CET1 of the reporting institution.

The deduction shall be applied to the amount that exceeds the 10% of threshold. Amounts that are equal to or less than 10% of the CET1 of the reporting institution are applied with the appropriate risk weights according Part 3, Title II, Chapter 2 respectively Chapter 3 and if necessary according to the requirements of Part 3, Title IV within the risk weighted assets based on the requirements according to article 46 (4) CRR.

For the deduction of significant investments in the CET1 of financial sector entities, a threshold is defined in article 48 (2) CRR. According to article 48 (2) CRR, significant investments in the CET1 of financial sector entities have only to be deducted if they exceed 10% of the CET1 of the reporting institution. If 10% threshold is exceeded, the deduction is limited to the amount by which the defined threshold is exceeded. The remaining amount has to be considered within the calculation of the risk weighted assets (RWA). The risk weight (RW) is defined at 250% according to article 48 (4) CRR.

In addition to the aforementioned threshold, a combined threshold for the deduction of significant investments according to article 36 (1) (i) CRR and for deferred tax assets that rely on future profitability and arise from temporary differences according to article 36 (1) (c) CRR as well as according to article 38 CRR is defined in article 48 (2) CRR. The combined threshold according to article 48 (2) CRR is defined at 17.65% of the CET1 of the reporting institution. If the threshold is exceeded, the exceeding amount has to be deducted from the CET1 of the reporting institution. The remaining amount has to be considered within the RWAs according to article 48 (3) CRR. A 250% RW shall be applied for the amount not exceeding the 17.65% threshold according to article 48 (4) CRR.

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

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

Outline of the differences in the scopes of consolidation by entity level

DISCLOSURE REQUIREMENTS Art. 436 (b) CRR

a	b	c	d	e	f	g	h
Name of the entity	Method of accounting consolidation	Method of prudential consolidation				Deducted	Description of the entity
		Full consolidation	Proportional consolidation	Equity method	Neither consolidated nor deducted		
Erste bank AD Podgorica, Montenegro	Full consolidation	X	-	-	-	-	Credit institution
Erste & Steiermärkische S-Leasing d.o.o.	Full consolidation	X	-	-	-	-	Financial institutions
ERSTE CARD CLUB d.o.o. za financijsko posredovanje i usluge	Full consolidation	X	-	-	-	-	Financial institutions
Erste Nekretnine d.o.o.	Full consolidation	-	-	-	X	-	Ancillary service undertakings
Erste Group IT HR d.o.o.	Full consolidation	-	-	-	X	-	Ancillary service undertakings
Izbor nekretnina d.o.o.	Full consolidation	-	-	-	X	-	Ancillary service undertakings
Erste d.o.o. društvo za upravljanje obveznim mirovinskim fondom	Equity method	-	-	X	-	-	Other companies

Table 3: Template EU LI3 - Outline of the differences in the scopes of consolidation (entity by entity)

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

During 2022 there were changes in scope of consolidation. In October 2021 Erste Card Club d.o.o. signed an agreement for the sale of Erste Card d.o.o. Slovenia to bank Sparkasse Bank d.d., Slovenia, a related party. As the sale was not completed by the end of 2021, and subsidiary was presented as disposal group held for sale for the financial year 2021, sale was finalized during June 2022.

More informations are disclosed in Annual Report for the year ended 31 December 2022 available on the website of Erste Bank, under <https://www.erstebank.hr/en/about-us/financial-reports-and-announcements>.

Differences in scope of consolidation and mapping with regulatory risk categories

DISCLOSURE REQUIREMENTS Art. 436 (c) CRR

								in HRK mn
	a	b	c	d	e	f	g	
			Carrying values of items					
	Carrying values as reported in published financial statements	Carrying values under scope of prudential consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds	
Asset								
1	Cash and cash balances	25,982	25,982	25,982	-	-	-	
2	Financial assets – held for trading	197	196	-	193	-	196	
2a	Derivatives	193	193	-	193	-	193	
2b	Other trading assets	4	4	-	-	-	4	
3	Non-trading financial assets at fair value through profit or loss	60	60	60	-	-	-	
3a	Equity instruments	21	43	43	-	-	-	
3b	Debt securities	39	17	17	-	-	-	
4	Financial assets at fair value through other comprehensive income	9,167	9,167	9,167	-	-	-	
4a	Equity instruments	4	4	4	-	-	-	
4b	Debt securities	9,163	9,163	9,163	-	-	-	
5	Financial assets at amortised cost	71,049	75,373	75,316	57	-	-	
5a	Loans to and receivables from credit institutions	2,890	-	-	-	-	-	
5b	Loans to and receivables from customers	58,135	65,349	65,292	57	-	-	
5c	Debt securities	10,024	10,024	10,024	-	-	-	
6	Finance lease receivables	3,018	-	-	-	-	-	
7	Property and equipment	1,166	1,162	1,162	-	-	-	
8	Investment properties	9	9	9	-	-	-	
9	Intangible assets	171	159	78	-	-	80	
10	Investments in associates	65	69	69	-	-	-	
11	Current tax assets	7	7	7	-	-	-	
12	Deferred tax assets	404	404	404	-	-	-	
13	Assets held for sale	4	4	4	-	-	-	
14	Trade and other receivables	1,297	-	-	-	-	-	
15	Other assets	271	258	258	-	-	-	
16	Total assets	112,867	112,849	112,515	249	-	196	
Liabilities								
1	Financial liabilities – held for trading	175	175	-	175	-	-	
1a	Derivatives	175	175	-	175	-	-	
2	Financial liabilities measured at amortised costs	99,949	100,051	-	4,543	-	95,508	
2a	Deposits from banks	11,217	-	-	-	-	-	
2b	Deposits from customers	84,198	95,434	-	4,543	-	90,891	
2c	Debt securities issued	3,646	3,646	-	-	-	3,646	
2d	Other financial liabilities	888	971	-	-	-	971	
3	Finance lease liabilities	91	-	-	-	-	-	
4	Provisions	674	674	258	-	-	416	
5	Current tax liabilities	251	251	-	-	-	251	
6	Deferred tax liabilities	-	-	-	-	-	-	
7	Liabilities associated with assets held for sale	-	-	-	-	-	-	
8	Other liabilities	718	711	-	-	-	711	
9	Total liabilities	101,858	101,862	258	4,718	-	96,886	

Table 4: Template EU LI1 - Differences between the accounting scope and the scope of prudential consolidation and mapping of financial statement categories with regulatory risk categories

The table above shows breakdown of carrying amounts refer to the risk frameworks under which capital requirement is calculated in accordance with Part Three of the CRR. Overlapping between risk frameworks exist for trading book derivatives and repo transactions, as they are part of both counterparty credit risk and market risk framework. Therefore, the sum of different frameworks is not equal to the total carrying values presented under CRR scope of consolidation (column "b"). In the last column, on-balance positions deducted from own funds in accordance with Part Two of the CRR are presented.

The aim of table below is to provide information on the main sources of difference between the financial statements carrying amounts and exposure values used for regulatory purposes by relevant risk frameworks.

DISCLOSURE REQUIREMENTS Art. 436 (d) CRR

in HRK mn					
	a	b	Items subject to		e
	Total	Credit risk framework	Securitisation framework	CCR framework	Market risk framework
1 Assets carrying value amount under the scope of prudential consolidation (as per template LI1)	112,768	112,515	-	249	196
2 Liabilities carrying value amount under the scope of prudential consolidation (as per template LI1)	4,977	258	-	4,718	-
3 Total net amount under the scope of prudential consolidation	107,792	112,257	-	249	196
4 Off-balance-sheet amounts	17,927	17,927	-	-	
5 Differences in valuations	-	-	-	-	
6 Differences due to different netting rules, other than those already included in row 2	-	-	-	(91)	
7 Differences due to consideration of provisions	2,111	2,111	-	-	
8 Differences due to the use of credit risk mitigation techniques (CRMs)	4,291	(175)	-	4,467	
9 Differences due to credit conversion factors	(10,880)	(10,880)	-	-	
10 Differences due to Securitisation with risk transfer	-	-	-	-	
11 Other differences	163	1	-	161	
12 Exposure amounts considered for regulatory purposes	126,381	121,241	-	4,786	196

Table 5: Template EU LI2 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements

Assets carrying value amount represents total assets of the Bank under the regulatory scope of consolidation, while in respective columns portion related to relevant risk frameworks is presented. Exposures subject to market risk include only positions booked in the trading book, hence are not included in the framework split of the table above, but only in the column Total. As on-balance items subject to deductions are not considered in regulatory exposure, they are as well not included in the framework split of the table above.

Off-balance sheet amount represents the nominal value of the off-balance items under the regulatory scope of consolidation. Effect of CCF to off-balance is shown separately in the row Differences due to conversion factors, within credit risk framework. Differences due to netting rules different then accounting netting refer to the effect of regulatory exposure calculation for derivatives under SA-CCR method.

Differences due to consideration of provisions represent the effect of total provisions considered in gross carrying amount at the starting point of regulatory exposure calculation.

Differences due to use of credit risk mitigation techniques within credit risk framework represent net CRM effects considered in EAD, where the overall effect is majorily driven by exposure adjustments for financial collaterals under comprehensive method. The effects of CRM techniques within the counterparty credit risk framework represent net effect of collaterals used in exposure calculation for asset SFTs, as well as regulatory exposure driven by given collaterals for liability SFTs.

Other differences within credit risk framework are mainly consisted of different calculation methodology for leasing products.

Breakdown of prudent valuation adjustment by type of risks for trading book and non-trading book positions that are adjusted in accordance with Article 34 and 105 of the CRR

DISCLOSURE REQUIREMENTS Art. 436 (e) CRR

in HRK mn											
		a	b	c	d	e	EU e1	EU e2	f	g	h
		Risk category					Category level AVA - Valuation uncertainty		Total core approach		
Category level AVA							Unearned credit spreads AVA	Investment and funding costs AVA		Of which: in the trading book	Of which: in the banking book
		Equity	Interest Rates	Foreign exchange	Credit	Commodities					
1	Market price uncertainty	1	8	-	7	-	-	8	16	-	16
2	Set not applicable in the EU										
3	Close-out cost	-	-	-	-	-	-	-	-	-	-
4	Concentrated positions	1	1	-	4	-			7	-	7
5	Early termination	-	-	-	-	-			-	-	-
6	Model risk	-	-	-	-	-	-	-	-	-	-
7	Operational risk	-	-	-	-	-			-	-	-
8	Set not applicable in the EU										
9	Set not applicable in the EU										
10	Future administrative costs	1	1	-	-	-			2	2	-
11	Set not applicable in the EU										
Total Additional Valuation Adjustments (AVAs)		-	-	-	-	-	-	-	25	2	23

Table 6: Template EU PV1: Prudent valuation adjustments (PVA)

Impediments to the transfer of own funds

DISCLOSURE REQUIREMENTS Art. 436 (f) CRR

Except for regulatory restrictions on capital distributions stemming from the EU-wide capital requirements regulations applicable to all credit institutions based in the EU, the Group does not have any other significant restrictions on its ability to access or use the assets and settle the liabilities of the Group. Also, the owners of non-controlling interests in Group subsidiaries do not have rights that can restrict the Group's ability to access or use the assets and settle the liabilities of the Group. Further details can be found in chapter Significant accounting policies within Annual report.

Total capital shortfall of all subsidiaries not included in the consolidation

DISCLOSURE REQUIREMENTS Art. 436(g) (h) CRR

As of 31 December 2022, there was no capital shortfall at any of the companies not included in Group's consolidation.

KEY METRICS

DISCLOSURE REQUIREMENT Art. 447 (a) to (g) and 438 (b) CRR

		in HRK mn				
		a	b	c	d	e
		31.12.2022	30.9.2022	30.6.2022	31.3.2022	31.12.2021
Available own funds (amounts)						
1	Common Equity Tier 1 (CET1) capital	9,999	9,649	9,868	9,724	10,054
2	Tier 1 capital	9,999	9,649	9,868	9,724	10,054
3	Total capital	10,300	9,954	10,180	10,041	10,428
Risk-weighted exposure amounts						
4	Total risk-weighted exposure amount	52,704	51,708	49,658	48,561	56,368
Capital ratios (as a percentage of risk-weighted exposure amount)						
5	Common Equity Tier 1 ratio (%)	18.97%	18.66%	19.87%	20.02%	17.84%
6	Tier 1 ratio (%)	18.97%	18.66%	19.87%	20.02%	17.84%
7	Total capital ratio (%)	19.54%	19.25%	20.50%	20.68%	18.50%
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)						
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	1.75%	1.75%	1.75%	1.75%	2.90%
EU 7b	of which: to be made up of CET1 capital (percentage points)	0.98%	0.98%	0.98%	0.98%	1.62%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	1.31%	1.31%	1.31%	1.31%	2.18%
EU 7d	Total SREP own funds requirements (%)	9.75%	9.75%	9.75%	9.75%	10.90%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)						
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%	0.00%	0.00%	0.00%	0.00%
9	Institution specific countercyclical capital buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 9a	Systemic risk buffer (%)	1.50%	1.50%	1.50%	1.50%	1.50%
10	Global Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 10a	Other Systemically Important Institution buffer	2.00%	2.00%	2.00%	2.00%	2.00%
11	Combined buffer requirement (%)	6.00%	6.00%	6.00%	6.00%	6.00%
EU 11a	Overall capital requirements (%)	15.75%	15.75%	15.75%	15.75%	16.90%
12	CET1 available after meeting the total SREP own funds requirements (%)	9.79%	9.50%	10.75%	10.93%	7.60%
Leverage ratio						
13	Total exposure measure	118,168	112,834	106,159	100,813	96,712
14	WLeverage ratio (%)	8.46%	8.55%	9.30%	9.65%	10.40%
Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)						
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0%	0%	0%	0%	0%
EU 14b	of which: to be made up of CET1 capital (percentage points)	0%	0%	0%	0%	0%
EU 14c	Total SREP leverage ratio requirements (%)	3%	3%	3%	3%	3%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)						
EU 14d	Leverage ratio buffer requirement (%)	0%	0%	0%	0%	0%
EU 14e	Overall leverage ratio requirements (%)	3%	3%	3%	3%	3%
Liquidity Coverage Ratio						
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	31,474	29,620	27,130	25,206	22,854
EU 16a	Cash outflows - Total weighted value	20,405	19,023	17,315	16,142	15,089
EU 16b	Cash inflows - Total weighted value	2,430	1,959	1,880	1,982	1,861
16	Total net cash outflows (adjusted value)	17,975	17,064	15,434	14,160	13,228
17	Liquidity coverage ratio (%)	175.10%	173.58%	175.78%	178.01%	172.77%
Net Stable Funding Ratio						
18	Total available stable funding	77,298	75,122	70,975	67,387	66,144
19	Total required stable funding	44,505	43,061	41,793	38,100	37,423
20	NSFR ratio (%)	173.68%	174.45%	169.83%	176.87%	176.75%

Table 7: Template EU KM1 - Key metrics template

Own Funds

DISCLOSURE REQUIREMENT Art. 437 (a) (d) (e) and (f) CRR

Own funds reconciliation

For the disclosure of own funds, the Group follows the requirements according to Art. 437 CRR as well as the requirements defined in the Implementing Technical Standards (EU) No 2021/637 (ITS).

Based on the requirements defined in the CRR and ITS, the following information must be provided:

- _ a full reconciliation of CET1 items, Tier 2 (T2) items, filters and deductions applied to own funds of the institution pursuant to Art. 32 to 36, 56, 66 and 79 CRR with the balance sheet in the audited financial statements of the institution. In accordance with Art. 437 para 1 (a) CRR the ITS requires to publish the EU CC2 template.
- _ a description of the main features of the Common Equity Tier 1 and Tier 2 instruments issued by the institution;
- _ the full terms and conditions of all Common Equity Tier 1 and Tier 2 instruments;
- _ a separate disclosure of the nature and amounts of (disclosure template EU CC1 as defined in the ITS):
 - _ each prudential filter applied pursuant to Art. 32 to 35 CRR
 - _ each deduction according to Art. 36, 56 and 66 CRR
 - _ items not deducted in accordance with Art. 47, 48, 56, 66 and 79 CRR

The tables may contain rounding differences.

Balance Sheet reconciliation

Regarding the reconciliation of the Balance sheet please referred to the table EU LI1 (Table 3) further above.

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

Reconciliation of regulatory own funds to balance sheet in the audited financial statements

DISCLOSURE REQUIREMENT Art. 437 (a) CRR

				in HRK mn
		a	b	c
		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
		31.12.2022	31.12.2022	
Assets - Breakdown by asset classes according to the balance sheet in the published financial statements				
1	Cash and cash balances	25,982	25,982	
2	Financial assets – held for trading	197	197	
2a	Derivatives	193	193	
2b	Other trading assets	4	4	
3	Non-trading financial assets at fair value through profit or loss	60	60	
3a	Equity instruments	21	43	
3b	Debt securities	39	17	
4	Financial assets at fair value through other comprehensive income	9,167	9,167	
4a	Equity instruments	4	4	
4b	Debt securities	9,163	9,163	
5	Financial assets at amortised cost	71,049	75,373	
5a	Loans to and receivables from credit institutions	2,890	-	
5b	Loans to and receivables from customers	58,135	65,349	
5c	Debt securities	10,024	10,024	
6	Finance lease receivables	3,018	-	
7	Property and equipment	1,166	1,161	
8	Investment properties	9	9	
9	Intangible assets	171	159	(f)
10	Investments in associates	65	69	
11	Current tax assets	7	7	
12	Deferred tax assets	404	404	
13	Assets held for sale	4	4	
14	Trade and other receivables	1,297	-	
15	Other assets	271	257	
16	Total assets	112,867	112,849	
Liabilities - Breakdown by liability classes according to the balance sheet in the published financial statements				
1	Financial liabilities – held for trading	175	175	
1a	Derivatives	175	175	
2	Financial liabilities measured at amortised costs	99,949	100,051	
2a	Deposits from banks	11,217	-	
2b	Deposits from customers	84,198	95,434	
2c	Debt securities issued	3,646	3,646	
2d	Other financial liabilities	888	971	
3	Finance lease liabilities	91	-	
4	Provisions	674	674	
5	Current tax liabilities	251	251	
6	Deferred tax liabilities	-	-	
7	Liabilities associated with assets held for sale	-	-	
8	Other liabilities	718	711	
9	Total liabilities	101,858	101,862	
Shareholders' Equity				
1	Subscribed capital	1,698	1,698	(a)
2	Capital reserves	-	85	(b)
3	Capital instruments and the related share premium accounts	1,886	1,801	(c)
4	Retained earnings	7,887	6,695	(d)
5	Gain for the year	-	1,173	(e)
6	Other comprehensive income (OCI)	(673)	(673)	(b)
7	Equity attributable to owners of the parent	10,798	10,779	
8	Equity attributable to non-controlling interests	211	208	
9	Total shareholders' equity	11,009	10,987	

Table 8: Template EU CC2 - reconciliation of regulatory own funds to balance sheet in the audited financial statements

Main features of regulatory own funds instruments and eligible liabilities instruments

DISCLOSURE REQUIREMENT Art. 437 (b) and (c) CRR

		Common Equity Tier 1 instruments	Tier 2 instrument
1	Issuer	Erste & Steiermärkische Bank d.d.	Erste & Steiermärkische Bank d.d.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	HRRIBARA0001	subordinated loan
2a	Public or private placement	Private	Private
3	Governing law(s) of the instrument	Art. 167. and 169. Company law	Austrian Law
3a	Contractual recognition of write down and conversion powers of resolution authorities	N/A	yes
	<i>Regulatory treatment</i>		
4	Current treatment taking into account, where applicable, transitional CRR rules	Common Equity Tier 1 instruments	Tier 2 instrument
5	Post-transitional CRR rules	Common Equity Tier 1 instruments	Tier 2 instrument
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	solo and consolidated	solo and sub-consolidated
7	Instrument type (types to be specified by each jurisdiction)	ordinary shares	loan received
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	1,698 HRK	88 HRK
9	Nominal amount of instrument	1,698,417,500.00 HRK	30,000,000.00 EUR
EU-9a	Issue price	100.00 HRK	N/A
EU-9b	Redemption price	N/A	N/A
10	Accounting classification	shareholders' equity	liability – amortised cost
11	Original date of issuance	20 November 1954	11 December 2017
12	Perpetual or dated	no maturity	dated
13	Original maturity date	no maturity	11 December 2024
14	Issuer call subject to prior supervisory approval	no	no
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
	<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	floating	floating
18	Coupon rate and any related index	N/A	3M EURIBOR + 2.11%
19	Existence of a dividend stopper	no	no
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	fully discretionary	mandatory
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	fully discretionary	mandatory
21	Existence of step up or other incentive to redeem	no	no
22	Noncumulative or cumulative	noncumulative	noncumulative
23	Convertible or non-convertible	nonconvertible	nonconvertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	no	no
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
34a	Type of subordination (only for eligible liabilities)	N/A	Contractual
EU-34b	Ranking of the instrument in normal insolvency proceedings	N/A	3
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	Non-preferred senior (NPS)
36	Non-compliant transitioned features	no	no
37	If yes, specify non-compliant features	N/A	N/A
37a	Link to the full term and conditions of the instrument (signposting)	N/A	N/A

Table 9: Template EU CCA - Main features of regulatory own funds instruments and eligible liabilities instruments

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

Subordinated loan in amount EUR 30 million has floating interest rate (3M EURIBOR plus 2.11%). It has 7 years maturity and it is maturing on 11 December 2024. The subordinated loan meets all criteria defined by Article 63 of CRR to qualify as Tier 2 instrument and it is governed by Austrian Law.

Composition of the regulatory capital

DISCLOSURE REQUIREMENT Art. 437 (a) (d) (e) and (f) CRR

The tables below present the composition of the regulatory capital based on the Implementing Technical Standards (EU) No 2021/637 (EU CC1) on the disclosure of own funds.

		in HRK mn	
		Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation	
		Amounts	
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	3,499	
	of which: Instrument type 1	1,698	(a)
	of which: Instrument type 2	1,801	(c)
	of which: Instrument type 3	-	
2	Retained earnings	6,695	(d)
3	Accumulated other comprehensive income (and other reserves)	(588)	(b)
EU-3a	Funds for general banking risk	-	
4	Amount of qualifying items referred to in Article 484 (3 and the related share premium accounts subject to phase out from CET1	-	
5	Minority interests (amount allowed in consolidated CET1)	-	
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	585	(e)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	10,191	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(25)	
8	Intangible assets (net of related tax liability) (negative amount)	(80)	(f)
9	Not applicable	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3 are met) (negative amount)	-	
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	-	
12	Negative amounts resulting from the calculation of expected loss amounts	-	
13	Any increase in equity that results from securitised assets (negative amount)	-	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	
15	Defined-benefit pension fund assets (negative amount)	-	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
20	Not applicable	-	
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)	-	
EU-20c	of which: securitisation positions (negative amount)	-	
EU-20d	of which: free deliveries (negative amount)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3 are met) (negative amount)	-	
22	Amount exceeding the 17.65% threshold (negative amount)	-	
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	
24	Not applicable	-	
25	of which: deferred tax assets arising from temporary differences	-	
EU-25a	Losses for the current financial year (negative amount)	-	
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-	
26	Not applicable	-	
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	-	
27a	Other regulatory adjustments	(87)	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(192)	
29	Common Equity Tier 1 (CET1) capital	9,999	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in Article 484 (4 and the related share premium accounts subject to phase out from AT1	-	
EU-33a	Amount of qualifying items referred to in Article 494a(1 subject to phase out from AT1	-	
EU-33b	Amount of qualifying items referred to in Article 494b(1 subject to phase out from AT1	-	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	

		in HRK mn
		Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		Amounts
36	Additional Tier 1 (AT1) capital before regulatory adjustments	-
	Additional Tier 1 (AT1) capital: regulatory adjustments	
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-
41	Not applicable	-
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	-
42a	Other regulatory adjustments to AT1 capital	-
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-
44	Additional Tier 1 (AT1) capital	-
45	Tier 1 capital (T1 = CET1 + AT1)	9,999
	Tier 2 (T2) capital: instruments	
46	Capital instruments and the related share premium accounts	88
47	Amount of qualifying items referred to in Article 484 (5 and the related share premium accounts subject to phase out from T2 as described in Article 486 (4 CRR	-
EU-47a	Amount of qualifying items referred to in Article 494a (2 subject to phase out from T2	-
EU-47b	Amount of qualifying items referred to in Article 494b (2 subject to phase out from T2	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-
49	of which: instruments issued by subsidiaries subject to phase out	-
50	Credit risk adjustments	213
51	Tier 2 (T2) capital before regulatory adjustments	301
	Tier 2 (T2) capital: regulatory adjustments	
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
54a	Not applicable	-
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-
56	Not applicable	-
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	-
56b	Other regulatory adjustments to T2 capital	-
57	Total regulatory adjustments to Tier 2 (T2) capital	-
58	Tier 2 (T2) capital	301
59	Total capital (TC = T1 + T2)	10,300
60	Total risk exposure amount	52,704
	Capital ratios and requirements including buffers	
61	Common Equity Tier 1	18.97%
62	Tier 1	18.97%
63	Total capital	19.54%
64	Institution CET1 overall capital requirements	11.48%
65	of which: capital conservation buffer requirement	2.50%
66	of which: countercyclical capital buffer requirement	0.00%
67	of which: systemic risk buffer requirement	1.50%
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	2.00%
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	0.98%
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	9.79%
69	Not applicable	
70	Not applicable	
71	Not applicable	
	Amounts below the thresholds for deduction (before risk weighting)	
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	4

		in HRK mn
		Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		Amounts
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	4
74	Not applicable	-
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	404
Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	630
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	213
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

Table 10: Template EU CC1 - Composition of regulatory own funds

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

Own funds requirements and risk-weighted exposure amounts

DISCLOSURE REQUIREMENTS Art. 438 CRR

Overview of RWAs and capital requirements calculated in accordance with Article 92 of the CRR

DISCLOSURE REQUIREMENTS Art. 438 (d) CRR

				in HRK mn
		Risk weighted exposure amounts (RWAs)		Total own funds requirements
		a	b	c
		31.12.2022	31.12.2021	31.12.2022
1	Credit risk (excluding CCR)	46,116	50,726	3,689
2	Of which the standardised approach	10,681	10,539	854
3	Of which the Foundation IRB (F-IRB) approach	19,764	26,450	1,581
4	Of which: slotting approach	5,153	3,921	412
EU 4a	Of which: equities under the simple riskweighted approach	243	240	19
5	Of which the Advanced IRB (A-IRB) approach	10,053	9,342	804
6	Counterparty credit risk - CCR	104	222	8
7	Of which the standardised approach	65	187	5
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposures to a CCP	-	-	-
EU 8b	Of which credit valuation adjustment - CVA	28	32	2
9	Of which other CCR	11	3	1
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	-	-	-
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	-	-	-
EU 19a	Of which 1250%/ deduction	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	1,037	97	83
21	Of which the standardised approach	1,037	97	83
22	Of which IMA	-	-	-
EU 22a	Large exposures	-	-	-
23	Operational risk	5,447	5,323	436
EU 23a	Of which basic indicator approach	516	510	41
EU 23b	Of which standardised approach	4,931	4,813	394
EU 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	1,020	534	82
29	Total	52,704	56,368	4,216

Table 11: Template EU OV1 – Overview of risk weighted exposure amounts

Total Group RWA decreased by HRK 3,664 million at the end of 2022 comparing to the previous year.

