Erste&Steiermärkische Bank d.d.

Annual Report
for the year ended
31 December 2015

CONTENTS

Introduction

This Annual report, issued to the shareholders of the Bank, comprises the report of the President of the Management Board, business results of Erste&Steiermärkische Bank d.d. and its subsidiaries, social responsibility report, corporate governance principles implementation, audited financial statements together with an Independent auditor's report and unaudited supplementary reports for the Croatian National Bank (CNB). The audited financial statements are presented for the Group and the Bank.

Croation and English language version

This document comprises the Annual Report of Erste&Steiermärkische Bank d.d. for the year ended 31 December 2015 stated in English. This report is also published in Croatian.

Legal status

The annual financial statements have been prepared in accordance with International Financial Reporting Standrds (IFRS) as published by International Accounting Standards Board (IASB) and adopted in EU.

Abbreviations

In this Annual report, Erste&Steiermärkische Bank d.d. is referred to as the Bank, Erste Bank or EBC and Erste&Steiermärkische Bank d.d. together with its subsidiaries and associates are referred to collectively as the Group or ESB Group.

In this Annual report, ultimate parent of the Group, Erste Group Bank AG is referred as Erste Group.

Report of the President of the Management Board

The market environment in 2015 has been extremely challenging for the whole economy, including the banking sector. Last year was also characterised by retroactive legal amendments related to the conversion of CHF loans, adopted in September 2015, which had the most substantial impact on the financial result of the banking sector as a whole.

Stability of the operating business as a guarantee of success for Erste&Steiermärkische Bank d.d. (the Bank)

In short, the one-off negative effects resulting from legislative changes pertaining to CHF loans conversion have had the most substantial impact on the financial results of the Bank and ESB Group in 2015. The Bank fully complied with the aforementioned legislative changes and carried out adjustments to the Bank's operations professionally and well, placing special emphasis on communication with the clients in this context. Regardless of this, the Bank maintains the position that the adopted legislative changes are in violation of the legal framework of the Republic of Croatia and the European Union and that a legally-founded, fair and sustainable solution should have been based on clear criteria precisely defining the categories of eligible clients, as well as on a fair distribution of costs between the clients and the banks.

On the other hand, except the aforementioned one-off financial effects, the Bank and ESB group have managed to maintain a stable business trend and a firm position on the Croatian banking market, thereby remaining a reliable partner to its clients, enabling them to realise their financial needs and business plans. Innovation and creativity in the approach to clients and an emphasis on the digitalisation of business operations, alongside continued investments in technological development, remained in the focus of our business efforts in 2015. In addition to the financial needs of retail clients, we maintained an intensive focus on the SME segment, supporting quality projects driving the development of the real economy and employment.

Consolidation of public finance as a prerequisite of continued recovery of the Croatian economy

The fact that the Gross Domestic Product (GDP) has recorded a modest growth might reflect positively on the business sentiment. However, the state and the dynamics of public finances still pose a substantial threat to further macroeconomic stabilisation. The positive growth rate is primarily the result of recovery in export markets and the growth of exports, as well of as another record-breaking tourist season. The stabilisation of domestic spending, which shows signs of mild growth of private spending and mild recovery of investment activity, provides an additional dose of encouragement. However, it bears nothing out that Croatia is noticeably lagging behind other countries in Central and Eastern European (the CEE region) and additional efforts will be required to dynamise that growth. Additional effort will also be required to stabilise public finance, where the focus should be placed on the reduction of budget deficit and the stabilisation of public debt growth.

The combination of these two factors, the current state of public finance and growth perspectives, at this moment results in one of the highest interest rates on public debt in Europe. All of this has a negative impact on the confidence of international investors, representing an obstacle towards further stabilisation of the Croatian economy. If we include the negative impact of retroactive legislative amendments related to the CHF loans on investor confidence levels, primarily due to the pronounced legal uncertainty and increased political risk of the country, potential negative implications on the investments activity and credit rating stability are very clear.

Strong regulatory pressure draws focus away from clients

Banks in Croatia have considerably increased their local capital in the crisis, as evidenced by the upward trend of the average capital adequacy rate from 2008 onwards. This strategy still helps the banks absorb the effects of the CHF/EUR conversion on the capital adequacy rate, which will remain considerably above the regulatory minimum. However, with the retroactive regulations and a low rates of return on capital, the profitability of banks will remain under pressure. It is important to stress that the profitability of banks in the Republic of Croatia has been stagnating in recent years, while political and credit risks have been increasing considerably. Additionally, the domestic and international regulatory framework and frequent changes have generally been exposing the banks to a great deal of pressure in recent years. Announcements indicate that this trend can be expected to continue. Regulations are important, but they should not draw focus away from the client. The client should always come first.

Report of the President of the Management Board (continued)

Digitalisation – a new reality for the banks

The Croatian banking sector will maintain its stability in 2016 as a result of cost optimisations that have been implemented earlier. Its focus will be primarily on the retail client segment through adequate support to the citizens and through an added impetus to the businesses, i.e. to the real economy as the primary generator of growth and new jobs. Additionally, the banks will cover most of their funding needs from local sources in 2016. The activities of Croatian banks in 2016 and onwards will be characterised by the digitalisation process, accompanied by an inevitable search for a balance with traditional, analogue channels. With the increasingly strong competition from the new players, the fin-tech and start-up companies aggressively pursuing the banking services market, the banks face the challenge of adjusting to a new reality – the digital reality. In order to stay successful and to be able to tackle this challenge, the banks should further transform into technological trendsetters. This means the banks will have to offer products and services based on the latest technologies, ensure quick realisation, availability, consulting and support for clients through digital channels. Although this process has been in progress for a while, it will culminate in the years ahead.

A stable legislative and political framework as a requirement to stay on the recovery course

How do we stay on the recovery course in 2016? Several important prerequisites must be fulfilled, but the most important one hinges on a stable political and legal framework, without which there can be no investor confidence, investment growth and no real economy development. The banks in Croatia are able to and want to financially support positive initiatives and good projects of the private sector, which has to become the generator of economic growth and new jobs. The banks' focus must primarily remain on the client and the client's needs, with a minimal level of government interventions, and with fewer new regulatory requirements.

Finally, I would like to thank all our clients, business partners and employees. I am convinced that by maintaining partnership relations, fostering open communication and understanding each-other's needs, we will continue to build a successful business in the future, thereby making an adequate contribution towards the development of the Croatian economy as a whole, with the goal of realising all of its potential. As a bank, we want to play an active role in attaining these goals, which will contribute towards the improvement of the quality of living of all Croatian citizens.

Christoph Schoefboeck
Chairman of the Management Board

Management Board

CHRISTOPH SCHOEFBOECK, Chairman of the Board

Responsible for: Risk Management Division, Credit Risk Management Division, Collection and Work-out Division, Corporate Security Division, Human Resources Division, Legal Division, Compliance Division, Economic Research Office, Corporate Communication Office. From 1 June 2015. became responsible also for Portfolio Management and Sales Office.

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 Division and from 1 May 2015 responsible also for Internal Audit Division.

MARTIN HORNIG, Member of the Board

Responsible for: IT Division, Cluster Organisation Division, Processing Division, IBIS Refactoring, IT Steering & Governance Office. From 1 May 2015 responsible also for Property and Cash Management Division.

ZDENKO MATAK, Member of the Board

Responsible for: Retail Division, Direct Channels Division, Marketing Division

PETAR RADAKOVIĆ, Chairman of the Board until 30 April 2015

Was responsible for: Property and Cash Management Division, Internal Audit Department, Economic Research Department, Communication Department and Human Resources Department

Business results of Erste&Steiermärkische Bank d.d.and its subsidiaries in 2015

I. Macroeconomic indicators

Economic activity took a turn for a better in 2015, with negative pressures reversing in fourth quarter 2014, thus putting end to a 12 consecutive quarters in red i.e. 6 year long recession period. 2015 recovery process gained momentum as year progressed, with financial year 2015 GDP expanding by 1.6% y/y (vs. -0.4% in 2014). Detailed structure showed ongoing rebound in domestic demand performance, with both private consumption and investments growth accelerating. Despite weaker than expected performance in fourth quarter 2015, net exports overall maintained positive contribution to the headline figure growth, though we saw imports increase gradually catching up towards steady exports dynamics. As for the 2016 outlook, we see GDP performance remaining in similar gear this year. The domestic demand profile is anticipated to remain supportive, with private consumption footprint being backed up by labor market stabilization, improved consumer sentiment and subdued inflation pressures, while investments are seen modestly accelerating on improving EU fund utilization rates. External demand should also stay supportive, though we see some risks regarding sustainability of EU growth momentum, while recovering domestic demand implies overall less-supportive net exports contribution. We see 2016 GDP landing in the 1.5-2.0% band, but keep our point forecast currently on the conservative side.

