Disclosure Report pursuant to the Capital Requirements Regulations
Erste Bank Hungary Zrt.
as of 31 December 2015

Bank

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LIST OF ABBREVIATIONS

AT1	Additional Tier 1
ALCO	Asset Liability Management Committee
ALM	Asset Liability Management
AMA	Advanced Measurement Approach
CCF	Credit Conversion Factor
CET1	Common Equity Tier 1
CRC	Corporate Risk Committee
CRD IV	Capital Requirements Directive IV
CRM	Credit Risk Mitigation
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
DPD	Day Past Due
EAD	Exposure at Default
EBA	European Banking Authority
EBH	Erste Bank Hungary
ECAI	External Credit Assessment Institution
EL	Expected Loss
ERM	Enterprise-wide Risk Management
EU	European Union
FMA	Austrian Financial Market Authority
FX	Foreign exchange
HAS	Hungarian Accounting Standards
HMC	Holding Model Committee
Hpt.	Act CXII of 1996 ”Credit Institutions Act"
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IRB	Internal Ratings Based Approach
LGD	Loss Given Default
LORCO	Local Operational Risk Committee
MNB	central bank of Hungary; Supervisory Authority
PD	Probability of Default
RAS	Risk Appetite Statement
RCC	Risk Bearing Capacity Calculation
RCG	Risk Government Committee
VaR	Value at Risk

INTRODUCTION

Disclosure requirements covered: Art. 436 a) CRR

This is the Basel Pillar 3 Disclosure Report of Erste Bank Hungary Zrt.

Erste Bank Hungary (referred to as ‘Erste Bank Hungary’ or the ‘Bank’ hereafter) is a limited liability company, incorporated and domiciled in Hungary. The **core activities** of Erste Bank Hungary are savings, investments, loans and credits as well as leasing services. Geographically the Bank focuses primarily on the Hungarian market and offers its services for private individuals, small and medium-sized enterprises as well as large corporations, municipalities, public sector and non-profit organisations.

The Bank forms Erste Bank Hungary with its fully owned subsidiaries:

Company name	2014	2015	Core activity
ERSTE Befektetési Zrt.	100%	100%	brokerage services
Portfolió Szolgáltató Kft.	100%		deleted from company register due to dissolution
ERSTE Leasing Bérlet Szolgáltató Kft.	100%	100%	no activity due to dissolution proceeding
ERSTE Lakáslízing Zrt.	100%	100%	financial leasing of properties
ERSTE Ingatlan Kft.	100%	100%	property management
Sió Ingatlan Invest Kft.	100%	100%	property development
ERSTE Lakástakarék Zrt.	100%	100%	building society
ERSTE IN-FORG Kft.	100%	100%	property management
Collat-Reál Kft.	100%	100%	property management
ERSTE Jelzálogbank Zrt.	-	100%	providing refinancing from 2016

Table 1: Art. 436 a) CRR: Erste Bank Hungary and its fully owned subsidiaries as of 31 December 2015

Erste Bank Hungary has been a member of Erste Group since 1997**.** Erste Bank der österreichischen Sparkassen AG is Erste Bank Hungary Zrt’s parent company, hereinafter the Soleshareholder.

Erste Group Bank AG was founded in 1819 as the first Austrian savings bank and has since developed into the largest privately owned Austrian banking group and into the largest financial services provider in Central and Eastern Europe. It has been listed on the Vienna, Prague and Bucharest Stock Exchange. (The data template for the indicators of Global Systematic Importance is disclosed on Erste Group’s website under:http://www.erstegroup.com/en/Investors/RegDisclosure/G-SII.)

This **report discloses an overview of the current risk profile and risk management of Erste Bank Hungary**, organized as follows:

- Organizational structure of corporate and risk management;
- Capital structure and adequacy;
- Risk measurement approaches and methods;
- Risk management systems with respect to each type of risk and the;
- Risk positions assumed.

Disclosure policy and structure

Disclosure requirements covered: Art. CRR 431, 432, 433, 434, 435. (2) (a) (b) (c) (d) CRR and Hpt. 122 és 123.§

The requirements of the regulation apply to Erste Bank Hungary Zrt.

The disclosure requirements of the Hungarian Banking Act (Hpt) Article 122 and the Regulation (EU) No 575/2013 of the European Parliament and the Council on prudential requirements for credit institutions and investment firms; amending regulation (EU) No 648/2012 (CRR) have been implemented throughout the Bank since 1 January 2007. The current Pillar 3 Disclosure Report of Erste Bank Hungary Zrt is made in accordance with the CRR and the Hungarian legislation, specifically Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter Hpt.). The rules took effect on 1 January 2014.

The Disclosure Report provides comprehensive disclosure on risks, risk management and capital management. This document is required to be published on a regular basis – once a year. Erste Bank Hungary has opted for the Internet as the medium of this publication.

Based on the institutions' audited data of 31 December 2014 the Bank was identified by the central bank of Hungary (referred to as ‘MNB’), acting within its macro-prudential supervisory function, as a systemically important credit institution. The Bank is also subject to a yearly ‘Supervisory Review and Evaluation Process’, to guarantee that the Bank has adequate arrangements, strategies, processes and mechanisms as well as capital and liquidity to ensure a sound management and coverage of their risks.

The internal ‘Pillar 3 Disclosure’ policy of the Bank was adopted in July 2015 and is subject to a yearly supervision. The preparation of the Disclosure Report and the formal audit for completeness and compliance is carried out by the Directorate Strategic Risk Management.

The disclosures are subject to external verification only to the extent that they have been made in the Bank's Financial Statements for the year ended 31 December 2015. The presented tables may include rounding differences.

DISCLOSURE REQUIREMENTS COVERED: Hpt 123.§ (HAS only)	**as of 31st December 2015 (million HUF)**
a) Name	Erste Bank Hungary Zrt
a) Nature of activity	Other monetary intermediation
a) Geographical relation	Hungary
b) Revenues* (million HUF)	421,075
c) Full time employees	2,559
d) Loss (million HUF)	-20,450
e) Tax (million HUF)	5
f) Received subsidies (million HUF)	0
Return on assets (Taxed income/total assets)	-1.09

Table 2: Disclosure requirements covered: Hpt 123.§

*Interest and other interest-type revenues earned; Revenues from securities, Fees and commissions earned, Revenues from other financial services; Other revenues from business activity; Extraordinary income

The document is divided into qualitative and quantitative sections:

- Introduction comprises general information with respect to the background of this disclosure, and to the corporate governance structure.

- Chapter ‘Risk Management at Erste Bank Hungary’ gives a comprehensive overview of the risk policy and strategy as well as to the risk management organization and governance.

- Chapter 'Scope of application' outlines the comparison between regulatory requirements and accounting principles.
- Chapter 'Own Funds' provides information on the structure and features of the Bank's own funds as well as on the external developments affected the Bank's risk profile in 2015.
- Chapter 'Capital Requirements' presents the regulatory capital and the adequacy assessment.
- Chapter 'Disclosure on Asset Encumberance' Assets' identifies encumbered assets.
- Chapter 'Credit Risk' is dedicated to credit and dilution risks, to the approach of credit quality deterioration and to portfolio quality and provisioning (ICAAP).
- Chapter 'Use of IRB Approach to Credit Risk' assesses the description of the rating process, rating systems and the use of ECAIs and other supervisory methods applied.
- Chapter 'Mitigation of Credit Risk' discloses recognition of credit risk, collateral valuation and netting as well as main types of collaterals recognized.
- Chapter 'Counterparty credit risk' management details the capital allocation and definition of credit limits for counterparty credit exposures.
- Chapter 'Securitization process at the bank'.
- Chapter 'Market risk' refers to market risk management and Trading book's exposure.
- Chapter 'Interest rate risk' reveals interest rate management and positions not covered in the Trading Book.
- Chapter 'Operational Risk" gives a comprehensive insight to operational risk measurement, control and organization.
- Chapter 'Other risks' details the Bank's assessment to liquidity risk, macroeconomic and concentration risk.
- The Annex presents quantitative disclosures.

Regulatory Framework of Basel III

Basel III is a global regulatory capital framework developed by the Basel Committee on Banking Supervision to promote bank's transparency and disclosures, to improve the banking sector's ability to absorb shocks arising from financial and economic circumstances as well as to improve risk management and governance. It is composed of three pillars of which 'Pillar 3' prescribes regulatory public disclosures around capital structure, capital adequacy and risk-weighted assets (Pillar 1 – minimum capital requirements, Pillar 2 – supervisory review process; Pillar 3 – market discipline).

Implementation of Basel III in the European Union (EU) and in the Hungarian legislation

The application of the new regulatory requirements for credit institutions and investment firms became effective as of 1 January 2014, known as the 'CRR/CRD IV package'. From then onwards, the regulatory capital (own funds) and the regulatory capital requirements is calculated and published in accordance to the package.

Activities in the context of changes to regulatory requirements

Since 2010, Erste Group has been scrutinizing the impacts of the planned regulatory changes commonly known as Basel III. The Group has established a group-wide Basel III programme, which

ensures that all requirements arising from the CRD IV and from related national and international regulations are implemented in time and completely within the whole Group. The programme included covering capital requirements, changes in risk-weighted assets (RWAs) calculations, counterparty credit risk, and the new capital charge for credit value adjustments.
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Governing and controlling bodies of Erste Bank Hungary

Erste Bank Hungary has a two-tier governance structure.

In the organization of the Bank the governing and controlling bodies are specified by the Act on Civil Code, the Hungarian Act on Credit Institutions, the Statutes, and they operate according to the bylaws of the Board of Directors and the Supervisory Board.

Sole Shareholder

The Sole Shareholder is the main governing body of the Bank. The Sole Shareholder has an exclusive competence in making decisions that are delegated into its competence by the Act on Business Association and the Statutes

Supervisory Board

The Supervisory Board supervises the Bank's operation in the name of the Sole Shareholder. Its tasks include the controlling of the internal audit organization and the elaboration of recommendations and proposals on the basis of the findings of internal audit.

Board of Directors

The Board of Directors is the executive body of the Bank that is managing the Bank's business activities within the limits set by the Statutes and the decisions of the General Meeting, taking into consideration also the suggestions of the Supervisory Board. Its composition, tasks, operational regulations are included in the Statutes and its own bylaws. The Board of Directors has the right to delegate a part of its tasks to the Managing Board.

Managing Board

Within the body of the Board of Directors and with the approval of the Supervisory Board the Managing Board is established by the Board of Directors. The managing board of Erste Bank Hungary is responsible for the management of the company. Its duty is to promote the welfare of the company with due regard to the Sole Shareholders' and the employees' interests.

Working methods of the management board and the supervisory board

The managing board develops the strategic orientation of the company and aligns it with the supervisory board. It ensures effective risk management and risk control.
It takes its decisions in compliance with all relevant legal provisions, the articles of association and its internal rules of procedure.

Remuneration and Nomination Committee

The Board of Directors established – with the approval of the Supervisory Board – according to Banking Act (Act on Credit Institutions and Financial Enterprises) Article 112. and 117 the Remuneration and Nomination Committee. .
The Remuneration and Nomination Committee held four meetings in 2015 at which it regularly took decisions and received reports that are within its duties and powers as outlined below:

- monitors the remuneration of managing directors and managers responsible for risk management and compliance with laws;

- gives advice to the Supervisory Board on the definition of the remuneration policy and participates in its review;
- gives its opinion and recommendations about their election and;
- defines the target representation of both genders in the management bodies, and the necessary strategy to achieve the target.

Risk Governance Committee

The Board of Directors established – with the acknowledgment of the Supervisory Board – according to Banking Act section 110 § the Risk Governance Committee. The Risk Governance Committee held four meetings in 2015 at which it regularly took decisions which are within its duties as outlined below:

- advises the management board with regard to current and future risk tolerance;
- the credit institution's risk strategy and monitors the implementation of this risk strategy;
- it further checks whether the incentives offered by the internal remuneration system duly consider the risk, the capital, the liquidity and the probability as well as the time of realised profits;
- it is responsible for granting approval in all those cases in which loans and exposures or large exposures reach an amount exceeding the approval authority of the management board defined in the approval authority regulation;
- it is responsible for monitoring risk management at Erste Bank Hungary;
- it further checks whether services and products are adequately priced to take into account the business model and the credit institution's risk strategy.

The Auditor can be an internationally recognized company that is registered by the competent Hungarian authority as auditor, and that fulfills the conditions laid down in the Credit Institutions Act and other relevant laws. The Sole Shareholder decides on its appointment and remuneration, upon a proposal of the Supervisory Board. The auditor's assignment is valid from the date of its election till the approval date of the next Annual Report.

The Internal Audit Directorate examines and analyses the activities of the Bank, of the subsidiaries under consolidated supervision and of the auxiliary subsidiaries. It regularly views:

- if the Bank and its subsidiaries operate in compliance with legal regulations, authority requirements and internal directives;
- if the Bank has the internal regulations required by law, securing a prudent operation;
- if internal regulations are suitable for the implementation of banking activities and whether they are in harmony with the legal regulations and other authority requirements in force;
- if the operation of the organizational units fulfills the requirements set forth in the strategic objectives;
- if business records and internal audit systems make the prudent management of the Bank and its subsidiaries;
- as well as the execution of the provisions of remuneration policy.

Internal Audit operates under the control of Supervisory Board, whereby the Supervisory Board:

- approves the annual audit plan of Internal Audit,
- discusses the reports made by Internal Audit at least in every six months and controls the implementation of the necessary measures,
- supports the work of Internal Audit by request of external experts, if needed,
- provides recommendation for changing of the headcount of Internal Audit.

Additional audit tasks of the internal audit organizational unit over the annual plan may be determined only by the Supervisory Board or the head of the internal audit organizational unit, as well as by the CEO with agreement or subsequent notification of the Supervisory Board. The Internal Audit reports to Supervisory Board, to Audit Committee and to Board of Directors and arranges for putting its report at the MNB's disposal, if needed. The employer's right over the head (director) of Internal Audit is exercised by the CEO.When the CEO exercises employer's rights, the prior approval of the Supervisory Board is necessary to establish or terminate the employment of the director of Internal Audit.

Selection and assessment of members of management bodies

The qualification requirements (skills and expertise) for members of the governing and controlling bodies of Erste Bank Hungary are governed by the internal guidelines for the selection and assessment of members of the management and supervisory boards, defined by the Remuneration and Nomination Committee of the company.

These guidelines define, in accordance with applicable legal provisions (Hpt 112. §.), the internal framework for the selection and assessment of proposed and appointed members of the management bodies and are also an important tool for ensuring good corporate governance and control. The assessment of proposed and appointed members of management bodies is based on the following criteria:

- reputation requirements (no criminal record, no violation of the statutory regulations pertaining to financial organizations);
- experience criteria (education and professional experience);
- governance and independence (verification of potential conflicts of interest; the overall (existing) composition of the Board of Directors or Supervisory Board and the relevant, necessary collective knowledge and experience; the ability of the candidate to perform his/her duties independently, without undue influence from other persons).

Both on individual and on overall level the management and supervisory bodies and their members possess the necessary knowledge, experience and expertise required to fulfil their role at the company, as follows:

Overview of education:	Overview of professional experience:	Overview of expertise:
Master - of Business Administration, - in Economics, - in Finance, - or in Engineering.	- Diverse background gained at several local/regional/global organizations, private/public financial institutions as well as in consulting.	- Relevant expertise on fields of banking operations.
- Studies in internationally acknowledged institutions.	- Overall experience of the board members covers the whole banking operation.	- Deep expertise of financial markets.
- Various extracurricular activities.	- At least 15 years of professional experience in the banking sector or - 10+ years of experience in managing respective fields.	- Proven leadership skills and expertise.

Table 3: Art. 435 (2) b) CRR: Skills and expertise of the managing and governing bodies of Erste Bank Hungary as of 31 December 2015

Training and development of management bodies

In order to maintain an appropriate level of professional qualification of members of the management bodies, Erste Bank Hungary regularly organises events and seminars for its staff and management. Speakers at these events are in-house and outside experts.

Policy of diversity

Diversity and equal opportunities are firmly embedded in Erste Group's corporate philosophy and corporate culture. Promoting equal opportunities and diversity was institutionalised by appointing a Diversity Manager responsible for developing a group-wide diversity policy, identifying targets and measures, as well as regular monitoring and reporting on targets from all subsidiaries.

Erste Bank Hungary's Remuneration and Nomination Committee on its meeting in November 2014 defined the following target for the representation of both genders in the Management Bodies and the upper line managerial positions: target is to reach a share of 35% of women in top management

(Boards, B-1) and supervisory boards in the group by 2019. To achieve this target the company incorporated the diversity priority into the leadership and career management and other programs.

Members of the Board of Directors

As of 31 December 2015, the Board of Directors of Erste Bank Hungary Zrt. consisted of four internal and two external members.

Members of the Board of Directors:	Position:	Responsible for:
Radovan JELASITY	Chairman of the Board of Directors, CFO, Corporate Division	HR, Marketing & PR, Strategic Management, Treasury, Corporate Divisions, Real Estate & Project finance, Information & Operation
Ivan VONDRA	internal member, CFO	Controlling, Finance & Accounting, Asset and Liability Management, Procurement, Property Management
Jurgen DE RUIJTER	internal member, CRO	Risk management, Work-out, Legal & Compliance
László HARMATI	internal member, Retail Division	Retail division, Information & Operation
János RUDNAY	external member	
Frederik SILZER	external member	

Table 4: Members of the Board of Directors as of 31 December 2015

Members of the Supervisory Board

As of 31 December 2015, the following persons were members of the supervisory board of Erste Bank Zrt:

Members of the Supervisory Board:	Position:
Dr. Manfred WIMMER	member of the Supervisory Board Chairman of the Supervisory Board
Friedrich RÖDLER	member of the Supervisory Board
Krisztina ZSIGA	member of the Supervisory Board
Gernot MITTENDORFER	member of the Supervisory Board
Magdolna NAGY	member of the Supervisory Board, employee representative
Márta BALOGH	member of the Supervisory Board, employee representative

Table 5: Art. Members of the Supervisory Board as of 31 December 2015

RISK MANAGEMENT AT ERSTE BANK HUNGARY

Disclosure requirements: ART. 435 (1) (a) (b) (c) (d) (e) (f), (2) (d) (e) CRR

Risk policy and strategy

The Bank has implemented a comprehensive Enterprise-wide Risk Management (ERM hereinafter) Framework as defined in the 'EBH Enterprise Risk Management Principles Policy' in order the adequacy of the risk management arrangements is suitably put in place with regard to the institution's profile and strategy;. Key components of this framework are:

- the Risk Appetite Statement (RAS) and the
- Risk-bearing Capacity Calculation (RCC) and the
- Risk Materiality Assessment (RMA).

The Bank defines its Risk Strategy and Risk Appetite through the annual planning process to ensure proper alignment of risk, limit framework, capital, liquidity and performance targets.

- The governing bodies argued the 'Risk Materiality Assessment', consequently Erste Bank Hungary's (EBH) risk profile.

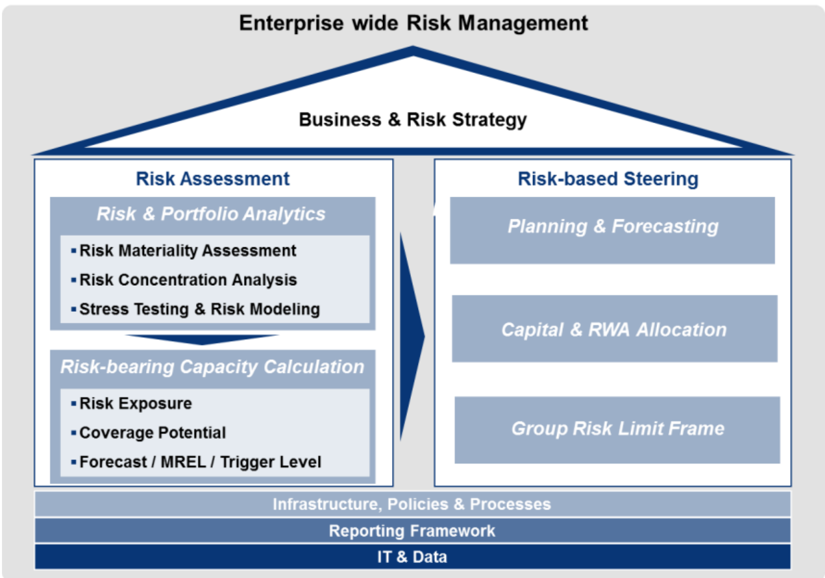
Erste Bank Hungary declares according to CRR Art. 435 (1) (e) that the adequacy of the risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy.

- The governing bodies debated the 'Risk Appetite Statement' and its indicators in February 2015. The risk appetite presented in the document defines the Bank's business strategy and it is focused on early identification and management of risks and trends.

Erste Bank Hungary declares according to CRR Art. 435 (f) that the Bank's approved risk appetite based on the Risk Appetite Statement is succinctly describing the institution's overall risk profile.

In addition to meeting the internal goal of effective and efficient risk management, the Bank's risk management and control system has been developed to fulfil external and, in particular, regulatory requirements.

Given the Bank's business strategy, the key risks for Erste Bank Hungary are credit risk, market risk and operational risk.



Picture 1: Enterprise wide Risk Management at Erste Bank Hungary

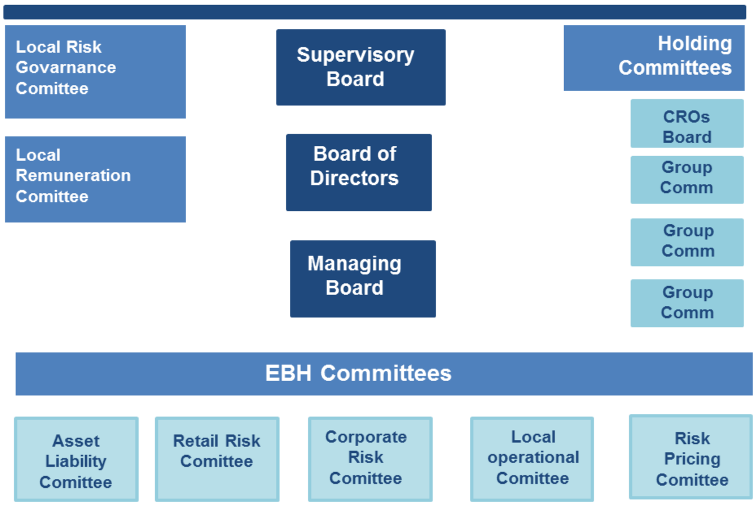
The year 2015 was marked by the clear strategy to extensively clean up the bank's portfolio. As a result:

- the Bank has no retail FX exposures;
- the quality of the portfolio has substantially improved;
- the non-performing loan portfolio (both in retail and corporate segment) has dropped significantly;
- due to the new provision methodology coverage was over 60% at the end of the year.

