Erste&Steiermärkische Bank d.d.

Annual Report
and
Consolidated Financial Statements
as at and for the year ended
31 December 2014

CONTENTS

Report of the President of the Management Board

In the pages of this Report we present to you business results achieved by Erste&Steiermärkische Bank d.d. ('the Bank') in 2014, which was an extremely challenging year for the entire economy, including the banking sector. In 2014 the Bank achieved optimal financial results in this period in the line with the business plan and the targets for the current year. By implementing an adequate business policy and adjusting its operations to the general market conditions, the Bank continued the upward trend of posting solid operating result, accompanied by an increase of the total assets and net profit.

Total asset of the Bank amounted HRK 60.2 billion at 31 December 2014 which was 0.09% increase from HRK 60.1 billion at December 2013. The Bank's total loans at 31 December 2014 amounted to HRK 39.6 billion, decreased by 3.49% compared to the end of 2013, when they amounted to HRK 41.0 billion. Total deposits at 2014 YE rose to HRK 37.2 billion up, by 0.37% compared to the end of 2013, when they amounted to HRK 37.0 billion.

The operating result amounted to HRK 1.4 billion, up by 5.37 % from 2013 when it amounted to HRK 1.3 billion, thus confirming the Bank's stable postion. The net profit in 2014 amounted to HRK 232.2 million. In 2013 the net profit amounted to HRK 68.4 million. Net profit continues to be impacted by expected and planned increased risk costs as a concequence of the general economic situation in Croatia, enforcement of prebankrutpcy settlements, and regulatory requirements. The 2014 ROA was 0.40%, ROE was 3.30%, and the cost/income ratio was 38.30% on 31 December 2014.

According to Erste&Steiermärkische Bank d.d. consolidated financial statements ('the Group') for 2014, which, in addition to the Bank, includes the following subsidiaries: Erste DMD d.o.o[1]., Erste Nekretnine d.o.o., Erste & Steiermärkische S-Leasing d.o.o, Erste Delta d.o.o., Erste Bank a.d., Podgorica, Erste Card Club Group[2] and Erste Factoring d.o.o., its total assets amounted to HRK 69.8 billion, which rose by 2.81% compared to the end of 2013, when they amounted to HRK 67.9 billion. The Group's operating result amounted to HRK 1.7 billion, up by 8.36% compared to the year before, when it amounted to HRK 1.6 billion. The Group's net profit in 2014 reached HRK 412.1 million compared to HRK 201.5 million in 2013. The Group's Return on Assets amounted to 0.50%, Return on Equity to 5.00%, and Cost/Income Ratio to 45.40%.

The Bank will continue to adhere to its basic strategic guidelines, which include following the financial needs of Croatian citizens, focusing intensively on the SME segment, and supporting quality projects driving the development of the real economy and employment. We continue to see new lending perspectives in renewable energy sources and energy efficiency, agriculture and EU fund-related infrastructure projects, tourism and export-oriented production. The Bank's long-term business policies are focused on growth above the market average, increased internal efficiency, and rational cost management. The Bank's ambition is to close this year with another increase in its market share, and it will continue to lay a special emphasis on improving the quality of its services and communication with the clients and on understanding their specific needs in the current market conditions.

Finally, I would like to thank all our clients, business partners and employees.

Petar Radaković
President of the Management Board

1 Erste DMD was merged with Erste d.o.o. from 1st of December 2014 and was deconsolidated from the Group

2 Diners BH was deconsolidated from Erste Card Club Group from 1st of November 2014 due to immateriality

Management Board

PETAR RADAKOVIĆ, Chairman of the Board

Responsible for Property and Cash Management Division, Internal Audit Department, Economic Research Department, Communication Department and Human Resources Department

From 31 May 2014 until 16 July 2014 was responsible also for Retail Division, Multi Channel Management Department and Marketing Department for Erste Group Croatia

Human Resources become his responsibility from 31 May 2014

BORISLAV CENTNER, Member of the Board

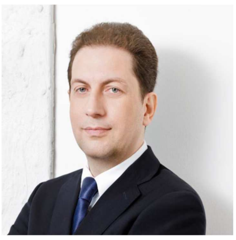
Responsible for Corporate Division, Large Corporate clients Division, Transaction Banking Division, Financial Markets Division

SLAĐANA JAGAR, Member of the Board

Responsible for Accounting and Controlling Division, Assets and Liabilities Management Department

Until 16 July 2014 was responsible for Accounting and Controlling Division, Processing Division, Assets and Liabilities Management Department

Until 25 February 2014 was responsible for IT Division, Organization Department, Accounting and Controlling Division, Processing Division, Assets and Liabilities Management Department



CHRISTOPH SCHÖFBÖCK, Member of the Board

Responsible for Risk Management Division, Corporate Risk Management Department, Collection and Work-out Department, Compliance Department, Corporate Security Department, Legal Department

Corporate Risk Management Department become his responsibility from 1 September 2014. when it was extracted from Risk Management Division

From 25 February 2014 until 16 July 2014 was responsible for Organization Department and IT Division

MARTIN HORNIG, Member of the Board (from 16 July 2014)

Responsible for: IT Division, Organization Department and Processing Division

ZDENKO MATAK, Member of the Board (from 16 July 2014)

Responsible for: Retail Division, Multi Channel Management Department and Marketing Department for Erste Group Croatia

TOMISLAV VUIĆ, Deputy Chairman of the Board (until 31 May 2014)

Was responsible for Retail Division, Multi Channel Management Department, Human Resources Department and Marketing Department for Erste Group Croatia.

Business results of Erste&Steiermärkische Bank d.d. and its subsidiaries in 2014

I. Macroeconomic indicators

After close to 1.00% contraction in 2013, recessionary pressures remained alive throughout 2014 as well, with the negative streak now extending to 12 consecutive quarters. Looking at available YTD data, the economy is down 0.60% y/y (-0.60%, -0.80%, -0.50% y/y per quarter respectively), with no surprises in the detailed structure. Expectedly, domestic demand remained the strongest drag on the headline figure on both private consumption and investments account, while net exports, on the other hand, were the only offsetting factor, where solid exports performance overcame the import uptick. The outlook remains demanding, with headline figure facing difficulties on both the domestic and external demand front. Private consumption performance, despite some relief coming from the expected change in the tax framework, is still largely subject to unfavourable trends on the labour market, while more favourable investment outlook lacks stronger EU funds absorption. Net exports are seen maintaining supportive role, with still holding external demand offsetting negative pressures. While 2015 is not expected to bring any major deviation from 2014 footprint, we see risks to our -0.50% GDP call for 2015 being skewed to the upside.

Balance of payments extended favourable trends further in 2014, with current account remaining in mild positive region (on 4Q trailing basis), as supportive goods and services performance provided a tailwind to the CA balance. However, deterioration of the current transfers' surplus negatively reflected on the headline figure, with the EU membership cost feeding into the 2014 figures. Still, we see favourable services performance and eased pressures from the EU budget contribution ensuring balanced CA position in following period. The foreign debt figure revealed gradual deleveraging on the private sector side, while the government remained main contributor to the debt growth.

Labour market conditions remain difficult, despite somewhat misleading messages from the improving unemployment rate trajectory in the second half of the year (which was trending on average 1.5 pp lower on annual basis in second half of year 2014). Employment levels are still not showing signs of levelling off and unemployment rate trends are affected by the declining participation rate. We expect to see the average unemployment rate stagnating in 2014 i.e. close to 17.30% recorded in 2013 (ILO methodology), though as mentioned earlier being largely the consequence of declining participation rates. Wage performance aligned with the labour market performance, with nominal wages remaining broadly stagnant, while the real wages somewhat benefited from the low inflation, posting marginal increase.

2014 was marked with low inflation environment, with deflationary tone remaining present throughout majority of the year, driven by the base effect and limited pressures on both demand and supply side. Average 2014 inflation landed at -0.20% i.e. down 2.40 pp vs. 2013 figure. Similar pattern is expected ahead, as suppressed domestic demand and lack of stronger pressures on the cost side point to prolongation of the current weak inflation pace.

Exchange rate largely maintained the expected trajectory throughout 2014 and CNB recently yet again confirmed that exchange rate policy anchor remains at the centre of the monetary policy framework after utilizing close to EUR 500 million in the two FX interventions so far in 2015. Monetary policy focus remains on ample liquidity provision i.e. boosting credit and economy and anchoring MM rates close to record lows. With fiscal financing prospects receiving a boost from ECB QE, risks to currency peg stability remains limited in the near term.

I. Macroeconomic indicators (continued)

The fiscal position continues to deteriorate, as 2014 brings another detour from the consolidation path, with budget deficit expected to land above 5.50% of GDP. The targeted EDP exit date in 2016 is clearly out of reach, which further undermines policy prudence. In the first rating round of the year, both S&P and Fitch decided to keep the rating unaltered at 'BB' with stable outlook – wording brought no surprises, with fragile GDP prospects and demanding fiscal outlook remaining under the spotlight.

	2009	2010	2011	2012	2013(e)	2014(e)	2015(e)
Nominal GDP (HRK, billion)	331.0	328.0	332.6	330.5	330.1	328.1	324.6
Nominal GDP (EUR, billion)	45.1	45.0	44.8	44.0	43.6	43.0	42.2
GDP per capita (in thousand EUR)	10.2	10.2	10.4	10.2	10.1	10.0	9.8
Real GDP (growth y/y, %)	(7.4)	(1.7)	(0.3)	(2.2)	(0.9)	(0.7)	(0.5)
CPI (y/y, average %)	2.4	1.2	2.3	3.4	2.3	(0.2)	(0.2)
Current account balance (EUR, billion)	(2.3)	(0.5)	(0.4)	-	0.4	0.1	0.6
Current account balance (% of GDP)	(5.1)	(1.1)	(0.8)	(0.1)	0.9	0.2	1.3
Foreign debt (EUR, billion)	45.2	46.5	46.1	45.0	45.6	45.6	46.2
Foreign debt to GDP (%)	100.3	103.3	102.9	102.4	104.6	106.2	109.4
Loc. Curr./EUR year-end	7.31	7.39	7.53	7.55	7.64	7.66	7.70
Loc. Curr./EUR average	7.34	7.29	7.43	7.52	7.57	7.64	7.68
Unemployment (%, ILO definition)	9.1	11.8	13.5	15.8	17.3	17.2	17.2

Source: CBS, CNB, Erste&Steiermärkische Bank d.d.

II. Erste Bank's lending operations in 2014

The Bank's total loans amounted to HRK 39.6 billion on 31 December 2014, and decreased by 3.50% compared to YE 2013, when they had amounted to HRK 41.0 billion. Demand for new lending in the market in general is still subdued, as a consequence of market circumstances and objective economic situation. Regardless of that, the Bank's market shares in this segment continue to increase in addition to total loan growth. According to Croatian National Bank's ('CNB') YE 2013 records, the Bank's market share in total loans rose to 15.27% at YE 2014 from 14.75% at YE 2013.

Retail loan market maintained a negative trend last year marked by a low demand for loans, which resulted in further decrease of total retail loans. Reduced demand for new lending is most evident in housing loans segment, which resulted in the overall drop of housing loans market, while the cash loans market grew, especially in the segment of loans in HRK.

On 31 December 2014, the total retail loans portfolio amounted to HRK 17.7 billion, having slightly decreased compared to the year before.
As a result of decrease lower than the overall market decrease, the market share of the Bank in retail loans increased by 0.01 pp compared to YE 2013 and amounts to 13.76%, according to the latest available data on 30 November 2014.

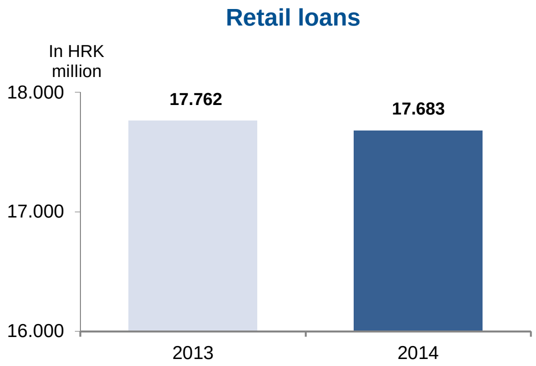


Chart 1: Retail Loans (loans and advances to customers)

In 2014 the Bank kept its intense focus on the SME division, as well as on the support of high-quality projects stimulating the development of real economy and increase of employment in this segment. The industries the Bank especially focused on included: tourism, agriculture, energy, IT, private health facilities and local authorities, together with the public utility companies. Due to importance of the abovementioned sectors in the overall Croatian economy, in addition to regular counselling and education of its clients, the Bank improved its service and established a team of specialists with a high level of expertise and knowledge related to the abovementioned industries.

Total gross loan portfolio of the corporate division on 31 December 2014 amounted to HRK 26.7 billion and mildly decreased by 1.91% or HRK 520 million compared to 31 December 2013.

II. Erste Bank's lending operations in 2014 (continued)

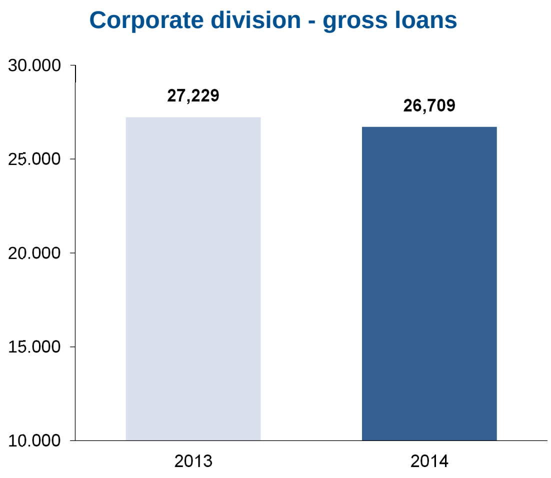


Chart 2: Corporate division – gross loans

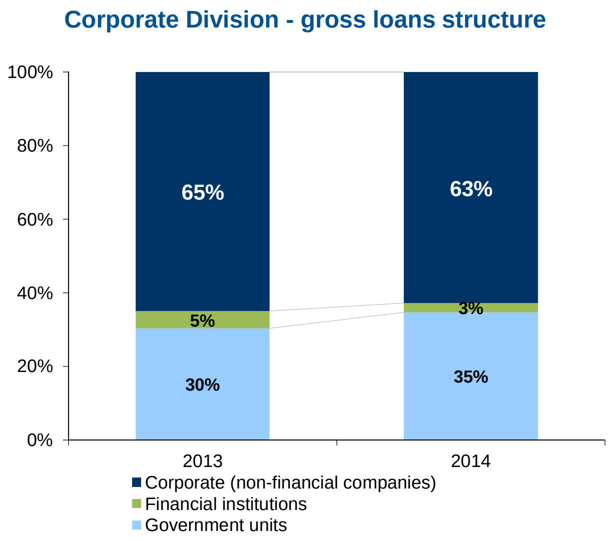


Chart 3: Corporate division – gross loans structure

Total corporate loans market share increased from 16.48% (31 December 2013) to 17.10% (30 November 2014). While overall market share in this segment decreased by 3.62%, the bank recorded 0.03% growth.

The Bank remains one of the most active commercial banks in administering Croatian Bank for Reconstruction and Development's (HBOR's) credit lines. On 31 December 2014 loans from this source amounted to HRK 2.26 billion.

III. Deposits in 2014

The total deposits at YE 2014 amounted to HRK 37.2 billion, which is 0.01% more compared to YE 2013, when they had amounted to HRK 37.0 billion.
Despite the trend of decreasing passive interest rates, retail deposits stayed on the positive course, but with the smaller growth rate compared to the year before. Additionally, demand deposits market grew more compared to the growth rate of the term deposits.

On 31 December 2014, total retail deposits amounted to HRK 25.6 billion and achieved the growth of HRK 703 million.
The Bank increased its market share in retail deposits segment from 12.80% to 12.86%, which was its share on 30 November 2014 according to the latest data available, as a result of the bigger growth rate achieved compared to the growth rate of the market.

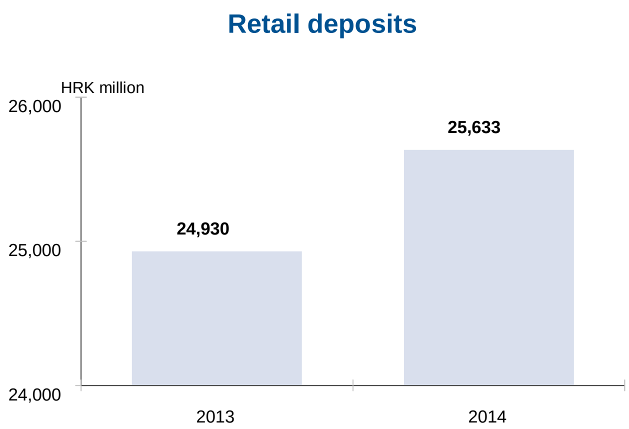


Chart 4: Retail deposits

Total corporate deposits amounted to HRK 11.5 billion on 31 December 2014 and mildly decreased by 4.60% compared to HRK 12.1 billion on 31 December 2013. The corporate deposits structure remained the same as the previous year. The share of demand deposits is somewhat bigger and it amounts to 59%, while the share of term deposits is 41%. Total market share in deposits decreased from 13.54% on 31 December 2013 to 12.66% on 31 November 2014. Although the Bank kept its last year's rate when it comes to growth dynamics, the corporate deposits market grows more than the Bank, which is one of the causes of the decreased market share.

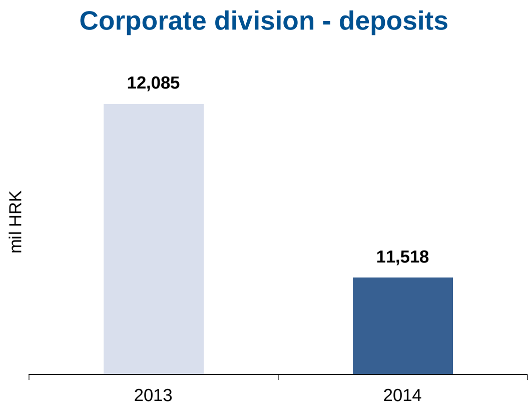


Chart 5 : Corporate division – deposits

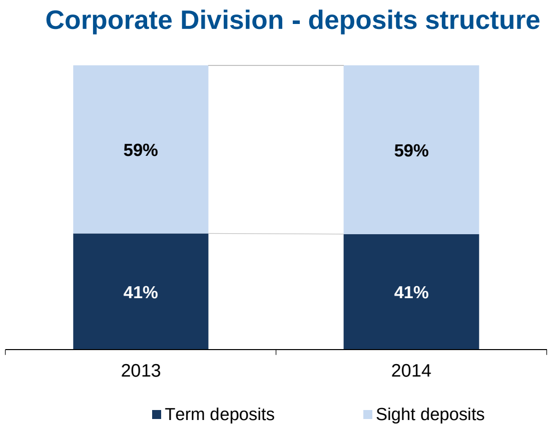


Chart 6: Corporate division – deposits structure

IV. Retail and corporate products and services of Erste bank in 2014

Retail customers

The development of products and services in 2014 was marked to a great extent by the adjustment of business model to the changes in the business environment lead by the digitalisation as well as the expectations and needs of clients for greater speed, simplicity and availability.

The possibility to submit cash credit requests using the on-line form on the Bank's website was implemented mid-2014. In addition, starting from the second half of the year, the special website www.bankarenje.hr enabled the citizens to pre-arrange the current and giro accounts and digital banking services, which additionally accelerated and simplified their dealings with the Bank.

At the end of February 2014 as a brand-new mobile application in the Croatian market, the ‘Erste Redomat’ mobile application was presented. It is a free application for iPhone and Android devices, enabling clients to take a queue number for the selected branch office, to receive notifications about the queue status, as well as to schedule a meeting with an advisor in the Bank. Erste Redomat application is the first joint result of cooperation of the Bank with the Erste Group Bank’s AG special unit Bee.One, in charge of creating innovative solutions and implementing them in Erste Group Bank’s AG and its subsidiares (Erste Group).

Erste Smart Wallet, the multifunctional smartphone application, was implemented mid-2014. The application supports cashless payments using mobile phones at points of sale by scanning the QR code and represents a substitute for card or cash payment. Using this service enables instantaneous payment transfer to retailer's gyro account, minimising their cash management fees. In addition, this service enables the so-called Peer-To-Peer payments, i.e. the electronic money transfer between the two users, using the QR code for the first time. Besides that, the application also has a possibility of storing the loyalty cards, making the service a true replacement for the classic wallet.

In the middle of June 2014, Erste mToken was introduced as the new free service which, similarly to Erste Display card, enables clients to achieve a simpler and faster access to the electronic services of the Bank, as well as to authorise the transactions.

Within the scope of the existing internet banking service Erste NetBanking, in June 2014 a free service of personal finance management was introduced, giving the clients a precise insight into their personal expenditure and providing them with an analysis of their income and expenses with graphic and calendar view of spending. Not restricted by time, clients can control all their expenses and their structure according to various automatically allocated categories and subcategories, and the service helps in raising the awareness of spending habits and achieving a better control over the household budget.

IV. Retail and corporate products and services of Erste bank in 2014 (continued)

Small businesses

In small businesses segment, the model of automatic prolongation of short-term loans (overdraft, revolving loans and working capital loans) with the purpose of simplifying and shortening the procedure of processing and approving the loans and providing better service for clients was introduced in the middle of 2014.

Active cooperation with ministries, counties, local governments and self-governments, towns and development agencies continued through various SME crediting programmes.

As the continuation of an earlier business cooperation and the good experience with the Chamber of Trades of the Istria county, the agreements on business cooperation with two additional county chambers of trade, Vukovar-Srijem county and Virovitica-Podravina county, were signed in 2014, with the goal of allocation of more favourable loans to their members.
The agreement on business cooperation with the Ministry of Entrepreneurship and Crafts was signed with the purpose of implementation of the new and improved programme for crediting of entrepreneurs and crafts ‘Loans for success 2014’, featuring the subsidised interest rates. The programme encompasses two credit lines, for competitiveness and liquidity, and its goal is to encourage crediting of SMEs and crafts.

Corporate customers

In addition to competitive and attractive financing terms, we wish to provide full support to our customers in all segments and cycles of their business by continually improving service quality and our offer of products and services with new benefits, operating under demanding conditions in the market. Through our long-term successful cooperation with local and international financial institutions, in 2014 we made available more attractive funding terms to our customers, resulting in new credit lines. During the year, special emphasis was placed on the segment of transactional banking, especially the widening of the products and services range in line with the market trends, the increase of specialist support in the segments of financial resources management, trade and export financing, factoring and other modes of repurchase of accounts receivable and defining the encompassing and competent support to the exporters.

In the beginning of the year, an agreement with European Bank for Reconstruction and Development was signed related to the new credit line worth EUR 10 million, intended for financing of energy efficiency projects and renewable energy (WeBSEFF II). The credit line is available to both private and public sector users, with the goal of supporting the improved energy use and its saving. In addition to the necessary more favourable long-term financing, this credit line provides customers with free consulting services in identification, development and estimation of the acceptability of the projects, as well as EU grants for loan principal covering 5 - 15%, which are granted to each successfully implemented project.

The signing of the new agreement on business cooperation with European Investment Bank (EIB) marked the middle part of the year. This EUR 50 million credit line is intended for financing permanent working capital as well as investment projects. The intention of the new agreement with European Investment Bank was to ensure the continuous availability of favourable financing.

Together with the international financial institutions, the bank continued approving new loans using the Croatian Bank for Reconstruction and Development's (HBOR's) resources. Since such loans were among the most wanted forms of client crediting, together with the standard programmes, the annexes to the agreement on the new crediting programmes were signed in 2014 – Shipping, Crediting of the private sector EU projects and Crediting of the public sector EU projects.

IV. Retail and corporate products and services of Erste bank in 2014 (continued)

In 2014, the active business cooperation with HAMAG BICRO was continued. The cooperation encompasses participation in the HAMAG BICRO guarantee programmes covering various need of craftsmen and entrepreneurs – the SMEs – related to financing of working capital or new investment projects, giving them access to high-quality insurance instrument in the form of unconditional first demand guarantees.

In line with the modern banking trends and with the purpose of increasing the efficiency of the procedure for processing the deposited cash and providing the high-quality service to the clients in the segment of cash handling, new products were developed – Pametni sef (Lincsafe) and Recycler ATM. Pametni sef is a self-service device used for depositing cash and located at the client's premises. Since the device is connected to the internet, the deposited money is immediately available on the client's transactional account. In addition to the series of benefits provided to the client by this innovative product (time saving, automatic counting and checking of money, safety from theft and internal frauds, releasing of the cash register limit, online control of the account and transactions, etc.) we can provide our clients with a much better quality of service and the additional value. The Bank is the first bank in the Croatian market that offered such type of service to its users. Recycler ATM is a cash management device that simultaneously serves for depositing and withdrawing money at client's premises. Immediately after it is deposited, the money is available at the client's transactional account. Following the economic strategy of the Republic of Croatia, the Bank continued the activities of providing the encompassing support to the exporters through creation of financial solutions intended for supporting the successful realisation of all the phases in an export project. The goal is to strengthen the position of the clients in the existing markets and to support them in conquering the new markets, especially the fast growing ones. In that context, the bank introduced the Loans to the customer/customer's bank and Loans to the supplier to its offer. In addition, the bank is the first bank in the market to implement the new options for the repurchase of export accounts receivable – discounting and letter of credit post-financing.

V. Multichannel Management Department

Card Business

The Bank had a total of 842,217 issued debit cards as of 31 December 2014, which constitutes an increase of 9.65% compared to 2013. The total number of debit card transactions at stores and ATMs increased by 9.87% and volume increased by 8.84%. The number of ATM transactions increased by 4.77% and volume increased by 7.39%. Eleven promotional campaigns were organized to increase the number and volume of POS terminal transactions for Maestro and MasterCard Business debit card users, which contributed to the increase in the number of transactions by 14.18% and increase in volume by 13.42%.

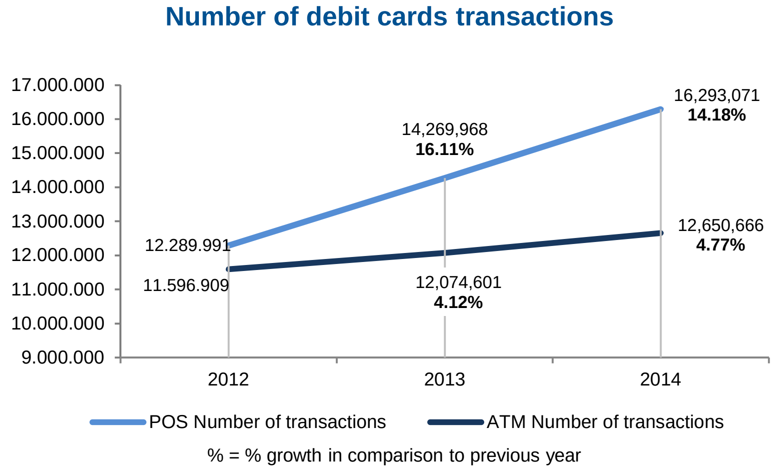


Chart 7: Number of debit cards transactions

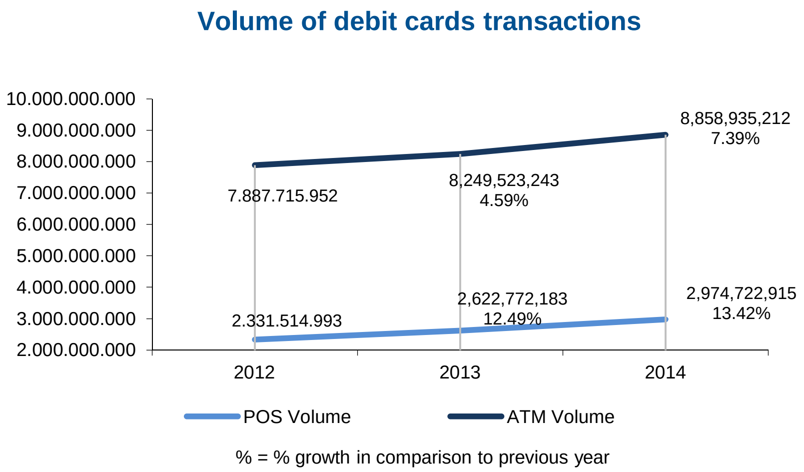


Chart 8: Volume of debit cards transactions

V. Multichannel Management Department (continued)

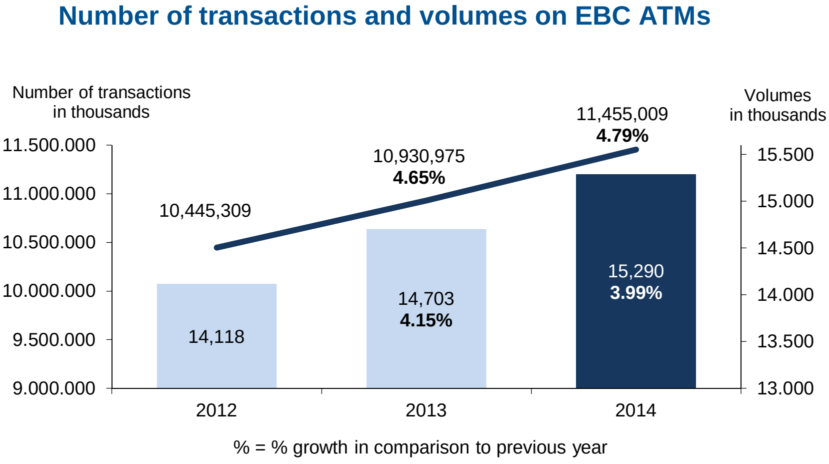


Chart 9: Number of transactions and volumes on EBC ATM's

Maestro Plus Service

The Maestro Plus service allows cash withdrawal at ATMs repayable in instalments, as well as payment in instalments and/or deferred payment at POS terminals supporting this service. The number of transactions increased by 9.39% compared to 2013 and volume increased by 7.54%. The number of transactions at POS terminals increased substantially by 22.73%, and volume increased by 17.08%.

Self-service network management

The Bank had 627 installed ATMs by the end of 2014. Total ATM turnover in 2014 increased by 4.79% compared to 2013 and amounted to HRK 11.45 billion. The number of transactions increased by 3.99% compared to 2013 and amounted to 15.29 million.

Increased use of the Dynamic Currency Conversion (DCC) service for foreign payment cards owners (Maestro/MasterCard/Visa cards) was registered at ATMs. A total of 621,359 transactions were performed (increase of 9.25%) and the total value of the transactions was HRK 723.4 million (increase of 6.73%).

News and activities in 2014

In addition to focus on increasing the number and volume of debit card transactions at POS devices, the Bank introduced the PIN via SMS service for Maestro Erste Club and Visa Electron card holders and implemented the *PayPass* functionality on Maestro Erste Club cards for young people, which also got redesigned. The first cash recycler was installed in cooperation with IKEA, and the network of stores accepting Erste Wallet service was expanded to 304 in cooperation with Erste Card Club d.o.o.

V. Multichannel Management Department (continued)

Electronic banking

Retail Business

The number of users is on the rise for all the Bank's electronic banking services. In addition to the increase in the number of Erste NetBanking users to 156,595 (11.74%) and the increase in the number of Erste SMS service users to 182,747 (12.32%), the number of Erste mBanking service users also increased substantially compared to 2013 (47.15%), to 55,721. The citizens also used the open debit mandate service more frequently, since the number of open debit mandates increased by 7.83% compared to 2013. The number of contracts signed with businesses increased by 2.56% compared to 2013. The Bank records a 10.93% total increase in the number of transactions and the increase of total transaction volume to HRK 5,762,289,000 (9.32%).

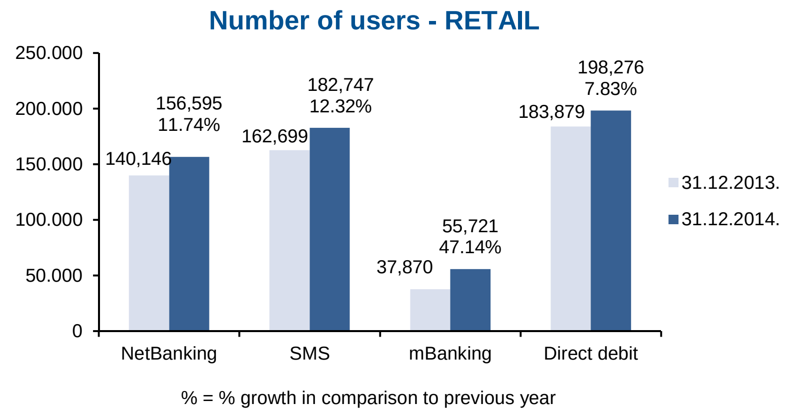


Chart 10: Number of users - RETAIL

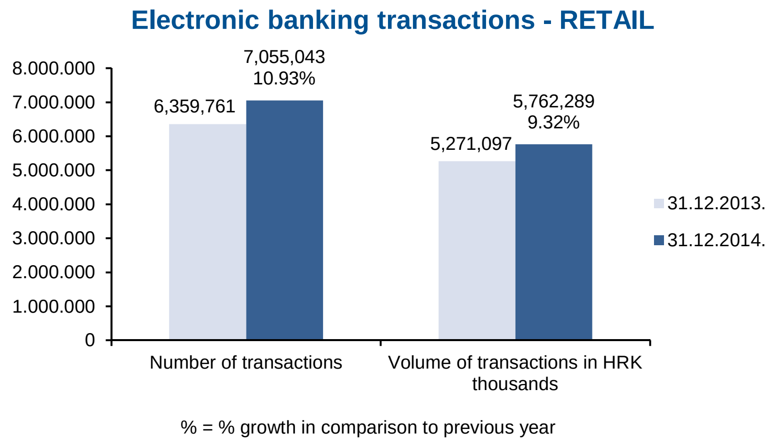


Chart 11: Electronic banking transactions - RETAIL

Corporate business

The Bank's electronic banking services were on an upward path compared to 2013 in the corporate segment as well. The number of Erste NetBanking corporate users increased to 39,485 (9.84%), and the number of companies using the service increased to 29,313 (11.14%). The number of Erste SMS users also increased to HRK 4,073 (8.18%).

Companies performed 13.3 million transactions using Erste NetBanking and MultiCash services (including HRK and foreign currency transactions), which constitutes an increase of 13.33% compared to 2013. The total volume of the transactions increased to HRK 143,441,193,000 (12.77%).

V. Multichannel Management Department (continued)

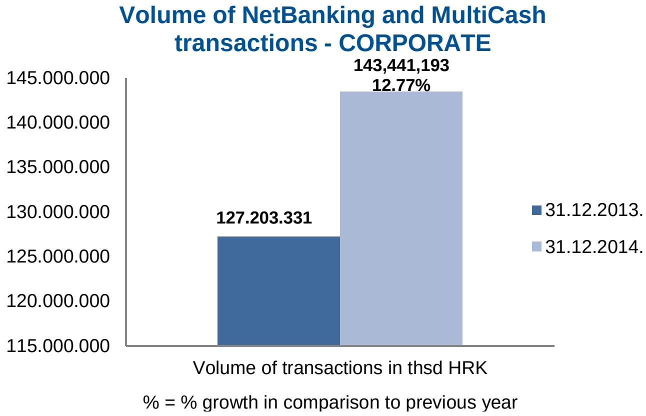


Chart 12: Volume of Net Banking and MultiCash transactions

Erste Net Banking's anti-fraudulent activities

Attacks on Erste NetBanking service users were prevented by prompt reaction and cooperation of several bank departments. The Digital Banking Security team was organized within the Digital Banking Department to defend clients from future attacks and a new business process of defence against cyber attacks was established.

News and activities in 2014

Highlights in the segment of improvement of existing and introduction of new electronic channels:

- **mToken** – The service is designed for smartphone users and is a part of the Erste mBanking application. Its purpose is to simplify logging into Erste mBanking, Erste NetBanking and Erste FonBanking and to serve as an alternative safe identification and authorization method alongside the Display card.
- **eWallet** – the application allows users to pay for goods or services by taking a photo of a QR code with their smartphones at stores that accept this method of payment. eWallet can only be accepted if the store has a mobile device (tablet or smartphone).
- **Redomat (line application)** – the mobile appliaction allows customers to take a number for a line at a bank office, be informed that their number is up next, and make appointments. The application shortens the time clients spend waiting in lines and allows them to pick the office closest to them. 13,238 users downloaded the appllication by 31 December 2014.
- **Finance Manager** – a feature of the Erste NetBanking service that offers users an interactive view of their income and expense categories and automatic cost categorization, allows them to make a budget and keep track of it, and offers other tools that will help users adjust their monthly expenses to their incomes and thus get their budgets under control.
- **NetBanking visual redesign** – the design was adjusted to the Group standard and the design of the Bank's website. Certain functionalities were improved, for instance, online sales were separated into a special category.
- **Corporate loan applications** – Erste NetBanking now has a feature for corporate clients that enables them to apply for a loan and to send all the required documentation online. By implementing this feature we enabled the online sales of loans to corporate clients 24/7.

Contact Centre

In 2014 Contact Centre agents handled a total of 498,674 contacts, which constitutes an increase of 14% in comparison to 2013. In addition to current accounts and electronic channels, the Contact Centre started selling credit cards and insurance policies. Also, Early Collection Team reviewed a total of 128,500 debtors. The Contact Centre's quality was tested twice in course of the year, and the tests revealed that customer satisfaction with the Centre's services remains at a level higher than 90%.

VI. Financial Markets

Trading overview

The Bank had a 33.2% share in the secondary domestic bonds market in 2014. Our domestic bond turnover in 2014 (excluded turnover between the Bank and Erste Group Bank A.G) was HRK 7.01 billion, which is 118% more than previous year. The biggest turnover was made through Institutional Sales and local banks.
In 2014 the Bank remains a leading bank in Croatia with a total of 4 market making agreements (AD Plastik d.d., Đuro Đaković Holding d.d., HT d.d. and Ledo d.d.).

Money Market

Year 2014 will be recorded as one of the most lethargic in the money market in recent years. In such conditions, where high liquidity surplus was the main fundamental factor that dictates the terms of trade, traded volumes were slightly lower than in previous years, neither interest rates did not have a large space for oscillation.
In interbank market the most traded tenors were O/N and one week O/N ZIBOR interest rate ranged between 0.23%, when it was the lowest in July, to 0.68% when it reached its peak in the mid-September due to panic reaction of international investors on swap market caused by the Ukrainian crisis. By the end of the year interest rates stabilized on the levels from the beginning of the year.

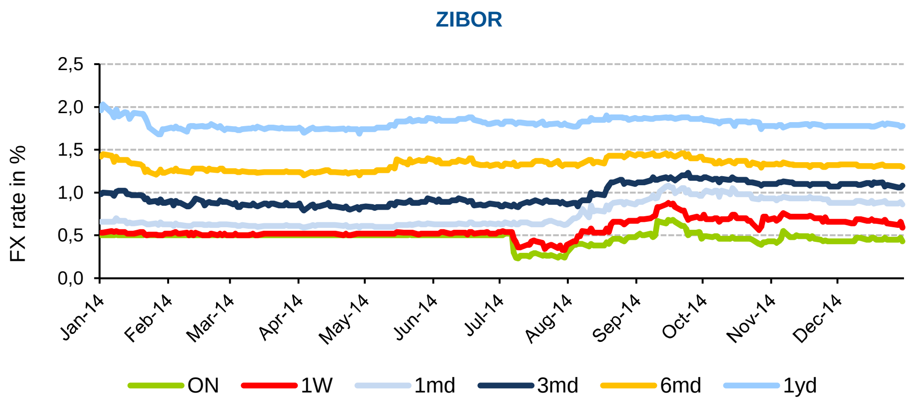


Chart 13: Movement of ZIBOR (source: Reuters)

Trading in 2014, particularly the first part of the year, was stable. These conditions were, above all, very suitable for the increased lending activities of banks, which was the original objective of the central bank when it launched a series of measures to boost lending activity in 2013. However, lending activities were still largely absent in 2014. The result was the accumulation of the banks' liquidity on their accounts with the very calm periods of mandatory reserve, hibernation of interest rates and lack of demand for Kuna by domestic banks throughout the year.

In favour of a very quiet year in the money market is the fact that the average daily liquidity surplus in 2014 amounted to HRK 6.37 billion which is HRK 3.14 billion more than the average from 2013, i.e. almost 50% relatively. Daily liquidity surplus ranged from HRK 2.35 billion at the beginning of September to the HRK 9.49 billion recorded at the end of January.
Any intervention of the CNB due to weakening of the HRK, issue of domestic bonds or even lower credit rating couldn't stop stable and peaceful trading in the money market.

First, in January CNB intervened in the foreign exchange market in order to stop the depreciation of HRK when it sold EUR 240.2 million. As a result HRK 1.8 billion was withdrawn from the banking sector due to which there has been a short-term and very slight increase in interest rates along the curve. Also, in the first quarter of 2014, the Ministry of Finance issued two bonds with currency clause totalling HRK 1.15 billion, or HRK 500 million more than it was at maturity.

VI. Financial Markets (continued)

Consequently, short-term interest rates were increased due to short-term reduction of liquidity in the system. In April, bond amounted to EUR 500 million matured, and in May, the Ministry of Finance issued EUR 1.25 billion of a new eight year Eurobond while the government debt increased to EUR 750 million. As it was a Eurobond issue, it had no effect on the HRK liquidity or changes in interest rates in the interbank market. In December, the Ministry of Finance issued a second tranche of bond with a maturity in 2018 in the amount of 3.25 billion. As the bond settlement coincided with the payment of pensions, the issue had no effect on the movement of interest rates.

Standard & Poor's and Fitch lowered the long-term credit rating of Croatia on foreign and local currency from BB + to BB, with a stable outlook, since the recession could continue the sixth consecutive year. At the time of announcement, market didn't react to that news.

Despite a poor condition of the state budget, the Ministry of Finance still had to be satisfied with their short-term borrowing through treasury bills in the past year. The yields on all maturities compared to year before have fallen significantly. While in the 2013 the most stable yield was at 364-day HRK treasury bill and least stable at euro linked treasury bill, we saw completely different picture in 2014. The yield on 364-day HRK treasury bill in the beginning of the year was at 2.3%, while in the last auction of the year it ended at 1.5%, which is a drop of 0.8%. The yield on 182-day HRK treasury bill ended the year at 0.6%, which is a drop of 0.6% compared to the beginning of the year, while the 91-day HRK treasury bill finished at 0.28% and fell by 0.42% on the annual basis. The most stable treasury bill over the last year, but also one of the most illiquid was a 91-day EUR linked treasury bill which fell by 0.1% on an annual basis and closed the year at 0.3%. Yield at 364-day euro linked treasury bill often fluctuated, but also recorded a decline of 0.15% on annual basis and left at 0.45% at the year end. Government debt increased by approx. HRK 1.12 billion through treasury bills last year and there was still present a trend of replacing debt in EUR to those in HRK when Ministry of Finance had issued almost EUR 202 million less than it was at maturity.

In 2014 the Bank managed its liquidity efficiently.

FX Market

During the 2014 exchange rate EUR/HRK was in very narrow range. It moved +/- 0.5% around middle rate of 7.63. At the beginning of the year rate was around 7.64. In that period we saw depreciation pressure in emerging markets currencies. Main reason was shift in monetary policy in the United States of America, where Federal Reserves (Fed) starts to withdrawn stimulus funds. Because of that, CNB has intervened on the market and sold EUR 240.2 million to commercial banks.

During February and March exchange rate was flat, around 7.65 EUR/HRK. At the beginning of April HRK started to strength due to tourist inflow for Easter holidays. Besides that, announcement of foreign government bond issue affected exchange rate. In that period rate fell to 7.60. During July and begging of August HRK slightly falls. Good supply of EUR from tourist season was erased by corporate demand coming from matured outrights. At the end of August rate was around 7.63. In conditions of higher demand for hard currencies, EUR started to strength and at the end of the October rate were around 7.66. During November and December rate was in a very narrow range between 7.65 and 7.67.

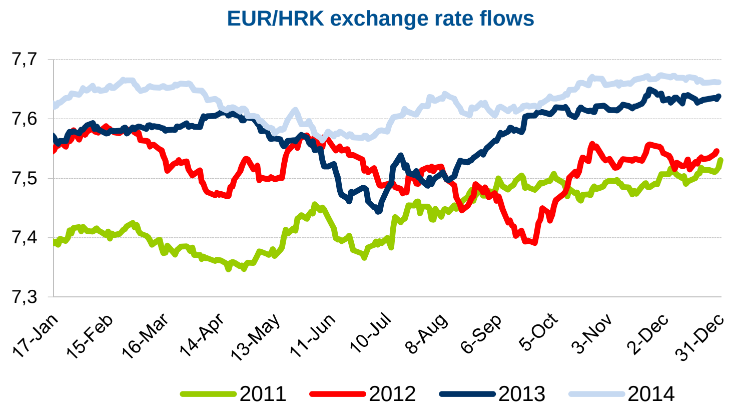


Chart 14: Exchange rate flows EUR/HRK (source: CNB)

VI. Financial Markets (continued)

Movements of HRK against USD were in line with movement of USD on global market. During 2014 USD was supported on global market because of Federal Open Market Committee (‘FOMC’) decision to start closing quantitative easing measures and caution of investors according to deflationary pressures in euro zone. USD strengthened against HRK from 5.60 to 6.30.
CHF against HRK was very stable during 2014. In the first six months of the year CHF was around 6.25. After announcement of European Central Bank (‘ECB’) stimulus, CHF strengthened against HRK to 6.35.

Debt securities market

In 2014, the Bank acted as one of the four Joint Lead Managers and underwriters for the following bond issues of Republic of Croatia through its Ministry of Finance.

The third tranche of 5-year bond (RHMF-O-19BA) in nominal amount EUR 500 million with a yield of 5.12% was issued in February, as well as the second tranche of 10-year bond (RHMF-O-247E) in nominal amount EUR 650 million with a yield of 5.77%.

The second tranche of 4-year bond (RHMF-O-187A) in nominal amount HRK 3.25 billion with a yield of 3.64% was issued in December

In July 2014, the Bank together with Privredna banka Zagreb d.d., Zagreb acted as joint lead manager and underwriter for bond of Rijeka promet d.d. through private placement in the total amount of HRK 140 million with the maturity in 2023.

The Bank is continuously ranked among the leading arrangers of debt securities in the Republic of Croatia, with 24.5% market share in 2014, thereby confirming its strategic orientation to support the development of capital markets despite very challenging environment.
In May 2014 Erste Group together with Citigroup, New York and Deutsche Bank, Frankfurt am Main acted as one of the Joint Lead Managers in origination of Montenegro Eurobond together with liability management of outstanding bonds. Montenegro successfully executed transaction of 5-year bond in nominal amount EUR 280 million.
In role of arranger and lender the Bank executed the following syndicated loans to Republic of Croatia through its Ministry of Finance.
Extension of maturity of long-term syndicated loan in total amount EUR 500 million, for the next three years at with the same annual rates and interest rate at 6M EURIBOR + 4.50 pp.
New loan in total amount EUR 640 million at interest rate of 6M EURIBOR + 4.15 pp, maturing in 2019 in six equal instalments.

Equity market

The Bank and Privredna banka Zagreb d.d., Zagreb as lead managers conducted the public offer of new shares to qualified investors in process of capital increase for Granolio d.d., Zagreb The transaction also represents the first initial public offering of equity securities on domestic market in the last 5 years. The total size of transaction was HRK 94 million.
Total equity turnover Zagreb Stock Exchange in 2014 amounted to HRK 3.09 billion that is slight increase of 0.86% compared to previous year; structured products turnover was HRK 95 million, or almost half of previous year’s, while the bond turnover of HRK 372 million was 65.1% increased. Ultimately, the total turnover recorded 2.4% increase in comparison to previous year, and the total market capitalization was 10% higher.
CROBEX fell by 2.7%, although during the year reached the level of more than 1,900 points, which was an increase of almost 6% compared to the end of 2013. Total return index, CROBEX recorded though a slight increase of 0.6%, suggesting that investing in stocks had a slightly positive yield in 2014.

VI. Financial Markets (continued)

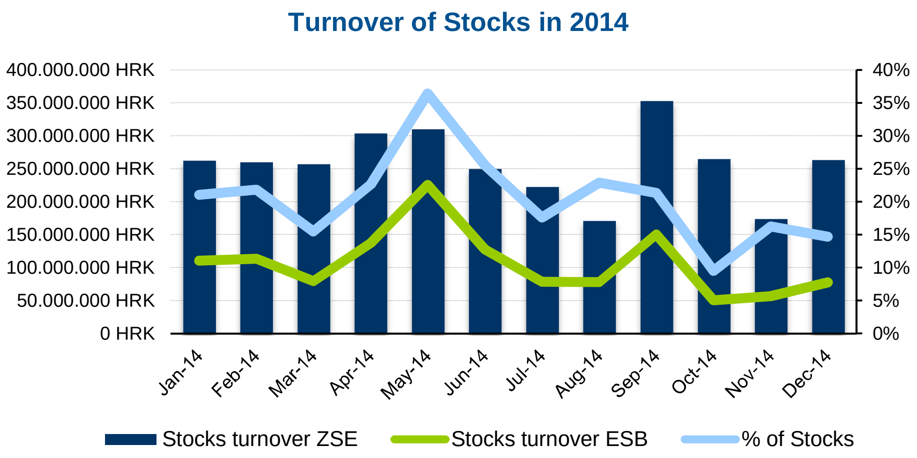


Chart 15: Turnover of Stocks in 2014 (source: Zagreb Stock Exchange)

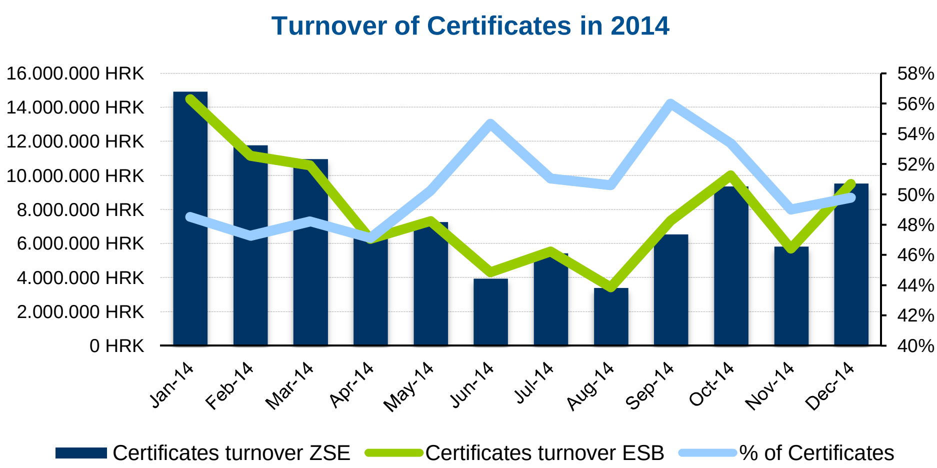


Chart 16: Turnover of Certificates in 2014 (source: Zagreb Stock Exchange)

Custody

Market value of assets under custody in 2014 increased by 5% compared to 2013 and amounted to HRK 6.85 billion on 31 December 2014. In 2014 the number of transactions with financial instruments increased by 7% compared to 2013. Total number of customer transactions in 2014 was 10,027.