The decrease of the credit RWA in 2022 is mainly a consequence of Permanent Partial Use of the Standardised Approach for exposures to central governments as well as multilateral development banks treated as Sovereign. The total decrease is partially offset with the business increase followed with the RWA increase.

Additional disclosure of specialised lending and equity under the simple risk-weight approach

DISCLOSURE REQUIREMENTS Art. 438 (e) CRR

Template EU CR10.1							in HRK mn
Specialised lending : Project finance							
Regulatory categories	Remaining maturity	On-balancesheet exposure	Off-balancesheet exposure	Risk weight	Exposure value	Risk weighted exposure amount	Expected loss amount
		a	b	c	d	e	f
Category 1	Less than 2.5 years	5	21	50%	9	4	-
	Equal to or more than 2.5 years	1,299	110	70%	1,381	909	5
Category 2	Less than 2.5 years	1	-	70%	1	1	-
	Equal to or more than 2.5 years	84	7	90%	89	64	1
Category 3	Less than 2.5 years	-	-	115%	-	-	-
	Equal to or more than 2.5 years	26	96	115%	98	90	3
Category 4	Less than 2.5 years	2	-	250%	2	3	-
	Equal to or more than 2.5 years	25	-	250%	25	48	2
Category 5	Less than 2.5 years	-	-	-	-	-	-
	Equal to or more than 2.5 years	11	-	-	11	-	5
Total	Less than 2.5 years	8	21		12	8	-
	Equal to or more than 2.5 years	1,445	213		1,604	1,111	16

Template EU CR10.2							in HRK mn
Specialised lending : Income-producing real estate and high volatility commercial real estate							
Regulatory categories	Remaining maturity	On-balancesheet exposure	Off-balancesheet exposure	Risk weight	Exposure value	Risk weighted exposure amount	Expected loss amount
		a	b	c	d	e	f
Category 1	Less than 2.5 years	650	217	50%	811	368	-
	Equal to or more than 2.5 years	2,624	711	70%	3,161	1,836	13
Category 2	Less than 2.5 years	213	198	70%	361	213	1
	Equal to or more than 2.5 years	1,433	139	90%	1,537	1,214	12
Category 3	Less than 2.5 years	9	-	115%	9	8	-
	Equal to or more than 2.5 years	190	2	115%	192	177	5
Category 4	Less than 2.5 years	-	-	250%	-	1	-
	Equal to or more than 2.5 years	109	-	250%	109	217	9
Category 5	Less than 2.5 years	67	-	-	67	-	34
	Equal to or more than 2.5 years	71	-	-	71	-	35
Total	Less than 2.5 years	939	415		1,248	590	35
	Equal to or more than 2.5 years	4,427	852		5,070	3,444	74

Template EU CR10.5							in HRK mn
Equity exposures under the simple risk-weighted approach							
Categories	On-balancesheet exposure	Off-balancesheet exposure	Risk weight	Exposure value	Risk weighted exposure amount	Expected loss amount	
	a	b	c	d	e	f	
Private equity exposures	68	-	190%	68	130	-	
Exchange-traded equity exposures	2	-	290%	2	6	-	
Other equity exposures	29	-	370%	29	107	1	
Total	99	-		99	243	1	

Table 12: Template EU CR10 – Specialised lending and equity exposures under the simple riskweighted approach

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS – EU OVC

DISCLOSURE REQUIREMENTS 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 overutilization, 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.

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.

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

Capital buffers

DISCLOSURE REQUIREMENTS Art. 440 CRR

The Group calculates countercyclical buffer requirements at consolidated level in accordance with Title VII, Chapter 4 of Directive 2013/36/EU (CRD IV). As of 31 December 2022 a small number of jurisdictions Hong Kong, United Kingdom, Iceland, Norway, Sweden, Denmark, Estonia, Czech Republic, Slovakia, Bulgarien, Romania and Luxembourg applied countercyclical buffer rates of more than 0%, resulting in an overall countercyclical rate for the institution of 0%.

Table below set out the geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer as well as the institutions specific countercyclical buffer rate for the Group as of 31 December 2022.

The disclosure follows templates prescribed by Commission Implementing Regulation (EU) 2021/637 with regard to regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer.

The table detailing the distribution of credit exposure exclude from individually listing all those countries which have communicated countercyclical buffer rates equal to zero in 2021, retained those whose buffer was changed due to the Covid-19 crisis and those which have communicated countercyclical buffer rates other than zero in 2022. Other countries are grouped.

DISCLOSURE REQUIREMENTS Art. 440 (b) CRR

		in HRK mn
		December 2022
1	Total risk exposure amount	52,704
2	Institution specific countercyclical capital buffer rate	0.0%
3	Institution specific countercyclical capital buffer requirement	-

Table 13: Template EU CCyB2 - Amount of institution-specific countercyclical capital buffer

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

DISCLOSURE REQUIREMENTS Art. 440 (a) CRR

in HRK mn													
	a	b	c	d	e	f	g	h	i	j	k	l	m
	General credit exposures		Relevant credit exposures – Market risk		Securitisation exposures Exposure value for non-trading book	Total exposure value	Own fund requirements				Risk-weighted exposure amounts	Own fund requirements weights (%)	Countercyclical buffer rate (%)
	Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models			Relevant credit risk exposures - Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total			
Breakdown by country:													
EU countries	7	458	-	-	-	465	31	-	-	32	383	0.9%	0.0%
Latin America	-	3	-	-	-	3	-	-	-	-	1	0.0%	0.0%
Other European countries	3,869	484	-	-	-	4,353	226	-	-	226	2,826	6.8%	0.0%
Other countries	63	6	-	-	-	69	5	-	-	5	65	0.2%	0.0%
Republic of Croatia	6,756	49,991	178	-	-	56,925	3,006	14	-	3,020	37,752	91.5%	0.0%
United states of America	15	37	-	-	-	52	8	-	-	8	97	0.2%	0.0%
Norway	-	2	-	-	-	2	-	-	-	-	1	0.0%	2.0%
Denmark	-	1	-	-	-	1	-	-	-	-	-	0.0%	2.0%
Czech Republic	-	1	-	-	-	1	-	-	-	-	1	0.0%	1.5%
Sweden	-	8	-	-	-	8	1	-	-	-	5	0.0%	1.0%
Slovakia	-	3	-	-	-	3	-	-	-	-	1	0.0%	1.0%
Hong Kong	-	-	-	-	-	-	-	-	-	-	-	0.0%	1.0%
United Kingdom	44	57	-	-	-	101	5	-	-	5	64	0.2%	1.0%
Bulgarien	-	2	-	-	-	2	-	-	-	-	1	0.0%	1.0%
Estonia	-	-	-	-	-	-	-	-	-	-	-	0.0%	1.0%
Romania	1	-	-	-	-	1	-	-	-	-	-	0.0%	0.5%
Luxembourg	-	72	-	-	-	72	5	-	-	5	67	0.2%	0.5%
Iceland	-	-	-	-	-	-	-	-	-	-	-	0.0%	2.0%
Total	10,755	51,125	178	-	-	62,058	3,287	14	-	3,301	41,264	100.0%	

Table 14: Template EU CCyB1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

Leverage ratio

DISCLOSURE REQUIREMENTS Art. 451 (1) (a) CRR

The leverage ratio represents the relationship between Tier 1 capital and the leverage exposure pursuant to Article 429 CRR, more specifically the Delegated Regulation (EU) 2015/62 with regard to leverage ratio (Delegated Act) of 10 October 2014, which was published in the Official Journal of the European Union on 17 January 2015. 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 Delegated Act.

As of 31 December 2022, the leverage ratio for the Group amounted to 8.46%, comfortably above the 3.0% minimum requirement. The Regulation (EU) 2019/876 (Capital Requirements Regulation - CRR2) amending Regulation (EU) No 575/2013, with the application date 28th June 2021, sets the Tier 1 capital-based leverage ratio requirement at 3% for all EU banks as per the EBA's recommendation (Article 92 (d)). The ratio is calculated on period-end values, as of 31 December 2022, for both leverage exposure and Tier 1 capital, with the Tier 1 capital based on fully-fledged CRR definitions, i.e. not including any transitional provisions.

Leverage exposure breakdown and reconciliation

DISCLOSURE REQUIREMENTS Art. 451 (1) (a) (b) (c) CRR

The Group discloses its CRR leverage ratio in accordance with the Commission Implementing Regulation (EU) 2021/637 which specifies implementing technical standards for the disclosure of the leverage ratio. Items included in the prescribed disclosure tables which are not relevant for the Group are omitted from the tables disclosed in this section in order to improve the readability of the information. As a consequence, the numbering of rows in the tables may not be consecutive.

Reconciliation of the Group's accounting assets and leverage ratio exposures

in HRK mn		Applicable amount
1	Total assets as per published financial statements	112,867
8	Adjustments for derivative financial instruments	(49)
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	5,485
12	Other adjustments	(128)
13	Total exposure measure	118,168

Table 15: Template EU LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

DISCLOSURE REQUIREMENTS Art. 451 (1) (a) (b) CRR

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 2022.

in HRK mn		CRR leverage ratio exposures	
		a	b
		31.12.2022	31.12.2021
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	112,599	91,791
6	(Asset amounts deducted in determining Tier 1 capital)	(127)	(292)
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 to 6)	112,472	91,499
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	7	
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	137	
13	Total derivatives exposures (sum of lines 8 to EU-12f)	144	257
Securities financing transaction (SFT) exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	56	411
16	Counterparty credit risk exposure for SFT assets	11	-
18	Total securities financing transaction exposures	67	411
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	17,927	15,631
20	(Adjustments for conversion to credit equivalent amounts)	(12,442)	(11,087)
22	Off-balance sheet exposures	5,485	4,544
Capital and total exposure measure			
23	Tier 1 capital	9,999	10,054
24	Total exposure measure	118,168	96,712
Leverage ratio			
25	Leverage ratio	8.46%	10.40%
25a	Regulatory minimum leverage ratio requirement	8.46%	10.40%
26	Applicable leverage buffers	3.00%	3.00%
EU-26b	of which: to be made up of CET1 capital (percentage points)	0.00%	0.00%
27	Leverage ratio buffer requirement (%)	0.00%	0.00%
EU-27a	Overall leverage ratio requirement (%)	3.00%	3.00%
Choice on transitional arrangements and relevant exposures			
EU-27b	Choice on transitional arrangements for the definition of the capital measure	no	no
Disclosure of mean values			
28	Mean value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	1,654	1,948
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	56	411
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	119,765	98,249
30a	Total exposures (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	119,765	98,249

Table 16: Template EU LR2 - LRCom: Leverage ratio common disclosure

DISCLOSURE REQUIREMENTS Art. 451 (1) (b) CRR

The following table provides a breakdown of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) by exposure class.

in HRK mn		a
		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	112,599
EU-2	Trading book exposures	4
EU-3	Banking book exposures, of which:	112,595
EU-5	Exposures treated as sovereigns	49,759
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	1,891
EU-7	Institutions	1,206
EU-8	Secured by mortgages of immovable properties	10,249
EU-9	Retail exposures	15,195
EU-10	Corporates	29,403
EU-11	Exposures in default	135
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	4,757

Table 17: Template EU LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

Management of the risk of excessive leverage

DISCLOSURE REQUIREMENTS Art. 451 (1) (d) CRR

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 Group. Leverage ratio is calculated quarterly.

Factors influencing the development of leverage exposure

DISCLOSURE REQUIREMENTS Art. 451 (1) (e) CRR

The leverage ratio decreased from 10.40% to 8.46% compared to year-end 2021, driven by decline in Tier 1 capital which was partially offset by leverage exposure increase. Tier 1 capital decreased by 0.54% or by HRK 54.4 million mainly due to decrease within position 'Accumulated other comprehensive income (and other reserves)'. The overall leverage exposure increased by 22.18% to HRK 118,168 million. This change was mainly driven by an exposure increase to Central Government.

Credit risk quality

Credit risk adjustments

DISCLOSURE REQUIREMENTS Art. 442 (a) CRR

The Erste Bank Croatia's (hereinafter: the Bank) ongoing assessment of the customers' capacity to fulfil their obligations is carried out using a large number of risk management instruments. This includes the constant monitoring of the Bank's portfolio of past due, substandard and defaulted exposures.

Past due

In the case of payments in arrears, payments are considered past due as of the date when the borrower exceeded an approved credit limit, or the borrower was advised of a lower limit than the current outstanding, or drew on an unauthorised credit facility, or did not make a contractually agreed payment in due time, and the amount concerned is significant. Unpaid credit card debt is deemed past due from the earliest due date.

Substandard

The borrower is vulnerable to negative financial and economic impacts; as a rule, such loans are managed in specialised risk management departments.

Defaulted

There is a default if one or more of the default criteria under the Basel capital adequacy framework apply

- _ full repayment unlikely;
 - _ interest or principal payments on a material exposure more than 90 days past due;
 - _ restructuring resulting in a loss to the lender;
 - _ realisation of a loan loss;
 - _ initiation of bankruptcy proceedings; or
- the customer is regarded as impaired.

Impaired

Credit-impaired is defined as the occurrence of one or more events that have a detrimental impact on the estimated future cash flows of a financial asset.

Implementation of IFRS 9 Financial instruments standard as of 1 January 2018 led to harmonization of defaulted and impaired definitions in the Bank. An impairment relevant financial instrument is credit-impaired if the customer is in default; internal rating "R" is assigned. This means that all impairment relevant financial instruments of a defaulted customer are credit-impaired. If a customer is upgraded to a non-defaulted rating grade, then all his impairment relevant financial assets will not be credit-impaired any longer.

DISCLOSURE REQUIREMENTS Art. 442 (b) CRR

The following paragraphs provide a description of the approaches and methods adopted for determining value adjustments and credit risk adjustments.

EXPECTED CREDIT LOSS MEASUREMENT

The general principles and standards for credit loss adjustment calculation are governed by internal policies in the Bank. According to IFRS 9, credit loss adjustments are calculated for all components of credit risk exposures which are measured at amortised cost (AC) or at fair value through other comprehensive income. They include debt securities, loans and advances, demand deposits on nostro accounts with commercial banks as well as finance lease and trade receivables. In addition, credit loss adjustments are calculated for loan commitments and financial guarantees if they meet the applicable IFRS 9 definitions.

Classification into stages and definition of credit-impaired financial instruments

There are three main stages outlined for credit risk adjustment, defined as well as expected credit loss (ECL), determination. The stages approach applies to financial instruments within the scope of the impairment requirements of IFRS 9 and those that are not categorised as purchased or originated credit impaired financial assets (POCI), which form a category of their own. Depending on the impairment status and the assessment of the development of credit risk, these financial instruments are assigned to one of the three stages.

Stage 1 includes not credit-impaired financial instruments at initial recognition and not credit-impaired financial instruments without a significant increase in credit risk (SICR) since initial recognition, irrespective of their credit quality, or subject to the 'low risk exemption' allowed by IFRS 9. Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.

Stage 2 includes not credit-impaired financial instruments with a significant increase in credit risk since initial recognition and not subject to the 'low credit risk exemption' allowed by IFRS 9, and not credit-impaired financial instruments if a PD curve valid at initial recognition was missing at the time of the implementation of IFRS 9 according to IFRS 9 para 7.2.20. Also, Stage 2 includes trade receivables without significant financing component to which the 'simplified approach' is applied mandatorily based on IFRS 9 requirements. In stage 2, the credit loss adjustments are calculated as lifetime ECL. In the case of drawings by non-defaulted customers on previously committed credit lines, the whole exposure (on-balance and off-balance) is categorised as either Stage 1 or Stage 2, depending on the development of credit risk between the commitment date and the drawing date.

Stage 3 includes financial instruments that are credit-impaired at the reporting date but were not credit-impaired at initial recognition. In principle, a financial instrument becomes credit-impaired when the customer defaults. The default definition applied in the Bank has been developed in accordance with EBA/GL/2016/07 'Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013' and 'Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due'. The definition specifies the rules for default contagion across groups of connected clients and clarifies the concept of technical default. The Bank generally applies a customer view in applying the default definition, which leads to an impairment of all claims even if the customer defaults only on one of several transactions ('pulling effect'). On the other hand, an upgrade to a non-defaulted rating grade implies that the total exposure ceases to be impaired. In stage 3, credit loss adjustments are calculated as lifetime ECLs.

POCI includes financial instruments that were credit-impaired at initial recognition, irrespective of whether they are still credit-impaired at the reporting date. Expected credit losses against POCI exposures are always calculated on a lifetime basis (cumulative changes in lifetime ECL since initial recognition) and are reflected in the credit-adjusted effective interest rate at initial recognition. As a result, no credit loss adjustment is recognised at inception. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss adjustment, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets.

Pursuant to Commission Delegated Regulation (EU) No 183/2014 in connection with EBA/RTS/2013/04, all credit risk adjustments are treated as specific credit risk adjustments in COREP.

The Bank regularly reviews its expected credit risk adjustments. These exercises include the parameters and methodologies used in the credit risk adjustment calculation. Adjustments can take place in the context of specific reviews (cash flow assessment in case of individually assessed credit risk adjustments), routine maintenance of parameters (such as regular calibration) or in the case of specific events (e.g., improved knowledge about recovery behaviour, back-testing results).

SIGNIFICANT INCREASE IN CREDIT RISK DETERMINATION

Assessment of significant increase in credit risk (SICR) of financial instruments as at the reporting date since initial recognition is one of the key drivers affecting the amount of the ECL recognized based on IFRS 9 requirements. In this respect, across portfolios and product types, quantitative and qualitative indicators are defined for assessing SICR, including the indicator of 30 days-past-due (DPD).

The Bank methodology allows introduction of the cure periods for migrations back to stage 1 from stage 2 in addition those already established in general credit risk practice (forbearance, watch lists, default). The use, as well as the duration of the cure period is determined by each segment and individual criteria.

Quantitative criteria

Quantitative SICR indicators include adverse changes in lifetime probability of default with significance being assessed by comparison to the thresholds. Erste Group has established thresholds for significant increases in credit risk based on both a percentage (relative) and absolute change in PD compared to initial recognition. SICR occurs for a particular financial instrument, when both the relative and the absolute thresholds are breached.

The relative measure is calculated as a ratio between current annualised LT PD and annualised LT PD value on initial recognition, considering remaining maturity of the instrument. The breach means that such ratio has reached or is higher than the established threshold. These relative thresholds for SICR assessment are established at PD segment and rating level and are subject to initial and on-going validation.

For portfolios that don't have calculated PDs, neither locally nor on Erste Group level, the SICR quantitative criteria are assessed based on the ratings rather than PDs. Predefined rating notches' downgrade leads to SICR recognition.

Erste Group, and the Bank also, have not significantly recalibrated relative thresholds since IFRS9 implementation. They are kept stable as one of the most significant estimates in ECL measurement. Validation finding or significant change of PD models would lead to thresholds' recalibration. There were re-estimations only for individual portfolios.

The absolute threshold refers to difference of LT PD on initial recognition and current LT PD (cumulative values). It is set to a maximum of 50 bps and serves as a backstop for migrations between the best ratings (LT PDs considered for remaining maturity). In such cases, relative thresholds may be breached, however overall LT PD is very low, and therefore SICR is not triggered.

Qualitative criteria

Qualitative SICR indicators include forbearance type flags (identification of regulatory forbearance), work-out transfer flags (when the account starts being monitored by the work-out department), information from the early-warning system (if it is not sufficiently considered in the rating) and fraud indicators. The assignment of some of the qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and in a timely manner. The related credit risk controlling policies and procedures (adapted as necessary in the light of transition to IFRS 9) ensure the necessary governance framework. These indicators are used internally for identification of insolvency or increased probability that a borrower will enter bankruptcy and there is increased risk of default in the foreseeable future.

Besides the qualitative indicators defined on a contract or client level, the assessment of a significant increase in credit risk is performed on a portfolio level if the increase in credit risk on individual instruments or at a client level is available only with a certain time lag or is observable exclusively on a portfolio level.

Examples are stage 2 overrides for parts of retail portfolio not upgraded from a low rating grade for a significant period.

The Bank has introduced additional portfolio level collective SICR assessment criteria due to the war in Ukraine (implemented in 2022) and related economic impacts. Similarly, from 2020 till Q3-2022 portfolio, collective assessment due to the Covid-19 pandemic was established. For more details refer to 'Collective assessment' in the next chapter.

Backstop

A backstop is applied, and the financial instruments are considered to have experienced a SICR if the borrower is more than 30 days past due on contractual payments. As observed during validation, this does not represent a major trigger for Stage 2 classification.

Low credit risk exemption

The 'low credit risk exemption' allowed by IFRS 9 for 'investment grade' assets or other assets deemed 'low risk' (and resulting in 12 months expected credit losses being calculated irrespective of SICR quantitative measures) has been implemented with limitations in the Bank. Thus, the potential activation of this exemption is limited to particular types of debt instruments and counterparty categories, and only if supported by sufficient 'low risk' evidence. On this basis, the 'low risk exemption' is expected to occasionally apply to some debt security exposures and only exceptionally to loans, but such decision will be critically reviewed at the time of obtaining approval from Erste Group.

GROUPING OF INSTRUMENTS AND CALCULATION OF CREDIT RISK ADJUSTMENTS

Credit loss adjustments are calculated individually or collectively.

The individual calculation approach is applied in case of exposures to significant defaulted customers in Stage 3 or POCI. It consists in the individual assessment of the difference between the gross carrying amount and the present value of the expected cash flows, which are estimated by workout or risk managers.

A defaulted customer is classified as individually significant if the total on- and off-balance exposure exceeds a predefined materiality limit. Otherwise, the customer is considered insignificant, and a rule-based (collective) approach is used for the calculation of the related credit loss adjustment as the product of gross carrying amount and LGD, where the LGD depends on characteristics such as time in default or days past due.

For exposures to non-defaulted customers (i.e., in Stage 1 and Stage 2), collective adjustments are calculated according to a rule-based approach irrespective of the significance of the customer. The calculation of collective adjustments requires grouping the related exposures into homogenous clusters based on shared risk characteristics.

The calculation of credit loss adjustments is done on a monthly basis on a single exposure level and in the contractual currency of the exposure. To compute the collective credit loss adjustment, the Bank applies an expected credit loss (ECL) model based on a three-stage approach that leads to either a 12-month ECL or to a lifetime ECL. ECL is the discounted product of exposure at default (EAD) that also includes a credit conversion factor in the case of off-balance sheet exposures, probability of default (PD) and loss given default (LGD), defined as follows:

PD represents the likelihood of a borrower defaulting on its financial obligation (per definition of default below), either over next 12 months (1Y PD) for Stage 1 exposures or over the remaining lifetime (LT PD) for Stage 2 and 3 and POCI exposures.

EAD is based on the amounts the Bank expects to be owed at the time of default, over next 12 months (1Y EAD) for Stage 1 exposures, or over the remaining lifetime (LT EAD) for Stage 2 and 3 and POCI exposures. The estimation includes current balance, expected repayments and expected drawings up to the current contractual limit by the time of default.

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

Life-time parameters

The LT PD is developed through observation of historical defaults from initial recognition through the lifetime of the loans. It is assumed to be the same across all assets in the same portfolio and rating band.

The 1Y and LT EADs are determined based on the expected payment profiles, which vary by product type. The LT EAD calculation utilises repayment schedule or repayment type (annuity, linear, bullet).

The LGD is estimated as a lifetime curve for any point in time, based on historical loss observations or regulatory value.

The risk parameters used in the ECL calculation take into account available information at the reporting date about past events, current conditions and forecasts on future economic trends. Generally, the risk parameters applied in the calculation of collective allowances differ from the risk parameters compliant with capital requirement regulations, calculated on a through-the-cycle basis, if the characteristics of the respective portfolio in combination with IFRS standards necessitate this.

Incorporation of forward-looking information

Parameters are determined to reflect the risk as a 'point-in-time' measure and with consideration of forward-looking information (FLI). This results in using a baseline forecast and several alternative scenarios for selected macroeconomic variables. The alternative scenarios are derived, together with their weights of scenario outcome, as a deviation from baseline forecasts. The baseline forecasts are internally determined by the Bank's research department. Given multiple scenarios, the 'neutral' PDs and LGDs are adjusted using macro models that link relevant macroeconomic variables with risk drivers. The same macro-shift models as for external and internal stress test are used. Forward-looking information is incorporated for first three years of ECL measurement. Measurement of the parameters for the remaining lifetime returns to through-the-cycle observations immediately in year four.

Thus, the unbiased scenario weighted ECL considering FLI is derived using the weights representing the outcome of each macroeconomic scenario. Typical macroeconomic variables include real gross domestic product, unemployment rate and inflation rate. The selection of variables also depends on the availability of reliable forecasts. The main indicator of the estimated economic development and basis for alternative scenario derivation is the GDP. In addition, economic effects of the war in Ukraine came along with the increases of the inflation and the interest rates. Erste Bank Croatia adjusted macro-shift models to reflect expected effects of those into credit risk parameters.

Erste Group and the EBC Group reviewed the FLI in the fourth quarter of 2022 according to the disclosed forecasts for baseline, downside, and upside scenarios. Erste Group added assumptions from comprehensive stress test scenario to downside scenario design to address the increased uncertainty of the macro-economic forecasts, higher downside risks and effects of those on ECL resulting from the unstable geopolitical situation – war in Ukraine.

In December 2021, the specific situation of the Covid-19 pandemic was addressed in FLI via the lagging of the macroeconomic variables in credit risk parameters, i.e., variables of 2020 and 2021 were included as additional predictors for future values of credit risk parameters. Considering the improvement of the situation, the Bank decided to update FLI based on the forecasts for years 2023-2025, i.e., no lagging is applied; however, GDPs' historical development was adjusted for the Covid-19 period (2020-2021) in order to reflect compensatory effect of the state support measures.

Collective assessment

During the year 2022, in addition to standard SICR assessment, the Bank applied collective SICR assessment ("stage Overlays"), i.e., transfer into Stage 2 based on pre-defined portfolio characteristics, due to the uncertainty caused by the war in Ukraine and the energy crisis. This approach was aligned with all affected entities and business lines and approved by the respective governance bodies of the Bank. We require, after the assessment of the outliers from the common portfolio characteristics, to have exemptions from the collective SICR assessment, if properly documented why they would behave differently than the rest of the portfolio.

Until fourth quarter of 2022, the Bank had in place overlays addressing Covid-19 as well. Improved pandemic situation over 2022 enabled discontinuation of Covid-19 related overlays, resulting in the release of EUR 5,3 mn during 2022.

War in Ukraine and energy crisis

The war in Ukraine, intensified challenges for both risk and business divisions: a rally in energy prices on the one hand and disruptions in supply chains on the other hand. The first ones had implications on various industries, mainly those with energy intensive production processes, but also impacting segments with high fuel cost shares. Issues with supply chains are managed by affected clients with diverse measures aiming to safeguard the business activity and liquidity (amongst others: active working capital management, targeted stocking-up, output adaptation, renegotiations with off takers etc.), in some cases also by ensuring backup/liquidity financing. Developments as mentioned above are reflected in the regular updates of the industry strategies.

In June 2022, the Bank implemented rules for collective staging assessment due to the war in Ukraine (UA war overlays) as a combination of industries with correlation to economic downturn (cyclical industries) and one-year IFRS PD. These rules were defined on top of existing criteria mentioned in the section 'Significant increase in credit risk determination – Qualitative criteria' (Stage 2 identification based on the early warning signal and negative information about geopolitical risk).