Balance of payments extended favorable trends throughout 2015, with current account (CA) surplus heading further into the positive area (on fourth quarter trailing basis), as overall supportive goods and strong services performance (especially in third quarter 2015) provided a tailwind to the CA balance. On the other hand, second half 2015 also revealed positive primary income balance, which reflected CHF conversion effect. Going forward, we see supportive movements on merchandise side, coupled with steady services support, continuing to back up positive trends. On the foreign debt side, government remained strongest debt generator, while corporate sector also demonstrated some debt appetite, after period of deleveraging.

Labor market conditions remain difficult, despite the fact that unemployment rate was trending on average 2pp lower on annual basis thus far in 2015. Employment levels, after long period of free fall, lately showed signs of leveling off, though the recovery trend is likely to be modest. Bottom line, we expect to see the average unemployment rate lower in 2015 vs. previous year i.e. close to 16.7% (International Labour Organization (ILO) methodology). Wage performance showed some improvement, with both nominal and real wages being boosted by reduced income taxation, with latter one also benefitting from the low inflation trajectory.

2015 was marked with low inflation environment, with deflationary tone remaining present throughout the year, driven by the lack of stronger pressures on both demand and supply side. Average 2015 inflation landed at -0.5% (vs. -0.2% y/y in 2014). 2016 is seen showing some acceleration, accounting for a less-supportive cost side outlook and somewhat improved domestic demand footprint, with average Consumer price index (CPI) moving towards 0.5%, where current oil price movements remaining the strong shaping factor.

Despite some turbulences in the beginning of 2015, with Croatian National Bank (CNB) selling close to EUR 500 million year-to-date via two FX interventions in order to tame excessive upside movements (driven by the seasonal footprint, CHF uncertainty and fiscal risks), exchange rate movements were largely in line with expectations. However, CHF conversion story renewed volatility towards end of third quarter, which triggered third FX intervention, while CNB also reintroduced reverse REPO auctions (initially only 1 week, recently also 4 year structural auctions) to anchor MM rates and market nervousness. Looking ahead, we see no major changes in the 2016 footprint, with currency moving in the 7.55-7.75 target throughout the year, depending on the seasonal pattern.

I. Macroeconomic indicators (continued)

While 2015 is seen bringing certain fiscal consolidation efforts, newly formed reformist government presented guidelines among which highlighting reduction of the public debt level towards 80% of GDP by 2020 and getting the budget deficit below 3% of GDP by 2017. While targets seem encouraging, fiscal position remains challenging and requires decisive action. In addition, first rating assessment of the 2016 came in line with expectations, where S&P remained in hold i.e. affirmed BB rating (with negative outlook), while fragile growth, fiscal challenges and delay in reforms were underlined as main vulnerabilities.

	2010	2011	2012	2013	2014	2015(e)[1]	2016(f)[2]
Nominal GDP (HRK, billion)	328.0	332.6	330.5	329.6	328.4	333.1	336.3
Nominal GDP (EUR, billion)	45.0	44.8	44.0	43.5	43.0	43.6	44.0
GDP per capita (in thousand EUR)	10.2	10.4	10.2	10.1	10.0	10.1	10.2
Real GDP (growth y/y, %)	(1.7)	(0.3)	(2.2)	(1.1)	(0.4)	1.5	1.5
CPI (y/y, average %)	1.2	2.3	3.4	2.3	(0.2)	(0.5)	0.4
Current account balance (EUR, billion)	(0.5)	(0.3)	0.0	0.4	0.4	1.9	1.2
Current account balance (% of GDP)	(1.1)	(0.7)	0.0	1.0	0.8	4.4	2.8
Foreign debt (EUR, billion)	46.9	46.4	45.3	45.9	46.7	46.4	46.5
Foreign debt to GDP (%)	104.2	103.7	103.0	105.5	108.5	106.3	105.8
Loc. Curr./EUR year-end	7.39	7.53	7.55	7.64	7.66	7.64	7.70
Loc. Curr./EUR average	7.29	7.43	7.52	7.57	7.64	7.63	7.65
Unemployment (%, ILO definition)	11.8	13.5	15.8	17.3	17.2	16.7	16.4

[1] estimates

[2] forecast

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

II. Erste Bank's lending operations in 2015

Erste Bank's total loans amounted to HRK 38.8 billion on 31 December 2015 and decreased by 0.02% compared to year end 2014, when they amounted to HRK 39.6 billion. Demand for new lending in the market in general is still subdued. Many clients are unfavourably inclined toward incurring new debts and making new investments, which is a result of market circumstances and the objective economic situation. The Bank's market shares in this segment continue to increase and its total loans continue to grow regardless of the afore-mentioned. According to the Croatian National Bank’s statistics from the end of December 2015, Erste Bank’s market share in total loans amounted to 15.40% at 31 December 2015 compared to 15.45% at yearend 2014.
The retail loan market maintained the negative trend observed in previous years. The individual cash loans market, particularly the loans denominated in HRK, recorded growth, while the housing loans market maintained the negative trend. Retail lending operations were substantially influenced by a number of regulatory changes throughout the entire year 2015, which required considerable adjustments and changes in the Bank’s operations, with a direct negative impact on the Bank’s revenue.

The Bank’s total retail loans portfolio on 31 December 2015 amounted to HRK 17.55 billion, having decreased compared to the year before. However, the decline was lower than total market, which reflected positively on the Bank’s market share in retail loans, which, according to the latest available information on 31 December 2015, increased by 0.11 percentage points compared to year end 2014 and amounted to 13.88%.

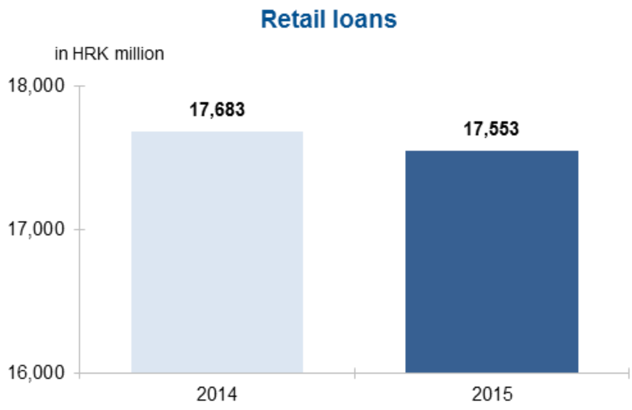

Chart 1: Retail Loans (Loans and advances to customers)

In 2015 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. After several years of decline and stagnation, the first signs of recovery were observed in 2015 in the form of increased investments and higher demand for loans. The tourism segment was the main driver of this cycle. In the other industries financing of supports for EU funds accounted for most of the growth.

The Bank’s total gross corporate loan portfolio on 31 December 2015 amounted to HRK 24.04 billion and was down by HRK 1.63 billion compared to 31 December 2014.

II. Erste Bank's lending operations in 2015 (continued)

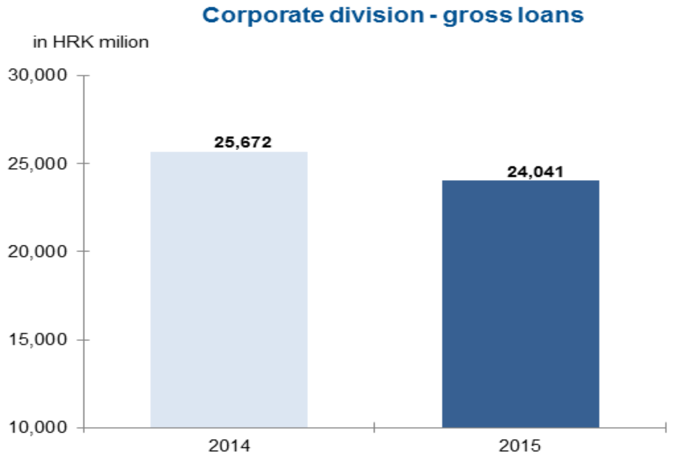

Chart 2: Corporate division – gross loans

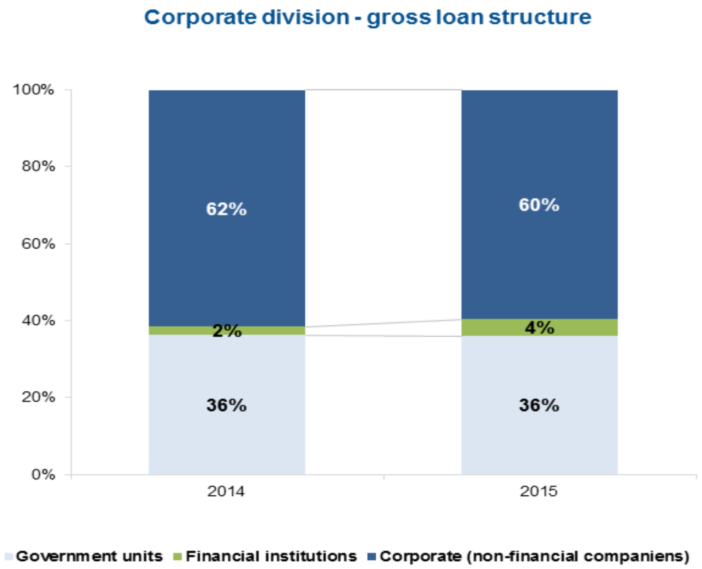

Chart 3: Corporate division – gross loans structure

The Bank’s total corporate loans market share remaind almost the same as the year befor and on 31 December 2015 amounted 16.62%.