In addition, emphasis was put on further strengthening the risk culture and the Basel III regulatory reporting framework.

Risk management organization

Risk management is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities, and risk limits. The following pictures present a general overview of Erste Bank Hungary's risk management and risk governance framework.



Picture 2: CRR: Risk management organization of Erste Bank Hungary as of 31st December 2015

Besides the Risk Governance Committee the Bank has also established **local committees** in order to support efficient decision process and in order to ensure a multi-functional supervision (i.e. ensuring the participation of various fields of professions) in risk management, in related principles, in risk strategy forming, harmonizing with business strategy, following up and monitoring the strategy and its execution, as well as strengthening the risk awareness and risk culture. The main objectives of the committees include the promotion of mutual understanding and coordination in the field of corporate and retail lending activities and between the internal management functions.

- **Asset-Liability Management Committee** (hereinafter ALCO) is one of the most important strategic decision-making body for managing market risk inherent in the banking book and in the trading book of the bank (including interest rate risk). It meets monthly. The committee is also of a particular importance in managing, monitoring and controlling concentration and liquidity risk related to the Bank's risk profile as well as approving investment strategies. It monthly monitors:
    - the Bank's short and medium term liquidity, the financial assets and the Bank's Investment Strategy;
    - the principles, structure and volume of market risk (limit breaches and mitigations, measurement tools & implementation), with special focus on the changes in profitability resulting from eventual interest rate volatility;
    - the balance sheet growth;
    - and the capital adequacy.

- **Retail Risk Committee** (hereinafter RRC) is responsible for continuous supervision and decision over the Bank's retail risk taking rules, limits and risk parameters. The RRC is informed about the Risk Appetite statement of the management and is responsible for the development and decision on the retail risk strategy which is based on the targeted risk tolerance. The RRC may contribute to the internal capital assessment process.

- **Corporate Risk Committee** (hereinafter CRC) is responsible for continuous supervision and decision over the Bank's corporate risk taking rules, limits and risk parameters. The CRC is informed about the Risk Appetite statement of the management and is responsible for development and decision on the corporate risk strategy which is based on the targeted risk tolerance. The CRC may also contribute to the internal capital assessment process, which is further detailed in Chapter 'Capital Requirements'. The CRC is the forum of discussions and decisions on new business initiatives, on application of new tools, systems or procedures in business and in risk management, on regular reports about the high priority business and risk projects in corporate banking area.

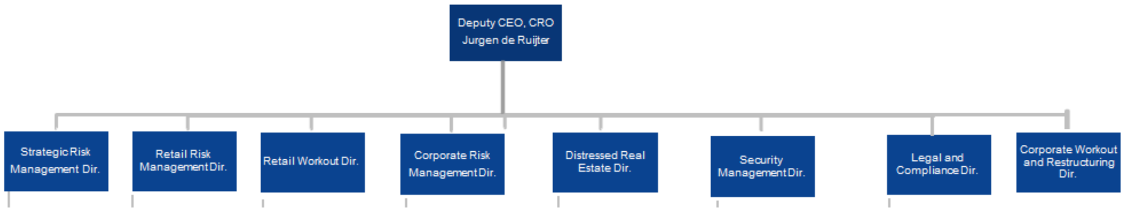
- **Local Operational Risk Committee** (hereinafter LORCO) The objective of Local Operational Risk Committee ("LORCO") is to be a forum for alignments, joint decisions and acknowledgements for the entity's operational risk matters, as well as for the implementation of corrective measures and risk mitigation actions to manage non-financial risk (operational, reputational, compliance, legal, information and communication technology and security risk) in a proactive way.

In addition to the local committees, the CRO of Erste Bank Hungary and the Director of Strategic Risk Department participate regularly in the **Holding Level Committees.** These committees are responsible for adequate coordination and implementation of Group wide risk related actions.

- **Group Enterprise Wide Risk Management Committee**' s members are the subsidiaries' directors of Strategic Risk departments. This Committee is considered as a preliminary decision making forum for the CRO Board in Risk relevant issues.

- **Holding Model Committee** is deciding on risk-related models development and management. This committee is responsible for the coordination and approval of model developments Group wide.

The management board, and in particular Erste Bank Hungary's chief risk officer (CRO), performs the oversight function within the Bank risk management structure. Risk control and risk steering within the Bank are performed based on the business strategy and risk appetite approved by the management board.
The Bank's CRO, working together with the directors of the respective risk departments, is responsible for the implementation and adherence to the risk control and risk management strategies across all risk types and business lines.
At Bank level, the management board and the CRO are both supported by several directorates established to perform operating risk control functions and exercise strategic risk management responsibilities as follows:



Picture 3: Risk Management organization as of 31st December 2015

Strategic Risk Management Directorate

Strategic Risk Management has been established:

- to enable an increased focus on holistic risk management and to drive key strategic cross-risk initiatives;
- to provide comprehensive, cross-risk oversight to further enhance enterprise-wide risk portfolio steering;
- to formulate credit policy and risk strategy and the related reporting and analysis frameworks;
- to contribute to the Bank planning and forecasting by leading the process within risk management;
- to coordinate short-, medium and long-term risk strategy and the forecasting within the ICAAP framework (including the Risk Appetite Statement);
- to conduct stress testing and for proper RWA calculation, the enterprise-wide risk portfolio steering in view of material risks, risk planning and risk input into capital planning.

Retail Risk Management Directorate

The core task of Retail Risk Management is to ensure:

- the oversight and steering for the retail loan portfolios across the Bank;
- the retail lending framework across the lending cycle including portfolio management and early and late collection;
- the standardised reporting requirements, consistent with retail risk management information;
- the analysis of the underlying retail lending portfolio dynamics and related risk mitigation, if required and
- the coordination and execution of the collection activity related to the retail and micro corporate clients including (retail and micro) vehicle, assets loans and leasing deals.

Retail Workout Directorate

The Directorate is assigned with:

- the complete management of primarily loan, leasing and factoring risk-takings within its competence, until risk settlement;
- monitoring the client's financial position and collaterals;
- and developing a special banking strategy for high-priority risk-taking.

Corporate Risk Management Directorate

Corporate Risk Management:

- is the operative risk management function for small, medium-sized and large corporate customers as well as for institutional clients and counterparties;
- ensures that credit and market risk is in line with the risk appetite, risk strategy and pertinent limits set by ERM, taken onto the books of Erste Bank Hungary;
- performs analysis, evaluation of credit risks for large companies, project-, real estate financing and for municipalities;
- makes proposals for credit decision-making and;,
- is also responsible for all operative corporate credit risk as well as market and liquidity risk management responsibilities;
- is optimizing counterparty risks/market risks/ capital requirements;
- ensures validated market data for the valuation of all capital market products as well as;
- guarantees the maintenance and support of all tools used by market risk management.

Corporate Workout and Restructuring Directorate

The Corporate Workout function has responsibility:

- for clients allocated to the business segments that are rated substandard or non-performing or are specifically defined as workout clients;
- to undertake the direct workout management function for corporate workout clients of Erste Bank Hungary;
- for generating enterprise-wide workout policies, the designing of guidelines for the preparation of local workout reports;
- for the Bank-wide collateral management.

Security Management Directorate

This division is assigned:

- _ to manage security issues within the Bank;
- _ to protect and preserve the safety and security of bank personnel and assets (incl. information assets);
- _ to define security standards, quality assurance and the monitoring;
- _ as well as further development of security-related issues at the Bank.

Legal and Compliance Directorate

Legal and Compliance provides:

- _ support for the risk managing activities and counsel for the management board, the business units and the central functions, and mitigates legal risk;
- _ dispute resolution and litigation;
- _ risks related to compliance (which are of legal or regulatory sanctions, material financial loss or loss of reputation) that Erste Bank Hungary might suffer as a result of failure to comply with laws, regulations, rules and standards.

Enterprise-wide risk and capital management

As in prior years, Erste Bank Hungary's risk management framework has been continuously strengthened. In particular, ERM has continued to strengthen its comprehensive framework, including its fundamental pillar the ICAAP.

The Bank's Risk Appetite Statement (RAS hereinafter) expresses the maximum level of risk that the Bank is willing to accept in order to deliver its business objectives by serving as a starting point for the implementation of the risk limit framework. The risk appetite thus provides a meaningful guidance for the planning process, the tolerances for the core risk metrics and key risk principles to manage risks. It sets the boundary for limits & 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.

Portfolio and risk analytics

Erste Bankk Hungary's uses dedicated infrastructure, systems and processes to actively identify, control and manage risks within the scope of the portfolio. Portfolio and risk analytics processes are designed to quantify, qualify and discuss risks in order to raise awareness to management in a timely manner by assessing/examining:

- _ risk materiality,
- _ risk concentration and
- _ regularly conducting stress testing.

The 'Risk Materiality Assessment' is the method necessary to define risk materiality, consequently the Risk profile of Erste Bank Hungary. It is defined as a core part of risk assessment in the Enterprise-wide risk management policy. It is also essential in the ICAAP policy frameworks, as well as an indispensable major instrument for the governing bodies..

Risk-bearing capacity calculation (RCC)

The RCC defines the capital adequacy required by the ICAAP. Within the RCC, all material risks are quantified, aggregated and compared to the coverage potential and the bank's own funds. The integral forecast, the risk appetite limit as well as a traffic light system supports the management in its discussions and decision-making processes. This process represents the starting point of the ICAAP process, as identified material risk types need to be considered in the Risk-bearing Capacity Calculation (RCC). Insights generated by the assessment are used to improve risk management practices and further mitigate risks within EBH. Key outputs and recommendations of the risk materiality assessment are used in the scenario design and selection of the comprehensive and reverse stress tests.

Risk planning and forecasting

The responsibility for risk management within the Bank includes ensuring sound risk planning and forecasting processes, focusing on both portfolio and economic environment changes. The forecasts determined by risk management are the result of close co-operation with all stakeholders in the Bank's overall planning process, and in particular, with Controlling, Finance/Accounting Strategic/Corporate/Retail Risk Management and the ALM by assessing:

- Risk-weighted asset management and
- Capital allocation to entities, business lines and segments.

All insights from the ICAAP and controlling processes is used to allocate capital with a view to risk-return considerations.

The Risk Bearing Capacity defines the capital adequacy required by the ICAAP. Within the RCC, all material risks are quantified, aggregated and compared to the coverage potential and the bank's own funds. The integral forecast, the risk appetite limit as well as a traffic light system supports the management in its discussions and decision-making processes. This process represents the starting point of the ICAAP process, as identified material risk types need to be considered in the Risk-bearing Capacity Calculation (RCC). Insights generated by the assessment are used to improve risk management practices and further mitigate risks within EBH. Key outputs and recommendations of the risk materiality assessment are used in the scenario design and selection of the comprehensive and reverse stress tests.

Recovery and resolution plans

In compliance with the Hpt. 114.§ Erste Bank Hungary is required to draw up a recovery plan for potential crisis situations. In 2015 an updated Recovery Plan was submitted to the Regulator by the Bank. The Recovery Plan identifies options for restoring financial strength and viability if Erste Bank Hungary comes under severe economic stress. The plan specifies potential options for the replenishment of capital and liquidity resources of the bank in order to cope with a range of scenarios including both idiosyncratic and market-wide stress.

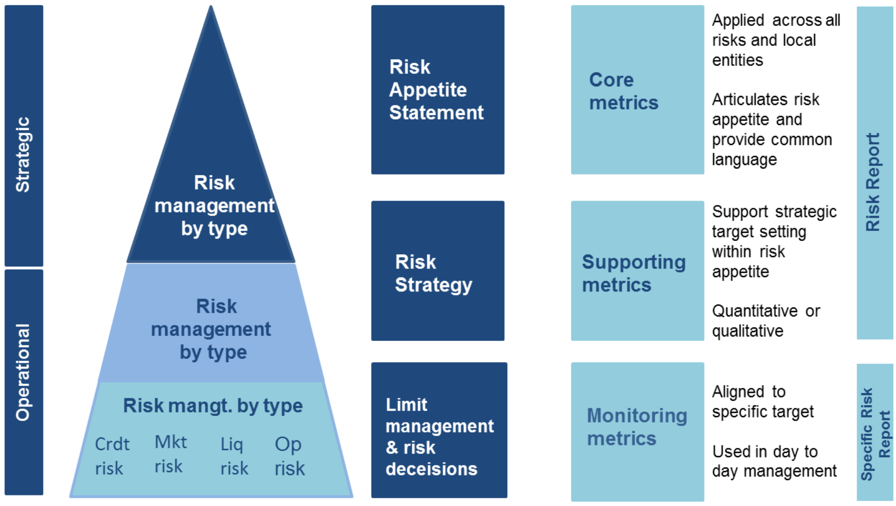
Risk monitoring and reporting systems

The Bank's units in charge of risk management are separated from the business units within the organization. However, the cooperation of these professional units and the managerial reporting system ensures that management is provided with a comprehensive view of the Bank's risk position at all times.

In relation to its risk position, the Bank regularly prepares reports about its risk exposure for discussion and approval for decision-making bodies and committees: for the Board of Directors, for the Managing Board, for the Supervisory Board, for the local Risk Governance Committee as well as for the local Risk Committees.

The reporting system operated by the Bank includes among others the following (monthly and/or quarterly) reports in general:

- portfolio quality,
- capital position and risk bearing capacity/solvency scenarios/results of comprehensive Stress Testing under Pillar 1 and Pillar 2,
- monitoring and pricing of specific risks,
- rating systems analyses,
- financial statements relating to the liquidity and market risk profile and to the Recovery Plan,
- as well as remuneration vs. risk policies.



Picture 4: Risk assessment at Erste Bank Hungary as of 31st of December 2015

In 2015 the Board of Directors had discussed many in-depth the monthly, quarterly scheduled risk reports and the Basel III reporting requirements. Timing and structure of some reports have been reviewed and streamlined reflecting the demands of senior management and the Supervisory Board.

Supervisory Board

- is regularly informed about the risk management related issues and developments;
- supervises the framework of risk management, as well as the ICAAP framework, and
- if necessary it initiates the necessary actions.

Board of Directors

- regularly inquiries about the trends in the Bank's portfolio by law or by internal governance framework;.
- evaluates monthly reports of risk positions, capital requirements and capital adequacy developments on the basis of limits (for example credit, concentration, sectoral concentration, and liquidity concentration risk) determined for the individual exposure types;
- it regularly measures and assesses the extent of its risk exposures, and makes proposals for the required actions.

Risk Governance Committee

The Committee held 4 meetings in 2015 at which its regular standing agenda reviewed reports on risk management matters such as:

- the quarterly ICAAP results, including the solvency development of Erste Bank Hungary's partial group under Pillar 1 and Pillar 2 and the quarterly comprehensive stress testing scenarios and results;
- concentration risk assessment, RAS monitoring and the retail scorecard performance reports;
- the Recovery Plan update for 2015, the consistency analyses of risk policies and pricing concept;
- as well as changes in the key risk management framework.

Material Risks and hedging policies

At Erste Bank Hungary, the risk materiality assessment is performed for all risk types to which a credit institution may be exposed. This Disclosure Report presents the qualitative and quantitative features of the following material risk types in detail:

- Credit risks,
- Market and counterparty risk,
- Liquidity risk,
- Operational risk,
- Macroeconomic risk,

- and Concentration risk.

These risks from banking operations are discussed in detail within the scope of the supervisory regulations in later chapters of this report. Liquidity, Macroeconomic and Concentration risk is presented in Chapter ‘Other Risks’. In the CRR, reputational risk and business risks are not discussed in detail.

SCOPE OF APPLICATION

Disclosure requirements covered: ART, 436 (b) CRR and 492 CRR

Regulatory requirements (CRR) and accounting principles at Erste Bank Hungary

Regulatory Requirements

Since 1 January 2014, Erste Bank Hungary has been calculating the regulatory capital and the regulatory capital requirements according to Basel III. All requirements as defined in the CRR, the Hpt and the aforementioned technical standards are fully applied by Erste Bank Hungary for regulatory purposes and for the disclosure of regulatory information.

Accounting Principles

The financial and regulatory figures published by Erste Bank Hungary are based on Hungarian Accounting Standards for Bank standalone view (hereinafter HAS) and on the International Financial and Reporting Standards for local consolidated or sub consolidated view adapted by the European Union (hereinafter IFRS).

Regulatory capital components are derived from the balance sheet and income statement which have been prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scopes of consolidation in the next chapter, 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 Erste Bank Hungary is 31 December of each respective year.

Comparison of consolidation for accounting purposes and regulatory purposes

The financial scope of consolidation is used to describe the scope of consolidation required by IFRS, which are applicable to the financial statements of the Bank.
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 by the Hpt. (which introduced the requirements of the CRD IV into national law).

Erste Leasing Bérlet Szolgáltató Kft., a fully owned subsidiary of Erste Bank Hungary, was excluded from the ‘regulatory scope of consolidation’, because the regulatory treatment is not equal to the accounting requirements. (Its activity is classified as ‘other institution’ by the National Bank of Hungary.)

Breakdown information is shown on solo Bank level, consolidation is indicated where applicable in this Disclosure.

Name	Scope of consolidation	Financial scope of consolidation	Regulatory scope of consolidation
ERSTE Lakás-Takarékpénztár Zrt.	full	yes	yes
ERSTE Befektetési Zrt.	full	yes	yes
ERSTE Lakáslízing Zrt.	full	yes	yes
Collat-real Kft.	full	yes	yes
ERSTE Ingatlan Fejlesztő, Hasznosító és Mérnöki Kft.	full	yes	yes
Sió Ingatlan Invest Kft.	full	yes	yes
ERSTE IN-FORG Kft.	full	yes	yes
ERSTE Leasing Bérlet Szolgáltató Kft." no activity due to dissolution proceeding	full	yes	no
Erste Jelzálogbank Zrt.	full	yes	from 2016

Table 6: Art. 436 (b) CRR: Companies in the scope of consolidation as of 31 December 2015

Accounting Scope of consolidation

The relevant scope of consolidation for the financial statements of Erste Bank Hungary includes the parent company, Erste Bank Hungary and its fully owned subsidiaries as seen above.

Regulatory scope of consolidation

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

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

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

- Based on the CRR and IFRS, 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 scope of consolidation. In contrast, under IFRS all other entities not required to be consolidated under CRR, such as insurance undertakings, must be included in the financial scope of consolidation.
- Exclusion of entities from the regulatory scope of consolidation can be practical 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 of either EUR 10 mn or 1% of the total amount and off-balance sheet items of the parent company. Erste Bank Hungary does not make 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 the prior approval of the competent authorities. Erste Bank Hungary does not apply Article 19 (2) CRR .
- Erste Bank Hungary's scope of consolidation according to IFRS is also disclosed in the IFRS Consolidated Financial Statements, available on the Bank's website: (http://www.erstebank.hu/hu/bankunkrol/erste-bank-hungary-zrt/eves-jelentesek)..

OWN FUNDS

Disclosure requirements covered: Art. 436 e), 437 and 438 CRR

The Bank declares that there is no obstacle to the transfer of the regulatory capital and repayment of liabilities in all those credit institutions, financial enterprises, investment enterprises, investment fund management companies and secondary enterprises where it holds controlling influence or participation.

The Bank declares, the Bank has no subsidiary that is not involved in the scope of consolidated supervision and the regulatory capital of the subsidiary would not reach the statutory capital requirement of the country where it is seated.

For the disclosure of own funds, Erste Bank Hungary follows the requirements under Article 437 CRR as well as the requirements defined in the Implementing Technical Standards (EU) No 1423/2013.
Based on the requirements defined by the EBA in the Implementing Technical Standards, the following information must be provided:

- A full reconciliation of CET1 items, Additional Tier 1 (AT1) items, Tier 2 (T2) items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution's balance sheet in the audited financial statements in accordance with Article 437 (1) (a) CRR.
- A description of the main features of the CET1, AT1 and T2 instruments issued by the institution according to Article 437 (1) (b) CRR.
- A table designed by the EBA to show the capital structure of regulatory capital. Presentation of this table that shows the details on the capital structure of Erste Bank Hungary including the capital components as well as the prudential filters.

External changes affecting the Bank's risk profile

Major changes in legal environment of financial institutions

A detailed breakdown of the regulatory changes affecting the Bank's risk assessment in 2015 are shown in the Consolidated Financial Statements on Erste Bank Hungary' s website: http://www.erstebank.hu/hu/bankunkrol/erste-bank-hungary-zrt/eves-jelentesek.

Legislative measures both in 2014 and in 2015 expanded the scope of FX denominated mortgage loans conversion to HUF:

- Conversion law of 2014,
- Curia law of 2014:XXXVIII (passed July 2014),
- Settlement law of 2014:XL (passed September 2014) and the
- FX car loan, financial leasing and unsecured loan conversion law CXLV of 2015.

FX unsecured loans (personal and car loans) were to be converted to HUF on 1st of December 2015, at the latest. **The effective settlement and conversion date was 1st of February 2016.** The difference between the rate defined by the accounting policies (National Bank rate) and the rate fixed by the Conversion Law is calculated and presented in 2015.
In 2015 a six-month monitoring period was applied for performing clients and twelve months for defaulted clients to assess their new payment behaviour. As a consequence of the applied monitoring period the improvement of the performing portfolio structure was realized in 2015. The upgrades from defaults are expected to be realized in 2016. Both are presented in Erste Bank Hungary's financial statement as of 31st of December 2015 under the name of 'FX settlement loss'.