VII. Erste bank AD Podgorica

Erste bank AD Podgorica (EBM), during the year of 2014, continued its best practice obtaining new clients and developing relationships with existing, resulting in a profit before tax in the amount of EUR 7.7 million, which is by 52.28% higher compared to the previous year. Profit after tax amounted to EUR 7.2 million with return on equity of 16.90%, and return on assets of 2.00%.

Total operating income amounted to EUR 21.8 million and decreased by 1.05% in comparison to 2013. Net interest income amounted to EUR 18.7 million and decreased by 1.45% compared to the previous reporting period. Net fee and commission income increased by 1.41% and amounted to EUR 3.1 million. Increase of net fee and commission's income is in line with EBM's orientation to increase non-interest income as well as number of active clients and services offered to clients.

Risk costs were decreased by 79% compared to 2013. Risk cost coverage amounted to 0.20% and was considerably lower compared to the YE 2013, when it has amounted to 1.00%. NPL coverage rate was high and amounted to 87% at YE 2014, which represent increase compared to 74% at the YE 2013.

General administrative expenses amounted to EUR 14.2 million and decreased by 3.98% compared to the 2013. Cost/Income decreased, too, from 65.80% to 63.80%.

At the end of the year, total assets reached EUR 376.9 million which and increased by 7.69% in comparison to 2013. Net loans to customers amounted to EUR 231.4 million and decreased by 10.78% compared to 2013. Retail loans accounted for EUR 133.1 million and corporate loans for EUR 98.3 million.

In the retail sector, EUR 43.9 million was granted through 8,707 loan arrangements. Cash loans (67.32%), housing loans (13.99%), micro/agro loans and refinancing loans (7.35%), as well as mortgage loans and loans for adaptation (8.05%) had the largest share in total disbursements. Customers remained focused on standard retail products in line with the EBM in the field, so that core retail products accounted for 91.73% of total lending in 2014. Market share in retail loan portfolio amounted to 15.99%.

In SME/Corporate division, loan portfolio increased by EUR 26.9 million (20.15%) compared to the YE 2013, which resulted in market share decrease of 9.84%. The decrease in the loan portfolio was mainly due to substitution of loan placements in the public sector with the Government bonds (EUR 18 million), additional improvement of loan portfolio quality by repayment of EUR 2.2 million of NPL and premature repayment of EUR 7 million of loans. Additionally, the market experienced a decline of EUR 74 million (6.33%) compared to 2013.

Additional effort was put into retail and corporate division's joint approach aimed at attracting new companies and their employees during the year. Efforts were made towards intensifying cooperation with clients, which resulted in the increase of 11.69 % in non-interest bearing income from payment transfers and documentary business by the Corporate sector.

In 2014, total deposits from customers increased by EUR 55.0 million (increase of 24.37% and mainly in the Corporate sector) and amounted to EUR 281 million at the YE 2014, out of which retail deposits accounted for EUR 165.3 million and corporate and public sector deposits for EUR 115.7 million. The increase in both retail and corporate deposits is indicative of growing customer trust in EBM, especially considering the fact that deposit interest rates was significantly reduced.

Accomplished results are even more impressive considering that they were accomplished under very difficult business conditions at local level. EBM worked simultaneously on remodelling the existing branch offices to meet Erste Group's standards and on expanding its client base. EBM operates a network of 16 offices throughout Montenegro and served more than 77,000 clients by YE 2014.

EBM will continue to analyse the market's needs and develop targeted products and services to provide its clients with the best support. EBM will develop existing products and services and continue to provide a high level of professional service to its growing number of clients, while taking into account the best interests of its employees, community and shareholders.

VIII. Erste Card Club d.o.o.

Company's activities in general

Erste Card Club d.o.o. (ECC) recorded growth in all relevant business segments in 2014, having increased its market shares in acquiring and issuing transactions. Acquiring transactions boast the most notable growth, which is the result of continuous EFT POS network expansion and positioning at stores.

ECC and other members of a consortium of bidders jointly developed the Diners Club Rijeka City Card (DC RCC) for the needs of the City of Rijeka. In addition, ECC implemented a number of client-oriented activities in 2014 to celebrate the 45th anniversary of the Diners Club's presence in Croatia. ECC received the *Best Corporate Performance Award* from Diners Club International for its results in the corporate users segment, and Erste Card Slovenia d.o.o. (EC Slovenia) received the *Best Small Franchise Award* for the successful establishment of Diners Club operations in the Slovenian market.

Operating business review for 2014

In 2014 ECC issued 46,397 new credit cards, by which its number of total credit cards issued as of 31 December 2014 rose to 364,013 (DC 292,643; VISA 35,027; MC 36,343), having increased by 0.80% compared to 2013.

Compared to 2013, ECC increased its market shares in issuing and acquiring transactions. ECC's market share in issuing transactions increased by 0.40% to 23.64% (18 pp compared to 3Q2013), including an increase in cash withdrawal transactions. Total acquiring transactions increased by 10% with a market share of 13.28% (57 pp compared to 3Q 2013), and Visa's and Mastercard's transactions increased by 36.90%. Further expansion of the EFT POS device network, whose total number increased to 16,395 (10.60%) contributed to the increase in acquiring transactions. In addition to issuing and acquiring transactions increase, a trend of average store commission was observed. A total of 28,256,238 ECC transactions were performed in course of the year (14%).

By 31 December 2014 Erste Card Slovenia d.o.o. (EC Slovenia) issued 10,491 new cards (16.80% compared to 2013), by which its total number of cards issued as of 31 December 2014 rose to 52,467. By the end of the year Diners Club cards were accepted at 15,787 stores, of which 6,388 locations offered the option of payment in instalments. EC Slovenia recorded 1.7 million transactions whose total turnover amounted to EUR 123 million, and the share of instalment purchases in overall turnover structure increased.

Financial performance in 2014

ECC's net profit at consolidated level[3] amounted to HRK 94 million (+0.30%). EC Slovenia's loss amounted to HRK 6.7 million, while ECC's standalone net profit amounted to HRK 101 million (+4.60%). The consolidated operating result also increased compared to 2013 and amounted to HRK 203 million (14.30%), while ECC's standalone operating result amounted to HRK 206 million (+7.70%).

Net revenue from interest rates, net revenue from fees, and revenue from membership fees increased in course of the year. Revenue from interest rates at consolidated level amounted to HRK 206 million (7.40%), which is a result of increase in revenue from interest rates on instalment purchases and cash withdrawals and interest on arrears. This includes also the effect of consolidation with EC Slovenia (HRK 9.7 million). The consolidated net revenue from fees amounted to HRK 205.7 million (+16.80%). Substantial increase in ECC acquiring transactions amounting to 10% generated HRK 7.3 million worth of increased revenue from fees at stores (3.80%). Termination of the membership fee time limit effect increased revenue from membership fees as well by HRK 8.7 million. EC Slovenia's net revenue from interest rates, which is generated from turnover at stores as well as revenue from membership fees, increased by HRK 13.1 million.

3 DCBH result consolidated ending with 31 October 2014

VIII. Erste Card Club d.o.o. (continued)

Due to continued introduction of additional general provisions and the consolidation with EC Slovenia, risk provisions increased by HRK 8.9 million compared to 2013 and amounted to HRK 74.5 million at consolidated level. Coverage of non-performing placements by provisions was stable at 88.80% throughout the year considering efficient collection and HRK 9.9 million increase in NPL balance, which is considerably below the 2013 balance.

Net trading result in 2014 amounted to HRK 9.2 million, which is a consequence of investment policy and exchange rate movements. General administrative costs at consolidated level amounted to HRK 217.7 million (12.80%), and ECC's standalone general administrative expenses amounted to HRK 186.9 million (7.20%). Depreciation costs also increased due to EFT POS network expansion and partly due to investments in EC Slovenia, increasing by 18.40% to HRK 14.5 million.

Assets and liabilities

ECC's total assets as of 31 December 2014 amounted to HRK 3,892 million (+3.0%) on consolidated level. Credits and receivables from clients and financial institutions amounted to HRK 3,753 million (+6.50%). The increase is a result of increase in instalment purchases, charge receivables and deposits and increase in EC Slovenia's receivables amounting to HRK 84.9 million compared to the previous year. ECC's standalone loans to clients amounted to HRK 1,727 million with a share of 46% in total assets. Instalment purchases (4.30%) and charge receivables (3%) increased in course of the year.

Receivables value adjustment amounted to HRK 607.2 million (12%), which is a result of increase in general provisions and simultaneous increase of efficiency and revenue from collection, as well as increase in the adjustment of EC Slovenia's receivables value adjustment by HRK 1.9 million.

Financial assets held to maturity amounted to HRK 107.3 million and were lower by HRK 114 million (EUR 14 million as of 31 December 2014 compared to EUR 29 million as of 31 December 2013) due to decreased treasury bill balance. Financial assets avaliable for sale amounted to HRK 388 million and were higher by HRK 229.2 million (EUR 27.5 million as of 31 December 2014 compared to EUR 20 million as of 31 December 2013) due to transfer of investments in investment funds from assets held for trading and due to increase in bonds balance compared to 2013.

Liabilities and capital

Consolidated liabilities to credit institutions as of 31 December 2014 amounted to HRK 2,687 million (1.87%) and accounts payable amounted to HRK 486.4 million (-1.5%). Total capital amounted to HRK 632 million (16.3%) and a dividend was paid equalling 25% of the net profit from 2013. EC Slovenia received a capital injection of EUR 1.1 million in course of the year.

Performance indicators

INDICATORS	REALISED 2013	REALISED 2014	REALISED 2014/2013
RoE	18.69%	16.24%	87
RoA	2.66%	2.48%	93
Cost Income Ratio	52.04%	51.72%	99
Cost Income Ratio ECC stand alone	47.66%	47.55%	100
NPL coverage	80.42%	88.81%	110

Consolidated performance indicators with EC Slovenia point to stable business of ECC and improvement of business efficiency, especially considering cost optimisation activities in 2014 in ECC and EC Slovenia, taking into consideration the increase in ECC's costs.

IX. Erste Factoring d.o.o.

Erste Factoring d.o.o. (EF) ended the 2014 year with successful business result. Existing market environment was recognised as a business opportunity which leads to further growth and as a challenge to get the best final result as well as to keep the leading market position.

The increasing trend of ROA continued in 2014 which amounted 3.10% (increase compared to 2013 when ROA amounted 2.1%), while return on equity increased from 39.80% to 43.80%. The net profit was HRK 98.1 million i.e. increase by 40% compared to previous year. Therefore, the net profit per employee also increased by 20% and it amounts HRK 3.6 million.

Operating result of EF is higher by HRK 3.4 million (3.0%) compared to the year before, due to increase of net interest income (2013: HRK 122.4 million; 2014: HRK 127.9 million) mainly driven by decreased interest expenses for EF loan indebtedness which as of 31 December 2014 amounted to EUR 355 million and HRK 65 million.

In 2014 average gross loans to customers dipped by HRK 78 mil to HRK 2,522 million with slight increase of interest rate on advanced payments (2013: 6.11%; 2014: 6.17%). Net interest margin experienced an increase from 3.70% up to 4.20%.

Croatian Financial Supervisory Agency published the results as of 30 of September 2014 according to which EF captures 39% share of total market factoring assets in Croatia, while in the same period year before it amounted to 44%. A decrease is a result of stronger increase of total assets on the factoring market. From a net profit point of view, the market share amounts even more i.e. 42% of the market.

The growth of factoring demand was the highest in the GLC segment due to the most extensive payment deadlines, while this form of financing is less used by the SME clients. Growing illiquidity in the economy is also representing an additional stimulus for clients to select a factoring as a type of alternative financing.

In the further period increase in client base will be in focus, mainly SME, while LC will continue to be dominant portfolio segment. In 2014 the remarkable successes is achieved and EF will keep up with the current approach on the market in order to achieve successful results and strive to keep its leading position on the factoring market also in year 2015. In the year 2014 the Factoring Act (OG 94/14) was adopted and thus single legal framework was established and that eases monitoring and supervision of factoring companies on the market.

X. Erste&Steiermärkische S-Leasing d.o.o.

Erste&Steiermärkische S-Leasing d.o.o. (S-Leasing) ended the 2014 year with successful business result. Total value of newly concluded contracts of operating lease on 31 December 2014 amounted to HRK 248 million, which is increase of 18.13% compared to the previous year. The total value of newly concluded contracts of financial lease on 31 December 2014 amounted to HRK 555 million, which is 18.17% higher than in the year 2013. By the value of newly concluded contracts S-Leasing holds first place, with a market share of 15.45%[4].

The value of assets as of 31 December 2014 amounted to HRK 1,732 million, which is increase of 8.22% compared to the previous year. Market share is 9.1%[5], which represents an increase of 0.95% compared to year 2013.

Total operating income in 2014 amounted to HRK 265 million and decreased by 10% compared to 2013. Operating income relates mainly to income from operating lease and with share of 91% as it was in 2013. Total operating expenses in year 2014 amounted to HRK 214 million and compared to the previous year decreased by 12%. Operating expenses relate mainly to depreciation of assets under operating lease and with share of 87%, while in year 2013 this cost amounted to 89% of total operating expenses.

As of 31 December 2014, the company's profits stood at HRK 21.9 million and were 67.5% lower compared to profits in 2013, primarily on account of tax risk provisions related to VAT on foreign exchange differences in finance lease for the periods between 2011 and 2014 (HRK 17.8 million) and due to the fact that in 2013 we have showed additional income (HRK 15.7 million).

Total assets of S-Leasing as of 31 December 2014 amounted to HRK 1,732 million, which is the 8.22% increase compared to 2013. Loans and advances to customer amounted to HRK 989 million with a share of 57% in total assets, which is an increase of 20% compared to 2013 due to an increase in finance volume in finance lease.

In the next period, special emphasis will be put on expanding the client base and maintaining the leading position in financing leasing in all market segments alongside continuing regular improvement of the quality of services.

4 HANFA, 30 September 2014

5 Ibid

Social Responsibility

I. The Bank as corporate citizen

The Bank has a long tradition of donations and corporate social responsibility (CSR) programmes, supporting and promoting various segments of the society. The Bank supports a wide array of humanitarian, educational, cultural and sports institutions in Croatia, paying special attention to specific regional characteristics and local needs.

I. Retail

In retail division the Bank continually offers our customers products that are somewhat more advantageous than market average, and undertakes other activities to get as close as possible to existing and potential customers and the broader community in which it operates. The Bank also offers special microfinance lines to persons with good business ideas and organises special trainings and workshops for its customers. The Bank pays special attention to its special needs customers in the design of its offices, making sure that they have equal access to financial products and services.

Microfinancing
The Bank implemented the project of favourable micro-financing for persons with good business ideas who do not have access to classic bank crediting in cooperation with the good.bee holding between 2011 and 2014. The emphasis of this Bank activity was not only on favourable financing, but also on providing educational support, mentoring and consulting in all stages of development of the entrepreneurial project. More than 180 candidates passed free 40 hour training programmes in the campaign period. The programmes were organised by project partners: the Centre for Entrepreneurship Osijek, Business Park LORA, and STePRi, the Science and Technology Park of the University of Rijeka.

In three years the project was implemented in seven Croatian counties and two towns. Three of these counties have the highest average registered unemployment rates in Croatia. 31 self-employment projects out of the total of 50 were financed and more than EUR 430,000 of funds was granted in this area. 84 projects worth a total of HRK 6.1 million (more than EUR 800,000) were financed through the project. Everyone with good business ideas, but also owners of existing companies not older than two years who needed additional funds to expand their business were invited to apply for funds. Beginner entrepreneurs were granted credits amounting to EUR 10,000 in HRK countervalue, and existing enterprises were granted credits amounting to EUR 15,000 with interest rates lower than market ones. In addition to free training and more accessible financing, the Bank also provided project mentoring services for a period of two years, thus giving entrepreneurs additional access to the information they need to run their business successfully and overcome difficulties they encounter using earlier knowhow and experience. The project was especially interesting for everyone who did not fit into classic bank crediting models for reasons of lack of classic insurance instruments. The Bank plans to continue projects offering advantageous microfinancing and supporting good business ideas in the future.
It is the Bank’s wish to encourage self-employment and set the foundations for the development of a long-term responsible business model at local levels in the micro entrepreneurship segment by successfully continuing and implementing such projects.

II. Employees

The Bank strives to provide all its employees with adequate working environment and tools as well as with professional training. In addition to numerous training programmes, all employees can choose supplemental health insurance and participate in preventive vaccination programmes at the bank’s expense, such as the flu programme. The Bank also organises corporate volunteering programmes for its employees to help them build social awareness and empathy for underprivileged community members.

III. Society and community

In the society and social community segment, the Bank provides financial support to a number of fund-raising and sponsorship campaigns in the community every year, paying special attention to specific local needs. In year 2014. The Bank spent around HRK 8.5 million on donations and sponsorships, helping numerous fund-raising projects for hospitals, sports clubs, children and youth programmes, cultural institutions and others.

I. The Bank as corporate citizen (continued)

The Bank takes an active part in corporate responsibility projects and continuously supports fund-raising and community projects and institutions. Some of many recipients of the Bank's donations in 2014 include: SOS Children's Village Croatia, Children's Hospital Zagreb, General Hospital Pula, Psychiatric Hospital Rab, Mirkovic Secondary Music School, Association Crveni nosevi (Red Noses), Association FALA – Therapeutic Horseback Riding, Silver Rehabilitation Centre Zagreb and a number of nursery and elementary schools all over Croatia.

On inquiry the Bank donates tangible assets no longer used in the bank's regular operations due to new decoration and outfitting standards and similar reasons that are still in good condition and usable, such as computer equipment, furniture etc.
In 2014 the Bank sponsored a number of sports clubs, including Primorje Erste banka Water Polo Club, *Homo si tec* Sports and Recreation Festival, Zagreb Erste Sand Volleyball Club, Croatian Athletic Federation (Erste Blue League/ Hanzek's Memorial), Croatian Table Tennis Federation – Zagreb Open 2014 Tournament, Medvescak Ice Hockey Club, Zadar Basketball Club, Bjelovar Handball Club and many others.
In the sponsorship segment we would like to lay a special emphasis on the sponsorships in the segment of cultural development: Festival malih scena, Rijeka Carnival, Museum of Modern Arts (Peter Kogler Exhibition), Tvornica kulture Zagreb, BOK Fest, Christmas Concert – Jazz Club Bjelovar, Terezijana International Retro Fest, Pag Lace Festival in Pag, DOKU art, Osor Music Evenings, Matulji Music Evenings and many others.

a) **Erste Fragments** – the Bank's art connection

Erste Fragments, held for the 10th time in year 2014., a project designed by the Bank to help aspiring artists younger than 30 years of age by buying-out their artwork and offering rewards for best artwork, special Facebook award and one-year scholarship for a young artist. Organising exhibitions of purchased artwork the Bank gives young artists an opportunity for additional promotion and visitors and critics the chance to see works by young Croatian authors, a sort of a cross-section view of the artwork of the new generation. Until now there were 140 arts of young artis were bought.
The Bank's relationship with art is based on the Bank's business strategy in sponsorships and donations segment, which is closely tied to culture and youth. In line with this strategy, the Bank publicly invites tenders for artwork every year, attracting an increasing amount of interest every year, and confirming that young artists in Croatia can use all the help they can get.

b) **'Give me PET**'project

'Give me PET' project (the name is a pun not fully translatable to English, as Croatian word for 'five' is homophonous with 'PET') started as the initiative of the Bank's employees. The Bank has an internal programme called 'Baltazar', designed to encourage innovation among employees, and 'Give me PET' project is one of its products. The project includes collection of PET packaging at the Bank's business centres in Zagreb and Bjelovar in cooperation with the Association for Promoting Inclusion. The Bank employees collect empty beverage bottles and Association members take them to recycling and finance some of their needs with the proceeds. The Bank thus makes a double contribution to the community: not only does it help recycle large amounts of PET bottles, which is an environmentally friendly act, but also helps underprivileged members of the community – persons with mental disabilities who have a hard time finding employment – earn an income.

c) 'Stepping into Life'

The Bank joined Rotary Club Zagreb's project 'Korak u život' ('Stepping into Life') in 2010 with other members of the Group in Croatia. The project provides parentless children with scholarships to allow them to go to college. The Bank and other Group members have provided scholarships for eight students for the entire duration of their studies (five years).

IV. Environment

a) Office design

The Bank aims for the best and most sustainable business processes in the segment of environment and interior design. The Bank uses energy saving light bulbs and LED posterboxes in its everyday operations, makes an effort to recycle as much paper as possible, and strives to heat and air-condition its buildings in an efficient and environmentally friendly way, using eco friendly gas and regularly maintaining equipment to extend its useful life.

b) Financing energy efficiency

In addition to all its environmentally friendly programmes, the Bank has also designed several products aimed at financing energy efficiency, so-called 'eco loans'**,** available to retail and corporate customers alike, which promote clean and renewable energy.

Corporate Governance Principles Implementation

The Bank pays special attention to corporate governance as the most significant determinant of its operations, which gives an impetus to the Management Board, the managers and the Supervisory Board in achieving interests and protecting both its shareholders and the Bank as a whole.

In order to establish high standards and achieve good rate governance, transparency in operations as the basis for the protection of shareholders, investors and other holders of interest, as well as to take care of employees and to support sustainable development and environment protection, the Bank applies Corporate Governance Principles (hereinafter: the Principles) adopted in 2009 to its business. The Principles are based on positive regulations of the Republic of Croatia and they ensure strategic governance of the Bank, efficient supervision over management and responsibilities of the Management Board and the Supervisory Board towards the Bank, its employees, clients and other interested parties; the Principles are published on the Bank's official website.

In its operations the Bank particularly complies with the following corporate governance principles:

- Transparency in operations;
- Protection of shareholders' rights;
- Clearly defined authorizations and responsibilities of the Bank’s bodies;
- Cooperation between the Management Board and the Supervisory Board, transparent relationships among all the Bank's bodies, employees, shareholders, Bank's clients and the public as a whole;
- Efficient internal control system.

The Bank has ensured the integrity of the accounting system and financial reporting, adequate internal control systems, risk management system and the reliability of the information system covering all the major Bank's activities. In addition, the Bank hired an external auditor (one of the Big 4 audit firms) and has applied previous, current and subsequent financial supervision of the financial reporting and decision making process.

The accounting system, based on the International Accounting Standards and the International Financial Reporting Standards, is regulated by the Accounting Rules that define rights, obligations and responsibilities of all the participants, including the obligation of ongoing monitoring, while the functioning of the other systems is governed by special standard regulations.

The Bank's internal control system includes efficient direct monitoring through integrated procedures and processes set for monitoring the efficiency of the Bank's operations, reliability of financial reports and compliance with the legal and sub-legal rules, as well as through fair business practice. The Bank's internal control system is established through parallel operating of three mutually independent functions:
(a) risks control function, (b) compliance monitoring function, and (c) internal audit function.

The Bank's share capital, fully subscribed, amounts to HRK 1,698,417,500.00 and is divided into 16,984,175 ordinary shares issued in dematerialized form, registered with the Central Depositary and Clearing Company under RIBA-R-A mark.
The nominal value of each share amounts to HRK 100.00 and entitles the holder to one vote at the Bank's General Meeting.
All the shares are held by the company ESB Holding GmbH.

The rules on the appointment and recall of the members of the Management Board and the Supervisory Board and their authorizations, as well as the data on the composition and operations of the Management Board, the Supervisory Board and relevant assistant bodies have been regulated by the Principles. The Bank's General Meeting decides on amendments to the Articles of Association by the majority of votes representing at least three quarters of the equity capital represented at the General Meeting.

Corporate Governance Principles Implementation (continued)

On 17 June 2014 the Bank held its regular General Meeting at which a decision was made on the use of the Bank's profit achieved in 2013. Entire net profit in the amount of HRK 68,419,493.06 was allocated to the retained earnings.

Besides this decision, decisions on granting discharge to the members of the Management Board and the Supervisory Board of the Bank for their work in 2013 were also made.

Deloitte d.o.o. was appointed as the Bank's auditor for 2014.

Decisions on the amendments of the Articles of Association of the Bank, determination of remuneration for the Supervisory Board members and adoption of the Policy for the Bank Supervisory Board member's selection and suitability assessment have been made as well.

Besides the above mentioned ordinary General Meeting, in 2014 one extraordinary General Meeting was held, on 27 February 2014.

At the mentioned extraordinary General Meeting decisions on the election of the Supervisory Board members, suitability assessment of the Supervisory Board members and determination of remuneration for the Supervisory Board members were made.

Consolidated Financial Statements as at and for the year ended 31 December 2014

Erste&Steiermärkische Bank d.d.

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ('IFRS') and International Accounting Standards ('IAS') as published by IASB and adopted in the EU, which give a true and fair view of the state of affairs and results of Erste&Steiermärkische Bank d.d. (the 'Bank') and its subsidiaries (the 'Group') for that period.

After making enquiries, the Management Board has a reasonable expectation that the Group and the Bank have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group and the Bank will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and the Bank and must also ensure that the financial statements comply with the Croatian Accounting Law. The Management Board is also responsible for safeguarding the assets of the Group and the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board

Petar Radaković

Slađana Jagar

Erste&Steiermärkische Bank d.d.
Jadranski trg 3a
51 000 Rijeka
Republic of Croatia

16 March 2015

Deloitte d.o.o.
ZagrebTower
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Independent auditor's report

To the owners of Erste&Steiermärkische Bank d.d., Zagreb

We have audited the accompanying separate and consolidated financial statements of Erste&Steiermärkische Bank d.d., Zagreb (the 'Bank') and its subsidiaries (together, the 'Group'), which comprise separate and consolidated statement of financial position as at 31 December 2014 and separate and consolidated statement of comprehensive income, separate and consolidated statement of changes in equity and separate and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted in the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these separate and consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the consolidated and separated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Bank's and Group's preparation and fair presentation of the separate and consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and of the Group as at 31 December 2014, their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

Društvo upisano u sudski registar Trgovačkog suda u Zagrebu: MBS 030022053; uplaćen temeljni kapital: 44 900,00 kuna; članovi uprave: Eric Daniel Olcott and Branislav Vrtačnik; poslovna banka: Zagrebačka banka d.d., Paromlinska 2, 10 000 Zagreb, ž. račun/bank account no. 2360000-1101896313; SWIFT Code: ZABAHR2X IBAN: HR27 2360 0001 1018 9631 3; Privredna banka Zagreb d.d., Račkoga 6, 10 000 Zagreb, ž. račun/bank account no. 2340009–1110098294; SWIFT Code: PBZGHR2X IBAN: HR38 2340 0091 1100 9829 4; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, ž. račun/bank account no. 2484008–1100240905; SWIFT Code: RZBHHR2X IBAN: HR10 2484 0081 1002 4090 5

Deloitte se odnosi na Deloitte Touche Tohmatsu Limited, pravnu osobu osnovanu sukladno pravu Ujedinjenog Kraljevstva Velike Britanije i Sjeverne Irske (izvorno " UK private company limited by guarantee"), i mrežu njegovih članova, od kojih je svaki zaseban i samostalan pravni subjekt. Molimo posjetite www.deloitte.com/hr/o-nama za detaljni opis pravne strukture Deloitte Touche Tohmatsu Limited i njegovih tvrtki članica.

Member of Deloitte Touche Tohmatsu Limited

Independent auditor's report (continued)

Other legal and regulatory requirements

i. Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No 62/08, hereinafter: "the Decision") the Bank's management has prepared the forms, as presented in the Appendix to these separate and consolidated financial statements on pages 163 to 178, which comprise the separate and consolidated balance sheet as at 31 December 2014, separate and consolidated profit and loss account, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flow for the year then ended, together with reconciliation with the primary separate and consolidated financial statements. These forms and the accompanying reconciliation to the separate and consolidated financial information are the responsibility of the Bank's management and, do not represent components of the separate and consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted in the European Union, which are set out on pages 33 to 162, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the separate and consolidated financial statements.

ii. The management is also responsible for the preparation of the Annual report in accordance with the requirements of Croatian Accounting Law.

Our responsibility is to issue an opinion on consistency of the Annual report with the separate and consolidated financial statements based on our audit. Our procedures have been conducted in accordance with the International Standards on Auditing and limited solely to assessing of whether information disclosed in the Annual Report and presented in the separate and consolidated financial statements is consistent, in all material respects, with the relevant separate and consolidated financial statements. We have not audited any data or information other than the financial information obtained from the separate and consolidated financial statements and accounting ledgers. We believe that the performed audit provides a reasonable basis for our audit opinion.

In our opinion, the financial information presented in the Annual Report is consistent, in all material respects, with the aforementioned separate and consolidated financial statements as of 31 December 2014.

Other Matter

The financial statements of the Bank and the Group for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those separate and consolidated financial statements on 5 March 2014.

Branislav Vrtačnik

President of the Management Board and certified auditor

Zagreb, 16 March 2015

Deloitte d.o.o.

Radnička cesta 80, Zagreb

I. Statement of Comprehensive Income for the Year ended 31 December 2014

Income statement

in HRK million		GROUP		BANK	
	Notes	2013	2014	2013	2014
Net interest income	1	2,010	2,120	1,545	1,609
Net fee and commission income	2	550	610	353	381
Dividend income	3	3	2	48	79
Net trading and fair value result	4	154	184	149	177
Net result from equity method investments		3	10	-	-
Rental income from investment properties & other operating leases	5	2	242	2	2
Personnel expenses	6	(497)	(560)	(364)	(402)
Other administrative expenses	6	(518)	(583)	(369)	(414)
Depreciation and amortisation	6	(112)	(296)	(47)	(44)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	7	2	12	1	7
Net impairment loss on financial assets not measured at fair value through profit or loss	8	(1,206)	(1,185)	(1,091)	(1,100)
Other operating result	9	(128)	(52)	(137)	(29)
Pre-tax result from continuing operations		**263**	**504**	**90**	**266**
Taxes on income	10	(62)	(92)	(22)	(34)
Net result for the period		**201**	**412**	**68**	**232**
Net result attributable to non-controlling interests		17	35	-	-
Net result attributable to owners of the parent		**184**	**377**	**68**	**232**

Other comprehensive income

in HRK million	GROUP		BANK	
	2013	2014	2013	2014
Net result for the period	**201**	**412**	**68**	**232**
Other comprehensive income				
Items that may not be reclassified to profit or loss				
Remeasurement of net liability of defined pension plans	2	-	2	-
Deferred taxes relating to items that may not be reclassified	-	-	-	-
Total	**2**	**-**	**2**	**-**
Items that may be reclassified to profit or loss				
Available for sale reserve (including currency translation)	8	86	1	89
Gain/loss during the period	9	91	2	89
Reclassification adjustments	(1)	(5)	(1)	-
Currency translation	3	(3)	-	-
Gain/loss during the period	3	(3)	-	-
Reclassification adjustments				
Deferred taxes relating to items that may be reclassified	(2)	(17)	-	(18)
Gain/loss during the period	(2)	(17)	-	(18)
Reclassification adjustments	-	-	-	-
Total	**9**	**66**	**1**	**71**
Total other comprehensive income	**11**	**66**	**3**	**71**
Total comprehensive income	**212**	**478**	**71**	**303**
Total comprehensive income attributable to non-controlling interests	17	35	-	-
Total comprehensive income attributable to owners of the parent	**195**	**443**	**-**	**-**

I. Statement of Comprehensive Income for the Year ended 31 December 2014 (continued)

Earnings per share

For the purposes of calculating earnings per share, earnings are calculated as the net profit for the period attributable to ordinary shareholders after deducting preference dividends, if any. A reconciliation of the profit after tax attributable to ordinary shareholders is provided below.

in HRK million		GROUP
	2013	2014
Net profit for the year	184	377
Profit attributable to ordinary shareholders	184	377
Weighted average number of shares of 100 HRK each (for basic and diluted earnings per share)	16,984,175	16,984,175
Earnings per ordinary share – basic and diluted (in HRK)	**10.83**	**22.17**

II. Balance Sheet as of 31 December 2014

in HRK million		GROUP		BANK	
	Notes	31 December 2013	31 December 2014	31 December 2013	31 December 2014
Assets					
Cash and cash balances	11	4,297	4,674	3,949	4,035
Financial assets - held for trading	12,13	390	476	211	478
Derivatives		86	94	86	96
Other trading assets		304	382	125	382
Financial assets - available for sale	14	6,363	7,273	6,146	6,693
Financial assets - held to maturity	15	768	1,456	499	1,288
Loans and receivables to credit institutions	17	6,546	6,194	6,143	5,720
Loans and receivables to customers	18	47,391	46,711	41,040	39,607
Property and equipment	20	665	1,314	347	338
Investment properties	20	20	20	20	19
Intangible assets	21	745	729	37	48
Investment in subsidiaries		-	-	1,243	1,317
Investments in associates and joint ventures	19	39	58	29	38
Current tax assets	22	88	98	88	85
Deferred tax assets	22	191	197	37	19
Other assets	23	351	561	336	495
Total assets		**67,854**	**69,761**	**60,125**	**60,180**
Liabilities and equity					
Financial liabilities - held for trading	12	89	94	89	94
Derivatives		89	94	89	94
Financial liabilities measured at amortised cost	24	59,705	60,915	52,631	52,323
Deposits from banks		20,988	21,227	14,610	14,165
Deposits from customers		37,214	38,027	37,015	37,151
Debt securities issued		931	933	931	933
Other financial liabilities		572	728	75	74
Provisions	25	211	264	191	213
Current tax liabilities		17	9	-	-
Deferred tax liabilities		11	2	-	-
Other liabilities	26	451	536	327	360
Total equity	**27**	7,370	7,941	6,887	7,190
Equity attributable to non-controlling interests		51	162	-	-
Equity attributable to owners of the parent		7,319	7,779	6,887	7,190
Total liabilities and equity		**67,854**	**69,761**	**60,125**	**60,180**

Signed on behalf of Erste&Steiermärkische Bank d.d. on 16 March 2015:

President of the Management Board
Petar Radaković

Member of the Management Board
Slađana Jagar

III. Statement of Changes in Total Equity

GROUP

in HRK million	Subscribed capital	Capital reserves	Retained earnings	Available for sale reserve	Currency translation	Remeasurement of net liability of defined pension plans	Deferred tax	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
As of 31 December 2013	**1,698**	**1,887**	**3,529**	**249**	**7**	**(3)**	**(48)**	**7,319**	**51**	**7,370**
Dividends paid	-	-	-	-	-	-	-	-	(23)	(23)
Acquisition of non-controlling interest	-	-	18	(1)	-	-	-	17	99	116
Total comprehensive income	-	-	377	86	(3)	-	(17)	443	35	478
Net result for the period	-	-	377	-	-	-	-	377	35	412
Other comprehensive income	-	-	-	86	(3)	-	(17)	66		66
As of 31 December 2014	**1,698**	**1,887**	**3,924**	**334**	**4**	**(3)**	**(65)**	**7,779**	**162**	**7,941**
As of 1 January 2013	**1,698**	**1,887**	**3,491**	**241**	**4**	**(5)**	**(46)**	**7,270**	**38**	**7,308**
Dividends paid	-	-	(146)	-	-	-	-	(146)	(4)	(150)
Total comprehensive income	-	-	184	8	3	2	(2)	195	17	212
Net result for the period	-	-	184	-	-	-	-	184	17	201
Other comprehensive income	-	-	-	8	3	2	(2)	11	-	11
As of 31 December 2013	**1,698**	**1,887**	**3,529**	**249**	**7**	**(3)**	**(48)**	**7,319**	**51**	**7,370**

BANK

in HRK million	Subscribed capital	Capital reserves	Retained earnings	Available for sale reserve	Currency translation	Remeasurement of net liability of defined pension plans	Deferred tax	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
As of 31 December 2013	**1,698**	**1,887**	**3,133**	**210**	**-**	**1**	**(42)**	**6,887**	**-**	**6,887**
Total comprehensive income	-	-	232	89	-	-	(18)	303	-	303
Net result for the period	-	-	232	-	-	-	-	232	-	232
Other comprehensive income	-	-	-	89	-	-	(18)	71	-	71
As of 31 December 2014	**1,698**	**1,887**	**3,365**	**299**	**-**	**1**	**(60)**	**7,190**	**-**	**7,190**
As of 1 January 2013	**1,698**	**1,887**	**3,212**	**209**	**-**	**(1)**	**(42)**	**6,963**	**-**	**6,963**
Dividends paid	-	-	(147)	-	-	-	-	(147)	-	(147)
Acquisition of non-controlling interest	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	68	1	-	2	-	71	-	71
Net result for the period	-	-	68	-	-	-	-	68	-	68
Other comprehensive income	-	-	-	1	-	2	-	3	-	3
As of 31 December 2013	**1,698**	**1,887**	**3,133**	**210**	**-**	**1**	**(42)**	**6,887**	**-**	**6,887**

IV. Cash Flow Statement

in HRK million	GROUP		BANK	
	31.12.2013	31.12.2014	31.12.2013	31.12.2014
Net result for the period	**201**	**412**	**68**	**232**
Non-cash adjustments for items in net profit/loss for the year				
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	110	315	46	56
Allocation to and release of provisions (including risk provisions)	1,222	1,238	1,107	1,122
Gains/(losses) from the sale of assets	-	63	-	(1)
Other adjustments	(26)	252	(89)	34
Changes in assets and liabilities from operating activities after adjustment for non-cash components	**1,306**	**1,868**	**1,064**	**1,211**
Financial assets - held for trading	(55)	(227)	(71)	(257)
Financial assets - at fair value through profit or loss	-	-	-	-
Financial assets - available for sale	(164)	(1,023)	(48)	(805)
Loans and receivables to credit institutions	(154)	261	(150)	297
Loans and receivables to customers	(2,403)	(485)	(2,212)	353
Derivatives	27	(3)	27	(5)
Other assets from operating activities	(115)	(1,079)	(115)	(193)
Financial liabilities measured at amortised cost				
Deposits from banks	13	239	(240)	(445)
Deposits from customers	2,156	813	2,166	137
Debt securities issued	-	2	-	2
Other financial liabilities	-	156	-	(1)
Derivatives	(59)	-	(58)	-
Other liabilities from operating activities	3	56	17	23
Cash flow from operating activities	**756**	**990**	**448**	**549**
Proceeds of disposal				
Financial assets - held to maturity and associated companies	51	-	238	-
Property and equipment, intangible assets and investment properties	17	94	15	5
Acquisition of				
Financial assets - held to maturity and associated companies	-	(637)	-	(738)
Property and equipment, intangible assets and investment properties	(114)	(328)	(32)	(42)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	-	(83)	-	(90)
Cash flow from investing activities	**(46)**	**(954)**	**221**	**(865)**
Dividends paid to equity holders of the parent	(146)	-	(147)	-
Dividends paid to non-controlling interests	-	(23)	-	-
Other financing activities	(250)	-	(220)	-
Cash flow from financing activities	**(396)**	**(23)**	**(367)**	
Cash and cash equivalents at beginning of period	**5,357**	**5,671**	**4,916**	**5,218**
Cash flow from operating activities	756	990	448	549
Cash flow from investing activities	(46)	(954)	221	(865)
Cash flow from financing activities	(396)	(23)	(367)	-
Cash and cash equivalents at end of period[1)]	**5,671**	**5,684**	**5,218**	**4,902**
Cash flows related to taxes, interest and dividends				
Payments for taxes on income (included in cash flow from operating activities)	(165)	(109)	(99)	(30)
Interest received	3,622	3,399	3,024	2,750
Dividends received	6	5	48	78
Interest paid	(1,626)	(1,385)	(1,472)	(1,211)

1) Cash and cash equivalents are equal to cash in hand and balances held with central banks and placements with banks with maturity up to 3 months

V. Notes to the Financial Statements

A. GENERAL INFORMATION

HISTORY AND INCORPORATION

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

PRINCIPAL ACTIVITIES OF THE BANK

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

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

SUPERVISORY BOARD

Herbert Juranek	President
Sava Ivanov Dalbokov	Deputy President
Mag. Franz Kerber	Member
Mag. Reinhard Ortner	Member
Mag. Peter Nemschak	Member until 22 March 2013
Hannes Frotzbacher	Member as of 22 March 2013
Mag. Gerhard Maier	Member until 20 January 2014
Dr. Ernst Gideon Loudon	Member until 31 January 2014
Dr. Judit Agnes Havasi	Member as of 5 May 2014
Mag. Renate Veronika Ferlitz	Member as of 5 May 2014

MANAGEMENT BOARD

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

Petar Radaković	President
Tomislav Vuić	Deputy President until 31 May 2014
Borislav Centner	Member
Slađana Jagar	Member
Christoph Schoefboeck	Member
Zdenko Matak	Member as of 16 July 2014
Martin Hornig	Member as of 16 July 2014

A. GENERAL INFORMATION (CONTINUED)

PROCURATORS:

Zdenko Matak	Procurator until 16 July 2014
Vladimir Kristijan	Procurator until 15 May 2014

The Bank at the moment does not have procurators.

The only shareholder of the Bank is ESB Holding GmbH with 16,984,175 shares as at 31 December 2014 and 31 December 2013.

DEFINITION OF THE CONSOLIDATED GROUP

The Bank is a parent company of the banking group (the 'Group') which includes the following subsidiaries consolidated in the financial statements:

Name of subsidiary	Note	Ownership interest	Principal activity	Registered office
Erste Nekretnine d.o.o.	19	100%	Real estate business	Ivana Lučića 2, Zagreb
Erste Delta d.o.o.	19	100%	Real estate business	Ivana Lučića 2, Zagreb
Erste bank a.d. Podgorica, Montenegro	19	100%	Credit institution	Marka Miljanova 46, Podgorica, Montenegro
Erste Card Club d.o.o. za financijsko posredovanje i usluge	19	100%	Financial intermediation and services	Praška 5, Zagreb
Erste Card d.o.o. Slovenia	19	100%	Financial intermediation and services	Dunajska cesta 129, Ljubljana, Slovenija
Erste Factoring d.o.o. za factoring	19	74.996%	Accounts receivables repurchase	Ivana Lučića 2, Zagreb
Erste&Steiermärkische S-Leasing d.o.o.	19	50%	Financial and operating leasing	Zelinska 3, Zagreb

Additions in 2014:
On 10 February 2014, the Bank acquired additional 40% of shares in Erste&Steiermärkische S-Leasing d.o.o. increasing its ownership to 50%. Detailed information is noted in 'Accounting and measurement methods' under 'Business combination and Goodwill'.

Disposals in 2014:
Erste DMD d.o.o. merged with Erste d.o.o. on 1 December 2014, which increases the Bank's ownership in Erste d.o.o. from 37.94% to 45.86%.
On 1 November 2014 Diners BH d.o.o. is not anymore part of the Group due to immateriality levels.

Companies which are consolidated at equity method are noted in Note 19.

B. SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF PREPARATION

The financial statements are presented for the Group (consolidated financial statements) and the Bank only (separate financial statements).

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as published by IASB and adopted in the EU, under the historical cost convention, as modified by the revaluation of appropriate financial assets and liabilities. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or liability in an orderly transaction between market participants at the measurement date, regardless of whatever that price is directly observable or estimated using another valuation technique.
For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3.based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirety, which are described in note 35 'Fair value of assets and liabilities'.
The financial statements are presented in millions of Local Currency – Croatian Kuna (HRK), unless otherwise indicated.
The financial statements are prepared on an accrual basis of accounting, under the going concern assumption.
The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available at the balance sheet date and actual results could differ from those estimates.
The Bank maintains its books of accounts in accordance with the regulations of the CNB. The accompanying financial statements are based on the accounting records of the Bank and its subsidiaries, together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with IFRS adopted in the EU.

b) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (subsidiaries). Control is achieved when the bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.
Non-controlling interest represents the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank. Non-controlling interest is presented separately in the Group’s income statement and within equity in the Group’s balance sheet, separately from parent shareholders’ equity. Any losses applicable to the non-controlling interest in excess of the non-controlling interest are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

Accounting for investments in subsidiaries in the separate financial statements of the Bank

Investments in subsidiaries are accounted at cost in the separate financial statements of the Bank less any impairment.

b) BASIS OF CONSOLIDATION (continued)

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized in income statement.

Accounting for investments in associates in the separate financial statements of the Bank
Investments in associates are accounted at cost in the separate financial statements of the Bank less any impairment.

c) ACCOUNTING AND MEASUREMENT METHODS

There have been no changes in the scope of consolidation of the Group due to the implementation of IFRS 10 as of 1 January 2014.

In 2014 the Bank and the Group changed the structure of its balance sheet, income statement and some explanatory notes, in order to provide more reliable and relevant information about its financial position and performance.

The new structure has also been introduced in order to generate synergies in addressing the new IFRS-based Financial Reporting regulatory requirements ('FINREP'). FINREP was introduced in 2014 by the European Banking Authority ('EBA') and it represents a mandatory regulatory reporting framework applicable to EU based banking institutions.