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 2015 loans from this source amounted to HRK 2.24 billion.

III. Deposits in 2015

Total deposits at year end 2015 amounted to HRK 39.7 billion, which is 0.07% more than at year end 2014, when they had amounted to HRK 37.2 billion.
The retail deposit market stayed on a positive course in 2015. Sight deposits recorded strong growth, while the term deposit market recorded decline, which was influenced by the continued downward trend in interest rates on term deposits and a 12% tax on interest realized on savings introduced by Tax Authority in Croatia in January 2015.

The Bank's total retail deposits on 31 December 2015 amounted to HRK 27.09 billion and increased by HRK 1.45 billion.

The Bank's market share in the retail deposit segment increased from 12.87% to 13.31%, which was the market share on 31 December 2015, according to the latest available data, as a result of growth higher than the market.

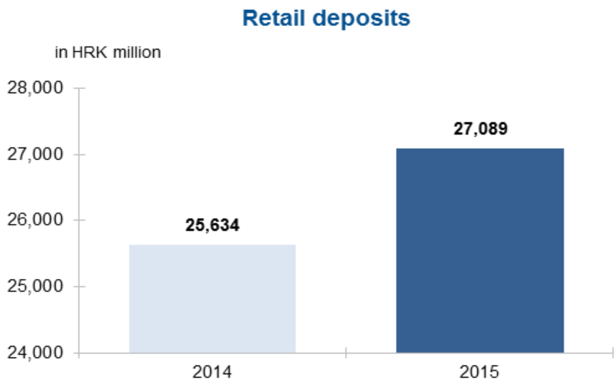

Chart 4: Retail deposits

Total corporate deposits on 31 December 2015 amounted to HRK 7.61 billion and increased by 11.91% compared to 31 December 2014, when they had amounted to HRK 6.80 billion. This year the corporate deposit structure shifted in favour of sight deposits, whose share in the total deposit structure increased mildly to 69%. The Bank's total corporate deposit market share decreased slightly from 11.95% (31 December 2014) to 11.61% (31 December 2015).

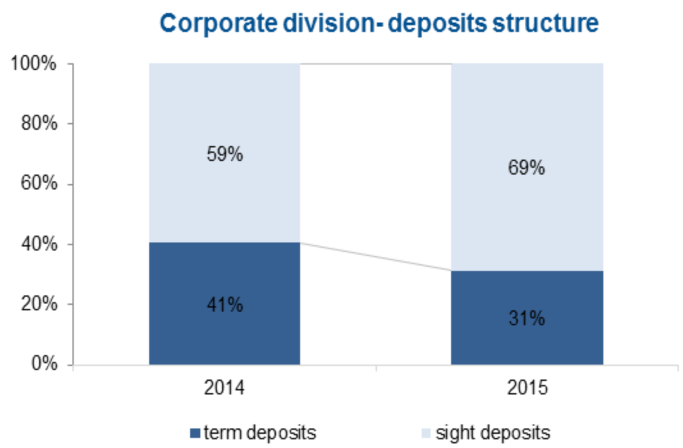

Chart 5 : Corporate division – deposits

IV. Retail and corporate products and services of Erste Bank in 2015

Retail customers

Product and service development in 2015 was influenced by changes in the environment, most importantly the regulatory changes related to CHF loans, digitalisation in all business areas and especially activities focused on meeting customers' needs.

In order to support digitalisation in all business aspects, as of March 2015 the Bank charged no processing fee for cash loans to all clients who apply for this type of loan on the on-line application available on the Bank's website. In addition to the offer of pre-approved loans, clients can realise at the Bank's branches, as of July 2015 the Bank offers pre-approved loans on its Internet banking service - NetBanking.

To increase the competitive advantage of lending products in the housing loan segment, the Bank introduced housing loans and home adaptation loans denominated in HRK in June 2015. The terms and conditions for new and existing housing and home adaptation loans with a currency clause in EUR were amended and customers were offered the possibility to choose a fixed interest rate.

In its deposit business, Erste Bank offered the savings and investment product Erste Plan plus, designed for more conservative investors who are prepared to accept a moderate risk level in order to return the invested funds. The product combines a one-time term savings deposit with the investment in Erste Adriatic Bond investment fund.

The special Erste obiteljske pogodnosti (Erste Family Benefits) offer was introduced for young families with children which includes current account, cash loan, digital banking services and Medo Štedo children's savings.

The existing way of doing business with Western Union was changed mid-year, from mediatory to direct sending and receiving of cash. Erste Bank was the first bank on the market that introduced an automated money transfer form, which additionally shortened the time needed to use this service. Customers no longer have to manually fill in forms in order to send or receive money, and the service is available in all Bank's branches.

The Social Banking initiative was launched on Erste Group level to seek new target groups and to better adjust product conditions to specific client groups. A new offer of loans for customers with a fixed-term employment contract was introduced, and the minimum starting amount for Aktivna oročena štednja (Active Term Savings) was lowered, which made term savings more accessible to a greater number of clients.

IV. Retail and corporate products and services of Erste Bank in 2015 (continued)

Corporate and small business

In addition to competitive financing terms and continual enhancement of product and service quality, activities in the corporate segment in 2015 continued to focus on intensifying and improving the quality of sales activities by creating individual and innovative solutions for target customers/industries in order to provide the optimal support to the customers' business and raise the level of service quality.

In 2015 the Bank again made advantageous financing terms available to customers through a long-standing successful cooperation with domestic and international financial institutions, ministries, counties, local governments and self-governments, towns and development agencies which resulted in new credit lines being contracted.

The Bank continued its long-standing successful cooperation with the HBOR with the contract for the framework working capital and investment credit. The specific advantage of this new cooperation for the customers is that the procedure of approval of loans from HBOR's line has been made even simpler and quicker. HBOR programmes remain one of the crediting forms in the highest demand, and Erste Bank remains one of the most active commercial banks in the utilisation of HBOR's regular crediting programmes.

The Bank also continued its long-standing successful business cooperation with the European Investment Bank. Affordable sources of funding, which allowed the Bank to finance its customers' needs at an attractive price, were available throughout the year.

The component for energy efficiency and renewable energy financing was available from funds of European Bank for Reconstruction and Development (EBRD) in 2015. The funds from the Western Balkans Sustainable Energy Financing Facility II (WeBSEFF II) credit line were used to finance projects in the private sector in 2015. In addition to the more affordable price of funding, the projects who achieve the energy savings defined by the line upon the completion of the project are entitled to grants amounting to 5-10%. In addition, two new credit agreements were signed with EBRD at the end of the year. One is designed to enhance micro, small and medium-sized enterprises, and the other to promote investments in energy efficiency of residential buildings. Credit financing in the amount of EUR 20 million will give Erste Bank additional sources of funding to support SMEs who are making a substantial contribution to the economic recovery of the country, and for whom access to funding is still a challenge.

Active cooperation with HAMAG BICRO also continued in 2015. The Bank participated in HAMAG BICRO's guarantee programmes spanning various needs of craftsmen and entrepreneurs – small businesses – in financing operating costs or new investment projects, providing them with a high-quality insurance instrument in form of an unconditional first-demand guarantee. In October 2015 the Croatian Government passed the amendments to the existing guarantee programmes EU početnik (EU Beginner) and Rastimo zajedno (Let's Grow Together). Accordingly, the Bank signed an amendment to its business cooperation agreement with HAMAG BICRO.