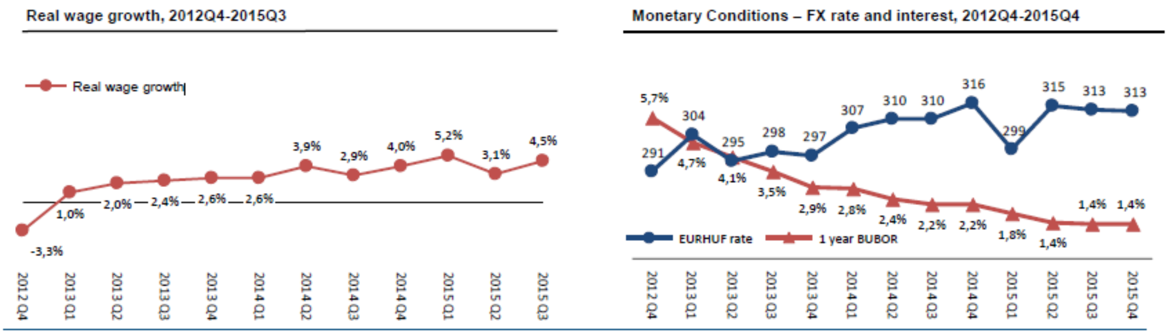
Other regulatory changes affecting the Bank:

- Quaestor law - Act CCIV of 2015 was accepted on 15 December, 2015, resulting in additional burdens on the banking sector from 1st of January 2016 (increase of Investor Protection Fund and Deposit Protection Fund contributions, contribution to Quaestor Resolution Fund – Erste's additional burden will be around HUF 1.2 bn yearly).
- Banking Tax based on the new legislation the total asset of 2009 remains the base of the banking tax and the rate will decrease from the current 53 bps to 24 bps starting from 2016.
- IFRS 9 impact **–** Change to IFRS 9 will have an effect on provision stock, starting from 2018.
- SME lending – The MNB launched a new program to help phase out the Funding for Growth Scheme (NHP) and simultaneously boost market-based lending for SMEs.
- CSOK - Government Decree No. 17/2016. (10 February) on public grants available to families for the purchase or extension of used flat.
- Creating countercyclical capital buffer Decree No. 57/2015 (22 December) by the Central Bank of Hungary on the conditions of creating a countercyclical capital buffer and the level of the countercyclical capital buffer rate.

Local macroeconomics developments affecting the Bank's risk profile

GDP growth (2,9% based y/y) was driven by growth in industrial production and in services on the production side, meanwhile household consumption and external trade being the primary and secondary driving factors on the consumption side.

- In terms of retail portfolio risks both the steady fall in unemployment rate and the steady upsurge in real wage growth were favourable news.
- The HUF soothed around 310 against the EUR after the FX conversion.



Picture 5: Real wage growth and monetary conditions (Source: HCSO and MNB)

On 6th of January 2016 the central bank of Hungary announced:

- that the utilization of the Growth Scheme in the second phase in 2015 exceeded the amount observed in the previous year by HUF 227 billion; the year-end jump in utilization can be attributed in part to the fact that the second phase completed at the end of 2015 and
- that certain loan purposes are not eligible in the third phase starting in 2016.

Balance sheet

The table below represents the difference between the consolidated (IFRS) and regulatory consolidation (CRR) of Erste Bank Hungary's audited balance sheet.

Balance Sheet – mn HUF	Subconsolidated view (IFRS)	Regulatory consolidation (CRR)	Differences (CRR-IFRS)
Assets			
Cash and cash balances with central bank	111,869	111,869	0
Financial assets - held for trading	68,880	68,880	0
Derivatives	10,846	10,846	0

Other trading assets	58,034	58,034	0
Financial assets - available for sale	89,555	93,557	-4,002
Financial assets - held to maturity	294,731	294,731	0
Loans and receivables to credit institutions	278,436	274,588	3,848
Loans and receivables to customers	1,006,602	1,006,601	1
Property and equipment	8,590	8,590	0
Investment properties	10,926	10,926	0
Intangible assets	13,041	13,041	0
Current tax assets	892	878	14
Deferred tax assets	122	122	0
Assets held for sale	26	-	0
Other assets	40,496	40,521	-25
Total assets	**1,924,166**	**1,924,302**	**-136**
Liabilities and equity			0
Financial liabilities - held for trading	20,630	20,630	0
Derivatives	20,566	20,566	0
Other trading liabilities	64	64	0
Financial liabilities measured at amortised cost	1,712,781	1,712,975	-194
Deposits from banks	426,805	426,805	0
Deposits from customers	1,262,093	1,262,287	-194
Debt securities issued	23,883	23,883	0
Provisions	9,846	9,846	0
Current tax liabilities	13	13	0
Deferred tax liabilities	874	874	0
Other liabilities	19,754	19,736	18
Total equity	160,268	160,229	39
Equity attributable to owners of the parent	160,268	160,229	39
Total liabilities and equity	**1,924,166**	**1,924,302**	**39**

Table 7: The differences between the consolidated (IFRS) and regulatory consolidation (CRR) of Erste Bank Hungary's audited balance sheet as of 31 December 2015

Transitional Provision

For the calculation of the transitional provisions, Erste Bank Hungary follows the requirements under 10/2014 MNB decree as well as EBA Guidelines.

Own Funds Template

The IFRS balance sheet items provide a basis to CET1 items, AT1 items, T2 items, prudential deductions were not applied.

Own funds under Basel 3 consist of CET1, AT1 and T2. In order to determine the capital ratios, each respective capital component is compared to the total risk. The minimum capital requirement for Tier 1 capital (CET1 plus AT1) and for total own funds were 6% and 8%, respectively.

	Own Funds million HUF as of 31st of December 2015	(A) AMOUNT AT DISCLOSURE DATE		(B) Regulation (EU) No 575/2013
		Bank only	Full Consolidated	Article reference
Common equity Tier 1 (CET1) capital: instruments and reserves in mn HUF				
1	Capital instruments and the related share premium accounts	185 493	185 493	26 (1), 27, 28, 29, EBA list 26 (3)
	of which: 1. instrument type	102 000	102 000	EBA list 26 (3)

	of which: 2. instrument type	83 493	83 493	
	of which: 3. instrument type	0	0	
2	Retained earnings	0,3	-6 197	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	-831	2 937	26 (1)
3a	Funds for general banking risk	0	0	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1.	0	0	486 (2)
	Public sector capital injections grandfathered until 1 January 2018	0	0	483 (2)
5	Minority interests (amount allowed in consolidated CET1)	0	0	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0	0	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**184 663**	**182 233**	

Common Equity Tier 1 (CET1) capital: regulatory adjustments mn HUF

7	Additional value adjustments (negative amount)	-152	-156	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-11 160	-13 041	36 (1) (b), 37, 472 (4)
9	Empty set in the EU	0	0	
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)	0	0	36 (1) (c), 38, 472 (5)
11	Fair value reserves related to gains or losses on cash flow hedges	961	961	33 (a)
12	Negative amounts resulting from the calculation of expected loss amounts	-9 970	-1 577	36 (1) (d), 40, 159, 472 (6)
13	Any increase in equity that results from securitised assets (negative amount)	0	0	32 (1)
14	Gain or losses on liabilities valued at fair value resulting from changes in own credit standing	-135	-135	33 (b)
15	Defined-benefit pension fund assets (negative amount)	0	0	36 (1) (e), 41, 472 (7)
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	0	0	36 (1) (f), 42, 472 (8)

17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entites have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	0	36 (1) (g), 44, 472 (9)
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 postitions) (negative amount)	0	0	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)
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 postitions) (negative amount)	0	0	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)
20	Empty set in the EU	0	0	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0	0	36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount)	0	0	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)	0	0	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)	0	0	36 (1) (k) (iii), 379 (3)
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)	0	0	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
22	Amount exceeding the 15% threshold (negative amount)	0	0	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0	0	36 (1) (i), 48 (1) (b), 470, 472 (11)
24	Empty set in the EU	0	0	
25	of which: deferred tax assets arising from temporary differences	0	0	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
25a	Losses for the current financial year (negative amount)	-20 456	-22 004	36 (1) (a), 472 (3)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0	0	36 (1) (l)
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	24 873	19 635	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-78	-2 339	

	of which: …….. Filter for unrealised loss 1	0	0	467
	of which: …….. Filter for unrealised loss 2	0	0	468
	of which: …….. Filter for unrealised gain 1	-78	-2 339	
	of which: …….. Filter for unrealised gain 2	0	0	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	24 951	21 974	481
	of which: ...	0	0	
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-21 960	-21 501	36 (1) (j)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-37 998	-37 818	
29	Common Equity Tier 1 (CET1) capital	**146 664**	**144 415**	

Additional Tier 1 (AT1) capital: instruments in mn HUF				
30	Capital instruments and the related share premium accounts	0	0	51, 52
31	of which: classified as equity under applicable accounting standards	0	0	
32	of which: classified as liabilities under applicable accounting standards	0	0	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	0	0	486 (3)
	Public sector capital injections grandfathered until 1 January 2018	0	0	483 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	0	0	9 5, 86, 480
35	of which: instruments issued by subsidiaries subject to phase out	0	0	486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**0**	**0**	
Additional Tier 1 (AT1) capital: regulatory adjustments in mn HUF				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	0	0	52 (1) (b), 56 (a), 57, 475 (2)

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)	0	0	56 (b), 58, 475 (3)
39	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	0	56 (c), 59, 60, 79, 475 (4)
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)	0	0	56 (d), 59, 79, 475 (4)
41	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-21 960	-21 501	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	0	0	472, 473 (3)(a), 472 (4), 472 (6), 472 (8)(a), 472 (9), 472 (10)(a), 472 (11) (a)
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to excepted losses tec.	0	0	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-21 960	-21 501	477, 477 (3), 477 (4)(a)
	Of which items to be detailed line by line, e.g. Reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities etc.	0	0	
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deduction required pre-CRR	0	0	467, 468, 481
	of which: ... Possible filter for unrealised losses	0	0	
	of which: ... Possible filter for unrealised gains	0	0	
	of which: ...	0	0	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	21 960	21 501	56 (e)
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	0	
44	**Additional Tier 1 (AT1) capital**	**0**	**0**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**146 664**	**144 415**	
Tier 2 (T2) capital: instruments and provisions in mn HUF				
46	Capital instruments and the related share premium accounts	131 064	131 064	62, 63

47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	0	0	486 (4)
	Public sector capital injections grandfathered until 1 January 2018	0	0	483 (4)
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	0	0	87, 88, 480
49	of which: instruments issued by subsidiaries subject to phase out	0	0	486 (4)
50	Credit risk adjustments	6 197	5 818	62 (c) (d)
51	**Tier 2 capital before regulatory adjustments**	**137 261**	**136 882**	

Tier 2 (T2) capital: regulatory adjustments in mn HUF

52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0	0	63 (b) (i), 66 (a), 67, 477 (2)
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	0	66 (b), 68, 477 (3)
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)	0	0	66 (c), 69, 70, 79, 477 (4)
54a	of which: new holdings not subject to transitional arrangements	0	0	
54b	of which holdings existing before 1 January 2013 and subject to transitional arrangements	0	0	
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)	0	0	66 (d), 69, 79, 477 (4)
56	Regulatory adjustments applied to additional tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-2 991	-473	

56a	Residual amounts deducted from Additional Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-2 991	-473	472, 472 (3)(a), 472 (4), 472 (6), 472(8), 472 (9), 472 (10)(a), 472 (11) (a)
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to excepted losses tec.	-2 991	-473	
56b	Residual amounts deducted from Additional Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0	0	475, 475 (2) (a), 475 (3), 475 (4) (a)
	Of which items to be detailed line by line, e.g. Reciprocal cross holdings in AT1 instruments, direct holdings of non-significant investments in the capital of other financial sector entities etc.	0	0	
56c	Amount to be deducted from or added to Additional Tier 2 capital with regard to additional filters and deduction required pre-CRR	0	0	467, 468, 481
	of which: ... Possible filter for unrealised losses	0	0	
	of which: ... Possible filter for unrealised gains	0	0	
	of which: ...	0	0	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-2 991**	**-473**	
58	**Tier 2 (T2) capital**	**134 270**	**136 409**	
59	**Total capital (TC = T1 + T2)**	**280 935**	**280 823**	
59a	RWAs in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	0	0	
	of which... Items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	0	0	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)
	of which... Items not deducted from AT1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities etc.)	0	0	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)

	of which... Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of the other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	0	0	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)
60	**Total risk weighted assets**	**1 319 415**	**1 299 408**	

Capital ratios and buffers as percentage

61	Common Equity Tier 1 (as a percentage ot total risk exposure amount)	11,12	11,11	92 (2) (a), 465
62	Tier 1 (as a percentage ot total risk exposure amount)	11,12	11,11	92 (2) (b), 465
63	Total capital (as a percentage ot total risk exposure amount)	21,29	21,61	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	0	0	CRD 128, 129, 140
65	of which: capital conservation buffer requirement	0	0	
66	of which: countercyclical buffer requirement	0	0	
67	of which: systemic risk buffer requirement	0	0	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0	0	CRD 131
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	0	0	CRD 128
69	[non relevance in EU regulation]	0	0	
70	[non relevance in EU regulation]	0	0	
71	[non relevance in EU regulation]	0	0	

Amounts below the thresholds for deduction (before risk weighting) in mn HUF

72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	784	784	36 (1)(h), 45, 46, 472 (10), 56(c), 59, 60, 475 (4), 66(c), 69, 70, 477(4)
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0	0	36 (1) (i), 45, 48, 470, 472 (11)
74	Empty set in the EU	0	0	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	0	0	36 (1) (c), 38, 48, 470, 472 (5)

Applicable caps on the inclusion of provison in Tier 2 in mn HUF

76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0	0	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	0	0	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	30 882	17 520	62
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	6 197	5 818	62

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	0	0	484 (3), 486 (2) & (5)
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	0	484 (3), 486 (2) & (5)
82	- Current cap on AT1 instruments subject to phase out arrangements	0	0	484 (4), 486 (3) & (5)
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0	0	484 (4), 486 (3) & (5)
84	- Current cap on T2 instruments subject to phase out arrangements	0	0	484 (5), 486 (4) & (5)
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	0	484 (5), 486 (4) & (5)

Table 9: Art. 437 CRR: Own Founds Template as of 31st of December 2015

CAPITAL REQUIREMENTS

Disclosure requirements covered: Art. 438, 440, 451 CRR

Capital Requirements

According to the Joint Decision from 1st April 2008, the Bank calculates its capital requirement as an IRB bank. It annually performs validation of the credit risk models according to the applicable regulations.

From 1st January 2014, the bank calculates the capital requirement according to the 'Basel III' provisions, i.e. the provisions of CRDIV/CRR and Hpt. The eligible qualifying capital must be available at least in the amount of the sum of the minimum capital requirements.

The capital situation of the bank is stable. The capital structure exceeds the minimum requirements set out in the CRR. The consolidated solvency ratio was at 21.6% on 31st December 2015, which is significantly above the regulatory minimum.

Based on the business activities of Erste Bank Hungary, the capital requirements for credit risk, market risk, operational risk, High-Risk portfolio, for FX-induced credit risk and for business risk are the following:

ICAAP Risk exposure review (Pillar II)	
Consolidated view	
	mn (HUF)
Risk Type	
Credit Risk	105 449
Market Risk	28 570
Operational Risk	14 269
High-Risk Portfolio	4 018
FX-Induced credit risk	22
Business Risk	8356

Table 10: Art. 438 CRR: Risk Exposure review as of 31 December 2015

Business risk is defined as the unexpected deviation from the expected operating result which can be driven by unexpected behaviour of competitors, customers, investors and other third parties. Profit changes stemming from macroeconomic downturn are assessed under the subsection Macroeconomic risk (and not business). Some of the risk types are the supervisory requirements of the central Bank of Hungary.

Principles and objectives for the internal capital adequacy assessment process (ICAAP)

ICAAP aims at assessing the capital amount required to cover the risks assumed and borne by the institution by:

- the risk strategy and Risk Appetite Statement (RAS),
- by Risk Bearing Capacity (RCC) and by the Risk Materiality Assessment (RMA) process.

The amounts presented in the following tables are the Bank's own calculations.

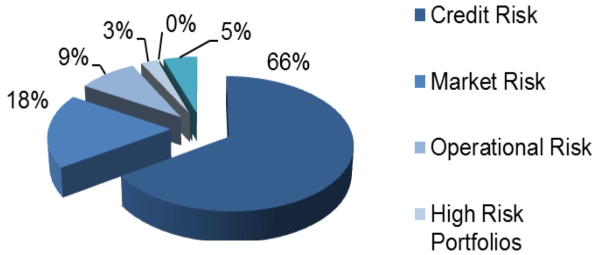
Risk Bearing Capacity Calculation in (million HUF)	
Consolidated view	
Coverage potential	277 300
Economic capital requirement	
EC/CP	160 684
EXCESS	**116 568**

Table 11: Risk bearing capacity calculation as of 31st of December 2015

ICAAP (Internal Capital Adequacy Assessment Process) is a procedure ensuring that the Bank can

Table 11: Risk bearing capacity calculation as of 31st of December 2015

- adequately identify, measure, sum up and monitor the risks;
- have appropriate capital coverage to secure the material risks as determined in line with its internal rules;
- operate an adequate system of risk management, and develop that system continuously with respect to the identified risk factors.



5. picture: Economic Capital Allocation as of 31st of December 2015

A fundamental objective of the Bank is to implement its strategic objectives by driving prudent and risk-conscious operations.

Organization

The Bank's risk assumption principles and the degree of its risk appetite are approved within the scope of the competence of the Board of Directors, though it is ICAAP governance operated as a part of internal management that ensures that the requirements described in the context of the Bank's risk appetite should be enforced in the actual operating activities, while the trends in the risk appetite and portfolio should be regularly monitored and reported to the Board of Directors in the form of feedbacks.

Strategic Risk Management Directorate is responsible for the operation of the ICAAP framework system. When determining the internal capital requirements, in order to recognize risks more accurately, the Bank may apply parameters that are different from the regulatory ones used in Pillar 1 for certain portfolios.

Risk monitoring and reporting

Regular monitoring of the Bank's capital requirement and the capital available for covering risks gives sufficient time to the management to take the necessary measures and intervene in a timely manner towards the mitigation of risks, thereby ensuring the prudent operation of the Bank.

The Board of Directors, the Managing Board, the Risk Governance Committee and the Supervisory Board all receive quarterly reports regarding the ICAAP framework covered risks, and the previous as well as future developments of both the Pillar I and II capital situation.

The Corporate Risk Committee have the following ICAAP related tasks:

- monitoring the changes in external and internal risk regulations, identifying the impacts on the business activities, capital adequacy and regulatory compliance of the bank, including the ICAAP requirement;
- decision on non-retail PD, LGD, CCF models and parameters;
- decision on Expected Risk Margin Matrix used for pricing;
- contributing to the ICAAP tasks with input, inquires and discusses on topics related to the corporate portfolio, especially:
  - contributing to discussion about the Risk Materiality Assessment and Concentration risk analysis;
  - contributing to the stress test scenario selection;
  - contributing to the Risk Based planning and forecasting related to the corporate portfolio, further it is informed about the overall Budget risk base case;
  - contributing to the discussion around portfolio-level Risk Limits and Targets that are broken down from the risk strategy.

The Retail Risk Committee's has the following ICAAP related tasks:

- decision on retail PD, LGD, CCF models, and parameters;
- decision on cut-off for existing scorecards;
- decision on risk margin per products (sub-products) to be considered in pricing;

_ contribution to the ICAAP ramework with inputs, inquires and discussion on topics related to the retail portfolio,
  - contributing to discussion about the Risk Materiality Assessment and to the Concentration risk analysis;
  - contributing to the stress test scenario selection;
  - contributing to the Risk Based planning and forecasting related to the retail portfolio, further it is informed about the overall Budget risk base case;
  - contributing to the discussion around portfolio-level Risk Limits and Targets that are broken down from the risk strategy.

The Asset Liability Committee has the following ICAAP related tasks:

_ contribution to the ICAAP framework with input, inquires and discussion on topics related to the overall portfolio,
  - contributing to discussion about the Risk Materiality Assessment and to the Concentration risk analysis;
  - contributing to the Risk Based planning and forecasting related to the overall portfolio, further it is informed about the overall Budget risk base case;
  - contributing to the discussion around portfolio-level Risk Limits and Targets that are broken down from the risk strategy;
  - contributing to the discussion about the capital situation of the Bank.

The Local Operation Risk Committee has the following ICAAP related tasks:

- establishing, implementing and maintaining relevant entity-level methodologies and risk management standards;
- identifying, assessing, managing and reducing non-financial risk exposures;
- providing advisory opinions to strategic decisions;
- supervising non-financial risks and risk mitigation;
- reviewing, investigating and controling relevant risks and issues.

Leverage

The bank discloses the value of consolidated leverage ratio according to section b), paragraph (1), article 451 of CRR, which developments are regularly reported to the top management on a quarterly basis.

Erste Bank Hungary’s leverage ratio follows the currently developing regulatory requirement intended to put a floor under the build-up of leverage in the banking sector**.** The Bank aims to operate at a level (target ratio of 4%) comfortably above the Basel III regulatory requirement (currently 3%). The final regulation on the calculation of the leverage ratio is still in progress. The finalisation of the definition and calibration is expected to be closed in 2017. In order to comply with the current requirements of disclosures, the Bank has been publishing the related figures since 1st January 2015.

The Bank discloses according to CRR 451 e), that the Bank made a significant increase to its Tier 1 capital in August 2014, which – in combination with the slight decrease of the balance sheet total in 2015 – ensured a permanently favourable level of the leverage ratio, above both regulatory and internally acceptable levels.

The processes used to manage the risk of excessive leverage are regulated by internal policies. Capital targets are set as part of the strategic planning process. While the medium- to long-term strategic plan provides high-level guidance on desired capital levels, the annual risk appetite statement sets concrete triggers and limits for selected capital metrics (e.g. CET1 ratio, Own funds ratio, leverage ratio). In the target setting process, the top-down analysis considering the external stakeholder view is the primary determinant of capital targets, while the bottom-up analysis is used to validate the initial targets. The analysis is undertaken with respect to not only total capital, but also considers important sub-components, e.g. the CET1 ratio. A similar process is also used to set targets for the leverage ratio (CRR 451 d).