The following tables show the relationships between the old and new balance sheet and income statement line items.

c) ACCOUNTING AND MEASUREMENT METHODS (continued)

ASSETS								GROUP 2013
in HRK million		CNB reserves	Reallocation of investments in joint ventures and associates in new line	Reclassifications other demand deposits and HBOR[1]	Reallocation of current tax asset in new line	Switch to loans and receivables		
	Old structure						**New structure**	
7,949	Cash and balances with central bank	(4,097)	-	445	-	-	Cash and cash balances	4,297
3,021	Amounts due from other banks	-	-	-	-	(3,021)		
46,426	Loans and advances to customers	-	-	-	-	(46,426)		
838	Reverse repurchase agreements	-	-	-	-	(838)		
		-	-	-	-	-	Financial assets - held for trading	390
86	Receivables on financial derivative transactions	-	-	-	-	-	Derivatives	86
304	Financial assets held for trading	-	-	-	-	-	Other trading assets	304
6,363	Financial investments available for sale	-	-	-	-	-	Financial assets - available for sale	6,363
768	Financial investments held to maturity	-	-	-	-	-	Financial assets - held to maturity	768
39	Investments in subsidiaries and associates	-	(39)	-	-	-	Investment in subsidiaries	-
		-	39	-	-	-	Investments in joint ventures and associates	39
		4,097	-	(1,001)	-	3,450	Loans and receivables to credit institutions	6,546
		-	-	555	-	46,836	Loans and receivables to customers	47,391
665	Property and equipment	-	-	-	-	-	Property, plant and equipment	665
746	Intangible assets	-	-	-	-	(1)	Intangible assets	745
20	Investment property	-	-	-	-	-	Investment properties	20
		-	-	-	88	-	Current tax assets	88
191	Deferred tax assets	-	-	-	-	-	Deferred tax assets	191
438	Other assets	-	-	1	(88)	-	Other assets	351
67,854	**TOTAL ASSETS**	-	-	**-**	**-**	-	**TOTAL ASSETS**	**67,854**

[1] HBOR – Croatian Bank for Reconstruction and Development

c) ACCOUNTING AND MEASUREMENT METHODS (continued)

LIABILITIES							GROUP 2013
in HRK million		Equity in one line	Switch to other financial liabilities	Reallocation of HBOR[1]	Switch to deposits and debt securities		
	Old structure					**New structure**	
		-	-	-	-	Financial liabilities held for trading	*89*
89	Payables on financial derivative transactions	-	-	-	-	Derivatives	89
		-	-	-	-	Other trading liabilities	-
		-	-	-	-	Financial liabilities measured at amortised costs	*59,705*
22,680	Amounts due to other banks	-	(74)	(2,601)	983	Deposits from banks	20,988
34,824	Amounts due to customers	-	(4)	2,104	290	Deposits from customers	37,214
349	Issued bonds and other borrowed funds	-	-	-	582	Debt securities issued	931
974	Repurchase agreements	-	-	-	(974)		
		-	75	497	-	Other financial liabilities	572
211	Provisions	-	-	-	-	Provisions	211
17	Current tax liabilities	-	-	-	-	Current tax liabilities	17
11	Deferred tax liabilities	-	-	-	-	Deferred tax liabilities	11
448	Other liabilities	-	3	-	-	Other Liabilities	451
881	Subordinated debt	-	-	-	(881)		
60,484	Total liabilities	-	-	-	-		
1,698	Share capital	(1,698)	-	-	-		
1,802	Share premium	(1,802)	-	-	-		
3,529	Retained earnings	(3,529)	-	-	-		
205	Other reserves	(205)	-	-	-		
85	Other capital reserves	(85)	-	-	-		
7,319	Equity attributable to equity holders of the Bank	7,319	-	-	-	attributable to owners of the parent	7,319
51	Non-controlling interest	-	-	-	-	attributable to non-controlling interest	51
7,370	Total equity	-	-	-	-	Total equity	7,370
67,854	**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**	-	-	-	-	**TOTAL LIABILITIES AND EQUITY**	**67,854**

[1] HBOR – Croatian Bank for Reconstruction and Development

c) ACCOUNTING AND MEASUREMENT METHODS (continued)

INCOME STATEMENT									GROUP 2013
in HRK million		Switch of equity method investment income and dividend income	Reallocation of customer relationship amortisation	Reallocation of insurance deposit	Switch of rental and leasing income and depreciation and amortisation	Switch of off balance sheet provisions	Switch of AFS or HTM measurement		
	Old structure							**New structure**	
3,602	Interest income	(3)	-	-	(2)	-	-		
(1,587)	Interest expense	-	-	-	-	-	-		
3	Share of profit of associates	(3)	-	-	-	-	-		
2,018	Net interest income	-	-	-	-	-	-	Net interest income	2,010
727	Fee and commission income	-	-	-	-	-	-		
(177)	Fee and commission expense	-	-	-	-	-	-		
550	Net fee and commission income	-	-	-	-	-	-	Net fee and commission income	550
		3	-	-	-	-	-	Dividend income	3
154	Net trading income	-	-	-	-	-	-	Net trading and fair value result	154
		3	-	-	-	-	-	Net result from equity method investments	3
		-	-	-	2	-	-	Rental income from investment properties & other operating lease	2
2,722	Net operating income	-	-	-	-	-	-		
(497)	Personnel expenses	-	-	-	-	-	-	Personnel expenses	(497)
(450)	Other administrative expenses	-	-	(69)	-	-	-	Other administrative expenses	(518)
(50)	Depreciation of property and equipment	-	-	-	50	-	-		
(23)	Amortization of intangible assets	-	(37)	-	(50)	-	-	Depreciation and amortisation	(112)
(1,020)	General administrative expenses	-	-	-	-	-	-		
		-	-	-	-	-	-		
(248)	Other operating result	-	37	69	-	14	-	Other operating result	(128)
(2)	Result from financial assets - Available for sale	-	-	-	-	-	4	Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net	2
1,452	Profit before provision for impairment LOSSES and INCOME TAX	-	-	-	-	-	-		
(1,189)	Provision for impairment losses	-	-	-	-	(14)	(4)	Net impairment loss on financial assets not measured at fair value through profit or loss	(1,206)
263	PROFIT BEFORE INCOME TAX	-	-	-	-	-	-	Pre-tax profit from continuing operations	263
(62)	Income taxes	-	-	-	-	-	-	Taxes on income	(62)
201	**NET PROFIT FOR THE YEAR**	-	-	-	-	-	-	**NET PROFIT FOR THE YEAR**	**201**

c) ACCOUNTING AND MEASUREMENT METHODS (continued)

ASSETS								BANK 2013
in HRK million		CNB reserves	Reallocation of investments in joint ventures and associates in new line	Reclassifications other demand deposits and HBOR[1]	Reallocation of current tax asset in new line	Switch to loans and receivables		
	Old structure						**New structure**	
7,695	Cash and balances with central bank	(4,097)	-	351	-	-	Cash and cash balances	3,949
2,524	Amounts due from other banks	-	-	-	-	(2,524)		-
39,912	Loans and advances to customers	-	-	-	-	(39,912)		-
1,002	Reverse repurchase agreements	-	-	-	-	(1,002)		-
		-	-	-	-	-	Financial assets - held for trading	211
86	Receivables on financial derivative transactions	-	-	-	-	-	Derivatives	86
125	Financial assets held for trading	-	-	-	-	-	Other trading assets	125
6,146	Financial investments available for sale	-	-	-	-	-	Financial assets - available for sale	6,146
499	Financial investments held to maturity	-	-	-	-	-	Financial assets - held to maturity	499
1,272	Investments in subsidiaries and associates	-	(29)	-	-	-	Investment in subsidiaries	1,243
		-	29	-	-	-	Investments in joint ventures and associates	29
		4,097	-	(907)	-	2,953	Loans and receivables to credit institutions	6,143
		-	-	555	-	40,485	Loans and receivables to customers	41,040
347	Property and equipment	-	-	-	-	-	Property, plant and equipment	347
37	Intangible assets	-	-	-	-	-	Intangible assets	37
20	Investment property	-	-	-	-	-	Investment properties	20
		-	-	-	88	-	Current tax assets	88
37	Deferred tax assets	-	-	-	-	-	Deferred tax assets	37
423	Other assets	-	-	1	(88)	-	Other assets	336
60,125	**TOTAL ASSETS**	-	-	-	-	-	**TOTAL ASSETS**	**60,125**

[1] HBOR – Croatian Bank for Reconstruction and Development

c) ACCOUNTING AND MEASUREMENT METHODS (continued)

LIABILITIES							BANK 2013
in HRK million		Equity in one line	Switch to other financial liabilities	Reallocation of HBOR[1]	Switch to Deposits and debt securities		
	Old structure					**New structure**	
		-	-	-	-	Financial liabilities held for trading	*89*
89	Payables on financial derivative transactions	-	-	-	-	Derivatives	89
		-	-	-	-	Other trading liabilities	-
		-	-	-	-	Financial liabilities measured at amortised costs	*52,631*
16,652	Amounts due to other banks	-	(74)	(2,600)	632	Deposits from banks	14,610
34,175	Amounts due to customers	-	(4)	2,600	244	Deposits from customers	37,015
302	Issued bonds and other borrowed funds	-	-	-	629	Debt securities issued	931
647	Repurchase agreements	-	-	-	(647)		
		-	75	-	-	Other financial liabilities	75
191	Provisions	-	-	-	-	Provisions	191
-	Current tax liabilities	-	-	-	-	Current tax liabilities	-
-	Deferred tax liabilities	-	-	-	-	Deferred tax liabilities	-
324	Other liabilities	-	3	-	-	Other Liabilities	327
858	Subordinated debt	-	-	-	(858)		
53,238	Total liabilities	-	-	-	-		
1,698	Share capital	(1,698)	-	-	-		
1,802	Share premium	(1,802)	-	-	-		
3,133	Retained earnings	(3,133)	-	-	-		
169	Other reserves	(169)	-	-	-		
85	Other capital reserves	(85)	-	-	-		
6,887	Equity attributable to equity holders of the Bank	6,887	-	-	-	attributable to owners of the parent	6,887
-	Non-controlling interest	-	-	-	-	attributable to non-controlling interest	-
6,887	Total equity	-	-	-	-	Total equity	6,887
60,125	**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**	-	-	-	-	**TOTAL LIABILITIES AND EQUITY**	**60,125**

[1] HBOR – Croatian Bank for Reconstruction and Development

c) ACCOUNTING AND MEASUREMENT METHODS (continued)

INCOME STATEMENT							BANK 2013
in HRK million		Switch of dividend income	Reallocation of insurance deposit	Switch of rental and leasing income and depreciation and amortisation	Switch of off balance sheet provisions		
	Old structure					**New structure**	
3,017	Interest income	(44)	-	(2)	-		
(1,426)	Interest expense	-	-	-	-		
1,591	Net interest income	-	-	-	-	Net interest income	1,545
500	Fee and commission income	-	-	-	-		
(147)	Fee and commission expense	-	-	-	-		
353	Net fee and commission income	-	-	-	-	Net fee and commission income	353
		48	-	-	-	Dividend income	48
149	Net trading income	-	-	-	-	Net trading and fair value result	149
		-	-	-	-	Net result from equity method investments	-
		-	-	2	-	Rental income from investment properties & other operating lease	2
2,093	Net operating income	-	-	-	-		
(364)	Personnel expenses	-	-	-	-	Personnel expenses	(364)
(309)	Other administrative expenses	-	(60)	-	-	Other administrative expenses	(369)
(30)	Depreciation of property and equipment	-	-	30	-		
(17)	Amortization of intangible assets	-	-	(30)	-	Depreciation and amortisation	(47)
(720)	General administrative expenses	-	-	-	-		
(205)	Other operating result	(4)	60	-	12	Other operating result	(137)
1	Result from financial assets - Available for sale	-	-	-	-	Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net	1
1,169	Profit before provision for impairment LOSSES and INCOME TAX	-	-	-	-		
(1,079)	Provision for impairment losses	-	-	-	(12)	Net impairment loss on financial assets not measured at fair value through profit or loss	(1,091)
90	PROFIT BEFORE INCOME TAX	-	-	-	-	Pre-tax profit from continuing operations	90
(22)	Income taxes	-	-	-	-	Taxes on income	(22)
68	**NET PROFIT FOR THE YEAR**	-	-	-	-	**NET PROFIT OF THE YEAR**	**68**

c) ACCOUNTING AND MEASUREMENT METHODS (continued)

ASSETS								GROUP 2012
in HRK million		CNB reserves	Reallocation of investments in joint ventures and associates in new line	Reclassifications Other demand deposits and HBOR[1]	Reallocation of current tax asset in new line	Switch to loans and receivables		
	Old structure						**New structure**	
7,757	Cash and balances with central banks	(4,396)	-	1,302	-	-	Cash and cash balances	4,663
2,865	Amounts due from other banks	-	-	-	-	(2,865)		
45,348	Loans and advances to customers	-	-	-	-	(45,348)		
683	Reverse repurchase agreements	-	-	-	-	(683)		
		-	-	-	-	-	Financial assets - held for trading	364
114	Receivables on financial derivative transactions	-	-	-	-	-	Derivatives	114
250	Financial assets held for trading	-	-	-	-	-	Other trading assets	250
6,134	Financial investments available for sale	-	-	-	-	-	Financial assets - available for sale	6,134
813	Financial investments held to maturity	-	-	-	-	-	Financial assets - held to maturity	813
68	Investments in subsidiaries and associates	-	-	-	-	-	Investments in joint ventures and associates	68
		-	-	-	-	-		
		4,396	-	(2,087)	-	3,462	Loans and receivables to credit institutions	5,771
		-	-	785	-	45,434	Loans and receivables to customers	46,219
704	Property and equipment	-	-	-	-	-	Property, plant and equipment	704
740	Intangible assets	-	-	-	-	-	Intangible assets	740
1	Investment property	-	-	-	-	-	Investment properties	1
		-	-	-	9	-	Current tax assets	9
172	Deferred tax assets	-	-	-	-	-	Deferred tax assets	172
242	Other assets	-	-	-	(9)	-	Other assets	233
65,891	**TOTAL ASSETS**	-	-	-	-	-	**TOTAL ASSETS**	**65,891**

[1] HBOR – Croatian Bank for Reconstruction and Development

c) ACCOUNTING AND MEASUREMENT METHODS (continued)

LIABILITIES							GROUP 2012
in HRK million		Equity in one line	Switch to other financial liabilities	Reallocation HBOR[1]	Switch to deposits and debt securities		
	Old structure					New structure	
		-	-	-	-	Financial liabilities held for trading	148
148	Payables on financial derivative transactions	-	-	-	-	Derivatives	148
		-	-	-	-	Other trading liabilities	-
		-	-	-	-	Financial liabilities measured at amortised costs	57,827
22,906	Amounts due to other banks	-	-	(2,699)	925	Deposits from banks	21,132
32,190	Amounts due to customers	-	(450)	2,699	626	Deposits from customers	35,065
362	Issued bonds and other borrowed funds	-	-	-	818	Debt securities issued	1,180
1,490	Repurchase agreements	-	-	-	(1,490)		-
		-	450	-	-	Other financial liabilities	450
136	Provisions	-	-	-	-	Provisions	136
15	Current tax liabilities	-	-	-	-	Current tax liabilities	15
19	Deferred tax liabilities	-	-	-	-	Deferred tax liabilities	19
438	Other liabilities	-	-	-	(1)	Other Liabilities	437
878	Subordinated debt	-	-	-	(878)		
58,582	Total liabilities	-	-	-	-		
	Shareholders' equity	-	-	-	-		
1,698	Share capital	(1,698)	-	-	-		
1,802	Share premium	(1,802)	-	-	-		
3,491	Retained earnings	(3,491)	-	-	-		
195	Other reserves	(195)	-	-	-		
85	Other capital reserves	(85)	-	-	-		
7,271	Equity attributable to equity holders of the Bank	7,271	-	-	-	attributable to owners of the parent	7,271
38	Non-controlling interest	-	-	-	-	attributable to non-controlling interest	38
7,309	Total equity	-	-	-	-	Total equity	7,309
65,891	**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**	**-**	**-**	**-**	**-**	**TOTAL LIABILITIES AND EQUITY**	**65,891**

[1] HBOR – Croatian Bank for Reconstruction and Development

c) ACCOUNTING AND MEASUREMENT METHODS (continued)

INCOME STATEMENT									GROUP 2012
in HRK million		Switch of equity method investment income and dividend income	Reallocation of customer relationship amortisation	Reallocation of Insurance deposit	Switch of rental and leasing income and depreciation and amortisation	Switch of off balance sheet provisions	Switch of AFS or HTM measurement		
	Old structure							**New structure**	
4,096	Interest income	(5)	-	-	-	-	-		
(1,997)	Interest expense	-	-	-	-	-	-		
4	Share of profit of associates	(4)	-	-	-	-	-		
2,103	Net interest income	-	-	-	-	-	-	Net interest income	2,094
681	Fee and commission income	-	-	-	-	-	-		
(159)	Fee and commission expense	-	-	-	-	-	-		
522	Net fee and commission income	-	-	-	-	-	-	Net fee and commission income	522
		5	-	-	-	-	-	Dividend income	5
146	Net trading income	-	-	-	-	-	-	Net trading and fair value result	146
		4	-	-	-	-	-	Net result from equity method investments	4
		-	-	-	-	-	-	Rental income from investment properties & other operating lease	-
2,771	Net operating income	-	-	-	-	-	-		
(543)	Personnel expenses	-	-	-	-	-	-	Personnel expenses	(543)
(447)	Other administrative expenses	-	-	(59)	-	-	-	Other administrative expenses	(506)
(53)	Depreciation of property and equipment	-	(47)	-	(19)	-	-	Depreciation and amortisation	(119)
(19)	Amortization of intangible assets	-	-	-	19	-	-		
(1,062)	General administrative expenses	-	-	-	-	-	-		
(134)	Other operating result	-	47	59	-	(22)	-	Other operating result	(50)
59	Result from financial assets - Available for sale	-	-	-	-	-	2	Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net	61
1,634	Profit before provision for impairment LOSSES and INCOME TAX	-	-	-	-	-	-		
(891)	Provision for impairment losses	-	-	-	-	22	(2)	Net impairment loss on financial assets not measured at fair value through profit or loss	(871)
743	PROFIT BEFORE INCOME TAX	-	-	-	-	-	-	Pre-tax profit from continuing operations	743
(147)	Income taxes	-	-	-	-	-	-	Taxes on income	(147)
596	**NET PROFIT FOR THE YEAR**	**-**	**-**	**-**	**-**	**-**	**-**	**Post-tax profit from continuing operations**	**596**

c) ACCOUNTING AND MEASUREMENT METHODS (continued)

ASSETS									BANK 2012
in HRK million		CNB reserves	Reallocation of investments in joint ventures and associates in new line	Reclassifications Other demand deposits and HBOR[1]	Reallocation of current tax asset in new line	Switch to loans and receivables			
	Old structure						New structure		
7,459	Cash and balances with central banks	(4,396)	-	1,134	-	-	Cash and cash balances	4,197	
2,507	Amounts due from other banks	-	-	-	-	(2,507)			
38,844	Loans and advances to customers	-	-	-	-	(38,844)			
899	Reverse repurchase agreements	-	-	-	-	(899)			
		-	-	-	-	-	Financial assets - held for trading	169	
113	Receivables on financial derivative transactions	-	-	-	-	-	Derivatives	113	
56	Financial assets held for trading	-	-	-	-	-	Other trading assets	56	
5,956	Financial investments available for sale	-	-	-	-	-	Financial assets - available for sale	5,956	
685	Financial investments held to maturity	-	-	-	-	-	Financial assets - held to maturity	685	
1,300	Investments in subsidiaries and associates	-	(57)	-	-	-	Investment in subsidiaries	1,243	
		-	57	-	-	-	Investments in joint ventures and associates	57	
		4,396	-	(1,919)	-	3,104	Loans and receivables to credit institutions	5,581	
		-	-	785	-	39,146	Loans and receivables to customers	39,931	
386	Property and equipment	-	-	-	-	-	Property, plant and equipment	386	
47	Intangible assets	-	-	-	-	-	Intangible assets	47	
-	Investment property	-	-	-	-	-	Investment properties	-	
		-	-	-	9	-	Current tax assets	9	
38	Deferred tax assets	-	-	-	-	-	Deferred tax assets	38	
229	Other assets	-	-	-	(9)	-	Other assets	220	
58,519	**TOTAL ASSETS**	**-**	**-**	**-**	**-**	**-**	**TOTAL ASSETS**	**58,519**	

[1] HBOR – Croatian Bank for Reconstruction and Development

c) ACCOUNTING AND MEASUREMENT METHODS (continued)

LIABILITIES						BANK 2012
in HRK million		Equity in one line	Switch to other financial liabilities and HBOR[1]	Switch to deposits and debt securities		
	Old structure				New structure	
		-	-	-	Financial liabilities held for trading	*147*
147	Payables on financial derivative transactions	-	-	-	Derivatives	147
		-	-	-	Other trading liabilities	-
		-	-	-	Financial liabilities measured at amortised costs	*50,968*
16,830	Amounts due to other banks	-	(2,699)	804	Deposits from banks	14,935
31,618	Amounts due to customers	-	2,677	566	Deposits from customers	34,861
303	Issued bonds and other borrowed funds	-	-	847	Debt securities issued	1,150
1,369	Repurchase agreements	-	-	(1,369)		
		-	22	-	Other financial liabilities	22
116	Provisions	-	-	-	Provisions	116
-	Current tax liabilities	-	-	-	Current tax liabilities	-
-	Deferred tax liabilities	-	-	-	Deferred tax liabilities	-
325	Other liabilities	-	-	-	Other Liabilities	325
848	Subordinated debt	-	-	(848)		
51,556	Total liabilities	-	-	-		
1,698	Share capital	(1,698)	-	-		
1,802	Share premium	(1,802)	-	-		
3,212	Retained earnings	(3,212)	-	-		
166	Other reserves	(166)	-	-		
85	Other capital reserves	(85)	-	-		
6,963	Equity attributable to equity holders of the Bank	6,963	-	-	attributable to owners of the parent	6,963
-	Non-controlling interest	-	-	-	attributable to non-controlling interest	-
6,963	Total equity	-	-	-	Total equity	6,963
58,519	**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**	**-**	**-**	**-**	**TOTAL LIABILITIES AND EQUITY**	**58,519**

[1] HBOR – Croatian Bank for Reconstruction and Development

c) ACCOUNTING AND MEASUREMENT METHODS (continued)

INCOME STATEMENT								BANK 2012
n HRK million		Switch of equity method investment income and dividend income	Reallocation of insurance deposit	Switch of rental and leasing income and depreciation and amortisation	Switch of off balance sheet provisions	Switch of AFS or HTM measurement		
	Old structure						**New structure**	
3,502	Interest income	(29)	-	-	-	-		
(1,821)	Interest expense	-	-	-	-	-		
-	Share of profit of associates	-	-	-	-	-		
1,681	Net interest income	-	-	-	-	-	Net interest income	1,652
447	Fee and commission income	-	-	-	-	-		
(131)	Fee and commission expense	-	-	-	-	-		
316	Net fee and commission income	-	-	-	-	-	Net fee and commission income	316
		35	-	-	-	-	Dividend income	35
136	Net trading income	-	-	-	-	-	Net trading and fair value result	136
		-	-	-	-	-	Net result from equity method investments	-
		-	-	-	-	-	Rental income from investment properties & other operating lease	-
2,133	Net operating income	-	-	-	-	-		
(410)	Personnel expenses	-	-	-	-	-	Personnel expenses	(410)
(316)	Other administrative expenses	-	(54)	-	-	-	Other administrative expenses	(370)
(34)	Depreciation of property and equipment	-	-	(16)	-	-	Depreciation and amortisation	(50)
(16)	Amortization of intangible assets	-	-	16	-	-		
(776)	General administrative expenses	-	-	-	-	-		
(74)	Other operating result	(6)	54	-	(12)	-	Other operating result	(38)
59	Result from financial assets - Available for sale	-	-	-	-	2	Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net	61
1,342	Profit before provision for impairment LOSSES and INCOME TAX	-	-	-	-	-		
(744)	Provision for impairment losses	-	-	-	12	(2)	Net impairment loss on financial assets not measured at fair value through profit or loss	(734)
598	PROFIT BEFORE INCOME TAX	-	-	-	-	-	Pre-tax profit from continuing operations	598
(115)	Income taxes	-	-	-	-	-	Taxes on income	(115)
483	**NET PROFIT FOR THE YEAR**	-	-	-	-	-	**Post-tax profit from continuing operations**	**483**

Foreign currency translation

Transactions denominated in foreign currencies are translated into HRK at the prevailing exchange rates on the date of the transaction. Monetary items denominated in foreign currencies are retranslated into HRK at the appropriate spot rates of exchange prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.
Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in income statement for the period in 'Net trading and fair value result'. Exchange differences arising on the retranslation of non-monetary assets carried at fair value are included in income statement for the period except for exchange differences arising on the retranslation of non-monetary assets available for sale in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.
The Bank has assets and liabilities originated in HRK, which are linked to foreign currency with a one-way currency clause. Due to this clause, the Bank has an option to revalue the asset by the higher of the foreign exchange rate valid as of the date of maturity, or the foreign exchange rate valid as of the date of origination of the financial instrument. In case of a liability linked to this clause, the counterparty has this option. Due to the specific conditions of the market in the Republic of Croatia, the fair value of this option cannot be calculated, as the forward rates for HRK for periods over 6 months are not available. As such, the Bank values it's assets and liabilities related to this clause by the agreed contract rate valid at the date of the balance sheet or foreign exchange rate agreed by the option (rate valid at origination), whichever is higher. As at 31 December 2014 one-way currency clause asset is HRK 22 million and liabilities HRK 13 million and as at 31 December 2013 one-way currency clause asset is HRK 30 million and liabilities HRK 18 million.

The principal rates of exchange set forth by the CNB and used in the preparation of the Group and the Bank's balance sheet at the reporting dates were as follows:

31 December 2014	EUR 1=HRK 7.661471	USD 1=HRK 6.302107	CHF 1=HRK 6.368108
31 December 2013	EUR 1=HRK 7.637643	USD 1=HRK 5.549000	CHF 1=HRK 6.231758

Financial instruments – recognition and measurement

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IAS 39, all financial assets and liabilities – which also include derivative financial instruments – have to be recognised on the balance sheet and measured in accordance with their assigned categories.

The Bank and the Group use the following categories of financial instruments:
- financial assets or financial liabilities at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments
- loans and receivables
- financial liabilities measured at amortised cost

IAS 39 categories of financial instruments are not necessarily the line items presented on the balance sheet. Relationships between the balance sheet line items and categories of financial instruments are described in the table at point (xi).

(i) Initial recognition

Financial instruments are initially recognised when Bank becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at settlement date, which is the date that an asset is delivered. The classification of financial instruments at initial recognition depends on their characteristics as well as the purpose and management's intention for which the financial instruments were acquired.

Financial instruments – recognition and measurement (continued)

(ii) Initial measurement of financial instruments

Financial instruments are measured initially at their fair value including transaction costs. In the case of financial instruments at fair value through profit or loss, however, transaction costs are not included but are recognised directly in profit or loss. Subsequent measurement is described in the chapters below.

(iii) Cash and cash balances

Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours.

(iv) Derivative financial instruments

In the normal course of business the Group and the Bank enter into derivative financial instruments to manage currency, liquidity and interest rate risks and such financial instruments are classified as 'Financial assets - held for trading - Derivatives'. Derivatives entered into by the Group and the Bank include forwards, foreign currency and equity options and futures.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading and fair value result'. Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the income statement. Fair values are principally obtained from discounted cash flow models and option pricing models as appropriate. The results of the valuation of derivatives are reported in assets (aggregate of positive fair values) or liabilities (aggregate of negative fair values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise in the income statement line ‘Net trading and fair value result for derivatives in Trading book.

In case of equity options, when the underlying equity instrument is not publicly traded and its fair value cannot be measured reliably, the fair value of the options is not determined and such options are measured in the financial statements at cost.

Certain derivative transactions, while providing effective economic hedges under the Group and the Bank’s risk management positions, are treated as derivatives in ‘Bank book’ with fair value gains and losses reported in the income statement lines ‘Net trading and fair value result' and ‘Net interest income’. Interest expense accrued on sold notional amount and interest income accrued on bought notional amount are included in Net interest income. Net trading and fair value result includes all remaining effects from foreign currency (FX) changes and changes from market interest rates which influence fair value.

(v) Financial assets and financial liabilities – held for trading

Financial assets and financial liabilities – held for trading comprise derivatives and other trading assets and liabilities. Treatment of derivatives – held for trading is discussed above in (iv).

Other trading assets and liabilities are non-derivative instruments. They include debt securities as well as equity instruments acquired or issued principally for the purpose of selling or repurchasing in the near term. In the balance sheet, they are presented as ‘Other trading assets’ or ‘Other trading liabilities’ under the heading ‘Financial assets or financial liabilities – held for trading’.

Changes in fair value (clean price for debt instruments) resulting from other trading assets and liabilities are reported in the income statement under the line item ‘Net trading and fair value result’. Interest income and expenses are reported in the income statement under the line item ‘Net interest income’. Dividend income is shown under the line item ‘Dividend income’.

(vi) Financial assets or financial liabilities designated at fair value through profit or loss

Financial assets or financial liabilities classified in this category are those that have been designated by management on initial recognition (fair value option).

The financial assets or financial liabilities designated at fair value through profit and loss are recorded in the balance sheet at the settlement date and initially recognized at fair value which often corresponds to their acquisition cost. Transaction costs are not included in acquisition costs; they represent cost for the period.

At any subsequent time, assets are measured at fair value with changes in fair value (clean price) recognized in the profit or loss.

Gains and losses from trading securities, changes in the fair value of financial assets or liabilities classified in this portfolio, as well as the exchange rate gains/losses, are recorded in the income statement in the respective period, in net amount.

Financial instruments – recognition and measurement (continued)

(vii) Financial assets – available for sale

Financial assets classified as available for sale are those non-derivative financial assets which are neither classified as held for trading, designated at fair value through profit or loss, loans and receivables nor held to maturity financial investments. Available for sale assets include debt instruments and equity securities as well as other interest in companies with less significant influence.

Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

Available for sale financial assets are recognised at settlement date at fair value increased by directly attributable transaction cost. After initial recognition, subsequent measurement is at fair value.

Unrealized gains or losses (changes in fair value – clean price) are recognized in OCI until the financial asset is disposed of or impaired when the cumulative gain or loss previously recognized in OCI is reclassified to income statement.

Interest income on available for sale debt instruments is recognised in income statement by using effective interest rate method. Foreign exchange differences on debt instruments are also recognized in income statement.

Dividend income on equity instruments is recognized in income statement, while foreign exchange differences are recognized in OCI.

Equity instruments which do not have a quoted market price and whose fair value cannot be reasonably determined are valued at cost (acquisition) less impairment. There is no calculation of foreign exchange differences in respect of these assets.

(viii) Financial assets – held to maturity

Non derivative financial assets with fixed or determinable future cash flows and fixed maturities which are quoted in an active market are reported within this category if the Bank and the Group have the positive intent and ability to hold them until maturity and which do not meet definition of Loans and Receivables according to IAS 39. After the initial recognition, subsequent measurement is at amortised cost using the effective interest rate. The premium and discount, initial transaction costs, are included in the carrying amount of a financial instrument and amortised in profit or loss at the effective interest rate method.

The Bank shall not classify any financial assets as held to maturity if the Bank or its subsidiary has during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount (in relation to the total amount of held to maturity investments) of held to maturity investments before maturity, except in the following cases:

- the sales is so close to maturity or the financial asset’s call date (less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset’s fair value
- the sales occur after the entity has collected substantially all of the financial asset’s original principal through scheduled payments or prepayments; or
- the sales are attributable to an isolated event that is beyond the Bank’s control, is non-recurring and could not have been reasonably anticipated by the entity (for example, significant deterioration in the issuer’s creditworthiness).

Intent and the ability to hold the asset to maturity the Bank assesses at the date of acquisition and at every balance sheet date.

Interest earned on financial assets held to maturity is reported in the income statement under the line item ‘Net interest income’. Losses arising from impairment of such financial assets are presented as ‘Net impairment loss on financial assets’. Occasional realised gains or losses from selling are recognised in the income statement under the line item ‘Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net’.

(ix) Loans and receivables

The balance sheet line items ‘Loans and receivables to credit institutions’ and ‘Loans and receivables to customers’ include financial assets meeting the definition of loans and receivables. Furthermore, finance lease receivables that are accounted for using IAS 17 are presented under these balance sheet line items.

Loans and receivables are non-derivative financial assets (including debt securities) with fixed or determinable payments that are not quoted in an active market, other than:

- Loans and receivables that the Bank and the Group intend to sell immediately or in the near term, which shall be classified as held for trading, and those that the Bank, upon initial recognition, designates as at fair value through profit or loss,
- Loans and receivables that the Bank and the Group, upon initial recognition, designate as available for sale,
- Loans and receivables for which the Bank and the Group may not recover substantially all of initial investment, other than because of credit deterioration.

After initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any allowances for impairment. Finance lease receivables are subsequently measured as specified in the chapter 'Leasing'. Interest income earned is included under the line item ‘Net interest income’ in the income statement.

Financial instruments – recognition and measurement (continued)

Impairment losses arising from loans and receivables are recognised in the income statement under the line item ‘Net impairment loss on financial assets’.

(x) Financial liabilities measured at amortised cost

Financial liabilities are measured at amortised cost, unless they are measured at fair value through profit or loss.

For presentation in the balance sheet the line item ‘Financial liabilities measured at amortised cost’ is used. The liabilities are further broken down by ‘Deposits from banks’, ‘Deposits from customers’, ‘Debt securities issued’ and ‘Other financial liabilities’.

Interest expenses incurred are reported in the line item ‘Net interest income’ in the income statement. Gains and losses from derecognition (mainly repurchase) of financial liabilities at amortised cost are reported under the line item ‘Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net’.

(xi) Relationships between balance sheet items, measurement methods and categories of financial instruments:

Balance sheet position	Measurement principle			Financial instrument category
	Fair value	At amortised cost	Other	
Assets				
Cash and cash balances		x	Nominal value	Loans and receivables
Financial assets - held for trading				
Derivatives	x			Financial assets at fair value through profit or loss
Other trading assets	x			Financial assets at fair value through profit or loss
Financial assets - at fair value through profit or loss	x			Financial assets at fair value through profit or loss
Financial assets - available for sale	x			Available for sale financial assets
Financial assets - held to maturity		x		Held to maturity investments
Loans and receivables to credit institutions		x		Loans and receivables
Finance lease			IAS 17	
Loans and receivables to customers		x		Loans and receivables
Finance lease			IAS 17	
Liabilities and equity				
Financial liabilities - held for trading				
Derivatives	x			Financial liabilities - at fair value through profit or loss
Other trading liabilities	x			Financial liabilities - at fair value through profit or loss
Financial liabilities measured at amortised cost		x		Financial liabilities measured at amortised cost

Furthermore, two additional classes of financial instruments which are not presented in the table above are part of IFRS 7 disclosures. These are financial guarantees and irrevocable credit commitments.

Reclassification of financial assets

IAS 39 provides various possibilities to reclassify financial assets between categories of financial instruments. It also places restrictions on some reclassifications. The Bank and the Group make reclassifications only in rare circumstances in accordance with the changes in investment policy. The Bank and the Group have decided to hold some positions to maturity, hence these were reclassified from available for sale to held to maturity portfolio - see note 14.

Derecognition of financial assets and financial liabilities

Financial asset is derecognised when and only when:

- the contractual rights to the asset's cash flows expire, or
- the Bank and the Group transfer assets and the transfer qualifies for derecognition, e.g. the Bank and the Group transfer the contractual rights to receive the cash flows of the financial assets or retains the contractual rights to receive the cash flows of financial assets, but assumes a contractual obligation to pay the cash flows to one or more recipients.

Derecognition of financial assets and financial liabilities (continued)

The decision whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. In cases:

- when the Bank and the Group transfer substantially all the risks and rewards of ownership, financial asset should be derecognised
- when the Bank and the Group have retained substantially all the risks and rewards of ownership of the transferred assets, financial asset should be derecognised only if control is transferred,
- if the Bank or the Group neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset, and retains control of the transferred asset, the entity continues to recognise the transferred asset to the extent of involvement and the Bank also recognises an associated liability.

Financial liability or part of financial liability should be derecognised when and only when it is extinguished (cancelled or expires), transferred to another party and the consideration paid.

Repurchase and reverse repurchase agreements

If a financial asset is sold under an agreement to repurchase it at a fixed price or at the sale price plus a lender's return or if it is loaned under an agreement to return it to the transferor, it is not derecognized as the Group and the Bank retain substantially all the risks and rewards of ownership.
Securities sold under sale and repurchase agreements ('repos') are recorded as assets in the balance sheet according to the original classification or the Group and the Bank reclassify the asset on its balance sheet, as a 'Loans and receivables to credit institutions' or ' loans and receivables to customers' if the transferee obtains the right to sell or pledge the asset. The corresponding liability towards the counterparty is included in 'Deposits from banks' or 'Deposits from customers'.
Securities purchased under agreements to resell ('reverse repos') at a specified future date are not recognised in the balance sheet. The consideration paid, is recorded in the balance sheet line 'Loans and receivables to credit institutions' or 'Loans and receivables to customers', reflecting the transaction's economic substance as a loan. The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repurchase agreement using the effective interest rate.

Impairment of financial assets and credit risk losses of contingent liabilities

All financial assets are assessed, at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired with the exception of those measured at fair value through profit or loss.
A financial asset or group of financial assets is deemed to be impaired if, and only if:

- there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and
- that loss event or events have impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The most common event used as a trigger for impairment assessment is credit obligation being more than 90 days overdue.

The Bank and the Group use the Basel III definition of default as a primary indicator of loss events. Default, as a loss event, occurs when

- the obligor is more than 90 days past due on any material credit obligation;
- as a result of specific information or an event, the obligor is unlikely to fulfil its credit obligations in full, without recourse to actions such as realising security;
- the obligor is subject to distressed restructuring, i.e. a change in contract terms, for clients in financial difficulties, resulting in a material loss;
- the obligor is subject to bankruptcy or similar protection proceedings.

For assessment at portfolio level, the Bank and the Group use the incurred but not reported losses concept. The time period is identified between the moment of the loss event causing future problems and actual detection of the problems by the Bank and the Group at the moment of default.
Credit risk losses resulting from contingent liabilities are recognised if it is probable that there will be an outflow of resources to settle a credit risk bearing contingent liability that will result in a loss.

Impairment of financial assets and credit risk losses of contingent liabilities (continued)

(i) Financial assets carried at amortised cost

The Bank and the Group classify loans and receivables into the following categories:

- fully recoverable loans for which there is no objective evidence of impairment. For such on balance exposures collective allowances for incurred but not reported losses are allocated (portfolio provisions).
- partly recoverable loans for which there is an objective evidence of impairment and for which specific allowances are allocated, based on the outcome of discounted cash flow analysis. Impairment loss is determined as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.
- irrevocable loans for which there is objective evidence of impairment and for which specific allowances are allocated in the amount of 100% of the loan's carrying amount because the present value of expected future cash flows for such loans equals zero.

In case there is an objective evidence of impairment for an asset and it is classified as partly recoverable or irrecoverable asset, specific allowances are recognized and the type of specific allowances depends on whether the exposure is significant or not.

Accordingly, the Bank and the Group recognise following allowances:

- for significant exposures, specific allowances are calculated and the amount of loss is recognised based on the individual assessment of the recoverable amount
- for non-significant exposures, specific allowances are calculated and the amount of loss is recognised based on the collective assessment (rule based approach on homogenous groups level),
- exposures not in default, collective allowances are calculated for incurred but not reported losses (portfolio provisions).

Once the asset has been found impaired previous related collective allowance needs to be released and a specific allowance must be allocated instead.

Direct reclassification from/to collective allowance to/from specific allowance is not permitted.

Assets together with the associated allowance are removed from the balance sheet when there is no realistic prospect of future recovery and all collaterals have been realised by the Bank.

If in a subsequent year, the amount of the estimated impairment loss increases or decreases the previously recognised impairment loss is increased or reduced by adjusting the loss allowance.

In the income statement, impairment losses and their reversals are presented in the line item 'Net impairment loss on financial assets'.

(ii) Available-for-sale financial assets

In cases of debt instruments classified as available for sale, the Bank and the Group individually assess whether there is objective evidence of impairment based on the same criteria as used for financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that asset previously recognised in the income statement. On recognising impairment, any amount of losses retained in the other comprehensive income item 'Available for sale reserve' is reclassified to the income statement and shown as impairment loss under the line item 'Net impairment loss on financial assets'.

If, in a subsequent period, the fair value of a debt instrument increases, the impairment loss is reversed through the income statement under the line item 'Net impairment loss on financial assets'. Impairment losses and their reversals are recognised directly against the assets on the balance sheet.

In cases of equity investments classified as available for sale, objective evidence also includes a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The definition for 'significant' is the decline of market price below 80% of the acquisition cost. The decline in fair value is prolonged when market price is continuously below during a period of nine months before the reporting date.

Where there is evidence of impairment on equity investments, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement, is shown as an impairment loss in the income statement under the line item 'Net impairment loss on financial assets'. Any amount of losses previously recognised under the other comprehensive income item 'Available for sale reserve' has to be reclassified to the income statement as part of an impairment loss under the line item 'Net impairment loss on financial assets'.

Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised directly in other comprehensive income. Impairment losses and their reversals are recognised directly against the assets on the balance sheet.

Impairment of financial assets and credit risk losses of contingent liabilities (continued)

For investment in unquoted equity instruments carried at cost because their fair value cannot be determined reliably the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Contingent liabilities
Provisions for credit losses of contingent liabilities (particularly financial guarantees as well as credit commitments) are included under the balance sheet line item ‘Provisions’. The related expense or its reversal is reported in the income statement under the line item ‘Other operating result’.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported on the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Details on valuation techniques applied for fair value measurement and on fair value hierarchy are disclosed in Note 35 Fair value of assets and liabilities.

Leasing

Leasing is classified as finance leasing if substantially all risks and benefits from ownership are transferred. Lessees shall recognise finance leases as assets and liabilities in their balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.
Lessor shall recognise assets held under a finance lease in their balance sheets as receivable at an amount equal to the net investment in the lease (present value of leasing payments including non-guaranteed residual value). Difference between total receivables and present value of receivables form an unearned finance income recognised in income statement applying effective interest rate during the leasing period.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Lessor shall recognise assets held under an operating lease at cost less accumulated depreciation. Lease income shall be recognised in income statement on a straight-line basis over the lease term.

Business combinations and goodwill

(i) Business combinations
Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. For business combinations from 1 January 2010, acquisition costs incurred are expensed and included in administrative expenses. For business combinations prior to 1 January 2010, acquisition costs were included in cost of business combination. The acquiree’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognized and measured at fair value less costs to sell.
Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the Group’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized in income statement in the period of acquisition in line 'Other operating result'.

Business combinations and goodwill (continued)

Subsequent acquisition of a non-controlling interest is not a business combination and before introduction of IFRS 3 Revised there was no specific accounting prescribed in IFRS for such a transaction. Therefore, in periods prior to 1 January 2010, the Group applied the hierarchy in IAS 8 to develop an appropriate accounting policy for such a transaction. The Group has adopted the 'Parent entity extension method' whereby assets and liabilities of the investee are not remeasured to their fair values and the difference between the cost of acquisition and the non-controlling interest acquired is accounted for as goodwill. In periods from 1 January 2010, acquisition of non-controlling interest is accounted for as an equity transaction due to change in IFRS.

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. As IFRS 3 does not apply to business combinations involving entities under common control, the Group has adopted, in line with IAS 8, an accounting policy whereby such transactions are accounted for using the pooling of interest method.

Application of this method is as follows:

- The assets and liabilities of the combining entities are reflected at their carrying amounts as previously presented in the consolidated financial statements of the ultimate parent entity of the Group;
- No adjustments are made to reflect fair values, or recognise any new assets or liabilities, that would otherwise be done under the purchase method. The only adjustments that are made are to harmonise accounting policies;
- No 'new' goodwill is recognised as a result of the combination;
- The only goodwill that is recognised is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred and the equity 'acquired' is reflected within equity;
- The income statement reflects the results of the combining entities for the full year, irrespective of when the combination took place;

Comparatives are not restated.

Establishment of new company Erste Card d.o.o. Slovenia:

On 27 June 2013 the Erste Card Club d.o.o. Croatia established a new company in Slovenia under the name Erste Card d.o.o. and it will exclusively handle issuing and acquiring Diners Cards on territory of Republic of Slovenia, with initial capital of EUR 125 thousand and subsequent capital increase to EUR 1 million on 05 July 2013. Main business of the company is providing card payment services, e.g. issuing credit cards and acquiring merchants in enabling credit card acceptance.
On 31 December 2013 balance sheet and statement of comprehensive income of Erste Card d.o.o. was as follows:

	in HRK million
Amounts due from other banks	8
Loans and advances to customers	91
Other assets	3
ASSETS	**102**
Amounts due to other banks	33
Amounts due to customers	60
Other liabilities	4
LIABILITIES	**97**
LOSS FOR THE YEAR	**(3)**
Loan commitments	369
CONTINGENT LIABILITIES	**369**

Business combinations and goodwill (continued)

Acquisition of Erste&Steiermärkische S-Leasing d.o.o.:

On 10 February 2014, the Bank acquired additional 40% of shares in Erste&Steiermärkische S-Leasing d.o.o., Zagreb increasing its ownership to 50% for a consideration of HRK 84 million.
As it was acquired within the Group (ultimate controlling parent is Erste Group Bank AG) pooling of interest accounting method for acquisition of the Erste&Steiermärkische S-Leasing d.o.o. was used. This resulted in recognition of difference between purchase price and net asset value directly in retained earnings.

Amounts recognised on initial consolidation:

Balance sheet	in HRK million
Amounts due from other banks	9
Loans and advances to customers	816
Other assets	776
ASSETS	**1,601**
Amounts due to other banks	1,117
Amounts due to customers	206
Other liabilities	77
LIABILITIES	**1,400**
Net assets acquired	**201**
Non- controlling interest (50% of net asset)	(100)
Net assets acquired before 2013	(20)
Total net asset acquired	81
Adjustment directly in equity	3
Cost of acquisition	**84**
Cash outflow on acquisition of the subsidiary:	
Net cash acquired with the subsidiary	9
Cash paid	(84)
Net cash outflow	**(75)**

(ii) Goodwill and goodwill impairment testing

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill acquired through business combinations is not amortized but tested for impairment annually with any impairment determined recognised in profit or loss. For reviewing the value of existing goodwill an annual impairment test is carried out for each cash-generating unit (CGU) to which goodwill has been allocated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

Goodwill is tested for impairment by comparing the recoverable amount of each cash-generating unit, to which goodwill has been allocated with its carrying amount. The carrying amount of a cash-generating unit is derived based on the amount of equity allocated to cash-generating unit taking into account any goodwill and unamortised intangible assets recognised for cash-generating unit according to the purchase prices allocation.

The recoverable amount is the higher of a CGU's fair value less costs to sell and its value in use. Where available, the fair value less costs to sell is determined based on recent transactions, market quotations or appraisals. The value in use is determined using a discounted cash flow model (DCF-model), which incorporates the specifics of the banking business and its regulatory environment. In determining value in use, the present value of future earnings distributable to shareholders is calculated.

The estimation of future earnings distributable to shareholders is based on financial plans for CGU's as agreed by the management taking into account the fulfilment of the respective regulatory capital requirements. The planning period range is five years. After estimating earnings distributable to shareholders for the planning period they are discounted to their present values. Any earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate, which is based on macroeconomic parameters for each CGU. The estimated future earnings beyond the initial planning period are captured in the terminal value.

Long-term growth rate applied to estimate future earnings beyond the planning period for the year ended 2014 is 3.7% (2013: 4.2%).

Business combinations and goodwill (continued)

The discount rates applied to calculate present values have been determined based on the capital asset pricing model (CAPM). According to CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium is considered too. The values used to establish the discount rates are determined using external sources of information.

Discount rate applied to determine the value in use of the CGU's in 2014 is 11.44% (2013: 14.77%).

Where the recoverable amount of CGU is less than its carrying amount, the difference is recognized as an impairment loss in the position 'Net impairment loss on financial assets not measured at fair value through profit or loss'. The impairment loss is allocated first to writing down of CGU's goodwill. Any remaining impairment loss reduces the carrying amount of the CGU's other assets, though not to an amount less than their fair value less costs to sell. There is no need to recognize an impairment loss if the recoverable amount of the CGU is higher than or equal to its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.
For the details of the impairment test please see further notes 19 and 21 of the financial statements.

Property and equipment

Tangible fixed assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on a straight-line basis to write down the cost of such assets to their residual values over their estimated useful lives. Land and assets in the course of construction are not depreciated.
The estimated economic useful lives are set out below:

	Useful life in years	
	2013	**2014**
Buildings	40	40
Office furniture and equipment	3-10	3-10
Motor vehicles	4	4
Computer hardware	4	4

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement under the line item 'Other operating result'.

Investment properties

Investment properties include investment in land and buildings or part of buildings by the owner (or by the lessee under a financial lease) to earn rentals and/or for capital appreciation.
An investment property is initially recognised at cost including all transaction costs.
Subsequent measurement is at cost (acquisition cost less accumulated amortisation and impairment loss). Investment property is presented in the balance sheet in the line item 'Investment properties'.
Rental income is recognised in the line 'Rental income from investment properties and other operating leases'. Depreciation is presented in the income statement in the line item 'Depreciation and amortisation' using the straight-line method over an estimated useful life. The useful lives of investment properties are identical to those of buildings reported under property and equipment. Any impairment losses, as well as their reversals, are recognised under the income statement line item 'Other operating result'.

Property Held for Sale (Inventory)

The Bank and the Group also invest in property that is held for sale in the ordinary course of business or property in the process of construction or development for such sale. This property is presented as 'Other assets' and is measured at the lower of cost and net realisable value in accordance with IAS 2 Inventories.
The cost of acquiring inventory includes not only the purchase price but also all other directly attributable expenses, such as transportation costs, customs duties, other taxes and costs of conversion of inventories, etc. Borrowing costs are capitalised to the extent to which they directly relate to the acquisition of real estate.
Sales of these assets/apartments are recognised as revenues under the income statement line item 'Other operating result', together with costs of sales and other costs incurred in selling the assets.

Intangible assets

An intangible assets is disclosed is an identifiable non-monetary asset without physical substance, and can be identified, i.e. an asset is separable or arises from contractual or other legal rights regardless of whether those rights are transferable or separable, and the corresponding cost can be measured reliably.
Intangible assets include software which is not part of an operating system without PC could not operate, advances on investments in intangible assets, intangible assets in preparation.
Intangible assets are recognized at cost, except for the intangible assets arising from a business combination that are recognised at fair value at the acquisition date. Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the income statement under the line item 'Depreciation and amortisation'.

The estimated useful lives are as follows:

	Useful life in years
Software	4
Customer relationship	5.5-8
Other intangible assets	5

Impairment of non-financial assets (property and equipment, investment properties, intangible assets)

The Bank and the Group assess at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For specific rules related to impairment of goodwill and impairment allocation rules for CGUs please see the chapter 'Business combinations and goodwill', part (ii) Goodwill and goodwill impairment testing.
If any indication of impairment exists, or when annual impairment testing for an asset is required, the Bank and the Group estimate the asset's recoverable amount. An asset's recoverable amount is the higher of the assets or CGU's fair value less costs of disposal and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
At each reporting date an assessment is made as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the bank estimates the asset's or CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairments and their reversals are recognised in the income statement under the line item 'Other operating result'.

Off balance sheet commitments

In the ordinary course of business, the Group and the Bank enter into credit related commitments which are recorded in off balance sheet accounts and primarily include guarantees, letters of credit and undrawn lending commitments. Such financial commitments are recorded in the Group and the Bank's balance sheet if and when they become payable.

Provisions

Provisions are recognized when the Group and the Bank have a present obligation as a result of a past event and it is probable that the Group and the Bank will be required to settle that obligation. The Management Board determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors at the balance sheet date. Provisions are discounted to present value where the effect is material. On the balance sheet, provisions are reported under the line item ‘Provisions’. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees and loan commitments) as well as provisions for litigation. Expenses or income related to provisions are reported under the line item ‘Other operating result’.

Long-term employee benefits

For defined retirement benefit and jubilees, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains or losses in respect of pension and severance benefit provisions are recognized in full in the period in which they occur.
Actuarial gains or losses in provisions for jubilee benefits are recognised in income statement in the period in which they occur.
Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.
The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation.

Taxes

(i) Current tax
Current tax assets and liabilities for the current and prior years are measured as the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

(ii) Deferred tax
Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the balance sheet date. For the subsidiaries, local tax environments apply.
Deferred tax relating to items recognised in other comprehensive income is recognised in other comprehensive income and not in the income statement.
Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Fiduciary assets

Assets and income arising thereon, together with related undertakings to return such assets to customers, are excluded from the financial statements when the Group and the Bank act in a fiduciary capacity such as nominee, trustee or agent.

Recognition of income and expenses

Revenue is recognised to the extent that the economic benefits will flow to the entity and the revenue can be reliably measured. The description and revenue recognition criteria of the line items reported in the income statement are as follows:

(i) Net interest income
Interest income or expense is recorded using the effective interest rate (EIR) method. The calculation includes origination fees resulting from the lending business as well as transaction costs that are directly attributable to the instrument and are an integral part of the EIR (apart from financial instruments at fair value through profit or loss), but no future credit losses. Interest income from individually impaired loans and receivables and held-to-maturity financial assets is calculated by applying the original effective interest rate used to discount the estimated cash flows for the purpose of measuring the impairment loss.
Interest income includes interest income on loans and receivables to credit institutions and customers, on cash balances and on bonds and other interest-bearing securities in all financial assets categories. Interest expenses include interest paid on deposits from customers, deposits from banks, debt securities issued and other financial liabilities in all financial liabilities categories.
In net interest income also interest on derivative financial instruments held in the banking book is included. In addition, net interest cost on severance payment, pension and jubilee obligations is presented here.

(ii) Net fee and commission income
The Bank and the Group earn fee and commission income from a diverse range of services that it provides to its customers.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include lending fees, guarantee fees, commission income from asset management, custody and other management and advisory fees as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions.

(iii) Dividend income
Dividend income is recognised when the right to receive the payment is established.
This line item includes dividend from shares and other equity-related securities in all portfolios as well as income from other investments in companies categorised as available for sale. It also contains dividends from subsidiaries and from associates or joint ventures which are not consolidated or not accounted for using the equity method due to their insignificance. Such non-consolidated associates, joint ventures and subsidiaries are presented as ‘Other assets’.

(iv) Net trading and fair value result
Results arising from trading activities include all gains and losses from changes in fair value (clean price) on financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. In addition, for derivative financial instruments held in the trading book, net trading result also contains interest income or expense. However, interest income or expenses on non-derivative trading assets and liabilities and on derivatives held in the banking book are not part of net trading result as they are reported as ‘Net interest income’. It also includes any ineffective portions recorded in fair value and foreign exchange gains and losses.
Fair value result relates to changes in the clean price of assets and liabilities designated at fair value through profit or loss.