In addition to cyclical industries, from September 2022 Erste Group has introduced additional Energy stage collective assessment ('Energy overlay') due to the current distortions in the energy market with implications on gas/energy availability and price. Two-folds effects were identified. Effects of gas rationing/shortage on clients either due to energy intensive production processes or relying on gas as a primary input in their business processes. Vulnerability is driven by gas dependency, (limited) substitution possibilities and implications of a substitution on financials, hedging and price mechanisms. Within the industry Natural Resources and Commodities, Metals and Chemical subindustries were identified as being most affected. All companies belonging to the Energy sector as the whole industry can potentially be affected by the massive shortages and distortions in the current energy market: Price volatility, margin calls, price caps, weaknesses of the European energy infrastructure, fixed off-take contracts (putting off-takers at risk when stopped and / or limiting producers of renewable energy profiting from the higher prices), etc. All customers belonging to these industries / subindustries were migrated to Stage 2.

Risk management assessed that the recalibration of private individuals' macro shift FLI model did not bring feasible results and therefore does not sufficiently address current situation. Hence, the additional SICR collective assessment on Private individual side was introduced, triggering additional migration of the exposure to Stage 2 as of 30.11.2022.

Effect on Expected Credit Loss

As described above, an increase of the ECL might result from a re-assessment of the credit risk parameters and a migration to worse stages either via significant increase in credit risk (SICR) or a default.

Quantitative disclosure on credit risk

DISCLOSURE REQUIREMENTS Art. 442 (c) (d) (e) (f) (g) CRR

In order to present the clear view of the credit risk in the following tables, loans and advances, finance lease receivables, trade and other receivables and debt securities are presented, as well as cash balances with central banks and other demand deposits where relevant. On top of the asset relevant positions, off-balance items are included.

Positions that are not included in following quantitative disclosures are cash on hand, equity instruments and equity investments, derivatives, property and equipment, investment property, intangible assets, investment in joint ventures and associates, current tax assets, deferred tax assets not subject to deduction, assets held for sale and other assets.

In the following tables, detailed split of gross credit exposure, specific credit risk adjustments, accumulated write-offs and collaterals are presented, by the significant balance sheet classes, industries, geographical areas and residual maturity. The gross carrying amount represents carrying amount before adjustment by any loss allowance and negative FV change in case of instruments measured at fair value through profit or loss. The off-balance items are presented in their nominal amount. The accumulated write-offs represent amounts to which institution's rights are not extinguished, even in cases where exposure has been completely derecognised and no enforcement action has been taking place.

Credit Risk – Gross credit risk exposure/nominal value, credit risk adjustments, accumulated write-offs and collaterals and financial guarantees received

DISCLOSURE REQUIREMENTS Art. 442 (c) (f) CRR

in HRK mn		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumul ated partial write-off	Collaterals 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 performing exposures	On non- performing exposures			
		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					
005	Cash balances at central banks and other demand deposits	22,859	22,859	-	-	-	-	(12)	(12)	-	-	-	-	-	-	-
010	Loans and advances	65,487	51,495	13,951	2,314	-	2,135	(934)	(212)	(722)	(1,518)	-	(1,417)	(355)	30,087	504
020	Central banks	2,450	2,450	-	-	-	-	(2)	(2)	-	-	-	-	-	-	-
030	General governments	11,035	10,712	323	-	-	-	(25)	(12)	(13)	-	-	-	-	3,132	-
040	Credit institutions	533	530	3	-	-	-	(1)	(1)	-	-	-	-	-	143	-
050	Other financial corporations	61	56	5	-	-	-	(1)	(1)	-	-	-	-	-	17	-
060	Non-financial corporations	26,771	18,650	8,086	1,055	-	878	(581)	(104)	(477)	(675)	-	(575)	(270)	16,379	339
070	Of which: SMEs	16,651	11,947	4,678	884	-	708	(377)	(63)	(314)	(558)	-	(458)	(219)	11,180	291
080	Households	24,637	19,097	5,534	1,259	-	1,257	(324)	(92)	(232)	(843)	-	(842)	(85)	10,416	165
090	Debt Securities	20,100	18,314	1,769	-	-	-	(73)	(26)	(47)	-	-	-	-	-	-
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	18,791	17,478	1,313	-	-	-	(43)	(10)	(33)	-	-	-	-	-	-
120	Credit institutions	647	647	-	-	-	-	(16)	(16)	-	-	-	-	-	-	-
130	Other financial corporations	11	-	-	-	-	-	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	651	189	456	-	-	-	(14)	-	(14)	-	-	-	-	-	-
150	Off-balance sheet exposures	17,857	10,262	3,962	71	-	49	232	43	189	27	-	27	-	1,720	9
160	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
170	General governments	385	324	60	-	-	-	5	1	4	-	-	-	-	43	-
180	Credit institutions	853	852	1	-	-	-	1	1	-	-	-	-	-	2	-
190	Other financial corporations	97	43	13	-	-	-	1	-	1	-	-	-	-	-	-
200	Non-financial corporations	14,223	7,258	3,390	70	-	48	211	36	175	27	-	27	-	1,561	9
210	Households	2,299	1,785	498	1	-	1	14	5	9	-	-	-	-	114	-
220	Total	126,303	102,930	19,682	2,385	-	2,184	(1,251)	(293)	(958)	(1,545)	-	(1,444)	(355)	31,807	513

Table 18: Template EU CR1: Performing and non-performing exposures and related provisions

Credit Risk – Carrying amount of loans and debt securities by residual maturity

DISCLOSURE REQUIREMENTS Art. 442 (g) CRR

in HRK mn		a	b	c	d	e	f
		Net exposure value				No stated maturity	Total
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years		
1	Loans and advances	1,121	9,562	17,943	34,249	2,474	65,349
2	Debt securities	0	2,821	7,402	8,985	0	19,208
3	Total	1,121	12,383	25,345	43,234	2,474	84,557

Table 19: Template EU CR1-A: Maturity of exposures

Credit quality of loans and advances to non-financial corporations by industries

DISCLOSURE REQUIREMENTS Art. 442 (c) (e) CRR

in HRK mn		a	b	c	d	e	f
		Gross carrying amount of which: non-performing			of which: loans and advances subject to impairment	Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
				of which: defaulted			
010	Agriculture, forestry and fishing	1,352	42	42	1,352	(41)	-
020	Mining and quarrying	18	-	-	18	-	-
030	Manufacturing	3,883	316	316	3,883	(273)	-
040	Electricity, gas, steam and air conditioning supply	2,377	7	7	2,377	(56)	-
050	Water supply	469	-	-	469	(31)	-
060	Construction	1,336	117	117	1,336	(117)	-
070	Wholesale and retail trade	3,907	171	171	3,907	(165)	-
080	Transport and storage	1,977	70	70	1,977	(62)	-
090	Accommodation and food service activities	4,735	128	128	4,735	(223)	-
100	Information and communication	555	6	6	555	(11)	-
110	Real estate activities	3,828	75	75	3,828	(96)	-
120	Financial and insurance activities	50	1	1	50	(2)	-
130	Professional, scientific and technical activities	973	15	15	973	(33)	-
140	Administrative and support service activities	1,073	75	75	1,073	(32)	-
150	Public administration and defense, compulsory social security	510	-	-	510	(79)	-
160	Education	30	-	-	30	(1)	-
170	Human health services and social work activities	241	28	28	241	(15)	-
180	Arts, entertainment and recreation	459	3	3	459	(17)	-
190	Other services	53	1	1	53	(2)	-
200	Total	27,826	1,055	1,055	27,826	(1,256)	-

Table 20: Template EU CQ5: Credit quality of loans and advances by industry

Quality of non-performing exposures by geography

DISCLOSURE REQUIREMENTS Art. 442 (c) (e) CRR

in HRK mn		a	b	c	d	e	f	g
		Gross carrying/Nominal amount of which: non-performing				Accumulated impairment	Provisions on off-balance sheet commitments and financial guarantee given	Accumulated negative changes in fair value due to credit risk on non- performing exposures
				of which: defaulted	of which: subject to impairment			
010	On balance sheet exposures	87,901	2,314	2,314	87,884	(2,525)		-
020	Austria	80	1	1	80	(1)		-
030	Croatia	76,442	2,080	2,080	76,442	(2,224)		-
040	Czech Republic	1	-	-	1	-		-
050	Hungary	6	-	-	6	-		-
060	Romania	-	-	-	-	-		-
070	Serbia	7	2	2	7	(1)		-
080	Slovakia	1,654	-	-	1,654	(5)		-
090	Emerging Markets	5,150	223	223	5,150	(261)		-
100	Other EU countries	3,416	2	2	3,409	(25)		-
110	Other industrialised countries	1,145	6	6	1,135	(8)		-
120	Off balance sheet exposures	17,928	71	71			(259)	
130	Austria	158	-	-			-	
140	Croatia	15,962	65	65			(249)	
150	Czech Republic	2	-	-			-	
160	Hungary	9	-	-			-	
170	Romania	-	-	-			-	
180	Serbia	-	-	-			-	
190	Slovakia	-	-	-			-	
200	Emerging Markets	1,433	6	6			(7)	
210	Other EU countries	349	-	-			(2)	
220	Other industrialised countries	15	-	-			(1)	
230	Total	105,829	2,385	2,385	87,884	(2,525)	(259)	-

Table 21: Template EU CQ4: Quality of non-performing exposures by geography

Credit quality of performing and non-performing exposures by past due days

DISCLOSURE REQUIREMENTS Art. 442 (d) CRR

	in HRK mn											
	a	b	c	d	e	f	g	h	i	j	k	l
	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 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 year <= 5 years	Past due > 5 year <= 7 years	Past due > 7 years	Of which defaulted	
Cash balances at central banks and other demand deposits	22,859	22,721	138	-	-	-	-	-	-	-	-	-
Loans and advances	65,487	65,340	147	2,314	928	93	126	292	407	126	342	2,314
Central banks	2,450	2,450	-	-	-	-	-	-	-	-	-	-
General governments	11,035	11,035	-	-	-	-	-	-	-	-	-	-
Credit institutions	533	533	-	-	-	-	-	-	-	-	-	-
Other financial corporations	61	61	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	26,771	26,719	52	1,055	468	24	29	94	150	56	234	1,055
Of which SMEs	16,651	16,635	16	884	428	22	28	93	123	52	138	884
Households	24,637	24,542	95	1,259	460	69	97	198	257	70	108	1,259
Debt Securities	20,100	20,100	-	-	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	18,791	18,791	-	-	-	-	-	-	-	-	-	-
Credit institutions	647	647	-	-	-	-	-	-	-	-	-	-
Other financial corporations	11	11	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	651	651	-	-	-	-	-	-	-	-	-	-
Off-balance sheet exposures	17,857			71								71
Central banks	-			-								-
General governments	385			-								-
Credit institutions	853			-								-
Other financial corporations	97			-								-
Non-financial corporations	14,223			70								70
Households	2,299			1								1
Total	126,303	108,161	285	2,385	928	93	126	292	407	126	342	2,385

Table 22: Template EU CQ3: Credit quality of performing and non-performing exposures by past due days

Credit quality of forborne exposures

Credit quality of the forborne exposure is presented in the table below, including information on defaulted and non defaulted impaired forborne exposure. Coverage of the exposure by allowances and collateral is also disclosed.

DISCLOSURE REQUIREMENTS Art. 442 (c) CRR

	in HRK mn							
	a	b	c	d	e	f	g	h
	Gross carrying amount of forborne exposures / Nominal amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collaterals 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
Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
Loans and advances	974	652	652	652	(100)	(317)	685	212
<i>Central banks</i>	-	-	-	-	-	-	-	-
<i>General governments</i>	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	-	-	-	-	-	-	-	-
<i>Non-financial corporations</i>	678	367	367	367	(85)	(199)	561	159
<i>Households</i>	296	285	285	285	(15)	(118)	124	53
Debt Securities	-	-	-	-	-	-	-	-
Loan commitments given	5	2	2	2	-	-	4	1
Total	979	654	654	654	(100)	(317)	689	213

Table 23: Template EU CQ1: Credit quality of forborne exposures

in HRK mn		a
		Gross carrying amount of forborne exposures
010	Loans and advances that have been forborne more than twice	9
020	Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	424

Table 24: Template EU CQ2: Quality of forbearance

Collateral valuation

DISCLOSURE REQUIREMENTS Art. 442 (c) CRR

	in HRK mn											
	a	b	c	d	e	f	g	h	i	j	k	l
	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 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
Gross carrying amount	67,801	65,487	147	2,314	928	1,386	93	126	292	407	126	342
Of which: secured	37,622	36,310	93	1,312	670	642	40	33	91	162	93	223
Of which: secured with Immovable property	24,137	23,035	11	1,102	524	578	35	26	67	138	91	221
Of which: instruments with LTV higher than 60% and lower than 80%	5,540	5,293		247	117	130						
Of which: instruments with LTV higher than 80% and lower than 100%	3,090	3,006		84	47	37						
Of which: instruments with LTV higher than 100%	3,317	3,109		208	86	122						
Accumulated impairment for secured assets	(1,390)	(617)	(3)	(773)	(251)	(522)	(20)	(16)	(55)	(133)	(89)	(209)
Collateral												
Of which value capped at the value of exposure	23,621	23,225	81	396	308	88	16	15	21	18	4	14
Of which: Immovable property	18,714	18,358	9	356	275	81	15	14	18	16	4	14
Of which value above the cap	7,456	6,256	32	1,200	392	808	46	54	123	173	118	294
Of which: Immovable property	6,087	5,105	6	982	348	634	39	48	88	88	98	273
Financial guarantees received	6,970	6,862	1	108	82	26	3	2	13	8	-	-
Accumulated partial write-off	(355)	-	-	(355)	(18)	(337)	(5)	(15)	(19)	(110)	(33)	(155)

Table 25: Template EU CQ6: Collateral valuation - loans and advances

Asset repossessed

DISCLOSURE REQUIREMENTS Art. 442 (c) CRR

The table below shows the information on type and value of the collateral obtained by taking possession in exchange of cancellation of debt instrument. The overview consists of repossessed assets in the balance sheet as of 31. December 2022.

	in HRK mn	
	a	b
	Collateral obtained by taking possession accumulated	
	Value at initial recognition	Accumulated negative changes
Property Plant and Equipment (PP&E)	-	-
Other than Property Plant and Equipment	258	(134)
<i>Residential immovable property</i>	112	(44)
<i>Commercial Immovable property</i>	109	(63)
<i>Movable property (auto, shipping, etc.)</i>	3	(1)
<i>Equity and debt instruments</i>	34	(26)
<i>Other</i>	-	-
Total	258	(134)

Table 26: Template EU CQ7: Collateral obtained by taking possession and execution processes

“Value at initial recognition” represents the gross carrying amount of the repossessed collateral at initial recognition in the balance sheet. “Accumulated negative changes” shows a negative difference between the current and the initial value of the collateral obtained by taking possession.

Collateral obtained by taking possession and execution processes – vintage breakdown

DISCLOSURE REQUIREMENTS Art. 442 (c) CRR

in HRK mn													
		a	b	c	d	e	f	g	h	i	j	k	l
		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
010	Collateral obtained by taking possession classified as Property Plant and Equipment (PP&E)	-	-	-	-								
020	Collateral obtained by taking possession other than classified Property Plant and Equipment	314	(138)	258	(134)	69	(28)	42	(22)	147	(84)	-	-
030	Residential immovable property	143	(64)	112	(44)	31	(2)	11	(3)	70	(39)	-	-
040	Commercial Immovable property	136	(40)	109	(63)	2	-	31	(19)	76	(44)	-	-
050	Movable property (auto, shipping, etc.)	1	-	3	(1)	2	-	-	-	1	(1)	-	-
060	Equity and debt instruments	34	(34)	34	(26)	34	(26)	-	-	-	-	-	-
070	Other	-	-	-	-	-	-	-	-	-	-	-	-
080	Total	314	(138)	258	(134)	69	(28)	42	(22)	147	(84)	-	-

Table 27: Template EU CQ8: Collateral obtained by taking possession and execution processes – vintage breakdown

Yearly development stock of non-performing loans and advances

DISCLOSURE REQUIREMENTS Art. 442 (f) CRR

		in HRK mn
		a
		Gross carrying amount
010	Initial stock of non-performing loans and advances	3,110
020	Inflows to non-performing portfolios	985
030	Outflows from non-performing portfolios	(1,781)
040	Outflows due to write-offs	(419)
050	Outflow due to other situations	(1,362)
060	Final stock of non-performing loans and advances	2,314

Table 28: Template EU CR2: Changes in the stock of non-performing loans and advances

Yearly development stock of non-performing loans and advances and related net accumulated recoveries

DISCLOSURE REQUIREMENTS Art. 442 (c) and (f) CRR

		in HRK mn	
		a	b
		Gross carrying amount	Related net cumulated recoveries
010	Initial stock of non-performing loans and advances	3,110	
020	Inflows to non performing portfolios	985	
030	Outflows from non-performing portfolios	(1,781)	
040	Outflow to performing portfolio	(222)	
050	Outflow due to loan repayment, partial or total	(639)	
060	Outflow due to collateral liquidations	(94)	93
070	Outflow due to taking possession of collateral	(29)	28
080	Outflow due to sale of instruments	(42)	42
090	Outflow due to risk transfers	-	-
100	Outflows due to write-offs	(419)	
110	Outflow due to Other Situations	(336)	
120	Outflow due to reclassification as held for sale	-	
130	Final stock of non-performing loans and advances	2,314	

Table 29: Template EU CR2a: Changes in the stock of non-performing loans and advances and related net accumulated recoveries

Credit risk mitigation techniques

Eligible collateral evaluation and management

DISCLOSURE REQUIREMENTS Art. 453 (a) to (e) CRR

Collateral represents secondary source of payment, while the primary source of payment is customer cash flow. 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 or the loss due to borrower not settling any other obligation toward the Bank. Collaterals are collected in accordance with relevant procedures, decisions in process of origination of loans or modifications of decisions on the approval of placements.

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.

All collateral types acceptable for the Bank are defined by internal acts. The following types of collateral are the most frequently accepted:

- _ **Real estate** (commercial and residential)
- _ **Financial collateral** (securities and cash deposits)
- _ **Guarantees** (given mostly by states, banks and companies).

The Bank also accepts other collaterals such as movables, balance sheet netting, investment funds shares in accordance with regulations. Most of guarantees are provided by financial institutions, sovereigns and public sector-related entities. The bank does not use credit derivatives as credit risk mitigation techniques.

Methods and haircuts (valuation discounts) which applies for collateral valuation are results of empirical research and experience in the liquidation of the collateral which are based on collected data on the proceeds from the realization of collateral. Haircuts are checked regularly, at least once per year, and are aligned with the realized collateral recovery.

Determining the value of collateral and their subsequent valuation, according to types of collateral, are carried out in accordance with the internal 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.

Real estate valuation may only be performed by independent licensed appraisers who are not involved in the lending decision process.

For residential real estate monitoring is performed with statistical methods (indices). Previously determined real estate value is adjusted to market value considering trends in real estate market. For those real estate, which is not possible conduct 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 authorized independent appraiser.

For residential real estate revaluation has to be performed by authorized independent appraiser at least every three years when the loan amount secured by a mortgage exceeds EUR 3 million.

For commercial real estate revaluation has to be performed by authorized independent appraisers at least every three years, in while in between years it is mandatory to do desktop monitoring.

The Bank performs regular annual concentration risk assessment which comprises an overview of credit risk mitigation techniques, but also a market risk overview from a perspective of received collaterals.

Overview on CRM techniques

DISCLOSURE REQUIREMENTS Art. 453 (f) CRR

in HRK mn						
		Secured carrying amount				
		Unsecured carrying amount	Of which secured by financial guarantees			
			Of which secured by collateral	Of which secured by credit derivatives		
		a	b	c	d	e
1	Loans and advances	57,604	30,592	23,621	6,971	-
2	Debt securities	20,100	-	-	-	
3	Total	77,704	30,592	23,621	6,971	-
4	Of which non-performing exposures	291	505	396	109	-
EU-5	Of which defaulted	291	505			

Table 30: Template EU CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques

Use of the standardized approach to credit risk

Scope of application and use of external ratings

DISCLOSURE REQUIREMENTS Art. 444 (a) (b) (c) (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.

At the end of 2015, and applicable in the last quarter of the same year, the Croatian National Bank approved the permanent partial use of standardized approach for credit risk weighted assets calculation and use of 0% risk weight for exposures toward central bank under Art. 114 (2), (4) or (5) CRR.

Additionally, at the beginning of 2022, and applicable in the first quarter 2022, for the Bank by European Central Bank and Croatian National Bank is approved the permanent partial use of standardized approach for credit risk weighed assets calculation and use of 0% risk weight for exposures toward central governments and central banks of the Member States where the 0% risk weight is applied under Art. 114 (2) and (4) and Art. 500a (1) CRR, and exposures toward multilateral development banks.

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 , 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 RATINGS

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.

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

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%

Quantitative disclosure on credit risk – Standardized Approach

Regulatory exposure by exposure classes and CRM effects

DISCLOSURE REQUIREMENTS Art. 453 (g) (h) (i) and 444 (e) CRR

		in HRK mn					
Exposure classes		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWEA	RWEA density (%)
		a	b	c	d	e	f
1	Central governments or central banks	45,501	-	49,718	75	1,675	3.36%
2	Regional government or local authorities	1,463	170	1,464	76	520	33.75%
3	Public sector entities	427	37	81	10	83	91.87%
4	Multilateral development banks	408	-	1,962	124	-	0.00%
5	International organisations	-	-	-	-	-	0.00%
6	Institutions	694	106	694	53	214	28.60%
7	Corporates	4,226	1,581	4,107	513	4,410	95.45%
8	Retail	3,788	861	3,780	180	2,810	70.96%
9	Secured by mortgages on immovable property	1,248	33	1,248	19	457	36.03%
10	Exposures in default	135	10	134	2	165	120.98%
11	Exposures associated with particularly high risk	2	-	2	-	2	150.00%
12	Covered bonds	-	-	-	-	-	0.00%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	0.00%
14	Collective investment undertakings	5	-	5	-	-	0.00%
15	Equity	-	-	-	-	-	100.00%
16	Other items	731	-	730	-	345	47.30%
17	TOTAL	58,628	2,798	63,925	1,052	10,681	16.44%

Table 31: Template EU CR4 – Standardised approach – Credit risk exposure and CRM effects

Exposure before CCF and CRM is regulatory exposure net of credit risk adjustments, before application of credit conversion factor to off-balance and before application of the credit risk mitigation techniques.

Regulatory exposure after conversion factor and post risk mitigation techniques

DISCLOSURE REQUIREMENTS Art. 444 (e) CRR

in HRK mn																	
Exposure classes	Risk weight																Of which unrated
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Total	
	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
Central governments or central banks	48,217	-	-	-	-	-	-	-	-	1,510	-	66	-	-	-	49,793	48,217
Regional government or local authorities	-	-	-	-	1,275	-	-	-	-	265	-	-	-	-	-	1,540	1,540
Public sector entities	7	-	-	-	1	-	-	-	-	83	-	-	-	-	-	91	91
Multilateral development banks	2,086	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,086	2,086
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	634	-	53	-	-	60	-	-	-	-	-	747	319
Corporates	-	-	-	-	1	-	13	-	-	3,917	689	-	-	-	-	4,620	-
Retail	-	-	-	-	-	-	-	-	3,960	-	-	-	-	-	-	3,960	3,960
Secured by mortgages on immovable property	-	-	-	-	-	1,018	249	-	-	-	-	-	-	-	-	1,267	1,267
Exposures in default	-	-	-	-	-	-	-	-	-	79	57	-	-	-	-	136	136
Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	2	-	-	-	-	2	2
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investment undertakings	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5	5
Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other items	343	-	-	-	5	-	25	-	-	322	-	-	-	-	35	730	730
TOTAL	50,658	-	-	-	1,916	1,018	340	-	3,960	6,236	748	66	-	-	35	64,977	58,353

Table 32: Template EU CR5 – Standardised approach

Use of the IRB Approach to credit risk

Approved approaches by the regulator

EU CRE

DISCLOSURE REQUIREMENTS Art. 452 (a) CRR

Based on the Bank request from 17th of 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:

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.

Advanced IRB approach ("AIRB") for exposure towards retail customers.

Permanent exemption of 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,
 - _ the entities within the Group of institutions in the Republic of Croatia and Erste Bank a.d. Podgorica
 - _ the Bank for the category of exposure towards institutions, the exposure subcategory of local and regional self-management authority,
- _ 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.

SCOPE OF THE USE OF IRB AND STANDARDIZED APPROACHES

DISCLOSURE REQUIREMENTS Art. 452 (b) CRR

	a	b	c	d	e
	Exposure value as defined in Article 166 CRR for exposures subject to IRB approach	Total exposure value for exposures subject to the Standardised approach and to the IRB approach	Percentage of total exposure value subject to the permanent partial use of the SA (%)	Percentage of total exposure value subject to a roll-out plan (%)	Percentage of total exposure value subject to IRB Approach (%)
Central governments or central banks	51,904	51,811	92.0%	0.0%	8.0%
<i>Of which Regional governments or local authorities</i>		1,540	100.0%	0.0%	0.0%
<i>Of which Public sector entities</i>		438	100.0%	0.0%	0.0%
Institutions	6,068	1,448	52.0%	0.0%	48.0%
Corporates	36,747	34,425	15.0%	0.0%	85.0%
<i>Of which Corporates - Specialised lending, excluding slotting approach</i>		-	0.0%	0.0%	0.0%
<i>Of which Corporates - Specialised lending under slotting approach</i>		7,384	0.0%	0.0%	100.0%
Retail	27,436	25,852	12.0%	7.0%	81.0%
<i>of which Retail – Secured by real estate SMEs</i>		363	0.0%	0.0%	100.0%
<i>of which Retail – Secured by real estate non-SMEs</i>		8,704	0.0%	0.0%	100.0%
<i>of which Retail – Qualifying revolving</i>		-	0.0%	0.0%	0.0%
<i>of which Retail – Other SMEs</i>		525	0.0%	0.0%	100.0%
<i>of which Retail – Other non-SMEs</i>		11,241	0.0%	0.0%	100.0%
Equity	125	99	5.0%	0.0%	95.0%
Other non-credit obligation assets	4,604	4,603	16.0%	0.0%	84.0%
Total	126,884	118,238	48.9%	1.6%	49.6%

Table 33: Template EU CR6-A – Scope of the use of IRB and SA approaches

This template excludes Counterparty credit risk (CCR) exposures (Chapter 6 of Title II of Part Three CRR).

CONTROL MECHANISMS FOR RATING SYSTEMS AND KEY ROLES AND RESPONSIBILITIES IN RATING SYSTEM LIFE-CYCLE

DISCLOSURE REQUIREMENTS Art. 452 (c) and (d) CRR

CONTROL MECHANISMS FOR RATING SYSTEMS

Independent validation

The central Model Validation unit independently challenges credit risk models and makes certain that all credit risk models used within Erste Group are fit for purpose. Every new IRB model developed must be validated prior to use by the Model Validation unit and on regular basis after its implementation.

The rating models are regularly validated by Model Validation unit by means of a standardised validation process carried out annually. An updated validation methodology was approved and implemented in 2021. The new validation methodology comprises the following validation areas:

- _ validation of the conceptual soundness of the model;
- _ validation of the model performance;
- _ validation of the ongoing model use.

The validation areas consist of the qualitative and quantitative tests with clear and objective assessment criteria. All validation outcomes are submitted to a respective committee for review, discussion and final decision on the validation findings and remediation plans, if necessary.