Leverage ratio calculation Consolidated view	mn HUF
Total assets after adjustments	**1 916 793**
Exposures of securities-financing transaction (CRR Article 220.)	26 970
Exposures of securities-financing transaction (CRR Article 222.)	-
Derivatives: market value	28 237
Derivatives: mark-to-market method	9 238
Derivatives: original exposure method	-
Undrawn credit facilities, which may be cancelled unconditionally at any time without notice	6 582
Medium/low risk trade finance related off-balance sheet items	4 704
Medium risk trade finance related off-balance sheet items and medium risk officially supported export credits related off-balance sheet items	60 528
Other off-balance assets	6 507
Other Assets	1 774 026
Tier 1 capital - phase-in	**144 415**
Capital ajdustments	- 15 814
Leverage ratio - Tier 1 phase-in view	**7,6%**

Table 12: Leverage ratio calculation according to Art. 451 CRR

Capital instruments main features template											
Issuer	Erste Bank Hungary Zrt	Erste Bank Hungary Zrt	Erste Bank Hungary Zrt	Erste Bank Hungary Zrt	Erste Bank Hungary Zrt	Erste Bank Hungary Zrt	Erste Bank Hungary Zrt	Erste Bank Hungary Zrt	Erste Bank Hungary Zrt	Erste Bank Hungary Zrt	Erste Bank Hungary Zrt
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)		HU0000343470	HU0000343777	HU0000354493	MM0000000133	MM0000000136	MM0000000201	MM0000000223	MM0000005428	MM0000007650	MM0000006689
Governing law(s) of the instrument	2006. évi IV. törvény	Act CXX of 2001 on Capital market	Act CXX of 2001 on Capital market	Act CXX of 2001 on Capital market	Act CCXXXVII of 2013 (Hpt)	Act CCXXXVII of 2013 (Hpt)	Act CCXXXVII of 2013 (Hpt)	Act CCXXXVII of 2013 (Hpt)	Act CCXXXVII of 2013 (Hpt)	Act CCXXXVII of 2013 (Hpt)	Act CCXXXVII of 2013 (Hpt)
Regulatory treatment											
Transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
Post-transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo and (Sub-) consolidated	Solo and (Sub-) consolidated	Solo and (Sub-) consolidated	Solo and (Sub-) consolidated	Solo and (Sub-) consolidated	Solo and (Sub-) consolidated	Solo and (Sub-) consolidated	Solo and (Sub-) consolidated	Solo and (Sub-) consolidated	Solo and (Sub-) consolidated	Solo and (Sub-) consolidated
Instrument type (types to be specified by each jurisdiction)	Art. 28. of CRR	Art. 62. of CRR	Art. 62. of CRR	Art. 62. of CRR	Art. 62. of CRR	Art. 62. of CRR	Art. 62. of CRR	Art. 62. of CRR	Art. 62. of CRR	Art. 62. of CRR	Art. 62. of CRR
Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	185493158255 HUF	383146774 HUF	315480745 HUF	1673073792 HUF	10019840000 HUF	21292160000 HUF	19726560000 HUF	16595360000 HUF	9393600000 HUF	40705600000 HUF	10959200000 HUF
CURRENCY of ISSUE	HUF	HUF	HUF	HUF	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Nominal amount of instrument	102000000000 HUF	389330000 HUF	473740000 HUF	3351510000 HUF	32000000 EUR	68000000 EUR	63000000 EUR	53000000 EUR	30000000 EUR	130000000 EUR	35000000 EUR
Issue price	-	100,00	100,00	49,92	100,00	100,00	100,00	100,00	100,00	100,00	100,00
Redemption price (min. Redemption price)	-	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00
Accounting classification	Equity	Liabilities at amortised cost	Liabilities at amortised cost	Liabilities at amortised cost	Liabilities at amortised cost	Liabilities at amortised cost	Liabilities at amortised cost	Liabilities at amortised cost	Liabilities at amortised cost	Liabilities at amortised cost	Liabilities at amortised cost
Original date of issuance	-	2008.12.01	2009.04.30	2014.03.28	2008.12.30	2009.03.27	2012.03.14	2012.12.20	2014.03.28	2014.09.30	2014.06.30
Perpetual or dated	Perpetual	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated
Original maturity date	-	2020.12.01	2019.04.30	2024.03.28	2021.09.30	2021.09.30	2021.09.30	2021.09.30	2021.03.26	2021.09.30	2021.06.30
Issuer call subject to prior supervisory approval	-	No	No	No	No	No	No	No	No	No	No
Optional call date, contingent call dates and redemption amount (s. 9b)	-	-	-	-	-	-	-	-	-	-	-
Subsequent call dates, if applicable	-	-	-	-	-	-	-	-	-	-	-
Coupons / dividends											
Fixed or floating dividend/coupon	-	Fixed	Fixed	Fixed	Floating	Floating	Floating	Floating	Floating	Floating	Floating
Coupon rate and any related index	-	6.88%	8.19%	0,90%	EUR3MT + 198 spread	EUR3MT + 198 spread	EUR3MT + 198 spread	EUR3MT + 198 spread	EUR3MT + 255 spread	EUR3MT + 198 spread	EUR3MT + 250 spread
Existence of a dividend stopper	-	No	No	No	No	No	No	No	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	-	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	-	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
Existence of step up or other incentive to redeem	-	No	No	No	No	No	No	No	No	No	No
Noncumulative or cumulative	-	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	-	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger(s)	-	-	-	-	-	-	-	-	-	-	-
If convertible, fully or partially	-	-	-	-	-	-	-	-	-	-	-

If convertible, conversion rate	-	-	-	-	-	-	-	-	-	-	-
If convertible, mandatory or optional conversion	-	-	-	-	-	-	-	-	-	-	-
If convertible, specify instrument type convertible into	-	-	-	-	-	-	-	-	-	-	-
If convertible, specify issuer of instrument it converts into	-	-	-	-	-	-	-	-	-	-	-
Write-down features	-	No	No	No	No	No	No	No	No	No	No
If write-down, write-down trigger(s)	-	-	-	-	-	-	-	-	-	-	-
If write-down, full or partial	-	-	-	-	-	-	-	-	-	-	-
If write-down, permanent or temporary	-	-	-	-	-	-	-	-	-	-	-
If temporary write-down, description of write-up mechanism	-	-	-	-	-	-	-	-	-	-	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	-	-	-	-	-	-	-	-	-	-	-
Non-compliant transitioned features	-	No	No	No	No	No	No	No	No	No	No
If yes, specify non-compliant features	-	-	-	-	-	-	-	-	-	-	-

Table 13: Capital Instruments Own Funds template as of 31st of December 2015

CAPITAL REQUIREMENTS

mn HUF

31st of December 2015

Hierarchy	Name	'Bank only' view	Consolidated view
1,	TOTAL RISK EXPOSURE AMOUNT	1 319 415 144 120	1 299 408 287 840
1.	Of which: Investment firms under Article 90 paragraph 2 and Article 93 of CRR	0	0
1.	Of which: Investment firms under Article 91 paragraph 1 and 2 and Article 92 of CRR	0	0
1.1.	RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	1 164 365 888 583	1 107 627 665 919
1.1.1.	Standardised approach (SA)	131 483 286 002	138 018 846 114
1.1.1.1.	SA exposure classes excluding securitisation positions	131 483 286 002	138 018 846 114
1.1.1.1.01.	Central governments or central banks	0	0
1.1.1.1.02.	Regional governments or local authorities	44 322	2 176 866
1.1.1.1.03.	Public sector entities	0	0
1.1.1.1.04.	Multilateral Development Banks	0	0
1.1.1.1.05.	International Organisations	0	0
1.1.1.1.06.	Institutions	3 593 565 261	13 648 777 529
1.1.1.1.07.	Corporates	43 048 641 302	40 561 698 236
1.1.1.1.08.	Retail	1 447 642 977	4 913 408 949
1.1.1.1.09.	Secured by mortgages on immovable property	527 265 338	523 592 424
1.1.1.1.10.	Exposures in default	3 863 499 306	4 030 978 027
1.1.1.1.11.	Items associated with particular high risk	0	0
1.1.1.1.12.	Covered bonds	0	4 602 351 776
1.1.1.1.13.	Claims on institutions and corporates with a short-term credit assessment	0	0
1.1.1.1.14.	Collective investments undertakings (CIU)	0	0
1.1.1.1.15.	Equity	57 623 946 086	9 481 118 207
1.1.1.1.16.	Other items	21 378 681 410	60 254 744 100
1.1.1.2.	Securitisation positions SA	0	0
1.1.1.2.	of which: resecuritisation	0	0
1.1.2.	Internal ratings based Approach (IRB)	1 032 882 602 581	969 608 819 805
1.1.2.1.	IRB approaches when neither own estimates of LGD nor Conversion Factors are used	368 916 288 429	372 200 578 111
1.1.2.1.01.	Central governments and central banks	0	0
1.1.2.1.02.	Institutions	49 938 331 184	55 866 624 723
1.1.2.1.03.	Corporates - SME	757 997	760 107
1.1.2.1.04.	Corporates - Specialised Lending	139 483 336 176	137 222 694 958
1.1.2.1.05.	Corporates - Other	179 493 863 072	179 110 498 323
1.1.2.2.	IRB approaches when own estimates of LGD and/or Conversion Factors are used	663 966 314 152	597 408 241 694
1.1.2.2.01.	Central governments and central banks	0	0
1.1.2.2.02.	Institutions	0	0
1.1.2.2.03.	Retail - Secured by real estate SME	0	0
1.1.2.2.04.	Retail - Secured by real estate non-SME	0	0
1.1.2.2.05.	Retail - Qualifying revolving	0	0
1.1.2.2.06.	Retail - Other SME	0	0
1.1.2.2.07.	Retail - Other non-SME	555 227 029 159	497 037 519 667
1.1.2.2.08.	Equity IRB	0	0
1.1.2.2.09.	Securitisation positions IRB	0	0
1.1.2.2.10.	Of which: resecuritisation	108 739 284 993	100 370 722 027
1.1.2.3.	Other non credit-obligation assets	0	0

1.1.2.4.	Risk exposure amount for contributions to the default fund of a CCP	0	0
1.1.2.4.	TOTAL RISK EXPOSURE AMOUNT FOR SETTLEMENT/DELIVERY	0	0
1.1.2.5.	Settlement/delivery risk in the non-Trading book	0	0
1.1.3.	Settlement/delivery risk in the Trading book	0	0
1.2.	**TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS**	0	0
1.2.1.	Risk exposure amount for position, foreign exchange and commodities risks under standardised approaches (SA)	0	0
1.2.2.	Traded debt instruments	0	0
1.3.	**Equity**	**8 537 570 666**	**18 026 312 224**
1.3.1.	Foreign Exchange	8 537 570 666	18 026 312 224
1.3.1.1.	Commodities	8 477 811 190	13 421 730 275
1.3.1.2.	Risk exposure amount for Position, foreign exchange and commodities risks under internal models (IM)	0	101 582 798
1.3.1.3.	TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	38	4 443 239 713
1.3.1.4.	OpR Basic indicator approach (BIA)	59 759 438	59 759 438
1.3.2.	OpR Standardised (STA) / Alternative Standardised (ASA) approaches	0	0
1.4.	**OpR Advanced measurement approaches (AMA)**	**144 574 288 688**	**171 132 649 776**
1.4.1.	ADDITIONAL RISK EXPOSURE AMOUNT DUE TO FIXED OVERHEADS	0	26 558 361 088
1.4.2.	TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	0	0
1.4.3.	Advanced method	144 574 288 688	144 574 288 688
1.5.	Standardised method	0	0
1.6.	Based on OEM	1 937 396 183	2 621 659 921
1.6.1.	TOTAL RISK EXPOSURE AMOUNT RELATED TO LARGE EXPOSURES IN THE TRADING BOOK	0	0
1.6.2.	OTHER RISK EXPOSURE AMOUNTS	1 937 396 183	2 621 659 921
1.6.3.	Of which: Additional stricter prudential requirements based on Art 458	0	0
1.7.	**Of which: requirements for large exposures**	0	0
1.8.	**Of which: due to modified risk weights for targeting asset bubbles in the residential and commercial property**	0	0
1.8.2.	Of which: due to intra financial sector exposures	0	0
1.8.2.	Of which: Additional stricter prudential requirements based on Art 459	0	0
1.8.2.	Of which: Additional risk exposure amount due to Article 3 CRR	0	0
1.8.2.	Retail - Secured by real estate SME	0	0
1.8.3.	Retail - Secured by real estate non-SME	0	0
1.8.4.	Retail - Qualifying revolving	0	0

Table 14**:** Art. 438 CRR: Capital requirements as of 31 December 2015

Capital Buffers

The Bank discloses that it has been creating counter-cyclical capital buffers since 1st of January 2016 (Art. 440 CRR).

DICLOSURE ON ASSET ENCUMBERANCE

Disclosure requirements covered: ART, 443 AND EBA Guidelines

As stipulated in the Capital Requirements Regulation (Article 100 and 443) and the preliminary EBA guideline on disclosure of asset encumbrance (EBA/GL/2014/03) which will make up the foundation of compulsory technical standards to be implemented by 2016; Erste Bank Hungary Zrt. is obliged to report encumbered and unencumbered assets on partial group level based on the CRR scope of consolidation for all institutions in the following manner:

The identification of encumbered assets was carried out in a method consistent with the established reporting requirements laid out in the European Capital Requirements Regulation. The tables show median values of the reported data in 2015Q1, 2015Q2, 2015Q3 and 2015Q4, in accordance with point 11. of the Hungarian National Bank's recommendation nr. 4/2015. (III. 31.).

In 2015 HUF 207.650 billion of the Banks's own and received assets were identified as being encumbered based on the official definition. The main sources of encumbrance in Erste Bank Hungary Zrt. are the collaterals for refinancing funds and collateralized trading activities (repo) and in smaller part for derivative and card transactions. Asset classes predominately used for above mentioned purposes are high quality debt securities - mainly Hungarian government bonds and bills. Beside this the refinanced SME loans were also used as collateral in the National Bank's Funding for Growth Scheme - Phase 1 in a total volume of HUF 34.496 billion (in 2015). The volume of the structural collaterals behind interbank refinancing is stable in time, the volume of trading book repos is more volatile determined by client activity.

Asset encumbrance is reviewed regularly by the Asset and Liability Management Directorate (ALM) of Erste Bank Hungary Zrt., which unit is also responsible for the steering function in order to keep the structure of the collateral pool and overcollateralization on optimal level. The asset encumbrance is a key part of the strategic planning process, the prevailing as well as projected levels of asset encumbrance are taken into consideration when setting up the funding and liquidity strategies. Asset encumbrance is reported regularly for Asset Liability Committee (ALCO), where yearly strategies and key steering decisions are approved.

As a result of the current business model of the Bank - assets are predominantly funded from customer savings and current accounts -, the total percentage of encumbered assets and matching liabilities stemming from secured funding is comparably low in the balance sheet.

mn HUF	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	197 430		1 698 012	
Equity instruments	-	-	934	934
Debt securities	125,769	127 919	289,572	293 627
Other assets	-		106 112	

Table 15: Art. 443 CRR: Encumbered Assets as of 31 December 2015 – assets

mn HUF	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	10 219	539
Equity instruments	-	539
Debt securities	10 219	
Other collateral received		
Own debt securities issued other than own covered bonds or ABSs	-	-

Table 16: Art. 443 CRR: Encumbered assets as of 31 December – collateral received

mn HUF	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	177 089	200 981

Table 17: Art. 443 CRR: Encumbered and unencumbered assets – encumbered assets/collateral received and associated liabilities

CREDIT RISK

Disclosure requirements covered ART. 435 and 442 CRR

Goals and principles of credit risk

Credit risk arises in the traditional lending business and includes losses incurred due to the default of a borrower or the impairment of a credit exposure due to the downgrading of a debtor. Lending is a core profile at Erste Bank Hungary.

Credit risk related to retail, corporate, municipality, property and project loan portfolios are managed to ensure regulatory compliant risk management practices and to provide customers with manageable loan facilities that are within their financial capacities. The special risk policies and rules of procedures:

- _in relation with retail customers are Retail Risk Procedures;
- _ in relation with SMEs and large corporations are the Corporate Risk Policies;
- _ in relation with municipalities are the Municipality Risk Policies and
- _ in relation with property and project transactions are the Property and Project Risk Policies.

The Bank develops each year its local lending business strategy, in which the input from local risk managements directorates plays a key role. Quantitative portfolio limits and qualitative risk principles are defined to ensure that the risk profile remains in line with the risk strategy. Moreover the Bank risk management ensures that any new products or change in lending criteria are in line with the group-wide lending framework requirements and are adequately supported by the existing risk infrastructure. Erste Bank Hungary also ensures that the local environment (market, competitive, economic, political, and legal/regulatory) is appropriately addressed.

A management summary of the key developments is distributed at least quarterly to senior management and key decision makers.

Organisation

As lending is a core profile of the Bank, the Bank regularly assumes, identifies, evaluates, manages and monitors credit risk, carried out by the following risk management units:

- Retail Risk Management Directorate,
- Retail Workout Directorate,
- Competence Centers,
- Strategic Risk Management Directorate and
- Corporate Risk Management Directorate.

Inner policies define the retail lending framework by establishing policy rules for the entire retail lending cycle covering underwriting, portfolio management, early and late collection. Thus Group-wide retail lending and analytical framework serves as a basis for the Bank's retail lending practices and for identifying potential adverse portfolio developments.

For new products or sub-products to ensure proper risk rules the Retail Risk Management and the Retail Workout Directorate also prepares proposal about minimum lending criteria, score cut-off, debt burden % criteria, documentation requirements, verification steps and other risk related parameters to gain approval and ensure proper introduction. In case of existing product it test risk rules to evaluate results and to propose extension of the test program if succeeded.
These portfolios risk analytics are operated and managed by the Competence centers through the 'management information system' (MIS) which serves as the analytical background that supports retail risk management decisions with various regular and specific analyses and ensures prudent lending while promoting the 'Managing-through-MIS' approaches and the pro-active, analytics based management of retail loan portfolios on a Bank wide basis.

Corporate Risk Management evaluates credit risks related to large company, project and real estate financing and municipality clients, makes proposals for credit decision-making as well as controls credit proposals in terms of risk management and compliance with rules.
Strategic Risk Management is responsible for the credit policy and risk strategy and the related frameworks.

Risk Measurement and Control

Prior to granting a loan, the creditworthiness of a retail client is determined and verified in view of the risk/reward trade-off. Loans can only be granted if the repayment capacity of the borrower is sufficient to serve the regular repayments. Risk-adjusted pricing ensures a balanced relationship between risk and return.

The regular credit risk reports contain information for the management board and the risk management committee related to the developments of loan exposures in each key segment, the quality of the portfolio by rating category and detailed risk-relevant information on customers at risk of default or already defaulted. These reports serve as the basis for audits of the credit policy of the business areas and their business and risk strategy.

The Retail Risk Management ensures historical data gathering regarding changes in the risk rule set. It reports the risk rule set changes toward the Group Retail Risk Management (GRRM) on a regular basis to build on up-to-date portfolio monitoring techniques (vintage analysis, delinquency trends, segment analyses, etc.) and to show key drivers behind specific portfolio developments. The report covers new loan bookings as well as the main developments.

Credit decisions and credit processing for the non-retail business must be conducted in accordance with the currently valid authorisation matrix and the corresponding work instructions. Among other things, credit analyses must be prepared using current business data and financial projections. This information serves to elaborate analysis for the rating and credit decision.

Risk hedging

- To secure the return of its receivables, in general before taking the risk, the bank requires collateral from the client. Furthermore, the Bank ensures the availability, fair value and enforceability of the collaterals and securities prior to its risk decisions and monitors these characteristics of collaterals in the entire period of risk-bearing.
- Interest rate hedging is provided to the extent necessary.
- Erste Group has established clear policies with respect to FX lending across countries and businesses, which have been implemented in Hungary as well. As of 31st of December 2015 the Bank has no exposure to FX retail portfolio.

Definition of ‘pastdue’ and ‘impaired’

Erste Bank Hungary 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, impaired, substandard and defaulted exposures:

Pastdue

‘Day past due’ (hereinafter DPD) count starts at the first overdue day of the account. The client level DPD is the maximum of the DPD’s of the accounts for all segments (Retail, Non-retail) and products, and processes (early collection, default recognition etc.). In case of overdrafts, DPD counting starts when the client breaches the overdraft limit.

Impaired

A customer’s on-balance sheet exposure is impaired, when the incurred loss based on discounted cash flows analysis is greater than 0.

Default

In 2015 for retail segments, materiality threshold was 25.000.- HUF on client level and the client's total 90 days-past-due (DPD) obligation couldn't exceed 2.5% of the credit lines which are communicated to the customer. Additionally, it must be ensured that absolute thresholds do not exceed the amount of EURO 250.-.

Erste Bank Hungary differentiates and records 5 default categories. The different categories are defined as follows**:**

- R1: Based on the early warning signs the complete repayment is not probable
- R2: Late payment overdue for more than 90 days and no less than HUF 25,000[1]
- R3: Non performing involuntary rescheduling
- R4: Partially accounted loss
- R5: Legal proceedings (bankruptcy, liquidation, final settlement, executory procedure)

The approach to credit quality deterioration in the internal rules

Change of portfolio quality is primarily reflected in the change of provision allocation.

The general principles and standards for credit risk adjustments within the Bank are described in internal policies. The Bank evaluates the need for credit risk adjustments in line with regulatory and accounting standards and allocates them accordingly.

The Retail Customer and Partner Rating Policy and the Risk Planning Policy of the Bank provide for the basic principles on monitoring the deterioration of customer rating and credit quality.

The Bank applies internal rating system to calculate client rating grades. The customer rating is assigned in the rating system by evaluating financial, expert and external information. The Bank's relevant codes of conduct provide for the rules of customer monitoring and customer rating review. In the framework of the regular customer rating review and customer monitoring, customers are re-rated again in the rating system in accordance with the changes occurring in their position; by the evaluation of the above mentioned information the rating system reliably reflects the credit quality of the customer.

The Bank also assigns rating to its retail customers in the internal rating system. The monitoring of the deterioration of the customer's credit quality is based on behavioral rating, which is derived from the behavior (characteristics) of the customer. This rating is calculated monthly.

The Bank reviews its customer rating systems at least once a year in accordance with its Validation Policy. The validation itself - pursuant to legislative requirements - is carried out by the Erste Holding Validation Unit as an independent external expert team.

Principles and methods for portfolio quality and provisioning

The accounting and reversal of loss and the creation and use of provisions are carried out by the Bank in accordance with HAS and IFRS.

Approaches and methods pursuant to the Hungarian Accounting Standards (HAS):

The assessment of the loss for receivables is based on the rating of the specific transaction. For off-balance sheet liabilities the provision created is determined also by the probability of becoming on-balance.

[1] In specific cases

If the total exposure of the Bank to the respective customer reaches HUF 50 million, the assessment is done on individual basis. For receivables from non-performing customers the loss in value accounted for equals the expected loss calculated based on the present value of expected return. For debtors (or customer groups) that are not free of problems, but show only minor delays 10% (or 1% in case of payment delay of the customer group) loss in value is accounted for.

If the total exposure of the Bank to the respective customer does not reach HUF 50 million, the assessment of the receivables is based on outstanding overdue, default status and risk parameters. Risk parameters (probability of default, loss given default) are estimated by the Bank considering type of receivable, customer rating, collaterisation, work-out strategy and time in default.

For capitalized interest the Bank applies the provisions of paragraph (2), article 13 of Government Decree No 250/2000. For restructured loans the Bank acts in accordance with Chapter 7, Annex 7 of Government Decree No. 250/2000.

For certain items presenting extraordinary risk pursuant to Regulation No. JÉ-I/I-391/2009 of the Hungarian Financial Supervisory Authority the Bank accounts for higher loss in value and creates more provisions.

Approaches and methods pursuant to the International Financial Reporting Standards (IFRS):

Erste Bank Hungary uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed.