(v) Net result from equity method investments
The line item contains result from associates and joint ventures recorded by applying the equity method (measured as investor’s share of profit or loss in the associates and joint ventures).
However, impairment losses, reversal of impairment losses and realised gains and losses on investments in associates or joint ventures accounted for using the equity method are reported under the line item ‘Other operating result’.

(vi) Rental income from investment properties & other operating leases
Rental income from investment properties and other operating leases is recognised on a straight-line basis over the lease term.

(vii) Personnel expenses
Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include service cost for severance payment, pension and jubilee obligations and remeasurements of jubilee obligations.

Recognition of income and expenses (continued)

(viii) Other administrative expenses
Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, advertising and marketing, expenditures for legal and other consultants as well as sundry other administrative expenses. Furthermore the line item contains deposit insurance contributions expenses.

(ix) Depreciation and amortisation
This line item comprises depreciation of property and equipment, depreciation of investment property and amortisation of intangible assets.

(x) Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net
This line item includes selling and other derecognition gains or losses on available-for-sale and held-to-maturity financial assets, loans and receivables and financial liabilities measured at amortised cost. However, if such gains/losses relate to individually impaired financial assets they are included as part of net impairment loss.

(xi) Net impairment loss on financial assets
Net impairment losses on financial assets comprise impairment losses and reversals of impairment on loans and receivables, held-to-maturity and available-for-sale financial assets. Net impairment losses relate to allowances recognised both at individual and portfolio (incurred but not reported) level. Direct write-offs are considered as part of impairment losses. This line item also includes recoveries on written-off loans removed from the balance sheet.

(xii) Other operating result
Other operating result reflects all other income and expenses not directly attributable to the Bank and the Group's ordinary activities. Furthermore, levies on banking activities are considered as part of other operating result.
Other operating result includes impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment and intangible assets. Also included here are any impairment losses on goodwill.
In addition, other operating result encompasses the following: expenses for other taxes (including levies on banking activities); income from the release of and expenses for allocations to provisions; impairment losses (and their reversal if any) as well as selling gains and losses on equity investments accounted for using the equity method; and gains or losses from derecognition of subsidiaries.

Regulatory requirements
The Bank is subject to the regulatory requirements of the Croatian National Bank. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and forming allowances to cover credit risk, liquidity risk, interest rate risk and foreign currency risk.

d) SIGNIFICANT ACCOUNTING JUDGEMENTS, ASSUMPTIONS AND ESTIMATES

In the application of the accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Deferred tax assets
Deferred tax assets are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. For this purpose a planning period of 5 years is used. Disclosures concerning deferred taxes are in Note 22 Tax assets and liabilities.

d) SIGNIFICANT ACCOUNTING JUDGEMENTS, ASSUMPTIONS AND ESTIMATES (continued)

Impairment of financial assets

While it is possible that in particular periods the Group and the Bank may sustain losses, which are substantial, relative to the allowances for impairment losses, it is the judgment of management that the allowances for impairment losses is adequate to absorb losses incurred on the risk assets.

Fair value of financial assets

Due to the absence of recently observed market prices for the derivative financial instruments, the management has decided to measure the derivatives using discounted cash flow models. Discount factors used in these models are derived from the smooth interest rates and volatility curves constructed with predefined interpolation methods and market interest rates from Reuters which are valid as at 31 December 2014 for each currency and corresponding maturity dates.

Provisions

In the ordinary course of business, the Group and the Bank are subject to legal actions and complaints. The management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial situation or the results of future operations of the Group and the Bank.

On 4 July 2013, the first instance court in Zagreb upheld the complaint of the consumer association in a court case in which a consumer association sued eight of the largest banks in 2012 (including the Bank) claiming that (a) for loans linked to CHF, consumers had not been given adequate information prior to taking out the loan and had not therefore been able to make a fully informed decision about the risks of such loans; and (b) a variable interest rate was unlawful, as it was set on the basis of a unilateral decision of the relevant bank, without the factors affecting the setting of the rate being clearly defined. All eight banks (including the Bank) have appealed. By the appellate decision of 13 June 2014 the High Commercial Court has altered the first instance judgment in relation to validity of the currency clause expressed in CHF and rejected the claim in that part. Further, the first instance judgment has been revoked in its part under which the banks were ordered to offer the customers amended terms of contract, by converting the outstanding principal amount to Croatian Kuna (HRK) at the CHF/HRK rate prevailing on the date the loan agreement was drawn down and substituting the variable interest rate for the fixed rate applicable on the date the loan in question was drawn down. The High Commercial Court upheld the first instance decision in a part declaring that contractual terms under which banks were authorized to unilaterally change the rate were null and void. The Bank has applied for revision of the verdict of the Second degree court brought on 13 July 2014 since there was substantial violation of civil procedure and misapplication of substantive law. The Revision was filed on 14 August 2014 to the Trade Court Zagreb. The Bank has followed the guidance of IAS 37: 'Provisions, Contingent Liabilities and Contingent Assets' and recognised the provision for expected individual claims. At this time, it is not possible to assess the timing of any final decisions, how successful any such litigation may ultimately be or what financial impact it or any associated legislative or regulatory initiatives might ultimately have on the Bank. As of 31 December 2014 based on advice of legal counsel, the Group and the Bank have created provision for legal cases amounting to HRK 171 million for the Group (2013: HRK 138 million), and HRK 143 million for the Bank (2013: HRK 134 million) (Note 25). For other legal cases where the Bank or its subsidiaries act as a defendant, no provisions were created since it is estimated based on the advice of legal counsel, that the Bank's and the subsidiaries' cases will prevail and the probability of an adverse outcome of the litigations is remote.

e) APPLICATION OF AMENDED AND NEW IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning on or after 1 January 2014. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Bank and the Group are listed below.

Effective standards and interpretations

The following standards and their amendments have been mandatory since 2014:

- *IAS 27 (revised 2011) Separate Financial Statements*
- *IAS 28 (revised 2011) Investments in Associates and Joint Ventures*
- *Amendments to IAS 32 – Offsetting Financial Assets and Liabilities*
- *Amendments to IAS 36 – Recoverable Amounts Disclosures for Non-financial Assets*
- *IFRS 10 Consolidated Financial Statements*
- *IFRS 11 Joint Arrangements*
- *IFRS 12 Disclosure of Interests in Other Entities*
- *Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition guidance*
- *Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities*
- *IFRIC 21 Levies*

Application of these standards and amendments had no material effect on the financial statements of the Group and the Bank.

Standards and interpretations not yet effective

The standards and interpretations shown below were issued by the IASB but are not yet effective.

Thereof, the following standards and amendments have been endorsed by the EU:
- *Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions*
- *Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting*
- *Annual Improvements to IFRSs 2010-2012 and 2011-2013 Cycle*

Although they have been endorsed by the EU, the Group decided not to apply them before they become effective.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 38 were issued in May 2014 and are effective for annual periods beginning on or after 1 January 2016. The amendments prohibit the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets.

Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions
Amendments to IAS 19 were issued in November 2013 and are effective for annual periods beginning on or after 1 July 2014.

The amendments clarify that contributions from employees or third parties that are linked to service must be attributed to periods of service using the same attribution method as used for the gross benefit. However, the contribution may be recognised as a reduction in the service cost if the amount of the contributions is independent of the number of years of service.

Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting
Amendments to IAS 39 were issued in June 2013 and are effective for annual periods beginning on or after 1 January 2014.

Application of these amendments will have no impact on the Group's financial statements.

IFRS 9: Financial Instruments
IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018.

IFRS addresses three main areas of accounting for financial instruments: classification and measurement, impairment and hedge accounting.

IFRS 9 introduces two classification criteria for financial assets: 1) an entity's business model for managing the financial assets, and 2) the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost only if both the following conditions are met: a) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding and b) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
Measurement a fair value through other comprehensive income is applicable to financial assets which meet the condition under a) but the business model applied to them is focused both on holding the assets to collect contractual cash flows and selling the assets. All other financial assets are measured at fair value with changes recognised in profit or loss. For investments in equity instruments that are not held for trading, an entity may make an irrevocable election at initial recognition to measure them at fair value with changes recognised in other comprehensive income.

IFRS 9 does not change classification and measurement principles for financial liabilities compared to IAS 39. The only change is related to financial liabilities designated at fair value through profit or loss (fair value option). The fair value changes related to the credit risk of such liabilities will be presented in other comprehensive income.

The standard brings uniform impairment model applied both to financial assets and off balance sheet credit risk bearing exposures (loan commitments and financial guarantees).

Standards and interpretations not yet effective (continued)

At initial recognition of financial instruments loss allowance to reflect credit loss is recognised to the extent of 12-month expected losses. Lifetime expected losses will be recognised for all instrument whose credit risk increases subsequently after initial recognition. Furthermore the standard brings new rules for accounting for losses resulting from modification of contractual conditions of financial assets.

This standard will have a significant effect on balance sheet items and measurement methods for financial instruments. The contractual cash flow characteristics of financial assets will have to be reviewed and the Bank and the Group is at risk that part of its loan portfolio will have to be measured at fair value through profit or loss. In the area of impairment loss allowances are expected to increase significantly. First estimates of quantitative impacts are expected to be available in 2015.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IFRS 10 and IAS 28 were issued in September 2014 and are effective for annual periods beginning on or after 1 January 2016.

These amendments deal with the sale or contribution of assets or subsidiary in a transaction between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised only when the assets or the subsidiary constitute a business.

Application of these amendments is not expected to have a significant impact on Group's financial statements.

Amendments to IFRS 11: Accounting for Acquisitions of Interest in Joint Operations
Amendments to IFRS 11 were issued in May 2014 and are effective for annual periods beginning on or after 1 January 2016.

The amendments specify that acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11.

Application of these amendments is not expected to have a significant impact on the Group's financial statements.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2017.

IFRS 15 specifies how and when an entity will recognise revenue from contracts with customers. It also requires such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

As the standard is not focused on recognition of revenues from financial services, application of this standard is not expected to have a significant impact on the Group's financial statements.

Annual Improvements to IFRSs 2010-2012 and 2011-2013 Cycle
In December 2013, the IASB issued two sets of amendments to various standards. The amendments are effective for annual periods beginning on or after 1 July 2014.

Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle
In September 2014, the IASB issued a set of amendments to various standards. The amendments are effective for annual periods beginning on or after 1 January 2016.

Application of these amendments is not expected to have a significant impact on the Group's financial statements.

C. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME AND THE BALANCE SHEET

1. Net interest income

	GROUP		BANK	
in HRK million	**2013**	**2014**	**2013**	**2014**
Interest income				
Financial assets - held for trading	183	92	183	90
Financial assets - available for sale	239	240	225	218
Financial assets - held to maturity	31	26	24	19
Loans and receivables	3,144	3,081	2,539	2,430
Total interest income	**3,597**	**3,439**	**2,971**	**2,757**
Interest expenses				
Financial liabilities - held for trading	(17)	(22)	(16)	(17)
Financial liabilities measured at amortised cost	(1,570)	(1,296)	(1,410)	(1,131)
Other liabilities	-	(1)	-	-
Total interest expense	**(1,587)**	**(1,319)**	**(1,426)**	**(1,148)**
Net interest income	**2,010**	**2,120**	**1,545**	**1,609**

2. Net fee and commission income

	GROUP		BANK	
in HRK million	**2013**	**2014**	**2013**	**2014**
Securities	19	24	18	24
Own issues	16	20	15	20
Transfer orders	3	4	3	4
Asset management	17	21	13	16
Custody	5	6	6	6
Payment services	444	488	250	270
Card business	232	264	41	48
Other	212	224	209	222
Customer resources distributed but not managed	13	14	12	13
Collective investment	(1)	(1)	(1)	(1)
Insurance products	12	12	11	11
Building society brokerage	2	3	2	3
Lending business	36	42	29	31
Guarantees given, guarantees received	1	3	(1)	-
Loan commitments given, loan commitments received	34	35	29	30
Other lending business	1	4	1	1
Other	16	15	25	21
Net fee and commission income	**550**	**610**	**353**	**381**

3. Dividend income

	GROUP		BANK	
in HRK million	**2013**	**2014**	**2013**	**2014**
Financial assets - held for trading	1	-	1	-
Financial assets - available for sale	2	2	2	1
Dividend income from equity investments	-	-	45	78
Dividend income	**3**	**2**	**48**	**79**

4. Net trading result and fair value result

	GROUP		BANK	
in HRK million	**2013**	**2014**	**2013**	**2014**
Net trading result	154	184	149	177
Securities and derivatives trading	39	32	37	35
Foreign exchange transactions	115	152	112	142
Net trading and fair value result	**154**	**184**	**149**	**177**

The amounts of the fair value changes that are attributable to changes in own credit risk can be found in the Notes 35.

5. Rental income from investment properties & other operating leases

	GROUP		BANK	
in HRK million	**2013**	**2014**	**2013**	**2014**
Investment properties	2	2	2	2
Other operating leases	-	240	-	-
Rental income from investment properties & other operating leases	**2**	**242**	**2**	**2**

6. General administrative expenses

	GROUP		BANK	
in HRK million	**2013**	**2014**	**2013**	**2014**
Personnel expenses	**(497)**	**(560)**	**(364)**	**(402)**
Wages and salaries	(439)	(473)	(329)	(339)
Compulsory social security	(64)	(74)	(49)	(54)
Long-term employee provisions	7	(2)	7	(1)
Other personnel expenses	(1)	(11)	7	(8)
Other administrative expenses	**(518)**	**(583)**	**(369)**	**(414)**
Deposit insurance contribution	(69)	(77)	(60)	(67)
IT expenses	(117)	(138)	(89)	(104)
Expenses for office space	(96)	(100)	(98)	(101)
Office operating expenses	(114)	(128)	(62)	(70)
Advertising/marketing	(71)	(73)	(34)	(36)
Legal and consulting costs	(35)	(49)	(14)	(22)
Sundry administrative expenses	(16)	(18)	(12)	(14)
Depreciation and amortisation	**(112)**	**(296)**	**(47)**	**(44)**
Software and other intangible assets	(23)	(24)	(16)	(14)
Owner occupied real estate	(18)	(17)	(10)	(10)
Investment properties	(1)	(185)	(1)	(1)
Customer relationships	(37)	(37)	-	-
Office furniture and equipment and sundry property and equipment	(33)	(33)	(20)	(19)
General administrative expenses	**(1,127)**	**(1,439)**	**(780)**	**(860)**

The Group and the Bank do not have pension arrangements separate from the State pension system of Croatia. This system requires that current contributions by the employer are calculated as a percentage of current gross salary payments; these expenses are charged to the profit and loss statement in the period the related compensation is earned by the employee.

6. General administrative expenses (continued)

Average number of employees during the financial year (weighted according to the level of employment)

	2013	2014
Erste&Steiermärkische Bank d.d.	2,024.37	2,057.84
Erste Card Club d.o.o.	229.63	239.94
Erste DMD d.o.o.[1]	4.00	4.56
Erste Nekretnine d.o.o.	17.46	17.72
Erste Delta d.o.o.	-	-
Erste Factoring d.d.	23.27	27.05
Diners Club BH d.o.o. Sarajevo[2]	6.25	6.39
Erste bank Podgorica d.d.	237.16	237.68
Erste Card Slovenia d.o.o.	21.04	58.28
Erste&Steiermärkische S-Leasing d.o.o.	-	65.08
Total	**2,563.18**	**2,714.54**

1 As of 1 December 2014 Erste DMD d.o.o. merged with Erste d.o.o.
2 Due to immateriality Diners BH d.o.o. Sarajevo was deconsolidated from the Group in November 2014

7. Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net

	GROUP		BANK	
in HRK million	**2013**	**2014**	**2013**	**2014**
From sale of financial assets available for sale	2	12	1	7
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	**2**	**12**	**1**	**7**

8. Net impairment loss on financial assets not measured at fair value through profit or loss

	GROUP		BANK	
in HRK million	**2013**	**2014**	**2013**	**2014**
Financial assets - available for sale	(3)	(8)	(1)	(4)
Loans and receivables	(1,203)	(1,177)	(1,090)	(1,096)
Allocation to risk provisions	(2,567)	(2,694)	(2,301)	(2,326)
Release of risk provisions	1,284	1,398	1,136	1,135
Direct write-offs	(2)	(2)	-	(2)
Recoveries recorded directly to the income statement	82	121	75	97
Net impairment loss on financial assets not measured at fair value through profit or loss	**(1,206)**	**(1,185)**	**(1,091)**	**(1,100)**

9. Other operating result

	GROUP		BANK	
in HRK million	**2013**	**2014**	**2013**	**2014**
Result from properties/movables/other intangible assets other than goodwill	(3)	(2)	(3)	-
Allocation to/release of other provisions	(109)	(33)	(107)	(9)
Allocation to/release of provisions for commitments and guarantees given	14	(4)	13	(12)
Other taxes	(8)	(19)	(6)	(13)
Result from other operating expenses/income	(22)	6	(34)	5
Other operating result	**(128)**	**(52)**	**(137)**	**(29)**

Line ‘Allocation to/release of other provisions’ contains changes of provisions for litigations.

10. Taxes on income

Taxes on income are made up of current taxes on income calculated in each of the Group companies based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes.

	GROUP		BANK	
in HRK million	**2013**	**2014**	**2013**	**2014**
Current tax expense / income	92	111	21	33
Current period	95	120	24	42
Prior period	(3)	(9)	(3)	(9)
Deferred tax expense / income	(30)	(19)	1	1
Current period	(26)	(11)	(2)	1
Prior period	(4)	(8)	3	-
Total	**62**	**92**	**22**	**34**

The following table reconciles the income taxes reported in the income statement to the pre-tax profit/loss multiplied by the nominal Croatian tax rate (20% for 2013 and 2014).

	GROUP		BANK	
in HRK million	**2013**	**2014**	**2013**	**2014**
Pre-tax profit/loss	263	504	90	266
Income tax expense for the financial year at the domestic statutory tax rate (20%)	53	101	18	53
Impact of different foreign tax rates	(4)	(6)	-	-
Impact of tax-exempt earnings of investments and other tax-exempt income	(38)	(65)	(10)	(34)
Tax increases due to non-deductible expenses, additional business tax and similar elements	81	90	13	23
Tax income not attributable to the reporting period	-	(9)	-	(9)
Total	**92**	**111**	**21**	**33**
Effective tax rate	**34%**	**22%**	**23%**	**12%**

Tax effects relating to each component of other comprehensive income:

						GROUP
			2013			2014
in HRK million	**Before-tax amount**	**Tax benefit**	**Net-of-tax amount**	**Before-tax amount**	**Tax benefit**	**Net-of-tax amount**
Available for sale-reserve (including currency translation)	7	(1)	6	86	(17)	69
Remeasurement of net liability of defined pension plans	2	-	2	-	-	-
Currency translation	3	-	3	(3)	-	(3)
Other comprehensive income	**12**	**(1)**	**11**	**83**	**(17)**	**66**

						BANK
			2013			2014
in HRK million	**Before-tax amount**	**Tax benefit**	**Net-of-tax amount**	**Before-tax amount**	**Tax benefit**	**Net-of-tax amount**
Available for sale-reserve (including currency translation)	1	-	1	89	(18)	71
Remeasurement of net liability of defined pension plans	2	-	2	-	-	-
Other comprehensive income	**3**	**-**	**3**	**89**	**(18)**	**71**

11. Cash and cash balances

	GROUP		BANK	
in HRK million	2013	2014	2013	2014
Cash on hand	905	1,031	822	949
Cash balances at central banks	2,947	2,298	2,776	1,946
Other demand deposits	445	1,345	351	1,140
Cash and cash balances	**4,297**	**4,674**	**3,949**	**4,035**

12. Derivatives – held for trading

GROUP						
	2013			2014		
in HRK million	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**8,456**	**77**	**80**	**7,903**	**90**	**85**
Interest rate	1,563	15	13	888	10	11
Foreign exchange	6,893	62	67	7,011	80	74
Other	-	-	-	4	-	-
Derivatives held in the banking book	**10,335**	**9**	**9**	**7,916**	**4**	**9**
Foreign exchange	10,335	9	9	7,916	4	9
Total	**18,791**	**86**	**89**	**15,819**	**94**	**94**

BANK						
	2013			2014		
in HRK million	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**8,456**	**77**	**80**	**8,032**	**92**	**85**
Interest rate	1,563	15	13	979	12	11
Foreign exchange	6,893	62	67	7,049	80	74
Other	-	-	-	4	-	-
Derivatives held in the banking book	**9,908**	**9**	**9**	**7,916**	**4**	**9**
Foreign exchange	9,908	9	9	7,916	4	9
Total	**18,364**	**86**	**89**	**15,948**	**96**	**94**

The fair value of these transactions reflects the credit risk and other types of economic risks for the Group and the Bank. The fair value of derivative financial instruments is based on valuation techniques where all model inputs are observable in the market.

13. Other trading assets

	GROUP		BANK	
in HRK million	**2013**	**2014**	**2013**	**2014**
Equity instruments	199	5	21	5
Debt securities	105	377	104	377
General governments	105	377	104	377
Other trading assets	**304**	**382**	**125**	**382**

Financial assets and liabilities held for trading are measured at fair value based on quoted prices. In circumstances where quoted market prices are not readily available, the fair value of those securities is estimated using the present value of future cash flows.

As of 31 December 2014 financial assets held for trading are Treasury bills of the Croatian Ministry of Finance with maturity in 2015, and with interest rate from 1.50% to 2.40%, bonds issued by the Republic of Croatia with maturity from 2019 to 2024, and with interest rate from 5.37% to 6.50% and shares from Croatian issuers. As of 31 December 2013 financial assets held for trading are Treasury bills of the Croatian Ministry of Finance with maturity in 2015, and with interest rate of 5.00%, bonds issued by the Republic of Croatia with maturity from 2019 to 2024, and with interest rate from 5.37% to 6.50% and shares from Croatian and Serbian issuers.

14. Financial assets – available for sale

	GROUP		BANK	
in HRK million	**2013**	**2014**	**2013**	**2014**
Equity instruments	89	249	89	97
Debt securities	6,274	7,024	6,057	6,596
General governments	6,149	6,521	5,457	5,978
Credit institutions	-	386	475	501
Non-financial corporations	125	117	125	117
Financial assets - available for sale	**6,363**	**7,273**	**6,146**	**6,693**

Debt securities include bonds issued by the Republic of Croatia and treasury bills issued by the Croatian Ministry of Finance.

Treasury bills of the Croatian Ministry of Finance are HRK and EUR denominated debt securities issued at a discount to nominal. These securities are issued with original maturities of 91, 182, 364, 546 and 728 days.

During 2014, the average interest yields on HRK denominated treasury bills were 0.58% for treasury bills with a maturity of 91 days, 1.18% for treasury bills with a maturity of 182 days, 2.23% for treasury bills with a maturity of 364 days and 5.85% for treasury bills with a maturity of 728 days. The average interest yields on the currency clause EUR denominated treasury bills were 0.43% for treasury bills with a maturity of 91 days and 1.14% for treasury bills with a maturity of 364 days. The average interest yields on EUR treasury bills were 5.00% for treasury bills with a maturity of 546 days.

During 2013, the average interest yields on HRK denominated treasury bills were 1.08% for treasury bills with a maturity of 91 days, 2.10% for treasury bills with a maturity of 182 days, 3.24% for treasury bills with a maturity of 364 days and 5.85% for treasury bills with a maturity of 728 days. The average interest yields on the currency clause EUR denominated treasury bills were 0.82% for treasury bills with a maturity of 91 days and 2.57% for treasury bills with a maturity of 364 days. The average interest yields on EUR treasury bills were 4.85% for treasury bills with a maturity of 364 days and 5.13% for treasury bills with a maturity of 546 days.

14. Financial assets - available for sale (continued)

Bonds of the Republic of Croatia are HRK and EUR denominated fixed income debt securities listed at stock exchanges. These bonds have maturities from 2015 to 2022 and bear coupon interest from 4.25% to 6.75% p.a.
Bonds of Republic of Austria are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities from 2015 till 2017 and bear coupon interest from 3.50% to 4.30% p.a. Bonds of Montenegro are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturity in 2019 and bear coupon interest of 5.37% p.a. Bonds of Republic of Slovakia are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities from 2015 to 2018 and bear coupon interest from 0.17% p.a. (bond linked to 6M Euribor) to 4.62% p.a. Bonds of Republic of Slovenia are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturity in 2016 and bear coupon interest of 4.00% p.a. Also, in financial investments available for sale are bonds issued by European investment Bank with variable coupon (last coupon 0.33%).
Financial investments available for sale are measured at fair value based on quoted prices. In circumstances where quoted market prices are not readily available, the fair value of these securities is estimated using the present value of future cash flows.

The Bank and the Group decided to keep 60 million EUR bond until maturity. The bond is also pledged as collateral until maturity. Because of this reasons the Bank and the Group made reclassification from financial asset available for sale to financial asset held until maturity in amount of 67 million EUR fair value on 31 December 2014 (EUR 60 million nominal value).

15. Financial assets – held to maturity

GROUP

	Gross carrying amount		Collective allowances		Net carrying amount	
in HRK million	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**
General governments	768	1,457	-	(1)	768	1,456
Total	**768**	**1,457**	**-**	**(1)**	**768**	**1,456**

BANK

	Gross carrying amount		Collective allowances		Net carrying amount	
in HRK million	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**
General governments	499	1,289	499	(1)	499	1,288
Total	**499**	**1,289**	**499**	**(1)**	**499**	**1,288**

Listed and unlisted bonds issued by the Republic of Croatia are fixed income debt securities denominated in EUR. These bonds have maturities from 2017 to 2020 and bear coupon interest from 5.87% to 6.75% p.a.
Treasury bills of the Croatian Ministry of Finance with maturity in 2015, and with interest rate from 2.000% to 2.3000% are HRK denominated fixed income debt securities.
The fair value of financial investments held to maturity for the Group and the Bank is approximately HRK 19.3 million higher than their value as at 31 December 2013 (2012: HRK 11 million higher).

16. Securities

GROUP

in HRK million	Loans and receivables to customers and credit institutions 2013	2014	Financial assets: Held for trading 2013	2014	Available for sale 2013	2014	Held to maturity 2013	2014	Total 2013	2014
Bonds and other interest-bearing securities	**578**	**566**	**104**	**376**	**6,274**	**7,024**	**768**	**1,456**	**7,724**	**9,422**
Listed	-	-	104	130	5,507	5,501	762	995	6,373	6,626
Unlisted	578	566	-	246	767	1,523	6	461	1,351	2,796
Equity-related securities	**-**	**-**	**200**	**6**	**77**	**228**	**-**	**-**	**275**	**233**
Listed	-	-	200	6	72	214	-	-	271	219
Unlisted	-	-	-	-	5	14	-	-	4	14
Equity holdings	-	-	-	-	12	21	-	-	12	21
Total	**578**	**566**	**304**	**382**	**6,363**	**7,273**	**768**	**1,456**	**8,011**	**9,676**

BANK

in HRK million	Loans and receivables to customers and credit institutions 2013	2014	Financial assets: Held for trading 2013	2014	Available for sale 2013	2014	Held to maturity 2013	2014	Total 2013	2014
Bonds and other interest-bearing securities	**578**	**566**	**104**	**376**	**6,058**	**6,596**	**499**	**1,288**	**7,239**	**8,826**
Listed	-	-	104	130	5,200	5,073	494	988	5,798	6,191
Unlisted	578	566	-	246	858	1,523	5	300	1,441	2,635
Equity-related securities	**-**	**-**	**21**	**6**	**76**	**76**	**-**	**-**	**97**	**82**
Listed	-	-	21	6	72	66	-	-	93	72
Unlisted	-	-	-	-	4	10	-	-	4	10
Equity holdings	-	-	-	-	12	21	-	-	12	21
Total	**578**	**566**	**125**	**382**	**6,146**	**6,693**	**499**	**1,288**	**7,348**	**8,929**

Investment funds are disclosed within equity-related securities.

Held-to-maturity financial assets include bonds and other interest-bearing securities that are quoted in active markets and are intended to be held to maturity.

Securities lending and repurchase transactions are disclosed in Note 32 Transfers of financial assets – repurchase transactions and securities lending.

17. Loans and receivables to credit institutions

Loans and receivables to credit institutions

				GROUP
in HRK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
2014				
Debt securities	566	-	-	566
Central banks	566	-	-	566
Loans and advances	5,631	-	(3)	5,628
Central banks	3,967	-	(2)	3,965
Credit institutions	1,664	-	(1)	1,663
Total	**6,197**	**-**	**(3)**	**6,194**
2013				
Debt securities	578	-	-	578
Central banks	578	-	-	578
Loans and advances	5,972	(1)	(3)	5,968
Central banks	4,097	-	(1)	4,096
Credit institutions	1,875	(1)	(2)	1,872
Total	**6,550**	**(1)**	**(3)**	**6,546**

Allowances for loans and receivables to credit institutions

									GROUP
in HRK million	As of	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As of	Amounts written off	Recoveries of amounts previously written off
	2013						**2014**		
Specific allowances									
Loans and advances	(1)	-	-	1	-	-	-	-	-
Credit institutions	(1)	-	-	1	-	-	-	-	-
Collective allowances									
Loans and advances	(3)	(14)	-	13	-	1	(3)	-	-
Central banks	(1)	(1)	-	-	-	-	(2)	-	-
Credit institutions	(2)	(13)	-	13	-	1	(1)	-	-
Total	**(4)**	**(14)**	**-**	**14**	**-**	**1**	**(3)**	**-**	**-**
	2012						**2013**		
Specific allowances									
Loans and advances	-	(1)	-	-	-	-	(1)	-	-
Credit institutions	-	(1)	-	-	-	-	(1)	-	-
Collective allowances									
Loans and advances	(2)	(10)	-	9	-	-	(3)	-	-
Central banks	-	(1)	-	-	-	-	(1)	-	-
Credit institutions	(2)	(9)	-	9	-	-	(2)	-	-
Total	**(2)**	**(11)**	**-**	**9**	**-**	**-**	**(4)**	**-**	**-**

17. Loans and receivables to credit institutions (continued)

Loans and receivables to credit institutions

				BANK
in HRK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
2014				
Debt securities	566	-	(1)	565
Central banks	566	-	(1)	565
Loans and advances	5,158	-	(3)	5,155
Central banks	3,968	-	(2)	3,966
Credit institutions	1,190	-	(1)	1,189
Total	**5,724**	**-**	**(4)**	**5,720**
2013				
Debt securities	578	-	-	578
Central banks	578	-	-	578
Loans and advances	5,568	-	(3)	5,565
Central banks	4,097	-	(1)	4,096
Credit institutions	1,471	-	(2)	1,469
Total	**6,146**	**-**	**(3)**	**6,143**

In November 2013 the CNB Council reduced the reserve requirement calculation rate from 13.5% to 12%. Furthermore, banks were required to purchase three-year compulsory CNB bills for the total amount of the released reserve requirements. No interest will be charged on these bills and they will be non-transferrable, but banks will be able to offer them, prior to maturity, at each month-end, for redemption by the central bank. The amount offered is to equal 50% of the increase in certain placements to domestic non-financial enterprises in the previous month.

Allowances for loans and receivables to credit institutions

									BANK
in HRK million	As of	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As of	Amounts written off	Recoveries of amounts previously written off
	2013						**2014**		
Collective allowances									
Debt securities	-	(1)	-	-	-	-	(1)	-	-
Central banks	-	(1)	-	-	-	-	(1)	-	-
Loans and advances	(3)	(14)	-	13	-	1	(3)	-	-
Central banks	(1)	(1)	-	-	-	-	(2)	-	-
Credit institutions	(2)	(13)	-	13	-	1	(1)	-	-
Total	**(3)**	**(15)**	**-**	**13**	**-**	**1**	**(4)**	**-**	**-**
	2012						**2013**		
Collective allowances									
Debt securities	-	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-
Loans and advances	(2)	(10)	-	9	-	-	(3)	-	-
Central banks	-	(1)	-	-	-	-	(1)	-	-
Credit institutions	(2)	(9)	-	9	-	-	(2)	-	-
Total	**(2)**	**(10)**	**-**	**9**	**-**	**-**	**(3)**	**-**	**-**

18. Loans and receivables to customers

Loans and receivables to customers

GROUP

in HRK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
2014				
Loans and advances to customers	52,545	(5,396)	(438)	46,711
General governments	11,494	-	(21)	11,473
Other financial corporations	275	(2)	(1)	272
Non-financial corporations	19,462	(3,463)	(258)	15,741
Households	21,314	(1,931)	(158)	19,225
Total	**52,545**	**(5,396)**	**(438)**	**46,711**
2013				
Loans and advances to customers	52,238	(4,408)	(439)	47,391
General governments	9,391	-	(11)	9,380
Other financial corporations	904	(1)	(1)	902
Non-financial corporations	20,779	(2,750)	(299)	17,730
Households	21,164	(1,657)	(128)	19,379
Total	**52,238**	**(4,408)**	**(439)**	**47,391**

Allowances for loans and receivables to customers

GROUP

in HRK million	As of	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As of	Recoveries of amounts previously written off	Amounts written off
	2013						**2014**		
Specific allowances									
Loans and advances to customers	(4,408)	(2,163)	221	862	194	(102)	(5,396)	121	(2)
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	(1)	(5)	-	5	-	(1)	(2)	-	-
Non-financial corporations	(2,750)	(1,433)	175	479	138	(71)	(3,462)	61	(1)
Households	(1,657)	(725)	46	378	56	(30)	(1,932)	60	(1)
Collective allowances									
Loans and advances to customers	(439)	(517)	-	522	-	(4)	(438)	-	-
General governments	(11)	(12)	-	7	-	(5)	(21)	-	
Other financial corporations	(1)	(22)	-	25	-	(3)	(1)	-	-
Non-financial corporations	(299)	(265)	-	304	-	2	(258)	-	-
Households	(128)	(218)	-	186	-	2	(158)	-	-
Total	**(4,847)**	**(2,680)**	**221**	**1,384**	**194**	**(106)**	**(5,834)**	**121**	**(2)**
	2012						**2013**		
Specific allowances									
Loans and advances to customers	(3,404)	(2,025)	115	733	197	(24)	(4,408)	82	(2)
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	(2)	-	-	1	-	-	(1)	-	-
Non-financial corporations	(2,012)	(1,443)	91	447	179	(13)	(2,751)	34	-
Households	(1,390)	(582)	24	285	18	(11)	(1,656)	48	(2)
Collective allowances									
Loans and advances to customers	(452)	(531)	-	542	-	2	(439)	-	-
General governments	(9)	(6)	-	4	-	-	(11)	-	-
Other financial corporations	(1)	(5)	-	5	-	-	(1)	-	-
Non-financial corporations	(302)	(324)	-	327	-	-	(299)	-	-
Households	(140)	(196)	-	206	-	2	(128)	-	-
Total	**(3,856)**	**(2,556)**	**115**	**1,275**	**197**	**(22)**	**(4,847)**	**82**	**(2)**

18. Loans and receivables to customers (continued)

Loans and receivables to customers

BANK

in HRK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
2014				
Loans and advances to customers	44,392	(4,438)	(347)	39,607
General governments	10,542	-	(18)	10,524
Other financial corporations	504	(2)	(1)	501
Non-financial corporations	15,663	(3,074)	(210)	12,379
Households	17,683	(1,362)	(118)	16,203
Total	**44,392**	**(4,438)**	**(347)**	**39,607**
2013				
Loans and advances to customers	44,991	(3,593)	(358)	41,040
General governments	8,618	-	(8)	8,610
Other financial corporations	901	(1)	(1)	899
Non-financial corporations	17,710	(2,439)	(241)	15,030
Households	17,762	(1,153)	(108)	16,501
Total	**44,991**	**(3,593)**	**(358)**	**41,040**

Allowances for loans and receivables to customers

BANK

in HRK million	As of	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As of	Recoveries of amounts previously written off	Amounts written off
	2013						**2014**		
Specific allowances									
Loans and advances to customers	(3,593)	(1,831)	188	630	188	(20)	(4,438)	97	(2)
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	(1)	(6)	-	5	-	(1)	(3)	-	-
Non-financial corporations	(2,439)	(1,307)	155	394	136	(12)	(3,073)	53	(1)
Households	(1,153)	(518)	33	231	52	(7)	(1,362)	44	(1)
Collective allowances									
Loans and advances to customers	(358)	(480)	-	492	-	(1)	(347)	-	-
General governments	(8)	(11)	-	5	-	(4)	(18)	-	-
Other financial corporations	(1)	(22)	-	24	-	(3)	(2)	-	-
Non-financial corporations	(241)	(255)	-	282	-	4	(210)	-	-
Households	(108)	(192)	-	181	-	2	(117)	-	-
Total	**(3,951)**	**(2,311)**	**188**	**1,122**	**188**	**(21)**	**(4,785)**	**97**	**(2)**

in HRK million	As of	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As of	Recoveries of amounts previously written off	Amounts written off
	2012						**2013**		
Specific allowances									
Loans and advances to customers	(2,664)	(1,774)	72	599	197	(23)	(3,593)	75	-
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	(2)	-	-	1	-	-	(1)	-	-
Non-financial corporations	(1,738)	(1,336)	68	401	179	(13)	(2,439)	34	-
Households	(924)	(438)	4	197	18	(10)	(1,153)	41	-
Collective allowances									
Loans and advances to customers	(371)	(517)	-	528	-	2	(358)	-	-
General governments	(7)	(5)	-	4	-	-	(8)	-	-
Other financial corporations	(1)	(5)	-	5	-	-	(1)	-	-
Non-financial corporations	(241)	(317)	-	317	-	-	(241)	-	-
Households	(122)	(190)	-	202	-	2	(108)	-	-
Total	**(3,035)**	**(2,291)**	**72**	**1,127**	**197**	**(21)**	**(3,951)**	**75**	**-**

19. Equity method investments and subsidiaries

Subsidiaries	Main business activity	Ownership % held		Group's share of net assets		Investment at cost	
in HRK million		Dec 2013	Dec 2014	Dec 2013	Dec 2014	Dec 2013	Dec 2014
Erste Nekretnine d.o.o.	Real estate business	100.00%	100.00%	3	4	1	1
Erste DMD d.o.o.	Management company for voluntary pension fund	100.00%	-	17	-	15	-
Erste Factoring d.o.o.	Accounts receivables repurchase	74.996%	74.996%	202	253	38	38
Erste card club d.o.o.	Financial intermediation and services	100.00%	100.00%	543	632	1,089	1,089
Diners Club BH d.o.o. Sarajevo	Other financial intermediation	100.00%	-	1	-	-	-
Erste Card d.o.o. Slovenia	Financial intermediation and services	100.00%	100.00%	5	7	-	-
Erste Delta d.o.o.	Real estate business	100.00%	100.00%	1	8	-	-
Erste bank A.D., Podgorica	Credit institution	100.00%	100.00%	297	352	100	100
Erste&Steiermarkische S-leasing d.o.o.	Leasing company	-	50.00%		197		89
Total subsidiaries:				**1,069**	**1,453**	**1,243**	**1,317**

Associates	S Immorent Zeta d.o.o.		Immokor Buzin d.o.o.		Erste d.o.o.		S IT Solution HR d.o.o.	
in HRK million	Dec 2013	Dec 2014	Dec 2013	Dec 2014	Dec 2013	Dec 2014	Dec 2013	Dec 2014
Country of Incorporation	Croatia	Croatia	Croatia	Croatia	Croatia	Croatia	Croatia	Croatia
Place of business	Croatia	Croatia	Croatia	Croatia	Croatia	Croatia	Croatia	Croatia
Main business activity	Real estate business		Real estate business		Management company for obligatory pension fund		IT engineering	
Ownership % held	49%	49%	49%	49%	37.94%	45.86%	20%	20%
IFRS Classification	Associate	Associate	Associate	Associate	Associate	Associate	Associate	Associate
Reporting currency	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK
Dividend income received	-	-	-	-	4	5	-	-
Impairment loss recognized (cumulative basis)	-	-	28	34	-	-	-	-
Impairment loss recognized (for the reporting year)	-	-	28	6	-	-	-	-
Investee's key financial information for the reporting year (as at reporting-year-end)								
Financial assets	11	7	1	17	-	96	11	14
Other assets	15	10	141	151	96	16	40	44
Financial liabilities	(26)	(24)	(136)	(167)	-	-	(41)	(40)
Other liabilities	-	-	-	(4)	(8)	(6)	(8)	(15)
Revenue	4	-	11	7	14	46	55	85
Expense	(2)	(7)	(55)	(15)	-	(32)	(54)	(85)
Investment at cost	-	-	6	-	23	38	-	-
Reconciliation of investee's net assets against equity investment's carrying amount	-	-	(3)	-	13	19	-	1
Net assets attributable to the Group	-	-	3	-	36	57	-	1

Impairment losses on investment in associates in the amount of HRK 6 million were recognised during 2014 (2013: HRK 28 million). This impairment was allocated on the remaining part for investment in Immokor Buzin d.o.o.

On 26 November 2014, Erste Card d.o.o. Slovenia increased subscribed capital by HRK 8,432,600 (original currency EUR 1,100,000).

20. Property, equipment and Investment properties

A) AT COST

	GROUP					
	Property and equipment - Acquisition and production costs					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as of 1 January 2013	**796**	**265**	**152**	**-**	**1,213**	**2**
Additions in current year (+)	5	20	15	-	40	-
Disposals (-)	(3)	(25)	(8)	-	(36)	-
Reclassification (+/-)	(30)	(3)	3	-	(30)	30
Balance as of 31 December 2013	**768**	**257**	**162**	**-**	**1,187**	**32**
Additions (+)	3	21	13	286	323	-
Disposals (-)	(14)	(13)	(13)	(397)	(437)	-
Acquisition of subsidiaries (+)	27	20	2	1,238	1,287	-
Reclassification (+/-)	(25)	9	(1)	16	(1)	1
Balance as of 31 December 2014	**759**	**294**	**163**	**1,143**	**2,359**	**33**

B) ACCUMULATED DEPRECIATION

	GROUP					
	Property and equipment - Accumulated depreciation					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as of 1 January 2013	**(202)**	**(189)**	**(118)**	**-**	**(509)**	**(1)**
Amortisation and depreciation (-)	(17)	(22)	(12)	-	(51)	(1)
Disposals (+)	1	15	12	-	28	-
Reclassification (+/-)	10	2	(2)	-	10	(10)
Balance as of 31 December 2013	**(208)**	**(194)**	**(120)**	**-**	**(522)**	**(12)**
Amortisation and depreciation (-)	(17)	(20)	(14)	(184)	(235)	(1)
Disposals (+)	4	8	10	263	285	-
Acquisition of subsidiaries (-)	(9)	(8)	(1)	(555)	(573)	-
Reclassification (+/-)	1	3	1	(5)	-	-
Balance as of 31 December 2014	**(229)**	**(211)**	**(124)**	**(481)**	**(1,045)**	**(13)**

C) CARRYING AMOUNTS

	GROUP					
	Property and equipment					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as of 31 December 2013	**560**	**63**	**42**	**-**	**665**	**20**
Balance as of 31 December 2014	**530**	**83**	**39**	**662**	**1,314**	**20**

20. Property, equipment and Investment properties (continued)

A) AT COST

	BANK					
	Property and equipment - Acquisition and production costs					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as of 1 January 2013	**489**	**217**	**109**	**-**	**815**	**1**
Additions in current year (+)	4	6	3	-	13	-
Disposals (-)	(2)	(7)	(5)	-	(14)	-
Reclassification (+/-)	(30)	-	-	-	(30)	30
Balance as of 31 December 2013	**461**	**216**	**107**	**-**	**784**	**31**
Additions (+)	3	17	3	-	23	-
Disposals (-)	(6)	(4)	(8)	-	(18)	-
Balance as of 31 December 2014	**458**	**229**	**102**	**-**	**789**	**31**

B) ACCUMULATED DEPRECIATION

	BANK					
	Property and equipment - Accumulated depreciation					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as of 1 January 2013	**(164)**	**(162)**	**(103)**	**-**	**(429)**	**(1)**
Amortisation and depreciation (-)	(10)	(17)	(3)	-	(30)	(1)
Disposals (+)	1	7	5	-	13	-
Reclassification (+/-)	9	-	-	-	9	(9)
Balance as of 31 December 2013	**(164)**	**(172)**	**(101)**	**-**	**(437)**	**(11)**
Amortisation and depreciation (-)	(10)	(15)	(4)	-	(29)	(1)
Disposals (+)	2	4	9	-	15	-
Balance as of 31 December 2014	**(172)**	**(183)**	**(96)**	**-**	**(451)**	**(12)**

C) CARRYING AMOUNTS

	BANK					
	Property and equipment					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as of 31 December 2013	**297**	**44**	**6**	**-**	**347**	**20**
Balance as of 31 December 2014	**286**	**46**	**6**	**-**	**338**	**19**

The carrying amount of expenditure recognised in the items fixed assets during their construction is HRK 30 million for the Group and HRK 23 million for the Bank (2013: HRK 26 million and HRK 5 million for the Group and the Bank respectively). The contractual commitments for purchase of fixed assets are HRK 6 million for the Group and the Bank as of 31 December 2014 (2013: HRK 5 million).
Tangible asset under operating leasing in 2014 in S-Leasing amounted to HRK 662 million as of 31 December.

21. Intangible assets

A) AT COST

					GROUP
		Acquisition costs			
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as of 1 January. 2013	**603**	**181**	**75**	**59**	**918**
Additions in current year (+)	-	-	31	42	73
Disposals (-)	-	-	(5)	(4)	(9)
Balance as of 31 December 2013	**603**	**181**	**101**	**97**	**982**
Additions (+)	-	-	42	5	47
Disposals (-)	-	-	-	(9)	(9)
Acquisition of subsidiaries (+)	-	-	3	-	3
Disposal of subsidiaries (-)	-	-	(1)	-	(1)
Reclassification	-	-	7	(7)	-
Balance as of 31 December 2014	**603**	**181**	**152**	**86**	**1,022**

B) ACCUMULATED DEPRECIATION

					GROUP
		Accumulated depreciation			
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as of 1 January 2013	**-**	**(97)**	**(38)**	**(43)**	**(178)**
Amortisation and depreciation (-)	-	(37)	(17)	(6)	(60)
Disposals (+)	-	-	-	1	1
Balance as of 31 December 2013	**-**	**(134)**	**(55)**	**(48)**	**(237)**
Amortisation and depreciation (-)	-	(37)	(14)	(9)	(60)
Disposals (+)	-	-	-	8	8
Acquisition of subsidiaries (-)	-	-	(5)	-	(5)
Disposal of subsidiaries (+)	-	-	1	-	1
Reclassification (+/-)	-	-	(12)	12	-
Balance as of 31 December 2014	**-**	**(171)**	**(85)**	**(37)**	**(293)**

C) CARRYING AMOUNTS

					GROUP
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as of 31 December 2013	**603**	**47**	**46**	**49**	**745**
Balance as of 31 December 2014	**603**	**10**	**67**	**49**	**729**

21. Intangible assets (continued)

A) AT COST

					BANK
		Acquisition costs			
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as of 1 January 2013	**-**	**-**	**71**	**69**	**140**
Additions in current year (+)	-	-	4	2	6
Balance as of 31 December 2013	**-**	**-**	**75**	**71**	**146**
Additions (+)	-	-	23	2	25
Balance as of 31 December 2014	**-**	**-**	**98**	**73**	**171**

B) ACCUMULATED DEPRECIATION

					BANK
		Accumulated depreciation			
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as of 1 January 2013	**-**	**-**	**(40)**	**(53)**	**(93)**
Amortisation and depreciation (-)	-	-	(12)	(4)	(16)
Balance as of 31 December 2013	**-**	**-**	**(52)**	**(57)**	**(109)**
Amortisation and depreciation (-)	-	-	(11)	(3)	(14)
Balance as of 31 December 2014	**-**	**-**	**(63)**	**(60)**	**(123)**

C) CARRYING AMOUNTS

					BANK
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as of 31 December 2013	**-**	**-**	**23**	**14**	**37**
Balance as of 31 December 2014	**-**	**-**	**35**	**13**	**48**

21. Intangible assets (continued)

Goodwill recognized in the financial statements is related to the Erste Card Club d.o.o. We compared current value of the investment of HRK 1,089 million (HRK 1,089 million in 2013) with recoverable value of HRK 1,441 million (HRK 1,240 million in 2013). Recoverable value was calculated as described in 'Business combinations and goodwill' in Note (ii) under 'Significant Accounting polices'.

Following table show sensitivity analysis of the recoverable value dependent on the main variables (terminal growth rate, beta factor and risk free rate):

2014		Risk free rate	
Beta Factor	0.9%	1.9%	2.9%
0.7	2,069	1,799	1,590
1.0	1,614	**1,441**	1,304
1.3	1,320	1,203	1,105

2014		Risk free rate	
TV growth rate	0.9%	1.9%	2.9%
2.7%	1,527	1,373	1,249
3.7%	1,626	**1,441**	1,302
4.7%	1,755	1,536	1,367

2013		Risk free rate	
Beta Factor	1.7%	2.7%	3.7%
0.9	1,591	1,450	1,334
1.2	1,339	**1,240**	1,156
1.5	1,160	1,087	1,024

2013		Risk free rate	
TV growth rate	1.7%	2.7%	3.7%
3.2%	1,285	1,193	1,116
4.2%	1,344	**1,240**	1,154
5.2%	1,418	1,298	1,199

As recoverable value is above net present value of the investment, no impairment was recorded.