Regular Monitoring

Central Model Monitoring unit in Holding ensures quarterly control over the performance of the IRB credit risk models used in the Erste Group. The central monitoring unit as well as the process behind remain completely independent of the validation

process and unit but the analyses conducted in the course of the monitoring is methodologically aligned with those used in the validation.

Review of Estimates

To ensure optimum model performance and that models reflect latest available data, all models and risk parameters are subject to the review of estimates process. The review of estimates is conducted at least annually with the main element to judge whether existing risk parameters are still appropriate or shall be updated with re-calibrated parameters that include latest available data. Apart from the parameter re-calibration (or re-estimation of the model, where applicable), the analyses conducted in the course of the review of estimates are methodologically aligned with those of validation and monitoring activities.

Review of the rating system assignment

The usage of rating method is determined depending on the customer classification:

- _ retail;
- _ corporates;
- _ banks;
- _ sovereigns.

Every customer is assigned to a specific rating method. This allocation process is highly automated to keep the percentage of manual decisions as low as possible. It includes a number of checks executed by the IT system, e.g. the permanent monitoring of the criteria occupational status, operating income, legal form and industry code, which are needed for the automated allocation of rating methods to customers.

The checks conducted by the system for plausibility and correct completion of the data entry fields inform the user of any errors by sending a warning or error message. Ensuring data quality is done by special periodic evaluations. The responsibility for the correct application of the rating methods and correct data entry ultimately lies with the local level, from the account managers to the persons responsible in operative risk management departments.

KEY ROLES AND RESPONSIBILITIES IN RATING SYSTEM LIFE-CYCLE

Model Development

The main principle of model development (incl. changes to the models and reviewing the estimates) is a “subsidiarity approach”. It means that as a rule, responsibilities are assigned to the lowest level that can effectively execute, i.e.:

- _ Model development is executed by local banks for their local models locally;
- _ All group-wide models are developed by the Erste Group.

The Erste Group is responsible to set standards for the development of all models, monitor their effective implementation and provides methodological support and advice to ensure consistency within the Erste Group. A subsidiarity model for model development is therefore balancing development efforts between the Erste Group and local banks and is simplifying tailoring of approaches to local requirements and data situation. This design fosters local acceptance and ownership and facilitates involvement of local experts and business stakeholders.

Model Validation

Model validation is organized in a “Hub-and-Spoke” model, which means that all validation responsibilities are bundled within the Erste Group validation unit, but the Bank remain responsible for the sign-off of the results and for taking appropriate remediation action when necessary. Such design ensures independence and control of model validation, as well as enforce adherence to uniform standards. The local responsibility for sign-off implicitly requires local understanding of the validation results and of the actions required for the remediation.

Model Approval

Model approval is carried out via a dual approval model approach - corresponding Erste Group and Local Model Committee structures to reflect responsibilities depending on model perimeter. Topics which are affecting the Group (e.g. group-wide aspects, local models used for P1/P2 group consolidated purposes etc.) are approved in line with dual approval principle (local pre-approval, followed by SREC/SRMC-approval) The ultimate responsibility for models used within the Group (at consolidated level) lies with the Group CRO. Notwithstanding this, locally developed and used models (including local “usage” of group-wide models) are within the responsibility of the respective local CROs. A formal process of local approval and Erste Group acknowledgement is implemented via a tailored committee structure. This setup for model approval reflects ownership requirements across Erste Group entities.

Model Monitoring

Model monitoring also follows a subsidiary approach:

_ The Erste Group monitors Pillar 1 credit risk models centrally, sets monitoring standards and oversees the monitoring execution;

_ Local units are responsible for local model monitoring outcomes.

This operating model for model monitoring fosters harmonization with model validation and ensures close local oversight and understanding of models through proximity to local business and local use of models. Erste Group remains responsible for setting the standards and approach for model monitoring to ensure a consistent application throughout the Erste Group. This enables group-wide oversight and benchmarking of similar models across the Group, as well as appropriate reporting at both levels.

Internal Audit

Internal audit or another comparable independent auditing unit shall review at least annually the institution's rating systems and its operations, including the operations of the credit function and the estimation of PDs, LGDs, ELs and conversion factors (according to Article 191 CRR).

In order to allow an objective assessment, the internal audit function is granted an adequate level of independence from the reviewed processes and units in order to ensure that (according to ECB Guide to Internal Models – General Topics, Chapter 1.7):

_ there is an effective separation between the staff performing the internal audit function and the staff involved in the operation of the internal models: model development, model validation and the relevant business areas;

_ the internal audit reports directly to the management body and

_ no undue influence is exerted on the staff responsible for the audit conclusions.

Independence between internal audit and risk management functions is ensured by the separation up to the board level (audit - CEO, risk management - CRO). Ensuring that internal audit provides independent and objective assurance on risk management is vital for risks to be managed effectively.

Audit's assessment includes a confirmation of the fulfilment of tasks of quantitative nature performed by the units responsible for development and initial validation of the rating model(s) according to CRR (Article 191), EBA/RTS/2016/03 (Article 17) and internal requirements.

THE STRUCTURE OF INTERNAL RATING SYSTEMS AND RELATIONS BETWEEN INTERNAL AND EXTERNAL RATINGS

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 subclass 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 subsegment 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 subsegments.

Display of rating categories, depending on the asset class

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

Rating is revised and updated:

- _ after rating event, whenever material credit event which might have an impact on the client's creditworthiness occurs
- _ after each change of client's asset class
- _ monthly, based on client's behavior on all active accounts in the Bank (Behavioral scoring) for clients which belong to Retail and SME 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.

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 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 external rating agencies and in case an external rating exists, it can be taken into account when determining the internal rating.

Mapping of internal rating and the rating of external rating agencies

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

INTERNAL RATING ASSIGNMENT PROCESS

DISCLOSURE REQUIREMENTS Art. 452 (e) CRR

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.

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, 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 Erste Group. Central governments and central banks ratings are differently calculated for industrial developed countries in relation to developing countries. Scoring contains basic indicators and subindicators 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 Erste Group 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.

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.

DEFINITIONS, METHODS, AND DATA FOR THE ESTIMATION AND VALIDATION OF THE RISK PARAMETERS

DISCLOSURE REQUIREMENTS COVERED Art. 452 (f) (h) CRR

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

The PD estimation methodology approved and implemented in December 2019 (replaced Lando and Skødeberg methodologies) for most rating systems in Erste Group in line with recently issued regulatory guidance and its resulting PDs shall reflect long-run average default rates on rating grade level. Additionally, when estimating PD, a margin of conservatism is added for each portfolio in order to ensure a conservative estimate as per IRB Approach standards. 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.

The validation of the PDs employs both qualitative and quantitative tests within the following validation areas:

- _validation of the conceptual soundness of the model;
- _validation of the model performance;
- _validation of the ongoing model use.

In the quantitative validation, the estimated PDs are challenged with several quantitative tests such as accuracy of the risk parameter prediction, soundness of the calibration method, long-term stability as well as performance of the final estimates. Qualitative tests comprise quality of the model documentation, sampling process, representativeness of the data used, conceptual soundness of modelling approaches as well as all model use aspects. The final validation outcomes are documented in the validation report together with the respective validation findings, if necessary. The same also applies to the risk parameters LGD and CCF described below.

Back-testing of PD per exposure class – A-IRB

The table below shows the average PDs by exposure categories compared to the observed average default rate and the average historical 5-year default rates. This template excludes Counterparty credit risk (CCR) exposures (Chapter 6, Title II, Part Three CRR). Categories in which the Group has no exposure are omitted from the review.

In almost all segments, the PDs used for risk weighted calculation are in line with the multiyear default rates. Only in the Retail segment the higher PDs is noticed compared to the multiyear default rates, calculated on five year basis. Mentioned is a consequence of the good economic situation, while for the PD calculation the longer history is used. An growth of PD in Retail segment is performed in the last two years, what is a consequence of the methodology change and change in the default definition, what was also reflected in the methodology itself.

DISCLOSURE REQUIREMENTS Art. 452 (h) CRR

A-IRB	Retail SME secured by immovable property collateral							in HRK mn
Exposure class	PD scale	Number of obligors at the end of the year		Observed average default rate (%)	Exposures weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)	
			of which: number of obligors which defaulted during the year					
a	b	c	d	f	g	h	i	
	0.00 to <0.15	-	-	0.00%	0.00%	0.00%	0.00%	
	0.00 to <0.10	-	-	0.00%	0.00%	0.00%	0.00%	
	0.10 to <0.15	-	-	0.00%	0.00%	0.00%	0.00%	
	0.15 to <0.25	-	-	0.00%	0.00%	0.00%	0.00%	
	0.25 to <0.50	26	-	0.00%	0.40%	0.40%	0.25%	
	0.50 to <0.75	102	-	0.00%	0.71%	0.71%	0.71%	
	0.75 to <2.50	158	-	0.00%	1.47%	1.42%	0.91%	
	0.75 to <1.75	132	-	0.00%	1.39%	1.26%	0.81%	
	1.75 to <2.5	26	-	0.00%	2.21%	2.21%	0.97%	
	2.50 to <10.00	425	4	0.94%	4.88%	4.95%	3.17%	
	2.5 to <5	254	3	1.18%	3.82%	3.82%	2.72%	
	5 to <10	171	1	0.58%	6.48%	6.53%	4.29%	
	10.00 to <100.00	130	2	1.54%	15.96%	18.26%	12.14%	
	10 to <20	105	2	1.90%	13.38%	12.91%	9.16%	
	20 to <30	-	-	0.00%	0.00%	0.00%	12.99%	
	30.00 to <100.00	25	-	0.00%	42.31%	46.62%	16.46%	
	100.00 (Default)	197	-	0.00%	100.00%	100.00%	0.00%	

A-IRB	Retail non-SME secured by immovable property collateral							in HRK mn
Exposure class	PD scale	Number of obligors at the end of the year		Observed average default rate (%)	Exposures weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)	
			of which: number of obligors which defaulted during the year					
a	b	c	d	f	g	h	i	
	0.00 to <0.15	-	-	0.00%	0.00%	0.00%	0.27%	
	0.00 to <0.10	-	-	0.00%	0.00%	0.00%	0.00%	
	0.10 to <0.15	-	-	0.00%	0.00%	0.00%	0.27%	
	0.15 to <0.25	4,191	3	0.07%	0.16%	0.17%	0.26%	
	0.25 to <0.50	5,813	14	0.24%	0.37%	0.38%	0.45%	
	0.50 to <0.75	-	-	0.00%	0.00%	0.00%	1.58%	
	0.75 to <2.50	5,612	29	0.52%	1.12%	1.11%	1.70%	
	0.75 to <1.75	4,331	10	0.23%	0.90%	0.86%	1.29%	
	1.75 to <2.5	1,281	19	1.48%	2.05%	1.98%	3.80%	
	2.50 to <10.00	1,295	31	2.39%	4.81%	4.89%	7.60%	
	2.5 to <5	997	20	2.01%	4.51%	4.44%	5.02%	
	5 to <10	298	11	3.69%	6.48%	6.45%	8.17%	
	10.00 to <100.00	493	51	10.34%	23.34%	23.36%	17.33%	
	10 to <20	275	28	10.18%	14.50%	14.16%	8.51%	
	20 to <30	-	-	0.00%	0.00%	0.00%	20.64%	
	30.00 to <100.00	218	23	10.55%	32.21%	35.14%	13.19%	
	100.00 (Default)	1,119	-	0.00%	100.00%	100.00%	0.00%	

Table 34: Template CR9 –IRB approach – Back-testing of PD per exposure class (fixed PD scale) - Retail SME and non-SME secured by immovable property collateral

A-IRB	Retail SME other							in HRK mn
Exposure class	PD scale	Number of obligors at the end of the year		Observed average default rate (%)	Exposures weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)	
			of which: number of obligors which defaulted during the year					
a	b	c	d	f	g	h	i	
	0.00 to <0.15	-	-	0.00%	0.00%	0.00%	0.00%	
	0.00 to <0.10	-	-	0.00%	0.00%	0.00%	0.00%	
	0.10 to <0.15	-	-	0.00%	0.00%	0.00%	0.00%	
	0.15 to <0.25	-	-	0.00%	0.00%	0.00%	0.00%	
	0.25 to <0.50	169	-	0.00%	0.40%	0.40%	0.68%	
	0.50 to <0.75	464	-	0.00%	0.71%	0.71%	0.95%	
	0.75 to <2.50	1,093	1	0.09%	1.45%	1.41%	0.94%	
	0.75 to <1.75	901	1	0.11%	1.38%	1.26%	0.81%	
	1.75 to <2.5	192	-	0.00%	2.21%	2.21%	0.92%	
	2.50 to <10.00	3,410	72	2.11%	4.91%	5.13%	3.45%	
	2.5 to <5	1,913	35	1.83%	3.77%	3.76%	2.60%	
	5 to <10	1,497	37	2.47%	6.45%	6.65%	4.65%	
	10.00 to <100.00	44,105	1,766	4.00%	18.20%	49.94%	5.14%	
	10 to <20	1,563	155	9.92%	13.36%	13.71%	10.10%	
	20 to <30	-	-	0.00%	0.00%	0.00%	12.91%	
	30.00 to <100.00	42,542	1,611	3.79%	47.60%	52.64%	4.86%	
	100.00 (Default)	3,216	-	0.00%	100.00%	100.00%	0.00%	

A-IRB	Retail non-SME other							in HRK mn
Exposure class	PD scale	Number of obligors at the end of the year		Observed average default rate (%)	Exposures weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)	
			of which: number of obligors which defaulted during the year					
a	b	c	d	f	g	h	i	
	0.00 to <0.15	-	-	0.00%	0.00%	0.00%	0.50%	
	0.00 to <0.10	-	-	0.00%	0.00%	0.00%	0.00%	
	0.10 to <0.15	-	-	0.00%	0.00%	0.00%	1.00%	
	0.15 to <0.25	39,395	24	0.06%	0.16%	0.17%	0.60%	
	0.25 to <0.50	53,158	98	0.18%	0.37%	0.38%	0.69%	
	0.50 to <0.75	-	-	0.00%	0.00%	0.00%	1.52%	
	0.75 to <2.50	117,197	1,045	0.89%	1.39%	1.31%	1.95%	
	0.75 to <1.75	69,770	386	0.55%	0.90%	0.86%	1.60%	
	1.75 to <2.5	47,427	659	1.39%	2.05%	1.98%	3.38%	
	2.50 to <10.00	30,823	1,012	3.28%	5.18%	5.07%	7.40%	
	2.5 to <5	19,843	568	2.86%	4.51%	4.44%	4.62%	
	5 to <10	10,980	444	4.04%	6.48%	6.45%	8.53%	
	10.00 to <100.00	94,838	2,503	2.64%	21.54%	31.27%	7.93%	
	10 to <20	6,927	599	8.65%	14.50%	14.16%	17.43%	
	20 to <30	-	-	0.00%	0.00%	0.00%	8.32%	
	30.00 to <100.00	87,911	1,904	2.17%	32.21%	35.14%	1.56%	
	100.00 (Default)	24,245	-	0.00%	100.00%	100.00%	0.00%	

Table 35: Template CR9 –IRB approach – Back-testing of PD per exposure class (fixed PD scale) - Retail SME and non-SME other

Back-testing of PD per exposure class – F-IRB

F-IRB	Central governments or central banks							in HRK mn
Exposure class	PD scale	Number of obligors at the end of the year			Observed average default rate (%)	Exposures weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
		c	of which: number of obligors which defaulted during the year					
a	b	c	d		f	g	h	i
	0.00 to <0.15	12	-		0.00%	0.07%	0.01%	0.00%
	0.00 to <0.10	12	-		0.00%	0.07%	0.01%	0.00%
	0.10 to <0.15	-	-		0.00%	0.00%	0.00%	0.00%
	0.15 to <0.25	15	-		0.00%	0.21%	0.21%	0.00%
	0.25 to <0.50	1	-		0.00%	0.00%	0.49%	0.00%
	0.50 to <0.75	-	-		0.00%	0.00%	0.00%	0.00%
	0.75 to <2.50	-	-		0.00%	0.00%	0.00%	0.00%
	0.75 to <1.75	-	-		0.00%	0.00%	0.00%	0.00%
	1.75 to <2.5	-	-		0.00%	0.00%	0.00%	0.00%
	2.50 to <10.00	1	-		0.00%	3.11%	3.15%	0.00%
	2.5 to <5	1	-		0.00%	3.11%	3.15%	0.00%
	5 to <10	-	-		0.00%	0.00%	0.00%	0.00%
	10.00 to <100.00	1	-		0.00%	0.00%	38.15%	0.00%
	10 to <20	-	-		0.00%	0.00%	0.00%	0.00%
	20 to <30	-	-		0.00%	0.00%	0.00%	0.00%
	30.00 to <100.00	1	-		0.00%	0.00%	38.15%	0.00%
	100.00 (Default)	-	-		0.00%	0.00%	0.00%	0.00%

F-IRB	Institutions							in HRK mn
Exposure class	PD scale	Number of obligors at the end of the year			Observed average default rate (%)	Exposures weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
		c	of which: number of obligors which defaulted during the year					
a	b	c	d		f	g	h	i
	0.00 to <0.15	21	-		0.00%	0.09%	0.10%	0.00%
	0.00 to <0.10	10	-		0.00%	0.09%	0.06%	0.00%
	0.10 to <0.15	11	-		0.00%	0.00%	0.10%	0.00%
	0.15 to <0.25	9	-		0.00%	0.16%	0.17%	0.00%
	0.25 to <0.50	8	-		0.00%	0.47%	0.30%	0.00%
	0.50 to <0.75	10	-		0.00%	0.00%	0.51%	0.00%
	0.75 to <2.50	10	-		0.00%	1.44%	1.24%	0.00%
	0.75 to <1.75	10	-		0.00%	1.44%	1.24%	0.00%
	1.75 to <2.5	-	-		0.00%	0.00%	0.00%	0.00%
	2.50 to <10.00	11	-		0.00%	4.81%	4.44%	0.00%
	2.5 to <5	7	-		0.00%	3.93%	2.82%	0.00%
	5 to <10	4	-		0.00%	7.99%	7.48%	0.00%
	10.00 to <100.00	6	-		0.00%	38.45%	40.79%	1.04%
	10 to <20	-	-		0.00%	0.00%	0.00%	0.00%
	20 to <30	-	-		0.00%	0.00%	0.00%	1.67%
	30.00 to <100.00	6	-		0.00%	38.45%	40.79%	0.00%
	100.00 (Default)	-	-		0.00%	0.00%	0.00%	0.00%

Table 36: Template CR9 –IRB approach – Back-testing of PD per exposure class (fixed PD scale) – Central governments or central banks and Institutions

F-IRB	Corporates SME	in HRK mn						
Exposure class	PD scale	Number of obligors at the end of the year			Observed average default rate (%)	Exposures weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
			of which: number of obligors which defaulted during the year					
a	b	c	d		f	g	h	i
	0.00 to <0.15	-	-		0.00%	0.00%	0.00%	0.00%
	0.00 to <0.10	-	-		0.00%	0.00%	0.00%	0.00%
	0.10 to <0.15	-	-		0.00%	0.00%	0.00%	0.00%
	0.15 to <0.25	-	-		0.00%	0.48%	0.48%	0.15%
	0.25 to <0.50	417	-		0.00%	0.71%	0.71%	0.50%
	0.50 to <0.75	5	-		1.00%	1.20%	1.24%	1.18%
	0.75 to <2.50	904	9		1.00%	1.20%	1.24%	0.87%
	0.75 to <1.75	901	9		0.00%	1.96%	2.19%	1.24%
	1.75 to <2.5	3	-		1.52%	4.76%	4.79%	3.12%
	2.50 to <10.00	1,183	18		0.88%	3.47%	3.39%	2.22%
	2.5 to <5	679	6		2.38%	6.76%	6.91%	4.80%
	5 to <10	504	12		2.91%	18.89%	35.56%	4.37%
	10.00 to <100.00	1,824	53		6.09%	14.70%	15.33%	5.74%
	10 to <20	230	14		0.00%	29.00%	0.00%	5.25%
	20 to <30	-	-		2.45%	42.06%	45.16%	4.50%
	30.00 to <100.00	1,594	39		0.00%	100.00%	100.00%	0.00%
	100.00 (Default)	396	-		0.00%	0.00%	0.00%	0.00%

F-IRB	Corporates other	in HRK mn					
Exposure class	PD scale	Number of obligors at the end of the year		Observed average default rate (%)	Exposures weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
			of which: number of obligors which defaulted during the year				
a	b	c	d	f	g	h	i
	0.00 to <0.15	4	-	0.00%	0.05%	0.09%	0.00%
	0.00 to <0.10	2	-	0.00%	0.05%	0.07%	0.00%
	0.10 to <0.15	2	-	0.00%	0.12%	0.10%	0.00%
	0.15 to <0.25	-	-	0.00%	0.24%	0.00%	0.00%
	0.25 to <0.50	19	-	0.00%	0.40%	0.48%	0.72%
	0.50 to <0.75	6	-	0.00%	0.71%	0.61%	1.19%
	0.75 to <2.50	78	1	1.28%	1.38%	1.14%	1.49%
	0.75 to <1.75	69	1	1.45%	1.38%	1.10%	1.86%
	1.75 to <2.5	9	-	0.00%	2.21%	2.20%	0.63%
	2.50 to <10.00	759	11	1.45%	4.06%	4.95%	3.38%
	2.5 to <5	169	-	0.00%	3.44%	3.53%	1.61%
	5 to <10	590	11	1.86%	6.67%	6.20%	4.57%
	10.00 to <100.00	484	17	3.51%	17.13%	37.72%	5.02%
	10 to <20	75	3	4.00%	14.77%	15.39%	5.96%
	20 to <30	2	-	0.00%	0.00%	27.70%	3.16%
	30.00 to <100.00	407	14	3.44%	41.56%	46.28%	10.09%
	100.00 (Default)	255	-	0.00%	100.00%	100.00%	0.00%

Table 37: Template CR9 –IRB approach – Back-testing of PD per exposure class (fixed PD scale) - Corporates SME and Corporates other

Loss given default (LGD)

For Pillar 1 purposes, LGD is estimated at Erste Group only for the retail portfolio, i.e. for private individuals and retail SMEs. LGD is defined as the expected economic loss on defaulted exposures after recoveries (from collateral and other repayments) as a percentage of EAD, modelled on pool level based on the decomposition of the total LGD in a cure rate component and loss rate components for both liquidated and cured exposures. The cure rate component is estimated via a logistic regression, while the estimation of the loss given liquidation relies on linear regression. For each of the pools, which are defined as homogeneous segments by product, client segment and exposure, a separate risk differentiation is derived. For the purpose of estimation, no further recoveries are assumed for an exposure after a maximum period of time in workout that is defined on pool level based on an analysis of closed workout cases and the recovery curve. Depending on credit exposure, LGD is then calculated taking into account proportionately allocated costs, a margin of conservatism as well as an add-on to properly reflect economic downturn conditions. The LGD for default exposures is determined as an estimation of the best estimate of expected

losses (ELbe) and an add-on capturing the downturn adjustment and margin of conservatism. The ELbe modelling uses the same methodology as the LGD modelling, additionally considering the different times in default to reflect changes to the loss given liquidation and cure rate.

The validation of the LGD models is performed by the independent validation function once a year, using both qualitative and quantitative tests within the following validation areas:

- _ validation of the conceptual soundness of the model;
- _ validation of the model performance;
- _ validation of the ongoing model use.

The table below shows the LGD back-testing results for defaulted customers at Group level on the long-term EAD-weighted average. All defaults over a period of at least 10 years from internal validation reports were considered in the back-testing analysis. The estimated LGDs were higher than the observed value for all sub-classes of the retail exposure class, indicating the conservativeness of the estimates.

Asset class	Average LGD estimates	Average annual observed LGD
Retail		
thereof SME	59,0%	51,6%
thereof Private Individuals	39,4%	34,9%

Table 38: Back-testing LGD

In the preceding period, Group generally did not experience any factors, which would impact average default rates, realized LGDs and realized conversion factors. The alignment of the definition of default with recent regulatory requirements in general only had a minor impact on default rates, confined to the retail segment.

Credit conversion factor (CCF)

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.

During 2021 a new CCF concept has been developed, official application to the regulator is expected in the first quarter of 2022.

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 at Group level over the time period of minimum 10 years based on the internal validation reports.

Asset class	Average CCF estimates	Average observed CCF
Retail		
thereof SME	42,1%	27,7%
thereof Private Individuals	8,7%	3,6%

Table 39: Back-testing CCF

Rating systems

DISCLOSURE REQUIREMENTS Art. 452 (f) CRR

A rating system comprises all models, methods, processes, controls, data collection and data processing that serve the assessment of credit risks, the allocation of exposures to rating grades and the quantification of default probabilities and loss estimates for certain types of exposures. The rating systems used by Bank meet the requirements for the application of the IRB Approach.

RATING MODELS

The internal rating models and the estimates of related risk parameters play a key role in credit risk management, in the decision-making processes and in lending operations. Furthermore, they deliver the main determinants for the procedures to assess capital requirements. Bank uses empirical-statistical and expert-based model types. A periodic validation, monitoring and review of estimates ensures the quality of the rating models and risk parameters.

Empirical-statistical models

Empirical-statistical models of risk assessment require a large data base and are especially suitable for mass market businesses.

Based on sufficiently large empirical data bases (data of a large population from the customer base of the bank), scorecards are developed using logistic regression techniques. The key criterion used for selecting the best scorecard is the accuracy ratio. The accuracy ratio indicates the ability of the scorecard to differentiate between customers with low and high default risk. The result of the scorecard is presented as a rating grade, which is associated with a probability of default estimate.

The key element in rating models applied to retail portfolios is the assessment of account behaviour, which is updated on a monthly basis. This enables continuous risk monitoring of customer portfolios in the retail banking business. Furthermore, the rating models also include customer information that is updated at least once a year but, in any case, when a credit application is made (in the event of a credit decision).

The rating results (rating grades) are verifiable and objective, i.e. if the input information is the same, they supply the same rating grade regardless of the individual assessment by the account manager.

Empirical-statistical models are used not only in the retail business but also in the corporate segment. In the case of corporates, the emphasis is on statistically developed financial ratings (evaluation of balance sheet information). Apart from the financial rating (hard facts), qualitative customer information (soft facts) also enters into the risk evaluation of corporate customers, which is updated at least once a year, or through behavioural components where feasible.

Expert-based models

For expert-based models, the empirical-statistical component targeting the default indicator is not as important – due to the lack of a sufficiently large population of customers in the respective customer segments or a sufficient number of defaulted customers and is replaced by external ratings as modelling target (e.g. Bank Rating or Country Rating) or at least assisted by expert know-how, which takes into account quantitative criteria (e.g. financial information), qualitative criteria (e.g. market and industry developments) and macroeconomic factors.

By helping to assess the specific debtor and business specific features, this expert knowledge makes an important contribution to the rating models mainly for the following customer segments: specialised lending, banks and sovereigns.

These rating models ensure a sound assessment of the debtor and business specific features, risk differentiation as well as precise and consistent quantitative risk estimates.