The process includes the identification of default and impairment and the type of assessment (individual or collective) to be applied. Depending on the characteristics of the exposure and the respective expected cash flows (e.g. considering collateral), some exposures may not be impaired.

The bank distinguishes between

- specific allowances calculated for non performing exposures that are deemed to be impaired, and
- collective allowances (allowances for incurred but not reported losses) calculated for performing exposures or non-performing loans that are not deemed to be impaired.

Specific allowances

For the calculation of specific allowances, the discounted cash flow method is applied. This means that a difference between carrying amount and net present value (NPV) of the expected cash flows leads to an impairment and defines the amount of any allowance requirement. All estimated interest and redemption payments as well as estimated collateral recoveries and costs for selling and obtaining collateral are considered as expected cash flows. The effective interest rate is used as the discount rate in the calculation of the NPV of the expected cash flows.

The calculation of specific allowances is performed either on an individual basis or as a collective assessment (rule-based approach). In case of significant customers, expected cash flows are estimated individually. A customer is considered as significant if the total exposure defined as the sum of all on- and off-balance-sheet exposures exceeds the materiality limit of 50 million forint. Otherwise, the customer is considered as insignificant and a rule-based approach is used for the calculation of the specific allowance. Under this approach, specific allowances are calculated as the product of carrying amount and loss given default (LGD).

Collective allowances

Collective allowances are calculated on performing on- and off-balance-sheet exposures for which a default event has not been detected or reported. The level of collective allowances depends on the carrying amount, the probability of default (PD), the loss given default (LGD), the credit conversion factors (CCF) in case of off-balance-sheet exposures, and the loss identification period (LIP). The LIP corresponds to the average period between the occurrence and the detection of the loss and ranges from four months to one year. The result of discounting future cash flows to their present values is taken into consideration in the LGD calculation.

Collective allowances are also calculated in case of non performing exposures that are not identified as impaired. For these customers, no specific allowances are allocated.

USE OF IRB APPROACH TO CREDIT RISK: INSTRUMENTS AND PROCEDURES

Disclosure requirements covered: ART 452 CRR

Approved approaches and transitional rules by the regulator

Erste Bank Hungary was authorised by the supervisory authority FMA (for indefinite time) to calculate risk-weighted exposure amounts for credit risk using the IRB Approach from 1st April 2008. (IRB Official Notice 28 Mar 2008; IRB official notice for single banking entities and at consolidated level for institutions abroad.)

It annually performs validation of the credit risk models according to the applicable regulations.

The following segments fall under the Foundation IRB Approach:

- Institutions
- Sovereigns (Austrian regional and local authorities remain under the Permanent Partial Use clause)
- Corporates
- Specialised Lending - Slotting Criteria approach

The following segment falls under the Advanced IRB Approach:

- Retail

Out of the Erste Group subsidiaries Erste Leasing Eszközfinanszírozási Zrt. and Erste Leasing Autófinaszírozási Zrt., as part of Erste Bank Hungary Zrt. since 2013 and Erste Leasing Bérlet Szolgáltató Kft. introduced the IRB method as of 1 July 2009.

Rating systems and Use of ECAIs

A rating system comprises all models, methods, processes, controls, data collection and data processing processes that serve the assessment of credit risks, the allocation of exposures to rating grades and the quantification of default probabilities for certain types of exposures.

The rating systems used by Erste Bank Hungary meet the requirements for the application of the IRB Approach.

Rating Models and Methods

The internal rating models and the estimates of the 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 the capital requirement. Erste Bank Hungary uses empirical-statistical and expert-based model types. A periodical validation assures the quality of the rating models and risk parameters.

The purpose of customer rating is the best possible estimation of customer related risks, i.e. to establish the probability of default of the customer within one year (Probability of Default, PD).

Risk assessment is primarily based on the customer rating, however decisions regarding the individual credit risks are not based solely on the customer rating, but they are made with the apprehensive consideration of risk factors. Within this framework, in addition to the customer and the customer risks any potential third party in the transaction and, in certain cases, the collateral are also the subject of the review.

The rating method to be used is determined depending on customer classification.

Every customer is assigned a certain rating method. This allocation process is highly automated to keep the percentage of manual work 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 output, legal form and industry code, which are needed for the automated allocation of rating methods to customers:

Exposure Classes	Rating of private individuals	Rating SME	Rating Corporates	Rating SL (IPRE)	Bank Rating	Country Rating
	STATISTICAL MODEL				EXPERT MODEL	
Retail	Y	Y				
Corporate incl. SME, SL and purchased corporate receivables		Y	Y	Y	Y	
Institutions					Y	
Central government and central banks						Y
Equity			Y	Y	Y	

Table 18: Art. 452 CRR: Rating method of different exposure classes as of 31 December 2015

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 are made available to the Group companies.

The other rating methods (Rating Private Individuals, Rating SME, Rating Corporates and Rating Specialised Lending) follow uniform modelling guidelines. At Erste Bank Hungary model structures feature regional adaptations appropriate to the respective portfolios. As of 2011, the models are being developed at competence centres in order to achieve higher quality, efficiency and consistency by pooling modelling expertise.

Procedures for checking the reliability of rating systems

Rating systems are reviewed at least once a year by Erste Holding's competence centres. The review is based on Group standards. For retail portfolios both the application and the behavioural scorecards are checked. In the course of back-testing the Bank – together with the competence centers - examines, among others, the rating distribution, calibration and discriminatory power. If required based on the review, the models are adjusted or redeveloped.

Customer rating is used for corporate credit portfolios, the review of which is carried out similarly to that of the retail portfolio.

The structure of the internal rating system and the link between internal and external ratings

Depending on the customer type and the product the Bank uses electronic systems that are using customer and product data to establish the rating. Where this is not available, the rating is established based on the procedure set forth in a separate policy.

The rating systems applied by the Bank have been established based on the standards valid for the Erste Holding subsidiaries and in accordance with the Hungarian regulations. The rating system of the Bank is validated by Erste Holding Validation Unit with annual frequency. The management of the Bank is regularly notified about the validation results. If the validation process discovers deficiencies concerning rating system of the Bank, and the related processes, the Bank is required to define and implement risk mitigation measures in the relevant fields of the Risk Management of the Bank.

Ratings provided by external credit rating agencies are matched to the ratings provided by the internal rating system for each agency. The Bank uses external rating for corporates, institutions and for sovereign exposures not related to the Hungarian state, after validation by the Bank.

According to Article 4 (98) CRR, external credit assessment institution (ECAI) means a credit rating agency that is registered or certified in accordance with Regulation (EC) No 1060/2009. A Bank által használt külső hitelminősítők és hitelminőségi kategóriák az alábbiak:

Moody's	OECD Country Risk Ratings	Credit Quality Step
Aaa to Aa3	0 to 1	1
A1 to A3	2	2
Baa1 to Baa3	3	3
Ba1 to Ba3	4 to 5	4
B1 to B3	6	5
Caa1 and below	7	6

Table 19: Art. 444 (d) CRR (1/2): Allocation of the external ratings to credit quality steps

The application of internal estimations other than in the definition of the risk weighted exposure value

Pricing always examines the profitability of the entire customer/customer group and also includes the examination of the revenues and costs for all banking services. In the corporate segment the price is set individually on a customer level, but in the private segment the price is given for the sub-portfolios representing a homogenous risk segment

The period examined during pricing is the whole period of the loan. Risks are included in pricing in a form of the expected risk margin (ERM).

The RW allocation depending on the credit quality step and the exposure class is as follows:

Credit Quality Step	Central governments and central banks	Institu-tions (Option 1)	Institu-tions (Option 2) long-term	Institu-tions (Option 2) short-term	Corporates
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%

Table 20: Art. 444 (d) CRR (2/2): The RWA allocation depending on the credit quality step and the exposure class is as follows

Description of the rating process

The Bank uses different rating systems for central governments and central banks, credit institutions, local governments, leasing companies, insurance companies, business entities, project companies, retail customers and other organizations.

When rating any customer, the Bank considers objective and quantifiable as well as subjective and non-quantifiable aspects. With reliance on the review of the portfolio, the information originating from the rating process is continuously measured against historic data.

The Bank’s IRB rating systems and its rating methods are back-tested and validated yearly, in line with regulatory requirements.

Internal rating systems: correlation between internal and external ratings

The Bank rates its customers in the internal rating system. These rating results are used in the decision-making processes and capital calculations. At the same time, the correspondence of the internal rating categories to the rating categories of external credit rating agencies is defined on the Group level, and such alignment is to be followed across Erste Group within the Group-level rating framework regulations. The regular review of such correspondence falls within the scope of the responsibilities of the holding company.

Rating of central governments or central banks

Central governments and central (or national) banks are rated on the level of Erste Holding with the use of a special rating system introduced in 1993 and regularly reviewed. The rating has a special focus on the short-, medium- and long-term risk of foreign currency indebtedness. The country risk is regarded to be equivalent to the risk carried by the central government, including the government itself, the central (national) bank and the institutions that are backed by the government's joint and several suretyship. The rating is updated on a quarterly basis in order to moderate the distorting effects of the quickly changing environment. The risk model distinguishes two country types: industrial and developing (emerging) markets.

Rating of credit institutions and investment enterprises

To rate credit institutions and investment enterprises, Erste Holding uses its own, dedicatedly developed model. This rating system is an expert model based on the combination of quantitative, qualitative and country risk criteria.

Rating of enterprises

When rating business companies, the Bank is required to examine capital endowment, capital structure, liquidity, profitability and debt service. In addition to the foregoing, the system for the analysis of the balance sheet calculates other indicators for assessment, as well. Beside historic figures, the Bank also considers future expectations in the course of rating. Subjective aspects reviewed on a mandatory basis: ownership structure, professional image of the management, market situation and its expected trends, composition of orders, sectoral information, evaluation of future outlooks, quality of planning.

The Bank uses a 13+R level borrower rating system for enterprises: 1 – Virtually risk-free; 2 – Minimum risk; 3 – Low risk; 4a, 4b, 4c – Risk under the average level; 5a,5b, 5c – Average risk level; 6a – 6b Risk over the average level; 7 – Exposure limit; 8 – Early warning; R1-5 – Default.

Rating of retail customers

To determine the rating of exposures within the Bank's retail portfolio, product-specific scorecards are used. These product-specific scorecards are integrated into a customer-level rating system.

The rating method basically works on the level of accounts. If a customer demands a new product, the given customer is rated with the use of the appropriate product-specific application scorecard. The rating scale that is applied to private persons within the retail portfolio (and also presented in the capital calculation) has 8+R grades. Micro-entrepreneurial customers are rated on a scale of 13+R grades, identically to corporate customers.

Participations

The Bank rates its participations on a quarterly basis. The rating categories and provisioning rates belonging to participations are established with respect to their book values in the Bank's records and their fair (market) values. When rating a participation, it is to be considered what tendencies the business operations of the company show in comparison with the previous years, and what changes can be anticipated in the short and medium run.

Definition of the individual risk parameters, the method of determination, estimated and real data in the individual risk segments

The basis of the calculation of all the risk parameters is the definition of default, which is defined by the bank in accordance with the established paragraphs of the CRR (capital requirements regulation).

With respect to the materiality threshold, the Bank has relied on the above mentioned regulation, meaning that by satisfying the requirement of aligning with standard values Erste Holding has determined the materiality threshold as HUF 25,000 for both corporate and retail exposures. This decision has been motivated by an endeavor to decrease the capital requirement.

The Bank annually reviews the definition of the event of default in order to associate the events of failure with actually detectable losses, thereby decreasing the probability of recurrence arising from any event of failure. With respect to the estimated risk parameters, the Bank conforms to the requirements of general compliance with the IRB validation criteria.

Probability of default (PD)

PD estimates the probability that any given customer falls in default within the upcoming 12 months.

The estimates are performed by using the so-called Lando and Skodeberg's method based on intensity matrices. With this model the Bank measures client migrations among rating grades.

For the quantitative validation of PD estimates, the Bank uses the standards determined for Erste Holding's subsidiaries, including the examination of the fulfillment of the initial conditions of Lando and Skodeberg's method and the validity of the estimates. The validation itself is executed annually by the Erste Holding Validation unit as an independent team of experts. Validation includes the backtesting of both the portfolio level PD as well as the long-term PD estimated for rating categories, and the comparison with empirical portfolio level default rates and the long term, rating-category based default rates. According to the methodology approved by the supervision authority, if the validation analysis detects an underestimation, a re-estimation is required.

Loss given default (LGD)

LGD is used to estimate the volume of a loss that is suffered by the Bank on average on a transaction having gone default, with respect to the costs associated with receivables collection and the time value of money. The absolute volume of the loss is projected to the total value of the receivables outstanding in relation to the given transaction (= exposure at default ~ EAD) at the time of the occurrence of the default event.

The Bank applies its own loss given default (LGD) estimates in the retail segment.

LGD is validated annually by the Erste Holding Validation Unit. It basically embraces the revision of pools, an overview of changes in the workout processes, the comparison of the newly available factual information with the earlier estimates and the review of the macro-correction of the estimates, and therefore it involves both quantitative and qualitative elements. If the validation backtesting proves on the basis of the actual empirical data that the estimated LGD parameters are not conservative enough, a management intervention and a re-estimation is required. The bank uses recovery data on product level in on order to estimate the LGD and this process is based on the internal database.

Within the ICAAP framework, the Bank used its own estimates for the corporate LGD values on the level of the individual customers.

Credit conversion factor (CCF)

CCF shows what ratio of the existing credit limit still unutilized at the reference time is expected to be drawn down by the customer until the date of default. In the capital calculation, this amount is still to be added to the part of the credit limit that has already been drawn to establish the estimated value of the exposure at default (EAD).

The Bank estimates the credit conversion factor (CCF) for the revolving type products (current account overdrafts and credit cards) of the retail segment.

Since 2009, the preferred method has been the so-called „variable time horizon method" (having replaced the so-called „fixed time horizon" method) that considers that the event of default may occur at any time within the 12 months (and not exactly in 12 months) following the date of the capital calculation.

CCF is validated annually by Erste Holding Validation unit. It basically embraces the review of pools, an overview of changes in the relevant banking processes (e.g. current account monitoring), the comparison of the newly available factual information with the earlier estimates and the review of the necessity of the macro-correction, and therefore it involves both quantitative and qualitative elements.

Control Mechanism for Rating System

Every new IRB model developed must be reviewed prior to use by the Independent Group Validation department. Compliance with development standards and the quality of the results are assessed based on documented validation standards.

The validation procedures and methods are further detailed in Erste Group's Disclosure Report: https://www.erstegroup.com/en/Investors/RegulatoryDisclosure/Basel3

Quantitative disclosure on credit risk

As regards to exposures in the IRB Approach, a breakdown is given in the Annex of the exposure classes of central governments and central banks, institutions, corporates, retail and equity by PD classes, exposure, outstanding loans, undrawn commitments, EAD and EAD-weighted average RWs. For the exposure class retail – which is the only exposure class for which LGD estimates are made – an additional presentation is given by EAD-weighted average LGD.

MITIGATION OF CREDIT RISK

Disclosure requirements covered: Art. 453 and 463 a) CRR

Management and recognition of credit risk mitigation

Collateral management has been set up within the business area Corporate Workout and Restructuring Directorate. The Group Collateral Management Policy has been implemented in Erste Bank Hungary. It defines, among other things, group-wide uniform valuation standards for credit collateral. This ensures that the requirements of CRM are met as well as the standardisation of the credit risk decision-making process with respect to the assets recognised as collateral.

All collateral eligible within the Group is specified in an exhaustive list in the Group Collateral Catalogue. Locally-permitted collateral is defined by Erste Bank Hungary (in the Local Collateral Catalogue) in accordance with the applicable national legal provisions. The valuation and revaluation of the collateral is done in accordance with the principles defined in the Group catalogue and internal work instructions grouped by class and based on local supervisory requirements.

Collateral valuation and netting

Valuation

The Bank aims at requesting liquid collaterals, i.e. those that can be exchanged for cash within the shortest possible time.

The collateral value of securities can be established as the product of the so-called base value (equals the market value, or the mortgage lending value in the case of a property collateral) and the so-called collateral multiplier (valuation rate) that is different for the various types of collaterals, as deducted with third-party encumbrances and adjustments.

To establish the value of collateral, first the actual market value and mortgage lending value needs to be determined for the date when the associated contract is concluded. For the valuation of collaterals, efforts need to be made to determine the realistic market value, and thus the so-called "audit" principle needs to be applied, stating that the base value of a security has to be established on the basis of the information indicating the smallest amount.

The value appraisal of real-estate properties and moveable properties is always performed by companies, experts that are accepted by the Bank, and are in possession of proper professional authorizations and references.

When risks are assumed for property development (not including the acquisition / construction /expansion /modernization/renovation of houses by private persons), the value of the security may not be judged in view of any expected, future yield or value change in the future. In these cases, the calculation of the collateral value is based on the combination of the present value of the property (at the time of the decision-making or review) subject to the development and the actual amount of expenditures on the investment as a base value from which the collateral value has to be calculated. Any loan associated with property development may be disbursed only on the basis of invoices presented to and controlled by the Bank.

No person performing the valuation of collateral may be involved in the associated decision on risk assumption.

Changes in the value of the collaterals are continuously monitored by the Bank until the expiry of the transaction.

Netting

Regarding the off-balance transactions the Bank mainly applies its own derivative framework contract but in case of some FI clients ISDA agreements are signed. Both contracts allow netting but in capital requirement calculation netting is not applied by the Bank.

Main types of recognized collaterals

According to the relevant regulations on credit risk management and capital requirement for credit risk, collaterals can be regarded as items decreasing the capital requirement only if

- they are legally valid, and can be enforced on a reasonable time scale (the contracts are appropriate, e.g. the mortgage has been registered, the contract has been notarized, etc.);
- their valuation is appropriate, the collateral values are well maintained (their market values are properly supported – e.g. determined by independent value appraisers –, and regularly monitored);
- on the level of the transactions, the related record-keeping and associated processes ensure the provision of comprehensive and up-to-date information to capital calculation ("flagging");
- property collaterals are covered with valid property insurance.

In terms of the foregoing, the scope of recognized collaterals – that can be considered to act as capital-decreasing items – extend to

- financial securities (cash security deposits, deeds of deposit, governmental securities, certain other securities, etc.);
- properties (with the exception of social buildings of reduced marketability, special industrial properties and property projects);
- governmental, banking and certain other guarantee undertakings.

When the above conditions are met defined by internal regulations, and these specific types of collaterals are available, the Bank takes the accepted securities into account in the calculation of the capital requirements as means of mitigating credit risks.

Value of exposures covered with guarantees and credit derivatives, credit ratings of counterparties

Before accepting collaterals that are not made available in advance, the Bank follows the relevant legal requirements, and rates the guarantors and sureties in conformance to the provisions of its internal regulations. The detailed breakdown of the exposures covered by the individual customer types is described in the quantitative report.

Regarding the off-balance transactions the Bank mainly applies its own derivative framework contract but in case of some FI clients ISDA agreements are signed. Both contracts allow netting but in capital requirement calculation netting is not applied by the Bank.

Moderation of the risk concentration by mitigating credit risks

The concentration of credit risk means the distribution of receivables against certain customers and commercial partners when due to some common factors the default of a similar group of customers endangers normal business operations of the Bank.

The Bank regularly monitors the concentration of the portfolio according to the above given categories, and reports that to the top management on a quarterly basis. For the management of the concentration risks, the Bank applies limits on individual exposures as well as industries. The limit usage is regularly reported to top management.

Geographic-, maturity-related concentrations characteristic for the portfolio are demonstrated in the in the Annex.

COUNTERPARTY CREDIT RISKS

Disclosure requirements covered: Art. 435 (1) (a) (b) (c) (d) and 439 CRR

The counter-party risk is a specific type of credit risk of transacting with the counterparties, and relates to the realization of financial markets and OTC transactions and the risk of the underlying products.

Counterparty default risks are monitored and controlled at transaction level as well as at portfolio level. Erste Group has a group-wide real-time limit monitoring system to which the companies of the Group are connected online, especially the units with trading activities. The availability of unused limits must be checked before a transaction is executed.

Goals and principles of counterparty risk management, applied methods, identification and management of risks

In managing counterparty risks, the Bank applies the relevant regulations, government decrees and internal procedures. The Bank evaluates the exposure and the counterparty risk of a specific customer separately for each individual transaction.

Organisation

Counterparty default risks are measured and monitored on a daily basis by two independent risk management units in Corporate Risk Directorate. Counterparty default risk is taken into consideration in the credit risk reporting.

Risk Measurement And Control

Monitoring and revaluation are applicable for the existing portfolio.

Counterparty credit risk limits are established to limit the risk appetite of Erste Bank Hungary. So as to ensure that the actual credit risk exposure to a client/client group should not exceed the approved risk appetite. Counterparty limits are to be monitored and remedial actions are taken, should a limit be exceeded.

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

Any collateral for the given transaction is taken into consideration if it is allowed under the contract with the counterparty or by the relevant business regulations. Capital requirements for counterparty risks recorded in the trading book or the banking book are calculated by the Bank with the mark-to-market method; if applicable, using the internal rating approach (IRB) or – where there is an exemption or the portfolio is not rated –, under IRB standardized approach.

The capital requirement calculation for counterparty risk is implemented in the risk systems used by the Bank. The calculation algorithm has been specified for the following cases:

- Open delivery;
- Settlement risks;
- Counterparty risks belonging to the trading book;
- Counterparty risks belonging to the banking book.

The Bank’s capital requirement for counterparty risks are calculated both on consolidated and non-consolidated level.

The normal rules of approval govern the application and approval of limits, broken down to the level of individual customers. The limits are recorded in the holding company’s central, dedicated limit management system.

Securing of collateral and establishing reserves

On the basis of bilateral agreements with counterparties the Bank has the option to mitigate risks by netting or by using the accepted collateral. The Bank assumes risks only for positive net market values. As the volatility of the affected markets is high due to the fluctuation of the market risk parameters (foreign exchange and stock market prices, interest rates, etc.), the accepted collaterals need to be revaluated continuously. The Bank, however, considers only limited set of collaterals as eligible for risk mitigation: cash collateral or Hungarian governmental securities. Collaterals of governmental securities are revaluated on a weekly basis, whereas foreign exchange deposit collaterals undergo revaluation on a daily basis.

The Bank essentially has two types of counterparties:

- Banking counterparties where transactions are concluded on a limit basis;
- Corporate counterparties that are contracted for treasury limits or collateral deposits.

Additional impact of a downgrade

In the present contractual terms, further downgrade of the bank does not lead to additional collateral posting.

Estimation of scaling factor (including treatment of correlation factor)

The Bank does not calculate α-t.