22. Tax assets and liabilities

GROUP

					Net variance 2014			
in HRK million	Tax assets 2013	Tax assets 2014	Tax liabilities 2013	Tax liabilities 2014	Total	Acquisition of new subsidiary - opening balance	Through profit or loss	Through other compre-hensive income
Temporary differences relate to the following items:								
Loans and advances to credit institutions and customers	195	206	-	-	(11)	-	(11)	-
Financial assets - available for sale	-	-	(42)	(57)	15	-	(4)	19
Property and equipment	-	3	(2)	-	(5)	-	(5)	-
Acquisition of new subsidiary	-	13	-	-	(13)	(13)	-	-
Long-term employee provisions	2	1	-		1	-	3	(2)
Sundry provisions	-	2	-	-	(2)	-	(2)	-
Customer relationships and brand	-		(9)	(2)	(7)	-	(7)	-
Other	36	29	-	-	7	-	7	-
Effect of netting gross deferred tax position	(42)	(57)	42	57	-	-	-	-
Total deferred taxes	**191**	**197**	**(11)**	**(2)**	**(15)**	**(13)**	**(19)**	**17**
Current taxes	**88**	**98**	**(17)**	**(9)**				
Total taxes	**279**	**295**	**(28)**	**(11)**				

BANK

					Net variance 2014		
in HRK million	Tax assets 2013	Tax assets 2014	Tax liabilities 2013	Tax liabilities 2014	Total	Through profit or loss	Through other compre-hensive income
Temporary differences relate to the following items:							
Loans and advances to credit institutions and customers	43	38	-	-	5	5	-
Financial assets - available for sale	-	-	(35)	(51)	16	(2)	18
Long-term employee provisions	2	1	-	-	1	1	-
Sundry provisions	-	1	-	-	(1)	(1)	-
Other	28	30	-	-	(2)	(2)	-
Effect of netting gross deferred tax position	(35)	(51)	35	51	-	-	-
Total deferred taxes	**38**	**19**	**-**	**-**	**19**	**1**	**18**
Current taxes	**88**	**85**	**-**	**-**			
Total taxes	**126**	**104**	**-**	**-**			

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2014 and 2013 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

23. Other assets

	GROUP		BANK	
in HRK million	**2013**	**2014**	**2013**	**2014**
Prepayments and accrued income	39	39	39	34
Allowances for impairment	*(11)*	*(10)*	*(11)*	*(10)*
Inventories	329	522	317	488
Value adjustments of inventories	*(30)*	*(37)*	*(27)*	*(26)*
Sundry assets	24	47	18	9
Other assets	**351**	**561**	**336**	**495**

The movement in the allowances for impairment of other assets is summarized as follows:

in HRK million	GROUP		BANK	
	2013	**2014**	**2013**	**2014**
Balance at 1 January	**6**	**11**	**6**	**11**
Release of previously recognized allowances	(3)	(3)	(3)	(3)
Additional allowances	10	6	10	6
Amounts written off	(2)	(4)	(2)	(4)
Balance at 31 December	**11**	**10**	**11**	**10**

24. Financial liabilities measured at amortised costs

Deposits from banks

	GROUP		BANK	
in HRK million	**2013**	**2014**	**2013**	**2014**
Overnight deposits	210	220	255	259
Term deposits	19,893	19,517	13,821	12,708
Subordinated loan	252	847	229	847
Repurchase agreements	633	643	305	351
Deposits from banks	**20,988**	**21,227**	**14,610**	**14,165**

24. Financial liabilities measured at amortised costs (continued)

Deposits from customers

	GROUP		BANK	
in HRK million	2013	2014	2013	2014
Overnight deposits	**10,540**	**10,228**	**9,234**	**9,567**
Savings deposits	3,492	1,438	2,788	1,436
Other financial corporations	53	189	53	189
Non-financial corporations	259	117	259	116
Households	3,180	1,132	2,476	1,131
Non-savings deposits	7,048	8,790	6,446	8,131
General governments	500	452	464	382
Other financial corporations	401	281	513	442
Non-financial corporations	3,650	3,485	3,373	3,232
Households	2,497	4,572	2,096	4,075
Term deposits	**26,332**	**26,908**	**27,439**	**26,693**
Deposits with agreed maturity	25,901	26,566	27,008	26,351
Savings deposits	23,076	23,709	24,486	24,057
Other financial corporations	1,222	1,125	2,475	2,081
Non-financial corporations	1,502	1,433	1,659	1,591
Households	20,352	21,151	20,352	20,385
Non-savings deposits	2,825	2,857	2,522	2,294
General governments	79	89	22	17
Other financial corporations	2,575	2,340	2,500	2,277
Non-financial corporations	171	424	-	-
Households	-	4	-	-
Deposits redeemable at notice	431	342	431	342
Non-financial corporations	425	299	425	299
Households	6	42	6	42
Repurchase agreements	**342**	**891**	**342**	**891**
Other financial corporations	98	547	98	547
Non-financial corporations	244	344	244	344
Deposits from customers	**37,214**	**38,027**	**37,015**	**37,151**
General governments	**579**	**542**	**486**	**400**
Other financial corporations	**4,349**	**4,482**	**5,639**	**5,536**
Non-financial corporations	**6,251**	**6,102**	**5,960**	**5,582**
Households	**26,035**	**26,901**	**24,930**	**25,633**

Debt securities issued

	GROUP		BANK	
in HRK million	2013	2014	2013	2014
Subordinated liabilities	629	631	629	631
Subordinated issues	629	631	629	631
Other debt securities issued	302	302	302	302
Bonds	302	302	302	302
Debt securities issued	**931**	**933**	**931**	**933**

24. Financial liabilities measured at amortised costs (continued)

In June 2011 the Bank received subordinated debt from Erste Group Bank AG in the amount of HRK 229 million (original amount EUR 30 million). Maturity of the debt is until 2017, with interest rate 3 month EURIBOR plus 3.37% p.a. Due to challenging business conditions and environment, the Bank ensured additional line of subordinated debt with goal to adequately support business model and market requirements. Regarding that, in July 2014 the Bank received the amount of HRK 613 million (original amount EUR 80 million) with interest rate 3 month EURIBOR + 3.4% p.a. which maturity in 2021.
In July 2011 the Bank issued its own subordinated bonds. Original amount of the issue is EUR 80 million. Maturity of the bonds is 6 years with interest to maturity 6.5% p.a. Coupon will be settled annually.

Erste Bank a.d., Podgorica received subordinated debt in 2008 from Oikocredit, Ecumenical Development Cooperative Society U.A., the Netherlands in the original amount EUR 4 million (2013: HRK 23 million, 2012: HRK 31 million). Maturity of the debt is from 2013 till 2016, with interest rate 6 month EURIBOR plus 2.9% p.a. Subordinated debt cannot be repaid in the case of bankruptcy or liquidation of the borrower until all obligations of the Group towards other depositors and creditors have been met. Subordinated debt is included into the Tier 2 of the Group. Bank repaid outstanding amount of debt of EUR 2 million in December 2014, based on approval of Central Bank of Montenegro. Amount used for Tier 2 capital does not have significant influence on capital adequacy of the Bank.
The purpose of the subordinated debt received and subordinated bonds are the creation of the subordinated instruments, as regulated by the respective Regulation (EU) No 575/2013 of the European Parliament and of the council of 26 June 2013.

The Bank and the Group have not had any defaults of principal or interest or other breaches with respect to their subordinated liabilities during the year 2014 and 2013.

25. Provisions

	GROUP		BANK	
in HRK million	2013	2014	2013	2014
Long-term employee provisions	12	15	8	9
Pending legal issues and tax litigation	138	171	134	143
Commitments and guarantees given	61	78	49	61
Provisions for guarantees - off balance sheet (defaulted customers)	12	14	7	7
Provisions for guarantees - off balance sheet (non-defaulted customers)	49	64	42	54
Provisions	**211**	**264**	**191**	**213**

a) Long-term employee provisions

			GROUP
in HRK million	Pensions	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 December 2012	**18**	**7**	**25**
Increase from acquisition of subsidiaries	-	-	-
Decrease from disposal of subsidiaries	-	-	-
Service cost	(8)	1	(7)
Interest cost	-	-	-
Payments	(3)	(1)	(4)
Exchange rate difference	-	-	-
Components recognised in other comprehensive income (Remeasurements)	(2)	-	(2)
Actuarial gains/(losses) arising from changes in demographic assumptions	-	-	-
Actuarial gains/(losses) arising from changes in financial assumptions	(1)	-	(1)
Actuarial gains/(losses) arising from changes from experience assumptions	(1)	-	(1)
Actuarial gains/losses recognised in income	-	-	-
Present value of long-term employee benefit obligations, 31 December 2013	**5**	**7**	**12**
Increase from acquisition of subsidiaries	-	-	-
Decrease from disposal of subsidiaries	-	-	-
Service cost	-	1	2
Interest cost	-	1	1
Payments	-	(1)	(1)
Exchange rate difference	-	-	-
Components recognised in other comprehensive income (Remeasurements)	1	-	1
Actuarial gains/(losses) arising from changes in demographic assumptions	-	-	-
Actuarial gains/(losses) arising from changes in financial assumptions	1	-	1
Actuarial gains/(losses) arising from changes from experience assumptions	-	-	-
Actuarial gains/(losses) recognised in income	-	1	1
Present value of long-term employee benefit obligations, 31 December 2014	**6**	**9**	**15**

25. Provisions (continued)

			BANK
in HRK million	Pensions	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 December 2012	**15**	**5**	**20**
Increase from acquisition of subsidiaries	-	-	-
Decrease from disposal of subsidiaries	-	-	-
Service cost	(8)	1	(7)
Interest cost	-	-	-
Payments	(3)	(1)	(4)
Exchange rate difference	-	-	-
Components recognised in other comprehensive income (remeasurements)	(1)	-	(1)
Actuarial gains/(losses) arising from changes in demographic assumptions	-	-	-
Actuarial gains/(losses) arising from changes in financial assumptions	-	-	-
Actuarial gains/(losses) arising from changes from experience assumptions	(1)	-	(1)
Actuarial gains/(losses) recognised in income	-	-	-
Present value of long-term employee benefit obligations, 31 December 2013	**3**	**5**	**8**
Increase from acquisition of subsidiaries	-	-	-
Decrease from disposal of subsidiaries	-	-	-
Service cost	-	1	1
Interest cost	-	-	-
Payments	-	(1)	(1)
Exchange rate difference	-	-	-
Components recognised in other comprehensive income (remeasurements)	-	-	-
Actuarial gains/(losses) arising from changes in demographic assumptions	-	-	-
Actuarial gains/(losses) arising from changes in financial assumptions	-	-	-
Actuarial gains/(losses) arising from changes from experience assumptions	-	-	-
Actuarial gains/(losses) recognised in income	-	1	1
Present value of long-term employee benefit obligations, 31 December 2014	**3**	**6**	**9**

Actuarial assumptions

The actuarial calculation of pension obligations and jubilee provisions is based on the following assumptions:

in %	2013	2014
Interest rate	5.40	4.20
Expected increase in retirement benefits	5.58	6.02

The expected retirement age for each employee was individually calculated on the basis of their current age and average of retirement age, which is for men 61 and for women 60.

Obligations were calculated in accordance with the mortality tables entitled ‘Life tables for the Republic of Croatia 2000-2002’ Issued by Croatian Bureau of Statistics.

25. Provisions (continued)

Sensitivity to Key Assumption

The following table presents, how the reasonably possible changes of individual parameters effect post-employment benefit obligations as of year-end 2014.

in HRK million	Pensions	Jubilee payments	Total
Change in discount rate + 1.0 %	3	6	9
Change in discount rate (1.0) %	3	7	10

Impact on Cash Flows

The following table reflects the benefits expected to be paid by the defined benefit plans in each of the respective periods:

in HRK million	Pensions	Jubilee payments	Total
2015	1	1	2
2016	-	1	1
2017	-	1	1
2018	-	1	1
2019	-	1	1
2020 (2024)	5	12	17

Duration

The following table presents the weighted average duration of the defined-benefit obligations as of year-end 2014:

in years	Pensions	Jubilee payments	Total
Duration	15.40	12.01	13.00

b) Sundry provisions (other than long term employee provisions)

Sundry provisions 2014

GROUP

in HRK million	2013	Acquisition/ disposal of subsidiaries	Currency translation	Allocations	Use	Releases	Reclassifi-cation	2014
Provisions for contingent credit risk liabilities	61	15	(2)	204	-	(200)	-	78
Provisions for legal proceedings and litigations	138	1	-	41	(1)	(8)	-	171
Total	**199**	**16**	**(2)**	**245**	**(1)**	**(208)**	**-**	**249**

BANK

in HRK million	2013	Acquisition/ disposal of subsidiaries	Currency translation	Allocations	Use	Releases	Reclassifi-cation	2014
Provisions for contingent credit risk liabilities	49	-	-	192	-	(180)	-	61
Provisions for legal proceedings and litigations	134	-	-	17	(1)	(7)	-	143
Total	**183**	**-**	**-**	**209**	**(1)**	**(187)**	**-**	**204**

25. Provisions (continued)

Sundry provisions 2013

GROUP

in HRK million	2012	Acquisition/ disposal of subsidiaries	Currency translation	Allocations	Use	Releases	Reclassifi-cation	2013
Provisions for contingent credit risk liabilities	74	-	-	146	-	(159)	-	61
Provisions for legal proceedings and litigations	37	-	-	112	(8)	(3)	-	138
Total	**111**	**-**	**-**	**258**	**(8)**	**(162)**	**-**	**199**

BANK

in HRK million	2012	Acquisition/ disposal of subsidiaries	Currency translation	Allocations	Use	Releases	Reclassifi-cation	2013
Provisions for contingent credit risk liabilities	61	-	-	137	-	(149)	-	49
Provisions for legal proceedings and litigations	34	-	-	111	(8)	(3)	-	134
Total	**95**	**-**	**-**	**248**	**(8)**	**(152)**	**-**	**183**

26. Other liabilities

	GROUP		BANK	
in HRK million	2013	2014	2013	2014
Prepayments received from borrowers	147	160	147	160
Salaries and bonuses payable	109	123	94	103
Amounts due to suppliers	68	60	41	38
Deferred income and accrued fee expenses	43	85	3	4
Payables to State Agency for deposit	17	19	17	17
Sundry liabilities	67	89	25	38
Other liabilities	**451**	**536**	**327**	**360**

27. Total equity

Share capital

As at 31 December 2014 and 2013 the share capital of the Bank comprises of 16,984,175 ordinary shares with a par value of HRK 100 each. All the ordinary shares are ranked equally and bear one vote.

Capital reserves and share premium

The Bank's distributable and non-distributable reserves are determined by regulations of the CNB. As at 31 December 2014 the legal reserves of the Bank disclose non-distributable reserves of HRK 85 million, as at 31 December 2013 legal reserves amounted to HRK 85 million.
Share premium as at 31 December 2014 and 2013 amounted to HRK 1,802 million.

Dividends

The dividends for 2014 are subject to approval by shareholders at Annual General Assembly which has not been held as of the date when these consolidated financial statements were authorize for issue. In 2013 the Bank did not pay any dividend to their shareholders.

28. Segment reporting

Business segmentation

The segment reporting comprises seven business segments reflecting the Group and the Bank's management structure and its internal management reporting in 2014.

Erste Group - business segments						
RETAIL	SME	Large Corporate	Commercial Real Estate	ALM	Group Markets	OTHER

Retail

The Retail segment comprises the entire business with private individuals and small enterprises with total annual revenue up to HRK 7.5 million such as micros, free professionals, family owned farms, crafts, non-profit organizations and associations. In order to provide comprehensive and quality services to customers, in addition to Bank products and services such as accounts, loans, deposits, electronic banking services, customers have access to products and services of Erste Group members and partners such as investment funds , life and non-life insurance, building society, leasing etc.

Small and Medium Enterprises

The SME segment comprises small and medium-sized enterprises and crafts with total annual revenue between HRK 7.5 million and HRK 375 million, clients who perform a public activity or participate in the public sector and the credit exposure of the state or government bodies that are financed from the state budget (central government), local and regional government and public sector entities.
SME segment also covers real estate clients in the fields of tourism, residential and commercial, with average loan volume less than HRK 37.5 million per loan.

Large Corporates

The Large Corporates segment comprises the business with large corporate customers whose total annual consolidated revenue exceeds a HRK 375 million threshold.

Commercial Real Estate

Commercial Real Estate segment covers financing of professional developer companies who develop residential, commercial, touristic or infrastructure projects on purpose of further lease or sale, often solved via a SPV, with loan volume larger than HRK 37.5 million.

Asset/Liability Management & Other

The Asset/Liability Management and Other segment include all asset/liability management functions as well as the internal service providers that operate on a non-profit basis. It also comprises free capital of the Group and the Bank (defined as the difference of the total average IFRS equity and the average economical equity allocated to the segments).

Group Markets

The Group Markets (GM) segment includes the treasury activities in the Group and the Bank as well as the business with institutional clients of Erste Asset Management. GM is responsible for all types of classic treasury (such as FX, commodities and money market) and capital market products (such as bonds, interest rate derivatives, credit products).

Business segments (continued)

in HRK million	RETAIL 2013	RETAIL 2014	SME 2013	SME 2014	Large Corporate 2013	Large Corporate 2014	Commercial RE 2013	Commercial RE 2014	ALM 2013	ALM 2014	Group Markets 2013	Group Markets 2014	OTHER 2013	OTHER 2014	GROUP 2013	GROUP 2014
Net interest income	1,202	1,115	755	761	141	171	18	10	(219)	(52)	12	12	101	103	2,010	2,120
Net fee and commission income	318	360	200	204	20	25	2	2	(2)	(2)	17	29	(5)	(8)	550	610
Dividend income	(4)	-	-	-	-	-	-	-	-	-	1	-	6	2	3	2
Net trading and fair value result	53	50	21	23	2	4	-	-	1	8	77	91	-	8	154	184
Net result from equity method investments	6	7	-	-	-	-	-	-	-	-	-	-	(3)	3	3	10
Rental income from investment properties & other operating leases	-	60	-	182	-	-	-	-	-	-	-	-	2	-	2	242
General administrative expenses	(811)	(892)	(199)	(378)	(15)	(23)	(11)	(11)	(9)	(10)	(37)	(44)	(45)	(81)	(1,127)	(1,439)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	1	-	-	-	-	1	-	-	-	14	-	-	1	(3)	2	12
Net impairment loss on financial assets not measured at fair value through profit or loss	(317)	(327)	(789)	(725)	(60)	(58)	(36)	(86)	(1)	(1)	1	2	(4)	10	(1,206)	(1,185)
Other operating result	(1)	(7)	11	(7)	2	(10)	1	-	-	-	-	-	(141)	(28)	(128)	(52)
Levies on banking activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pre-tax result from continuing operations	**447**	**366**	**(1)**	**60**	**90**	**110**	**(26)**	**(85)**	**(230)**	**(43)**	**71**	**90**	**(88)**	**6**	**263**	**504**
Taxes on income	(91)	(74)	6	(8)	(21)	(22)	8	17	49	10	(14)	(18)	1	3	(62)	(92)
Net result for the period	**356**	**292**	**5**	**52**	**69**	**88**	**(18)**	**(68)**	**(181)**	**(33)**	**57**	**72**	**(87)**	**9**	**201**	**412**
Net result attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(17)	(35)	(17)	(35)
Net result attributable to owners of the parent	**356**	**292**	**5**	**52**	**69**	**88**	**(18)**	**(68)**	**(181)**	**(33)**	**57**	**72**	**(104)**	**(26)**	**184**	**377**
Operating income	1,575	1,592	976	1,170	163	200	20	12	(220)	(46)	107	132	101	108	2,722	3,168
Operating expenses	(811)	(892)	(199)	(378)	(15)	(23)	(11)	(11)	(9)	(10)	(37)	(44)	(45)	(81)	(1,127)	(1,439)
Operating result	**764**	**700**	**777**	**792**	**148**	**177**	**9**	**1**	**(229)**	**(56)**	**70**	**88**	**56**	**27**	**1,595**	**1,729**
Risk-weighted assets (credit risk, eop)[1]	9,461	10,688	16,651	14,206	1,757	2,400	759	661	2,395	3,796	334	355	1,310	1,757	32,666	33,863
Average allocated capital[1]	1,095	989	1,515	1,373	177	204	78	61	529	481	99	111	3,889	4,518	7,380	7,737
Cost/income ratio	51.5%	56.0%	20.4%	32.3%	9.0%	11.5%	54.2%	86.1%	(3.9%)	(21.2%)	34.9%	33.0%	43.1%	76.6%	41.4%	45.4%
Return on allocated capital	32.4%	29.7%	0.3%	3.9%	38.8%	43.3%	(22.5%)	(110.2%)	(34.3%)	(6.7%)	57.0%	64.8%	(2.6%)	(0.7%)	2.5%	4.9%
Total assets (eop)	20,524	20,691	22,134	22,719	5,016	4,708	634	577	17,686	18,511	1,313	1,577	547	978	67,854	69,761
Total liabilities excluding equity (eop)	26,239	27,584	10,027	11,165	1,680	626	127	114	21,388	20,799	1,068	1,453	(45)	79	60,484	61,820
Impairments and risk provisions	**(318)**	**(330)**	**(777)**	**(720)**	**(58)**	**(67)**	**(35)**	**(86)**	**(1)**	**(1)**	**1**	**2**	**(37)**	**(5)**	**(1,225)**	**(1,207)**
Net impairment loss on loans and receivables from credit institutions and customers	(317)	(326)	(789)	(718)	(60)	(57)	(36)	(86)	(1)	(1)	1	2	(2)	8	(1,204)	(1,178)
Net impairment loss on other financial assets not measured at fair value through profit and loss	-	-	-	(6)	-	-	-	-	-	-	-	-	(4)	-	(4)	(6)
Allocation/release of provisions for contingent credit risk liabilities	(1)	(2)	12	9	2	(10)	1	-	-	-	-	-	-	-	14	(3)
Impairments from Goodwill	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net impairment loss on other non-financial assets	-	(2)	-	(5)	-	-	-	-	-	-	-	-	(31)	(13)	(31)	(20)

[1] in 2013 according to Pillar 1, in 2014 according to Pillar 2

29. Leases

a) Finance leases

Finance leases receivables are included under the balance sheet item ‘Loans and receivables to customers’.

The Group leases movable property to other parties under finance lease arrangements. For the finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments is as follows:

	GROUP	
in HRK million	**2013**	**2014**
Outstanding minimum lease payments	5	1,077
Non-guaranteed residual values	-	-
Gross investment	**5**	**1,077**
Unrealised financial income	(1)	(127)
Net investment	**4**	**950**
Present value of non-guaranteed residual values	-	-
Present value of minimum lease payments	**4**	**950**

The maturity analysis of gross investment in leases and present values of minimum lease payments under non-cancellable leases is as follows (residual maturities):

	GROUP			
	Gross investment		Present value of non-guaranteed residual values	
in HRK million	**2013**	**2014**	**2013**	**2014**
< 1 year	2	336	2	290
1-5 years	2	650	2	576
> 5 years	-	91	-	84
Total	**4**	**1,077**	**4**	**950**

b) Operating leases

Under operating leases, the Group and the Bank leases movable property to other parties.

Operating leases from the view of the Group and the Bank as lessor:

Minimum lease payments from non-cancellable operating leases were as follows:

	GROUP		BANK	
in HRK million	**2013**	**2014**	**2013**	**2014**
< 1 year	11	182	4	8
1 -5 years	32	308	15	24
> 5 years	1	8	-	-
Total	**44**	**498**	**19**	**32**

Operating leases from the view of the Group and the Bank as lessee:

Minimum lease payments from non-cancellable operating leases were as follows:

	GROUP		BANK	
in HRK million	**2013**	**2014**	**2013**	**2014**
< 1 year	36	31	53	29
1-5 years	115	104	184	100
> 5 years	65	62	65	62
Total	**216**	**197**	**302**	**191**

Lease payments from operating leases recognised as expense in the period for the Group amounted to HRK 37 million (2013: HRK 36 million) and for the Bank HRK 53 million (2013: HRK 52 million).

30. Related-party transactions

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The parent company (which is also the ultimate parent entity of the entire group) is Erste Group Bank AG, Vienna (EGB).

As at 31 December 2014 and 31 December 2013, balances outstanding with related parties comprised:

ASSET						GROUP
	Loans and receivables	Derivatives	Other	Loans and receivables	Derivatives	Cash
in HRK million			2013			2014
Entity with significant influence on the Group	2	3	-	-	2	-
Key management personnel	36	-	-	39	-	-
Parent company	900	25	-	426	39	918
Other EGB companies	6	-	-	12	-	1
Other	8	-	-	-	-	-
Associates	41	-	-	56	-	-
Total assets	**993**	**28**	**-**	**533**	**41**	**919**

LIABILITIES						GROUP
	Deposits	Derivatives	Other	Deposits	Derivatives	Other
in HRK million			2013			2014
Entity with significant influence on the Group	5,113	3	-	6,161	2	-
Key management personnel	99	-	-	100	-	-
Parent company	14,124	64	4	12,856	60	11
Other EGB companies	142	-	10	99	-	14
Other	9	-	-	9	-	-
Associates	3	-	7	6	-	8
Total liabilities	**19,490**	**67**	**21**	**19,231**	**62**	**33**

ASSET						BANK
	Loans and receivables	Derivatives	Other	Loans and receivables	Derivatives	Cash
in HRK million			2013			2014
Entity with significant influence on the Group	1	3	-	-	2	-
Key management personnel	36	-	-	37	-	-
Parent company	833	25	-	426	39	910
Other EGB companies	6	-	-	2	-	1
Other	8	-	-	-	-	-
Subsidiaries	193	-	90	239	3	-
Associates	41	-	-	54	-	-
Total assets	**1,118**	**28**	**90**	**758**	**44**	**911**

LIABILITIES						BANK
	Deposits	Derivatives	Other	Deposits	Derivatives	Other
in HRK million			2013			2014
Entity with significant influence on the Group	4,738	3	-	4,670	2	-
Key management personnel	97	-	-	98	-	-
Parent company	8,541	64	4	7,844	60	11
Other EGB companies	128	-	9	95	-	13
Other	9	-	-	9	-	-
Subsidiaries	1,573	-	-	1,322	-	5
Associates	3	-	7	6	-	8
Total liabilities	**15,089**	**67**	**20**	**14,044**	**62**	**37**

30. Related-party transactions (continued)

Transactions with related parties comprised:

INCOME STATEMENT POSITIONS		GROUP		BANK
in HRK million	**2013**	**2014**	**2013**	**2014**
Interest income	**188**	**95**	**193**	**99**
Entity with significant influence on the Group	72	42	72	42
Key management personnel	2	2	2	2
Parent company	112	48	112	48
Other EGB companies	-	1	-	-
Subsidiaries	-	-	5	5
Associates	2	2	2	2
Fee income	**20**	**18**	**65**	**73**
Parent company	7	2	2	2
Other EGB companies	13	16	13	16
Subsidiaries	-	-	50	55
Other operating income	**-**	**12**	**-**	**13**
Parent company	-	2	-	2
Subsidiaries	-	-	-	1
Associates	-	10	-	10
Total income	**208**	**125**	**258**	**185**

INCOME STATEMENT POSITIONS		GROUP		BANK
in HRK million	**2013**	**2014**	**2013**	**2014**
Interest expense	**625**	**490**	**521**	**383**
Entity with significant influence on the Group	193	179	182	147
Key management personnel	4	4	4	4
Parent company	428	307	303	206
Subsidiaries	-		32	26
Fee expense	**40**	**36**	**45**	**40**
Parent company	6	1	6	1
Other EGB companies	34	35	30	30
Associates	-	-	9	9
Other administrative expenses	**57**	**72**	**63**	**86**
Parent company	4	10	4	10
Other EGB companies	12	23	9	18
Other	1	(1)	1	(1)
Subsidiaries	-		12	21
Associates	40	40	37	38
Total expenses	**722**	**598**	**629**	**509**

30. Related-party transactions (continued)

OFF BALANCE ITEMS		GROUP		BANK
in HRK million	2013	2014	2013	2014
Guarantees issued	**62**	**170**	**62**	**49**
Parent company	59	124	59	47
Other EGB companies	2	46	2	-
Other	1	-	1	-
Subsidiaries	-	-	-	2
Undrawn credit and loan commitments	**14**	**28**	**130**	**88**
Key management personnel	1	1	1	1
Other EGB companies	-	-		-
Subsidiaries	-	-	116	60
Associates	13	27	13	27
Total commitments and contingent liabilities	**76**	**198**	**192**	**137**

As at 31 December 2014, the Group and the Bank have had cash deposit as collateral within Amounts due to banks from the parent company in the amount of HRK 1,434 million (2013: HRK 1,565 million).

The remuneration of Management Board and key management were as follows:

		GROUP		BANK
in HRK million	2013	2014	2013	2014
Wages and salaries	25	22	10	10
Bonuses	12	7	5	5
- thereof pension costs	3	2	1	1
Total remuneration	**37**	**29**	**15**	**15**

31. Collateral

The following assets were pledged as security for liabilities:

		GROUP		BANK
in HRK million	2013	2014	2013	2014
Financial assets - available for sale	1,002	1,598	666	1,288
Financial assets - held to maturity	-	107	-	-
Total	**1,002**	**1,705**	**666**	**1,288**

The financial assets pledged as collateral consist of bonds, shares in investment funds and other interest-bearing securities.

Collaterals were pledged as a result of repo transactions.

The fair value of collateral received which may be repledged or resold even without the security provider's default was HRK 1,053 million (2013: HRK 919 million) for the Group and HRK 1,237 million for the Bank (2013: HRK 1,093 million).
Collateral with fair value of HRK 356 million was repledged (2013: HRK 253 million) for the Group and the Bank. The bank is obliged to return repledged collateral.

32. Transfers of financial assets – repurchase transactions and securities lending

in HRK million	2013 Carrying amount of transferred assets	2013 Carrying amount of associated liabilities	2014 Carrying amount of transferred assets	2014 Carrying amount of associated liabilities
				GROUP
Repurchase agreements				
Financial assets - available for sale	1,002	974	1,598	1,431
Financial assets - held to maturity	-	-	107	104
Total - repurchase agreements	**1,002**	**974**	**1,705**	**1,535**
				BANK
Repurchase agreements				
Financial assets - available for sale	666	647	1,288	1,243
Total - repurchase agreements	**666**	**647**	**1,288**	**1,243**

The transferred financial instruments consist of bonds, shares in investment funds and other interest-bearing securities.

The total amount of HRK 1,705 million (2013: HRK 1,002 million) for the Group and HRK 1,288 million (2013: HRK 666 million) for the Bank represents the carrying amount of financial assets under the respective balance sheet items for which the transferee has a right to sell or repledge.

Liabilities from repo transactions in the amount of HRK 1,535 million (2013: HRK 974 million) for the Group and HRK 1,243 million (2013: HRK 647 million) for the Bank, which are measured at amortised cost.

The following table shows the fair values of the transferred assets and associated liabilities that have recourse only to the transferred assets. In the Group and the Bank, these assets and liabilities relate to repo transactions.

in HRK million	2013 Fair value of transferred assets	2013 Fair value of associated liabilities	2013 Net position	2014 Fair value of transferred assets	2014 Fair value of associated liabilities	2014 Net position
						GROUP
Financial assets - available for sale	1,002	974	28	1,598	1,431	167
Financial assets - held to maturity	-	-	-	107	104	3
Total	**1,002**	**974**	**28**	**1,705**	**1,535**	**170**
						BANK
Financial assets - available for sale	666	647	19	1,288	1,243	45
Total	**666**	**647**	**19**	**1,288**	**1,243**	**45**

33. Offsetting

Financial assets subject to offsetting and potential offsetting agreements in 2014

GROUP

in HRK million	Gross amounts in balance sheet	Amounts set off against financial liabilities	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting: Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	94	-	94	(41)	-	-	53
Reverse repurchase agreements	829	-	829	-	-	(829)	-
Total	**923**	**-**	**923**	**(41)**	**-**	**(829)**	**53**

Financial liabilities subject to offsetting and potential offsetting agreements in 2014

GROUP

in HRK million	Gross amounts in balance sheet	Amounts set off against financial assets	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting: Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	94	-	94	(41)	-	-	53
Repurchase agreements	1,534	-	1,534	-	-	(1,489)	45
Total	**1,628**	**-**	**1,628**	**(41)**	**-**	**(1,489)**	**98**

Financial assets subject to offsetting and potential offsetting agreements in 2014

BANK

in HRK million	Gross amounts in balance sheet	Amounts set off against financial liabilities	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting: Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	96	-	96	(41)	-	-	55
Reverse repurchase agreements	1,000	-	1,000	-	-	(1,000)	-
Total	**1,096**	**-**	**1,096**	**(41)**	**-**	**(1,000)**	**55**

Financial liabilities subject to offsetting and potential offsetting agreements in 2014

BANK

in HRK million	Gross amounts in balance sheet	Amounts set off against financial assets	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting: Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	94	-	94	(41)	-	-	53
Repurchase agreements	1,243	-	1,243	-	-	(1,243)	-
Total	**1,337**	**-**	**1,337**	**(41)**	**-**	**(1,243)**	**53**

33. Offsetting (continued)

Financial assets subject to offsetting and potential offsetting agreements in 2013

GROUP

in HRK million	Gross amounts in balance sheet	Amounts set off against financial liabilities	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting: Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	86	-	86	(22)	-	-	64
Reverse repurchase agreements	839	-	839		-	(825)	14
Total	**925**	**-**	**925**	**(22)**	**-**	**(825)**	**78**

Financial liabilities subject to offsetting and potential offsetting agreements in 2013

GROUP

in HRK million	Gross amounts in balance sheet	Amounts set off against financial assets	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting: Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	89	-	89	(22)	-	-	67
Repurchase agreements	974	-	974	-	-	(974)	-
Total	**1,063**	**-**	**1,063**	**(22)**	**-**	**(974)**	**67**

Financial assets subject to offsetting and potential offsetting agreements in 2013

BANK

in HRK million	Gross amounts in balance sheet	Amounts set off against financial liabilities	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting: Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	86	-	86	(22)	-	-	64
Reverse repurchase agreements	1,002	-	1,002	-	-	(988)	14
Total	**1,088**	**-**	**1,088**	**(22)**	**-**	**(988)**	**78**

Financial liabilities subject to offsetting and potential offsetting agreements in 2013

BANK

in HRK million	Gross amounts in balance sheet	Amounts set off against financial assets	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting: Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	89	-	89	(22)	-	-	67
Repurchase agreements	647	-	647	-	-	(647)	-
Total	**736**	**-**	**736**	**(22)**	**-**	**(647)**	**67**

33. Offsetting (continued)

Bank employs repurchase agreements and master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements. Master netting agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all the contracts in the event of default of any counterparty. For derivatives transactions the amount of assets and liabilities which would be set off as a result of master netting agreements is presented in the column 'Financial instruments'. Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities stay in hands of lender as collateral in case that borrower defaults in fulfilling any of its obligations. Offsetting effects from repurchase agreements are disclosed in the column Non-cash financial collateral received / pledged. Collateral is presented at fair value of the transferred securities. However, if fair value of collateral exceeds the carrying amount of the receivable/liability from the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral. Cash and non-cash financial collateral involved in these transactions is restricted from using it by the transferor during the time of the pledge.

34. Risk management

34.1) Risk policy and strategy

It is a core function of every bank to take risks in a conscious and selective manner and to manage such risks professionally. The Group and the Bank's proactive risk policy and strategy aims at achieving balanced risk and return in order to generate a sustainable and adequate return on equity.

The Group and the Bank use a risk management and control system that is proactive and tailored to its business and risk profile. It is based on a clear risk strategy that is consistent with the Bank and Group's business strategy and focused on early identification and management of risks and trends. In addition to meeting the internal goal of effective and efficient risk management, the Bank's risk management and control systems have been developed to fulfil external and, in particular, regulatory requirements.

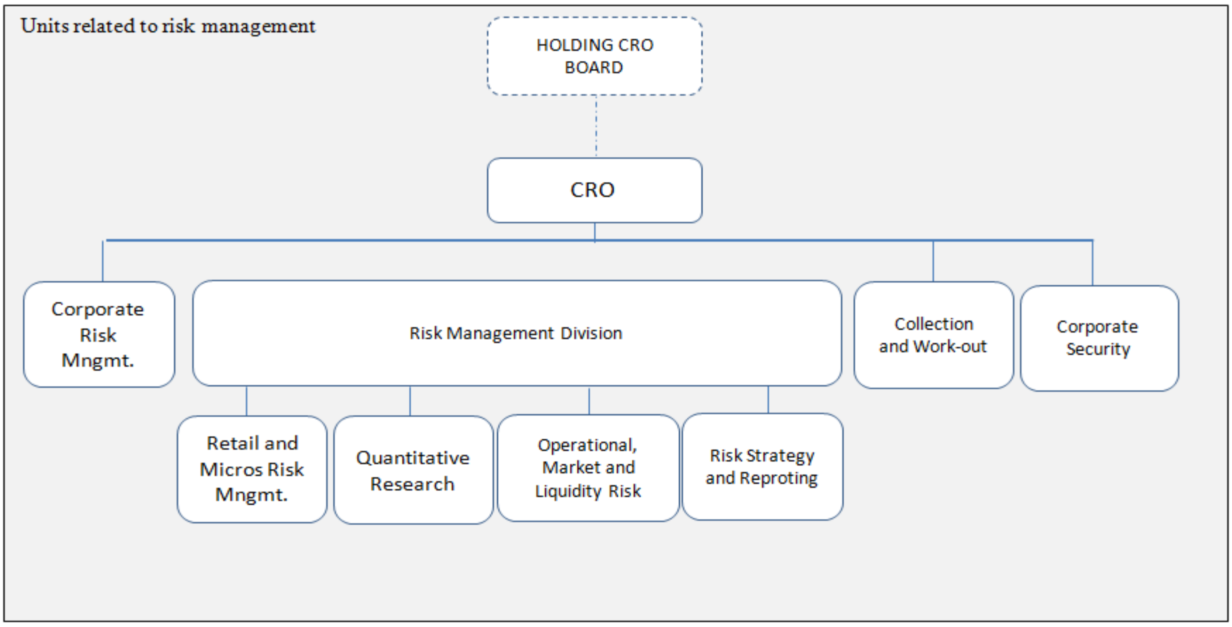
Given the Bank's business strategy, the key risks for the Bank are credit risk, market risk, liquidity risk, and operational risk. The Bank also focuses on managing macroeconomic risks as well as concentrations within and across risk types. In addition, the Bank's control and risk management framework takes into account a range of other significant risks faced by the banking Group. The bank always seeks to enhance and complement existing methods and processes, in all areas of risk management.

During 2014 the key focus was on the Asset Quality Review and associated stress test carried out by the ECB and the EBA, which the Bank has comfortably passed, but also, on further strengthening of risk governance and ensuring compliance with new regulatory requirements.

34.2) Risk management organisation

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits.

The following chart presents an overview of the Bank's risk management, risk governance and responsibilities.



34.2) Risk management organisation (continued)

Overview of risk management structure

The Management Board, and in particular the Bank's chief risk officer (CRO), must perform its oversight function within the Bank's risk management structure. Risk control and management functions within the Bank are performed based on the business and risk appetite approved by the Management Board. The CRO is responsible for the implementation of and adherence to the risk control and risk management strategies across all risk types and business lines.

The Management Board and in particular, the CRO ensure the availability of appropriate infrastructure and staff as well as methods, standards and processes to that effect, the actual identification, measurement, assessment, approval, monitoring, steering and limit setting for the relevant risks are performed at the operating entity level within the Bank.

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

The following risk management functions report directly to the CRO:
- Corporate risk Management
- Retail and Micros Risk Management Department
- Risk Strategy and Reporting Department
- Quantitative Research Department
- Operational, Market and Liquidity Risk Management Department
- Collection and Work-out Department
- Corporate Security Department

Corporate Risk Management Department

The Corporate Risk Management Department implements credit risk management and monitors the balance of credit portfolios of clients that are categorized as belonging to the Corporate Sector and the Sector for Financial Market and Investment Banking. The department analyses loan requests, and based on them, issues opinion on the credit risk from the risk perspective. It analyses the projects and evaluates its eligibility for financing from the risk perspective. It also performs an analysis of the Bank's overall exposure to the client and controls the payment of outstanding debts to the Bank.

Retail and Micros Risk Management Department

Retail and Micros Risk Management Department manages credit risk and monitors the credit portfolio balance of clients from the retail sector. The Department analyses loan requests and issues an opinion on them from the risk perspective. It performs an analysis of the projects and evaluates its eligibility for financing from the risk perspective. It also performs an analysis of the Bank's overall exposure to the client and controls the payment of outstanding debts to the Bank. The division is also responsible for co-ordination of the process of early collection for clients under their responsibility.

Risk Strategy and Reporting Department

The Risk Strategy and Reporting Department takes part in the process of planning the activities of the Bank and the Group from the risk management point of view. It monitors the execution of risk management-related planned and strategically determined goals and plans, both of the Bank and the Group. The Department monitors risk-related regulatory changes and group standards, initiates, coordinates and creates policies and other procedure, and monitors their fulfilment, all within its scope of activities prescribed by other acts. The Department performs the analysis of the structure and quality of portfolios, and prepares reports on the structure and quality of portfolios.
It proposes guidelines for the optimization of accepted risks, in order to improve certain asset classes, rating groups, but also involved in collateral management.
The Department also executes and drafts reports related to credit risk with the prescribed dynamics, in compliance with the legal regulations and the standards of the Bank and the Group.
The Risk Strategy and Reporting Department, together with other departments and Bank organizational units, actively participates in the process of managing data quality and evaluating the adequacy of internal control systems.

34.2) Risk management organisation (continued)

Quantitative Research Department

Quantitative research Department (QRD) is responsible for implementation of Basel standards and enhancement of enterprise-wide risk management in Bank's operations and timely fulfilment of other regulatory requirements with respect to internal rating based approach for calculation of capital requirements for credit risk. QRD is also responsible for fulfilment of requirements of Senior Management and the Group in own field of responsibility. Responsibility of QRD is initiation, co-ordination of development (participation in development) , implementation and monitoring of different types of quantitative models as well as calculation of credit risk parameters which are used for measurement, segmentation and management of credit risks in line with best practice and group standards as well as implementation in Bank processes (together with constant enhancement of business processes connected with above mentioned calculations). QRD is responsible for efficiency of implemented models, makes calibration/participates in calibration/ of models in line with Group principles and participates in validation of the same in co-operation with the Group and the Bank.
QRD is also responsible for enterprise-wide risk management on the Bank level which includes responsibility for the internal capital adequacy assessment process (ICAAP) and Risk Weighted Asset (RWA) planning (management), but also includes (and is not limited to) performing of different types of stress tests, risk appetite statement (setting of different limits), back-testing of provisions, concentration analysis, and usage of parameters in all fields of credit risk management. Enterprise-wide risk management is also responsible for capital management in its own field of responsibility and creation of recovery (resolution) plans in line with regulatory requirements. QRD also reports about the parameters and models and performs modelling of macroeconomic impact on risk models and bank business as a whole.

Within its scope of business, QRD is therefore participating in determining price of different products using standard risk cost (SRC) calculation and in process of profitability modelling, collection improvement, and development of early warning signal systems, customer relationship management and risk cost planning.

Operational, Market and Liquidity Risk Management Department

Operational, Market and Liquidity Risk Management Department, within the scope of its authority, performs all tasks necessary for operational, market risk and liquidity risk management, in compliance with the Rulebooks and procedures related to its scope of authority.
It performs the analysis of the complex market situation, identifies and measures both market and liquidity risks and their parameters. Apart from the above-mentioned activities, the Department is also in charge of the implementation of the Basel III guidelines; it establishes measures for the reduction of risks within the scope of its authority and participates in the process of approving new products of the Financial Markets and Investment Banking Division. It also collaborates with other organizational units with the purpose of improving the quality of operational, market and liquidity risk management. In scope of operational risk management, Department has a goal to control all organizational units and business processes within the Bank, having in mind that operational risk is characteristic to all activities, processes, products and Bank’s systems, based on defined Bank’s risk profile, particularities of business environment and regulatory requests. It collaborates with other organizational units with the purpose of improvement the quality of managing operational, market and liquidity risk.

Collection and Work-out Department

The Collection and Work-out Department is in charge of managing collection and bad placements by means of a continuous and systematic development of solutions to eliminate and reduce risks in dealing with work-out clients.
It uses all the necessary measures to ensure voluntary payment of outstanding debts. However, should there be a lack of voluntary settlement of debts; the Department proposes the most adequate means alternative payment of outstanding debts. Besides that, Department conducts collection of payments through restructuring of the client’s liabilities (early collection) and proposes operative restructuring, with the purpose of decrease of taken risks.
Department is in charge for control, update and maintaining collaterals and makes policies and standards of assessing and types of accepted collaterals. In that way, it contributes to RWA optimization, and keeps adequate credit protection. Department is, also, in charge of the assets taken over by the Bank.

34.2) Risk management organisation (continued)

Corporate Security Department

Corporate Security Department is in charge for conducting of tasks related to the security, adequate managing informational system and risk of informational system, managing of continuity of operations and crisis management according to Group standards and local policies and standards.
Main objectives of the Department are development and application of safety strategies and safety architecture of informational system, determination of safety objectives in line with Bank's informational system strategy, management of policy for safety of informational system, standards, guidelines and other internal acts with goal of accomplishing and maintaining satisfactorily level of safety. Further, the objectives are management of informational safety in line with related documents, acts and regulatory rules, management with continuity of operations and situations of crisis in line with related documents, acts and regulatory rules as well as reporting to Board and Supervisory Board about safety level in the Bank.

34.3) Current topics

Current regulatory topics

Regulatory capital
Starting from 1 January 2014, the Bank is calculating the regulatory capital and the regulatory capital requirements according to Basel III. The requirements are implemented in Croatian legislation through transposition of Capital Requirements Directive (CRD IV) in Croatian Credit institution Act and usage of the Regulation (EU) No 575/2013 of the European Parliament and of the council of 26 June 2013 (CRR), as well as through the regulatory technical standards. The Bank is calculating capital requirements by applying the conditions from the local IRB approval issued by Croatian National Bank as well.

The Bank is going to operate with the level of capital above the one specified within SREP process for the Bank and in order to comply with the regulatory requirements, additional T2 capital (subordinated debt) was taken in course of 2014 in the amount of EUR 80 million.

ECB AQR and EBA Stress Test
The bank was part of AQR exercise which was performed by the ECB and the EBA in 2014 and the Bank has successfully completed and passed the AQR and associated stress test.

The complete detailed results of all participating banks are publicly available and can be accessed via the ECB and EBA websites.

34.4) Group-wide risk and capital management

Overview

As in prior years, the Bank's risk management framework has been continuously strengthened. In particular, Enterprise-wide Risk Management (ERM) has continued to strengthen its comprehensive framework which includes improvements in its fundamental pillar i.e. the ICAAP as well.

The ERM framework is designed to support the bank's management in managing the risk portfolios as well as the coverage potential to assure at all times adequate capital reflecting the nature and magnitude of the bank's risk profile. ERM is tailored to the business and risk profile, and reflects the strategic goal of protecting shareholders and senior debt holders while ensuring sustainability of the Bank.

34.4) Group-wide risk and capital management (continued)

ERM is a modular and comprehensive management and steering system and is integral to the Bank and Group's overall steering and management system. The components necessary to ensure all aspects of ERM, regulatory requirements, but particularly internal value adding needs, can be clustered as follows:

- Risk appetite statement
- Risk materiality assessment
- Concentration risk management
- Stress testing
- Risk-bearing capacity calculation
- Risk-weighted assets management
- Capital allocation
- Risk adjusted pricing and
- Recovery plan

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the ERM components serve to support the bank's management in pursuing its strategy.

Risk appetite statement (RAS)

Bank's risk strategy is also reflected through the RAS through the annual strategic planning process to ensure appropriate alignment of risk, capital and performance targets. The RAS represents a strategic statement expressing the maximum level of risk that the Bank is prepared to accept in order to deliver its business objectives. It consists of a set of key risk appetite measures providing quantitative direction for risk steering, from which a top-down boundary for target and limit setting is derived.

Key RAS measures include general indicators (i.e. capital, leverage, etc.) as well as indicators for credit (also including FX lending), market operational and liquidity risk. To ensure that the RAS is operationally efficient, the indicators are classified as either targets, limits or principles, where the main differences are in the mechanisms triggered in case of a breach of the RAS.

In 2014, the RAS framework was further enhanced by broadening the scope to include additional risks (i.e. operational and reputational risk, etc) and increasing the level of granularity by adding additional risk measures.

Sound management of risks by the Risk Management function ensures that all material risks are identified, measured, aggregated and effectively managed in line with RAS.

Risk materiality assessment

The risk materiality assessment is an annual process with the purpose to systematically identify new and assess existing material risks for the Bank. The process uses a combination of quantitative and qualitative factors in the assessment of each risk type.

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. Insights generated by the assessment are used to improve risk management practices and further mitigate risks within the Group. The assessment also serves as an input for the design and definition of the RAS.

Risk Concentration Analysis

The Bank has also implemented a process to identify, measure, control, and manage risk concentrations. This process is essential to ensure the long-term viability of the Bank, especially in times of adverse business environment and stressed economic conditions.

Identified risk concentrations are usually considered in the scenario design of the comprehensive stress test and measured under stressed conditions.

34.4) Group-wide risk and capital management (continued)

Stress testing

Modelling sensitivities of the assets, liabilities and profit or loss provide management and steering impulses and help in optimising the risk-return profile. The additional dimension of stress tests should help to factor in severe but plausible scenarios and provide further robustness to the measuring, steering and management system. Stress testing is therefore vital forward-looking element of the ICAAP. Finally, stress scenarios are explicitly considered in the risk-bearing capacity calculation and the setting of the maximum risk exposure limit.
The Bank is using internal model used to translate macroeconomic variables (e.g. GDP, unemployment rate development) into risk parameters in order to support the stress testing process. During 2014, the Bank additionally participated in the stress test exercise carried out by the ECB and the EBA. The results of these stress tests showed that the Group's regulatory capital was adequate.

Risk-bearing capacity calculation

The risk-bearing capacity calculation (RCC) is used to define the capital adequacy required by the ICAAP. Within the RCC, all material risks are aggregated and compared to the coverage potential and the bank´s own funds. The integral forecast, risk appetite limit as well as a traffic light system support management in its discussions and decision processes.

The traffic light system embedded in the Group's RCC helps to alert the management in case there is a need to decide, plan and execute actions to either replenish the capital base or to take measures for reducing the risk.

Besides the Pillar 1 risk types (credit, market and operational risks), in the context of Pillar 2, other risk types are also considered within the required economic capital viseparate an internal models (e.g. credit spread risk in the banking book or fx induced credit risk for retail as from 12/2014) or via stress test (e.g. residual risk, macroeconomic risk etc.). The methodologies that are applied for the different risk types are diverse and range from historic simulations and value at risk approaches to the coverage via stress test.