In accordance with the latest banking trends, special attention was paid to the development of new products in order to provide support to clients in the context of the digital banking era. The objective is to define high-quality solutions and provide support in increasing the efficiency of customer operations. For instance, the Erste mBanking mobile banking app for corporate and small business customers was developed in the segment of money funds management. It is an innovative service that offers clients a simple view of the company's finances, simple authentication, and quick and simple payment of bills and invoices with the Slikaj i plati (Photo and Pay) feature.

IV. Retail and corporate products and services of Erste Bank in 2015 (continued)

Following its strategic business guidelines and striving to be the first bank providing complete financial solutions, including advisory services to customers in foreign trade activities, the Bank intensified its activities in supporting export-oriented customer through structured financing, cooperation with export-credit agencies, proposing professional business solutions, organising workshops and visiting clients. In addition to factoring products, increased interest of exporters resulted in an active cooperation with clients on credits for suppliers, which allow exporters to improve their competitive advantage in the market and collect payments immediately after the delivery of products and services.

Striving to be at its customers' service in foreign trade through all stages of the business cycle, Erste Bank signed a framework arrangement for trade and export, import and distribution activities Trade Facilitation Programme with EBRD. The programme became active in late 2015.

V. Direct channels

Card business and mobile payments

The Bank had a total of 851,387 issued debit cards as at 31 December 2015, which constitutes an increase of 1.09% compared to 2014. The total number of debit card transactions at points-of-sale and ATMs increased by 12.05% and volume increased by 9.63%. The number of ATM transactions increased by 4.77% and volume increased by 8.17%. The number of POS terminal transactions increased by 17.70% and volume increased by 13.97% compared to the previous year through numerous marketing activities.

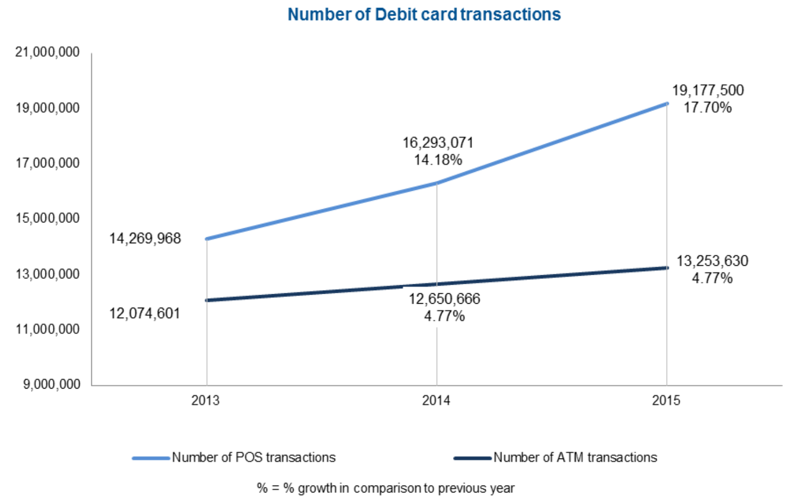

Chart 6: Number of debit cards transactions

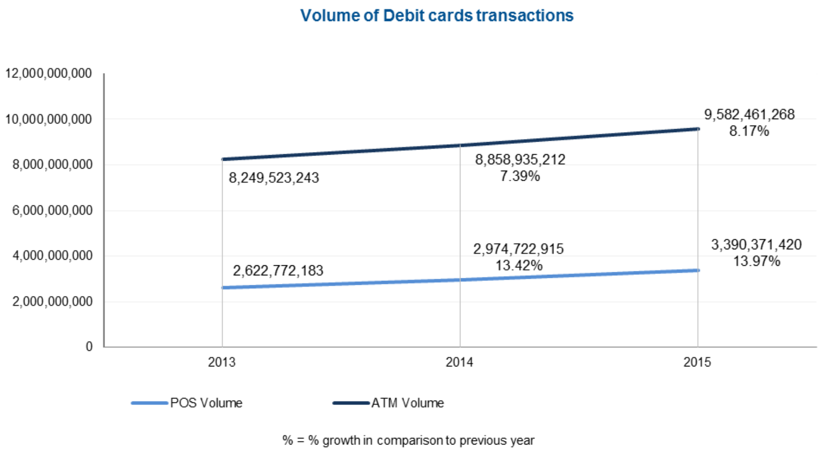

Chart 7: Volume of debit cards transactions

V. Direct channels (continued)

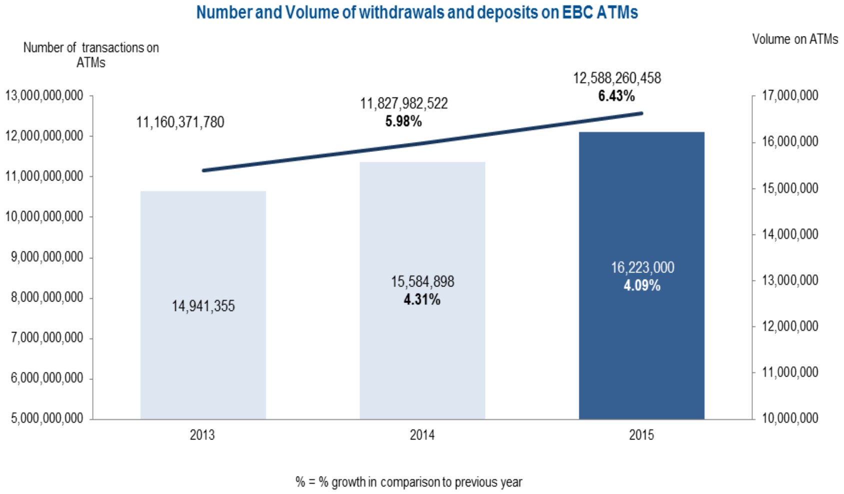

Chart 8: Number of transactions and volumes on EBC ATM's

Maestro Plus Service

The Maestro Plus service offers cash withdrawal at ATMs repayable in instalments, as well as payment in instalments and/or deferred payment at Erste Card Club d.o.o. POS terminals. The number of transactions increased by 9.17% compared to 2014 and volume increased by 8.72%. The number of transactions at POS terminals increased by 17.09% and volume increased by 13.63%.

Erste Wallet

Erste Wallet is a cashless payment service that offers quick and safe payment at points-of-sale using smartphones. The number of transactions increased by 338.82% compared to 2014 and volume increased by 102.44%. Erste Wallet was accepted at 666 points-of-sale, which constitutes an increase of 119.08% compared to 2014. Erste Wallet had 3,961 users in 2015, which constitutes an increase of 140.79% compared to 2014.

Card and mobile payment acceptance network monitoring and management

The Bank had 633 installed ATMs by the end of 2015. Total ATM transaction volume in 2015 amounted to HRK 12.59 billion and increased by 6.43% compared to 2014. The total number of ATM transactions amounted to 16.22 million and increased by 4.09% compared to 2014.

News and activities in 2015

In course of 2015 the Bank aligned its operations with the European Parliament's Regulation on Interchange Fees, which caps the interchange fees to 0.2% for debit cards, and which entered into force in late 2015. The Bank also introduced mandatory activation and use of 3D services (MasterCard SecureCode and Verified by Visa) for all online transactions performed with the Bank's debit cards. To improve customer service, the Bank increased the number of deposit and withdrawal ATMs from 8 to 39.

V. Direct channels (continued)

Digital banking

Retail Business

Compared with previous year, in 2015 the number of users of all digital banking services has increased.

The number of Erste NetBanking retail users has increased by 5.83% and now it counts 165,718 users. There were 199,516 retail users of SMS service, which is a 9.18% increase in comparison with 2014. The number of mBanking service users during 2015 increased to 75,524, which is a 35.54% growth in comparison with 2014. The number of direct debit orders rose by 4.18% to 206,556 while the number of signed direct debit contracts went up by 2.5%.

Through Erste NetBanking, Erste mBanking, Erste Kiosk, Erste NetPay and direct debits retail clients have made 7,738,677 transactions (an increase of 9.69% compared with 2014) in total volume of 7.3 billion HRK (26.77% growth compared with 2014).