Quantitative disclosure for counterparty credit risk

Counterparty credit risk exposures are presented in the Annex.

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MARKET RISK

Disclosure requirements covered: Art. 435 (1) (a) (b) (c) (d), 445, 448, 453 e) and g) CRR

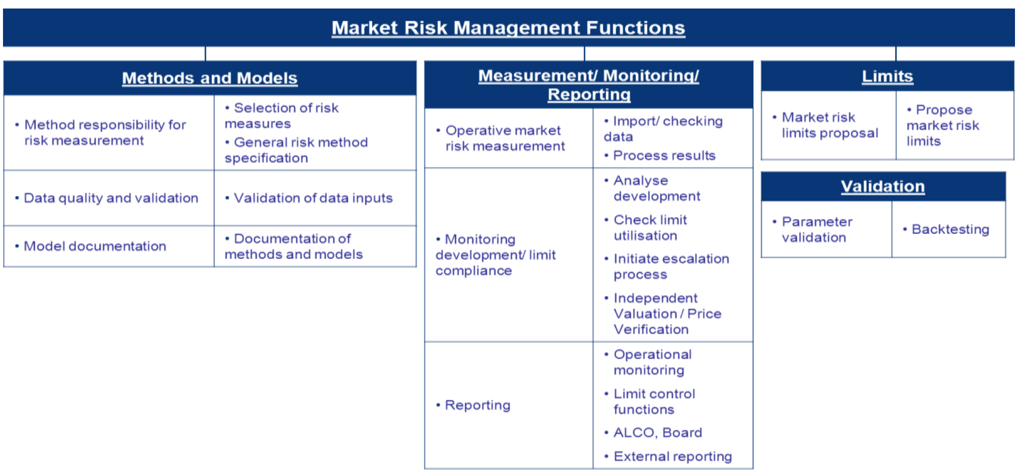
Risk type and assessment method

In Erste Bank Hungary’s internal documents market risk is defined as the risk of economic loss that may arise due to adverse changes in market prices and to the parameters derived from those prices. It is divided into interest rate risk, credit spread risk, currency risk, equity risk, commodity risk and volatility risk.
Market risks derive from short-term trading in instruments whose prices are determined daily (Trading book) as well as from the traditional banking business (Banking book).

Goals and principles of risk management

Market risk related monitoring, management and reporting is delegated to the Corporate Risk Directorate at Erste Bank Hungary and holds responsibility for the following general objectives:

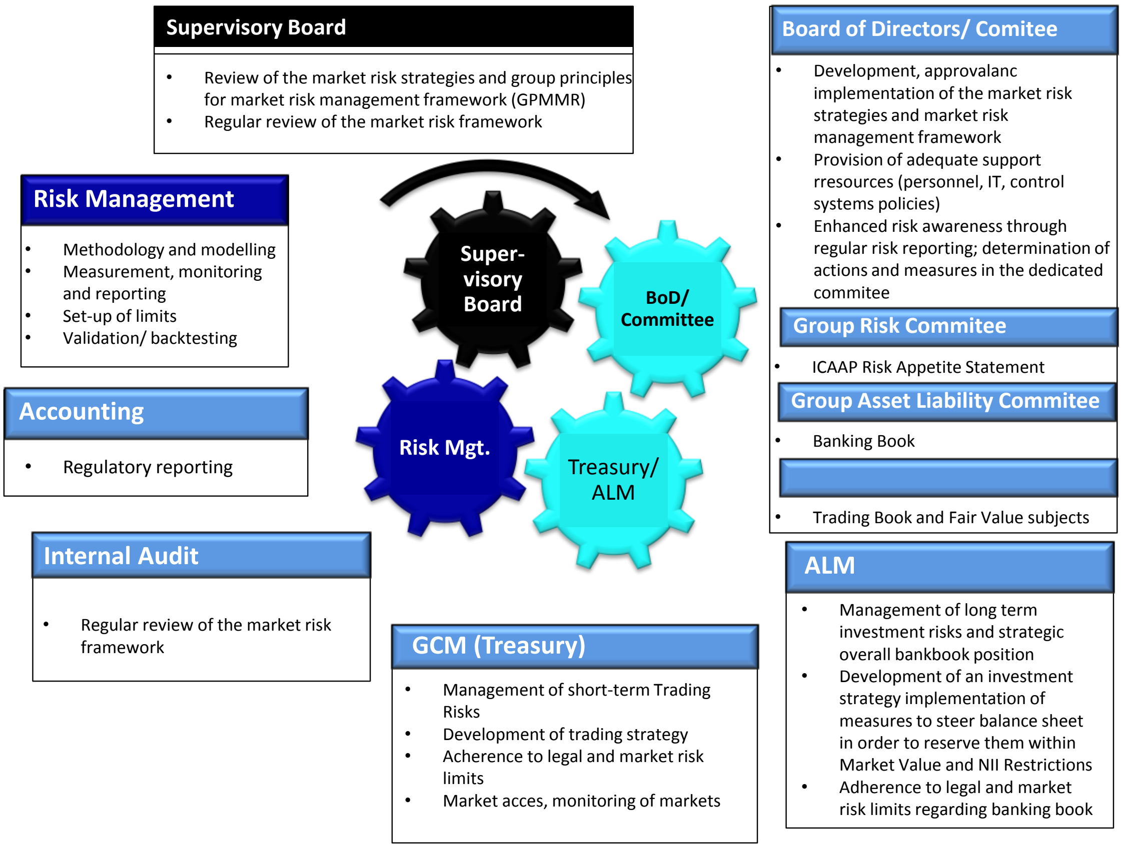
- to avoid unexpected losses and protect the capital of the bank;
- independent control of market risk, i.e. providing an objective check on risk-taking activities and the effectiveness of risk management to help ensure risks remain within the bank`s defined risk appetite, so that risk concentrations are avoided, and risk and return objectives are appropriately balanced;
- ensuring all systemic portfolio and market risks taken within a particular business are well understood and controlled, understanding the drivers of P&L, valuation issues and potential sources of stress;
- forming and expressing a view on the market risk in portfolios and in individual positions, especially concentrated positions;
- where market risks have been identified, reviewing – as far as possible – that they are completely and accurately captured and fed to risk measurement systems, and ensuring they are appropriately constrained through limits and/or other controls, as necessary;
- determining the appropriate regulatory capital treatment of risks subject to the market risk control framework.



Picture 5: Market risk management functions in Erste Bank Hungary

Organisation

The role of the Management Board and the Board of Directors and its Committees is of particular importance, since reviews market and liquidity risk limits with respect to capital and performance management in addition to reviewing local banking book profile. Stakeholders in the risk management process are described in the following graph:



Picture 6: Stakeholders in the market risk management process at Erste Bank Hungary

Risk measurement and control

Measures

In the following we give a general description of the measures used to measure market risk. Those methods can be categorized as portfolio based measures (like Value at Risk) and sensitivity based measures. Both methods are used in conjunction.

Portfolio based measures:

- Value at Risk (VaR): Value at Risk measures the potential loss in value of a risky asset or portfolio over a predefined period for a given confidence interval. The risk horizon and confidence level is 1 day, 99%. At the moment historical simulation is used to generate value at risk estimates where value at risk is calculated for all instruments which are implemented in the market risk engine and for which a time series of the market risk factors is available.

- Worst case interest rate movement over one year (Stress VaR): The basis is a 5 year time series which is used to calculate for each day the one year interest rate scenario. Finally the move which results in the biggest market value reduction is used as the worst interest rate scenario. Locally at Erste Hungary this VaR figure is also used for calculation of the Pillar 2 capital requirement for the trading book.

Sensitivity based Measures: Please note that the following list of sensitivity measures is not an exhaustive list of sensitivity measures but that it only lists the ones which are currently in use:

- Key Rate Shock or interest rate sensitivity per bucket
- Present value of one basis point (PVBP or PV01)
- Interest Rate Risk in the Banking Book (IRRBB)
- Present value of a one basis point change of the credit curve (Credit01)

- Performance based Triggers (Stop Loss): Stop loss refers to an action trigger when the profit and loss shows a certain loss with respect to a certain predefined basis (this can be for example the YTD performance, the performance measured from a high water mark).

Risks recorded in the Trading Book

The trading book of the Bank is managed by the Treasury. For recording and marking the positions to the market the Bank applies a system in which the group of transactions assigned to the trading book can be clearly separated due to the established portfolio/folder structure. Each folder is assigned to a portfolio and each portfolio is classified into either the Banking or the Trading Book. The Trading Book is updated on every business day based on the continuously recorded transactions.

Limit Setting

In the following we describe the principles of limit setting in Erste Group. The limits must always be in line with the risk appetite of the respective trading unit. Starting with the budget of the unit a VaR limit is derived where in a further step sensitivity limits are derived. In order to control the development of the P&L, stop loss limits are derived based on the VaR / sensitivities and the yearly budget. In case limits are breached the breach is reported to the respective committees.

Limits applied	Trading book	Banking book
Sensitivity Limits	Y	Y
VaR Limits	Y	Y
Stop Loss Limits	Y	
Stress Test Limits	Y	

Table 20: Art 432 CRR Capital requirements in the trading book by risk type

Risk monitoring in the Trading Book

Capital requirements for position risk and for the foreign exchange currency risk occurring in the entire business activity together with the major risks also recorded are calculated with the standard method. Capital requirements for trading book: The Bank does not have any shares not recorded in the Trading Book.

Methods and instruments

The general standards of market risk controlling and management (standards, limits and analyses) are defined by Erste Group, and described in the Group Principles for Managing Market Risk and 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. The limits are monitored daily. Furthermore, a consistency check between the VaR limits and the sensitivity limits is carried out on a regular basis.

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), extreme value theory, scenario analysis). These assessments help to analyse the effects of market movements of low probability; the results are made available to the management board.

According to Article 453 e) in CRR the Bank publicly discloses that the collaterals taken by the Bank for counterparty risk mitigation in the trading book is a small part of the total collateral stock. More than 80% of the trading book collateral value is cash collateral.

Collateral type	Market value (HUF million)
Cash	2 911
Government securities	1 112
MFB bond	381

Table 21: Fedezet típusok piaci értéken

Regarding the off-balance transactions the Bank mainly applies its own derivative framework contract but in case of some FI clients ISDA agreements are signed. Both contracts allow netting but in capital requirement calculation netting is not applied by the Bank.

Market Risk Reporting

The Management Board shall continuously review information on the bank's market risk development. Risk Management shall report to the Supervisory Board on a regular basis. In addition, the Supervisory Board shall be informed about the market risk strategy and the market risk management framework on a yearly basis.

Risk reporting is divided into internal and external reporting:

Internal reporting comprises:

- daily measurement and limit control of the market risk of all trading books on Group level (includes VaR, sensitivity and performance based triggers reporting to management);
- detailed monthly reports are made available to the management board within the scope of the Monthly Market Risk Reports;
- stress testing: based on historical scenarios (on regular basis: ICAAP; worst case interest rate movement).

External reporting comprises of :

- Capital requirement based on the internal model;
- Reports on exceptions in backtesting of the internal model if required;
- Quarterly reports to the Hungarian National Bank;
- Stress testing on irregular basis (EBA, IMF or MNB).

Quantitative disclosure on market risk

Exposure to Market Risk

The table below gives an overview of the capital requirements to cover market risk, broken down by risk types in the trading book as well as FX risk (incl. gold positions) and settlement risk not included in the trading book in accordance with Article 445 CRR as of 31rd December 2015.

Exposure to Market risk	Solo Bank level		Consolidated	
mn HUF		distribution (% of total)		distribution (% of total)
Position risk	683	43.93%	1,441	31.15%
position risk with interest rate instruments	678	99.30%	1,074	74.51%
position risk in equity instruments	0	0.00%	7	0.49%
commodities risk	5	0.70%	5	0.33%
foreign-exchange risk (incl. gold)	0	0.00%	355	24.67%
Counterparty credit risk	717	46.10%	1,534	33.16%
CVA risk	155	9.97%	210	4.53%
Large exposure risk	0	0.00%	0	0.00%
Total	1 555	100%	4,626	100%

Table 22**:** Art 445 CRR Exposure to market risk

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Exposure breakdown of the trading book as of 30th of December 2015 is presented in the Annex.

Market Risk Model

Risks are calculated with the standard method (Art. 329 (3), 352 (6), 358 (4) CRR) at Erste Bank Hungary, no internal model is used at the Bank.

The VaR model was approved at Erste Group on 3 September 2001 by the Ministry of Finance for the calculation of the capital requirements based on an IRB model pursuant to Article 26b (3) ABA. On 6 April 2006, the FMA expanded the approval of the model to cover the subsidiaries, including Erste Bank Hungary.

INTEREST RATE RISK

Disclosure requirements covered: Art. 435 (1) (a) (b) (c) (d) and 448 CRR

Interest rate risk awareness is elemental of banking activity, it is a normal distinctiveness, which can be important source of the profitability and the stable economic value, whereas the unduly large and/or uncontrolled interest rate risk can be a serious threat on the earnings.

Goals and principles of risk management

The rules of the EU Capital Adequacy Directive obligate banks to quantify the interest rate risk of their banking book and the capital requirements of this risk. Beyond the external requirements, business operations of the bank, managing their financial risks and the need for measuring profitability unambiguously requires the separation of banking and trading activities and their risk management. During the normal course of business the Erste Bank Hungary undertakes interest rate risk arising from the repricing of collected funds and placements.

The internal documents of Erste Bank Hungary clearly outlines the tasks, responsibility and authority for:

- identifying the potential interest rate risk, which is arisen from the expected development of the balance sheet and banking activities;
- establishing and maintaining an interest rate risk measurement system;
- monitoring and reporting interest rate risk positions and
- formulating and executing strategies to manage interest rate risk exposures in accordance with the guidelines of both Erste Group and Hungarian regulatory authorities. The rules are also valid for the subsidiaries of Erste Bank Hungary Zrt.

The bank is committed to apply an interest rate risk management process, which is extensive and focuses on every relevant issue. In the interest of these, both short term, profit-oriented and long term, economic value oriented variables are included in the policy.

Organisation

The efficiency of the bank's risk management process and the level of interest rate exposure are crucial points and the bank is aware of the primary importance of these points in the valuation of the bank's capital adequacy. It is the Bank's Risk Appetite Statement which consist of core risk metrics and key risk principles to manage risks and sets the boundary for limits.

The supreme decision making body regarding the asset liability management and the interest rate risk management is the Asset Liability Committee, yet it is the responsibility of Corporate Risk Management Directorate to measure interest rate risk and to validate the respective models.
This organizational set-up guarantees the implementation of independence of interest rate risk measure, monitoring and controlling from departments undertaking interest rate risk.
The trading book and non-trading book risk management is based on the monthly ALCO report, which covers both the banking and trading risk.

Banking Book Management

The interest rate risk of the Banking Book is dealt with by the management in the Asset Liability Management (ALM).The Committee regularly reviews the interest rate risk position of the Bank and the development of the positions thereof. In addition to monitoring the position, the Committee also has the right to evaluate and rate the Bank's interest rate risk position.

Trading Book Management

It is the responsible unit in Corporate Risk Directorate which is managing market and liquidity risk and deals with the interest rate risk of the trading book in detail.

It is responsible for monitoring interest rate management process, for informing the board about the interest rate position and maturity structure. It also develops and applies interest rate risk tools, methods and processes cooperating with ALM as well as monitors the interest rate risk exposure of the Bank's subsidiaries

Risk types and measurement methods

The Interest Rate Risk in the Banking Book (IRRBB) generally can be defined as follows: deterioration of the financial position of the bank deriving from the unexpected and unfavorable fluctuation of interest rates and the exposure to such negative consequences. The deterioration of the financial position can basically arise in two areas: it can impact profitability on the one hand, and the economic (business) value of the bank on the other hand.
Conventionally, risks can be listed under four categories based on the type of interest rate fluctuations and the type of positions exposed to risk:

- repricing risk;
- basis risk;
- yield curve risk;
- option risk.

Out of the above regarding positions recorded in the Banking Book generally the repricing (new pricing) risk are the most frequent and, regarding its impact, the most significant source of interest rate risk. Option risk is not quantified currently, however the internal transfer pricing (FTP) considers this risk and consequently, pricing reflects that kind of risk.

Risk measurement and control

The ALM software QRM Balance Sheet Management is used throughout the entire ErsteGroup. 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 value of the banking book positions. The data are organised in an account/product structure. 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 this group.

Risk Measurement in the Banking Book

For assessing the interest rate risk of the Banking Book the Bank uses the simulation method, which is among the methodologically more sophisticated solutions. The different aspects of exposure to interest rate risk are taken into consideration by the Bank, i.e. in the course of simulation the calculations are carried out with the approach traditionally used by asset-liability management, which means that

- the net interest income simulation (income perspective) and
- the cash-flow valuation, or the economic value simulation (economic perspective) are applied.

Risk hedging

The major instruments of interest rate risk management are balance sheet restructuring and off-balance-sheet instruments, influenced by the following risk characteristics: maturity, type of interest payment, (fix or floating), repricing dates and periods, as well as the indicator to which the repricings are linked.

Risk monitoring in the Banking Book

Sensitivity of economic value of equity is calculated (and monthly monitored) by ±100 and ±200 bp parallel shifts of yield curves. The -200 bp scenario is the most unfavourable, therefore the numerator of Basel II rate equals to the appropriate value loss.

The sensitivity of 1-year net interest income is measured by +100 bp parallel shift of yield curves. The interest income cannot change by more than 5%.

Interest rate Risk Reporting

Risk reporting from the Banking book

The Bank's management regularly receives reports about the development of the banking book interest rate risk exposure. These reports allow the Management:

- to evaluate the level and trend of the Bank's total interest rate risk exposure;
- to check compliance with the defined risk tolerance levels;
- to identify potential risk exposure excess of the level set forth by the policy;
- to determine if the Bank has enough capital to undertake the respective interest rate risk;
- to make decisions regarding interest rate risk.

Quantitative disclosure on interest rate risk

The following table exhibits Erste Bank Hungary's interest rate risk in banking book, specifically the change in the market value in the case of a parallel shift of the interest rate curve by 100bps upwards. At Erste Group, monthly upward and downward shocks of 100bps and 200bps are calculated and analysed for all entities and all currencies. The 200bps shock enters into the calculation of the internal Basel 2 ratio. As shown in the table, the -200bps shock resulted in a negative risk at the Bank level.

The following table exhibits Erste Bank Hungary's interest rate risk in banking book, specifically the change in the market value in the case of a parallel shift of the interest rate curve by 100bps upwards. At Erste Group, monthly upward and downward shocks of 100bps and 200bps are calculated and analysed for all entities and all currencies. The 200bps shock enters into the calculation of the internal Basel 2 ratio. As shown in the table, the -200bps shock resulted in a negative risk at the Bank level.

Currency	**MV change mn HUF (-200bp parallel shock)**
HUF	-19 110
CHF	-2
EUR	-460
USD	-275
TOTAL	-19 847
Equity	267 315
Basel II ratio	**7,42%**

Table 23: Art 448 CRR Sensitivity of economic value (Banking Book)

Currency	Base mn HUF	+1% parallel shock
HUF	47 308	1 526
CHF	518	16
EUR	-3 294	551
USD	113	84
TOTAL	44 644	2 177
in %	-	4,90%
Limit		**5,00%**

Table 24: Ar 448 CRR The sensitivity of 1-year net interest income (Banking Book)

OPERATIONAL RISK

Disclosure requirements covered: Art 435 1) (a) (b) (c) (d), 446 and 454 CRR

Goals and principles of risk management

Erste Bank Hungary has been managing operational risks since 2004. Both quantitative and qualitative methods are used to identify operational risks, and are refined further in order to capture all information relevant to risk management.

Operational risk is defined as the risk of loss resulting from inadequacy or failure of internal processes, people or systems, or from external events, including legal risks. The basic objective is to prevent or minimize (similar) these future events, mentioned above, through the identification of operational deficiencies and problems, and defining corrective measures in order to increase the risk awareness of each business unit.

Organization

At Erste Bank Hungary it is Strategic Risk Management, which is responsible for operational risk management, strategy and the related framework (basic principles, responsibilities, structure, process):

- Operational risk management methodologies (key risk indicators, risk and control self assesment, outsourcing risk assessment) in accordance with laws, external and internal supervisory regulation (MNB, group standards);
- Responsible for risk mitigation through operating the Local Operational Risk Management Committee of the Bank,
- Operates a regular operational monitoring function based on predefined standards, information supply to the Management.

Risk measurement and control

In 2015 the Bank pursuant to the capital requirements calculations

- on the individual company level the Bank applied the Advanced Measurement Approach (AMA). Risk mitigating effects within the Advance Measurement Approach are applied,

- Basic Indicator Approach (BIA) is used on the consolidated level in order to determine the amount of capital requirements to cover operational risk Minimum capital requirements for those subsidiaries that do not yet apply the AMA are calculated using the BIA.

- Subsidiaries of the Bank use the Basic Indicator Approach.

On 31 December 2015 the individual operational risk capital requirement of Erste Bank Hungary Zrt., based on the Advanced Measurement Approach was HUF 11 565,943 million and HUF 13 690,612 million on the consolidated level. of which the part determined with the Basic Indicator Approach was HUF 2 124,669 million.

The calculation of the capital with the Advanced Measurement Approach is carried out centrally with the capital calculation model applied by Erste Group Bank AG. The group level capital requirement is allocated, based on the predefined scale and loss indicator, to the Erste Group members applying the Advanced Measurement Approach – including Erste Bank Hungary.

When calculating the central capital requirements the Erste Group Bank AG applies the Loss Distribution Approach (LDA) in which the internal loss data and scenarios of Erste Holding members are used as an input; furthermore the loss incidents of the ORX database are used as external data. The external environment and the internal control factors are quantified indirectly, by scenario analysis.

In accordance with the Group level risk control guidelines the Bank's subsidiaries implemented the elements of the operational risk management framework to suit their risk profile.

Quantitative techniques measuring operational risk applied in the Bank are the following:

- decentralized internal loss data collection in the entire Bank based on uniform rules and principles,
- annually conducted scenario analysis for the quantification of loss incidents that have not yet been identified in loss data collection, but are potentially occurring events in the future,
- holding level, Loss Distribution Approach (LDA) based capital requirement calculation.

Consequently, the quantitative techniques for measuring operational risk and the qualitative techniques for risk management are simultaneously used in the Bank.

Operational Risk Reporting

Information on operational risks is reported regularly to the management board. This is done within the scope of various reports, above all, the quarterly report for the top management, which informs on recent losses, loss trends, qualitative information derived from Risk Control Self-Assessment, risk indicators, key ratios and VaR for operational risk computed for Erste Bank.