Risk planning and forecasting

The responsibility for risk management within the Bank includes ensuring sound risk planning and forecasting processes. The forecasts determined by risk management are the result of close co-operation with all stakeholders in the Bank's and Group's overall planning process, and in particular with Controlling, Asset Liability Management and the business lines. The risk planning and forecasting process includes both a forward and backward-looking component, focusing on both portfolio and economic environment changes.

Risk-weighted asset management

As risk-weighted assets (RWA) determine the actual regulatory capital requirement of a bank and influence the capital ratio as a key performance indicator, particular emphasis is devoted to meeting targets and to the planning and forecasting capacity for this parameter. Insights from monthly RWA analyses are used to improve the calculation infrastructure, the quality of input parameters and data as well as the most efficient application of the Basel framework. The Bank is using adequate measures for assessment of correct RWA calculation through diverse set of adequate steps and there is a process in place for tracking compliance with RWA targets, forecasting their future developments and thereby defining further targets.

Capital allocation

An important task integral to the risk planning process is the allocation of capital to entities, business lines and segments. This is done with close co-operation between local Enterprise-wide Risk Management, Group risk management and Controlling. All insight from the ICAAP and controlling processes is used to allocate capital with a view to risk-return considerations.

Recovery and resolution plans

In compliance with the local regulations issues by CNB (Decision on recovery plans), the Bank was required to draw up recovery plans for potential crisis situations (crisis in terms of capital and liquidity shortage). In 2014, the first complete Recovery Plan was submitted to CNB.

34.4) Group-wide risk and capital management (continued)

The Group Recovery Plan identifies options for restoring financial strength and viability if the Bank 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.

34.5) Credit risk

Definition and overview

Credit risk arises in the Bank's traditional lending and investment businesses. It involves losses incurred as a result of default by borrowers and the need to set aside allowances as a result of the deteriorating credit quality of certain borrowers, as well as due to counterparty risk from trading in instruments and derivatives bearing market risk. Operative credit decisions are made by the responsible credit risk management units.

With goal of good risk management, all data relevant to credit risk management, performance management and determination of risk-weighted assets and the regulatory capital requirement are regularly input into central database used for credit risk management, while quality of data is regularly controlled. Therefore, departments within Risk Management regularly use this database for credit risk reporting thereby providing centralised analysis and application of ratios according to unified methods and segmentation across the Bank and Group as a whole. The credit risk reporting comprises regular reports on credit portfolio for external and internal recipients and permits continuous monitoring of credit risk developments, thus enabling management to take control measures. In-house recipients of these reports include, above all, the supervisory and management board as well as risk managers, business unit directors and internal audit staff.

Internal rating system

Overview
The Bank has business and risk strategies in place, as well as policies for lending and credit approval processes, that are reviewed and adjusted regularly, at minimum on a yearly basis. They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval is also based on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.

The assessment of counterparty default risk within the Bank is based on the customer's probability of default (PD). For each credit exposure and lending decision, the Bank assigns an internal rating, which is a unique measure of the counterparty default risk. The internal rating of each customer is updated at least on an annual basis (annual rating review). Ratings of customers in weaker rating classes are reviewed with higher frequency.

Besides setting of the capital requirements the main purpose of the internal ratings is to support the decision-making for lending and for the terms of credit facilities to be extended. However, internal ratings also determine the level of decision-making authority within the Bank and the monitoring procedures for existing exposures. At a quantitative level, internal ratings drive the level of required risk pricing and risk allowances.

As mentioned above, internal ratings are a key element of the risk-weighted assets calculation. They are also used in the assessment of economic capital requirement according to Pillar 2 (ICAAP). PD values reflect the 12-month probability of default based on long-term average default rates. The Bank assigns margins of conservatism to the calculated PD depending on the granularity of portfolios and relevant data history. Calibration of PD values is validated annually in line with all the rating methods validations.

Internal ratings take into account all available essential information for the assessment of counterparty default risk. For non-retail borrowers, internal ratings take into account the financial strength of the counterparty, the possibility of external support and other company information. For retail clients, internal ratings are based mainly on behavioural and application scoring, but they also utilise demographic and financial information. Rating ceiling rules on credit quality are applied based on membership in a Group of economically related entities and country of main economic activity.

34.5) Credit risk (continued)

All scorecards, whether retail or non-retail, are regularly validated by the central validation unit based on Group-wide standard methodology. Validations are provided using statistical techniques in respect to default prediction performance, rating stability, data quality, completeness and relevancy, and, last but not least, the review of documentation and user acceptance. The results of this validation process are reported to the management and regulatory bodies.

The Bank is following all Erste Group standards with respect to model development and maintenance process. All new models and modifications of existing models in the Group (rating models and risk parameters), as well as methodology standards, are reviewed by the Group committee (Holding Model Committee) which ensures Group-wide integrity and consistency of models and methodologies. Models are also approved by local Management Board.

Risk grades and categories
The classification of credit assets into risk grades is based on the Bank's internal ratings. The Bank uses two internal risk scales for risk classification: for customers that have not defaulted, a risk scale of 8-10 risk grades (for private individuals and companies within retail) and 13 risk grades (for all other segments) is used. Defaulted customers are classified into a separate risk grade.
For the purpose of external reporting, internal rating grades of the Bank are grouped into the following four risk categories:

Low risk: customers with well-established and rather long-standing relationships with the Bank and the Group or large internationally recognised customers. Clients with strong and good financial position and no foreseeable financial difficulties. Retail clients having long relationships with the Bank, or clients with a wide product pool use. No late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category.

Management attention: clients that may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium-term. Retail clients with limited savings or probable payment problems in the past triggering early collection reminders.

Substandard: The borrower is vulnerable to negative financial and economic developments.

Non-performing: One or more of the default criteria under Basel III are met: full repayment unlikely on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings. For purposes of analysing non-performing positions, the Bank applies the customer view; if corporate or retail customer defaults on one product then all of that customer's performing products are classified as non-performing.

Credit risk review and monitoring

Credit monitoring
In order to manage credit risk timely, regular analysis of client's risks is performed which includes current rating status, repayment ability, revision of collaterals and compliance with the contracted terms, repayment and other clauses through reapprovals.
Bank's goal is to timely recognize any decrease in the quality of credit portfolio which may have material losses for the Bank. The Bank through a re-approval process analyses a complete status of the debtor. The meaning of regular re-approval of credit exposures is an active follow-up on client and portfolio quality and it represents an additional measure of optimisation of credit risk exposure of the Bank.
The Bank performs evaluation of creditworthiness based on all information on client, also taking into consideration prior credit relationships between the Bank and the client.

Early detection of increased risk level
The Bank applies methods of early detection of increased credit risk level in order to make collection more successful even in the case of decrease in credit worthiness and decrease in the quality of credit portfolio. An increased level of credit risk on the level of respective client and portfolio is detected by following all relevant information and foreseen change of variables in the future period which primarily includes client's prior behaviour in obligations repayment and following market information. Therefore, increased level of credit risk is on the level of the Bank timely detected by following:

- Market conditions
- Rating changes
- Delays

Following market conditions implies also following of all macroeconomic variables, as well as their evaluation for future period.

34.5) Credit risk (continued)

Credit risk exposure

Credit risk exposure relates to the following balance sheet items:
- Cash balances at central banks and other demand deposits,
- Financial assets - held for trading (without equity instruments),
- Financial assets - at fair value through profit or loss (without equity instruments),
- Financial assets - available for sale (without equity instruments),
- Financial assets - held to maturity,
- Loans and Receivables,
- Derivatives - hedge accounting, and
- Off balance sheet credit risks (primarily financial guarantees and undrawn irrevocable credit commitments).

The credit risk exposure comprises the gross carrying amount without taking into account loan loss allowances, any collateral held (including risk transfer to guarantors), netting effects, other credit enhancements or credit risk mitigating transactions.
The gross carrying amount of the credit risk exposure of the Bank increased for 2% or HRK 1.3 billion from HRK 64.57 billion as of 31 December 2013 to HRK 65.89 billion as of 31 December 2014.
During the same period the gross carrying amount of the credit risk exposure of the Group increased for HRK 2.8 billion from HRK 75.09 billion up to HRK 77.92 billion at the end of 2014.
The following tables show the reconciliation between the gross carrying amount and the net carrying amount of the separate components of the Bank's and the Group's credit risk exposure as of 31 December 2014 and 31 December 2013.

	GROUP		BANK	
in HRK million	Gross carrying amount	Carrying amount	Gross carrying amount	Carrying amount
31 December 2014				
Cash balances at central banks and other demand deposits	3,643	3,643	3,086	3,086
Loans and advances to credit institutions	6,197	6,194	5,724	5,720
Loans and advances to customers	52,545	46,711	44,392	39,607
Held to maturity	1,457	1,456	1,289	1,288
Trading assets	377	377	377	377
At fair value through profit or loss	-	-	-	-
Available for sale	7,024	7,024	6,596	6,596
Positive fair value of derivative financial instruments	94	94	96	96
Contingent credit liabilities	6,589	6,589	4,328	4,328
Total	**77,926**	**72,088**	**65,888**	**61,098**
31 December 2013				
Cash balances at central banks and other demand deposits	3,392	3,392	3,127	3,127
Loans and advances to credit institutions	6,550	6,546	6,146	6,143
Loans and advances to customers	52,238	47,391	44,991	41,040
Held to maturity	768	768	499	499
Trading assets	105	105	104	104
At fair value through profit or loss	-	-	-	-
Available for sale	6,274	6,274	6,057	6,057
Positive fair value of derivative financial instruments	86	86	86	86
Contingent credit liabilities	5,686	5,686	3,558	3,558
Total	**75,099**	**70,248**	**64,568**	**60,614**

34.5) Credit risk (continued)

Breakdown of credit risk exposure

The credit risk exposure is presented below divided into the following classes:

- by Basel III exposure class and financial instrument,
- by industry and financial instrument,
- by risk category,
- by industry and risk category,
- by region and risk category,
- by business segment and risk category.

Thereafter, a breakdown is presented of

- contingent liabilities by region and risk category,
- contingent liabilities by product,
- credit risk exposure to sovereigns by region and financial instrument, and
- credit risk exposure to institutions by region and financial instrument.

This is followed by presentation of

- non-performing credit risk exposure by business segment and credit risk allowances,
- the composition of allowances,
- credit risk exposure by business segment and collateral,
- credit risk exposure by financial instrument and collateral, and
- credit risk exposure past due and not covered by specific allowances by Basel 3 exposure class and collateralisation.

and a breakdown of

- loans and receivables to customers by business segment and risk category,
- non-performing loans and receivables to customers by business segment and coverage by loan loss allowances and collateral,
- loans and receivables to customers by business segment and currency

Credit risk exposure by Basel III exposure class and financial instrument

The following table include the Banks' (Group's) credit risk exposure broken down by Basel III exposure class and financial instrument as of 31 December 2014 and 31 December 2013, respectively. The assignment of obligors to Basel III exposure classes is based on legal regulations. For reasons of clarity, individual Basel 3 exposure classes are presented in aggregated form in the table below and in other tables in the section 'Credit Risk'.

34.5) Credit risk (continued)

Credit risk exposure by Basel 3 exposure class and financial instrument (continued)

										GROUP
				Debt instruments						
in HRK million	Cash balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure (gross)
	At amortised cost				Fair Value					
31 December 2014										
Sovereign	2,298	4,533	10,204	1,457	377	-	6,906	-	187	25,962
Institutions	1,345	1,664	87	-	-	-	-	41	235	3,372
Corporates	-	-	20,522	-	-	-	118	51	4,133	24,824
Retail	-	-	21,732	-	-	-	-	2	2,034	23,768
Total	**3,643**	**6,197**	**52,545**	**1,457**	**377**	**-**	**7,024**	**94**	**6,589**	**77,926**
31 December 2013										
Sovereign	2,947	5,233	9,517	768	105	-	6,149	-	206	24,925
Institutions	445	1,317	660	-	-	-	-	28	119	2,569
Corporates	-	-	20,667	-	-	-	125	58	2,956	23,806
Retail	-	-	21,394	-	-	-	-	-	2,405	23,799
Total	**3,392**	**6,550**	**52,238**	**768**	**105**	**-**	**6,274**	**86**	**5,686**	**75,099**

										BANK
				Debt instruments						
in HRK million	Cash balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure (gross)
	At amortised cost				Fair Value					
31 December 2014										
Sovereign	1,946	4,534	9,370	1,289	377	-	6,363	-	117	23,996
Institutions	1,140	1,190	24	-	-	-	115	41	16	2,526
Corporates	-	-	17,311	-	-	-	118	53	3,345	20,827
Retail	-	-	17,687	-	-	-	-	2	850	18,539
Total	**3,086**	**5,724**	**44,392**	**1,289**	**377**	**-**	**6,596**	**96**	**4,328**	**65,888**
31 December 2013										
Sovereign	2,776	4,676	9,359	499	104	-	5,842	-	113	23,369
Institutions	351	1,470	38	-	-	-	90	28	13	1,990
Corporates	-	-	17,843	-	-	-	125	58	2,584	20,610
Retail	-	-	17,751	-	-	-	-	-	848	18,599
Total	**3,127**	**6,146**	**44,991**	**499**	**104**	**-**	**6,057**	**86**	**3,558**	**64,568**

34.5) Credit risk (continued)

Credit risk exposure by industry and financial instrument

The following tables presents the Bank's (Group's) credit risk exposure by industry, broken down by financial instruments, as of each reporting date indicated.

Credit risk exposure by industry and financial instrument

										GROUP
				Debt instruments						
in HRK million	Cash balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure (gross)
		At amortised cost			Fair Value					
31 December 2014										
Agriculture, forestry	-	-	966	-	-	-	-	-	91	1,057
Mining	-	-	216	-	-	-	-	-	46	262
Manufacturing	-	-	3,596	-	-	-	15	-	673	4,284
Energy	-	-	153	-	-	-	-	1	348	502
Water supply	-	-	318	-	-	-	-	-	33	351
Construction	-	-	5,186	-	-	-	11	-	654	5,851
Trade	-	-	5,482	-	-	-	5	4	1,311	6,802
Transport	-	-	2,397	-	-	-	81	-	564	3,042
Hotels and restaurants	-	-	2,221	-	-	-	-	3	133	2,357
Communication	-	-	306	-	-	-	-	-	37	343
Financial and insurance services	3,643	6,197	1,292	7	-	-	386	43	33	11,601
Real estate	-	-	1,341	-	-	-	-	1	68	1,410
Professional activities	-	-	1,164	-	-	-	5	1	132	1,302
Administrative and support service activities	-	-	510	-	-	-	-	-	51	561
Public administration	-	-	6,651	1,342	377	-	6,281	39	136	14,826
Education	-	-	65	-	-	-	-	-	6	71
Health services	-	-	113	-	-	-	-	-	12	125
Art	-	-	270	-	-	-	-	-	107	377
Private households	-	-	20,164	-	-	-	-	2	1,927	22,093
Others	-	-	134	108	-	-	240	-	227	709
Total	**3,643**	**6,197**	**52,545**	**1,457 -**	**377**	**-**	**7,024**	**94**	**6,589**	**77,926**
31 December 2013										
Agriculture, forestry	-	-	821	-	-	-	-	-	76	897
Mining	-	-	273	-	-	-	-	-	36	309
Manufacturing	-	-	3,578	-	-	-	15	1	468	4,062
Energy	-	-	435	-	-	-	-	40	109	584
Water supply	-	-	389	-	-	-	-	-	12	401
Construction	-	-	5,693	-	-	-	16	6	666	6,381
Trade	-	-	5,514	-	-	-	5	2	688	6,209
Transport	-	-	1,688	-	-	-	77	-	467	2,232
Hotels and restaurants	-	-	2,102	-	-	-	-	3	95	2,200
Communication	-	-	308	-	-	-	2	-	55	365
Financial and insurance services	3,392	6,550	1,202	10	-	-	385	29	138	11,706
Real estate	-	-	1,223	-	-	-	-	2	39	1,264
Professional activities	-	-	1,327	-	-	-	10	-	157	1,494
Administrative and support service activities	-	-	476	-	-	-	-	-	35	511
Public administration	-	-	6,522	758	105	-	5,764	3	201	13,353
Education	-	-	71	-	-	-	-	-	14	85
Health services	-	-	104	-	-	-	-	-	5	109
Art	-	-	197	-	-	-	-	-	49	246
Private households	-	-	20,014	-	-	-	-	-	1,826	21,840
Others	-	-	301	-	-	-	-	-	550	851
Total	**3,392**	**6,550**	**52,238**	**768**	**105**	**-**	**6,274**	**86**	**5,686**	**75,099**

34.5) Credit risk (continued)

Credit risk exposure by industry and financial instrument (continued)

BANK

in HRK million	Cash balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure (gross)
		At amortised cost			Debt instruments: Fair Value					
31 December 2014										
Agriculture, forestry	-	-	832	-	-	-	-	-	88	920
Mining	-	-	190	-	-	-	-	-	46	236
Manufacturing	-	-	2,880	-	-	-	15	-	659	3,554
Energy	-	-	120	-	-	-	-	1	333	454
Water supply	-	-	254	-	-	-	-	-	33	287
Construction	-	-	4,910	-	-	-	11	-	590	5,511
Trade	-	-	3,623	-	-	-	5	4	616	4,248
Transport	-	-	2,033	-	-	-	81	-	555	2,669
Hotels and restaurants	-	-	2,129	-	-	-	-	3	132	2,264
Communication	-	-	240	-	-	-	-	-	37	277
Financial and insurance services	3,086	5,724	1,522	-	-	-	501	45	90	10,968
Real estate	-	-	1,309	-	-	-	-	1	40	1,350
Professional activities	-	-	1,102	-	-	-	5	1	122	1,230
Administrative and support service activities	-	-	311	-	-	-	-	-	38	349
Public administration	-	-	5,795	1,289	377	-	5,978	39	68	13,546
Education	-	-	62	-	-	-	-	-	5	67
Health services	-	-	99	-	-	-	-	-	12	111
Art	-	-	247	-	-	-	-	-	107	354
Private households	-	-	16,606	-	-	-	-	2	745	17,353
Others	-	-	128	-	-	-	-	-	12	140
Total	**3,086**	**5,724**	**44,392**	**1,289**	**377**	**-**	**6,596**	**96**	**4,328**	**65,888**
31 December 2013										
Agriculture, forestry	-	-	746	-	-	-	-	-	69	815
Mining	-	-	215	-	-	-	-	-	7	222
Manufacturing	-	-	3,137	-	-	-	15	1	432	3,585
Energy	-	-	53	-	-	-	-	40	92	185
Water supply	-	-	387	-	-	-	-	-	10	397
Construction	-	-	5,487	-	-	-	16	6	598	6,107
Trade	-	-	3,987	-	-	-	5	2	553	4,547
Transport	-	-	1,583	-	-	-	77	-	445	2,105
Hotels and restaurants	-	-	2,044	-	-	-	-	3	88	2,135
Communication	-	-	268	-	-	-	2	-	49	319
Financial and insurance services	3,127	6,146	1,388	-	-	-	475	29	134	11,299
Real estate	-	-	1,210	-	-	-	-	2	10	1,222
Professional activities	-	-	1,290	-	-	-	10	-	134	1,434
Administrative and support service activities	-	-	335	-	-	-	-	-	27	362
Public administration	-	-	5,785	499	104	-	5,457	3	105	11,953
Education	-	-	71	-	-	-	-	-	13	84
Health services	-	-	102	-	-	-	-	-	3	105
Art	-	-	195	-	-	-	-	-	45	240
Private households	-	-	16,626	-	-	-	-	-	732	17,358
Others	-	-	82	-	-	-	-	-	12	94
Total	**3,127**	**6,146**	**44,991**	**499**	**104**	**-**	**6,057**	**86**	**3,558**	**64,568**

34.5) Credit risk (continued)

Credit risk exposure by risk category

The following table presents the credit risk exposure of the Bank and the Group divided by risk category as of 31 December 2014, compared with the credit risk exposure as of 31 December 2013.

Credit risk exposure by risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Credit risk exposure December 2014	57,037	8,847	2,249	9,793	77,926
Share of credit risk exposure	73.2%	11.4%	2.9%	12.6%	
Credit risk exposure December 2013	52,834	10,432	2,721	9,112	75,099
Share of credit risk exposure	70.4%	13.9%	3.6%	12.1%	
Change in credit risk exposure from December 2013 to December 2014	4,203	(1,585)	(472)	681	2,827
Change in credit risk exposure in %	8.0%	(15.2%)	(17.4%)	7.5%	3.8%

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Credit risk exposure December 2014	48,303	7,112	1,872	8,601	65,888
Share of credit risk exposure	73.3%	10.8%	2.8%	13.1%	
Credit risk exposure December 2013	45,510	8,732	2,302	8,024	64,568
Share of credit risk exposure	70.5%	13.5%	3.6%	12.4%	
Change in credit risk exposure from December 2013 to December 2014	2,793	(1,620)	(430)	577	1,320
Change in credit risk exposure in %	6.1%	(18.6%)	(18.7%)	7.2%	2.0%

From 31 December 2013 to 31 December 2014, the credit risk exposure in the best and weakest categories increased, while it decreased in the other two categories. Non-performing claims as a percentage of total credit risk exposure (i.e. the non-performing exposure ratio (NPE ratio) rose from 12.4% to 13.1%. Of the Bank’s total credit exposure, 73.3% fell into the best risk category and 10.8% was in the management attention category.

34.5) Credit risk (continued)

Credit risk exposure by industry and risk category

The following table presents the credit risk exposure of the Bank and the Group broken down by industry and risk category as of 31 December 2014 and 2013, respectively.

Credit risk exposure by industry and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
31 December 2014					
Agriculture, forestry	664	162	40	191	1,057
Mining	213	-	8	41	262
Manufacturing	2,502	486	115	1,181	4,284
Energy	476	24	-	2	502
Water supply	214	60	48	29	351
Construction	2,278	1,410	207	1,956	5,851
Trade	4,071	1,081	138	1,512	6,802
Transport	2,730	145	27	140	3,042
Hotels and restaurants	1,331	254	21	751	2,357
Communication	239	7	2	95	343
Financial and insurance services	11,426	171	1	3	11,601
Real estate	710	216	16	468	1,410
Professional activities	443	337	76	446	1,302
Administrative and support service activities	236	99	6	220	561
Public administration	14,757	57	-	12	14,826
Education	58	10	-	3	71
Health services	84	28	1	12	125
Art	258	23	67	29	377
Private households	13,679	4,269	1,463	2,682	22,093
Others	668	8	13	20	709
Total	**57,037**	**8,847**	**2,249**	**9,793**	**77,926**
31 December 2013					
Agriculture, forestry	497	158	82	160	897
Mining	200	56	4	49	309
Manufacturing	2,217	660	192	993	4,062
Energy	575	7	-	2	584
Water supply	255	24	61	61	401
Construction	2,069	2,000	281	2,031	6,381
Trade	3,708	946	206	1,349	6,209
Transport	1,974	98	7	153	2,232
Hotels and restaurants	1,204	236	68	692	2,200
Communication	272	8	5	80	365
Financial and insurance services	11,364	318	11	13	11,706
Real estate	427	382	70	385	1,264
Professional activities	502	435	82	475	1,494
Administrative and support service activities	217	34	130	130	511
Public administration	13,204	137	-	12	13,353
Education	73	10	1	1	85
Health services	69	22	4	14	109
Art	121	34	66	25	246
Private households	13,370	4,706	1,407	2,357	21,840
Others	516	161	44	130	851
Total	**52,834**	**10,432**	**2,721**	**9,112**	**75,099**

34.5) Credit risk (continued)

Credit risk exposure by industry and risk category (continued)

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
31 December 2014					
Agriculture, forestry	565	138	38	179	920
Mining	187	-	8	41	236
Manufacturing	1,894	433	103	1,124	3,554
Energy	449	3	-	2	454
Water supply	178	32	48	29	287
Construction	2,155	1,285	197	1,874	5,511
Trade	2,164	740	47	1,297	4,248
Transport	2,400	118	22	129	2,669
Hotels and restaurants	1,279	233	20	732	2,264
Communication	180	5	1	91	277
Financial and insurance services	10,798	165	2	3	10,968
Real estate	705	169	10	466	1,350
Professional activities	392	332	76	430	1,230
Administrative and support service activities	180	17	3	149	349
Public administration	13,529	4	-	13	13,546
Education	54	10	-	3	67
Health services	81	17	1	12	111
Art	237	22	67	28	354
Private households	10,771	3,382	1,219	1,981	17,353
Others	105	7	10	18	140
Total	**48,303**	**7,112**	**1,872**	**8,601**	**65,888**
31 December 2013					
Agriculture, forestry	431	152	81	151	815
Mining	156	16	2	48	222
Manufacturing	1,903	552	184	946	3,585
Energy	180	3	-	2	185
Water supply	253	22	61	61	397
Construction	1,965	1,894	280	1,968	6,107
Trade	2,357	782	153	1,255	4,547
Transport	1,878	80	4	143	2,105
Hotels and restaurants	1,172	228	57	678	2,135
Communication	230	6	4	79	319
Financial and insurance services	10,905	371	11	12	11,299
Real estate	425	354	67	376	1,222
Professional activities	466	429	81	458	1,434
Administrative and support service activities	204	30	12	116	362
Public administration	11,887	54	-	12	11,953
Education	73	9	1	1	84
Health services	67	21	4	13	105
Art	117	33	66	24	240
Private households	10,787	3,688	1,222	1,661	17,358
Others	54	8	12	20	94
Total	**45,510**	**8,732**	**2,302**	**8,024**	**64,568**

34.5) Credit risk (continued)

Credit risk exposure by region and risk category

The following table presents the credit risk exposure of the Group and the Bank divided by region as of 31 December 2014 and 31 December 2013, respectively.

Credit risk exposure by region and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
31 December 2014					
Erste Group markets	**52,717**	**8,344**	**2,111**	**9,491**	**72,663**
Austria	2,023	2	-	-	2,025
Croatia	48,864	8,228	2,109	9,468	68,669
Serbia	3	78	-	20	101
Slovakia	1,003	-	-	-	1,003
Slovenia	823	31	2	3	859
Czech Republic	1	5	-	-	6
Other EU countries	**957**	**9**	**2**	**59**	**1,027**
Other industrialised countries	**445**	**10**	**-**	**46**	**501**
Emerging markets	**2,918**	**484**	**136**	**197**	**3,735**
Southeastern Europe/CIS	2,918	484	136	197	3,735
Total	**57,037**	**8,847**	**2,249**	**9,793**	**77,926**
31 December 2013					
Erste Group markets	**48,680**	**10,082**	**2,649**	**8,790**	**70,201**
Austria	1,521	1	-	-	1,522
Croatia	45,708	9,735	2,633	8,789	66,865
Serbia	3	-	-	1	4
Slovakia	999	-	-	-	999
Slovenia	448	346	16	-	810
Czech Republic	1	-	-	-	1
Other EU countries	**863**	**24**	**13**	**94**	**994**
Other industrialised countries	**264**	**11**	**1**	**10**	**286**
Emerging markets	**3,027**	**315**	**58**	**218**	**3,618**
Southeastern Europe/CIS	3,027	315	58	218	3,618
Total	**52,834**	**10,432**	**2,721**	**9,112**	**75,099**

34.5) Credit risk (continued)

Credit risk exposure by region and risk category (continued)

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
31 December 2014					
Erste Group markets	**46,188**	**7,090**	**1,868**	**8,509**	**63,655**
Austria	1,945	2	-	-	1,947
Croatia	43,031	7,025	1,867	8,509	60,432
Serbia	2	61	-	-	63
Slovakia	1,003	-	-	-	1,003
Slovenia	206	2	1	-	209
Czech Republic	1	-	-	-	1
Other EU countries	**831**	**9**	**2**	**59**	**901**
Other industrialised countries	**445**	**9**	**-**	**10**	**464**
Emerging markets	**839**	**4**	**2**	**23**	**868**
Southeastern Europe/CIS	839	4	2	23	868
Total	**48,303**	**7,112**	**1,872**	**8,601**	**65,888**
31 December 2013					
Erste Group markets	**43,676**	**8,694**	**2,287**	**7,896**	**62,553**
Austria	1,442	1	-	-	1,443
Croatia	40,910	8,613	2,286	7,896	59,705
Serbia	2	-	-	-	2
Slovakia	999	-	-	-	999
Slovenia	322	80	1	-	403
Czech Republic	1	-	-	-	1
Other EU countries	**798**	**23**	**13**	**95**	**929**
Other industrialised countries	**262**	**11**	**1**	**10**	**284**
Emerging markets	**774**	**4**	**1**	**23**	**802**
Southeastern Europe/CIS	774	4	1	23	802
Total	**45,510**	**8,732**	**2,302**	**8,024**	**64,568**

34.5) Credit risk (continued)

Credit risk exposure by reporting segment and risk category

The reporting segment of the Bank is based on the matrix organization by business segment. The following tables show the credit risk exposure of the Group and the Bank broken down by reporting segments and risk category as of 31 December 2014 and 2013, respectively.

Credit risk exposure by business segment and risk category

					GROUP
n HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
31 December 2014					
Retail	14,315	4,590	1,493	3,199	23,597
Small and Medium Enterprises	17,019	2,441	419	5,751	25,630
Large Corporates	5,648	1,588	90	442	7,768
Group Markets	1,231	171	-	-	1,402
Commercial Real Estate	390	-	245	388	1,023
Asset/Liability Management	18,386	53	-	-	18,439
Other	48	4	2	13	67
Total	**57,037**	**8,847**	**2,249**	**9,793**	**77,926**
31 December 2013					
Retail	13,966	5,000	1,495	2,836	23,297
Small and Medium Enterprises	14,578	3,164	813	5,448	24,003
Large Corporates	5,215	1,849	163	357	7,584
Group Markets	948	342	5	1	1,296
Commercial Real Estate	291	4	234	454	983
Asset/Liability Management	17,800	69	-	-	17,869
Other	36	4	11	16	67
Total	**52,834**	**10,432**	**2,721**	**9,112**	**75,099**

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
31 December 2014					
Retail	11,358	3,659	1,244	2,467	18,728
Small and Medium Enterprises	14,794	1,877	313	5,314	22,298
Large Corporates	4,133	1,399	67	419	6,018
Group Markets	1,404	172	-	-	1,576
Commercial Real Estate	389	-	246	388	1,023
Asset/Liability Management	16,177	1	-	-	16,178
Other	48	4	2	13	67
Total	**48,303**	**7,112**	**1,872**	**8,601**	**65,888**
31 December 2013					
Retail	11,380	3,966	1,304	2,126	18,776
Small and Medium Enterprises	13,188	2,631	724	5,094	21,637
Large Corporates	3,629	1,767	23	334	5,753
Group Markets	948	342	5	1	1,296
Commercial Real Estate	291	4	235	453	983
Asset/Liability Management	16,038	18	-	-	16,056
Other	36	4	11	16	67
Total	**45,510**	**8,732**	**2,302**	**8,024**	**64,568**

34.5) Credit risk (continued)

Contingent liabilities by region and risk category

The following table presents the credit risk exposure of the Bank and the Group off-balance-sheet items broken down by region and risk category, as well as by product, as of 31 December 2014 and 31 December 2013, respectively.

Contingent liabilities by region and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
31 December 2014					
Core market	**5,161**	**764**	**116**	**110**	**6,151**
Croatia	4,716	746	115	110	5,687
Slovenia	444	18	1	-	463
Czech Republic	1	-	-	-	1
Other EU countries	**12**	**-**	**-**	**-**	**12**
Other industrialised countries	**-**	**-**	**-**	**11**	**11**
Emerging markets	**265**	**108**	**39**	**3**	**415**
Southeastern Europe/CIS	265	108	39	3	415
Total	**5,438**	**872**	**155**	**124**	**6,589**
31 December 2013					
Core market	**3,931**	**971**	**172**	**108**	**5,182**
Croatia	3,824	718	161	108	4,811
Slovenia	106	253	11	-	370
Czech Republic	1	-	-	-	1
Other EU countries	**9**	**-**	**-**	**-**	**9**
Other industrialised countries	**-**	**-**	**-**	**-**	**-**
Emerging markets	**424**	**67**	**3**	**1**	**495**
Southeastern Europe/CIS	424	67	3	1	495
Total	**4,364**	**1,038**	**175**	**109**	**5,686**

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
31 December 2014					
Erste Group market	**3,655**	**446**	**71**	**91**	**4,263**
Croatia	3,654	446	71	91	4,262
Czech Republic	1	-	-	-	1
Other EU countries	**12**	**-**	**-**	**-**	**12**
Other industrialised countries	**-**	**-**	**-**	**-**	**-**
Emerging markets	**53**	**-**	**-**	**-**	**53**
Southeastern Europe/CIS	53	-	-	-	53
Total	**3,720**	**446**	**71**	**91**	**4,328**
31 December 2013					
Erste Group market	**2,804**	**510**	**103**	**62**	**3,479**
Croatia	2,794	455	103	62	3,414
Slovakia	-	55	-	-	55
Slovenia	1	-	-	-	1
Czech Republic	9	-	-	-	9
Other EU countries	**-**	**-**	**-**	**-**	**-**
Other industrialised countries	**-**	**-**	**-**	**-**	**-**
Emerging markets	**79**	**-**	**-**	**-**	**79**
Southeastern Europe/CIS	79	-	-	-	79
Total	**2,883**	**510**	**103**	**62**	**3,558**

Contingent credit liabilities by product		GROUP		BANK
In HRK million	2014	2013	2014	2013
Financial guarantees	2,255	1,845	1,831	1,549
Irrevocable commitments	4,334	3,841	2,497	2,009
Total	**6,589**	**5,686**	**4,328**	**3,558**

34.5) Credit risk (continued)

Credit risk exposure to sovereigns by region and financial instrument

The following table shows the credit risk exposure to sovereigns broken down by region and financial instrument as of 31 December 2014 and 31 December 2013, respectively. The assignment of obligors to sovereigns is based on Basel 2 exposure classes.

Credit risk exposure to sovereigns by region and financial instrument

										GROUP
					Debt instruments					
in HRK million	Cash balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
		At amortised cost				Fair Value				
31 December 2014										
Erste Group markets	**1,946**	**4,533**	**9,773**	**1,396**	**377**		**5,957**		**117**	**24,099**
Austria	-	-	-	-	-	-	570	-	-	570
Croatia	1,946	4,533	9,773	1,396	377		4,163	-	117	22,305
Slovakia	-	-	-	-	-	-	1,003	-	-	1,003
Slovenia	-	-	-	-	-	-	205	-	-	205
Serbia	-	-	-	-	-	-	16	-	-	16
Other EU countries	-	-	-	-	-	-	**386**	-	-	**386**
Emerging markets	**352**	-	**431**	**61**	-	-	**563**	-	**70**	**1,477**
Southeastern Europe/CIS	352	-	431	61	-	-	563	-	70	1,477
Total	**2,298**	**4,533**	**10,204**	**1,457**	**377**	-	**6,906**	-	**187**	**25,962**
31 December 2013								-		
Erste Group markets	**2,776**	**5,233**	**8,954**	**721**	**105**		**5,354**		**114**	**23,257**
Austria	-	-	-	-	-	-	581	-	-	581
Croatia	2,776	5,233	8,954	721	105	-	3,453	-	114	21,356
Slovakia	-	-	-	-	-	-	998	-	-	998
Slovenia	-	-	-	-	-	-	322	-	-	322
Other EU countries	-	-	-	-	-	-	**385**	-	-	**385**
Emerging markets	**171**	-	**563**	**47**	-	-	**410**	-	**92**	**1,283**
Southeastern Europe/CIS	171	-	563	47	-	-	410	-	92	1,283
Total	**2,947**	**5,233**	**9,517**	**768**	**105**	-	**6,149**	-	**206**	**24,925**

34.5) Credit risk (continued)

Credit risk exposure to sovereigns by region and financial instrument (continued)

										BANK
				Debt instruments						
in HRK million	Cash balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
		At amortised cost			Fair Value					
31 December 2014										
Erste Group markets	**1,946**	**4,534**	**9,253**	**1,289**	**377**		**5,702**		**117**	**23,218**
Austria	-	-	-	-	-	-	570	-	-	570
Croatia	1,946	4,534	9,253	1,289	377	-	3,924	-	117	21,440
Slovakia	-	-	-	-	-	-	1,003	-	-	1,003
Slovenia	-	-	-	-	-	-	205	-	-	205
Other EU countries	**-**	**-**	**-**	**-**	**-**	**-**	**386**	**-**	**-**	**386**
Emerging markets	**-**	**-**	**117**	**-**	**-**	**-**	**275**	**-**	**-**	**392**
Southeastern Europe/CIS	-	-	117	-	-	-	275	-	-	392
Total	**1,946**	**4,534**	**9,370**	**1,289**	**- 377**	**-**	**6,363**	**-**	**117**	**23,996**
31 December 2013										
Erste Group markets	**2,776**	**4,676**	**9,242**	**499**	**- 104**	**-**	**5,189**	**-**	**113**	**22,599**
Austria	-	-	-	-	-	-	581	-	-	581
Croatia	2,776	4,676	9,242	499	104	-	3,288	-	113	20,698
Slovakia	-	-	-	-	-	-	998	-	-	998
Slovenia	-	-	-	-	-	-	322	-	-	322
Other EU countries	-	-	-	-	-	-	**385**	-	**-**	**385**
Emerging markets	-	-	**117**	-	-	**-**	**268**	**-**	**-**	**385**
Southeastern Europe/CIS	-	-	117	-	-	-	268	-	-	385
Total	**2,776**	**4,676**	**9,359**	**499**	**104**	**-**	**5,842**	**-**	**113**	**23,369**

34.5) Credit risk (continued)

Credit risk exposure to institutions by region and financial instrument

The following table presents credit risk exposure to institutions broken down by region and financial instrument as of 31 December 2014 and 2013, respectively. The assignment of obligors to institutions is based on Basel III exposure classes.

Credit risk exposure to institutions by region and financial instrument

										GROUP
				Debt instruments						
in HRK million	Cash balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
		At amortised cost				Fair Value				
31 December 2014										
Erste Group markets	**1,001**	**1,028**	**58**	**-**	-	-	-	**41**	**219**	**2,347**
Austria	987	425	-	-	-	-	-	41	-	1,453
Croatia	12	602	58	-	-	-	-	-	218	890
Serbia	1	-	-	-	-	-	-	-	-	1
Slovenia	1	1	-	-	-	-	-	-	-	2
Czech Republic	-	-	-	-	-	-	-	-	1	1
Other EU countries	**229**	**306**	-	-	-	-	-	-	**12**	**547**
Other industrialised countries	**114**	**329**	-	-	-	-	-	-	**-**	**443**
Emerging markets	**1**	**1**	**29**	-	-	-	-	-	**4**	**35**
Southeastern Europe/CIS	1	1	29	-	-	-	-	-	4	35
Total	**1,345**	**1,664**	**87**	**-**	**-**	**-**	**-**	**41**	**235**	**3,372**
31 December 2013				-	-	-	-			
Erste Group markets	**353**	**683**	**660**	**-**	**-**	**-**	**-**	**28**	**110**	**1,834**
Austria	258	653	-	-	-	-	-	27	-	938
Croatia	95	28	660	-	-	-	-	1	78	862
Serbia	-	2	-	-	-	-	-	-	-	2
Slovenia	-	-	-	-	-	-	-	-	31	31
Czech Republic	-	-	-	-	-	-	-	-	1	1
Other EU countries	**76**	**391**	-	-	-	-	-	-	**9**	**476**
Other industrialised countries	**16**	**243**	-	-	-	-	-	-	-	**259**
Emerging markets		**1**	**33**	-	-	-	-	-	-	**34**
Southeastern Europe/CIS	-	1	33	-	-	-	-	-	-	34
Total	**445**	**1,317**	**660**	-	-	-	-	**28**	**119**	**2,569**

34.5) Credit risk (continued)

Credit risk exposure to institutions by region and financial instrument (continued)

										BANK
					Debt instruments					
in HRK million	Cash balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
		At amortised cost			Fair Value					
31 December 2014										
Erste Group markets	**920**	**556**	**24**	**-**	**-**	-	-	**41**	**4**	**1,545**
Austria	910	425	-	-	-	-	-	41	-	1,376
Croatia	9	131	24	-	-	-	-	-	3	167
Serbia	1	-	-	-	-	-	-	-	-	1
Czech Republic	-	-	-	-	-	-	-	-	1	1
Other EU countries	**105**	**304**	**-**	**-**	-	-	-	-	**12**	**421**
Other industrialised countries	**114**	**329**	**-**	**-**	-	-	-	-	**-**	**443**
Emerging markets	**1**	**1**	**-**	**-**	-	-	**115**	-	**-**	**117**
Southeastern Europe/CIS	1	1	-	-	-	-	115	-	-	117
Total	**1,140**	**1,190**	**24**	**-**	-	-	**115**	**41**	**16**	**2,526**
31 December 2013					-	-				
Erste Group markets	**308**	**851**	**38**	**-**	**-**	**-**	**-**	**28**	**4**	**1,229**
Austria	300	533	-	-	-	-	-	27	3	863
Croatia	8	316	38	-	-	-	-	1	-	363
Serbia	-	2	-	-	-	-	-	-	-	2
Czech Republic	-	-	-	-	-	-	-	-	1	1
Other EU countries	**12**	**391**	**-**	**-**	-	-	-	**-**	**9**	**412**
Other industrialised countries	**31**	**227**	**-**	**-**	-	-	-	**-**	**-**	**258**
Emerging markets	**-**	**1**	**-**	**-**	-	-	**90**	**-**	**-**	**91**
Southeastern Europe/CIS	-	1	-	-	-	-	90	-	-	91
Total	**351**	**1,470**	**38**	**-**	-	-	**90**	**28**	**13**	**1,990**

Non-performing credit risk exposure and allowances for credit risks

For the definition of credit risk exposure classified as non-performing, please refer to the description of risk categories in the subsection ‘Internal rating system’.

Credit risk allowances (specific and portfolio allowances) in the Bank covered 56.4% of the reported non-performing credit risk exposure as of 31 December 2014 and 60.4% in the Group. For the portion of the non-performing credit risk exposure that is not covered by allowances, the Bank assumes there are sufficient levels of collateral and expected other recoveries.

In the 12 months period ended 31 December 2014, the non-performing credit risk exposure in the Bank increased by HRK 574 million, from HRK 8.0 billion as of 31 December 2013 to slightly below than EUR 8.6 billion as of 31 December 2014. During the same period, non-performing credit risk exposure in the Group rose for HRK 681 million from HRK 9.1 billion to 9.8 billion as of 31 December 2014.

Credit risk allowances were increased by HRK 845 million in the Bank, from HRK 4 billion as of 31 December 2013 to HRK 4.8 billion as of 31 December 2014. The increase of credit risk allowances in the Group during 2014 was 1 billion from HRK 4.9 billion as of 31 December 2013 up to 5.9 billion as of 31 December 2014. These movements resulted in a net increase of the coverage of the non-performing credit risk exposure by credit risk allowances by 6.5 pp both in the Bank and Group, from 49.9% to 56.4% (the Bank) and from 53.9% to 60.4% (the Group).

34.5) Credit risk (continued)

The following tables show the coverage of the non-performing credit risk exposure across the reporting segments by credit risk allowances (without taking into consideration collateral) as of 31 December 2014 and 31 December 2013, respectively. The differences in provisioning levels for the segments result from the risk situation in the respective markets and different levels of collateralization.
The NPE ratio is calculated by dividing non-performing credit risk exposure by total credit risk exposure. The non-performing exposure coverage ratio (NPE coverage ratio) is calculated by dividing the sum of specific and collective allowances by non-performing credit risk exposure. Collateral or other recoveries are not taken into account.

Non-performing credit risk exposure by business segment and credit risk allowances

					GROUP
	Credit risk exposure				
in HRK million	Non-performing	Credit risk exposure	Risk provisions	NPE ratio	NPE coverage ratio
31 December 2014					
Retail	3,199	23,597	2,200	14%	69%
Small and Medium Enterprises	5,751	25,630	3,107	22%	54%
Large Corporates	442	7,768	307	6%	69%
Group Markets	-	1,402	3	-	-
Commercial Real Estate	388	1,023	286	38%	74%
Asset/Liability Management	-	18,439	5	-	-
Other	13	67	8	19%	62%
Total	**9,793**	**77,926**	**5,916**	**13%**	**60%**
31 December 2013					
Retail	2,836	23,297	1,896	12%	67%
Small and Medium Enterprises	5,449	24,003	2,538	23%	47%
Large Corporates	357	7,584	244	5%	68%
Group Markets	1	1,296	3	-	300%
Commercial Real Estate	453	983	214	46%	47%
Asset/Liability Management	-	17,869	5	-	-
Other	16	67	12	24%	75%
Total	**9,112**	**75,099**	**4,912**	**12%**	**54%**

					BANK
	Credit risk exposure				
in HRK million	Non-performing	Credit risk exposure	Risk provisions	NPE ratio	NPE coverage ratio
31 December 2014					
Retail	2,467	18,728	1,588	13%	64%
Small and Medium Enterprises	5,314	22,298	2,703	24%	51%
Large Corporates	419	6,018	257	7%	61%
Group Markets	-	1,576	3	-	-
Commercial Real Estate	388	1,023	286	38%	74%
Asset/Liability Management	-	16,178	3	-	-
Other	13	67	8	19%	62%
Total	**8,601**	**65,888**	**4,848**	**13%**	**56%**
31 December 2013					
Retail	2,126	18,776	1,362	11%	64%
Small and Medium Enterprises	5,094	21,637	2,215	24%	43%
Large Corporates	334	5,753	196	6%	59%
Group Markets	1	1,296	3	-	300%
Commercial Real Estate	453	983	213	46%	47%
Asset/Liability Management	-	16,056	2	-	-
Other	16	67	12	24%	75%
Total	**8,024**	**64,568**	**4,003**	**12%**	**50%**

34.5) Credit risk (continued)

The general principles and standards for credit risk allowances within the Bank follow the Erste Group's procedures, international standards and are described in internal policies.
The bank, in line with regulatory and accounting standards, evaluates the need and allocates credit risk allowances for expected losses. Allowances are calculated

- For financial assets carried at amortised cost (loans and receivables, financial assets held to maturity) in accordance with IAS 39, and
- For off-balance liabilities (guarantees, loan commitments) in accordance with IAS 37.

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

During the process the bank distinguishes between

- Specific allowances calculated for exposures to defaulted customers that are deemed to be impaired, and
- Collective allowances (allowances for incurred but not reported losses) calculated for exposures to non-defaulted customers or defaulted customers that are not deemed to be impaired.

For the calculation of specific allowances, the discounted cash flow model is applied. This means that a difference between carrying amount and net present value (NPV) of the expected cash flows leads to an impairment and defines the amount of the allowancing requirement. All estimated interest and redemption payments as well as estimated collateral recoveries and costs for selling and obtaining collateral are considered as expected cash flows.
The calculation of specific allowances is performed either on an individual basis or rule-based. In case of significant customers, expected cash flows are estimated individually by workout or risk managers. A customer is considered as significant if the total exposure defined as the sum of all on- and off-balance sheet exposures exceeds a determined materiality limit. Otherwise, the customer is considered as insignificant and a rule-based approach is used for the calculation of the allowance. Under this approach, specific allowances are calculated as a multiplication of the carrying amount and the loss given default (LGD), where LGD reflects time in default or the stage of workout process.

Collective allowances are calculated on exposures to non-defaulted customers for which a default has not been detected or reported. The level of collective allowances depends on the carrying amount, the PD, the LGD and the loss identification period (LIP). The LIP parameter is critically examined and the back-testing of the LIP parameter is performed in form of an independent recalculation of the parameter in accordance with the Group methodology. Currently used LIP equals to 1.

According to the Group's principles, a one-year PD is applied to the calculation of collective allowances. Through-the-cycle PDs are used. If the PD for a customer class is not specific enough the Bank can use other estimation or more granular PD which might reflect default rate in a more accurate way.

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

The following table shows the credit risk allowances divided into specific and collective allowances and allowances for guarantees as of 31 December 2014 and 31 December 2013, respectively.

	GROUP		BANK	
In HRK million	**2014**	**2013**	**2014**	**2013**
Specific allowances	5,396	4,409	4,438	3,593
Collective allowances	441	442	349	361
Provision for guarantees	79	61	61	49
Total	**5,916**	**4,912**	**4,848**	**4,003**

34.5) Credit risk (continued)

Restructuring, renegotiation and forbearance

Restructuring means contractual modification of any of the customer's loan repayment conditions including tenor, interest rate, fees, principle amount due or a combination thereof. Restructuring can be business restructuring (in retail) and commercial renegotiation (in corporate) or forbearance in line with EBA requirements in both segments.

Business restructuring and renegotiation

Restructuring as business restructuring in the retail segment or as commercial renegotiation in the corporate segment is a potential and effective customer retention tool involving re-pricing or the offering of an additional loan or both in order to maintain the bank's valuable, good clientele.

Forbearance

In case the restructuring entails a concession towards a customer facing or about to face financial difficulties in meeting their contractual financial commitments, the restructuring is considered forbearance.

Forborne exposure is assessed at loan contract level and means only the exposure to which forbearance measures have been extended and excludes any other exposure the customer may have, as long as no forbearance was extended to these.

Concession means that any of the following conditions are met:

- Modification/refinancing of the contract would not have been granted, had the customer not been in financial difficulty,
- There is a difference in favour of the customer between the modified/refinanced and the previous terms of the contract,
- The modified/refinanced contract includes more favourable terms than other customers with similar risk profile could have obtained from the Bank.

Forbearance can be initiated by the bank or by the customer (on account of loss of employment, illness etc.).

Forbearance measures are divided and reported as:

- Performing forbearance (incl. performing forbearance under probation that was upgraded from non-performing forbearance)
- Non-performing forbearance
- defaulted forbearance

Collateral

Recognition of collateral

The Collateral Management unit is a staff unit within the Collection and Work-out department. The 'Collateral Management Policy' defines, among other things, uniform valuation standards for credit collateral across the entire Bank. It ensures that the credit risk decision processes are standardised with respect to accepted collateral values.

All the collateral types acceptable within the Bank are defined by internal acts. The valuation and revaluation of collateral is done according to the principles defined in the Collateral Management Policy and Collateral Catalogue broken down by class in accordance with the individual supervisory requirements. Whether a type of security or a specific collateral asset is accepted for credit risk mitigation is decided by Collection and Work-out department in cooperation with Risk Management Division after determining if the applicable regulatory capital requirements are met.