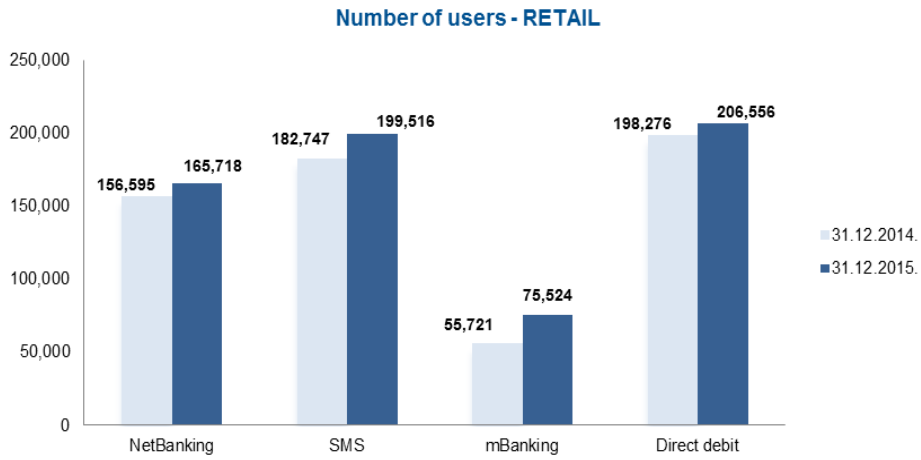

Chart 9: Number of users - RETAIL

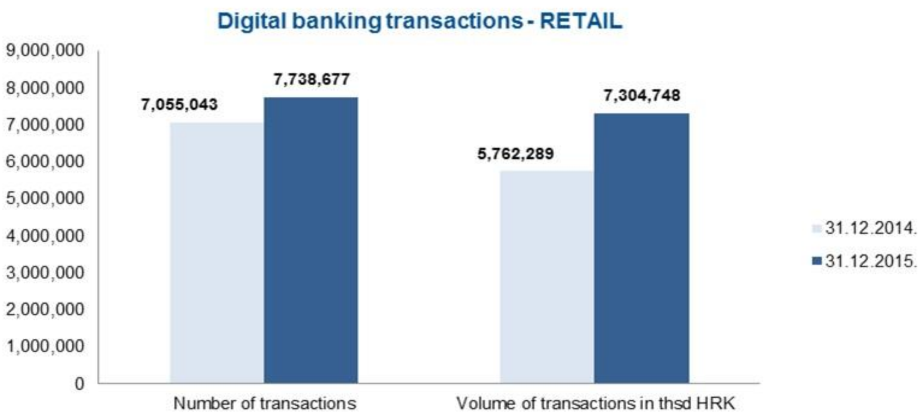

Chart 10: Electronic banking transactions - RETAIL

V. Direct channels (continued)

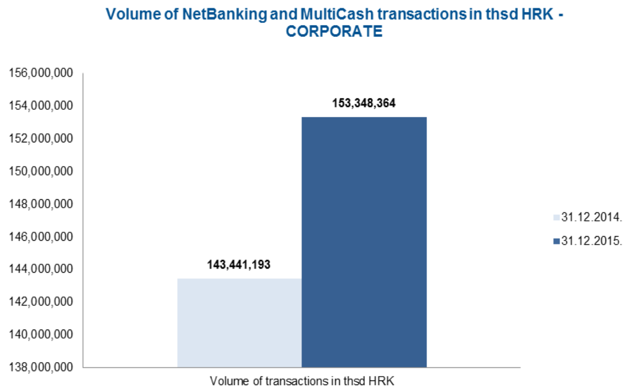

Chart 11: Volume of Netbanking and MultiCash transactions – corporate

Corporate business

Digital banking services in corporate business segment have also recorded growth in comparison with 2014.
The number of Erste NetBanking corporate users increased to 43,439 (10.01%), while the number of companies went up to 32,356 which is an increase of 10.38% (there can be more than one user in a company). The number of Erste SMS service for corporate users went up from 4,073 to 4,369 (7.27%).
In November, mBanking service for corporate users was introduced. By the end of the year 821 users from 778 companies signed up for it.

Companies using Erste NetBankig and MultiCash service made over 15.5 million transactions (including foreign currency transactions as well as domestic currency transactions), which is an increase of 16.28% compared with 2014. The volume of transactions was 153.35 billion HRK (a 6.91% increase).

Erste Net Banking's anti-fraudulent activities

In 2015 we implemented new tools and services for security of our digital channels and clients. Digital banking security team is actively monitoring security events on digital channels using new and existing security tools. Business process used for management of digital banking security incidents had been improved and shows good results in practice. During 2015 there were several security attacks on clients of Netbanking service, but all of them were successfully detected and all fraud attempts were prevented with no losses for clients.

V. Direct channels (continued)

News and activities in 2015

In the part of development of new digital channels in 2015, we would like to emphasize the following:

- **mBanking and mToken for corporate clients** – we have upgraded existing mobile application with the new functionalities for corporate clients and within we enable them logins and authorizations of transactions via mToken. As well we enabled business entities to do logins on digital banking via display cards or/and with mToken.

- **Upload of invoices and creating payment slip** – NetBanking for corporate client have been improved by implementing these two functionalities that allow customers to easily and quickly load the received invoice in NetBanking without copying data to create order and do the payment. This functionality enables corporate clients to issue an invoice with printed money order to their business partners.

- **Cash loan** – we enable contracting cash loans via NetBanking services without visiting Erste branch. After contracting the loan the money immediately transfers to client's current account. For the entire duration of the loan on client's NetBanking is visible loan agreement as well as loan repayment plan, balance status and details of the loan.

- **CRM messages on NetBanking** – the feature allows management of promotional and informational messages within Customer Relationship Management (CRM) campaigns. It is possible to define target group of clients whom the bank wants to display certain messages to.

- **Order signing on mBanking** – for retail clients it was enabled the singing of the orders with display card and with mToken functionality. The same functionality exists for corporate clients as well.

- **NEBO (NetBanking Optimisation)** – from beginning of 2015 until the production of project NEBO which is launched in June, Digital Banking Department provided intensive support to IT sector in terms of testing NetBanking. NEBO was a project where we modernized the code of NetBanking service, and in previous iterations of the project (summer 2014) visual redesign has been made as well.

- **SEPA** – Digital Banking takes part in writing and elaborating change requests related to changes in NetBanking, mBanking, FonBanking, Erste Kiosk and Erste Wallet within the SEPA projects. Accordingly, Digital Banking takes part in testing and in all the required workshops related to these projects.

- **Termination of Maestro Display cards** – due to technical difficulties with Maestro cards display the Bank, at the end of 2015, stopped to issue this type of card to customers. According to mentioned action Direct Channels Division enables all digital users to do logins via mToken and/or Erste display card (Token card). Instead of Display Maestro card, currently we issue two separate cards. One card is Maestro Contactless card that has payment functionality and the other is Erste display card or mToken that serves for logins to digital banking channels.

V. Direct channels (continued)

Client activation in 2015

In 2015, one of the focuses was the activation of customers on the digital channels which are Erste NetBanking and Erste mBanking services.

In order to increase activation of clients we organized CRM campaigns, digital onboarding and 11 digital corners in the Erste branches. We also have organized 35 training classes for sales network and education for students who work in digital corners.

With 31 December 2015 total count of digital clients was 179,358 who have contracted the digital services of Erste Bank (Erste NetBanking and Erste mBanking). In 2015 we recorded 20% increase of active clients on digital channels if we compare the data with the same period in 2014. The number of new clients in 2015 was 34,263 which is an increase of 16% where 74% is an active clients.

With 31 December 2015 total number of mToken users was 36,844 where 25,790 (70%) is arranged in 2015.

Contact centre

Contact Centre agents made a total of 537,762 contacts in 2015, which constitutes an increase of 8% compared to 2014. 92% of the total number of contacts was made over the phone and 8% was made by email or chat. Compared to 2014, the number of Erste Fon users increased by 6%. 98% of Erste Fon users are retail customers.

In addition to selling current accounts, electronic channels and credit cards, the Contact Centre started selling preapproved loans and insurance policy renewals. The agents offered 61,126 Bank and Erste Group member products to the customers (mostly preapproved loans, cards, electronic channels). A survey about the quality of the Contact Centre's operations was carried out twice in 2015. User satisfaction remained at a high level of 92%. Erste Bank's Contact Centre received the Contact Centre Academy's annual award for the best larger contact centre in 2014.

VI. Financial Markets

Overview

Erste Bank had a 40.3% share in the secondary domestic bond market in 2015, which is 7% more than at year end 2014. Our domestic bond turnover (excluded turnover between the Bank and Erste Group Bank) amounted to 6,472 billion.
In 2015 the Bank has not signed any new market making agreement, but nevertheless remains one of the leading banks 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

2015 was more turbulent than the previous one in money market although the start of the year in terms of liquidity and interest rate movements wasn't suggesting that.