Use of Insurance for risk mitigation in AMA

Qualitative techniques are applied in the Bank to identify and mitigate operational risks are as follows:

- regularly conducted risk self-assessments in order to reveal the Bank's activities with high residual risk and to draw up the related risk mitigating measures,
- definition, collection and monitoring of key risk indicators demonstrating the development of the risk level,
- risk analysis to identify the risks of outsourced activities.

The parent company, Erste Bank Group AG is a member of the international ORX loss data consortium, meanwhile Erste Bank Hungary is a member of the Hungarian Operational Risk Database (HunOR). In order to cover large amounts of operational risk losses the Bank has entered into an insurance contract for operational risk with Erste Reinsurance. The insurance covers the following risks:

Non-bank specific risks:	**Bank specific risks:**
Damage to property and shutdown	Internal fraud
Valuable property risk	External fraud
General liability insurance	Civil liability insurance
	Technological risks

Table 25: Non-Bank and Bank specific risks covered by insurance on Bank level

Assessment of own funds requirements for operational risk

Disclosure requirements covered: Art. 446

The capital requirements of the Bank were calculated as the allocation of the group level capital requirements determined by Erste Group Bank AG. Internal data used for the capital calculation are provided by the subsidiaries. As of 1 July 2011 - with the permission of the Supervisor - the operational risk insurance program, as a risk mitigation instrument, is considered in the calculation of capital.

OTHER RISKS

Disclosure requirements covered: Art. 435. cikk (1) (a) (b) (c) (d), 446 és 454 CRR

Liquidity risk

Goals and principles of risk management

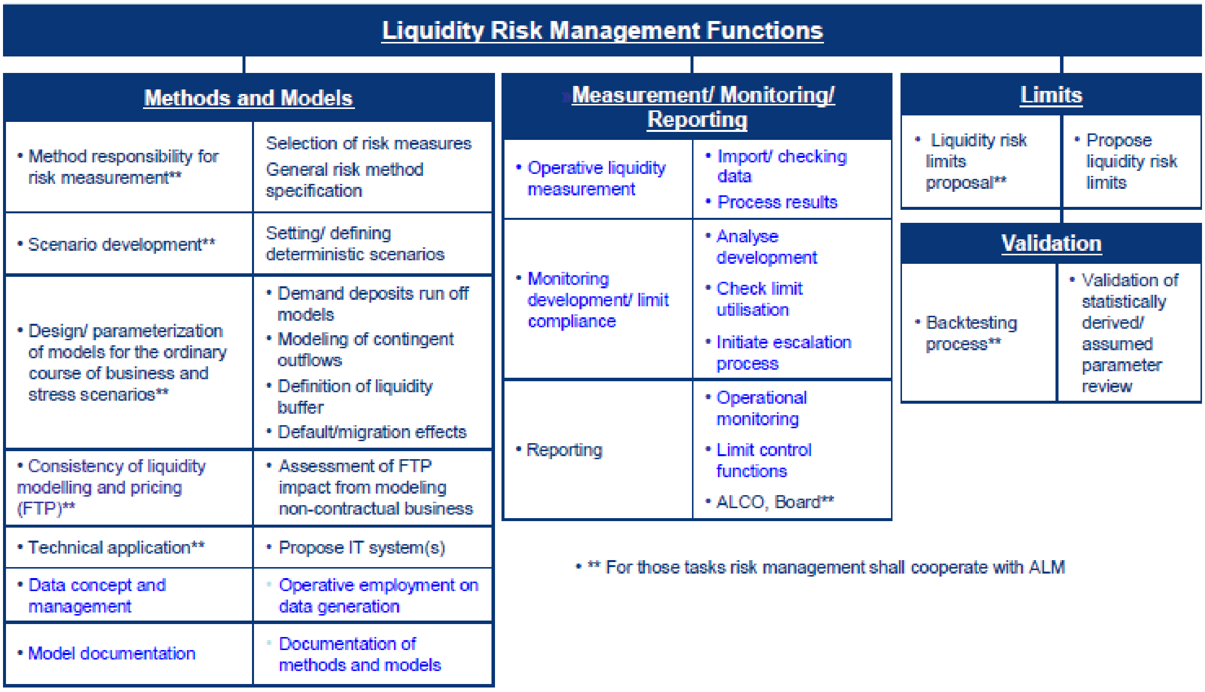
Liquidity risk is defined by Erste Bank Hungary according to the principles of the Basel Committee for Banking Supervision. Thus, a difference is made between:

- market liquidity risk,(i.e., the risk that the Bank will be unable to close a position due to insufficient market depth or market disruptions) and,
- funding liquidity risk, i.e., the risk that the bank would not be capable of efficiently fulfilling expected or unexpected requirements for current and future cash flows and collateral without restricting their daily business or the financial situation. The funding liquidity risk is broken down further into:
  - insolvency risk and
  - structural liquidity risk.

The former is the short-term risk that current or future payment obligations will not be fully met in a timely and economically appropriate manner, while structural liquidity risk refers to the long-term risk of losses due to a change in the refinancing costs or in the issuer spreads of the Bank.

Liquidity risk management framework

It is the Corporate Risk Directorate which is responsible for liquidity risk management in Erste Bank Hungary. The chart below presents an overview of the functions of liquidity risk management within the Bank:



Picture 7: Liquidity risk management framework at Erste Bank Hungary

- The Bank Supervisory Board acknowledges the RAS, receives Bank risk reports which include RAS development and the liquidity risk profile.
- The Board sets the strategic framework for liquidity management, approves the risk tolerance appropriate to the business strategy, approves the Bank strategy, policies and practices to manage liquidity risk in accordance with risk tolerance and reviews the information on the bank's liquidity development.

- The Asset and Liabilty Comittee is the highest decision making committee concerning all aspects of Liquidity Risk Management. It approves and is responsible for the definition and implementation of a sound liquidity risk analysis framework for identifying, measuring, monitoring and controlling all liquidity risk types across the Bank.
- The OLC consists of the relevant stakeholders of Treasury, ALM and Liquidity Risk Management functions and monitors the liquidity position of Bank.

Risk measurement and Control

Survival period analysis

The short-term liquidity risk (insolvency risk) is measured and limited by applying a “Survival Period Analysis” for every currency. This analysis provides the maximum period during which a bank survives in a serious combined market and idiosyncratic crisis while relying on its pool of liquid assets. The worst-case scenario monitored simulates very limited money market and capital market access and at the same time significant client deposit outflow. Furthermore, the simulation assumes increased drawdown on guarantees and loan commitments dependent on the type of the customer, as well as the potential outflows from collateralised derivative transactions estimating the effect from collateral outflow in the case of adverse market movements.

Liquidity coverage ratio (LCR)

Internally, both the CRR and the Delegated Act based ratios are monitored on monthly frequency. From April 2016, the central bank requires a target of 100% for Delegated Act based LCR.

Concentration analysis

The risk concentrations with respect to the depositor partners and maturity is analysed on quarterly frequency.

Methods and Instruments of Risk mitigation

The general standards of liquidity risk controlling and management are defined by the Bank, documented in respective internal guidelines and are constantly reviewed and further developed.
The Contingency Funding Plan provides a framework for managing both temporary and long-range liquidity disruptions that risk the bank’s ability to fund some or all of its activities in a timely manner and/or at reasonable cost. The plan is tested and revised at least yearly. Testing shall ensure that roles and responsibilities are appropriate and understood, contact information is up to date and the transferability of cash and collateral is still present.

Macroeconomic Risk

Macroeconomic risk is the risk of losses resulting from a change to the general economic situation.

Methods and Instruments applied

In the course of stress testing, scenarios are developed based on assumptions of deteriorating economic conditions. These economic scenarios apply not only to the entire portfolio of the Bank (credit, market, operational and liquidity risk), but also to earnings and capital adequacy, taking more than three macroeconomic factors into account. This method reveals how the changed economic conditions affect the risk and earnings situation as well as own funds.

Stress testing is included in the calculation of the risk-bearing capacity and the risk appetite processes by taking into consideration the economic capital risk limit, thereby capturing the effects of macroeconomic risk.

Concentration Risk

Concentration risk is the exposure(s) that may arise within or across different risk categories throughout an institution with the potential to produce:

- losses large enough to threaten the institution’s health or ability to maintain its core operations;
- or a material change in an institution’s risk profile.

Concentration Risk Management

It is the Strategic Risk Management and Corporate Risk Management Directorate who are responsible for analysing, monitoring and reporting concentration risk of the different business’ portfolios.

The Bank regularly monitors the concentration of the portfolio according to the above given categories, and reports that to the top management on a quarterly basis. For the management of the concentration risks, the Bank applies limits on individual exposures as well as industries. The limit usage is regularly reported to top management.

Methods and Instruments applied

Erste Bank Hungary has implemented a comprehensive system for the identification, measurement, control, reporting and management of concentration risks. This is of key importance for securing the long-term viability of every single credit institution especially in phases with an adverse macroeconomic environment.

Concentration risk management at the Bank is based upon a framework of processes, methods and reports covering both intra- and inter-risk concentrations. Diverse analyses are regularly conducted, reviewed and reported. Concentration risks are also taken into account systematically in the stress factors of stress tests. The result of the internal stress tests is included in the calculation of the RCC.
Moreover, the results of the concentration risk analysis are used in the definition of the RAS as well as for the setting and calibration of the Banks’ Group limits.

The IRB method - due to its nature – underestimates the capital requirement for portfolio with imperfect granularity, therefore the Bank annually analyses the possible additional capital requirement coming from imperfect granularity. The result of this analysis is annually reviewed by the Supervision. As the decisive majority of the credit risk exposures of the Bank can be found in the retail segment, the Bank did not have to create additional capital requirement due to imperfect granularity in 2015.

Geographic-, maturity-related concentrations characteristic for the portfolio are demonstrated in the annex.

REMUNERATION POLICY (PREMILINARY READING)

Disclosure requirements covered: Art. 450 CRR

The main body overseeing remuneration during the financial year in Erste Bank Hungary Zrt is the Nomination and Remuneration Committee. The Committee consisted of two external member of Board of Directors and 3 delegated members of the Supervisory Board in 2015. The Committee held 2 meetings in 2015.

The Bank fulfils the disclosure obligation on the following topics defined by the section (1) of the Article 450 of Chapter 8 of the regulation (EU) No 575/2013 with the published remuneration policy through the website of the Bank and Erste Investment Zrt. (http://www.erstebank.hu/hu/bankunkrol/erste-bank-hungary-zrt/javadalmazasi-politika;http://ersteinvestment.hu/hu/kozzetetelek.html) information concerning the decision-making process used for determining the remuneration policy, the most important design characteristics of the remuneration system (including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria), information on link between pay and performance, the ratios between fixed and variable remuneration, the main parameters and rationale for any variable component scheme and any other non-cash benefits and information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based are all included in the disclosed remuneration policy.

The Erste Bank Hungary Zrt. discloses it's remuneration policy on the homepage of the Bank, which includes also the remuneration policy applicable for the identified staff defined based on the section (2) of 117. § of Hpt.The remuneration of the Bank and its subsidiaries under consolidated supervision is presented on the next page.

Remuneration data disclosure of Erste Bank Hungary Zrt. and its subsidiaries under consolidated supervision for the financial year 2015

The Erste Bank Hungary Zrt. discloses the remuneration data of Erste Bank Hungary Zrt., and of the Bank and its subsidiaries under consolidated supervision for business year 2015 for those categories of staff whose professional activities have a material impact on its risk profile based on the Article 450 of Chapter 8 of the regulation (EU) No 575/2013.

The aggregate quantitative information on remuneration for the 2015 financial year based on the point g)- i) of the section (1) of Article 450 of Chapter 8 of the regulation (EU) No 575/2013 is detailed in the below table:

Bank 'only view' Erste Bank Hungary Zrt:

Payments for the 2015 financial year (in HUF)	Broken down by management bodies			Broken down by business areas						
	management body in its supervisory function*	management body in its management function*	Total	Investment Banking	Retail Banking	Asset management	Corporate functions	Independent control functions	Other functions	Total
Number of relevant material risk takers	**6**	**6**	**12**	**12**	**18**	**2**	**9**	**5**	**3**	**49**
Total fixed remuneration for 2015	**7 654 290**	**358 613 336**	**366 267 626**	**192 124 980**	**420 019 447**	**34 721 404**	**216 382 953**	**250 662 733**	**184 521 048**	**1 298 432 565**
Total variable remuneration for 2015	0	139 412 880	**139 412 880**	67 881 000	115 322 860	5 200 000	62 100 000	69 732 560	47 970 960	368 207 380
Immediate cash payment for 2015	0	41 823 864	**41 823 864**	38 571 458	82 793 188	5 200 000	62 100 000	37 202 888	15 441 288	241 308 822
Outstanding deferred remuneration from the 2015 entitlement	0	97 589 016	**97 589 016**	29 309 542	32 529 672	0	0	32 529 672	32 529 672	126 898 558
Deferred, but already granted phantom shares	0	41 823 864	**41 823 864**	10 500 000	13 941 288	0	0	13 941 288	13 941 288	52 323 864
Deferred, not yet granted remuneration (phantom shares + cash)	0	55 765 152	**55 765 152**	18 809 542	18 588 384	0	0	18 588 384	18 588 384	74 574 694
Cash part of the total 2015 entitlement	0	69 706 440	**69 706 440**	50 381 000	92 087 380	5 200 000	62 100 000	46 497 080	24 735 480	281 000 940
Phantom shares part of the total 2015 entitlement	0	69 706 440	**69 706 440**	17 500 000	23 235 480	0	0	23 235 480	23 235 480	87 206 440
Deferred payments from the previous years, paid in 2015	0	69 740 970	**69 740 970**	21 640 361	14 108 698	0	0	27 827 192	35 856 691	99 432 941
Performance adjustment	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Loss of eligbility for previous years deferred part	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
New sign-on payments	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of beneficiaries with sign-on payments	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Number of severance payments	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Number of beneficiaries with severance payments	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Highest payment for severance payment	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Number of individuals being remunerated EUR 1 million or more per financial year	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Erste Bank Hungary Zrt and its subsidiaries under consolidated supervision:

Payments for the 2015 financial year (in HUF)	Broken down by management bodies			Broken down by business areas						
	management body in its supervisory function*	management body in its management function*	Total	Investment Banking	Retail Banking	Asset management	Corporate functions	Independent control functions	Other functions	Total
Number of relevant material risk takers	**16**	**24**	**40**	**27**	**24**	**2**	**9**	**5**	**3**	**70**
Total fixed remuneration for 2015	**7 654 290**	**501 277 736**	**508 932 026**	**522 061 698**	**484 386 460**	**34 721 404**	**216 382 953**	**250 662 733**	**184 521 048**	**1 692 736 296**
Total variable remuneration for 2015	0	191 312 880	**191 312 880**	196 410 693	138 122 860	5 200 000	62 100 000	69 732 560	47 970 960	519 537 073
Immediate cash payment for 2015	0	88 473 864	**88 473 864**	152 300 901	105 593 188	5 200 000	62 100 000	37 202 888	15 441 288	377 838 265
Outstanding deferred remuneration from the 2015 entitlement	0	102 839 016	**102 839 016**	44 109 792	32 529 672	0	0	32 529 672	32 529 672	141 698 808
Deferred, but already granted phantom shares	0	41 823 864	**41 823 864**	10 500 000	13 941 288	0	0	13 941 288	13 941 288	52 323 864
Deferred, not yet granted remuneration (phantom shares + cash)	0	61 015 152	**61 015 152**	33 609 792	18 588 384	0	0	18 588 384	18 588 384	89 374 944
Cash part of the total 2015 entitlement	0	121 606 440	**121 606 440**	178 910 693	114 887 380	5 200 000	62 100 000	46 497 080	24 735 480	432 330 633
Phantom shares part of the total 2015 entitlement	0	69 706 440	**69 706 440**	17 500 000	23 235 480	0	0	23 235 480	23 235 480	87 206 440
Deferred payments from the previous years, paid in 2015	0	71 965 970	**71 965 970**	31 908 611	14 108 698	0	0	27 827 192	35 856 691	109 701 191
Performance adjustment	N/A	N/A	**N/A**	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
Loss of eligbility for previous years deferred part	N/A	N/A	**N/A**	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
New sign-on payments	N/A	N/A	**N/A**	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
Number of beneficiaries with sign-on payments	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Number of severance payments	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Number of beneficiaries with severance payments	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Highest payment for severance payment	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Number of individuals being remunerated EUR 1 million or more per financial year	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

* each management body member is calculated only once in the headcount, even if fulfils multiple management body role

ANNEX

Quantitative credit and counterparty risk exposure

bank standalone view (HAS)

Erste Bank Hungary presents the total amount of credit risk exposures and the average amount of the exposures over the period broken down by different types of exposure classes:

- The Bank discloses according to Art 439 e) CRR that it does not apply netting in capital requirement calculation.
- The Bank discloses according to Art 439 g) that it does not apply credit derivatives as collateral.

Exposure by approach for credit and counterparty risk mn HUF	Banking Book related Risk Types mn HUF		Total
APPROACH	Exposures subject to Counterparty risk	Exposures subject to Credit risk	
Standard IRB	11 642	778 536	790 179
Advanced IRB	3	848 793	848 796
Foundation IRB	29 839	278 584	308 424
Fondation IRB Special lending	0	173 446	173 446
TOTAL	41 485	2 079 360	2 120 845

Table 26: Exposure by approach for credit and counterparty risk

Portfolio in the Supervisory Slotting Approach mn HUF	Supervisory slot	EAD	EAD (% of total)
Below 2.5 years	Category 1	1 314	3%
	Category 2	6 373	13%
	Category 3	2 074	4%
	Category 4	40	0%
	Category 5 – Default	37 785	79%
Below 2.5 years		**47 586.3**	**27%%**
2.5 years and longer	Category 1	3 427.7	3%
	Category 2	3 091.0	42%
	Category 3	1 092.2	26%
	Category 4	826.8	16%
	Category 5 – Default	835.3	13%
2.5 years and longer		**125 861**	**73.0%**
TOTAL		**173 446**	**100.0%**

Table 17: Art. 438 CRR: Portfolio in the Supervisory Slotting Approach – Exposure by residual maturity bands and supervisory slots

GEOGRAPHICAL REGION	Central Governments and Central Banks	Institution	Corporates	Retail	Total
	Exposure Class mn HUF				
Core Market - Hungary	585 497	24 180	589 413	846 104	2 045 194
Other EU Countries	0	17 517	1 176	5 721	24 414
Other Countries	2 075	106	6 232	1 339	9 752
Total	**587 573**	**41 802**	**596 821**	**853 164**	**2 079 360**

Table 28: Art. 442 CRR Geographical distribution of the exposures, broken down in significant areas by material exposure classes subject to credit risk

PARTNER TYPE	Central Governments and Central Banks	Institution	Corporates	Retail	Total
	Exposure Class mn HUF				
Central Banks	140 914	0	0	0	140 914
Central Governments	442 213	0	0	0	442 213
Corporates	0	0	523 304	0	523 304
Corporates SME	0	0	73 517	0	73 517
Institution	0	41 802	0	0	41 802
Local Authorities	2 371	0	0	0	2 371
Multilateral Development Bank	2 075	0	0	0	2 075
Retail	0	0	0	850 218	850 218
Retail SME	0	0	0	2,947	2 947
Total	**587 573**	**41 802**	**596 821**	**853 164**	**2 079,360**

Table 29: Art 442 CRR (e): The distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs subject to credit risk

RESIDUAL MATURITY	Central Governments and Central Banks	Institution	Corporates	Retail	Total
	Exposure Class mn HUF				
Below 3 months	186 906	34 781	125 794	136 426	483 908
3 months <= X < 1 year	50 051	6 447	97 945	13 089	167 532
1 year <= X < 2,5 years	71 768	106	39 622	18 392	129 888
2,5 years <= X < 5 years	212 164	121	79 361	37 158	328 804
5 years <= X < 10 years	20 138	38	60 324	121 525	202 025
10 years <= X < 15 years	32 360	309	151 720	270 344	454 732
15 years <= X < 20 years	15	0	34 736	131 205	165 956
20 years or longer	14 171	0	7 319	125 026	146 515
Total	**587 573**	**41 802**	**596 821**	**853 164**	**2 079 360**

Table 30**:** Art 442 CRR : The residual maturity breakdown of all the exposures, broken down by exposure classes subject to credit risk

Partner type breakdown mn HUF	Impaired exposures	Overdue Exposures
Central Governments	0	47
Institution	5 678	5 636
Local Authorities	2	2
Corporates	51 035	74 428
Corporates SME	4 131	824
Retail	252 824	226 935
Retail SME	115	94
Total	**313 786**	**307 967**

Table 31**:** Art 442 CRR: Impaired exposures and past due exposures by significant industry or counterparty type

Geographical region type breakdown mn HUF	Impaired exposures	Overdue Exposures
Core Market - Hungary	309 621	305 131
Other EU Countries	3 530	2 276
Other Countries	636	561
Total	**313 786**	**307 967**

Table 32: Art 442 (i) CRR: Impaired exposures and past due exposures by significant geographical type

Exposure Class breakdown related to external ratings (STD) mn HUF	Credit Quality Step		Exposure
	No Credit Quality	Credit Quality number 4	
Central government or central bank		488 461	488 461
Local Authorities	0		0
Multilateral Development Bank	2 644		2644
Institution	2 521		2 521
Corporates	87 494		87 494
Retail	4 934		4 934
Secured by mortgages on immovable mortgages	57 624		57 624
Nonperforming	51 866		51 866
Equity	211,794	488 461	700 256
Other		488 461	488 461
Total	**211 794**	**488 461**	**700 256**

Table 33: Art 444 CRR: Exposure class breakdown related to external ratings (STD portfolio)

Exposure class breakdown related to the total IRB portfolio (including counterparty risk) mn HUF				Total
	Advanced IRB class	Foundation IRB class	Foundation IRB Special Lending class	
Central Governments and Central Banks	0	16 372	0	16 372
Institution	0	42 330	0	42 330
Corporates	0	249 721	173 446	423 168
Retail	848 796	0	0	848 796
Total	**848 796**	**308 424**	**173 446**	**1 330 666**

Table 34**:** Art 452 CRR: Exposure class breakdown related to the total IRB portfolio

Exposure class breakdown of on- and off-balance exposures for IRB portfolio mn HUF		Non-defaulted exposure	Defaulted exposure	Total
Type	Class			
On-Balance	Central Governments and Central Banks	14,370	2	14,372
	Corporates	261,205	50,234	311,440
	Institution	41,390	58	41,448
Off-Balance	Central Governments and Central Banks	2,000	0	2,000
	Corporates	103,067	8,661	111,728
	Institution	881	0	881
	Total	**422,914**	**58,956**	**481,870**

Table 35: Art 452 CRR: Exposure class breakdown of on- and off-balance exposures for IRB portfolio excluded Retail segment

Exposure classes* HUF	Average RW %	Average RWA
Central governments and central banks*	137%	2 296 554
Institutions	86%	29 662 509
Corporates	98%	4 908 929

Table 36: Art 452 CRR: Risk Weights and Risk Weighted Assets by exposure classes

*This exposure class contains the Multilateral and Local authorities related exposures as well.