RATING METHODS

DISCLOSURE REQUIREMENTS Art. 452 (f) CRR

Exposure class/rating method	Empirical-statistical model			Expert-based model			External ratings (ECAIs)
	Rating Private Individuals	Rating SME	Rating Corporates	Rating Specialised Lending	Bank Rating	Country Rating	
Retail	•	•					
Corporate incl. SME, SL		•	•	•	•		
Institutions					•		
Central government and central banks						•	
Equity			•		•		
Other assets							

Table 40: Exposure classes of the IRB Approach and applied rating methods (Art. 452 (f) CRR)

The rating methods Bank Rating and Country Rating are used as centralised methods throughout Erste Group without any regional modifications. The rating grades are determined by Erste Group centrally and made available to the Group companies.

Other rating methods (Rating Private Individuals, Rating SME, Rating Corporates and Rating Specialised Lending (Rating SL)) follow uniform modelling guidelines and – where possible – model structures, and feature regional adaptations appropriate to the respective portfolios in the individual Group companies.

Rating Private Individuals

Classification

Customers are assigned to the rating method Rating Private Individuals according to their occupational status.

Development

The rating method Rating Private Individuals was developed by experts at Erste Group as an empirical-statistical model. The variants used at the various subsidiaries were developed locally, making it possible to take local specifics into account. The rating method is applied in case of applications for a financing decision (e.g. new loan applications) and automatically within the monthly update of customer ratings.

Rating determinants

The rating model assigns scores based on demographic information, account data, product attributes as well as external data. The assessment of account behaviour is performed monthly and provides an essential input for timely risk assessment. Analyses done in the case of applications take into account not only the input factors for the rating, but also the current customer information on their income and expenditure.

Outputs of the rating process

Based on a scorecard, every private individual is assigned a rating grade on a rating scale of 8 grades. The customers with rating grade A1 have the lowest and customers with rating grade D2 have the highest PD. The customer rating serves as the basis for the calculation of capital requirements and plays an essential role for the credit decision and the lending terms. Private individual ratings derived from the analysis of the loan application, which includes all loans granted and applied for, are an integral part of the decision recommendation. Rating grades of customers are updated at the monthly reappraisal of account behaviour. The monthly processing of customer and account data is also the basis for the early warning system. The early warning list supplies account managers with valuable information on current risk assessments and also contains private individuals of substandard creditworthiness because of specific customer or account features. Such customers may include, for example, those with regular overdrafts or customers that have been sent reminders.

Rating SME

Classification

The rating method Rating SME (incl. small commercial customers and independent professionals) is applied to SMEs with sales revenues of up to EUR 5 million as well as to independent professionals.

Development

Statistically-derived rating models are used in all subsidiaries. Ratings for SME customers and independent professionals must be determined taking into account the financial situation before and after the financing being applied for. This Basel requirement is complied with by means of an online rating initiated manually for determining the current rating grade and the rating in the case of a loan application (rating by type of financing). In addition to the online rating, there is also a monthly batch rating in which the current rating grade is determined based on behaviour. This automatically updates the rating grade (based on an evaluation of account behaviour and any available external information).

Rating determinants

According to differences in income patterns, the method is broken down into three subgroups: customers using double-entry book-keeping, customers using single-entry book-keeping and customers using simplified accounting. Depending on these accounting types, the following four rating determinants apply:

- **Financial factors:** A financial rating is calculated either from balance sheet information (double-entry book-keeping customers), the statement of income and expenses (single-entry book-keeping customers) or a debt ratio (simplified accounting).
- **Qualitative factors:** Qualitative factors make it possible to take into account input factors that cannot be derived directly from financial statements. Examples are management, accounting practices, market and its trends, and external information (credit bureau notifications).
- **Account behaviour:** Particular attention is paid to account behaviour, which is automatically assessed and updated on a monthly basis. The evaluation considers and scores, for example, the incidence of payment difficulties, account balances and the extent to which available credit and overdraft facilities are used.
- **Creditworthiness based on cash flow considerations:** Finally, the ability to service debts is evaluated based on the disposable income.

Outputs of the rating process

Based on the score, every SME or professional customer is assigned a rating grade on a scale of 13 grades. In a last step of the rating assignment process, human judgement in the sense of rating overrides is possible to a limited extent. The customer rating serves as the basis for determining the regulatory capital requirement, as an indicator for the credit decision and as a factor in the credit terms and conditions.

Rating Corporates

Classification

Corporates, i.e. commercial customers with sales revenues above specified thresholds, are rated by the “Rating Corporates” method. Within the corporate segment, a further size differentiation exists. In addition, some locally specific corporate rating methods exist adapted to the nature of certain portfolio segments.

Development

Statistically-derived rating models are used in all subsidiaries.

Rating determinants

The assignment of ratings for corporates is done systematically both with respect to information on past developments as well as future prospects, with special attention being paid to the relevant customer segment (e.g. whether the customers' business is capital goods intensive) and the characteristics of the relevant markets.

Rating Corporates is a two-stage process including the assignment of individual customer ratings and group ratings.

- **Individual customer rating:** The cornerstone is the evaluation of the company's financials. Based on ratios from the financial statements, a so-called “financial rating” (hard facts) is calculated. This financial rating also takes into account local factors based on the country where the company has its registered office. Another component for rating corporates is qualitative factors (soft facts). Unlike the hard facts that enter into the financial rating, these soft facts also include projections into the future. A company's potential, opportunities and risks are determined, evaluated and documented according to a standardised procedure.
- **Group rating:** In a second step, the company is considered within the context of a Group of companies that form an economic unit. The capacity and the willingness to provide support are analysed, which may have a positive influence on the individual

customer rating. Additionally, the Group's rating is the cap for the rating of the individual customer. Rating caps also result from country ratings.

Outputs of the rating process

Based on the score, every corporate is assigned a rating grade on a scale of 13 grades. In a last step of the rating assignment process, human judgement in the sense of rating overrides is possible to a limited extent. The customer rating serves as the basis for determining the regulatory capital requirement, as an indicator for the credit decision and as a factor in the credit terms and conditions.

Rating Specialised Lending

Classification

The Corporates customer category includes the specialised lending customer segment. These are mainly income-producing real estate projects (e.g. rental, tourism and for-sale properties) and other project financing (e.g. power plants, infrastructure).

Development

The rating methods follow the Supervisory Slotting Approach and respective regulatory requirements. Hence, their development relies on human judgement but is backed with extensive data analysis.

Rating determinants

Both the hard facts (financial ratios) and the soft facts differ substantially from the rating for general corporates. The indicators include the loan-to-value and the debt service coverage ratio, features of the object financed (e.g. location quality) and project risks.

Outputs of the rating process

The model output are the regulatory risk categories in the Supervisory Slotting Approach within the IRB Approach. These categories are the basis for the calculation of the capital requirement. Human judgement in the sense of rating overrides is possible to a limited extent.

Bank Rating

Classification

The rating method "Banks" is used to evaluate foreign and domestic banks, investment banks as well as financial institutions belonging to banking groups.

Development

A new Bank Rating model is placed on an empirical-statistical foundation and uses external ratings as a modelling target.

Rating determinants

The Bank Rating combines quantitative (i.e. financial ratios reflecting profitability, liquidity, asset quality or size), qualitative (i.e. soft facts) and country-specific (i.e. related to the banking environment in the customer's home country) criteria to arrive at a rank ordering.

In addition, if applicable, the customer is considered within the banking group it is belonging to. The capacity and the willingness for this banking group to provide support to the customer as well as the possibility of government support are analysed, which may have a positive influence on the individual customer rating. Additionally, the banking group's rating and the Country Rating of the customer's home country represent caps for the rating of the individual customer.

Outputs of the rating process

Based on the score achieved in the rating model, every customer from the Bank Rating segment is assigned a rating grade on a scale of 13 grades. In a last step of the rating assignment process, human judgement in the sense of rating overrides is possible to a limited extent. The rating serves as the basis for the calculation of the limit for the maximum exposure that the bank is prepared to enter into with a given customer. The rating grade must be stated in every limit and credit application. After approval of the rating, the rating grade is made available to all member institutions of Erste Group.

Sovereign Rating

Classification

The rating method Sovereign Rating is a rating for the sovereign and covers central governments, central banks and public sector entities guaranteed by the central government. In addition, the sovereign rating is also the basis for the country rating ("cross-border risk").

Development

For the predominant part, the rating method Sovereign Rating is placed on a statistical foundation and uses external ratings as a modelling target. The rating reflects the risk of a default in foreign currency and thus primarily represents the transfer risk (risk arising from cross-border transactions). The sovereign ratings are determined centrally by Erste Group with binding effect for the entire Group (generally quarterly, at least once a year) and are made available to the Group entities.

Rating determinants

Two groups of countries are distinguished in the modelling: industrialised and emerging markets. The reason for the distinction is that foreign debt and debt service play an important role in emerging markets but are of minor importance as indicators in established industrialised countries. Both models combine quantitative (i.e. economic) and qualitative (e.g. judgement on financial fragility, political risk or structure of debt) information to arrive at a rank ordering.

Outputs of the rating process

Based on the score achieved in the rating model, every customer from the Sovereign Rating segment is assigned a rating grade on a scale of 13 grades. In a last step of the rating assignment process, expert judgement in the sense of rating overrides is possible to a limited extent. The sovereign rating assigned is a key factor for determining the limits for sovereigns ("issuer rating") and countries ("cross-border risk rating"). Usually, the country rating also serves as a cap for the assessment of the companies located in a given country ("country ceiling").

External ratings (ECAIs)

External ratings are used for securitisations only which is not applicable for the Bank.

RATING PROCESS

Mandatory elements of any rating process are defined group-wide. These include:

- _ A definition of persons who are authorised to assign ratings;
- _ A definition of rating and re-rating triggers;
- _ The rating approval process;
- _ A regulation of manual override of a rating;
- _ General principles of the 3rd party support;
- _ Mandatory conservatism in the application in case of missing or outdated risk information;
- _ A synchronization process for ratings of the same client in different entities.

Rating by the selected method

Decentralised methods

Under the decentralised methods – Rating Private Individuals, Rating SME, Rating Corporates, and Rating SL – the input data needed for the rating is entered into the IT system by the account manager or the risk manager or is inferred from historical data on payment and account behaviour. The result is a computer-assisted rating grade.

Centralised methods

The centralised approaches are the rating methods Bank Rating and Sovereign Rating. The input data is captured by central specialised departments; the process results in an internal rating grade.

Rating confirmation by risk management

As a main principle, the rating determined based on any of these methods must be confirmed by the risk management function. The only exceptions are certain assets in the retail portfolio, where the risk management decision may be derived from an automation-assisted rating result (unless this is manually overridden).

Quantitative disclosure on credit risk – IRB Approach

DISCLOSURE REQUIREMENTS Art. 452 (g) (i-v) CRR

With respect to exposures under IRB Approach, a breakdown is given below of the exposure classes of central governments and central banks, institutions, corporates and retail by PD scales. Equity exposures, specialised lending, other non-credit obligation and Counterparty credit risk (CCR) exposures (Chapter 6 of Title II of Part Three CRR) are not subject to following tables.

F-IRB Approach – Central governments and central banks and institutions

F-IRB													in HRK mn
PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD	Number of obligors	Exposure weighted average LGD	Exposure weighted average Maturity	Risk weighted exposure amount after SME supporting factor	Density of Risk weighted exposure amount	EL amount	value adjustment s and provisions	
a	b	c	d	e	f	g	h	i	j	k	l	m	
Central governments or central banks													
0.00 to <0.15	3,121	91	88.7%	3,794	0.1%	15	45.0%	913	868	22.9%	1	(1)	
0.00 to <0.10	3,121	91	88.7%	3,794	0.1%	15	45.0%	913	868	22.9%	1	(1)	
0.10 to <0.15	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
0.15 to <0.25	339	-	0.0%	338	0.2%	2	45.0%	913	845	249.9%	-	-	
0.25 to <0.50	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
0.50 to <0.75	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
0.75 to <2.50	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
0.75 to <1.75	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
1.75 to <2.5	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
2.50 to <10.00	416	-	0.0%	416	3.1%	1	45.0%	913	572	137.5%	6	(26)	
2.5 to <5	416	-	0.0%	416	3.1%	1	45.0%	913	572	137.5%	6	(26)	
5 to <10	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
10.00 to <100.00	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
10 to <20	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
20 to <30	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
30.00 to <100.00	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
100.00 (Default)	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
Subtotal:	3,876	91	88.7%	4,548	0.4%	18	45.0%	913	2,285	50.2%	7	(27)	
Total F-IRB:	23,734	11,967	35.2%	22,196	5.0%	7,227	41.9%	913	18,421	83.0%	492	(953)	
Institutions													
0.00 to <0.15	300	157	21.3%	334	0.1%	24	44.9%	913	148	44.4%	-	-	
0.00 to <0.10	300	157	21.3%	334	0.1%	24	44.9%	913	148	44.4%	-	-	
0.10 to <0.15	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
0.15 to <0.25	1	182	20.0%	37	0.2%	10	45.0%	913	21	56.0%	-	-	
0.25 to <0.50	104	15	20.0%	121	0.5%	17	45.0%	913	98	81.1%	1	-	
0.50 to <0.75	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
0.75 to <2.50	104	4	20.0%	115	1.4%	11	8.0%	913	21	18.4%	-	(1)	
0.75 to <1.75	104	4	20.0%	115	1.4%	11	8.0%	913	21	18.4%	-	(1)	
1.75 to <2.5	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
2.50 to <10.00	3	6	20.0%	4	4.8%	8	45.0%	913	8	178.1%	-	-	
2.5 to <5	2	6	20.0%	3	3.9%	5	45.0%	913	6	168.3%	-	-	
5 to <10	1	-	0.0%	1	8.0%	3	45.0%	913	2	213.3%	-	-	
10.00 to <100.00	-	-	0.0%	-	38.5%	6	45.0%	913	-	316.3%	-	-	
10 to <20	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
20 to <30	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
30.00 to <100.00	-	-	0.0%	-	38.5%	6	45.0%	913	-	316.3%	-	-	
100.00 (Default)	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
Subtotal:	512	364	20.6%	611	0.4%	76	40.4%	913	296	48.4%	1	(1)	
Total F-IRB:	23,734	11,967	35.2%	22,196	5.0%	7,227	41.9%	913	18,421	83.0%	492	(953)	

Table 41: Template EU CR6-B–F-IRB approach–Central governments/central banks and Institutions by PD classes

F-IRB Approach – Corporate (excluding SL)

F-IRB													in HRK mn	
PD range	On-balance sheet exposures	Off- balance- sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD	Number of obligors	Exposure weighted average LGD	Exposur e weight ed average Maturity	Risk weighted exposure amount after SME supporting factor	Density of Risk weighted exposure amount	EL amount	value adjustments and provisions		
a	b	c	d	e	f	g	h	i	j	k	l	m		
Corporates without specialized lending														
0.00 to <0.15	24	135	20.4%	51	0.1%	4	45.0%	913	16	31.4%	-	-		
0.00 to <0.10	24	135	20.4%	51	0.1%	3	45.0%	913	16	31.4%	-	-		
0.10 to <0.15	-	-	0.0%	-	0.1%	1	45.0%	913	-	41.1%	-	-		
0.15 to <0.25	-	22	50.0%	11	0.2%	3	45.0%	913	6	56.3%	-	-		
0.25 to <0.50	37	496	67.6%	411	0.4%	66	45.0%	913	321	78.1%	1	(1)		
0.50 to <0.75	-	-	0.0%	-	0.7%	4	45.0%	913	-	102.7%	-	-		
0.75 to <2.50	3,709	2,969	37.6%	3,513	1.4%	150	41.4%	913	3,530	100.5%	20	(79)		
0.75 to <1.75	3,705	2,969	37.6%	3,510	1.4%	146	41.4%	913	3,527	100.5%	20	(79)		
1.75 to <2.5	4	-	75.0%	3	2.2%	4	37.3%	913	3	81.4%	-	-		
2.50 to <10.00	5,506	1,667	24.9%	3,015	4.1%	653	43.3%	913	4,323	143.4%	53	(70)		
2.5 to <5	3,833	1,185	25.7%	2,435	3.4%	144	43.0%	913	3,318	136.2%	36	(30)		
5 to <10	1,673	482	23.0%	580	6.7%	509	44.3%	913	1,005	173.4%	17	(40)		
10.00 to <100.00	102	92	28.4%	97	17.1%	580	42.7%	913	208	215.5%	7	(16)		
10 to <20	92	92	28.4%	88	14.8%	81	42.6%	913	187	212.9%	6	(16)		
20 to <30	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-		
30.00 to <100.00	10	-	0.0%	9	41.6%	499	43.3%	913	21	242.3%	1	-		
100.00 (Default)	197	3	29.7%	181	100.0%	219	43.2%	913	-	0.0%	79	(164)		
Subtotal:	9,575	5,384	35.9%	7,279	4.1%	1,679	42.5%	913	8,404	115.5%	160	(330)		
Total F-IRB:	23,734	11,967	35.2%	22,196	5.0%	7,227	41.9%	913	18,421	83.0%	492	(953)		
PD scale														
Corporates SME without specialized lending														
0.00 to <0.15	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-		
0.00 to <0.10	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-		
0.10 to <0.15	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-		
0.15 to <0.25	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-		
0.25 to <0.50	891	985	35.5%	1,067	0.5%	487	41.4%	913	489	45.8%	2	(3)		
0.50 to <0.75	2	-	50.0%	1	0.7%	10	45.0%	913	1	51.6%	-	-		
0.75 to <2.50	2,756	2,436	35.0%	3,050	1.2%	1,012	42.4%	913	2,031	66.6%	15	(19)		
0.75 to <1.75	2,756	2,436	35.0%	3,050	1.2%	1,011	42.4%	913	2,031	66.6%	15	(19)		
1.75 to <2.5	-	-	0.0%	-	2.0%	1	45.0%	913	-	80.2%	-	-		
2.50 to <10.00	5,107	2,522	33.4%	4,819	4.8%	1,337	40.1%	913	4,408	91.5%	93	(194)		
2.5 to <5	3,071	1,783	32.1%	2,919	3.5%	814	39.6%	913	2,425	83.1%	40	(37)		
5 to <10	2,036	739	36.5%	1,900	6.8%	523	40.9%	913	1,983	104.4%	53	(157)		
10.00 to <100.00	486	129	30.3%	368	18.9%	2,213	39.5%	913	508	137.9%	28	(47)		
10 to <20	399	128	30.3%	312	14.7%	205	39.1%	913	414	132.6%	18	(41)		
20 to <30	-	-	0.0%	-	29.0%	1	45.0%	913	-	166.4%	-	-		
30.00 to <100.00	87	1	43.9%	56	42.1%	2,007	41.5%	913	94	167.0%	10	(6)		
100.00 (Default)	529	56	15.4%	453	100.0%	391	41.1%	913	-	0.0%	186	(333)		
Subtotal:	9,771	6,128	34.1%	9,758	7.1%	5,450	41.0%	913	7,437	76.2%	324	(596)		
Total F-IRB:	23,734	11,967	35.2%	22,196	5.0%	7,227	41.9%	913	18,421	83.0%	492	(953)		

Table 42: Template EU CR6-B–F-IRB approach–Corporate by PD classes

IRB Approach – Retail

A-IRB													in HRK mn
PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD	Number of obligors	Exposure weighted average LGD	Exposure weighted average Maturity	Risk weighted exposure amount after SME supporting factor	Density of Risk weighted exposure amount	EL amount	value adjustments and provisions	
a	b	c	d	e	f	g	h	i	j	k	l	m	
Retail exposures– non-SME secured by immovable property collateral													
0.00 to <0.15	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
0.00 to <0.10	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
0.10 to <0.15	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
0.15 to <0.25	1,975	23	100.0%	1,998	0.2%	4,492	31.4%	913	227	11.3%	1	(3)	
0.25 to <0.50	2,861	45	100.0%	2,906	0.4%	6,283	32.1%	913	626	21.6%	4	(6)	
0.50 to <0.75	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
0.75 to <2.50	2,988	39	100.0%	3,027	1.1%	6,375	32.8%	913	1,394	46.1%	11	(15)	
0.75 to <1.75	2,411	30	100.0%	2,441	0.9%	4,967	33.0%	913	997	40.9%	7	(7)	
1.75 to <2.5	577	9	100.0%	586	2.1%	1,408	32.2%	913	397	67.7%	4	(8)	
2.50 to <10.00	625	11	100.0%	636	4.8%	1,409	32.6%	913	706	111.0%	10	(30)	
2.5 to <5	531	10	100.0%	541	4.5%	1,139	32.7%	913	586	108.3%	8	(25)	
5 to <10	94	1	100.0%	95	6.5%	270	31.8%	913	120	126.4%	2	(5)	
10.00 to <100.00	150	-	0.0%	150	23.3%	408	32.5%	913	284	189.6%	11	(21)	
10 to <20	75	-	0.0%	75	14.5%	201	32.5%	913	134	178.7%	3	(7)	
20 to <30	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
30.00 to <100.00	75	-	0.0%	75	32.2%	207	32.6%	913	150	200.7%	8	(14)	
100.00 (Default)	290	-	0.0%	290	100.0%	953	58.1%	913	100	34.6%	161	(170)	
Subtotal:	8,889	118	100.0%	9,007	4.5%	19,920	33.1%	913	3,337	37.1%	198	(245)	
Total A-IRB:	21,330	1,585	51.6%	22,147	6.4%	406,342	41.9%	913	10,053	45.4%	862	(931)	
PD scale													
Retail exposures– non-SME other													
0.00 to <0.15	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
0.00 to <0.10	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
0.10 to <0.15	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
0.15 to <0.25	658	394	37.6%	806	0.2%	42,055	45.7%	913	136	16.9%	-	(1)	
0.25 to <0.50	1,955	426	44.9%	2,146	0.4%	54,932	46.3%	913	638	29.8%	4	(5)	
0.50 to <0.75	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
0.75 to <2.50	6,566	425	47.4%	6,767	1.4%	115,553	47.3%	913	3,773	55.8%	44	(51)	
0.75 to <1.75	3,744	322	45.8%	3,892	0.9%	69,961	47.0%	913	1,881	48.3%	16	(12)	
1.75 to <2.5	2,822	103	52.5%	2,875	2.1%	45,592	47.9%	913	1,892	65.8%	28	(39)	
2.50 to <10.00	1,328	48	74.2%	1,364	5.2%	27,343	46.2%	913	989	72.5%	33	(41)	
2.5 to <5	868	42	75.7%	900	4.5%	17,500	46.4%	913	646	71.9%	19	(25)	
5 to <10	460	6	63.8%	464	6.5%	9,843	45.8%	913	343	73.8%	14	(16)	
10.00 to <100.00	328	2	35.8%	329	21.5%	69,635	46.4%	913	356	108.4%	33	(36)	
10 to <20	197	2	36.0%	198	14.5%	5,488	46.1%	913	188	94.8%	13	(16)	
20 to <30	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-	
30.00 to <100.00	131	-	34.6%	131	32.2%	64,147	46.9%	913	168	129.0%	20	(20)	
100.00 (Default)	676	-	34.6%	676	100.0%	19,303	69.5%	913	110	16.2%	462	(461)	
Subtotal:	11,511	1,295	44.6%	12,088	7.2%	328,821	48.0%	913	6,002	49.7%	576	(595)	
Total A-IRB:	21,330	1,585	51.6%	22,147	6.4%	406,342	41.9%	913	10,053	45.4%	862	(931)	

Table 43: Template EU CR6-B–A-IRB approach–Retail non SME secured by immovable property collateral/Retail non-SME other by PD classes

A-IRB												in HRK mn
PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD	Number of obligors	Exposure weighted average LGD	Exposure weighted average Maturity	Risk weighted exposure amount after SME supporting factor	Density of Risk weighted exposure amount	EL amount	value adjustments and provisions
a	b	c	d	e	f	g	h	i	j	k	l	m
PD scale												
Retail exposures– SME secured by immovable property collateral												
0.00 to <0.15	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-
0.00 to <0.10	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-
0.10 to <0.15	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-
0.15 to <0.25	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-
0.25 to <0.50	3	1	67.7%	3	0.4%	25	33.6%	913	1	18.0%	-	-
0.50 to <0.75	37	4	59.5%	40	0.7%	97	35.7%	913	11	28.8%	-	-
0.75 to <2.50	64	6	85.3%	70	1.5%	165	36.6%	913	33	47.3%	-	-
0.75 to <1.75	58	6	85.2%	64	1.4%	140	36.7%	913	29	46.0%	-	-
1.75 to <2.5	6	-	100.0%	6	2.2%	25	36.0%	913	4	60.3%	-	-
2.50 to <10.00	198	10	76.6%	205	4.9%	412	37.3%	913	197	96.3%	4	(6)
2.5 to <5	117	8	74.0%	123	3.8%	262	37.2%	913	105	85.1%	2	(2)
5 to <10	81	2	93.3%	82	6.5%	150	37.4%	913	92	113.1%	2	(4)
10.00 to <100.00	55	1	48.6%	55	16.0%	102	38.1%	913	86	155.1%	3	(5)
10 to <20	50	1	48.6%	50	13.4%	82	38.1%	913	78	154.0%	2	(4)
20 to <30	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-
30.00 to <100.00	5	-	0.0%	5	42.3%	20	38.1%	913	8	166.1%	1	(1)
100.00 (Default)	43	-	0.0%	43	100.0%	155	70.7%	913	19	43.8%	29	(34)
Subtotal:	400	22	74.2%	416	15.0%	956	40.5%	913	347	83.4%	36	(45)
Total A-IRB:	21,330	1,585	51.6%	22,147	6.4%	406,342	41.9%	913	10,053	45.4%	862	(931)
PD scale												
Retail exposures– SME other												
0.00 to <0.15	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-
0.00 to <0.10	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-
0.10 to <0.15	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-
0.15 to <0.25	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-
0.25 to <0.50	2	11	31.5%	6	0.4%	164	52.5%	913	2	26.7%	-	-
0.50 to <0.75	50	20	54.4%	61	0.7%	556	44.6%	913	19	31.3%	-	-
0.75 to <2.50	82	26	54.1%	96	1.5%	1,182	46.7%	913	42	43.7%	1	-
0.75 to <1.75	75	24	51.6%	87	1.4%	993	46.9%	913	38	43.3%	1	-
1.75 to <2.5	7	2	92.9%	9	2.2%	189	44.8%	913	4	47.7%	-	-
2.50 to <10.00	255	77	83.3%	319	4.9%	3,669	51.4%	913	194	60.9%	8	(5)
2.5 to <5	147	48	77.3%	184	3.8%	2,124	51.6%	913	109	59.4%	4	(2)
5 to <10	108	29	93.4%	135	6.5%	1,545	51.1%	913	85	62.9%	4	(3)
10.00 to <100.00	97	16	81.8%	110	18.2%	48,080	51.8%	913	93	84.4%	12	(7)
10 to <20	82	16	81.6%	95	13.4%	1,622	47.2%	913	67	71.2%	6	(6)
20 to <30	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	-
30.00 to <100.00	15	-	100.0%	15	47.6%	46,458	79.5%	913	26	164.1%	6	(1)
100.00 (Default)	43	-	32.1%	43	100.0%	2,994	74.8%	913	17	39.8%	31	(33)
Subtotal:	529	150	70.5%	635	12.1%	56,645	51.5%	913	367	57.8%	52	(45)
Total A-IRB:	21,330	1,585	51.6%	22,147	6.4%	406,342	41.9%	913	10,053	45.4%	862	(931)

Table 44: Template EU CR6-B–A-IRB approach–Retail SME secured by immovable property collateral/Retail SME other by PD classes

As the Bank does not have credit derivatives as collaterals, requirement of Art. 453 (j) and template EU CR7 – Effect on the RWAs of credit derivatives used as CRM techniques is not applicable.