Trading in the first quarter recorded a high excess of liquidity when at the end of March reached the highest level of liquidity of all time and then totalled HRK 10,635 billion. Issuance of Eurobond and euro denominated T-bill contributed to this huge excess of liquidity in the system after which Ministry of Finance exchanged euros for kuna at the Croatian National Bank, which are then through the payment of pensions and other benefits ended in the system. Average daily excess of liquidity in the system amounted to HRK 6.65 billion, which is almost at the same level as the previous year. On the other hand, the lowest daily surplus amounted to just HRK 1.146 billion in early September. At about the same time conversion of CHF loans in EUR was announced, which resulted in direct loss of EUR 8.0 billion for banks and capital decrease, but because of the good capitalization of the domestic banking system, there were not major impacts on capital adequacy. Only short term but a sharp rise in interest rates implied from the swap curve (at one point O/N implied rate traded at 11%), which were later followed by depo rates in the domestic interbank market, was a result of a CHF loan conversion. Introducing reverse repo auctions on weekly level after 6 years of pause and abandoning of the decision on the mandatory purchase of Treasury Bills after which in the system returned approximately HRK 3.4 billion and led to a fall in interest rates to the levels before CHF loan conversion.

On the interbank market, the most traded maturities were O/N and 1W. O/N ZIBOR rate ranged from 0.32% when the lowest was in late April, to 2.4% when the peak reached in late September due to the aforementioned crisis caused by the conversion of CHF loans and high foreign exchange liquidity of domestic banks. But by the end of the year interest rates stabilized at levels from the beginning of 2015.

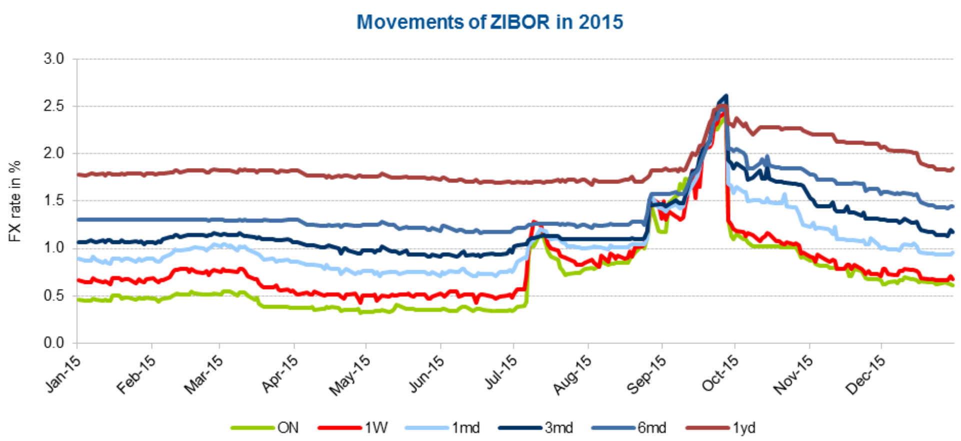

Chart 12: Movement of ZIBOR (source: Reuters)

VI. Financial Markets (continued)

Except for September and October when the stability of the money market was disrupted, all other months were mostly monotonous. The result was the accumulation of banks' liquidity in their accounts with very calm periods of mandatory reserve, mostly unchanged interest rates and the lack of demand for the kuna by domestic banks.

State debt decreased last year by approx. HRK 5.84 billion through auctions of Treasury Bills and the trend of replacing debt in euros to those in kuna has stopped compared to 2014. The yield on the most liquid T-bill, the 364-day Kuna, declined by 3 bp on an annual basis and was last released in 2015 at 1.47%. The yield on the 91-day Kuna T-bill increased by 15 bp to 0.43%, 181-day Kuna T-bill remained unchanged while the yield on foreign currency T-bills fell by 10 bp in 91-day euro linked T-bill and 15 bp in the 364-day euro linked T-bill and the last time in 2015 were issued at 0.2% and 0.4%.
In 2015 the Bank managed its liquidity efficiently.

FX Market

At the beginning of 2015 National bank of Switzerland decided to no longer defend the exchange rate floor of CHF 1.20/EUR. Therefore, the Croatian Government decided to fix exchange rate CHF/HRK at 6.39 for one year period. This rate was used for monthly payments of currency clause loans in Swiss franc.

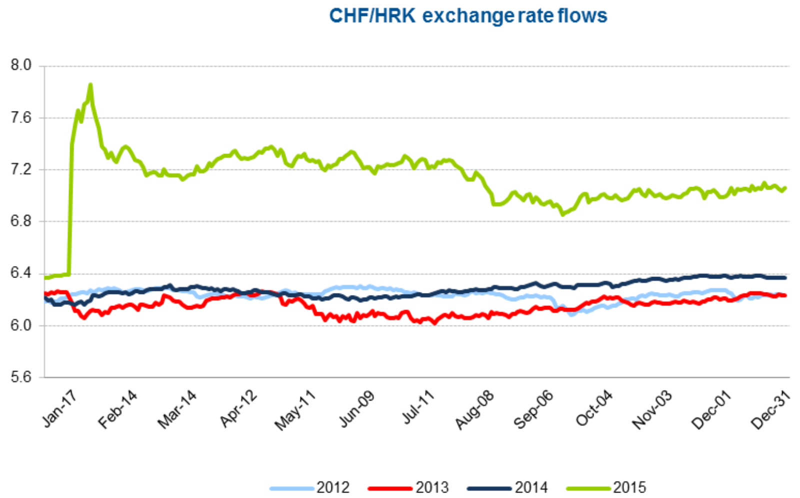

Chart 13: Exchange rate flows CHF/HRK (source: CNB)

Because of that decision banking sector was forced to buy foreign currencies. Exchange rate of EUR/HRK went up to 7.72. That provoked Croatian National Bank to intervene twice on the market. They sold around EUR 500 million to stabilize exchange rate. Easter holidays brought strengthening of domestic currency to 7.64. At the beginning of the tourism season euro falls further to 7.55. During the summer, the rate was stable at 7.56. At the beginning of September we saw another big move in EUR/HRK exchange rate. This time, the Croatian Government decided to change law in the way that all citizens that have loans in CHF can choose to convert them into euro, using terms that was in the market when original CHF loan was placed. Kuna falls against euro from 7.55 to 7.65. Croatian National Bank had to intervene again. This time they sold EUR 270 million. At the end of the year exchange rate stabilized around 7.63 levels.

VI. Financial Markets (continued)

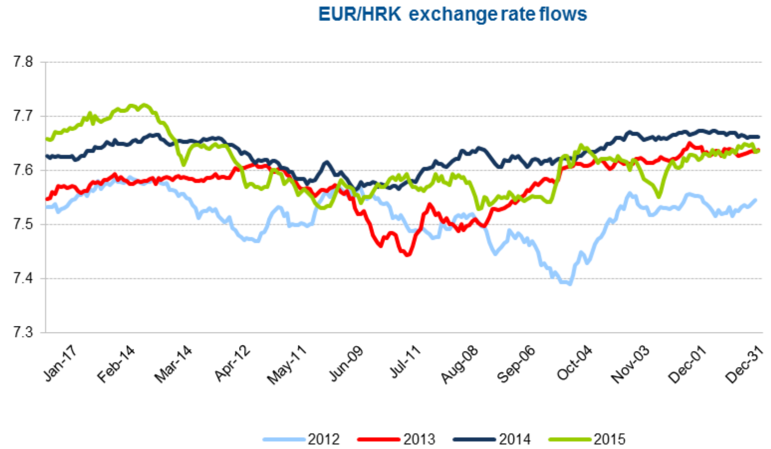

Chart 14: Exchange rate flows EUR/HRK (source: CNB)

Movements of Croatian kuna against American dollar were in line with moves of dollar on global market. During 2015 American dollar was supported on global market because of very good macroeconomic data and FOMC decision to ends quantitative easing measures and rise interest rate on USD. American dollar strengthen against Kuna from 6.50 till 7.20.

Debt securities market

In 2015 the Bank acted as Joint Lead Manager for two bond issues of Republic Croatia through its Ministry of Finance, as Issuing Agent for commercial papers issue of SC Višnjik and as Co-Lead Manager for corporate bonds issue of JGL d.o.o.
The Bank is continuously ranked among the leading arrangers of debt securities in the Republic of Croatia, with 24.2% market share in 2015, thereby confirming its strategic orientation to support the development of capital markets despite very challenging environment.
Erste Bank, as an entity responsible for Southern and Eastern Europe (SEE region) within the Group, has successfully acted as Joint Lead Manager for Eurobond issue of Republic Croatia through its Ministry of Finance; Montenegro Eurobonds through its Ministry of Finance and Macedonia Eurobonds through its Ministry of Finance.
During the 2015 the bank has executed two syndicated loans, one for Croatian Ministry of Finance and another for Macedonian Ministry of Finance.