Main types of collateral

The following types of collateral are the most frequently accepted:

- Real estate: This includes both private and commercial real estate
- Financial collateral: This category primarily includes securities portfolios and cash deposits
- Guarantees: Guarantees are provided mainly by governments, banks. All guarantors must have a minimum credit quality, in accordance with regulatory requirements.

Other types of collateral, such as real collateral in the form of movable property, on-balance sheet netting, investment funds, and life insurance policies are accepted less frequently.

34.5) Credit risk (continued)

Collateral valuation and management

Collateral valuation is based on current market prices while taking into account an amount that can be recovered within a reasonable period. When calculating collateral coverage, the amount of coverage is adjusted through corrective factors, depending on the collateral type. Coverage by collateral disclosed in the financial statements is capped to the amount of relevant exposure.
Only independent appraisers not involved in the lending decision process are permitted to conduct real estate valuations, and the valuation methods to be applied are defined. For quality assurance purposes, the real estate valuations are validated on an ongoing basis.

The methods and discounts used for valuations are based on empirical data representing past experience of the Collection and Work-out department and on the collected data on loss recovery from realising collateral. The valuation methods are adjusted regularly – at least once a year – to reflect current recoveries. Financial collateral assets are recognised at market value.

The revaluation of collateral is done periodically and is automated as far as possible. The maximum periods for the revaluation of individual collateral assets are predefined and compliance is monitored by Collateral Management unit. Apart from periodic revaluations, collateral is assessed when information becomes available that indicates a decrease in the value of the collateral for exceptional reasons.

Collateral obtained in foreclosure proceedings is made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding claim. Generally, the Group and the Bank do not occupy repossessed properties for its own business use. The main part of assets taken onto its own books is commercial land and buildings. In addition, residential real estate properties and transport vehicles are taken into the Group possession. As of 31 December 2014, the carrying value of these assets for the Group amounted to HRK 485 million (2013: HRK 290 million), and for the Bank HRK 462 million (2013: HRK 298 million)

The following tables compare the credit risk exposure broken down by business and geographical segments as of 31 December 2014 and 31 December 2013 respectively to the collateral received.

Credit risk exposure by business segment and collateral

						GROUP
			Collateral and other credit risk mitigation			
in HRK million	Credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral
31 December 2014						
Retail	23,597	8,260	38	7,076	1,146	15,337
Small and Medium Enterprises	25,630	10,830	1,394	8,825	611	14,800
Large Corporates	7,768	4,815	4,223	566	26	2,953
Group Markets	1,402	178	-	-	178	1,224
Commercial Real Estate	1,023	510	-	510	-	513
Asset/Liability Management	18,439	39	-	33	6	18,400
Other	67	-	-	-	-	67
Total	**77,926**	**24,632**	**5,655**	**17,010**	**1,967**	**53,294**
31 December 2013						
Retail	23,297	8,273	50	7,133	1,090	15,024
Small and Medium Enterprises	24,003	11,058	1,193	9,260	605	12,945
Large Corporates	7,584	4,282	3,859	404	19	3,302
Group Markets	1,296	584	-	-	584	712
Commercial Real Estate	983	524	1	522	1	459
Asset/Liability Management	17,869	50	-	45	5	17,819
Other	67	-	-	-	-	67
Total	**75,099**	**24,771**	**5,103**	**17,364**	**2,304**	**50,328**

34.5) Credit risk (continued)

Credit risk exposure by business segment and collateral (continued)

						BANK
			Collateral and other credit risk mitigation			
in HRK million	Credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral
31 December 2014						
Retail	18,728	7,724	39	6,569	1,116	11,004
Small and Medium Enterprises	22,298	10,213	1,350	8,368	495	12,085
Large Corporates	6,018	4,814	4,223	566	25	1,204
Group Markets	1,576	178	-	-	178	1,398
Commercial Real Estate	1,023	511	-	510	1	512
Asset/Liability Management	16,178	-	-	-	-	16,178
Other	67	-	-	-	-	67
Total	**65,888**	**23,440**	**5,612**	**16,013**	**1,815**	**42,448**
31 December 2013						
Retail	18,776	7,770	50	6,648	1,072	11,006
Small and Medium Enterprises	21,637	10,472	1,131	8,825	516	11,165
Large Corporates	5,753	4,282	3,859	404	19	1,471
Group Markets	1,296	583	-	-	583	713
Commercial Real Estate	983	524	1	522	1	459
Asset/Liability Management	16,056	-	-	-	-	16,056
Other	67	-	-	-	-	67
Total	**64,568**	**23,631**	**5,041**	**16,399**	**2,191**	**40,937**

The following table compares the credit risk exposure broken down by financial instrument and the received collateral as of 31 December 2014 and 31 December 2013 respectively.

Credit risk exposure by financial instrument and collateral

									GROUP
			Collateralised by						
in HRK million	Credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral	Neither past due nor impaired	Past due but not impaired	Impaired
31 December 2014									
Cash balances at central banks and other demand deposits	3,643	-	-	-	-	3,643	3,508	135	-
Loans and advances to credit institutions	6,197	54	-	-	54	6,143	6,183	14	-
Loans and advances to customers	52,545	22,834	5,095	16,121	1,618	29,711	38,293	4,607	9,645
Held to maturity	1,457	-	-	-	-	1,457	1,451	6	-
Trading assets	377	-	-	-	-	377	377	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available for sale	7,024	-	-	-	-	7,024	7,019	-	5
Positive fair value of derivative financial instruments	94	-	-	-	-	94	94	-	-
Contingent credit liabilities	6,589	1,744	560	889	295	4,845	6,389	122	78
Total	**77,926**	**24,632**	**5,655**	**17,010**	**1,967**	**53,294**	**63,314**	**4,884**	**9,728**
31 December 2013									
Cash balances at central banks and other demand deposits	3,392	-	-	-	-	3,392	3,392	-	-
Loans and advances to credit institutions	6,550	183	-	-	183	6,367	6,530	20	-
Loans and advances to customers	52,238	23,069	4,696	16,539	1,834	29,169	40,037	3,266	8,935
Held to maturity	768	-	-	-	-	768	762	6	-
Trading assets	105	-	-	-	-	105	95	10	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available for sale	6,274	-	-	-	-	6,274	6,274	-	-
Positive fair value of derivative financial instruments	86	-	-	-	-	86	81	5	-
Contingent credit liabilities	5,686	1,519	407	825	287	4,167	5,587	61	38
Total	**75,099**	**24,771**	**5,103**	**17,364**	**2,304**	**50,328**	**62,758**	**3,368**	**8,973**

34.5) Credit risk (continued)

Credit risk exposure by financial instrument and collateral (continued)

									BANK
			Collateralised by						
in HRK million	Credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral	Neither past due nor impaired	Past due but not impaired	Impaired
31 December 2014									
Cash balances at central banks and other demand deposits	3,086	-	-	-	-	3,086	3,086	-	-
Loans and advances to credit institutions	5,724	54	-	-	54	5,670	5,710	14	-
Loans and advances to customers	44,392	21,830	5,096	15,227	1,507	22,562	32,546	3,360	8,486
Held to maturity	1,289	-	-	-	-	1,289	1,283	6	-
Trading assets	377	-	-	-	-	377	377	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available for sale	6,596	-	-	-	-	6,596	6,591	-	5
Positive fair value of derivative financial instruments	96	-	-	-	-	96	96	-	-
Contingent credit liabilities	4,328	1,556	516	786	254	2,772	4,187	86	55
Total	**65,888**	**23,440**	**5,612**	**16,013**	**1,815**	**42,448**	**53,876**	**3,466**	**8,546**
31 December 2013									
Cash balances at central banks and other demand deposits	3,127	-	-	-	-	3,127	3,127	-	-
Loans and advances to credit institutions	6,146	183	-	-	183	5,963	6,126	20	-
Loans and advances to customers	44,991	22,104	4,659	15,656	1,789	22,887	33,830	3,266	7,895
Held to maturity	499	-	-	-	-	499	493	6	-
Trading assets	104	-	-	-	-	104	94	10	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available for sale	6,057	-	-	-	-	6,057	6,057	-	-
Positive fair value of derivative financial instruments	86	-	-	-	-	86	81	5	-
Contingent credit liabilities	3,558	1,344	382	743	219	2,214	3,459	61	38
Total	**64,568**	**23,631**	**5,041**	**16,399**	**2,191**	**40,937**	**53,267**	**3,368**	**7,933**

The following table shows the credit risk exposure that was past due but for which specific allowances had not been established as of 31 December 2014 and 31 December 2013 respectively.

Credit risk exposure past due and not covered by specific allowances by Basel III exposure class and collateralization

											GROUP
	Credit risk exposure past due						Thereof collateralised				
in HRK Million	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due
31 December 2014												
Sovereign	140	117	8	9	-	6	79	78	1	-	-	-
Institutions	149	91	58	-	-	-	-	-	-	-	-	-
Corporates	2,719	1,660	755	214	21	69	1,897	1,261	489	144	3	-
Retail	2,020	1,459	417	63	31	50	592	422	152	5	12	1
Total	**5,028**	**3,327**	**1,238**	**286**	**52**	**125**	**2,568**	**1,761**	**642**	**149**	**15**	**1**
31 December 2013												
Sovereign	89	37	39	1	6	6	23	14	9	-	-	-
Institutions	19	19	-	-	-	-	-	-	-	-	-	-
Corporates	2,074	895	690	373	106	10	1,301	559	441	252	49	-
Retail	1,186	749	381	17	37	2	564	342	198	7	17	-
Total	**3,368**	**1,700**	**1,110**	**391**	**149**	**18**	**1,888**	**915**	**648**	**259**	**66**	**-**

34.5) Credit risk (continued)

Credit risk exposure past due and not covered by specific allowances by Basel 3 exposure class and collateralization (continued)

												BANK
	Credit risk exposure past due						Thereof collateralised					
in HRK million	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due
31 December 2014												
Sovereign	135	112	8	9	-	6	79	78	1	-	-	-
Institutions	14	14	-	-	-	-	-	-	-	-	-	-
Corporates	2,310	1,464	660	183	2	1	1,802	1,206	463	132	1	-
Retail	1,006	726	246	10	24	-	489	345	132	1	11	-
Total	**3,465**	**2,316**	**914**	**202**	**26**	**7**	**2,370**	**1,629**	**596**	**133**	**12**	**-**
31 December 2013												
Sovereign	89	37	39	1	6	6	23	14	9	-	-	-
Institutions	19	19	-	-	-	-	-	-	-	-	-	-
Corporates	2,074	895	690	373	106	10	1,301	559	441	252	49	-
Retail	1,186	749	381	17	37	2	564	342	198	7	17	-
Total	**3,368**	**1,700**	**1,110**	**391**	**149**	**18**	**1,888**	**915**	**648**	**259**	**66**	**-**

Loans and receivables to customers

The following tables present the customer loan book as of 31 December 2014 and 31 December 2013 respectively, excluding loans to financial institutions and commitments, broken down by reporting segment and risk category.

Loans and receivables to customers by business segment and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Loans to customers
31 December 2014					
Retail	12,600	4,329	1,460	3,180	21,569
Small and Medium Enterprises	14,608	1,885	310	5,677	22,480
Large Corporates	4,681	1,534	77	406	6,698
Group Markets	316	117	-	-	433
Commercial Real Estate	233	-	245	387	865
Asset/Liability Management	431	36	-	-	467
Other	18	2	-	13	33
Total	**32,887**	**7,903**	**2,092**	**9,663**	**52,545**
31 December 2013					
Retail	12,585	4,530	1,450	2,811	21,376
Small and Medium Enterprises	12,315	2,631	697	5,914	21,557
Large Corporates	4,695	1,818	149	356	7,018
Group Markets	353	221	-	1	575
Commercial Real Estate	162	-	234	452	848
Asset/Liability Management	771	49	-	-	820
Other	17	2	10	15	44
Total	**30,898**	**9,251**	**2,540**	**9,549**	**52,238**

34.5) Credit risk (continued)

Loans and receivables to customers by business segment and risk category (continued)

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Loans to customers
31 December 2014					
Retail	10,583	3,595	1,240	2,466	17,884
Small and Medium Enterprises	12,872	1,549	259	5,256	19,936
Large Corporates	3,166	1,345	55	383	4,949
Group Markets	487	117	-	-	604
Commercial Real Estate	233	-	245	386	864
Asset/Liability Management	122	-	-	-	122
Other	18	2	-	13	33
Total	**27,481**	**6,608**	**1,799**	**8,504**	**44,392**
31 December 2013					
Retail	10,623	3,905	1,299	2,125	17,952
Small and Medium Enterprises	11,605	2,217	640	5,026	19,488
Large Corporates	3,110	1,735	9	333	5,187
Group Markets	352	221	-	1	574
Commercial Real Estate	162	-	234	451	847
Asset/Liability Management	898	-	-	-	898
Other	17	2	10	16	45
Total	**26,767**	**8,080**	**2,192**	**7,952**	**44,991**

In the tables below, the non-performing loans and receivables to customers subdivided by reporting segment are contrasted with loan loss allowances and the collateral for non-performing loans (NPL) as of 31 December 2014 and 31 December 2013 respectively. The NPL ratio, the NPL coverage ratio and the NPL total coverage ratio are also included.
The NPL total coverage ratio specifies the coverage of non-performing loans by loan loss allowances (specific and collective allowances) and collateral for non-performing loans.

Non-performing loans and receivables to customers by business segment and coverage by loan loss allowances and collateral

							GROUP
in HRK million	Non-performing	Loans to customers	Risk provisions	NPL ratio	NPL coverage ratio	Collateral for NPL	NPL total coverage ratio
31 December 2014							
Retail	3,180	21,569	2,191	14.7%	68.9%	1,023	101.0%
Small and Medium Enterprises	5,677	22,480	3,056	25.3%	53.8%	2,735	102.0%
Large Corporates	406	6,698	289	6.1%	71.2%	127	102.5%
Group Markets	-	433	3	-	-	-	-
Commercial Real Estate	387	865	285	44.7%	73.6%	119	104.4%
Asset/Liability Management	-	467	2	-	-	-	-
Other	13	33	8	39.4%	61.5%	-	61.5%
Total	**9,663**	**52,545**	**5,834**	**18.4%**	**60.4%**	**4,004**	**101.8%**
31 December 2013							
Retail	2,811	21,376	1,889	13.2%	67.2%	900	99.2%
Small and Medium Enterprises	5,913	21,557	2,494	25.5%	46.5%	2,830	99.4%
Large Corporates	356	7,018	236	5.1%	66.3%	106	96.1%
Group Markets	1	575	1	0.2%	100.0%	-	100.0%
Commercial Real Estate	452	848	212	53.4%	46.9%	186	88.1%
Asset/Liability Management	-	820	3	-	-	-	-
Other	16	44	12	36.4%	75.0%	-	75.0%
Total	**8,994**	**51,682**	**4,847**	**17.4%**	**53.9%**	**4,022**	**98.6%**

34.5) Credit risk (continued)

Non-performing loans and receivables to customers by business segment and coverage by loan loss allowances and collateral (continued)

							BANK
in HRK million	Non-performing	Loans to customers	Risk provisions	NPL ratio	NPL coverage ratio	Collateral for NPL	NPL total coverage ratio
31 December 2014							
Retail	2,466	17,884	1,585	13.8%	64.3%	1,023	105.8%
Small and Medium Enterprises	5,256	19,936	2,663	26.4%	50.7%	2,735	102.7%
Large Corporates	383	4,949	241	7.7%	62.9%	127	96.1%
Group Markets	-	604	2	-	-	-	
Commercial Real Estate	386	864	285	44.7%	73.8%	120	104.9%
Asset/Liability Management	-	122	-	-	-	-	-
Other	13	33	8	39.4%	61.5%	-	61,5%
Total	**8,504**	**44,392**	**4,784**	**19.2%**	**56.3%**	**4,005**	**103.4%**
31 December 2013							
Retail	2,125	17,952	1,359	11.8%	64.0%	900	106.3%
Small and Medium Enterprises	5,026	19,488	2,177	25.8%	43.3%	2,830	99.6%
Large Corporates	333	5,187	189	6.4%	56.8%	106	88.6%
Group Markets	1	574	1	0.2%	100.0%	-	100,0%
Commercial Real Estate	451	847	212	53.2%	47.0%	186	88.2%
Asset/Liability Management	-	898	-	-	-	-	-
Other	16	45	12	35.6%	75.0%	-	75.0%
Total	**7,952**	**44,991**	**3,950**	**17.7%**	**49.7%**	**4,022**	**100.2%**

The 'NPL ratio' in this section ('loans and receivables to customers') is calculated by dividing non-performing loans and receivables by total loans and receivables to customers. Hence, it differs from the 'NPE ratio' in the section 'Credit risk exposure'.

The following tables show the loans and receivables to customers broken down by reporting segment and currency as of 31 December 2014 and 31 December 2013 respectively.

Loans and receivables to customers by business segment and currency

						GROUP
in HRK million	EUR	Local Currencies	CHF	USD	Other currencies	Loans to customers
31 December 2014						
Retail	10,114	7,870	3,579	6	-	21,569
Small and Medium Enterprises	17,904	3,442	624	481	29	22,480
Large Corporates	6,237	461	-	-	-	6,698
Group Markets	17	411	-	5	-	433
Commercial Real Estate	779	23	63	-	-	865
Asset/Liability Management	345	122	-	-	-	467
Other	11	22	-	-	-	33
Total	**35,407**	**12,351**	**4,266**	**492**	**29**	**52,545**
31 December 2013						
Retail	10,501	7,069	3,796	5	5	21,376
Small and Medium Enterprises	16,858	3,407	669	38	29	21,001
Large Corporates	6,000	602	-	416	-	7,018
Group Markets	65	497	-	9	4	575
Commercial Real Estate	741	46	61	-	-	848
Asset/Liability Management	820	-	-	-	-	820
Other	3	33	-	8	-	44
Total	**34,988**	**11,654**	**4,526**	**476**	**38**	**51,682**

34.5) Credit risk (continued)

Loans and receivables to customers by business segment and currency (continued)

						BANK
in HRK million	EUR	Local Currencies	CHF	USD	Other currencies	Loans to customers
31 December 2014						
Retail	8,681	5,623	3,574	6	-	17,884
Small and Medium Enterprises	15,826	2,987	613	481	29	19,936
Large Corporates	4,653	296	-	-	-	4,949
Group Markets	18	581	-	5	-	604
Commercial Real Estate	778	23	63	-	-	864
Asset/Liability Management	-	122	-	-	-	122
Other	10	23	-	-	-	33
Total	**29,966**	**9,655**	**4,250**	**492**	**29**	**44,392**
31 December 2013						
Retail	9,281	4,870	3,796	5	-	17,952
Small and Medium Enterprises	15,604	3,149	669	38	28	19,488
Large Corporates	4,329	442	-	416	-	5,187
Group Markets	65	496	-	9	4	574
Commercial Real Estate	739	46	62	-	-	847
Asset/Liability Management	341	557	-	-	-	898
Other	3	34	-	8	-	45
Total	**30,362**	**9,594**	**4,527**	**476**	**32**	**44,991**

34.6) Market risk

Definition and overview

Market risk is the risk of loss that may arise due to adverse changes in market prices and to the parameters derived therefrom. At the Group and the Bank market risk is divided into interest rate risk, currency risk and equity risk. This concerns both trading and bank book positions.

Methods and instruments employed

At the Group and the Bank potential losses that may arise from market movements are assessed using the Value at Risk (VaR). The calculation is done according to the method of historic simulation with a one-sided confidence level of 99%, a holding period of one day and a simulation period of two years. The VaR describes what level of losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under normal market conditions.

Back-testing is used to constantly monitor the validity of the statistical methods. This process is conducted with a one-day delay to monitor if the model projections regarding losses have actually materialised. At a confidence level of 99%, the actual loss on a single day should exceed the VaR statistically only two to three times a year (1% of around 250 workdays).

This shows one of the limits of the VaR approach: on the one hand, the confidence level is limited to 99%, and on the other hand, the model takes into account only those market scenarios observed in each case within the simulation period of two years, and calculates the VaR for the current position of the bank on this basis. In order to investigate any extreme market situations beyond this, stress tests are conducted at the Bank. These events include mainly market movements of low probability.

The stress tests are carried out according to several methods: ‘Stressed VaR’ is derived from the normal VaR calculation. But instead of simulating only over the two most recent years, an analysis of a much longer period is carried out in order to identify a one-year period that constitutes a relevant period of stress for the current portfolio mix. According to the legal framework, that one-year period is used to calculate a VaR with a 99% confidence level. This enables the Group and the Bank on the one hand to hold sufficient own funds available for the trading book also in periods of elevated market volatility, while on the other hand also enabling it to incorporate these resulting effects in the management of trading positions.

In the ‘extreme value theory’, a Pareto distribution is adjusted to the extreme end of the loss distribution. In this manner, a continuous function is created from which extreme confidence levels such as 99.95% can be evaluated.

34.6) Market risk (continued)

Furthermore, standard scenarios are calculated in which the individual market factors are exposed to extreme movements. Such scenarios are calculated at the Bank for interest rates, stock prices, exchange rates and volatilities. Historic scenarios are a modification of the concept of standard scenarios. In this case, risk factor movements after certain events such as '11 September' or the 'Lehman bankruptcy' form the basis of the stress calculation. In order to calculate historical probabilistic scenarios, the most significant risk factors for the current portfolio are determined and their most adverse movement during the last years is applied. For the probabilistic scenarios shifts of important market factors are determined for various quantiles of their distributions, and these values are then used to calculate stress results. These analyses are made available to the management board and the supervisory board within the scope of the monthly market risk reports.

For the local capital requirements the Group and the Bank are using the standardized model.

Methods and instruments of risk mitigation

At the Group and the Bank, market risks are controlled in the trading book by setting several layers of limits. The overall limit on the basis of VaR for the trading book is decided by the board while taking into account the risk-bearing capacity and projected earnings. A further breakdown is done by the Management Board and Market Risk Committee on the basis of a proposal from the Market Risk Management unit.

All market risk activities of the trading book are assigned risk limits that are statistically consistent in their entirety with the VaR overall limit. The VaR limit is assigned in a top-down procedure to the individual trading units. This is done up to the level of the individual trading groups or departments. Additionally, in a bottom-up procedure, sensitivity limits are assigned to even smaller units. These are then aggregated upwards and applied as a second limit layer to the VaR limits. The consistency between the two limit approaches is verified regularly.

Limit compliance is verified at two levels: by the Market risk management unit in the Bank and by Risk Management Group Capital Markets. The monitoring of the limits is done within the course of the trading day based on sensitivities. This can also be carried out by individual traders or chief traders on an ad hoc basis.
The VaR is calculated is available and reported to the individual trading units as well as to the superior management levels all the way up to the Management board.

Certain Banking book positions are subjected to a daily VaR analysis. The total VaR is determined in the same manner as the VaR for the Trading book.

Analysis of market risk

Value at Risk of banking book and trading book
The following tables show the VaR amounts as of 31 December 2014 and 31 December 2013 respectively at the 99% confidence level using equally weighted market data and with a holding period of one day:

Value at Risk of banking book and trading book 2014

in HRK thousands	Total	Interest	Currency	Shares	Commodity	Volatility
Banking book	199	199	-	-	-	-
Fixed Income AFS	1,254	1,257	-	35	-	-
Fixed Income Investment	158	158	-	-	-	-
Trading book	137	13	137	11	-	-

Value at Risk of banking book and trading book 2013

n HRK thousands	Total	Interest	Currency	Shares	Commodity	Volatility
Banking book	326	326	-	-	-	-
Fixed Income AFS	1,627	1,613	-	49	-	-
Fixed Income Investment	181	181	-	-	-	-
Trading book	193	32	191	39	-	-

34.6) Market risk (continued)

Interest rate risk of banking book
Interest rate risk is the risk of an adverse change in the fair value of financial instruments caused by a movement in market interest rates. This type of risk arises when mismatches exist between assets and liabilities, including derivatives, in respect of their maturities or of the timing of interest rate adjustments.

In order to identify interest rate risk, all financial instruments, including transactions not recognized on the balance sheet, are grouped into maturity bands based on their remaining terms to maturity or terms to an interest rate adjustment. Positions without a fixed maturity (e.g. demand deposits) are included on the basis of modeled deposit rates that are determined by means of statistical methods and the rules from the CNB.

The following tables list the open fixed-income positions held by the Bank in the four currencies that carry a an interest rate risk – EUR, HRK, USD and CHF – as of 31 December 2014 and 31 December 2013.

Only the open fixed-income positions that are not allocated to the trading book are presented. Positive values indicate fixed-income risks on the asset side, i.e. a surplus of asset items; negative values represent a surplus on the liability side.

Open fixed-income positions not assigned to the trading book in 2014

in HRK thousand	1(3) years	3(5) years	5(7) years	7(10) years	Over 10 years
Fixed-interest gap in HRK positions	51,308	(38,125)	(10,299)	(36,798)	(3,886)
Fixed-interest gap in EUR positions	(146,491)	57,162	(27,196)	(30,631)	(9,690)
Fixed-interest gap in CHF positions	7,664	19,983	29,029	50,292	271,363
Fixed-interest gap in USD positions	(5,195)	(339)	(6,652)	(10,843)	(12)

Open fixed-income positions not assigned to the trading book in 2013

in HRK thousand	1(3) years	3(5) years	5(7) years	7(10) years	Over 10 years
Fixed-interest gap in HRK positions	52,219	(41,114)	(25,011)	(34,635)	(3,828)
Fixed-interest gap in EUR positions	(11,105)	24,489	(41,900)	(32,538)	(17,928)
Fixed-interest gap in CHF positions	40,126	(1,857)	(2,654)	(4,354)	(21,589)
Fixed-interest gap in USD positions	(2,015)	(6,388)	(4,669)	182	(4,942)

34.6) Market risk (continued)

Exchange rate risk
The Group and the Bank are exposed to exchange rate risk.

Risk from open currency positions is the risk related to exchange rates that derives from the mismatch between assets and liabilities, or from currency-related financial derivatives. These risks might originate from customer-related operations or proprietary trading and are monitored and managed on a daily basis. Foreign currency exposure is subject to regulatory and internal limits. The internal limits are set by the Management Board and the Market Risk Committee.

The following table shows the largest open exchange rate positions of the Group per year-end 2014 as of 31 December 2014 and 31 December 2013 respectively.

Open exchange rate positions

in HRK thousands	2014	2013
Hungarian forint (HUF)	670	(41)
Hong Kong dollar (HKD)	131	462
Swiss franc (CHF)	124	536
US dollar (USD)	110	61
Czech koruna (CZK)	101	326
Romanian Lei (RON)	64	63
Polish Zloty (PLN)	49	300
Turkish lira (TRY)	43	191

34.7) Liquidity risk

Definition and overview

The liquidity risk is defined in the Group and the Bank in line with the principles set out by the Basel Committee on Banking Supervision and the Regulation (EU) No 575/2013 (CRR). Accordingly, a distinction is made between market liquidity risk, which is the risk that the Bank cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the Bank will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition.

Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified manner, while structural liquidity risk is the long-term risk of losses due to a change in the Group's own refinancing cost or spread.

The Group and the Bank 2014 liquidity strategy was implemented successfully.

The Group and the Bank continue its ongoing project activities to improve the framework for liquidity risk reporting. Besides the preparation for the new regulatory reporting requirements, current projects are aimed at continuously improving the internal stress testing methodology and the data quality used in the risk measurement.

Methods and instruments employed

Short-term insolvency risk is monitored by calculating the survival period for each currency on solo level. This analysis determines the maximum period during which the entity can survive a severe combined market and idiosyncratic crisis while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit 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. To reflect the reputational risk from callable own issues, the principal outflows from these liabilities are modelled to the next call date in all stress scenarios.

34.7) Liquidity risk (continued)

Legal lending limits (LLLs) exists as well as one of the key liquidity monitoring tools. They restrict liquidity flows between members of the Erste Group in different countries. LLLs set limits on a bank's claims against a Group of related companies. The limits refer to the Bank's own funds and typical amounts are up to 25%. This restriction is taken into account for assessment of liquidity risk in the survival period model.

As far back as 2011, the Bank's risk control has been based on the new Basel III liquidity risk measures, especially Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Internally, the ratios are monitored and from 2014 on internal targets are set for them. At the end of Q4/2013, both LCR and NSFR for the ESB were above 100%.

Additionally, the traditional liquidity gaps (depicting the going concern maturity mismatches) of the Bank are reported and monitored regularly. Funding concentration risk is continuously analysed in respect to counterparties. The Bank's fund transfer pricing (FTP) system has also proven to be an efficient tool for structural liquidity risk management.

Methods and instruments of risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by the Bank.

The short-term liquidity risk is managed by limits resulting from the survival period model and by internal LCR targets. Limit breaches are reported to the Asset Liability Committee. Another important instrument for managing the liquidity risk within the Bank is the FTP system. As the process of planning funding needs provides important data for liquidity management, a detailed overview of funding needs is prepared on a quarterly basis for the planning horizon.

The Comprehensive Contingency Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

Analysis of liquidity risk

Liquidity gap

The long-term liquidity position is managed using liquidity gaps on the basis of expected cash flows. This liquidity position is calculated for each materially relevant currency and based on the assumption of ordinary business activity.

Expected cash flows are broken down by contractual maturities in accordance with the amortization schedule and arranged in maturity ranges.

The following table shows the liquidity gaps as of 31 December 2014 and 31 December 2013

	< 1 month		1(12) months		1(5) years		> 5 years	
in HRK million	2014	2013	2014	2013	2014	2013	2014	2013
Liquidity GAP	8,167	5,429	(16,215)	(18,509)	4,275	4,604	(4,345)	949

An excess of assets over liabilities is indicated by a positive value, while an excess of liabilities over assets is indicated by a negative value. The cash inflows from liquid securities, which are accepted as collateral by the central banks to which the Group has access, are shifted to the first time bucket instead of showing them at their contractual maturity.

34.7) Liquidity risk (continued)

Counterbalancing capacity

The Bank regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserve at the central banks as well as unencumbered central bank eligible assets and other liquid securities, including changes from repos, reverse repos and securities lending transactions. These assets can be mobilised in the short term to offset potential cash outflows in a crisis situation. The term structure of the Bank's counterbalancing capacity as of year-end 2014 and year-end 2013 are shown in the tables below:

Term structure of counterbalancing capacity 2014

i in HRK million	< 1 week	1 week(1) month	1(3) months	3(6) months	6(12) months
Cash, excess reserve	1,080	-	-	-	-
Liquid assets	5,466	(13)	(59)	(14)	(222)
Counterbalancing capacity	**6,546**	**(13)**	**(59)**	**(14)**	**(222)**

Term structure of counterbalancing capacity 2013

in HRK million	< 1 week	1 week(1) month	1(3) months	3(6) months	6(12) months
Cash, excess reserve	821	-	-	-	-
Liquid assets	5,049	131	(58)	6	15
Counterbalancing capacity	**5,870**	**131**	**(58)**	**6**	**15**

The figures above show the total amount of potential liquidity available for the Bank in a going concern situation, taking into account the applicable central bank haircuts.

Financial liabilities

Maturities of contractual discounted cash flows from financial liabilities as of 31 December 2013 and 31 December 2013 respectively, were as follows:

Financial liabilities 2014

						GROUP
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**60,915**	**63,647**	**16,558**	**24,214**	**14,116**	**8,759**
Deposits by banks	20,380	21,845	1,216	6,307	7,770	6,552
Customer deposits	38,755	39,568	15,318	17,907	4,988	1,355
Debt securities in issue	302	364	2	-	362	-
Subordinated liabilities	1,478	1,870	22	-	996	852
Derivative liabilities	**94**	**94**	**77**	**5**	**11**	**1**
Contingent liabilities	**6,589**	**6,589**	**708**	**4,869**	**857**	**155**
Financial guarantees	2,255	2,255	161	1,461	486	147
Irrevocable commitments	4,334	4,334	547	3,408	371	8
Total	**67,598**	**70,330**	**17,343**	**29,088**	**14,984**	**8,915**

						BANK
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**52,323**	**54,602**	**15,075**	**20,406**	**11,358**	**7,763**
Deposits by banks	13,318	14,442	784	2,681	5,385	5,592
Customer deposits	37,225	37,926	14,267	17,725	4,615	1,319
Debt securities in issue	302	364	2	-	362	-
Subordinated liabilities	1,478	1,870	22	-	996	852
Derivative liabilities	**94**	**94**	**77**	**5**	**11**	**1**
Contingent liabilities	**4,328**	**4,328**	**201**	**3,319**	**681**	**127**
Financial guarantees	1,831	1,831	130	1,196	386	119
Irrevocable commitments	2,497	2,497	71	2,123	295	8
Total	**56,745**	**59,024**	**15,353**	**23,730**	**12,050**	**7,891**

34.7) Liquidity risk (continued)

Financial liabilities 2013

						GROUP
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**59,705**	**61,640**	**19,092**	**27,692**	**11,485**	**3,371**
Deposits by banks	20,736	21,725	4,546	10,214	5,021	1,944
Customer deposits	37,786	38,440	14,525	17,456	5,053	1,406
Debt securities in issue	302	422	2	14	385	21
Subordinated liabilities	881	1,053	19	8	1,026	-
Derivative liabilities	**89**	**89**	**21**	**17**	**48**	**3**
Contingent liabilities	**5,686**	**5,686**	**212**	**4,315**	**1,012**	**147**
Financial guarantees	1,845	1,845	126	1,122	460	137
Irrevocable commitments	3,841	3,841	86	3,193	552	10
Total[1]	**65,480**	**67,415**	**19,325**	**32,024**	**12,545**	**3,521**

						BANK
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**52,631**	**54,360**	**16,741**	**23,743**	**10,880**	**2,996**
Deposits by banks	14,381	15,088	2,825	6,217	4,447	1,599
Customer deposits	37,090	37,882	13,895	17,526	5,064	1,397
Debt securities in issue	302	364	2	-	362	-
Subordinated liabilities	858	1,026	19	-	1,007	-
Derivative liabilities	**89**	**89**	**21**	**17**	**48**	**3**
Contingent liabilities	**3,558**	**3,558**	**184**	**2,634**	**628**	**112**
Financial guarantees	1,549	1,549	103	934	410	102
Irrevocable commitments	2,009	2,009	81	1,700	218	10
Total[1]	**57,827**	**58,007**	**16,946**	**26,394**	**11,556**	**3,111**

34.8) Operational risk

Definition and overview

The Bank defines operational risk as the risk of loss resulting from inadequacy or failure of internal processes, people or systems, or from external events, including legal risks. Both quantitative and qualitative methods are used to identify operational risks. Consistent with international practice, the responsibility for managing operational risk rests with the line management.

Methods and instruments employed

The quantitative measurement methods are based on internal loss experience data, which is collected across the Bank using a standard methodology and entered into a central data pool. Additionally, in order to be able to model losses that have not occurred in the past but are nonetheless possible, scenarios and external data are also used. the Bank sources external data from a leading non-profit risk-loss data consortium.
For the local capital requirements the Bank is using the standardized model whereas for the Group Capital adequacy purposes the Bank is using Advanced Measurement Approach (AMA).
AMA is a sophisticated approach to measuring operational risk. Pursuant to AMA, the required capital is calculated using an internal VaR model, taking into account internal data, external data, scenario analysis, business environment and internal risk control factors. In 2013, the Bank received the approval (within the Erste Group Bank AG approval) to use insurance contracts for mitigation within the AMA.

Methods and instruments of risk mitigation

In addition to quantitative methods, qualitative methods are also used to determine operational risk, such as risk assessment surveys (risk and control self-assessments). The results of and suggestions for risk control in these surveys, which are conducted by experts, are reported to the line management and thus help to reduce operational risks. The Bank also reviews certain key indicators periodically to ensure early detection of changes in risk potential that may lead to losses.

The Bank uses a Group-wide insurance programme, which has reduced the cost of meeting the Bank's traditional property insurance needs and made it possible to buy additional insurance for previously uninsured bank-specific risks. This programme uses a captive reinsurance entity as a vehicle to share losses within the Group and access the external market.

The quantitative and qualitative methods used, together with the insurance strategy and the modelling approaches described above, form the operational risk framework of the Bank. Information on operational risk is periodically communicated to the management board via various reports, including the quarterly top management report, which describes the recent loss history, loss development, qualitative information from risk assessments and key risk indicators as well as the operational VaR for the Bank.

Distribution of operational risk events

Detailed below is the percentage composition by type of event of operational risk sources as defined by the Basel III Capital Accord. The observation period is from 1 January 2010 to 31 December 2014.

The event type categories are as follow:

Internal fraud:
Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity or discrimination events that involve at least one internal party.

External fraud:
Losses due to acts by a third party of a type intended to defraud, misappropriate property or circumvent the law.

Employment practices and workplace safety:
Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity or discrimination events.

34.8) Operational risk (continued)

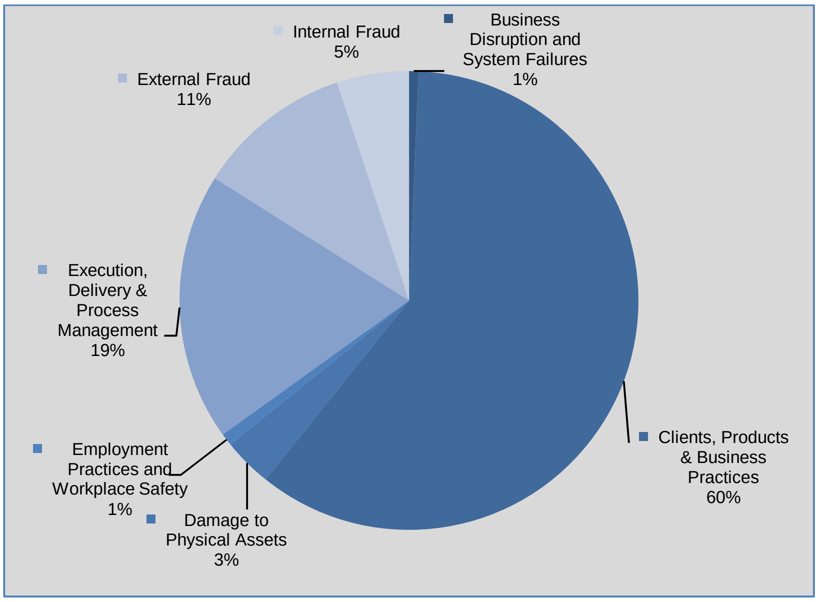
Clients, products and business practices:
Losses arising from unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) or from the nature or design of a product.

Damage to physical assets:
Losses arising from loss of or damage to physical assets caused by natural disaster or other events.

Business disruption and system failures:
Losses arising from disruption of business or system failures.

Execution, delivery and process management:
Losses from failed transaction processing or process management. Losses pertaining to relationships with trading counterparties and vendors or suppliers.

Event Type Category 2014



35. Fair value of assets and liabilities

A quoted price in an active market provides the most reliable evidence of fair value. Where such prices are available, they are used to measure the fair value (level 1 of the fair value hierarchy).

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the valuation model are observable the instrument is classified as level 2 of the fair value hierarchy. For level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor of valuation models that rely entirely on observable market data. In these cases individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as level 3 of the fair value hierarchy. For level 3 valuations besides observable parameters typically credit spreads derived from internally calculated historical PD and LGD measures are used as unobservable parameters.

Fair values of financial instruments

All financial instruments are measured at fair value on recurring basis.

Financial instruments measured at fair value in the balance sheet

The measurement of fair value at the Group and the Bank are based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Financial instruments for which fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid Over-The-Counter (OTC) bonds.

Description of the valuation models and inputs

The Group and the Bank use only valuation models which have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently.

OTC-derivative financial instruments

Derivative instruments traded in liquid markets are valued by standard valuation models.

The Group and the Bank values derivatives at mid-market levels. To reflect the potential bid-ask-spread of the relevant positions an adjustment based on market liquidity is performed. The adjustment parameters depend on product type, currency, maturity and notional size. Parameters are reviewed on a regular basis or in case of significant market moves. Netting is not applied when determining the bid-ask-spread adjustments.

Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC derivatives. For the CVA the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Bank's credit quality. The bank has implemented an approach, where the modelling of the expected exposure is based on option replication strategies. This modelling approach is considered for the most relevant portfolios and products. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default of counterparties which are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles being present in the central European market. Thereby market based valuation concepts have been incorporated. Counterparties with liquid bond or CDS markets are valued by the respective single-name market based PD derived from the prices. Bank's probability of default has been derived from the buy-back levels of Bank's issuances. Netting has only been considered for a few counterparties where the impact was material. For those netting has been applied for both CVA and DVA.

35. Fair value of assets and liabilities (continued)

According to the described methodology the cumulative CVA-adjustments amounts to HRK 1.447 million and the total DVA-adjustment amounts to HRK 620 thousands.

Description of the valuation process for fair value measurements categorised within Level 3

A level 3 position involves one or more significant inputs that are not directly observable on the market. Additional price verification steps need to be done. These may include reviewing relevant historical data and benchmarking to similar transactions, among others. This involves estimation and expert judgment.

The responsibility for valuation of a position of measured at fair value is independent from trading units. Additionally the Group and the Bank have implemented an independent validation function in order to ensure separation between units responsible for model development, fair value determination and validation. The target of independent model validation is to evaluate model risks arising from the models' theoretical foundation, the appropriateness of input data (market data) and model calibration

Fair value hierarchy

The table below details the methods used to determine the fair value with respect to levels of fair value hierarchy.

								GROUP
	Quoted market prices in active markets Level 1		Marked to model based on observable market data Level 2		Marked to model based on non-observable inputs Level 3		Total	
in HRK million	2013	2014	2013	2014	2013	2014	2013	2014
ASSETS								
Financial assets - held for trading	200	6	189	469	-	-	389	475
Derivatives	-	-	86	94	-	-	86	94
Other trading assets	200	6	103	375	-	-	303	381
Financial assets - available for sale	5,012	5,766	1,335	1,479	4	8	6,351	7,253
Total assets	**5,212**	**5,772**	**1,524**	**1,948**	**4**	**8**	**6,740**	**7,728**
LIABILITIES								
Financial liabilities held for trading	-	-	89	94	-	-	89	94
Derivatives	-	-	89	94	-	-	89	94
Other trading liabilities	-	-	-	-	-	-	-	-
Total liabilities	**-**	**-**	**89**	**94**	**-**	**-**	**89**	**94**

The allocation of positions to levels and any changes between the levels are reflected at the end of the reporting period.

								BANK
	Quoted market prices in active markets Level 1		Marked to model based on observable market data Level 2		Marked to model based on non-observable inputs Level 3		Total	
in HRK million	2013	2014	2013	2014	2013	2014	2013	2014
ASSETS								
Financial assets - held for trading	22	6	189	472	-	-	211	478
Derivatives	-	-	86	97	-	-	86	97
Other trading assets	22	6	103	375	-	-	125	381
Financial assets - available for sale	4,795	5,298	1,335	1,369	4	5	6,134	6.672
Total assets	**4,817**	**5,304**	**1,524**	**1,841**	**4**	**5**	**6,345**	**7,150**
LIABILITIES								
Financial liabilities held for trading	-	-	89	94	-	-	89	94
Derivatives	-	-	89	94	-	-	89	94
Other trading liabilities	-	-	-	-	-	-	-	-
Total liabilities	**-**	**-**	**89**	**94**	**-**	**-**	**89**	**94**

35. Fair value of assets and liabilities (continued)

The reclassification of securities to level 3 was caused by decrease in market liquidity and in-depth analysis of broker quotes. The volume of securities that are in level 3 for 2013 and 2014 is immaterial.

Changes in volumes of Level 1 and Level 2

This tables shows the changes in Volumes of Level 1 and Level 2 of financial instruments measured at fair value in the balance sheet.

		GROUP
In HRK million	**Level 1**	**Level 2**
Securities		
Net transfer from Level 1	-	(136)
Net transfer from Level 2	136	-
Net transfer from Level 3	-	(2)
Purchases/sales/expiries	1,241	60
Total year-to-date change	**1,377**	**(78)**

		BANK
In HRK million	**Level 1**	**Level 2**
Securities		
Net transfer from Level 1	-	(136)
Net transfer from Level 2	136	-
Net transfer from Level 3	-	(1)
Purchases/sales/expiries	984	55
Total year-to-date change	**1,120**	**(82)**

35. Fair value of assets and liabilities (continued)

Financial instruments whose fair value is disclosed in the notes

The following table shows fair values and fair value hierarchy of financial instruments whose fair value is disclosed in the notes for the year-end 2014 and 2013.

2014	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
					GROUP
in HRK million					
ASSETS					
Cash and cash balances	4,674	4,674			
Financial assets - held to maturity	1,456	1,459	946	513	-
Loans and receivables to credit institutions	6,194	6,244		-	6,244
Loans and receivables to customers	46,711	47,088		-	47,088
LIABILITIES					
Financial liabilities measured at amortised costs					
Deposits from banks	21,227	20,898		-	20,898
Deposits from customers	38,027	37,589		-	37,589
Debt securities issued	933	830	528	302	-
Other financial liabilities	728	722	-	-	722
FINANCIAL GUARANTEES AND COMMETMENTS					
Financial guarantees	2,257	2,257	-	-	2,257
Irrevocable commitments	4,334	4,334	-	-	4,334

2013	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
					GROUP
in HRK million					
ASSETS					
Cash and cash balances	4,297	4,297			
Financial assets - held to maturity	768	778	244	528	6
Loans and receivables to credit institutions	6,546	6,294		-	6,294
Loans and receivables to customers	47,391	45,565		-	45,565
LIABILITIES					
Financial liabilities measured at amortised costs					
Deposits from banks	20,988	20,043		-	20,043
Deposits from customers	37,214	36,983		-	36,983
Debt securities issued	931	869	587	282	
Other financial liabilities	572	569	-	-	569
FINANCIAL GUARANTEES AND COMMETMENTS					
Financial guarantees	1,845	1,845	-	-	1,845
Irrevocable commitments	3,840	3,840	-	-	3,840

35. Fair value of assets and liabilities (continued)

					BANK
2014	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
in HRK million					
ASSETS					
Cash and cash balances	4,035	4,035			
Financial assets - held to maturity	1,288	1,291	885	406	-
Loans and receivables to credit institutions	5,720	5,767		-	5,767
Loans and receivables to customers	39,607	39,927		-	39,927
LIABILITIES					
Financial liabilities measured at amortised costs					
Deposits from banks	14,165	13,946		-	13,946
Deposits from customers	37,151	36,724		-	36,724
Debt securities issued	933	830	528	302	-
Other financial liabilities	74	73	-	-	73
FINANCIAL GUARANTEES AND COMMETMENTS					
Financial guarantees	1,831	1,831	-	-	1,831
Irrevocable commitments	2,496	2,496	-	-	2,496

					BANK
2013	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
in HRK million					
ASSETS					
Cash and cash balances	3,949	3,949			
Financial assets - held to maturity	499	506	196	304	6
Loans and receivables to credit institutions	6,143	5,907		-	5,907
Loans and receivables to customers	41,040	39,459		-	39,459
LIABILITIES					
Financial liabilities measured at amortised costs					
Deposits from banks	14,610	13,953		-	13,953
Deposits from customers	37,015	36,785		-	36,785
Debt securities issued	931	869	587	282	
Other financial liabilities	75	75	-	-	75
FINANCIAL GUARANTEES AND COMMETMENTS					
Financial guarantees	1,549	1,549	-	-	1,549
Irrevocable commitments	2,008	2,008	-	-	2,008

35. Fair value of assets and liabilities (continued)

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PD's used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of financial assets held to maturity are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of issued securities and subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, if these are available, otherwise it is estimated by taking into consideration the actual interest rate environment and in this case they are allocated to level 3.

The fair value of other liabilities measured at amortized cost is estimated by taking into consideration the actual interest rate environment and own credit spreads, and these are allocated to level 3.