IRB Disclosure of the extent of the use of CRM techniques – A IRB approach and F-IRB approach

DISCLOSURE REQUIREMENTS Art. 453 (g) CRR

The following tables represent the extent of the use of CRM techniques in IRB portfolio.

														in HRK mn	
	Total exposures	Credit risk Mitigation techniques											Credit risk Mitigation methods in the calculation of RWEAs		
		Funded credit Protection (FCP)								Unfunded credit Protection (UFCP)					
		Part of exposures covered by Financial Collaterals (%)	Part of exposures covered by Other eligible collaterals (%)	Part of exposures covered by Immovable property Collaterals (%)	Part of exposures covered by Receivables (%)	Part of exposures covered by Other physical collateral (%)	Part of exposures covered by Other funded credit protection (%)	Part of exposures covered by Cash on deposit (%)	Part of exposures covered by Life insurance policies (%)	Part of exposures covered by Instruments held by a third party (%)	Part of exposures covered by Guarantees (%)	Part of exposures covered by Credit Derivatives (%)	RWEA without substitution effects (reduction effects only)	RWEA with substitution effects (both reduction and sustitution effects)	
	a	b	c	d	e	f	g	h	i	j	k	l	m	n	
A-IRB															
1	Central governments and central banks	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-	-	
2	Institutions	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-	-	
3	Corporates	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-	-	
3.1	Of which Corporates – SMEs	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-	-	
3.2	Of which Corporates – Specialised lending	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-	-	
3.3	Of which Corporates – Other	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-	-	
4	Retail	22,147	1.2%	36.1%	36.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.0%	10,053	10,053	
4.1	Of which Retail – Immovable property SMEs	416	0.9%	53.1%	53.1%	0.0%	0.0%	0.0%	0.0%	0.0%	4.7%	0.0%	347	347	
4.2	Of which Retail – Immovable property non-SMEs	9,007	0.6%	86.3%	86.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3,337	3,337	
4.3	Of which Retail – Qualifying revolving	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-	-	
4.4	Of which Retail – Other SMEs	635	6.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	11.3%	0.0%	367	367	
4.5	Of which Retail – Other non-SMEs	12,088	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6,002	6,002	
5	Total	22,147	1.2%	36.1%	36.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.0%	10,053	10,053	
F-IRB															
1	Central governments and central banks	4,548	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-	2,285	
2	Institutions	611	15.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-	296	
3	Corporates	24,965	3.8%	0.0%	53.1%	0.0%	0.0%	0.0%	0.0%	0.0%	81.6%	0.0%	-	20,990	
3.1	Of which Corporates – SMEs	9,758	3.1%	0.0%	29.8%	0.0%	0.0%	0.0%	0.0%	0.0%	22.4%	0.0%	-	7,437	
3.2	Of which Corporates – Specialised lending	7,928	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-	5,149	
3.3	Of which Corporates – Other	7,279	0.7%	0.0%	23.3%	0.0%	0.0%	0.0%	0.0%	0.0%	59.2%	0.0%	-	8,404	
4	Total	30,124	1.5%	0.0%	15.3%	0.0%	0.0%	0.0%	0.0%	0.0%	21.6%	0.0%	-	23,571	

Table 45: Template EU CR7-A – IRB approach – Disclosure of the extent of the use of CRM technique

RISK WEIGHTED EXPOSURE AMOUNT FLOW STATEMENTS

RWEA flow statements of credit risk exposures under the IRB approach

DISCLOSURE REQUIREMENTS Art. 438 (h) CRR

		in HRK mn
		Risk weighted exposure amount
		a
1	Risk weighted exposure amount as at the end of the previous reporting period	34,174
2	Asset size (+/-)	1,515
3	Asset quality (+/-)	(350)
4	Model updates (+/-)	79
5	Methodology and policy (+/-)	-
6	Acquisitions and disposals (+/-)	-
7	Foreign exchange movements (+/-)	17
8	Other (+/-)	-
9	Risk weighted exposure amount as at the end of the reporting period	35,435

Table 46: Template EU CR8 – RWEA flow statements of credit risk exposures under the IRB approach

This template excludes Counterparty credit risk (CCR) exposures (Chapter 6 of Title II of Part Three CRR).

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

Counterparty credit risk

Goals and principles of risk management

DISCLOSURE REQUIREMENTS Art. 435 (1) (a) (b) (c) (d) and 431 (3) (4) CRR

Counterparty credit risk (CCR) for OTC derivatives and securities financing transactions (securities repurchasing transactions and securities lending) is measured as the sum of current replacement costs in the case of default of the counterparty (i.e. the positive market value taking into account netting agreements) and of potential replacement costs that may result from future changes in market values due to a change in the underlying market risk factors (e.g. interest rates, currencies, equity prices).

Counterparty credit risks are monitored and controlled at transaction level as well as at portfolio level. Erste Group has a real time limit monitoring system for the entire Group to which Erste&Steiermärkische Bank is connected online. The availability of unused limits must be checked before a transaction is executed.

ORGANISATION

Credit risks from derivatives, repurchase agreements and securities lending transactions are fully integrated into the general credit risk management system. A requirement for entering into derivative transactions is the compliance with the credit process, where the same standards with respect to classification, limits and monitoring apply as in the case of conventional credit transactions. Counterparty credit risks are measured and monitored on a daily basis by an independent risk management unit in Group Credit Risk Management.

RISK MEASUREMENT AND CONTROL

For the internal measurement of credit risk arising from derivatives and repurchase transactions, the current market values (replacement values) and potential fluctuations of the replacement values (Potential Future Exposure) due to changes in the underlying market risk factors until maturity are taken into account.

The calculation of the potential future exposure uses standard methods as well as Monte Carlo simulation methods. The simulation method is used especially for interest rate and currency derivatives. These derivatives account for the larger part of the portfolio.

For the calculation of current and potential credit risks, netting procedures are taken into account only if they can be legally enforced (depending on business partner and jurisdiction). The legal enforcement of netting agreements is examined based on legal expert opinions. Additionally, settlement risk is controlled by adequate limits.

For the calculation of regulatory exposures for derivative instruments Erste Group switched to using the standardized approach for counterparty credit risk (SA-CCR) in June 2021. SA-CCR replaced the current exposure method and the original exposure method used previously for the calculation of regulatory exposures. Starting in 2022, SA-CCR is also used for the purposes of internal limit steering.

NETTING AND COLLATERAL

An important basis for the reduction of counterparty credit risk is entering into framework agreements (international framework agreements for derivatives of the International Swaps and Derivatives Association (ISDA) and Local master agreements) with the respective business partners. Based on these agreements, it is possible to net all amounts due or payable for each individual transaction under a framework agreement in the case of a credit default, with the result that only the net receivables vis-à-vis the business partner are of relevance for credit risk. Erste Group does not make use of cross product netting (i.e. exposures, including both derivatives and SFTs netted at counterparty level).

Furthermore, collateral agreements (e.g. ISDA Credit Support Annex) are used for reducing the credit risk from derivatives. Within the scope of these collateral agreements, the portfolio with the respective counterparty is revalued periodically, usually daily, and in case of insufficient coverage additional collateral is requested.

Internal capital allocation and definition of credit limits for counterparty credit exposures

DISCLOSURE REQUIREMENTS Art. 439 (a) CRR

Counterparty credit risk is assessed as part of the centralised calculation of RWAs and treated as a component of credit risk in the RCC. In part, portfolios subject to the Standardised Approach are recalculated using IRB parameters in order to gain an economic perspective. RWAs are scaled to the confidence level of 99.92% in the RCC. Counterparty credit risk is incorporated into the EBC Group ICAAP Report, which is reported quarterly to the Management Board.

A credit limit for counterparties at individual customer level is requested and approved by the appropriate credit processing channels. Individual customer limits are regularly monitored and tracked in the reporting system. Further relevant credit limits include the maximum lending limit for the group of connected clients and industry limits which are defined in line with the Group RAS and the Group Risk Strategy and also periodically reviewed and reported to the Management Board and Supervisory Board.

Securing of collateral and establishing of reserves

DISCLOSURE REQUIREMENTS Art. 439 (b) CRR

On the basis of bilateral contracts (securities repurchase transactions, ISDA netting agreements, credit support annexes, etc.), the Bank has the ability to apply risk mitigating measures (netting, taking of security). The Bank incurs credit risk only when the net market value is positive (replacement risk). As this risk depends mainly on fluctuations in the market risk parameters (exchange rates, interest rate movements, share prices, credit spreads), open transactions must regularly be revalued and the collateral adjusted.

Acceptable collateral is EUR or HRK cash. The adjustment of the collateral to the current risk situation (taking into account exchange rate fluctuations for collateral in foreign currency) are performed at contractually agreed intervals.

The ability to realise collateral in the event of counterparty insolvency is ensured based on legal opinions issued on behalf of ISDA for the relevant jurisdictions of the individual counterparties. As the Bank accepts only cash deposits no further reserves are being created for exposures secured in this manner. Credit value adjustments are made for unsecured exposures from derivative transactions contingent on the credit rating or PD of the counterparty and the maturity of the contract.

Limitation on wrong-way risk

DISCLOSURE REQUIREMENTS Art. 439 (c) CRR

The Bank has a robust framework in place for managing wrong-way risk. Dedicated limits are set in order to avoid general and specific wrong-way risk. This comprises very strict limitations for acceptable collateral for OTC business and securities finance transactions and additional limitations on trades where specific wrong-way risk could occur (e.g. no exposure reduction in case of legal connections between the trade counterparty and the reference entity of the received collateral). Limits for the received collateral are set by products, ratings and regions. The monitoring setup is based on a matrix approach and allows the tracking of exposures on both counterparty and collateral issuer level. Limits are set accordingly by incorporating potential correlation between counterparties and collateral issuers.

Impact on collateralisation of a rating downgrade

DISCLOSURE REQUIREMENTS Art. 439 (d) CRR

Contractual provisions concerning dependencies between collateralisation and the credit rating of the Bank exist in the context of collateral agreements. The variables affected by this in some of the collateral agreements are the exposure-independent amount of collateral (referred to as the independent amount), the amount of exposure the counterparty is willing to accept before Bank is required to post collateral (the threshold amount), and the minimum amount of additional collateral that may be requested (the minimum transfer amount).

Quantitative disclosure on counterparty credit risk

Methods calculating CCR

DISCLOSURE REQUIREMENTS Art. 439 (f) (g) CRR

								in HRK mn
	a	b	c	d	e	f	g	h
				Alpha used for computi ng regulator y exposure value	Exposur e value pre-CRM	Exposur e value post- CRM	Exposur e value	RWEA
EU1	EU - Original Exposure Method (for derivatives)	-	-	1.4	-	-	-	-
EU2	EU - Simplified SA-CCR (for derivatives)	-	-	1.4	-	-	-	-
1	SA-CCR (for derivatives)	5	67	1.4	101	101	101	65
2	IMM (for derivatives and SFTs)							
2a	Of which securities financing transactions netting sets							
2b	Of which derivatives and long settlement transactions netting sets							
2c	Of which from contractual cross-product netting sets							
3	Financial collateral simple method (for SFTs)							
4	Financial collateral comprehensive method (for SFTs)							
5	VaR for SFTs							
6	Total							

Table 47: Template EU CCR1 – Analysis of CCR exposure by approach

CVA capital charges

DISCLOSURE REQUIREMENTS Art. 439 (h) CRR

in HRK mn		
	a	b
	Exposure value	RWEA
1	Total transactions subject to the Advanced method	-
2	(i) VaR component (including the 3× multiplier)	-
3	(ii) stressed VaR component (including the 3× multiplier)	-
4	Transactions subject to the Standardised method	88
EU4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	-
5	Total transactions subject to own funds requirements for CVA risk	88

Table 48: Template EEU CCR2 – Transactions subject to own funds requirements for CVA risk

CCR portfolio in Standardised approach

DISCLOSURE REQUIREMENTS Art. 439 (l) referring to point (e) of Art. 444 CCR

												in HRK mn
	a	b	c	d	e	f	g	h	i	j	k	l
Exposure classes	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Deducted
1 Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-
2 Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-
3 Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-
4 Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
5 International organisations	-	-	-	-	-	-	-	-	-	-	-	-
6 Institutions	-	-	-	-	-	-	-	-	-	-	-	-
7 Corporates	-	-	-	-	-	-	-	-	34	-	-	34
8 Retail	-	-	-	-	-	-	-	-	-	-	-	-
9 Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
10 Other items	-	-	-	-	-	-	-	-	-	-	-	-
11 Total exposure value	-	-	-	-	-	-	-	-	34	-	-	34

Table 49: Template EU CCR3 – Standardised approach – CCR exposures by regulatory exposure class and risk weights

CCR portfolio in IRB approach

DISCLOSURE REQUIREMENTS Art. 439 (l) referring to point (g) of Art. 452 CCR

The table below provides an overview of RWAs and parameters used in RWA calculations for exposures subject to the CCR framework (excluding CVA charges or exposures cleared through a CCP) and where the credit risk approach is used (in accordance with Article 107 CRR) to compute RWAs in IRB approach. The same PD scale applies as for credit risk exposures.

								in HRK mn
PD scale	a	b	c	d	e	f	g	
	Exposure value	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	RWEA	Density of risk weighted exposure amount	
Institutions (F-IRB)								
0.00 to <0.15	4,035	0.09%	2	0.66%	0	25	0.63%	
0.15 to <0.25	-	0.00%	-	0.00%	-	-	0.00%	
0.25 to <0.50	650	0.37%	2	1.39%	1	10	1.54%	
0.50 to <0.75	-	0.00%	-	0.00%	-	-	0.00%	
0.75 to <2.50	48	1.47%	3	0.00%	1	-	0.00%	
2.50 to <10.00	-	0.00%	-	0.00%	-	-	0.00%	
10.00 to <100.00	-	0.00%	-	0.00%	-	-	0.00%	
100.00 (Default)	-	0.00%	-	0.00%	-	-	0.00%	
Subtotal:	4,733	0.14%	7	0.75%	1	35	0.75%	
Total F-IRB:	4,752	0.15%	33	4.17%	1	47	1.00%	
Corporates (F-IRB)								
0.00 to <0.15	1	0.00%	4	0.00%	-	-	49.96%	
0.15 to <0.25	-	0.00%	-	0.00%	-	-	0.00%	
0.25 to <0.50	-	0.48%	1	45.00%	3	-	45.10%	
0.50 to <0.75	-	0.00%	-	0.00%	-	-	0.00%	
0.75 to <2.50	14	0.93%	17	45.00%	3	12	82.89%	
2.50 to <10.00	4	7.39%	4	0.18%	1	-	0.38%	
10.00 to <100.00	-	0.00%	-	0.00%	-	-	0.00%	
100.00 (Default)	-	0.00%	-	0.00%	-	-	0.00%	
Subtotal:	19	2.41%	26	33.23%	1	12	62.68%	
Total F-IRB:	4,752	0.15%	33	4.17%	1	47	1.00%	

Table 50: Template EU CCR4 – F-IRB approach – CCR exposures by exposure class and PD scale

The table below provides an overview of all types of collateral posted or received by EBC Group to support or reduce CCR exposures related to derivative transactions or to SFTs.

DISCLOSURE REQUIREMENTS Art. 439 (e) CRR

		in HRK mn							
		a	b	c	d	e	f	g	h
		Collateral used in derivative transactions				Collateral used in SFTs			
Collateral type		Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received		Fair value of posted collateral	
		Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated
1	Cash – domestic currency	-	187	-	-	-	-	-	5,353
2	Cash – other currencies	-	-	-	-	-	-	-	-
3	Domestic sovereign debt	-	-	-	-	-	4,985	-	-
4	Other sovereign debt	-	-	-	-	-	434	-	-
5	Government agency debt	-	-	-	-	-	-	-	-
6	Corporate bonds	-	-	-	-	-	-	-	-
7	Equity securities	-	-	-	-	-	-	-	-
8	Other collateral	-	-	-	-	-	-	-	-
9	Total	-	187	-	-	-	5,419	-	5,353

Table 51: Template EU CCR5 – Composition of collateral for CCR exposures

RWEA flow statements of CCR exposures under the IMM

As IMM (internal model method) for derivatives and SFTs is not used, template EU CCR7 – RWA flow statement of CCR exposures under the IMM is not disclosed.

Market risk

Goals and principles of risk management

DISCLOSURE REQUIREMENTS Art. 435 (1) (a) (b) (c) (d) AND 445 CRR

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

- _ Interest rate risk,
- _ FX Risk,
- _ Equities risk.

ORGANISATION

The responsibility for market risk at Bank level rests in the Market and Liquidity Risk Management Department within 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.

RISK MEASUREMENT AND CONTROL

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"), Stop loss limits and Stress test limit.

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 limit's 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 banking book, money market banking book, fixed income securities banking book and foreign exchange banking book. VaR limit calculation in the Bank is performed daily using Erste Group's MRS software package.

VaR limits and Utilization	Limit (HRK mln)	Exposure	Maximum	Minimum
Banking book – fixed income securities	75	30	35	24
Banking book – fixed income corporates	5	3	4	1
Banking book - Foreign exchange	5	-	5	-
Banking book - Money market	23	4	4	2
Trading book – fixed income trading	1	-	-	-
Trading book – Money market	2	-	-	-

Table 52: VaR limits and utilization split by portfolio

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 PVBP limits are set up separately for the money market portfolio as well as for the fixed income portfolio as part of Total Trading limit. Limit utilization is monitored on daily basis.

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 for the Trading book portfolios, individually for money market, fixed income securities and foreign currency business.

Stress Test limit

Stress test result is calculated in MRS as a result of predefined historical stress scenarios on Bank's positions.

Lowest result (biggest loss) across all scenarios represents Stress test result which is then compared against the limit.

The Management Board sets the strategic framework for market risk management in the Bank, approves the risk appetite, which is appropriate to the business strategy, and approves the Bank strategy.

Market risk limits must always be in line with the risk appetite of the respective risk-taking unit. Market and Liquidity Risk Management Department determines market risk limits in close cooperation with Group Market and Liquidity RM taking into account risk appetite, results of regulatory and ad hoc stress testing, current risk exposure as well as future development as defined in Bank's Investment/Trading Strategy which is achieved by alignment of proposed market risk limits with all risk-taking units. Approval body for the Trading book market risk limits is Market Risk Committee (MRC).

The MRC is the ultimate decision-making body for market risk of trading book related issues of all entities of Erste Group (reviews and approves market risk limits, acts as Product Board for new products, i.e., also as escalation forum of the Product Approval Process, settles limit overdrafts).

METHODS AND INSTRUMENTS OF RISK MITIGATION

The general standards of market risk controlling and management (standards, limits and analyses) are defined by Erste Group and described in local document Market Risk Management Rulebook which are constantly reviewed and improved.

Risk measurement is guaranteed by the daily calculation of VaR for the entire Group and for each of the trading units. Additionally, sensitivity limits are in place for all asset classes. This system permits control that extends to the level of the individual trading desks. The limits are monitored daily.

Risk measurement by purely statistical methods such as VaR does not adequately take into account the consequences of crisis situations. For this reason, Erste Group supplements its VaR-based risk measurement with stress testing based on several methods (stressed Value at risk (sVaR), daily and ad-hoc scenario analysis. These assessments help to analyse the effects of market movements of low probability.

MARKET RISK REPORTING

Risk reporting is divided into internal and external reporting.

Internal reporting comprises:

- _ daily measurement and limit control of the market risk for all trading desk at Bank level as well as for the limits approved for banking book portfolios which are monitored on a daily basis (includes VaR, sensitivity and stop-loss limit reporting to management),
- _ detailed monthly reports including the banking book sent to Asset and Liability Committee (ALCO),
- _ stress testing: sVaR, standard scenarios, combination scenarios.

External reporting comprises:

- _ market risk own fund requirement under Standardised Approach.

OWN FUNDS REQUIREMENT FOR EXPOSURE TO MARKET RISK UNDER THE STANDARDISED APPROACH

The table below provides an overview of the capital requirements for market risk covered by the Standardised Approach, broken down by risk type.

in HRK mn		a
		RWEAs
Outright products		
1	Interest rate risk (general and specific)	27
2	Equity risk (general and specific)	-
3	Foreign exchange risk	1,010
4	Commodity risk	-
Options (non-delta risks)		
5	Simplified approach	-
6	Delta-plus approach	-
7	Scenario approach	-
8	Securitisation (specific risk)	-
9	Total	1,037

Table 53: Template EU MR1 - Market risk under the standardised approach

During the reporting period Bank and the Group had stable capital requirements for market risk arising primarily from OTC 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.

Liquidity Risk

Goals and principles of liquidity risk management

DISCLOSURE REQUIREMENTS Art. 435 (1) AND ARTICLE 451a (4) CRR

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 as well as the European and Croatian regulations (CRR, Commission Delegated Regulation (EU) 2018/1620 amending Commission Delegated Regulation (EU) 2015/61). 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 which represents risk of losses relating to the development, implementation or improper use of any other models by the institution for decision making.

EBC Group has defined and implemented an EBC Group Risk Strategy, which is approved by the Management Board and acknowledged by the Supervisory Board on an annual basis. EBC Group Risk Strategy defines, inter alia, the liquidity risk appetite with further supporting risk metrics as a complement to core metrics in the RAS (both together: strategic limits) in order to support liquidity risk management. These are further translated into operating limits and liquidity risk management policies. There are also governance arrangements in place to address any adverse developments of the Bank's liquidity profile.

Measuring liquidity risk (in form of different ratios) serves to determine whether an entity can "afford" its acquired risks by comparing the results with a set of given limits. There are three principles, which are valid for every liquidity risk measure used in the EBC Group:

Conservatism - Measurement shall always be based on conservative estimations and assumptions. If in doubt, risk exposure should be overestimated rather than underestimated. 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, entities shall always strive to define sufficiently granular data for the calculation. Entities have to ensure that all data used comes with sufficient quality in terms of liquidity risk. This enables reasonable analysis on the dynamics of the results and sufficient drill down capability to identify key risk drivers.

Timeliness - The EBC Group members have to ensure that input data is defined and the frequency of reporting is set so that the information/results are not outdated.

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

Erste Group has the central liquidity and market risk management function for the Group in addition to the responsibility for solo level functions, i.e., it defines the principles and methodology for liquidity and market risk management for the other entities and ensures their proper implementation at local level.

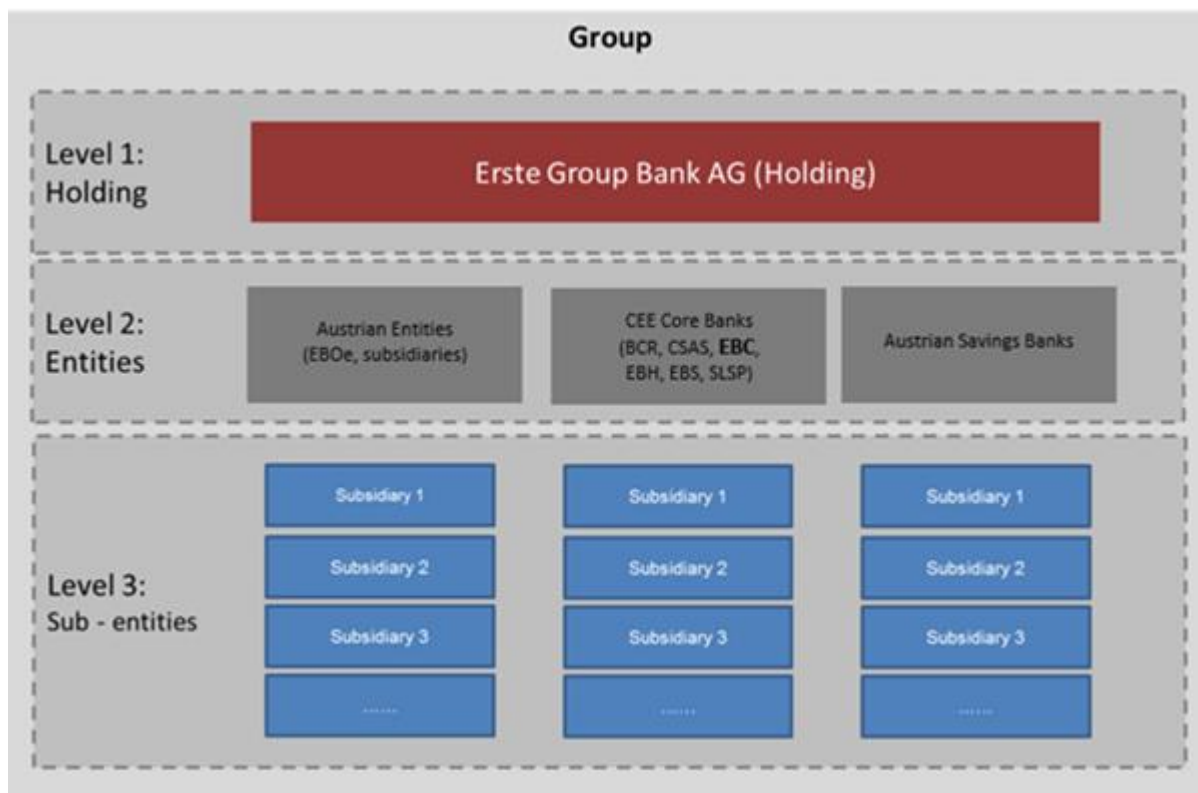


Figure 2: Levels of Erste Group's legal entity structure

Level 2 CEE core entities are obliged to implement the Group requirements and methodologies for themselves and their own entities and subsidiaries at Level 3 taking local legal and regulatory requirements into account. They are also responsible for the accurate and timely delivery of the data relevant for liquidity and market risk measurement to the Erste Group. The organisational structure of the Bank ensures the sound Liquidity Risk Management on both decision-making and operational level. The figure below provides an overview of the governance structure for liquidity risk management at Bank level:

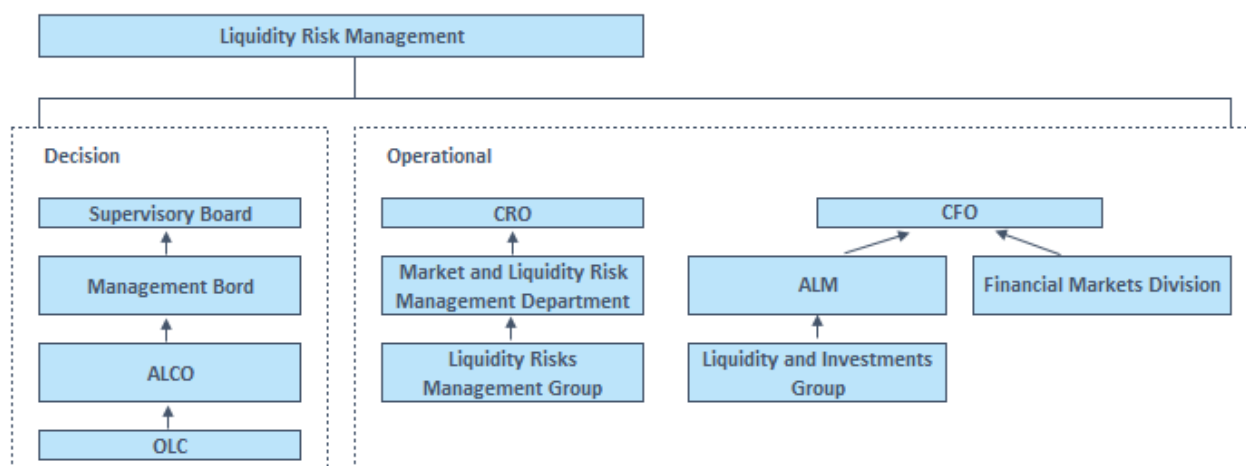


Figure 3: Liquidity risk governance – decision making bodies and operational units

Organizational units involved in the liquidity risk management and decision-making bodies:

- Asset and Liability Management Division (ALM) is in charge of liquidity management in cooperation with the Financial Markets Division, 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.
- Market and Liquidity Risk Management Department as a part of 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 the highest decision-making committee concerning all aspects of local liquidity risk management in the Bank. It is in particular responsible for setting local liquidity limits and for supervising the adherence to group-wide liquidity limits. ALCO approves the ILAAP Policy, Contingency Funding Plan, Liquidity Management Policy and Liquidity Strategy. In case of any limit breach, ALCO has to approve action plans developed by ALM in order to get back into compliance with the respective limit.
- Operating Liquidity Committee (“OLC”) is responsible for continuous market and liquidity monitoring, action plans and measures proposal, crisis management and communication.
- 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.