Equity market

Trade statistics in 2015 showed that the turnover of securities compared to 2014 was 10% lower (-11.5% equities and 9% of total turnover), but we cannot say that there was no activity on the Zagreb Stock Exchange.
CROBEX index in 2015, fell by -3.2% (1,689.63 points) in relation to its beginning (1,745.44 points). The most liquid USA shares in 2015 was the share of Croatian Telecom Inc., and it had 15% of total turnover (in 2014 it was about 23% of turnover), while the five most active shares credited for 46% of turnover (HT-R-A, ADRS-P-A, RIVP-R-A, PODR-R-A and ADRS-R-A).
Beginning of the year was marked by the listing of the shares of Tankerska Next Generation Inc. on the regular market, which was the first new listing of the shares acquired through an initial public offering on the Stock Exchange since 2008, and in March in the Official Market listed shares of the Company Granolio Inc., whose underwriter was just Erste Bank.

VI. Financial Markets (continued)

One of the important events that marked the year 2015 was the project of regional stock exchange integration between Croatian, Bulgarian and Macedonian Stock Exchange, on new platform SEE Link. Erste Bank was one of the first brokerage firms to support this project.
Absolutely the most important event in 2015 was British American Tobacco's (BAT) takeover of Tvornica Duhana Rovinj (TDR), which began in May 2015, and was financed in late September 2015. The value of the transaction amounted to EUR 505 million (ca. HRK 3.86 billion), and BAT took over whole Adris tobacco strategy business Unit – TDR, Istragrafika, Croatian tobacco and retailers iNovine and Opressa, and Tisak.

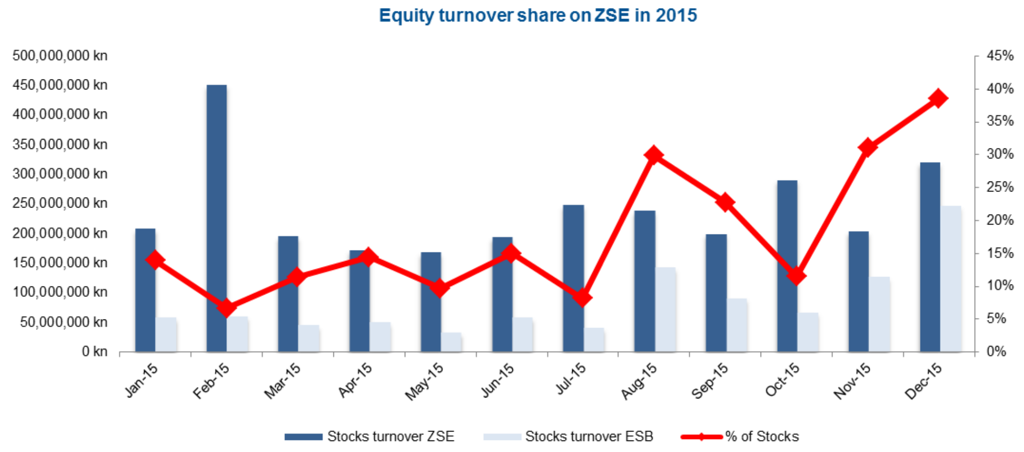

Chart 15: Equity turnover in 2015 (source: Zagreb Stock Exchange)

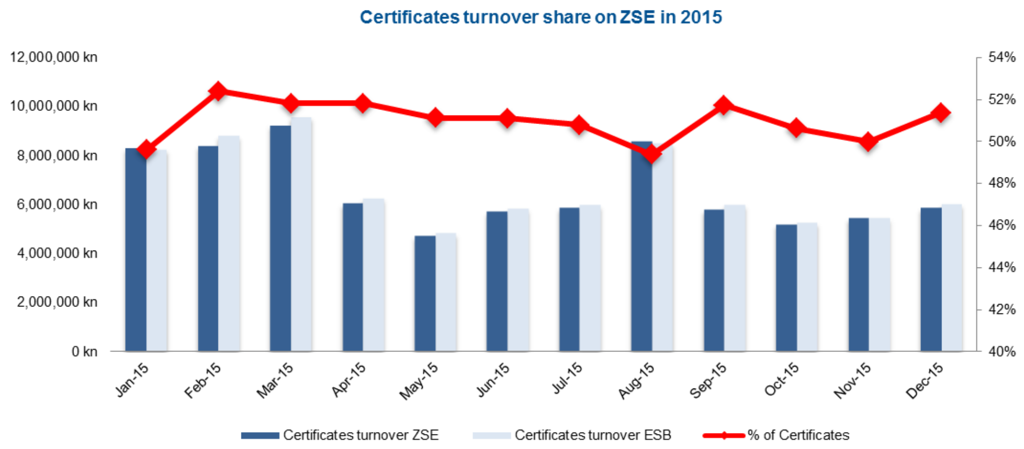

Chart 16: Certificates turnover share on ZSE in 2015 (source: Zagreb Stock Exchange)

Custody

In 2015, average market asset under custody has increased by 8% compared to the year 2014 and on 31 December 2015 market value of the asset record HRK 7.14 billion. In 2015, the number of transactions with financial instruments has risen by 12% compared to the year 2014.

VII. Erste Bank AD Podgorica

Erste Bank AD Podgorica (EBM), during the year of 2015, continued its best practice obtaining new clients and developing relationships with existing, resulting in a profit before tax in the amount of EUR 7.35 million, although is by 5% lower compared to the previous year. Profit after tax amounted to EUR 6.7 million with return on equity of 13.7%, and return on assets of 1.8%.
Total operating income amounted to EUR 22.1 million, which is almost on the same level compared to 2014.
Net interest income amounted to EUR 18.5 million and decreased by 1% compared to the previous reporting period. Net interest margin increased from 6.07% at the end of 2014, to 6.30% at the end of 2015. Increase of net interest margin is result of liabilities optimisation measures (renewing deposits at lower interest rates according to internal monitoring and evaluation of deposit requests, as well as in line with market developments) which led to the positive effect.
Net fees and commissions income increased by 4.06% and amounted to EUR 3.2 million. Increase of net fee and commission 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 positive and amounted to EUR 1.6 million. Credit risk cost had positive effect on the Statement of profit or loss and amounted to -0.6%, which was considerably lower compared to the year end 2014, when it has amounted to 0.2%. NPL coverage rate was high and at the year end 2015 amounted to 97.6%, which represent increase from 87% at the year end 2014. This is result of significant efforts in control of repayments and also conservative risk appetite of EBM adapted to demandable market conditions.
General administrative expenses amounted to EUR 14.63 million and increased by 3.4% compared to previous year. Cost/Income ratio increased from 63.8% to 66.2%. At the end of the year, total assets reached EUR 369.24 million and decreased by 2% compared to 2014. Net loans to customers amounted to EUR 235.8 million and increased by 1.9% compared to 2014. Retail loans accounted for EUR 134.3 million and corporate loans for EUR 101.6 million.
In the retail sector, EUR 53.27 million was granted trough 9,940 loan arrangements. Cash loans (72.79%), housing loans (9.57%), micro/agro loans and loans for their refinancing (4.86%), as well as mortgage loans and loans for adaptation (4.82%) had the largest share in total disbursements. In accordance with the EBM strategy, customers remained focused on standard retail products and thus, core retail products accounted for 90.89% of total lending in 2015. Market share in retail loan portfolio amounted to 15.34%.

In SME/Corporate division, gross loan portfolio increased by EUR 4.04 million (3.80%) compared to the year end 2014, which represents 43% of total market growth of EUR 9.35 million (0.85%). This result was mainly due to growth of net loan placements to private companies for EUR 8.80 million (14.37%), which resulted in market share increase from 7.02% to 7.86%. Quality of loan portfolio was improved, NPL was further improved from fairly low 8.56% at the year end 2014, to 7.69% at the year end 2015.
Optimisation of liquidity management and investments was done through investments in securities, and the total portfolio increased for EUR 18.04 million and amounted to EUR 66.09 million at the year end 2015. Interest income increased for EUR 0.5 million and amounted to EUR 2.5 million at the year end 2015.

Additional effort was put into retail and corporate division's joint appearance aimed at attracting new companies and their employees. Additionally, efforts were made intensifying cooperation with clients, which resulted in the increase in non-interest bearing income.

In 2015, total deposits from customers decreased by EUR 1.2 million and amounted to EUR 279.9 million at the year end 2015, out of which retail deposits accounted for EUR 172.1 million, and corporate sector deposits for EUR 107.8 million.
Results are even more impressive considering that they were accomplished under difficult business conditions at local level. EBM worked simultaneously on remodeling the existing branch offices to meet Erste Group's standards and on expanding its client base. EBM operated a network of 16 offices throughout Montenegro and served more than 79,000 clients by year end 2015.