Fair values of non-financial assets

The following table shows fair values and fair value hierarchy of non-financial instruments at the year-end 2014 and 2013:

					GROUP
in HRK million	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
Assets whose Fair Value is disclosed in the notes					
2014					
Investment property	20	27	-	-	27
2013					
Investment property	20	27	-	-	27

					BANK
in HRK million	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
Assets whose Fair Value is disclosed in the notes					
2014					
Investment property	20	27	-	-	27
2013					
Investment property	20	27	-	-	27

36. Financial instruments per category according to IAS 39

									GROUP
	As of 31 December 2014								
	Category of financial instruments								
in HRK million	Loans and receivables	Held to maturity	Held for trading	Designa-ted at fair value	Available for sale	Financial liabilities at amortised cost	Other financial assets	Finance lease according to IAS 17	Total
ASSETS									
Cash and balances with central banks	3,643	-	-	-	-	-	1,031	-	4,674
Loans and advances to credit institutions	6,194	-	-	-	-	-	-	-	6,194
Loans and advances to customers	45,779	-	-	-	-	-	-	932	46,711
Financial assets - held for trading	-	-	476	-	-	-	-	-	476
Financial assets - available for sale	-	-	-	-	7,273	-	-	-	7,273
Financial assets - held to maturity	-	1,456	-	-	-	-	-	-	1,456
Total financial assets	**55,616**	**1,456**	**476**	**-**	**7,273**	**-**	**1,031**	**932**	**66,784**
Net gains / losses recognized through profit or loss[1]	1,178	-	24	-	5	-	-	-	1,207
Net gains / losses recognized through OCI	-	-	-	-	(86)	-	-	-	(86)
LIABILITIES									
Financial liabilities - held for trading	-	-	(94)	-	-	-	-	-	(94)
Financial liabilities -measured at amortized cost	-	-	-	-	-	(60,915)	-	-	(60,915)
Total financial liabilities	**-**	**-**	**(94)**	**-**	**-**	**(60,915)**	**-**	**-**	**(61,009)**

									GROUP
	As of 31 December 2013								
	Category of financial instruments								
in HRK million	Loans and receivables	Held to maturity	Held for trading	Designa-ted at fair value	Available for sale	Financial liabilities at amortised cost	Other financial assets	Finance lease according to IAS 17	Total
ASSETS									
Cash and balances with central banks	3,392	-	-	-	-	-	905	-	4,297
Loans and advances to credit institutions	6,546	-	-	-	-	-	-	-	6,546
Loans and advances to customers	47,391	-	-	-	-	-	-	-	47,391
Financial assets - held for trading		-	390	-	-	-	-	-	390
Financial assets - available for sale		-	-	-	6,363	-	-	-	6,363
Financial assets - held to maturity		768	-	-	-	-	-	-	768
Total financial assets	**57,329**	**768**	**390**		**6,363**		**905**		**65,755**
Net gains / losses recognized through profit or loss[1]	1,203	-	142		1	-	-	-	1,346
Net gains / losses recognized through OCI	-	-	-	-	(8)	-	-	-	(8)
LIABILITIES									
Financial liabilities - held for trading	-	-	(89)	-	-	-	-	-	(89)
Financial liabilities -measured at amortized cost	-	-	-	-	-	(59,705)	-	-	(59,705)
Total financial liabilities	-	-	**(89)**	-	-	**(59,705)**	-	-	**(59,794)**

[1]Including impairments

36. Financial instruments per category according to IAS 39 (continued)

BANK

As of 31 December 2014

in HRK million	Loans and receivables	Held to maturity	Trading	Designa-ted at fair value	Available for sale	Financial liabilities at amortised cost	Other financial assets	Finance lease according to IAS 17	Total
	Category of financial instruments								
ASSETS									
Cash and balances with central banks	3,086	-	-	-	-	-	949	-	4,035
Loans and advances to credit institutions	5,720	-	-	-	-	-	-	-	5,720
Loans and advances to customers	39,607	-	-	-	-	-	-	-	39,607
Financial assets- held for trading	-	-	478				-	-	478
Financial assets - available for sale	-	-	-	-	6,693	-	-	-	6,693
Financial assets - held to maturity		1,288	-	-	-	-	-	-	1,288
Total financial assets	**48,413**	**1,288**	**478**	-	**6,693**	-	**949**	-	**57,821**
Net gains / losses recognized through profit or loss[1]	1,093	-	21	-	-	-	-	-	1,114
Net gains / losses recognized through OCI	-	-	-	-	(89)	-	-	-	(89)
LIABILITIES									
Financial liabilities - held for trading	-	-	(94)	-	-	-	-	-	(94)
Financial liabilities -measured at amortized cost	-	-		-	-	(52,323)	-	-	(52,323)
Total financial liabilities	-	-	**(94)**	-	-	**(52,323)**	-	-	**(52,417)**

BANK

As of 31 December 2013

in HRK million	Loans and receivables	Held to maturity	Trading	Designa-ted at fair value	Available for sale	Financial lia-bilities at amortised cost	Other financial assets	Finance lease according to IAS 17	Total
	Category of financial instruments								
ASSETS									
Cash and balances with central banks	3,127	-	-	-	-	-	822	-	3,949
Loans and advances to credit institutions	6,143	-	-	-	-	-	-	-	6,143
Loans and advances to customers	41,040	-	-	-	-	-	-	-	41,040
Financial assets - held for trading	-	-	211	-	-	-	-	-	211
Financial assets - available for sale	-	-	-	-	6,146	-	-	-	6,146
Financial assets - held to maturity	-	499	-	-	-	-	-	-	499
Total financial assets	**50,310**	**499**	**211**	**-**	**6,146**	**-**	**822**	-	**57,988**
Net gains / losses recognized through profit or loss)	1,091	-	142	-	1	-	-	-	1,234
Net gains / losses recognized through OCI	-	-	-	-	(1)	-	-	-	(1)
LIABILITIES									
Financial liabilities - held for trading	-	-	(89)	-	-	-	-	-	(89)
Financial liabilities -measured at amortized cost	-	-		-	-	(52,631)	-	-	(52,631)
Total financial liabilities	-	-	**(89)**	-	-	**(52,631)**	-	-	**(52,720)**

[1] Including impairments

37. Audit fees and tax consultancy fees

The following table contains fundamental audit fees and tax fees charged by the auditors in the financial years 2014 and 2013:

	GROUP		BANK	
in HRK million	**2013**	**2014**	**2013**	**2014**
Audit fees	4	3	2	2
Total	**4**	**3**	**2**	**2**

38. Contingent liabilities

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Bank (see Note 34.5 Credit risk).

39. Analysis of remaining maturities

				GROUP
in HRK million		2013		2014
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and cash balances at central banks	4,297	-	4,674	-
Financial assets held for trading	390	-	462	14
Available-for-sale financial assets	6,318	45	3,353	3,920
Loans and receivables	21,349	32,588	22,616	30,289
Held-to-maturity investments	499	269	568	888
Tangible assets	-	665	-	1,314
Investment property	-	20	-	20
Intangible assets	-	745	-	729
Investments in subsidiaries, joint ventures and associates	-	39	-	58
Tax assets	279	-	295	-
Other assets	98	253	67	494
TOTAL ASSETS	**33,230**	**34,624**	**32,035**	**37,726**
Financial liabilities held for trading	89	-	82	12
Financial liabilities measured at amortised cost	43,526	16,179	38,756	22,159
Provisions	145	4	8	176
Commitments and guarantees given	47	14	53	26
Other provisions	-	1	-	1
Tax liabilities	26	2	9	2
Other liabilities	410	41	535	1
TOTAL LIABILITIES	**44,243**	**16,241**	**39,443**	**22,377**

39. Analysis of remaining maturities (continued)

in HRK million	2013 < 1 year	2013 > 1 year	2014 < 1 year	2014 > 1 year
				BANK
Cash and cash balances at central banks	3,949	-	4,035	-
Financial assets held for trading	211	-	462	16
Available-for-sale financial assets	6,106	40	2,667	4,026
Loans and receivables	18,469	28,714	17,085	28,242
Held-to-maturity investments	344	155	405	883
Tangible assets	-	347	-	338
Investment property	-	20	-	19
Intangible assets	-	37	-	48
Investments in subsidiaries, joint ventures and associates	-	1,272	-	1,355
Tax assets	125	-	104	-
Other assets	90	246	30	465
TOTAL ASSETS	**29,294**	**30,831**	**24,788**	**35,392**
Financial liabilities held for trading	89	-	82	11
Financial liabilities measured at amortised cost	40,156	12,474	35,162	17,162
Provisions	142	-	-	152
Commitments and guarantees given	38	12	47	14
Other liabilities	327	-	360	-
TOTAL LIABILITIES	**40,752**	**12,486**	**35,651**	**17,339**

40. Country-by-country reporting

Country	Operating income	Pre-tax result from continuing operations	Taxes on income	Employees
				2013
Croatia	2,544	212	(59)	2,279
Bosnia and Herzegovina	2	-	-	6
Montenegro	173	54	(4)	245
Slovenia	3	(3)	1	54
Total	**2,722**	**263**	**(62)**	**2,584**

Country	Operating income	Pre-tax result from continuing operations	Taxes on income	Employees
				2014
Croatia	2,967	450	(89)	2,449
Bosnia and Herzegovina	2	-	-	6
Montenegro	173	62	(4)	251
Slovenia	26	(8)	1	59
Total	**3,168**	**504**	**(92)**	**2,765**

41. Own funds and capital requirements

The Group as a group of credit institutions is subject to EU directive 575/2013 (CRR) and must comply with the capital requirements set out therein.

Capital structure according to the EU directive 575/2013 (CRR)

		GROUP		BANK	
in HRK million	Article pursuant to CRR	2013	2014	2013	2014
Common equity tier 1 capital (CET1)					
Capital instruments eligible as CET1 capital	26 (1) (a) (b), 27 to 30, 23 (1) (f), 42	3,500	3,500	3,500	3,500
Own CET1 instruments	36 (1) (f), 42	3,500	3,500	3,500	3,500
Retained earnings	26 (1) (c), 26 (2)	3,269	3,792	3,065	3,295
Interim loss	36 (1) (a)	-	-	-	-
Accumulated other comprehensive income	4 (100), 26 (1) (d)	-	269	-	239
Other reserves		85	85	85	85
Minority interest recognised in CET1 capital	4 (120) 84	33	-	-	-
Transitional adjustments due to additional minority interests	479, 480	-	-	-	-
Prudential filter: cash flow hedge reserve	33 (1) (a)	-	-	-	-
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	33 (1) (b)	-	(1)	-	(1)
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33 (1) (c), 33 (2)	-	-	-	-
Value adjustments due to the requirements for prudent valuation	34, 105		(8)	-	(7)
Regulatory adjustments relating to unrealised gains and losses	467, 468	(34)	(343)	(34)	(309)
Goodwill	4 (113), 36 (1) (b), 37	(603)	(603)	-	-
Other intangible assets	4 (115), 36 (1) (b), 37 (a)	-	-	(16)	(48)
Deferred tax assets dependent upon future profitability and not temporary differences net of associated tax liabilities	36 (1) (c), 38	(104)	(127)	-	-
IRB shortfall of credit risk adjustments to expected losses	36 (1) (d), 40, 158, 159	(439)	(20)	(440)	(32)
Other transitional adjustments CET1	469 to 472, 478, 481	81	-	(1,268)	-
Interim loss (80%)		-	-	-	-
Goodwill (80%)		-	-	-	-
Other intangibles (80%)		-	-	-	-
IRB shortfall of provisions to expected losses (80%)		-	-	-	-
Deferred tax assets that rely on future profitability and do not arise from temporary differences (100%)		-	-	-	-
Excess of deduction from AT1 items over AT1 capital	36 (1) (j)	-	-	-	-
Common equity tier 1 capital (CET1)	**50**	**5,788**	**6,544**	**4,892**	**6,722**
Additional tier 1 capital (AT1)		**-**	**-**	**-**	**-**
Capital instruments eligible as AT1 capital	51 (a), 52 to 54, 56 (a), 57	-	-	-	-
Own AT1 instruments	52 (1) (b), 56 (a), 57	-	-	-	-
Instruments issued by subsidiaries that are given recognition in AT1 capital	85, 86	-	-	-	-
Transitional adjustments due to grandfathered AT1 capital instruments	483 (4) (5), 484 to 487, 489, 491	-	-	-	-
AT1 instruments of financial sector entities where the institution has a significant investment	4 (27), 56 (d), 59, 79	-	-	-	-
Other transitional adjustments AT1	474, 475, 478, 481	-	-	-	-
Interim loss (80%)		-	-	-	-
Goodwill (80%)		-	-	-	-
Other intangibles (80%)		-	-	-	-
IRB shortfall of provisions to expected losses (40%)		-	-	-	-
Excess of deduction from AT1 items over AT1 capital	36 (1) (j)	-	-	-	-
Additional tier 1 capital (AT1)	**61**	**-**	**-**	**-**	**-**
Tier 1 capital - total of common equity tier 1 (CET1) and additional tier 1 (AT1) capital		**-**	**-**	**-**	**-**

41. Own funds and capital requirements (continued)

Capital structure according to the EU directive 575/2013 (CRR) (continued)

in HRK million	Article pursuant to CRR	GROUP 2013	GROUP 2014	BANK 2013	BANK 2014
Tier 1 capital - total of common equity tier 1 (CET1) and additional tier 1 (AT1) capital					
Tier 2 capital (T2)					
Capital instruments and subordinated loans eligible as T2 capital	62 (a), 63 to 65, 66 (a), 67	509	1,038	504	1,038
Own T2 instruments	63 (b) (i), 66 (a), 67	509	1,038	504	1,038
Instruments issued by subsidiaries recognised in T2 capital	87, 88	-	-	-	-
Transitional adjustments due to additional recognition in T2 capital of instruments issued by subsidiaries	480	-	-	-	-
Transitional adjustments due to grandfathered T2 capital instruments and subordinated loans	483 (6) (7), 484, 486, 488, 490, 491	-	-	-	-
IRB excess of provisions over expected losses eligible	62 (d)	-	55	-	55
Standardised approach general credit risk adjustments	62 (c)	-	-	-	-
Other transitional adjustments to tier 2 capital	476, 477, 478, 481	-	-	-	-
IRB shortfall of provisions to expected losses (40%)		-	-	-	-
T2 instruments of financial sector entities where the institution has a significant investment	4 (27), 66 (d), 68, 69, 79	-	-	-	-
Items deductible due to transitional provisions in T2 capital	476 to 478, 481	-	-	-	-
Tier 2 capital (T2)	**71**	**509**	**1,093**	**504**	**1,093**
Short-term subordinated capital (tier-3)		**-**	**-**	**-**	**-**
Total own funds		**6,297**	**7,637**	**5,396**	**7,815**
Capital requirement	92 (3), 95, 96, 98	4,960	7,691	3,916	6,311
CET1 capital ratio	**92 (2) (a)**	**-**	**14**	**-**	**18**
Tier 1 capital ratio	**92 (2) (b)**	**-**	**14**	**-**	**18**
Total capital ratio	**92 (2) (c)**	**15**	**16**	**17**	**20**

The Group as a group of credit institutions is subject to EU directive 575/2013 (CRR) and must comply with the capital requirements set out therein.

The items of own funds as disclosed below are also used for internal capital management purposes. The Group and the Bank fulfilled the capital requirements.
The capital structure table above is based on EBA´s final draft for implementing technical standards on disclosure for own funds published in the Official Journal of the European Union on 20 December 2013. Positions not relevant for Erste Group are not shown. Basel III final figures (fully loaded) are calculated based on the current requirements according to CRR. Changes are possible due to final Regulatory Technical Standards (RTS) that are not yet available.

The Basel II comparison is limited to sum-positions as the composition according to Basel III materially deviates from the composition according to Basel II.

41. Own funds and capital requirements (continued)

Risk structure according to EU directive 575/2013 (CRR)

BANK		Dec 13		Dec 14	
in HRK million	Article pursuant to CRR	Calculation base/total risk	Capital requirement	Calculation base/total risk (phased-in)	Capital requirement (phased-in)
Total risk exposure amount	92 (3), 95, 96, 98	32,634	3,916	38,249	3,059
Risk-weighted assets (credit risk)	92 (3) (a) (f)	28,804	3,456	34,375	2,750
Standardised approach		1,617	194	1,176	94
IRB approach		27,187	3,262	33,199	2,656
Settlement risk	92 (3) (c) (ii), 92 (4) (b)	-	-	-	-
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (iii), 92 (4) (b)	3,483	47	79	6
Operational risk	92 (3) (e) 92 (4) (b)	347	413	3,740	299
Exposure for CVA	92 (3) (d)	-	-	55	4
Other exposure amounts (including Basel 1 floor)	3, 458, 459, 500	-	-	24,877	1,990

GROUP		Dec 13		Dec 14	
in HRK million	Article pursuant to CRR	Calculation base/total risk	Capital requirement	Calculation base/total risk (final)	Capital requirement (final)
Total risk exposure amount	92 (3), 95, 96, 98	41,332	4,960	46,612	3,729
Risk-weighted assets (credit risk)	92 (3) (a) (f)	36,202	4,344	40,676	3,255
Standardised approach		9,066	1,088	10,169	814
IRB approach		27,136	3,256	30,507	2,441
Settlement risk	92 (3) (c) (ii), 92 (4) (b)	-	-	-	-
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (iii), 92 (4) (b)	389	47	79	6
Operational risk	92 (3) (e) 92 (4) (b)	4,741	569	5,801	464
Exposure for CVA	92 (3) (d)	-	-	56	4
Other exposure amounts (including Basel 1 floor)	3, 458, 459, 500	-	-	-	-

42. Events after the balance sheet date

Swiss National Bank has, as of 15 January 2015, abandoned minimum exchange rate against the euro which was implemented in September 2011 - EUR/CHF rate in the amount of 1.2 CHF for 1 EUR. This led to a high increase in HRK/CHF fx rate during the beginning of FY 2015; the rate appreciated by 19%, when the fx rate of 31 December 2014 is compared to the rate at 21 January 2015.
In response to above, the Government passed an amendment to Consumer Credit Act (Act) which came into force on 27 January 2015, based on which the loan agreements denominated in CHF and loans in HRK tied with a currency clause to CHF, concluded before the effective date of the Act, have fixed exchange rate of HRK 6.39 for 1 CHF. This is applicable for regular instalments due in 2015 from the effective date of the Act. The Act is applicable for private individuals.
Responding to the Government`s intervention, and following the amendments of the Law taking into account IFRS methodology, the Bank has recognized an embedded derivative as the existing contracts in CHF or linked to CHF are overridden in a way, that as of the amendment date there is an embedded derivative originated as the government measure conceptually changed the original cash flows of the loan contracts. At the end of the fixed period determined by the Law, the embedded derivative value will be zero and whole FX loss will be realised through P&L.
The Government also passed an amendment of the Credit Institution Act which has come into force on 28 February 2015, based on which loan agreements denominated in CHF and loans in HRK tied with a currency clause to CHF, concluded before the effective date of the Act, have fixed exchange rate of HRK 6.39 for CHF 1, applicable for private individuals acting as freelancers, craftsmen, sole traders and owners of family run farms. The amendment is applicable for regular instalments due in 2015 from the effective date of the Act.
The Bank has recognized an embedded derivative for these changes as well. Law amendment will affect FY 2015, with no impact whatsoever on 2014.

As of 1st January 2015, Bank merged 100% owned company Erste Delta d.o.o. whose major item in balance sheet was Headquarters building in Zagreb, Croatia. With that merger, Bank becomes owner of respective real estate (HRK 216 million).

Forms according to local requirements

Pursuant to the Decision of the CNB on structure and content of Bank's annual financial statements from 19 May 2008 below we present the required forms for the Group and the Bank for the year ended 31 December 2014 in the form required by the decision. Information about the basis of presentation as well as a summary of accounting policies are given in the notes to the financial statements. Information important for better understanding of certain positions of the statement of financial position, income statement, changes in equity as well as cash flow statement are also included in the notes.

Differences between forms (appendix 1) presented below on pages 163 to 178 and primary financial statements are presented in appendix 2 titled 'Differences between financial statements according to IFRS and local requirements'.

Income statement

in HRK million		GROUP
	2013	2014
1. Interest income	3,595	3,439
2. Interest expense	1,587	1,319
3. Net interest income (048-049)	**2,008**	**2,120**
4. Fee and commission income	727	800
5. Fee and commission expense	177	191
6. Net fee and commission income (051-052)	**550**	**609**
7. Profit/loss from investments in subsidiaries, associates and joint ventures	(1)	-
8. Profit/loss from trading	52	5
9. Profit/loss from embedded derivatives	-	-
10. Profit/loss from asset not actively traded measured at fair value through profit or loss	-	-
11. Profit/loss from asset available for sale	(30)	6
12. Profit/loss from asset held to maturity	-	-
13. Profit/loss from hedging	-	-
14. Income from investments in subsidiaries, associates and joint ventures	-	-
15. Income from other ownership investments	6	11
16. Profit/loss from foreign currency differences	105	180
17. Other income	59	541
18. Other expenses	24	277
19. General administrative expenses and depreciation	1,157	1,465
20. Net income from business before value adjustment and loan loss provisions (050+053 to 064-065-066)	**1,568**	**1,730**
21. Expense of value adjustment and loan loss provisions	1,305	1,226
22. PROFIT/LOSS BEFORE TAX (067-068)	**263**	**504**
23. INCOME TAX EXPENSE	62	92
24. PROFIT/LOSS OF THE CURRENT YEAR (069-070)	**201**	**412**
25. Earnings per share	10.83	22.17
ANNEX TO INCOME STATEMENT (for the Banks that prepare consolidated financial statements)		
1. PROFIT/LOSS OF THE CURRENT YEAR	**201**	**412**
2. Assign equity holders of the Bank	**184**	**377**
3. Non-controlling interest (073-074)	**17**	**35**

Statement of financial position

In HRK million		GROUP
	2013	2014
ASSETS		
1. Cash and deposits with Central bank (002+003)	8,526	7,860
1.1. Cash	904	1,031
1.2. Deposits with Central bank	7,622	6,829
2. Deposits with banking institutions	1,829	2,543
3. Treasury bills with ministry of finance and bills of exchange with central bank	1,334	1,384
4. Securities and other financial instruments held for trading	303	7
5. Securities and other financial instruments available for sale	5,485	6,700
6. Securities and other financial instruments held to maturity	204	877
7. Securities and other financial instruments not actively traded, measured at fair value through profit and loss	-	-
8. Derivative financial assets	87	94
9. Loans to financial institutions	1,544	716
10. Loans to other customers	45,895	46,041
11. Investments in associates, subsidiaries and joint ventures	44	68
12. Repossessed assets	291	485
13. Tangible asset (minus depreciation)	686	1,334
14. Interest, fees and other assets	1,626	1,652
A) TOTAL ASSETS (001+004 to 016)	**67,854**	**69,761**
LIABILITIES		
1. Borrowings from financial institutions (019+020)	10,545	11,950
1.1. Short-term borrowings	5,517	5,232
1.2. Long-term borrowings	5,028	6,718
2. Deposits (AOP 022 to 024)	46,927	46,193
2.1. Deposits of giro and current accounts	8,673	9,035
2.2. Savings deposits	1,836	1,910
2.3. Term deposits	36,418	35,248
3. Other borrowings (026+027)	21	40
3.1. Short-term borrowings	-	-
3.2. Long-term borrowings	21	40
4. Derivative financial liabilities and other financial liabilities held for trading	89	94
5. Issued debt securities (030+031)	300	300
5.1. Short-term issued debt instruments	-	-
5.2. Long-term issued debt instruments	300	300
6. Issued subordinated instruments	863	1,456
7. Issued hybrid instruments	-	-
8. Interest, fees and other liabilities	1,739	1,787
B) TOTAL LIABILITIES (018+021+025+028+029+032+033+034)	**60,484**	**61,820**
EQUITY		
1. Share capital	3,500	3,500
2. Profit/(loss) of the current year	184	377
3. Retained profit/(loss)	3,396	3,709
4. Legal reserves	85	85
5. Statutory and other capital reserves	6	1
6. Unrealised profit/(loss) from value adjustment of financial assets available for sale	199	269
7. Reserves resulting from protective transactions		
C) TOTAL EQUITY (036 to 042)	**7,370**	**7,941**
D) TOTAL LIABILITIES AND EQUITY (035+043)	**67,854**	**69,761**
SUPPLEMENT TO STATEMENT OF FINANCIAL POSITION (filled out by banks that compose a consolidated financial report)		
1. TOTAL EQUITY	**7,370**	**7,941**
2. Attributed to equity holders of the parent	7,319	7,779
3. Minority shares (045-046)	51	162

Signed on behalf of Erste&Steiermärkische Bank d.d. on 16 March 2015:

President of the Management Board
Petar Radaković

Member of the Management Board
Slađana Jagar

Statement of changes in shareholders' equity

GROUP

In HRK million								2014
	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Profit/(loss) for the period	Unrealised profit/(loss) from the basis of value adjustment of financial assets available for sale	Non-controlling interest	Total capital and reserves
Balance at 1 January	**3,500**	**-**	**91**	**3,345**	**184**	**199**	**51**	**7,370**
Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	-
Corrected balance as at 1 January (1+2)	**3,500**	**-**	**91**	**3,345**	**184**	**199**	**51**	**7,370**
Sale of financial assets available for sale	-	-	-	-	-	12	-	12
Change of fair value financial asset available for sale	-	-	-	-	-	74	-	74
Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	(16)	-	(16)
Other profit/(loss) directly recognised in capital and reserves	-	-	(5)	-	-	-	-	(5)
Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	(5)	-	-	70	-	65
Profit/(loss) for the period	-	-	-	-	377	-	35	412
Total recognised income and expenses for the period (8+9)	-	-	(5)	-	377	70	35	477
Increase/(decrease) of share capital	-	-	-	-	-	-	-	-
Buy/sell of treasury shares	-	-	-	-	-	-	-	-
Other changes	-	-	-	18	-	-	99	117
Transfer to reserves	-	-	-	184	(184)	-	-	-
Dividends paid	-	-	-	-	-	-	(23)	(23)
Distribution on income (14+15)	-	-	-	184	(184)	-	(23)	(23)
Balance at reporting date (3+10+11+12+13+16)	**3,500**	**-**	**86**	**3,547**	**377**	**269**	**162**	**7,941**

Statement of changes in shareholders' equity

GROUP

2013

	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Profit/(loss) for the period	Unrealised profit/(loss) from the basis of value adjustment of financial assets available for sale	Non-controlling interest	Total capital and reserves
Balance at 1 January	**3,500**	**-**	**84**	**2,906**	**585**	**196**	**38**	**7,309**
Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	-
Corrected balance as at 1 January (1+2)	**3,500**	**-**	**84**	**2,906**	**585**	**196**	**38**	**7,309**
Sale of financial assets available for sale	-	-	-	-	-	1	-	1
Change of fair value financial asset available for sale	-	-	-	-	-	6	-	6
Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	(4)	-	(4)
Other profit/(loss) directly recognised in capital and reserves	-	-	(4)	-	-	-	-	4
Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	(4)	-	-	3	-	7
Profit/(loss) for the period	-	-	-	-	184	-	-	184
Total recognised income and expenses for the period (8+9)	-	-	(4)	-	184	3	-	191
Increase/(decrease) of share capital	-	-	-	-	-	-	-	-
Buy/sell of treasury shares	-	-	-	-	-	-	-	-
Other changes	-	-	3	-	-	-	17	20
Transfer to reserves	-	-	-	439	(439)	-	-	-
Dividends paid	-	-	-	-	(146)	-	(4)	(150)
Distribution on income (14+15)	-	-	-	439	(585)	-	(4)	(150)
Balance as at 31 December (3+10+11+12+13+16)	**3,500**	**-**	**91**	**3,345**	**184**	**199**	**51**	**7,370**

Cash flow statements

In HRK million	GROUP 2013	GROUP 2014
OPERATING ACTIVITIES		
1.1. Profit/(loss) before income tax	263	504
1.2. Allowances and loss provisions	1,305	1,226
1.3. Depreciation	74	296
1.4. Net unrealized profit/(loss) from financial assets and liabilities through profit and loss	34	-
1.5. Profit/(loss) from sale of tangible assets	17	63
1.6. Other profit/(losses)	(28)	80
1. Cash flow from operating activities before changes of operating asset (1.1. to 1.6.)	**1,665**	**2,169**
2.1. Deposits with Central Bank	(290)	258
2.2. Treasury bills of Ministry of Finance and bills of exchange with CB	(28)	(336)
2.3. Deposits with banks and loans to financial institutions	(44)	821
2.4. Loans to other customers	(2,305)	(1,324)
2.5. Securities and other financial instruments held for trading	(92)	297
2.6. Securities and other financial instruments available for sale	(51)	(1,187)
2.7. Securities and other financial instruments not traded actively, measured at fair value through profit or loss	-	-
2.8. Other operating assets	(140)	(978)
2. Net increase/(decrease) of operating assets (2.1. to 2.8.)	**(2,950)**	**(2,449)**
3.1. Demand deposits	2,170	362
3.2. Savings and term deposits	8,632	(1,097)
3.3. Financial derivative liabilities and other liabilities actively traded	(32)	5
3.4. Other liabilities	170	(1)
3. Net increase/(decrease) of operating liabilities (3.1. to 3.4.)	**10,940**	**(731)**
4. Net cash flow from operating activities before income tax (1+2+3)	**9,655**	**(1,011)**
5. (Income tax paid)	**(164)**	**(109)**
6. Net inflow/(outflow) of cash from operating activities (4-5)	**9,491**	**(1,120)**
INVESTING ACTIVITIES		
7.1. Receipt from sale/(payment for buying) tangible and intangible assets	(71)	(234)
7.2. Receipt from sale/(payment for buying) investments in subsidiaries, associates and joint ventures	-	(30)
7.3. Receipt from sale/(payment for buying) securities and other financial instruments held to maturity	-	(620)
7.4. Dividend income	6	-
7.5. Other receipts/(payments) from investing activities	-	-
7. Net cash flow from investing activities (7.1. to 7.5.)	**(65)**	**(884)**
FINANCIAL ACTIVITIES		
8.1. Net increase/(decrease) of borrowings	(8,969)	1,425
8.2. Net increase/(decrease) issued debt securities	-	-
8.3. Net increase/(decrease) subordinated and hybrid instruments	3	592
8.4. Receipts from transmitted share capital	-	-
8.5. (Dividends paid)	(146)	-
8.6. Other receipts/(payments) from financial activities	-	-
8. Net cash flow from financial activities (8.1. to 8.6.)	**(9,112)**	**2,017**
9. Net increase/(decrease) of cash and cash equivalents (6+7+8)	314	13
10. Effects of change in foreign exchange rates on cash and cash equivalents	-	-
11. Net increase/(decrease) cash and cash equivalents (9+10)	**314**	**13**
12. Cash and cash equivalents at the beginning of the year	**5,357**	**5,671**
13. Cash and cash equivalents at the end of the year	**5,671**	**5,684**

Off balance sheet items

	GROUP 2013	GROUP 2014
1. Guarantees	1,642	2,010
2. Letters of credit	155	193
3. Bills of exchange	-	-
4. Undrawn loans and loan commitments	3,840	4,329
5. Other risk off balance items	47	41
6. Futures	-	-
7. Options	68	42
8. Swap	30,633	25,527
9. Forwards	6,956	7,110
10. Other derivatives	-	-

Income statement

in HRK million		BANK
	2013	2014
1. Interest income	2,969	2,757
2. Interest expense	1,426	1,148
3. Net interest income (048-049)	**1,543**	**1,609**
4. Fee and commission income	500	526
5. Fee and commission expense	147	145
6. Net fee and commission income (051-052)	**353**	**381**
7. Profit/loss from investments in subsidiaries, associates and joint ventures	-	-
8. Profit/loss from trading	49	8
9. Profit/loss from embedded derivatives	-	-
10. Profit/loss from asset not actively traded measured at fair value through profit or loss	-	-
11. Profit/loss from asset available for sale	(27)	1
12. Profit/loss from asset held to maturity	-	-
13. Profit/loss from hedging	-	-
14. Income from investments in subsidiaries, associates and joint ventures	-	-
15. Income from other ownership investments	47	79
16. Profit/loss from foreign currency differences	102	169
17. Other income	48	112
18. Other expenses	19	93
19. General administrative expenses and depreciation	812	882
20. Net income from business before value adjustment and loan loss provisions (050+053 to 064-065-066)	**1,284**	**1,384**
21. Expense of value adjustment and loan loss provisions	1,194	1,118
22. PROFIT/LOSS BEFORE TAX (067-068)	**90**	**266**
23. INCOME TAX EXPENSE	22	34
24. PROFIT/LOSS OF THE CURRENT YEAR (069-070)	**68**	**232**
25. Earnings per share		
ANNEX TO INCOME STATEMENT (for the Banks that prepare consolidated financial statements)		
1. PROFIT/LOSS OF THE CURRENT YEAR		
2. Assign equity holders of the Bank		
3. Non-controlling interest (073-074)		

Statement of financial position

In HRK million		BANK
	12 2013	12 2014
ASSETS		
1. CASH AND DEPOSITS WITH Central bank (002+003)	8,273	7,426
1.1. Cash	822	949
1.2. Deposits with Central bank	7,451	6,477
2. Deposits with banking institutions	1,338	1,877
3. Treasury bills with ministry of finance and bills of exchange with central bank	1,067	1,223
4. Securities and other financial instruments held for trading	125	7
5. Securities and other financial instruments available for sale	5,279	6,132
6. Securities and other financial instruments held to maturity	194	870
7. Securities and other financial instruments not actively traded, measured at fair value through profit and loss	-	-
8. Derivative financial assets	87	96
9. Loans to financial institutions	1,543	938
10. Loans to other customers	39,628	38,802
11. Investments in associates, subsidiaries and joint ventures	1,277	1,359
12. Repossessed assets	290	462
13. Tangible asset (minus depreciation)	367	357
14. Interest, fees and other assets	657	631
A) TOTAL ASSETS (001+004 to 016)	**60,125**	**60,180**
LIABILITIES		
1. Borrowings from financial institutions (019+020)	4,132	4,851
1.1. Short-term borrowings	901	1,391
1.2. Long-term borrowings	3,231	3,460
2. DEPOSITS (AOP 022 to 024)	46,838	45,262
2.1. Deposits of giro and current accounts	8,118	8,418
2.2. Savings deposits	1,834	1,786
2.3. Term deposits	36,886	35,058
3. Other borrowings (026+027)	-	-
3.1. Short-term borrowings	-	-
3.2. Long-term borrowings	-	-
4. Derivative financial liabilities and other financial liabilities held for trading	89	94
5.issued debt securities (030+031)	300	300
5.1. Short-term issued debt instruments	-	-
5.2. Long-term issued debt instruments	300	300
6. Issued subordinated instruments	840	1,456
7. Issued hybrid instruments	-	-
8. Interest, fees and other liabilities	1,039	1,027
B) TOTAL LIABILITIES (018+021+025+028+029+032+033+034)	**53,238**	**52,990**
EQUITY		
1. Share capital	3,500	3,500
2. Profit/(loss) of the current year	68	232
3. Retained profit/(loss)	3,065	3,133
4. Legal reserves	85	85
5. Statutory and other capital reserves	1	-
6. Unrealised profit/(loss) from value adjustment of financial assets available for sale	168	240
7. Reserves resulting from protective transactions		
C) TOTAL EQUITY (036 to 042)	**6,887**	**7,190**
D) TOTAL LIABILITIES AND EQUITY (035+043)	**60,125**	**60,180**
SUPPLEMENT TO STATEMENT OF FINANCIAL POSITION (filled out by banks that compose a consolidated financial report)		
1. TOTAL EQUITY		
2. Attributed to equity holders of the parent		
3. Minority shares (045-046)		

Signed on behalf of Erste&Steiermärkische Bank d.d. on 16 March 2015:

President of the Management Board
Petar Radaković

Member of the Management Board
Slađana Jagar

Statement of changes in shareholders' equity

								BANK
								2014
Name of position	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Profit/(loss) for the period	Unrealised profit/(loss) from the basis of value adjustment of financial assets available for sale	Non-controlling interest	Total capital and reserves
Balance at 1 January	**3,500**	**-**	**86**	**3,065**	**68**	**168**	**-**	**6,887**
Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	-
Corrected balance as at 1 January (1+2)	**3,500**	**-**	**86**	**3,065**	**68**	**168**	**-**	**6,887**
Sale of financial assets available for sale	-	-	-	-	-	7	-	7
Change of fair value financial asset available for sale	-	-	-	-	-	82	-	82
Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	(18)	-	(18)
Other profit/(loss) directly recognised in capital and reserves	-	-	(1)	-	-	-	-	(1)
Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	(1)	-	-	71	-	70
Profit/(loss) for the period	-	-	-	-	232	-	-	232
Total recognised income and expenses for the period (8+9)	-	-	(1)	-	232	71	-	302
Increase/(decrease) of share capital	-	-	-	-	-	-	-	-
Buy/sell of treasury shares	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	1	-	1
Transfer to reserves	-	-	-	68	(68)	-	-	-
Dividends paid	-	-	-	-	-	-	-	-
Distribution on income (14+15)	-	-	-	68	(68)	-	-	-
Balance at reporting date (3+10+11+12+13+16)	**3,500**	**-**	**85**	**3,133**	**232**	**240**	**-**	**7,190**

Statement of changes in shareholders' equity

BANK

2013

Type of change	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Profit/(loss) for the period	Unrealised profit/(loss) from the basis of value adjustment of financial assets available for sale	Non-controlling interest	Total capital and reserves
Balance at 1 January	**3,500**	**-**	**84**	**2,729**	**483**	**167**	**-**	**6,963**
Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	-
Corrected balance as at 1 January (1+2)	**3,500**	**-**	**84**	**2,729**	**483**	**167**	**-**	**6,963**
Sale of financial assets available for sale	-	-	-	-	-	1	-	1
Change of fair value financial asset available for sale	-	-	-	-	-	-	-	-
Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	-	-	-
Other profit/(loss) directly recognised in capital and reserves	-	-	2	-	-	-	-	2
Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	2	-	-	1	-	3
Profit/(loss) for the period	-	-	-	-	68	-	-	68
Total recognised income and expenses for the period (8+9)	-	-	2	-	68	1	-	71
Increase/(decrease) of share capital	-	-	-	-	-	-	-	-
Buy/sell of treasury shares	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	336	(336)	-	-	-
Dividends paid	-	-	-	-	(147)	-	-	(147)
Distribution on income (14+15)	-	-	-	336	(483)	-	-	(147)
Balance as at 31 December (3+10+11+12+13+16)	**3,500**	**-**	**86**	**3,065**	**68**	**168**	**-**	**6,887**

Cash flow statement

In HRK million	BANK 2013	2014
OPERATING ACTIVITIES		
1.1. Profit/(loss) before income tax	90	266
1.2. Allowances and loss provisions	1,194	1,118
1.3. Depreciation	46	43
1.4. Net unrealized profit/(loss) from financial assets and liabilities through profit and loss	30	-
1.5. Profit/(loss) from sale of tangible assets	15	(1)
1.6. Other profit/(losses)	(90)	7
1. Cash flow from operating activities before changes of operating asset (1.1. to 1.6.)	**1,285**	**1,433**
2.1. Deposits with Central bank	(278)	143
2.2. Treasury bills of Ministry of Finance and bills of exchange with CB	196	(443)
2.3. Deposits with banks and loans to financial institutions	(53)	741
2.4. Loans to other customers	(2,146)	(268)
2.5. Securities and other financial instruments held for trading	(108)	119
2.6. Securities and other financial instruments available for sale	(18)	(824)
2.7. Securities and other financial instruments not traded actively, measured at fair value through profit or loss	-	-
2.8. Other operating assets	(89)	(173)
2. Net increase/(decrease) of operating assets (2.1. to 2.8.)	**(2,496)**	**(705)**
3.1. Demand deposits	1,979	300
3.2. Savings and term deposits	8,800	(1,876)
3.3. Financial derivative liabilities and other liabilities actively traded	(31)	5
3.4. Other liabilities	90	(32)
3. Net increase/(decrease) of operating liabilities (3.1. to 3.4.)	**10,838**	**(1,603)**
4. Net cash flow from operating activities before income tax (1+2+3)	**9,627**	**(875)**
5. (Income tax paid)	**(99)**	**(30)**
6. Net inflow/(outflow) of cash from operating activities (4-5)	**9,528**	**(905)**
INVESTING ACTIVITIES		
7.1. Receipt from sale/(payment for buying) tangible and intangible assets	(42)	(36)
7.2. Receipt from sale/(payment for buying) investments in subsidiaries, associates and joint ventures	-	(87)
7.3. Receipt from sale/(payment for buying) securities and other financial instruments held to maturity	(3)	(622)
7.4. Dividend income	52	-
7.5. Other receipts/(payments) from investing activities	-	-
7. Net cash flow from investing activities (7.1. to 7.5.)	**7**	**(745)**
FINANCIAL ACTIVITIES		
8.1. Net increase/(decrease) of borrowings	(9,097)	718
8.2. Net increase/(decrease) issued debt securities	-	-
8.3. Net increase/(decrease) subordinated and hybrid instruments	10	616
8.4. Receipts from transmitted share capital	-	-
8.5. (Dividends paid)	(146)	-
8.6. Other receipts/(payments) from financial activities	-	-
8. Net cash flow from financial activities (8.1. to 8.6.)	(9,233)	1,334
9. Net increase/(decrease) of cash and cash equivalents (6+7+8)	302	(316)
10. Effects of change in foreign exchange rates on cash and cash equivalents		
11. Net increase/(decrease) cash and cash equivalents (9+10)	**302**	**(316)**
12. Cash and cash equivalents at the beginning of the year	**4,916**	**5,218**
13. Cash and cash equivalents at the end of the year	**5,218**	**4,902**

Off balance sheet items

	BANK 2013	2014
1. Guarantees	1,347	1,597
2. Letters of credit	155	193
3. Bills of exchange	-	-
4. Undrawn loans and loan commitments	2,008	2,496
5. Other risk off balance items	47	41
6. Futures	-	-
7. Options	68	42
8. Swap	29,778	24,785
9. Forwards	6,956	7,110
10. Other derivatives	-	-

Appendix 2 – Differences between financial statements according to IFRS and local requirements

Year ended 31 December 2014

						GROUP
ANNUAL REPORT (AR)	**in HRK million**	**Form 'Income statement' (CNB)**	**in HRK million**	**Diff.**		**EXPLANATION**
Net interest income	2,120	Net interest income	2,120	-		
Net fee and commission income	610	Net fee and commission income	609	1	1	CNB - Other income
Net trading and fair value result	184	Net trading result	5	(1)	(1)	AR - Dividend income
		Foreign exchange gains/losses	180			
Personnel expenses	(560)	General administrative expenses and amortisation	(1,465)	26	19	AR - Other operating result
Other administrative expenses	(583)				9	CNB - Other income
Depreciation and amortisation	(296)				(2)	CNB - Other expenses
Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net	12	Results of financial assets available for sale	6	(68)	(19)	CNB - General administrative expenses and amortisation
Rental income from investment properties & other operating lease	242	Results of financial assets held to maturity	-		(7)	AR - Other administrative expenses
Other operating result	(52)	Other income	541		(41)	CNB - Expense of value adjustment and loss provisions
		Other expenses	(277)		(1)	AR - Net fee and commission income
Dividend income	2	Income of investment in associates	11	1	1	CNB - Net trading result
Net result from equity method investments	10					
Net impairment loss on financial assets not measured at fair value through profit or loss	(1,185)	Expense of value adjustment and loss provisions	(1,226)	41	41	AR - Other operating result
Pre-tax profit from continuing operations	**504**	**PRE-TAX PROFIT**	**504**	-		
Taxes on income	(92)	Taxes on income	(92)	-		
NET PROFIT OF THE YEAR	**412**	**NET PROFIT FOR THE PERIOD**	**412**	-		

Appendix 2 – Differences between financial statements according to IFRS and local requirements
Year ended 31 December 2014

						GROUP
Annual report (AR)	**in HRK million**	**Form 'Statement of financial position' (CNB)**	**in HRK million**	**Diff.**		**Explanation**
Cash and cash balances	4,674	Cash and deposits with central bank	7,860	(5,729)	(4,531)	AR - Loans and receivables to credit institutions
		Deposits with banking institutions	2,543		(1,198)	AR - Loans and receivables to credit institutions
Derivatives	94	Derivative financial assets	94	-		
Other trading assets	382	Securities and other financial instruments held for trading	7	375	375	CNB - Treasury bills with ministry of finance and bills of exchange with CNB
Financial assets designated at fair value through profit or loss	-		-	-		
Loans and receivables to credit institutions	6,194	Loans to financial institutions	716	5,478	(260)	AR - Loans and receivables to customers
					9	CNB - Interest, fees and other assets
					4,531	CNB - Cash and deposits with CNB
					1,198	CNB - Deposits with banking institutions
Loans and receivables to customers	46,711	Loans to other customers	46,041	670	260	AR - Loans and receivables to credit institutions
					410	CNB - Interest, fees and other assets
Financial assets - available for sale	7,273	Treasury bills with ministry of finance and bills of exchange with CNB	1,384	(811)	(375)	AR - Other trading assets
					(560)	AR - Financial assets - held to maturity
		Securities and other financial instruments available for sale	6,700		124	CNB - Interest, fees and other assets
Financial assets - held to maturity	1,456	Securities and other financial instruments held to maturity	877	579	19	CNB - Interest, fees and other assets
					560	CNB - Treasury bills with ministry of finance and bills of exchange with CNB
Investments in subsidiaries, joint ventures and associates	58	Investments in associates, subsidiaries and joint ventures	68	(10)	(10)	AR - Other assets
Property, plant and equipment	1,314	Tangible asset (minus depreciation)	1,334	(20)	(20)	AR - Investment properties
Intangible assets	729			729	729	CNB - Interest, fees and other assets
Investment properties	20			20	20	CNB - Tangible asset (minus depreciation)
Tax assets	295			295	295	CNB - Interest, fees and other assets
Other assets	561	Interest, fees and other assets	1,652	(1,576)	(1,586)	AR - Interest on loans, deposits, securities and derivatives
		Repossessed assets	485		10	CNB - Investments in subsidiaries, joint ventures and associates
TOTAL ASSETS	**69,761**	**TOTAL ASSETS**	**69,761**			

						GROUP
Annual report (AR)	**in HRK million**	**Form 'Statement of financial position' (CNB)**	**in HRK million**	**Diff.**		**Explanation**
Deposits from banks	21,227	Borrowings from financial institutions	11,950	9,277	(3,183) 843 11,539 78	AR - Deposits from customers CNB - Issued subordinated instruments CNB - Deposits CNB - Interest, fees and other liabilities
Derivatives	94	Derivative financial liabilities and other financial liabilities held for trading	94	-		
Financial liabilities designated at fair value through profit or loss	-			-		
Deposits from customers Other financial liabilities	38,027 728	Deposits Other borrowings	46,193 40	(7,478)	878 3,183 (11,539)	CNB - Interest, fees and other liabilities CNB - Borrowings from financial institutions AR - Deposits from banks
Debt securities issued	933	Issued debt securities Issued subordinated instruments	300 1,456	(823)	(843) 20	AR - Deposits from banks CNB - Interest, fees and other liabilities
Tax liabilities	11			11	11	CNB - Interest, fees and other liabilities
Provisions	264			264	264	CNB - Interest, fees and other liabilities
Other Liabilities	536	Interest, fees and other liabilities	1,787	(1,251)	(987) (264)	AR - Interest on borrowed funds, amounts due to customers and banks and payables on financial derivative AR - Provisions
Total equity	7,779	Total equity	7,941	(162)	(162)	AR - Non-controlling interest
Non-controlling interest	162	Non-controlling interest		162	162	CNB - Total equity
TOTAL LIABILITIES AND EQUITY	**69,761**	**TOTAL LIABILITIES AND EQUITY**	**69,761**			

Appendix 2 – Differences between financial statements according to IFRS and local requirements
Year ended 31 December 2014

BANK

ANNUAL REPORT (AR)	in HRK million	Form 'Income statement' (CNB)	in HRK million	Diff.		EXPLANATION
Net interest income	1,609	Net interest income	1,609			
Net fee and commission income	381	Net fee and commission income	381			
Net trading and fair value result	177	Net trading result Foreign exchange gains/losses	8 169			
Personnel expenses Other administrative expenses Depreciation and amortisation	(402) (414) (44)	General administrative expenses and amortisation	(882)	22	16 6	AR - Other operating result CNB - Other income
Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net Rental income from investment properties & other operating lease Other operating result	7 2 (29)	Results of financial assets available for sale Results of financial assets held to maturity Other income Other expenses	1 - 112 (93)	(40)	(16) (6) (18)	CNB - General administrative expenses and amortisation AR - Other administrative expenses CNB - Expense of value adjustment and loss provisions
Dividend income	79	Income of investment in associates	79			
Net impairment loss on financial assets not measured at fair value through profit or loss	(1,100)	Expense of value adjustment and loss provisions	(1,118)	18	18	AR - Other operating result
Pre-tax profit from continuing operations	266	**PRE-TAX PROFIT**	**266**			
Taxes on income	(34)	Taxes on income	(34)			
NET PROFIT OF THE YEAR	**232**	**NET PROFIT FOR THE PERIOD**	**232**			

Appendix 2 – Differences between financial statements according to IFRS and local requirements
Year ended 31 December 2014

BANK

Annual report (AR)	in HRK million	Form 'Statement of financial position' (CNB)	in HRK million	Diff.		Explanation
Cash and cash balances	4,035	Cash and deposits with CNB Deposits with banking institutions	7,426 1,877	(5,268)	(4,532) (736)	AR - Loans and receivables to credit institutions AR - Loans and receivables to credit institutions
Derivatives	96	Derivative financial assets	96	-		
Other trading assets	382	Securities and other financial instruments held for trading	7	375	375	CNB - Treasury bills with ministry of finance and bills of exchange with CNB
Financial assets designated at fair value through profit or loss	-		-	-	-	
Loans and receivables to credit institutions	5,720	Loans to financial institutions	938	4,782	(487) 1 4,532 736	AR - Loans and receivables to customers CNB - Interest, fees and other assets CNB - Cash and deposits with CNB CNB - Deposits with banking institutions
Loans and receivables to customers	39,607	Loans to other customers	38,802	805	487 318	AR - Loans and receivables to credit institutions CNB - Interest, fees and other assets
Financial assets - available for sale	6,693	Treasury bills with ministry of finance and bills of exchange with CNB Securities and other financial instruments available for sale	1,223 6,132	(662)	(375) (399) 112	AR - Other trading assets AR - Financial assets - held to maturity CNB - Interest, fees and other assets
Financial assets - held to maturity	1,288	Securities and other financial instruments held to maturity	870	418	19 399	CNB - Interest, fees and other assets CNB - Treasury bills with ministry of finance and bills of exchange with CNB
Investments in subsidiaries, joint ventures and associates	1,355	Investments in associates, subsidiaries and joint ventures	1,359	(4)	(4)	AR - Other assets
Property, plant and equipment	338	Tangible asset (minus depreciation)	357	(19)	(19)	AR - Investment properties
Intangible assets	48			48	48	CNB - Interest, fees and other assets
Investment properties	19			19	19	CNB - Tangible asset (minus depreciation)
Tax assets	104			104	104	CNB - Interest, fees and other assets
Other assets	495	Interest, fees and other assets Repossessed assets	631 462	(598)	(602) 4	AR - Interest on loans, deposits, securities and derivatives CNB - Investments in subsidiaries, joint ventures and associates
TOTAL ASSETS	**60,180**	**TOTAL ASSETS**	**60,180**			

						BANK
Annual report (AR)	**in HRK million**	**Form 'Statement of financial position' (CNB)**	**in HRK million**	**Diff.**		**Explanation**
Deposits from banks	14,165	Borrowings from financial institutions	4,851	9,314	(3,169) 843 11,578 62	AR - Deposits from customers CNB - Issued debt securities CNB - Deposits CNB - Interest, fees and other liabilities
Derivatives	94	Derivative financial liabilities and other financial liabilities held for trading	94	-		
Financial liabilities designated at fair value through profit or loss	-			-		
Deposits from customers Other financial liabilities	37,151 74	Deposits	45,262	(8,037)	372 3,169 (11,578)	CNB - Interest, fees and other liabilities CNB - Borrowings from financial institutions AR - Deposits from banks
Debt securities issued	933	Issued debt securities Issued subordinated instruments	300 1,456	(823)	(843) 20	AR - Deposits from banks CNB - Interest, fees and other liabilities
Tax liabilities				-		
Provisions	213			213	213	CNB - Interest, fees and other liabilities
Other Liabilities	360	Interest, fees and other liabilities	1,027	(667)	(454) (213)	AR - Interest on borrowed funds, amounts due to customers and banks and payables on financial derivative AR - Provisions
Total equity	7,190	Total equity	7,190	-		
TOTAL LIABILITIES AND EQUITY	**60,180**	**TOTAL LIABILITIES AND EQUITY**	**60,180**			