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

Within EBC Group, the Bank serves as the central liquidity management function for all the other members of the local EBC Group. The Bank creates and defines the annual Liquidity strategy for the EBC Group by which it is defined the desired annual liquid risk appetite for the EBC Group. Principles defined in the Bank Liquidity management policy shall be fulfilled in the liquidity management of the EBC Group subsidiaries (EBM, ECC, and S-Leasing).

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 ratio, 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.

Survival period analysis (SPA)

The short-term insolvency risk is monitored and limited by calculating the survival period for each material currency. This analysis determines the maximum period during which the entity can survive a set of defined scenarios, including a combined market and idiosyncratic crisis while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflows. The SPA is part of the RAS ensuring sufficient short term liquidity to overcome pre-defined liquidity stress scenarios.

Structural Liquidity Ratio (STRL)

The structural liquidity metric is measuring the structural funding gap ensuring an appropriate balance between assets and liabilities in the medium and long term time horizons avoiding excessive maturities transformation and consequently avoiding increased pressure on the short term liquidity position. The STRL is part of the EBC Group Risk Strategy ensuring a sound long term funding structure.

Liquidity coverage ratio (LCR)

The Bank is reporting the Liquidity Coverage ratio according to Commission Delegated Regulation (EU) 2018/1620 amending Delegated Regulation (EU) 2015/61 to the authorities. The LCR is part of the RAS targeting to be well above the regulatory requirement.

Net Stable Funding Ratio (NSFR)

The Bank is calculating the Net Stable Funding Ratio (NSFR) according to the CRR, part of the RAS targeting to be above the regulatory requirement.

Concentration analysis

Concentration risks in terms of funding providers, products and assets in the counterbalancing capacity (CBC) are regularly monitored and reported to the regulator. Additionally, the Bank assess concentration risk using the Herfindahl-Hirschman index (HHI). It is calculated on monthly basis based on the inputs for the SPA reporting. Besides the HHI, additional concentration measures are monitored as defined in the ICAAP Procedure.

Comprehensive/reverse stress testing and recovery planning

Additional scenarios are analysed to further elaborate on the main vulnerabilities of liquidity position. These scenarios are elaborated based on specific storylines. The scenarios and the relevant stress parameters are taken from historical evidence where available. When historical evidence is not available, expert opinions and assumptions are used.

Funds transfer pricing (FTP)

The Funds Transfer Pricing (FTP) of EBC has proven to be an efficient control instrument for the management of structural liquidity risk.

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.

An outline of the bank's contingency funding plans

The Bank is a typical commercial bank. Bank's most significant source of financing is client's deposits, followed by issued unsecured bonds, then deposit lines and credit lines from other financial institutions and owners as well as equity. The bank has stable sources of financing and plans to issue unsecured bonds in the future in order to meet the Minimum Requirement for own funds and Eligible Liabilities (MREL).

An explanation of how stress testing is used

The Bank considers liquidity risk in a number of different types of stress testing exercises including:

- Comprehensive Stress Test: The comprehensive stress test considers liquidity and funding risk, in particular the impact of stress scenarios on funding availability and funding costs on the balance sheet and P&L of the entity.
- Recovery Planning: For each of the scenarios considered in the recovery plan, the implications for the liquidity situation of the Bank are modelled. The results then form the basis for the choice of recovery options, i.e. liquidity-enhancing measures to be taken under a given scenario.
- Reverse Stress Test: The goal of reverse stress tests is to identify a scenario (or combination of scenarios) that leads to an outcome in which the entity's business model is no longer viable. The reverse stress test includes the SPA in order to analyse the liquidity situation of the Group under the chosen scenario(s).

- Survival Period Analysis (SPA): The SPA is the main liquidity stress test used by the Bank and measures the period an entity can survive during a defined liquidity crisis scenario.

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, as well as 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. The concise statement on liquidity risk or more exact the Comprehensive Statement on Liquidity Adequacy provides an overview of major principles for managing the liquidity adequacy of the Bank.

It is following the bank's business strategy and operational environments in order to keep the amount of liquid resources on an adequate level and to ensure a prudent funding profile. In addition, major liquidity risk measures and limits for external and internal reporting and for internal steering of liquidity risk are included. The statement is updated on a yearly basis in course of ILAAP.

A concise liquidity risk statement approved by the management body succinctly describing the institution's overall liquidity risk profile associated with the business strategy.

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

The liquidity risk profile of the institution approved by the management body is defined by the Risk appetite statement, which defines the minimum required level of the LCR ratio - the regulatory ratio to measure the exposure liquidity risk of a credit institution. The 2022 Risk appetite statement defined "green" (normal) zone above EUR 230 million (gap), "amber" (warning zone) between 105% - EUR 230 million (gap), and "red" (crisis zone) below 105%.

Bank's Liquidity, Investment & Interest Rate Risk Strategy for 2023, approved by the bank's management body, based on the plan of the bank's balance sheet development for the next five business years, was the projection of the LCR regulatory ratio and for all of the projected years over the minimum defined ratio accepted by the Risk appetite statement:

Projection	2023	2024	2025	2026	2027
LCR	215%	219%	212%	200%	207%

Table 54: Projection of the LCR regulatory ratio

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. ALM coordinates liquidity management in the local Group, while Group ALM is responsible for liquidity management in the Holding and throughout the Erste Group.

LIQUIDITY COVERAGE RATIO

DISCLOSURE REQUIREMENTS Art. 451a (2) CRR

in HRK mn		a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending	Dec 2022	Sep 2022	Jun 2022	Mar 2022	Dec 2022	Sep 2022	Jun 2022	Mar 2022
EU 1b	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), after application of haircuts in line with Article 9 of regulation (EU) 2015/61					31,474	29,620	27,130	25,206
CASH - OUTFLOWS									
2	retail deposits and deposits from small business customers, of which:	47,186	45,063	43,213	41,685	3,326	3,155	3,007	2,888
3	Stable deposits	32,229	31,234	30,399	29,716	1,611	1,562	1,520	1,486
4	Less stable deposits	14,957	13,829	12,814	11,969	1,715	1,593	1,487	1,402
5	Unsecured wholesale funding	26,614	24,758	22,288	20,795	13,116	12,285	11,200	10,468
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	486	465	444	429	121	116	111	107
7	Non-operational deposits (all counterparties)	26,128	24,293	21,844	20,366	12,995	12,169	11,089	10,361
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					4	5	5	4
10	Additional requirements	8,032	7,258	6,567	6,144	2,337	2,027	1,743	1,546
11	Outflows related to derivative exposures and other collateral requirements	1,743	1,480	1,237	1,061	1,743	1,480	1,237	1,061
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	6,289	5,778	5,330	5,083	594	547	506	485
14	Other contractual funding obligations	1,066	1,056	999	1,006	739	766	749	792
15	Other contingent funding obligations	29,256	26,013	20,258	14,748	883	785	611	444
16	TOTAL CASH OUTFLOWS					20,405	19,023	17,315	16,142
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	1,859	1,932	1,370	1,150	-	-	-	-
18	Inflows from fully performing exposures	1,508	1,298	1,253	1,292	1,060	851	819	847
19	Other cash inflows	1,370	1,108	1,061	1,135	1,370	1,108	1,061	1,135
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	4,737	4,338	3,684	3,577	2,430	1,959	1,880	1,982
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows subject to 90% cap	-	-	-	-	-	-	-	-
EU-20c	Inflows subject to 75% cap	4,737	4,338	3,684	3,577	2,430	1,959	1,880	1,982
TOTAL ADJUSTED VALUE									
21	LIQUIDITY BUFFER					31,474	29,620	27,130	25,206
22	TOTAL NET CASH OUTFLOWS					17,975	17,064	15,434	14,160
23	LIQUIDITY COVERAGE RATIO					175.10%	173.58%	175.78%	178.01%

Table 55: Template EU LIQ1 - Quantitative information of LCR

Main drivers of LCR results and the evolution of the contribution of inputs to the LCR's calculation over time

LCR is at high levels during the observed period due to significant liquidity surpluses which is mainly driven by increase of deposits which consequently led to increase of high-quality liquid assets (HQLAs).

Explanations on the changes in the LCR over time

During observed period LCR is stable and at high levels.

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) 2018/1620 amending 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 45%, of retail deposits and deposits from small business customers in total sources followed by unsecured wholesale funding with average share of 24%. The structure changes after the application of the corresponding rates at which these 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-operational wholesale funding, since they are considered as less stable funding sources compared to, for example, Retail deposits.

High-level description of the composition of the institution's liquidity buffer

In accordance with Article 9 of the Commission Delegated Regulation (EU) 2018/1620 amending 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 level, in average HRK 28,358 million, of which HRK 28,126 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 withdrawable central bank reserves, coins and banknotes, and assets representing claims on or guaranteed by the multilateral development 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, impact of an adverse market scenario on derivatives as well as due collateral.

The Bank considers 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) 2018/1620 amending Commission Delegated Regulation (EU) 2015/61. During observed period, outflows from derivatives in average amounted HRK 1,106 million.

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) as well as due collateral. The mentioned outflow in the observed period in average amounted HRK 274 million.

Currency mismatch in the LCR

The Bank also ensures 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 and monitoring the LCR ratio for individual currencies, maintaining the same above the required regulatory level.

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. In addition to the ratio itself, the Bank regularly monitors the composition of the liquidity buffer by asset level, meeting all defined requirements within the Commission Delegated Regulation (EU) 2018/1620 amending Commission Delegated Regulation (EU) 2015/61.

NET STABLE FUNDING RATIO

DISCLOSURE REQUIREMENTS Art. 451a (3) CRR

in HRK mn		a	b	c	d	e
		Unweighted value by residual maturity				Weighted value
		No maturity[1]	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	8,342	-	-	310	8,652
2	Own funds	8,342	-	-	310	8,652
3	Other capital instruments		-	-	-	-
4	Retail deposits		51,474	68	391	48,551
5	Stable deposits		35,408	34	276	33,946
6	Less stable deposits		16,066	34	115	14,605
7	Wholesale funding:		32,930	569	6,838	19,430
8	Operational deposits		506	-	-	3
9	Other wholesale funding		32,424	569	6,838	19,427
10	Interdependent liabilities		-	-	-	-
11	Other liabilities:	176	1,012	28	651	665
12	NSFR derivative liabilities	176				
13	All other liabilities and capital instruments not included in the above categories		1,012	28	651	665
14	Total available stable funding (ASF)					77,298
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					72
EU-15a	Assets encumbered for more than 12m in cover pool		-	-	-	-
16	Deposits held at other financial institutions for operational purposes		-	-	-	-
17	Performing loans and securities:		5,747	5,813	43,505	40,130
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		65	-	-	-
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		354	-	94	130
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		4,066	3,689	23,170	39,248
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		1,122	1,147	9,499	11,086
22	Performing residential mortgages, of which:		1,262	2,100	19,380	-
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		185	165	4,918	-
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		-	24	861	752
25	Interdependent assets		-	-	-	-
26	Other assets:		2,964	74	4,406	3,861
27	Physical traded commodities				-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-	-	-	-
29	NSFR derivative assets		-			-
30	NSFR derivative liabilities before deduction of variation margin posted		180			9
31	All other assets not included in the above categories		2,784	74	4,406	3,852
32	Off-balance sheet items		1,604	1,603	4,505	442
33	Total RSF					44,505
34	Net Stable Funding Ratio (%)					173.68%

Table 56: Template EU LIQ2: Net Stable Funding Ratio

Interest rate risk

Goals and principles of risk management

DISCLOSURE REQUIREMENTS Art. 435 (1) (a) (b) (c) (d) AND 448 (1) (c-g) and 448 (2) CRR

Interest rate risk is the risk that the bank's earnings and/or economic value might be negatively affected by changes in interest rates. Changes in the yield curve can have a negative effect on net interest income. Adverse changes in market prices and parameters derived from those prices so can generate economic losses. Risk management process consists of monitoring impact of interest rates changes on total bank's balance sheet and keeping risks within appropriate limits to maintain stability and creditworthiness of the bank.

The types of interest rate risk to which the Group is exposed are:

- _ Re-pricing risk – is driven by the mismatch in the maturity and repricing of assets and liabilities and off-balance sheet short and long term positions;
- _ Yield curve risk – is caused by changes in the slope and shape of the interest rate curve;
- _ Basis risk – results from the imperfect correlation in the adjustment of the credit and debit interest rates of different products that otherwise would have the same interest rate terms;
- _ Optionality risk – is derived mainly from options (gamma and vega effect) that are contained in positions of the banking book (e.g. prepayments, embedded optionalities such as caps/ floors, call rights on bonds, etc.).

The first three types represent traditional interest rate risk. The fourth type is becoming increasingly important with the growing number of options embedded in products reported both on and off the balance sheet.

The interest rate risk management process is governed by clear responsibilities of all stakeholders in the interest rate risk framework (Organisation) and can be divided into four high level components:

- _ Risk identification;
- _ Risk measurement;
- _ Risk management and risk control;
- _ Risk reporting.

ORGANISATION

The Asset Liability Committee (ALCO) is the decision body for risk management of the banking book. It is the key executive body with the responsibility for overseeing all balance sheet management activities in the Banking book. The ALCO is responsible for the definition and implementation of interest rate risk analysis framework for identifying, measuring, monitoring, limiting and controlling all interest rate risk types across the Bank and EBC Group. The ALCO is also responsible for the approval of interest rate risk strategies and all new interest rate risk measurement tools to be implemented. In case of any limit breach in the Bank and EBC Group, the ALCO has to approve action plans developed by ALM. It meets monthly.

The tasks of Asset and Liability Management (ALM) comprise the management of interest risk on the banking book of the Bank and EBC Group, carrying out investments and further development and maintenance of the Funds Transfer Pricing (FTP) System. ALM is also responsible for measurement and analysis of internal NII and its sensitivity, NII stress testing, creating interest rate risk strategy and execution of it.

Market and Liquidity Risk Management Department is responsible for regular analysis of balance sheet developments and its reporting to ALCO. It is responsible for definition, proposal, monitoring and escalation of all limits for banking book positions and also for development and monitoring of market risk models.

RISK IDENTIFICATION

Erste Bank and its subsidiaries are a part of centralised risk system which is used by all entities in Erste Group. This system allows planning and consolidation as well as the modelling of interest rate risk on the balance sheet of Erste Bank and Erste Group. It can capture all sources of interest rate risk and calculates their effect on the balance sheet. The data for the current portfolio, market data for the cut-off date in question and the assumptions on future portfolio developments (volume, margins, etc.) are all entered into this system. It measures both the effect on profit/loss and the market/economic value of the banking book positions. The data is organised by account and product. The account structure corresponds to that of the IFRS balance sheet, while the product structure represents the currency and the interest rate-related behaviour of the products in the Group.

KEY ASSUMPTIONS USED IN RISK MODELLING

The behavioural models established for EBC Group are demand deposit model, prepayment and overdraft/credit cards model.

Demand deposit model consist first of splitting non maturity deposits into clusters for all material combination of entity, currency, product/customer type, etc. For each cluster the core and non-core balances and interest rate sensitivity of the balance are derived. The run-off profile is determined by the combination of the attrition rate model (for core balances) and a short term outflow (for non-core balances). The estimated future interest rate cash flows are determined by the deposit rate model. The weighted average life resulting from the run-off profiles for demand deposits is capped with 5 years according to the regulatory maximum defined in EBA/GL/2018/02.

A prepayment model aims to describe the client behavior of repaying either a part or the whole loan amount before the contractual maturity. Similar to the demand deposits loans are clustered combining loans with similar characteristics (entity, client type, loan type, currency, interest rate behaviour). The prepayment ratio is estimated from historical observations and clusters are tested for interest rate sensitivity of the prepayment ratio.

For Overdrafts and Credit Cards an attrition model is applied as well as an average coupon model.

RISK MEASUREMENT

In general, there are four methods which are used to measure interest rate risk in the banking book:

- _ Sensitivity measures (BP01, CR01) to assess the market value sensitivity of certain portfolios;
- _ Economic value measures (EVE) to assess the market value change under certain scenarios;
- _ Earnings at risk measure (NII sensitivity) to assess the impact on operating income of certain scenarios;
- _ Value at Risk based measures to assess all aggregated risk types on Group level and used for economic capital allocation under Pillar 2.

In addition, measures are implemented to estimate the basis risk, yield curve and option risk throughout the entire EBC Group. Based on these tools a big variety of scenarios are assessed on a regular basis to capture all aspects of interest rate risk.

RISK MANAGEMENT AND RISK CONTROL

For the practical management of interest rate risk three main tools are used and monitored on a regular basis:

- _ Sensitivity measures (BP01, CR01);
- _ Economic value measure (EVE);
- _ Earnings at risk measure (NII sensitivity).

The sensitivity measures (BP01, CR01) focus on the general positioning of the banking book portfolio and serve as an initial starting point for deeper analysis. The Economic Value Measure (EVE) analyses change of economic value of the balance sheet that results from calculating the outcome of standard interest rate shock scenarios (EBA/GL/2018/02).

The earnings at risk measure assesses the accounting impact of interest rate changes under various scenarios with main focus on the next 12 months and provides insights on P&L changes stemming from changes in interest rates.

The interest rate risk strategy sets out interest rate targets and is based on the optimisation of market risk and income possibilities, i.e. all measures developed in the interest rate strategy are analysed with respect to their effect on the income defined in the financial projections and on the market value. The interest rate risk strategy is approved by the ALCO. Based on the targets set out in the interest rate strategy, the results of the regular analysis and the economic forecast, investment and recommendations are presented to the ALCO.

INTEREST RATE RISK REPORTING

The interest rate risk of the Bank and the Group is calculated separately for each relevant currency and reported on the monthly/quarterly basis to ALCO. Various risk metrics calculated and reported to ALCO include EVE, NII Sensitivity, BP01, CR01, VaR, basis risk, yield risk, etc. Additionally, Market overview, Balance sheet movements and liquidity position of the Bank/Group are presented.

Quantitative disclosure on interest rate risk

DISCLOSURE REQUIREMENTS Art. 448 (a) (b) CRR

		in HRK mn			
		a		b	
		Changes of the economic value of equity		Changes of the net interest income	
Supervisory shock scenarios		31 Dec 2022	30 Jun 2022	31 Dec 2022	30 Jun 2022
1	Parallel up	(447)	(319)	117	145
2	Parallel down	(716)	(96)	(225)	(119)
3	Steepener	(6)	5		
4	Flattener	(230)	(262)		
5	Short rates up	(77)	(161)		
6	Short rates down	(141)	126		

Table 57: Template EU IRRBB1 - Interest rate risks of non-trading book activities

Operational Risk

Risk management objectives and policies

DISCLOSURE REQUIREMENTS Art. 435 (1) (a) (b) (c) (d) CRR

Pursuant to Article 4 (52) CRR, Bank defines operational risk as the risk of loss resulting from inadequacy or failure of internal processes, people or systems, or from external events, including legal risks.

STRATEGIES AND PROCESSES TO MANAGE OPERATIONAL RISK

DISCLOSURE REQUIREMENTS Art. 435 (1) (a) CRR

Strategies and processes to manage operational risk includes the following:

1. the operational risk taking and 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 (risk response),
 - _quantification of operational risk,
 - _monitoring, controlling and reporting of operational risk.
5. identification and maintenances of the capital requirement for operational risk.

Risk response is conducted for all identified operational risk in all activities, products and processes of the Bank and 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 operational risk level is defined by using the risk scaling matrix, which is a combination of probability and impact of operational risk and based on which the decision on mitigation or acceptance of operational risk, identified through the specific instruments or in any decision which involves operational risk, is taken. Identified risks are accepted by relevant decision-making bodies depending on the final risk rating, bearing in mind adequately balanced costs and benefits, in line with the risk strategy.

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.

STRUCTURE AND ORGANISATION OF OPERATIONAL RISK MANAGEMENT FUNCTION

DISCLOSURE REQUIREMENTS Art. 435 (1) (b) CRR

In operational risk management area, business lines, or defined organizational units are responsible for the daily management of operational risk, while Operational Risk Management Group within Non-Financial Risk Management Division aims to control all organizational units and business processes within the Bank, having in mind that operational risk is characteristic to all activities, processes, products and Bank's systems, and collaborates with other organizational units with the purpose of improvement the quality of managing operational risk. The Group is responsible for implementation of operational risks standards across the whole Bank which results in following tasks:

- _ Identification of potential risks, including measures for early detection and risk avoidance,
- _ Definition of risk indicators and management guidelines,
- _ Implementation of rules and control of collection and classification of loss data within the database,
- _ Conducting of scenario analysis and assessment of specific risk situations,
- _ Monitoring, reporting and managing of operational risk committee,
- _ Promoting "three lines of defence" governance model through operational risk methods,
- _ Definition of risk appetite and setting the limits for residual operational risk,
- _ Continuous development of operational risk management system.

RISK REPORTING AND MEASUREMENT

DISCLOSURE REQUIREMENTS Art. 435 (1) (c) CRR

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 loss event data, which is collected in central database using a standard methodology. In addition to the loss data collection, scenario analysis are conducted to analyse possible future losses which the Bank has not yet experienced.

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.

The Bank's Management Board is informed on operational risk through Quarterly Report on Operational Risk which includes operational risk exposure and losses, related recoveries, key risk indicators, risk assessments results, risk acceptance and corrective measures follow-up. In addition, Supervisory Board of the Bank is quarterly informed about basic operational risk figure development.

RISK INSURANCE (HEDGING)

DISCLOSURE REQUIREMENTS Art. 435 (1) (d) CRR

The Bank is included in the insurance program for operational risk on the Erste Group level (Captive Insurance) and the insurance is recognized as mitigation measure for capital requirements using Advanced Measurement Approach on Erste Group's consolidated level.

RISK COMMITTEE

DISCLOSURE REQUIREMENTS Art. 435 (2) (d) CRR

The Bank has set up committee for managing operational risk, Local Operational Conduct Committee (LOCC), with the purpose to decide on operational risk management related topics, to implement corrective measures and to follow up on risk mitigation actions. The committee is held at least on a quarterly basis, and, so far, met 39 times.

CAPITAL REQUIREMENT

DISCLOSURE REQUIREMENTS Art. 446 CRR

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 d.o.o. and Erste & Steiermärkische S-Leasing d.o.o., while other members apply Basic indicator approach ("BIA") in accordance to the Article 315 of the same Title of CRR.

With regards to Erste Factoring merger to the Bank, operational risk capital requirement calculation using the standardized approach was adjusted, which means dividing of Erste Factoring activities into the Bank business lines, for the calculation of average over three years of the sum of the risk weighted relevant indicator across all business lines, for the last three years. In addition, after Diners Club International Mak d.o.o.e.l from Macedonia and Erste Card d.o.o. Slovenia were sold by Erste Card Club in 2020 and 2022 respectively, companies stay included in the capital requirement calculation on consolidated level (for the year in which it was sold, as well as for the next two years).

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.

The information at the end of the financial year used to calculate capital requirements is based on revised data.

Quantitative disclosure on operational risk

DISCLOSURE REQUIREMENTS Art. 446 and 454 CRR

		in HRK mn				
		a	b	c	d	e
Banking activities		Relevant indicator			Own funds requirements	Risk weighted exposure amount
		Year-3	Year-2	Last year		
1	Banking activities subject to basic indicator approach (BIA)	270	264	289	41	516
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	2,745	2,861	3,168	394	4,931
3	Subject to TSA:	2,745	2,861	3,168		
4	Subject to ASA:	-	-	-		
5	Banking activities subject to advanced measurement approaches AMA	-	-	-	-	-

Table 58: Template EU OR1 - Operational risk own funds requirements and risk-weighted exposure amounts

Other risks

Encumbered and unencumbered assets

DISCLOSURE REQUIREMENTS Art. 443 CRR

The Group is obliged to report encumbered and unencumbered assets at Group level based on the CRR scope of consolidation in the manner set out in the EBA guidelines on disclosure of encumbered and unencumbered assets. The median value of the fair value of encumbered assets that are eligible to the qualification of Extremely High Quality Liquid Assets (EHQLA) and of High Quality Liquid Assets (HQLA) are presented.

Template A – Assets

		in HRK mn							
		010	030	040	050	060	080	090	100
		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
010	Assets of the reporting institution	8,274	4,507			104,575	37,434		
030	Equity instruments	-	-	-	-	47	-	-	-
040	Debt securities	4,507	4,507	4,506	4,506	14,701	13,863	13,863	12,932
050	of which: covered bonds	-	-	-	-	-	-	-	-
060	of which: asset-backed securities	-	-	-	-	-	-	-	-
070	of which: issued by general governments	4,507	4,507	4,506	4,506	13,446	13,056	13,056	12,125
080	of which: issued by financial corporations	-	-	-	-	629	543	543	543
090	of which: issued by non-financial corporations	-	-	-	-	626	264	264	264
120	Other assets	3,767	-			89,827	23,571		

Table 59: Template EU AE1 - Encumbered and unencumbered assets

In 2022 median of asset encumbrance ratio for the Group amounts 5.46% while in 2021 amounted 11.94%.

In 2022 encumbered assets amounted HRK 8,274 million (2021: HRK 5,917 million). The main source of encumbered assets on 31. December 2022 are debt securities that were given as collateral through repo agreement in the amount of HRK 4,471 million and are included under the item debt securities.

On 31. December 2022 Other assets include the Bank's deposit in the CNB account in the amount of HRK 2,355 million, which serves as financial insurance for the advance supply of cash in euro currency, and pledged credit placements in the amount of HRK 1,310 million, which ensure long-term financing of the Bank and its subsidiaries.

Most asset encumbrance stems from the Bank (HRK 8,181 million or 98.9% of the Group's encumbered assets) and there is no significant intragroup encumbrance.

Other unencumbered assets amount HRK 89,827 million and mostly relate to Loans to customers.

Template B – Collateral received

		in HRK mn			
		Fair value of encumbered collateral received or own debt securities issued		Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	060
130	Collateral received by the reporting institution	-	-	65	65
140	Loans on demand	-	-	-	-
150	Equity instruments	-	-	-	-
160	Debt securities	-	-	65	65
170	of which: covered bonds	-	-	-	-
180	of which: asset-backed securities	-	-	-	-
190	of which: issued by general governments	-	-	65	65
200	of which: issued by financial corporations	-	-	-	-
210	of which: issued by non-financial corporations	-	-	-	-
220	Loans and advances other than loans on demand	-	-	-	-
230	Other collateral received	-	-	-	-
240	Own debt securities issued other than own covered bonds or asset-backed securities	-	-	-	-
245	Own covered bonds and asset-backed securities issued and not yet pledged			-	-
250	Total assets, collateral received and own debt securities issued	8,274	-		

Table 60: Template EU AE2 - Collateral received and own debt securities issued

Collateral received include HRK 65 million of debt securities which were received through reverse repo agreements.