Retail exposure by expected loss category and exposure type mn HUF Category	Mortgage loan	Unused limits and guarantees	Other loans	Total
Retail A1	80 501	4 557	1 399	86 457
Retail A2	145 341	8 699	6 504	160 543
Retail B1	142 161	9 557	16 631	168,348
Retail B2	60 335	4 557	19 537	84,429
Retail C1	36 930	1 839	12 004	50,773
Retail C2	24 304	872	9 867	35,042
Retail D1	17 435	227	4 825	22,487
Retail D2	9,989	95	2 593	12,680
Retail R	211,380	559	16 097	228,036
Total	**728 375**	**30 962**	**89 457**	**848 796**

Table 37: Art 452 CRR**:** Exposures by Expected Loss category and Exposure Types (Retail)

Exposure Classes	Country of Risk code	Average PD (%)	Average LGD (%)
Corporates	CA	7%	45%
Corporates	HU	6%	43%
GOV_CB	HU	2%	29%
Institution	HU	27%	45%
Institution	US	100%	45%
Retail	HU	56%	64%

Table 38 Art 452 CRR: Geographical breakdown of average PDs and LGDs weighted by Exposure Classes

Exposure Classes mn HUF	Guarantee Received
Central Governments or Central Banks	102 206
Institution	1 285
Corporates	427
Retail	0
Total	**103 918**

Table 39: Art 453 CRR: Exposure class breakdown of received guarantees

Consolidated (IFRS) view of

quantitative credit and counterparty risk exposures

Exposure by approach for credit and counterparty risk mn HUF	Banking Book related Risk Types		Total
	Exposures subject to Counterparty risk	Exposures subject to Credit risk	
Standard IRB	18 084	810 264	828 348
Advanced IRB	3	753 573	753 576
Foundation IRB	29 839	279 079	308 918
Foundation IRB Special lending	0	170130	170 130
Total	**47 927**	**2 013 047**	**2 060 973**

Table 40: Art. 452 (d) CRR: Credit and Counterparty Risk consolidated tables on IFRS figures

mn HUF	Exposure Class				
Geographical region	Central Governments and Central Banks	Institution	Corporates	Retail	Total
Core Market - Hungary	650 715	30 756	536 766	757 858	1 976 095
Other EU Countries	0	21 238	1 355	4 700	27 293
Other Countries	2 075	107	6 342	1 134	9 658
Total	**652 791**	**52 100**	**544 463**	**763 693**	**2 013 047**

Table 41: Art 442 CRR: Geographical breakdown of exposures subject to credit risk

mn HUF	Exposure Class				
Partner Type	Central Governments and Central Banks	Institution	Corporates	Retail	Total
Central Banks	140 512	0	0	0	140 512
Central Governments	507 808	0	0	0	507 808
Corporates	0	0	469 501	0	469 501
Corporates SME	0	0	74 962	0	74 962
Institution	0	52100	0	0	52 100
Local Authorities	2 396	0	0	0	2 396
Multilateral Development Bank	2 075	0	0	0	2 075
Retail	0	0	0	760 685	760 685
Retail SME	0	0	0	3 008	3 008
Total	**652 791**	**52 100**	**544 463**	**763 693**	**2 013 047**

Table 42: Art 442 CRR: Partner type breakdown of exposures subject to credit risk on consolidated basis

mn HUF	Exposure Class				
Residual maturity	Central Governments and Central Banks	Institution	Corporates	Retail	Total
Below 3 months	226 320	40 495	130 086	71 850	468 752
3 months <= X < 1 year	51 061	6 449	97 444	12,957	167 911
1 year <= X < 2,5 years	77 921	106	39 491	17 668	135 187
2,5 years <= X < 5 years	223 965	4 741	78 295	36 202	343 203
5 years <= X < 10 years	27 127	38	56 614	118 052	201 832
10 years <= X < 15 years	32 210	270	103 019	259 116	394 616
15 years <= X < 20 years	15	0	33 220	127 423	160 658
20 years <= X	14 171	0	6 294	120 424	140 888
Total	**652 791**	**52 100**	**544 463**	**763 693**	**2 013 047**

Table 43: Art 442 CRR: Residual maturity breakdown of exposures subject to credit risk on consolidated basis

Partner type breakdown of overdue and impaired exposures mn HUF	Impaired exposures	Overdue exposure
Central Governments	51	0
Institution	5 615	5 605
Local Authorities	2	2
Corporates	72 575	49 464
Corporates SME	739	4 528
Retail	129 714	165 280
Retail SME	74	100
Totall	**208 770**	**224 979**

Table 44: Art 442 CRR Partner type breakdown of overdue and impaired exposures

Geographical region region type breakdown of overdue and impaired exposures mn HUF	Impaired exposures	Overdue exposure
Core Market - Hungary	207 172	221 973
Other EU Countries	1 243	2 549
Other Countries	356	456
Total	**208 770**	**221 973**

Table 45: Art 442 CRR Geographical region breakdown of overdue and impaired exposures

Exposure Class mn HUF	Approach			
	Advanced IRB class	Foundation IRB class	Foundation IRB Special lending	Total
Central Governments and Central Banks	0	16 360	0	16 360
Institution	0	45 337	0	45 337
Corporates	0	247 221	170 130	417 352
Retail	753 576	0	0	753 576
Total	**753 576**	**308 918**	**170 130**	**1 232 625**

Table 46: Art 452 CRR Exposure class breakdown related to IRB portfolio

Exposure Type mn HUF	Exposure Class	Non-defaulted exposure	Defaulted Exposure	Total
ON-BALANCE	Central Governments and Central Banks	14 359	2	14 360
	Corporates	257 041	48 581	305 623
	Institution	44397	58	44 455
OFF-BALANCE	Central Governments and Central Banks	2 000	0	2 000
	Corporates	103 068	8 661	111 729
	Institution	881	0	881
	Total	**421 746**	**57 302**	**479 049**

Table 47: Art 452 CRR: Exposure class breakdown of on- and off-balance exposures for IRB portfolio excluded Retail segment

Exposure Class* mn HUF	Average RW	Average RWA
Central governments and central banks*	137%	2 271 913
Institutions	85%	30 783 523
Corporates	98%	4 817 888

Table 48: Art 452 CRR Risk weights and Risk weighted assets by exposure classes

*This exposure class contains the Multilateral Development Bank and Local authorities related exposures.

Category	Retail Exposure mn HUF Mortgage Loan	Unused Limits and guarantees	Other loans outstanding	TOTAL
Retail A1	80 859	4 557	1 406	86 822
Retail A2	14 6112	8 699	6 561	161 372
Retail B1	142 938	9 557	16 713	169 209
Retail B2	60 626	4 557	19 584	84 768
Retail C1	37 197	1 839	12 027	51 062
Retail C2	24 431	872	9 907	35 210
Retail D1	17 503	227	4 855	22 586
Retail D2	10 030	95	2 603	12 731
Retail R	119 506	559	9 751	129 816
Total	**639 203**	**30 962**	**83 408**	**753 576**

Table 49: Art 452 CRR**:** Exposures by Expected Loss category and Exposure Types

Basel II Asset Class	Country of Risk Code	Average PD	Average LGD
Corporation	CA	7%	45%
Corporation	HU	6%	43%
Central governments and central banks	HU	2%	29%
Institution	HU	27%	45%
Institution	US	100%	45%
Retail	HU	56%	64%

Table 50: Art 452 CRR**:** Geographical breakdown of average PDs and LGDs weighted by exposure

LGD pool	Actual Loss (2010-2014)	Estimated LGD (October, 2014)*	Estimated LGD (December, 2015)*
Current Account	57.68%	80.15%	77.70%
Credit Card	47.85%	62.26%	62.93%
Leasing	36.96%	40.95%	41.43%
Mortgage	24.19%	49.00%	56.03%
Mortgage other (CHF)	14.30%	37.08%	41.55%
Mortgage other (EUR)	7.53%	25.12%	29.75%
Mortgage other (HUF)	4.42%	18.94%	21.82%
Mortgage (State Backed)	12.21%	19.26%	28.06%
Personal Loan	72.53%	77.78%	74.74%

Table 51: Art 452 CRR**:** Estimates of losses against actual losses from 2010-2014

*Implementation dates.

Market risk exposure bank standalone and on consolidated basis

according to Art 453 e9 CRR

MARKET RISK EXPOSURE

HUF

as of 31st December 2015

		Bank only	Consolidated
1.	TOTAL RISK EXPOSURE	19,433,338,129	41,067,676,779
1.*	Of which: Investment firms under Article 95 paragraph 2 and Article 98 of CRR	0	0
1.**	Of which: Investment firms under Article 96 paragraph 2 and Article 97 of CRR	0	0
1.1.	RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	8,958,371,283	20,432,789,396
1.1.1.	Standardised approach (SA)	2,858,825,027	7,759,167,006
1.1.1.1.	SA exposure classes excluding securitization positions	2,858,825,027	7,759,167,006
1.1.1.1.01.	Central governments or central banks	0	0
1.1.1.1.02.	Regional governments or local authorities	0	0
1.1.1.1.03.	Public sector entities	0	0
1.1.1.1.04.	Multilateral Development Banks	0	0
1.1.1.1.05.	International Organisations	0	0
1.1.1.1.06.	Institutions	1,085,169,900	1,526,699,613
1.1.1.1.07.	Corporates	1,773,655,127	5,906,511,944
1.1.1.1.08.	Retail	0	325,955,450
1.1.1.1.09.	Secured by mortgages on immovable property	0	0
1.1.1.1.10.	Exposure in default	0	0
1.1.1.1.11.	Items associated with paticular high risk	0	0
1.1.1.1.12.	Covered bonds	0	0
1.1.1.1.13.	Claims on institutions and corporates with a short-term credit assessment	0	0
1.1.1.1.14.	Collective investments undertakings (CIU)	0	0
1.1.1.1.15.	Equity	0	0
1.1.1.1.16.	Other items	0	0
1.1.1.2.	Securitization positions SA	0	0
1.1.1.2.*	of which: resecurisation	0	0
1.1.2.	Internal ratings based Approach (IRB)	6,099,546,255	12,673,622,389
1.1.2.1.	IRB approaches when neither own estimates of LGD nor Conversion Factors are used	6,099,546,255	12,673,622,389
1.1.2.1.01.	Central governments and central banks	0	0
1.1.2.1.02.	Institutions	4,051,892,725	8,534,017,188
1.1.2.1.03.	Corporates - SME	0	0
1.1.2.1.04.	Corporates - Specialised Lending	0	0
1.1.2.1.05.	Corporates - Other	2,047,653,530	4,139,605,202
1.1.2.	Internal ratings based Approach (IRB)	0	0
1.1.2.1.	IRB approaches when neither own estimates of LGD nor Conversion Factors are used	0	0
1.1.2.1.01.	Central governments and central banks	0	0
1.1.2.1.02.	Institutions	0	0
1.1.2.1.03.	Corporates - SME	0	0
1.1.2.1.04.	Corporates - Specialised Lending	0	0
1.1.2.2.	IRB approaches when own estimates of LGD and/or Conversion Factors are used	0	0
1.1.2.2.01.	Central governments and central banks	0	0
1.1.2.2.02.	Institutions	0	0
1.1.2.2.03.	Corporates - SME	0	0
1.1.2.2.04.	Corporates - Specialised Lending	0	0
1.1.2.2.05.	Corporates - Other	0	0
1.1.2.2.06.	Retail - Secured by real estate SME	0	0

1.1.2.2.07.	Retail - Secured by real estate non-SME	0	0
1.1.2.2.08.	Retail - Qualifying revolving	0	0
1.1.2.2.09.	Retail - Other SME	0	0
1.1.2.2.10.	Reatil . Other non-SME	0	0
1.1.2.3.	Equity IRB	0	0
1.1.2.4.	Securitization positions IRB	0	0
1.1.2.4.*	of which: resecuritisation		
1.1.2.5.	Other non credit-obligation assets		
1.1.3.	Risk exposure amount for contributions to the default fund of CCP		
1.2.	TOTAL RISK EXPOSURE AMOUNT FOR SETTLEMENT/DELIVERY		
1.2.1.	Settlement/delivery risk in the non-Trading book		
1.2.2.	Settlement/delivery risk in the Trading book		
1.3.	TOTAL RISK EXPOSURE FOR POSITION, FOREIGN EXCHANGE AND COMMODITY RISKS	8,537,570,663	18,013,227,463
1.3.1.	Risk exposure amount for Position, foreign exchange and commodity risks under standardised approaches (SA)	8,537,570,663	18,013,227,463
1.3.1.1.	Traded debt instruments	8,477,811,188	13,421,730,275
1.3.1.2.	Equity	0	88,498,038
1.3.1.3.	Foreign Exchange	37.5	4,443,239,713
1.3.1.4.	Commodities	59,759,437.5	59,759,437.5
1.3.2.	Risk exposure for position, foreign exchange and commodity risks under internal models (IM)	0	0
1.4.	TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISKS (OpR)	0	0
1.4.1.	OpR Basic indicator approach (BIA)	0	0
1.4.2.	OpR Standardised (STA) / Alternative Standardised (ASA) approaches	0	0
1.4.3.	OpR Advanced measurement approaches (AMA)	0	0
1.5.	ADDITIONAL RISK EXPOSURE AMOUNT DUE TO FIXED OVERHEADS	0	0
1.6.	TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSMENT	1,937,396,183	2,621,659,921
1.6.1.	Advanced method	0	0
1.6.2.	Standardised method	1,937,396,183	2,621,659,921
1.6.3.	Based on OEM	0	0
1.7.	TOTAL RISK EXPOSURE AMOUNT RELATED TO LARGE EXPOSURES IN THE TRADING BOOK	0	0
1.8.	OTHER RISK EXPOSURE AMOUNTS	0	0
1.8.2.	Of wich: Additional stricter prudential requirements based on Art 458	0	0
1.8.2.*	Of which: requirement for large exposures	0	0
1.8.2.**	Of which: due to modified risk weights for targeting asset bubbles in the residential and commercial property	0	0
1.8.2.***	Of which: due to intra finanial sector exposures	0	0
1.8.3.	Of which: Additional stricter prudential requirements based on Art 459	0	0
1.8.4	Of which: Additional risk exposure amount due to Article 3 CRR	0	0

Table 52: Exposure break down of the trading book by risk type

Glossary

Backtesting

Standardised testing of models based on the periodic comparison of gains and losses with the values estimated by the model.

Banking book

The banking book contains all transactions of a credit institution that are not included in the trading book. These include above all lending transactions, investments and securities held as non-current assets.

Capital adequacy

Capital adequacy means the adequacy of a bank's own funds with respect to its risk profile. Under Basel, the minimum capital requirements (pillar 1) and the supervisory review process (pillar 2) guarantee that banks meet capital adequacy requirements.

Capital requirements

Credit institutions and groups of credit institutions must at all times have a minimum total eligible capital available composed of the sum of the elements set out below:
1. 8% of the assessment base for credit risk
2. Minimum capital requirement for all types of risk in the trading book
3. Minimum capital requirements for commodities risk and FX risk, including the risk arising from gold positions, each for positions outside the trading book
4. Minimum capital required for operational risk
5. Additional capital requirement as necessary for qualified investments pursuant to Article 29 para. 4 ABA and for regulatory measures according to Article 70 para. 4a ABA.

Qualifying eligible own funds consist of the core capital (Tier 1), supplementary capital (Tier 2) and short-term subordinated capital (Tier 3) after making all regulatory deductions.

Confidence level

Under the VaR concept and economic capital, the probability that an actual loss will not exceed the potential loss as measured by VaR or economic capital.

Credit conversion factor (CCF)

Off-balance sheet transactions are converted into credit risk equivalents by applying (credit) conversion factors.

Credit risk mitigation (CRM)

Banks have a number of methods at their disposal for mitigating credit risk exposures that may reduce the minimum capital requirements pursuant to Article 22 ABA if the bank meets the corresponding regulations of the ABA and the Solvency Regulation. Receivables may be secured by tangible collateral or personal guarantees.

Default

The default of a borrower occurs when the borrower fails to make a contractually agreed payment. The nominal loss resulting from the default, which initially is equivalent to the amount of the outstanding credit, decreases to the actual loss after all collection options have been exhausted.

Expected loss (EL)

A measure of the loss which is expected for each receivable in case of default of a specific counterparty. According to Basel, risk provisions are to be created for expected losses.

Fair value

Value of an asset or a liability in an arm's length transaction between independent and competent parties willing to enter into a contract.

Grandfathering

In the case of changes to the legal or economic framework, existing rights may continue to be exercised for a certain transition period.

Incurred loss

Loss incurred in the case of an impairment according to IFRS.

International financial reporting standard (IFRS)/ International accounting standards (IAS)

IFRS, formerly IAS, are the international accounting rules for single-entity and consolidated financial statements issued by the International Accounting Board to render such financial statements comparable irrespective of national legal requirements.

Internal Ratings Based (IRB) Approach

As an alternative to the Standardised Approach, credit institutions have the option of applying the IRB Approach for calculating minimum capital requirements according to Article 22b ABA. In this approach, customers are assigned a credit rating based on the bank's own internal valuation processes which must comply with the stringent requirements of banking supervisors. In the Foundation IRB Approach, the PD of customers is assessed by the bank itself while the remaining parameters are defined by the banking supervisory authorities. The Advanced IRB Foundation approach applies an additional assessment of further risk parameters.

Loss given default (LGD)

The share of EAD which is actually to be expected as economic loss upon default of the borrower. It is in particular the realisation of collateral, if available, may result in the LGD being less than the outstanding receivable. Other proceeds and expenses as well as the time lag of cash flows due to the default are included in the economic loss figure as well.

PD/LGD approach

The PD/LGD approach applies the calculation of a RW based on the risk parameters PD and loss-given-default (LGD).

Probability of default (PD)

Probability that a borrower will default on a financial obligation within a certain period (usually one year). In the IRB Approaches for credit risk, PD is an estimated risk parameter.

Qualified revolving retail exposures

These exposures are defined as revolving, unsecured and cancellable at any time. They include credit facilities with amounts drawn and repaid fluctuating at the discretion of the customer within a limit defined by the bank.

Rating

Standardised assessment of the creditworthiness of a borrower (e.g. government, enterprise or private individual) based on qualitative and quantitative criteria. The rating may be assigned by the credit institution (internal rating) or by a rating agency (external rating). The internal rating reflects the default probability of the borrower. The better the rating, the lower the default probability of the borrower and, as a rule, the lower the interest rate the borrower pays to the bank on the debt.

Rating agency (external credit assessment institution, ECAI)

Companies that assess the creditworthiness of a debtor (e.g. of a government or a company) based on standardised qualitative and quantitative criteria.

Regulatory capital

Credit institutions and groups of credit institutions must meet the minimum capital requirements pursuant to Article 22 ABA at all times. The capital requirements and the eligible own funds must be reported in the balance sheet.

Risk-weighted assets (RWA)

RWAs are applied under Basel 2 to determine the amount of required capital for the credit risk exposure. For the coverage of credit risk, a bank must hold own funds of at least eight percent of RWAs.

Securitisations

The creation of (tradable) securities based on receivables or ownership rights. In the case of a securitisation, payment claims depend on the realisation of the credit or counterparty risk of a securitised portfolio and the subordination grade. The subordination grade results from the ranking of the securitisation tranche and determines the priority and the amounts of payments or losses to holders of securitised tranches in accordance with the structure of the cash flow waterfall. Securitisations for the purpose of backing securities with collateral are referred to as asset-backed securities. Residential mortgage-backed securities are securities backed by privately held residential real estate property; commercial MBS are backed by financing receivables from commercial real estate. Collateralised debt obligations, which belong to the ABS group, are structured products. These are baskets of collateralised loan obligations in which pools of loans serve as the underlying assets or collateralised bond obligations in which bonds serve as the underlying assets.

Sensitivity analysis

A sensitivity analysis serves to identify the relationship between the input variables and the output results in model calculations. By systematically varying the parameters, it is possible to test the sensitivity of the model output to changes in the input factors.

Solvency regulation

This regulation issued by the Austrian FMA serves to implement EU Directive 2006/48/EC "Banking Directive" and Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions in Austrian legislation. The objective is the transformation of the Basel regulations into Austrian supervisory law. Their application is mandatory for individual credit institutions as well as for groups of credit institutions.

Standardised Approach

A calculation method for determining the minimum capital requirements of a bank to cover credit risk pursuant to Article 22a ABA. The creditworthiness of a debtor is taken into consideration for the calculation of the capital required. External ratings may also be included in this approach to quantify the required minimum capital.

Stress test

A stress test is an analysis of how the impacts of crisis scenarios affect on revenue and solvency situation of a credit institution or a banking system. A stress scenario describes a future, drastic, but nonetheless plausible deterioration of the environment in which the institution or the system operates. Stress tests are carried out by the individual credit institutions as well as by supervisory authorities and/or central banks. In the area of financial market stability, stress tests represent a key element of quantitative analysis.

Supervisory Slotting Approach

This is an IRB variant for SL transactions in which pursuant to Article 170 (2) CRR, for the calculation of RWAs exposures are directly allocated to the regulatory RWs.

Trading book

The trading book contains transactions belonging to the proprietary trading of a credit institution. Pursuant to Article 22n ABA, all positions in financial instruments and commodities held by a credit institution with trading intent as well as financial instruments and commodities which are used to hedge or refinance specific risks in the trading book must be assigned to the trading book. Trading intent exists if positions in the trading book are held for the purpose of short-term resale or with the intention of benefiting from current or expected price differences between the buying and selling prices, or from other price or interest rate variations.

Unexpected loss

In the context of risk control and within the framework of regulatory capital requirements for financial institutions pursuant to Basel, an unexpected loss is defined as the potential loss amount of credit risk exposures that exceeds the expected loss. According to Basel, own funds must be available to cover unexpected losses.

Value-at-risk (VaR)

VaR is a risk measure which indicates the value that a loss on a certain risk exposure (e.g. of a securities portfolio) will not exceed with a given probability and within a given time period. To calculate the capital requirement of an exposure in the trading book, a bank may use an internal model. The ABA also describes this as VaR method.