Template C – Encumbered assets/collateral received and associated liabilities

			in HRK mn
		010	030
		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities		5,649	5,786

Table 61: Template EU AE3 - Sources of encumbrance

The Bank is a typical commercial bank. Its most significant source of financing is client's deposits, followed by issued unsecured bonds, then deposit lines and credit lines 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 other Group members. The low level of encumbered asset is an indicator that the Bank and the Group enjoy 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 actual level of asset encumbrance is monitored quarterly by the Asset Liability Committee (ALCO) of the Bank. Asset encumbrance policy is in place and it defines reporting, steering and setting limits for asset encumbrance. Furthermore, asset encumbrance is an integral part of ALM and Risk Strategies. The actual as well as projected encumbrance levels are taken into consideration when setting up funding plans and liquidity risk profiles during the yearly budgeting process.

Pandemic risk including COVID-19 quantitative disclosure

DISCLOSURE REQUIREMENTS Art. 435 (1) (a) (b) (c) (d) CRR

Pandemic risk is possibility of adverse effect on the bank's financial result, capital or operations due to the impact of widespread infectious disease in humans on human health, economies, and communities. Pandemics are epidemics (occurrence of disease above an expected norm) that affect at least several countries on more than one continent. A salient characteristic of this risk is that it combines a low probability of occurring with high, potentially catastrophic, global impact.

METHODS AND INSTRUMENTS APPLIED

In 2022 the Group has kept in place the risk management framework established already during 2020 for effective steering of this risk (e.g. regular reporting with COVID-19 impact on credit portfolio, regular assessment and review of the stage overlay and FLI for risk costs, industry strategies and industry limits, precautionary measures to protect its own employees, etc.). Nevertheless, due to assessed low materiality of this risk, as well as stable outlook for the following period, during the fourth quarter of 2022 a large part of this risk management framework has been discontinued.

QUANTITATIVE DISCLOSURE ON PANDEMIC RISK

COVID-19 Template 1

	in HRK mn														
	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
	Performing			Non performing				Performing			Non performing				
			Of which: Instrument s with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days		Inflows to non-performing exposures
Group															
1 Loans and advances subject to moratorium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2 of which: Households	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3 of which: Collateralised by residential immovable property	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4 of which: Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5 of which: Small and Medium-sized Enterprises	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6 of which: Collateralised by commercial immovable property	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bank															
1 Loans and advances subject to moratorium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2 of which: Households	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3 of which: Collateralised by residential immovable property	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4 of which: Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5 of which: Small and Medium-sized Enterprises	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6 of which: Collateralised by commercial immovable property	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Table 62: Template 1: Information on loans and advances subject to legislative and non-legislative moratoria – Group and the Bank

COVID-19 Template 2

									in HRK mn
	a	b	c	d	e	f	g	h	i
	Gross carrying amount								
	Residual maturity of moratoria								
	Number of obligors		Of which: legislative moratoria	Of which: expired	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Group									
1	Loans and advances for which moratorium was offered	17,154	7,431						
2	Loans and advances subject to moratorium (granted)	15,674	4,958	952	4,958	-	-	-	-
3	of which: Households	1,646	663	1,646	-	-	-	-	-
4	of which: Collateralised by residential immovable property	857	307	857	-	-	-	-	-
5	of which: Non-financial corporations	3,222	290	3,222	-	-	-	-	-
6	of which: Small and Medium-sized Enterprises	2,353	239	2,353	-	-	-	-	-
7	of which: Collateralised by commercial immovable property	2,174	203	2,174	-	-	-	-	-
Bank									
1	Loans and advances for which moratorium was offered	6,773	6,141						
2	Loans and advances subject to moratorium (granted)	5,293	3,669	3,669	-	-	-	-	-
3	of which: Households	959	-	959	-	-	-	-	-
4	of which: Collateralised by residential immovable property	549	-	549	-	-	-	-	-
5	of which: Non-financial corporations	2,636	-	2,636	-	-	-	-	-
6	of which: Small and Medium-sized Enterprises	1,946	-	1,946	-	-	-	-	-
7	of which: Collateralised by commercial immovable property	1,970	-	1,970	-	-	-	-	-

Table 63: Template 2: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria – Group and the Bank

COVID-19 Template 3

				in HRK mn
	a	b	c	d
	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
		of which: forborne	Public guarantees received	Inflows to non-performing exposures
Group				
1 Newly originated loans and advances subject to public guarantee schemes	223	26	206	5
2 of which: Households	22			-
3 of which: Collateralised by residential immovable property	-			-
4 of which: Non-financial corporations	201	14	184	5
5 of which: Small and Medium-sized Enterprises	145			5
6 of which: Collateralised by commercial immovable property	7			-
Bank				
1 Newly originated loans and advances subject to public guarantee schemes	194	-	177	5
2 of which: Households	8			-
3 of which: Collateralised by residential immovable property	-			-
4 of which: Non-financial corporations	186	-	169	5
5 of which: Small and Medium-sized Enterprises	145			5
6 of which: Collateralised by commercial immovable property	7			-

Table 64: Template 3: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis

Environmental, Social and Governance (ESG) risks

DISCLOSURE REQUIREMENTS Art. 435 (1) (a) (b) (c) (d) and 449a CRR

The basis of EBC Group's ESG business strategy consisted of an analysis and understanding of the upcoming changes in the business environment, especially with regard to the effects of climate change and ecological challenges. It forms a basis for the long-term strategic considerations of the financial resilience of EBC Group's business model in relation to risks related to sustainability matters. Climate change and its negative consequences are considered the most significant long-term challenge across all the core markets but with different starting points to address. The countries will have to align to these European objectives and absorb the impact on their economies and reshape investment and consumption expectations. Thus, we are convinced, that the economic success of the region can only be sustainable if the region maintains strong social cohesion and encourages investments in the green transition. These two dimensions of the region's long-term prosperity fit perfectly with Erste Group's history and future.

We strive to be a role model and a leader in the green transition, mobilizing funds to fight climate change, invest in maintaining clean water and transition to a circular economy. We believe that the green transition is an for the people in the region. We also believe in a just transition for all, therefore we help our customers to secure prosperity.

Since its foundation, Erste Group has always had an active role in building inclusive societies in the region. The Bank's efforts in the areas of financial inclusion, social banking, financial education, affordable housing and gender equality are as relevant today as they were 200 years ago. The social cohesion of our societies creates a strong and reliable basis for a well-functioning socio-economic environment that brings prosperity to many people.

When it comes to how ESG risks are defined in EBC Group, they are defined as the risk of losses arising from any negative financial impact on the institution stemming from the current or prospective impacts of environmental, social or governance (ESG) factors on the institution's counterparties or invested assets:

Environmental risk includes both physical risk or damages (like impact of extreme weather events) and transition risk, i.e. creating additional costs and capital expenditure need for transition of business activities and sectors to an environmentally sustainable economy (by legislation, technology standards, or market conformity and customer preferences), or in some cases damages through liabilities (for negative impacts by products, policies or pollution events). Physical risks can demonstrate through events of acute physical risks (most prominently weather-related events) or chronic physical risks (arise from longer-term changes in the climate, such as reduced water availability, biodiversity loss and changes in land and soil productivity).

Social risk means the risk of losses arising from any negative financial impact on the institution stemming from the current or prospective impacts of social factors on its counterparties or invested assets. They mostly materialize due to poor standards of respecting elementary rights, inclusiveness, or ineffective labour relations and unfair, untransparent or malleus customer practices. Social risks materialize mostly through damages in reputation, ineffective or even disrupting operations or loss of critical labour force, and finally through financial claims and liabilities due to improper practices.

Governance risk means the risk of losses arising from any negative financial impact on the institution stemming from the current or prospective impacts of governance factors on the institution's counterparties or invested assets. They are prominently related to poor or untransparent company governance measures, missing or weak code of conduct including lack of substantiated policies on anti-money laundering, bribes and corruption, or tax citizenship. Governance risk can arise also from governance events from poor management of critical supply chain. Materializing governance risks can significantly damage faith and trust of customers and investors, and potentially leading to loss of revenue, higher funding costs or penalties and such affecting its ability to conduct business over the longer-term.

METHODS AND INSTRUMENTS APPLIED

Sustainability is embedded into the core nature of Erste Group since its foundation and later on enriched by committing to support directly and indirectly 17 Sustainable Development Goals (SDGs), proposed by the UN General Assembly. In 2021, we joined the UN convened Net Zero Banking Alliance initiative (as a leading bank in CEE region), simultaneously joining Financial Initiative of the UN Environmental Program (UNEP FI) and signing UN Principles for Responsible Banking. Erste Group also joined EU Green Consumption Pledge and Partnership for Carbon Accounting Financials (PCAF).

Triggered by both internal aspirations and in order to achieve compliance with new regulatory requirements, the Group defined a comprehensive set of ESG related initiatives.

Within the credit risk area, ESG risk assessment for large corporate and real estate transactions within the loan application process is done through internal ESG Assessment Questionnaire. The questionnaire enables identification of clients which are prone to ESG risks and facilitates data collection on environmental footprint of clients. It is updated at least annually. In cases with potentially high ESG risk exposure, a deep-dive assessment is triggered to understand the nature and severity of the risk to which the company is exposed. The final ESG score also includes a stand-alone score for environmental, social and governance risk. For commercial real estate, an integral component of the questionnaire assesses the environmental footprint of a building from a technical perspective, providing an internal Technical Object Rating.

All ESG assessments are digital and collected in a centralized solution (CreditLab), making them accessible and available across the entire group, which offers the possibility to use the information for multiple purposes. Engagement with the client further includes active discussion with regards to environmental risks and opportunities relevant to the business model and data available.

For SME clients and smaller real estate transactions, an ESG Factor Heatmap is used as a risk assessment and management instrument to identify certain segments that may be exposed to ESG risk factors. The ESG Factor Heatmap combines the relevance of climate, environmental and social risk factors, utilising a granular segmentation of industry sectors of the portfolio, and allows for a differentiated approach as the relevance of individual risk drivers may differ, depending on the nature of the respective (sub)sectors a company operates in. The heatmap highlights certain industries which are considered more vulnerable to ESG risk.

In the corporate rating, a soft fact question covering the counterparty's environmental impact is also assessed from a credit risk perspective.

Within the Group's ESG risk assessment questionnaire, a specific section is dedicated to social risks, covering social responsibilities, workers' rights and human rights, to name a few. Specific section is dedicated also to governance risks, covering governance failure, supply chain management issues, corporate governance and transparency.

Moreover, the materiality of ESG Risk is assessed in the yearly Risk Materiality Assessment. Risk materiality assessment (RMA) is an annual process with the purpose of systematic identification of new and assessment of all risks for the EBC Group. Climate change risks, both transitional and physical, and other environmental risks, such as environmental degradation and animal welfare, are integrated into the Risk Materiality Assessment of EBC Group. They are identified and classified as transversal risks in our risk inventory and consequently their materiality is assessed within existing main risk types (credit, market, liquidity, operational and strategic risk) by means of qualitative and quantitative indicators. Such indicators are, for instance for the credit risk, related to greenhouse gas emissions of loan portfolios, real estate energy efficiency, exposure to increased flood and heightened heat/drought risks, or exposures in sectors with potential to environmental degradation. The indicators also take into account quantitative impact on our capital adequacy and forward-looking assessment. RMA process is leveraging to the large extent on other internal processes and tools (e.g. carbon footprint calculation, ESG factor heatmap, climate change house view, stress testing framework, green investment target monitoring), while some processes and tools are specifically in place for risk identification within RMA process (e.g. for the damage on own assets or supply chain from floods and storms – operational risk; the University of Notre Dame Global Adaptation Index used for sovereign bond portfolio - market risk). In 2022 RMA, materiality is medium for credit risk, whereas market, liquidity, operational and strategic risk are categorized as low. The main driver of medium materiality for credit risk is transition risk, reflecting possible material impact of disorderly transition on EBC Group's capital/profitability. The potential impact of physical risks for operational risk (flood and drought/extreme heat) on the other hand is deemed immaterial (low). Various internal projects implemented in the last 2 years within ESG action plan effectively reduced EBC Group's strategic exposure to environmental risk, with EBC Group ranking favourably in comparison to other banks in EU.

Decarbonization is based on a starting point of financed emissions which are determined in the Carbon Footprint Calculation ("CFC"). Portfolio emissions / CFC was calculated for the first time already in 2021 based on PCAF methodology (which meanwhile also became a standard required by EBA in Pillar 3 disclosure). CFC will be further enhanced.

Strategic risk

DISCLOSURE REQUIREMENTS Art. 435 (1) (a) (b) (c) (d) CRR

Strategic risk is possibility of adverse effect on the bank's financial result or capital due to absence of adequate strategies and adverse business decisions, or their inadequate implementation, changes in the business environment in which the bank operates or failure of the bank to adequately respond to these changes. Elements considered within strategic risk are:

- _ Business risk is the possibility of adverse effect on the bank's financial result or capital from unexpected fluctuations in volumes, margins and operating expenses, reflected in deviation of realized from expected net operating result, arising from both external factors and internal shortcomings (incl. inadequate management/operational mechanisms, systems and controls). All revenue or cost fluctuations which are attributable to market risk, credit risk or operational risk are explicitly excluded from this definition.
- _ Capital risk is the risk that bank has an insufficient level and composition of capital to support the its business activities and associated risks during normal and stressed conditions, which can be result of, among others, possible erosion of capital as a result of dividend and/or remuneration policies, limited access to additional capital due to ownership structure and lack of market access to supplementary capital sources.
- _ Profitability risk means the risk which arises due to inability of the bank to ensure adequate and constant level of profitability in line with market expectations or own targets.

METHODS AND INSTRUMENTS APPLIED

EBC Group has implemented a comprehensive framework for the identification, measurement, control, reporting and management of strategic risk. As part of its overall risk management framework, EBC Group is regularly reviewing strategic risk, reflecting current developments in macroeconomic environment, legal jurisdictions as well as different business strategies and balance sheet structures. In addition, ESG risks impact had prominent place in 2022 also in strategic risk, in order to adequately respond to change in operating environment caused by climate-related and environmental risks, considering both inherent risks and new business opportunities.

Reputational risk

DISCLOSURE REQUIREMENTS Art. 435 (1) (a) (b) (c) (d) CRR

Reputational risk is the current or prospective risk arising from negative perceptions on the part of customers, suppliers, stakeholders, the public or other relevant parties that, apart from the Bank's reputation itself, can adversely affect the bank's earnings, funds and liquidity. It mostly depends on competence, integrity, social responsibility and reliability of the bank. Reputational risk issues usually arise from transactions with clients or through different business activities.

Reputational risk (impact) can also be considered as a secondary effect of other risk categories, such as credit, market, operational and liquidity risk.

GOALS AND PRINCIPLES OF RISK MANAGEMENT

Reputational risk is not quantified explicitly in the economic capital calculation under pillar 2. The quantification of reputational risk distinguishes two types of losses:

- _ losses the bank is willing to accept in order to avoid reputational damage, typically quantified in terms of market, credit and operational risk economic capital;
- _ negative reputational damage on future earnings, e.g. reduced operating revenues due to the loss of customers covered by the business risk economic capital.

METHODS AND INSTRUMENTS APPLIED

Reputational risk management is embedded in the Reputational risk policy and in the Operational and Non-Financial Risk Management Procedure. Local Operational Conduct Committee (LOCC) establishes, implements and maintains non-financial risk management standard and methods including reputational risk.

The primary responsibility for the identification, escalation and resolution of reputational risk issues resides with the business and the relevant risk type owner supports their resolution. As an example, reputational risk is mitigated by the following measures:

- _ Statement of purpose;
- _ Code of conduct;
- _ Product approval process;
- _ Credit policies;
- _ pro-active press and investor communication;
- _ Outsourcing policy;
- _ Conflicts of interest and anti-corruption policy;
- _ Responsible Financing Policy

Identified risks are assessed and escalated in line with the risk appetite. The residual risk after mitigation is accepted using the unified method (Non-Financial Risk Decision). Reputational risk is also part of the annual risk materiality assessment and the RAS.

Compliance risk

DISCLOSURE REQUIREMENTS Art. 435 (1) (a) (b) (c) (d) CRR

Compliance risk is the risk of imposition of measures and fines and the risk of substantial financial loss or loss of reputation to be suffered by a credit institution due to failure to comply with regulations, standards, codes and internal bylaws. . Amongst others it covers the following content areas: Solvability, Liquidity, Large Exposures, Leverage Ratio, ICAAP/ILAAP, SREP, Internal Governance and ESG.

To appropriately address Compliance risk, Group oversees management's role in fostering and maintaining a sound corporate and risk culture. Group established an appropriate framework for identifying, assessing, measuring and monitoring Compliance risk in accordance with the Credit Institutions Act, Decision on Government Arrangements and Erste Group standards taking into consideration, , the institution's size and complexity. In accordance with the RAS non-compliance with regulatory or legal requirements is not eligible to any risk acceptance.

METHODS AND INSTRUMENTS APPLIED

A comprehensive framework for the identification, control, reporting and management of Compliance risk is implemented. The framework and applied controls are reviewed regularly, reflecting current developments. The aforementioned framework includes activities to identify and assess the compliance risk, advise the Management Board and other responsible persons on the implementation of relevant laws, standards and rules and to inform them on developments in these areas; assess the effects that changes in relevant regulations have on operations of the credit institution, verify compliance of new products or new procedures with relevant regulations, report on compliance risk to the Management Board, the Supervisory Board and its committees, cooperate and exchange information with other control functions and provide advice in the preparation of training programmes related to compliance.

As well, a regular reporting on compliance relevant topics at a level of Group and Erste Group is implemented to ensure timely information and coordination of supervisory activities within the group.

Macroeconomic risk

DISCLOSURE REQUIREMENTS Art. 435 (1) (a) (b) (c) (d) CRR

Macroeconomic risk is the risk that the bank incurs losses due to adverse changes in the overall economy. It includes also the risk of a severe exogenous shock that could result in such financial instability that it will spread in all parts of the financial system and to such a severe extent that it could have a negative impact on the real economy.

METHODS AND INSTRUMENTS APPLIED

In the course of stress testing, scenarios are developed based on the assumption of deteriorating economic conditions. These macroeconomic scenarios apply not only to the entire portfolio, but also to earnings and capital adequacy. This method reveals how the changed economic conditions affect the risk and earnings situation as well as own funds. Risk modelling and stress testing are vital forward-looking elements of the ICAAP. Sensitivities and macroeconomic stress scenarios are considered within the Group's planning and budgeting process.

Political risk

DISCLOSURE REQUIREMENTS Art. 435 (1) (a) (b) (c) (d) CRR

Political risk is the exposure to a loss, caused by events in a particular country which are under the control of the government but clearly not under the control of an independent private enterprise or individual, e.g. expropriation, changes in regulatory/legal regime (incl. changes of banking regulatory regime defined by national or international authorities), war, terrorism and other political upheaval, which might have negative impact on the capital position or profitability of an institution (directly or indirectly through its clients).

METHODS AND INSTRUMENTS APPLIED

Country risk management is responsible to identify, record and report political risks. Apart from daily constant observation and reporting, there are dedicated committees which deal with political risks in a very broad sense. Moreover, in the sovereign and country rating process, political risk is also constantly observed, identified, judged and taken into account.

Remuneration policy

DISCLOSURE REQUIREMENTS Art. 450 CRR

The 2022 Remuneration Policy ("the Policy") of the EBC Group was updated in March 2022 with the aim of alignment with Erste Group Remuneration Policy valid for 2022 and in March 2023 in order to align with regulatory changes in the Law on Credit Institutions and the Decision on Employee Remuneration. The EBC Group Policy was adopted by the Bank's Management Board, Remuneration Committee and Supervisory Board, and is applied to the Bank and EBC Group (includes companies consolidated by the Bank). In relation to 2021 Policy the changes were mostly related to changes in local regulations and EU regulations that apply to us (new provisions related to the bonus payout, incorporation of ESG goals, incorporation employee share program etc.) and 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 the EBC 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 four meetings during 2022 and six 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, reviewing and assessing the compliance of the implementation of the Remuneration Policy, implementation of scenarios for the purpose of testing the impact of future external and internal events on the Remuneration Policy, adoption targets of the Member of the Management Board, guidelines for the payment of variable remuneration, approval of list of identified staff and other relevant decision.

The EBC 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.

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, and additionally once a year, the Remuneration Committee reviews and evaluates the compliance of the implementation of the Remuneration Policy and informs the Management Board, the Supervisory Board and other relevant functions and committees about the conducted procedure.

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 (transport allowance).
- _ annual allowances – for special occasions (holiday allowance, meal allowance, child gift, easter allowance, shares allocation through the Employee Share Program - WeShare by Erste Group 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 the 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.

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 payout 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 EBC 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 behaviour 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 behavior 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.

To employees identified as material risk takers, in case of determining variable pay in the amount exceeding EUR 50,000 or one third of total annual remuneration, 40% of variable pay is deferred for the period of 4 to 5 years, in order to ensure long-term sustainability, the possibility of adjusting to risks and long-term interests of the company's shareholders. The deferral period for members of the Management Board and Senior management is 5 years, and for other Identified staff, the deferral period is 4 years. Variable payment is paid in cash, and variable payment of identified employees, whose bonus is set at an amount higher than the threshold for deferral, are paid 50% in cash and 50%. To identified staff for 2022 variable payments, determined in amount equal to or higher than 150 thousand EUR, percentage of deferred variable payment is 60% and is paid 50% in cash and 50% in instruments with 5 year deferral. The instrument used to pay bonuses to identified employees are phantom shares of Erste Group Bank AG, whose number 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 EBC Group.

Neither the Bank nor any company of the EBC 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 EBC 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 EBC Group long-term incentive plans or uncommon rewarding practices are not used.

Maximum amount of variable remuneration applied in the EBC 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 2022. In addition, we do not have employees whose total annual remuneration in the financial year amounts to or exceeds the equivalent of 1 million EUR.

Quantitative disclosure on Remuneration policy

DISCLOSURE REQUIREMENTS Art. 450 (1) (h) (i)-(ii) CRR

		a	b	c	d
		MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Number of identified staff	7.00	14.00	28.00	43.00
2	Total fixed remuneration	0.35	22.75	18.61	20.60
3	Of which: cash-based	0.35	22.75	18.61	20.60
4	(Not applicable in the EU)				
EU-4a	Of which: shares or equivalent ownership interests	-	-	-	-
5	Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-5x	Of which: other instruments	-	-	-	-
6	(Not applicable in the EU)				
7	Of which: other forms	-	-	-	-
8	(Not applicable in the EU)				
9	Number of identified staff	7.00	14.00	28.00	43.00
10	Total variable remuneration	-	16.20	8.56	7.34
11	Of which: cash-based	-	8.63	7.22	7.09
12	Of which: deferred	-	4.12	0.53	0.10
EU-13a	Of which: shares or equivalent ownership interests	-	-	-	-
EU-14a	Of which: deferred	-	-	-	-
EU-13b	Of which: share-linked instruments or equivalent non-cash instruments	-	7.57	1.34	0.25
EU-14b	Of which: deferred	-	7.57	1.34	0.25
EU-14x	Of which: other instruments	-	-	-	-
EU-14y	Of which: deferred	-	-	-	-
15	Of which: other forms	-	-	-	-
16	Of which: deferred	-	-	-	-
17	Total remuneration (2 + 10)	0.35	38.95	27.17	27.94

Table 65: Template EU REM1 - Remuneration awarded for the financial year

DISCLOSURE REQUIREMENTS Art. 450 (1) (h) (v)-(vii) CRR

		a	b	c	d
		MB Supervisory function	MB Manage ment function	Other senior manage ment	Other identified staff
Guaranteed variable remuneration awards					
1	Guaranteed variable remuneration awards - Number of identified staff	-	-	-	-
2	Guaranteed variable remuneration awards - Total amount	-	-	-	-
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
Severance payments awarded in previous periods, that have been paid out during the financial year					
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	-	1,00	-	-
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	-	0,21	-	-
Severance payments awarded during the financial year					
6	Severance payments awarded during the financial year - Number of identified staff	-	1,00	-	-
7	Severance payments awarded during the financial year - Total amount	-	1,06	-	-
8	Of which paid during the financial year	-	-	-	-
9	Of which deferred	-	-	-	-
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
11	Of which highest payment that has been awarded to a single person	-	1,06	-	-

Table 66: Template EU REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

DISCLOSURE REQUIREMENTS Art. 450 (1) (h) (iii)-(iv) CRR

	a	b	c	d	e	f	EU - g	EU - h
Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1 MB Supervisory function	-	-	-	-	-	-	-	-
2 Cash-based	-	-	-	-	-	-	-	-
3 Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
4 Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
5 Other instruments	-	-	-	-	-	-	-	-
6 Other forms	-	-	-	-	-	-	-	-
7 MB Management function	20.92	5.18	15.74	-	-	(1.21)	7.56	2.95
8 Cash-based	9.01	2.23	6.78	-	-	-	2.23	-
9 Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
10 Share-linked instruments or equivalent non-cash instruments	11.91	2.95	8.96	-	-	(1.21)	5.33	2.95
11 Other instruments	-	-	-	-	-	-	-	-
12 Other forms	-	-	-	-	-	-	-	-
13 Other senior management	6.16	2.00	4.17	-	-	(0.31)	3.15	1.00
14 Cash-based	3.08	1.00	2.08	-	-	-	1.00	-
15 Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
16 Share-linked instruments or equivalent non-cash instruments	3.08	1.00	2.08	-	-	(0.31)	2.16	1.00
17 Other instruments	-	-	-	-	-	-	-	-
18 Other forms	-	-	-	-	-	-	-	-
19 Other identified staff	0.21	-	0.21	-	-	(0.01)	-	-
20 Cash-based	0.11	-	0.11	-	-	-	-	-
21 Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
22 Share-linked instruments or equivalent non-cash instruments	0.11	-	0.11	-	-	(0.01)	-	-
23 Other instruments	-	-	-	-	-	-	-	-
24 Other forms	-	-	-	-	-	-	-	-
25 Total amount	27.30	7.17	20.12	-	-	(1.53)	10.71	3.95

Table 67: Template EU REM3 - Deferred remuneration

DISCLOSURE REQUIREMENTS Art. 450 (1) (g) CRR

	a	b	c	d	e	f	g	h	i	j
	Management body remuneration			Business areas						
	MB Supervisor y function	MB Manageme nt function	Total MB	Invest ment banki ng	Retail banking	Asset management	Corpora te function s	Independe nt internal control functions	All other	Total
1 Total number of identified staff										92
2 Of which: members of the MB	7	14	21							
3 Of which: other senior management				1	6	-	14	6	-	
4 Of which: other identified staff				3	20	-	9	12	-	
5 Total remuneration of identified staff	0,35	38,95	39,30	3,77	23,50	-	16,78	11,06	-	
6 Of which: variable remuneration	-	16,20	16,20	1,39	7,95	-	4,06	2,49	-	
7 Of which: fixed remuneration	0,35	22,75	23,10	2,37	15,55	-	12,72	8,57	-	

Table 68: Template EU REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)