EBM will continue to targeted develop products and services, analysing the market needs and potentials, in order to provide its customers with a proper support. The focus will be placed on the enhanced customer database and increased satisfaction of customers in parallel with the care for the welfare of employees, community and the shareholders.

VIII. Erste Card Club d.o.o.

Company's activities in general

The result achieved by Erste Card Club d.o.o. (hereinafter referred to as: ECC) exceeded the expectations, with growth in all major business segments. Along with an increase in the number of clients and the credit card portfolio, it also saw an increase in the market share of the volume registered in its POS network and the volume with ECC cards on its own and other banks' POS devices.
The performance was affected by regulatory changes in effect since August 2015, which reduced interest rates. Since the beginning of the year – before the new European Union's Interchange Fee (IF) came into force – an indirect impact came from the merchants' pressure to decrease average commissions.
Throughout the year the business focus was on the Dinamic project, aimed at migrating the Diners Club business to the new more technologically advanced business system C3.1., which is supposed to bring enhanced business features, while providing cutting edge card products and services. The proprietary POS network was further expanded, with the positioning on points of sale, introducing new technologies (mPOS) and enabling acceptance of South Korean card brand BC Card.
As credit to results in the Slovenian market, Diners Club International presented Erste Card Slovenia (hereinafter referred to as: EC Slovenia) with the Best Small Franchise award for the second time.

Operating business review for 2015

Last year ECC issued 41,792 new credit cards, increasing the total number to 368,283 by 31 December 2015 (Diners Club 296,426; VISA 34,906; Master Card 36,951), which is 1.2% more than in 2014. As the recession ended and personal spending recovered slightly, the number of cards cancelled by clients and by the company was reduced.

In 2015 - compared to 2014 - ECC recorded an increase in the total volume registered in the proprietary POS network (hereinafter referred to as: acquiring volume) and in the total volume made by proprietary cards on proprietary and others POS network (hereinafter referred to as: issuing volume). Total volume by all ECC card brands were increased by 0.7%, with a market share of 23.73% (+10 bps versus 3Q2014). Total volume on ECC's POS network was also increased, by 10.4%, with a market share of 13.83% (+56 bps versus 3Q2014), along with a considerable increase in Visa and MasterCard volume (+29.5%). 31,867,797 transactions were made using ECC cards, 13% more than in 2014.

As at 31 December 2015, ECC had 19,247 POS devices installed, up by 17.4% compared to 2014. The market share reached 17.5% on 30 September 2015 (+128 bps versus 2014).

During the course of 2015, Erste Card Slovenija d.o.o. (EC Slovenia) issued 8,813 new cards and had a total of 58,779 cards as at 31 December 2015, having recorded a 12% increase compared to 2014. EC Slovenia registered 1.9 million transactions worth EUR 137 million, for an 11.3% growth year-on-year.

Financial performance in 2015

ECC's consolidated net profit amounted to HRK 100.3 million, up by 6.7% compared to 2014, while EC Slovenija d.o.o. recorded a net profit of HRK 30,000. The operating result was down by 6.5% compared to 2014, to HRK 190 million. A drop in average merchant commission was offset by increased volume. In line with the recommendation by Erste Group, ECC was executing write-offs and sale of receivables, which helped reduce the non-performing loans (NPL) total by HRK 68 million.

Consolidated net commissions income was improved by 3% year-on-year to HRK 211.9 million, as a result of the growing membership fee revenue and increased ECC and EC Slovenia volume. Consolidated net interest income was HRK 202.7 million what was down by 1.6% compared to 2014, due to changes in Croatian regulations concerning the interest rate decrease. Consolidated risk provisions were reduced by HRK 27.6 million compared to 2014, to HRK 47 million. The non-performing loans coverage ratio was stable at 90.9%.

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

Consolidated general administrative expenses were increased by 4.1% y/y to HRK 226.7 million. Apart from the personnel expenses resulting from increased severance pays and IT expenses due to DR Site implementation, EFT POS network maintenance expenses were on the rise because of expanding and fortifying ECC's acquiring position in the market.

Statement of financial position

ECC's consolidated assets shrank by 12% y/y, to HRK 3,418 million on 31 December 2015.

Loans and receivables from clients and financial institutions amounted to HRK 3,049 million and were 16.9% down compared to 2014, due to the shrinking of deposits following the EUR 80 million loans repayment to Erste Bank AG and write-off and sale of ECC's bad receivables.

Risk provisions were down by 8% y/y to HRK 561.1 million, on the back of collection, smaller inflow of new provisions, and HRK 84 million worth of write-off and sale of bad receivables.

As at 31 December 2015, consolidated liabilities to credit institutions amounted to HRK 2,117 million and were down by 21.1% compared to 2014, due to the EUR 80 million loans repayment to Erste Bank AG. Liabilities to customers remained stable at HRK 490.7 million.

Total capital was up by 12.8% y/y to HRK 702.8 million, while 25% of the 2014 net profit was paid in dividends.

INDICATORS	Actual 2014	Actual 2015	2015/2014
RoE	16.24%	14.98%	92
RoA	2.48%	2.87%	116
Cost Income Ratio	51.72%	54.41%	105
NPL coverage	16.24%	14.98%	92

IX. Erste Factoring d.o.o.

Erste Factoring (EF) ended 2015 with exceptionally successful results. The company recognised the existing market surroundings as a business opportunity to continue its successful business operations and strengthen its market leader position.

According to data published by Croatian Financial Services Supervisory Agency (HANFA) on 30 September 2015, Erste Factoring kept the market leader position with a 45% share in the total assets of all factoring companies, which is 6% more compared to the same period of the previous year. With respect to the net profit, EF accounts for 41% of the market.

The return on assets in 2015 amounted to 3.1% (remaining the same as in 2014), while the return on equity decreased from 43.8% to 32.7%. Profit after taxes amounted to HRK 94.2 million, which is a 4% decrease y/y. The company's EBIT somewhat decreased (1.1%), because of the drop of net interest income and slightly increased operating costs. The loans of EF amounted to EUR 325 million and HRK 116 million at year end.

The demand for factoring services mostly increased in the large and corporate clients segment, because of the longest payment deadlines, compared to SME clients who use such form of financing less frequently.

After the Factoring Act was adopted in 2014, Erste Factoring and its Management Board members obtained official HANFA licences for carrying out factoring operations in 2015. In addition, the international factoring was introduced as a two-factor financing model, as well as factoring with insurance by insurance companies.

In the upcoming period, the emphasis will be placed on SME clients and big, stable companies, the leaders in their respective fields. Erste Factoring will try to expand its existing base of clients and customers, with dispersion of portfolio as a goal. The introduction of new factoring products and services (e-factoring) and the implementation of DWH warehouse are the strategic goals in the upcoming period.

An extraordinary success was achieved in 2015. Through professionalism, team work, client-orientedness and acquiring new knowledge, the employees have produced a high quality work and achieved great results. The goal of Erste Factoring is to maintain a successful business through its marketing approach and keep the market leader position on Croatian market in the forthcoming period.

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

Erste&Steiermärkische S-Leasing (Erste Leasing) ended 2015 with a successful business result. On 31 December 2015, the total value of newly concluded operating lease contracts stood at HRK 165 million, down by 33% compared to the previous year, while the total value of newly concluded finance lease contracts stood at HRK 591 million, up by 13.6% compared to 2014. According to the value of newly concluded contracts, Erste Leasing is the leader with a 13.39% share of the market.

As at 31 December 2015, the value of assets stood at HRK 1,838 million, which is an increase of 6.1% compared to the previous year. The company's market share was 9.7%, up by 0.3% compared to 2014.

The company's total operating income in 2015 amounted to HRK 247 million and was down by 7% compared to 2014. Operating income mainly came from the operating lease income, which accounted for 85% of operating income and was 6% lower compared to 2014. Total operating expenses in 2015 amounted to HRK 191 million and were down by 11% compared to the previous year. Operating expenses were mainly the result of the depreciation of assets under operating lease which accounted for 85% of expenses and which has been declining continuously since 2012 as a result of the decline of operating lease volume.

As at 31 December 2015, Erste Leasing's net profits stood at HRK 47.7 million, up by 117% from HRK 25.8 million in 2014, which was primarily the result of the reversal of impairment loss of assets (HRK 11.4 million) in 2015, as well as the lower costs of valuation adjustment on receivables and tax risk provisions related to VAT on currency exchange differences in finance lease in 2014 (HRK 17.8 million).

As at 31 December 2015 Erste Leasing's total assets amounted to HRK 1.838 million, which represents a 6.1% increase compared to 2014. Loans and other receivables stood at HRK 1.187 million and accounted for 64.6% of total assets, which represents a 20% increase compared to 2014 as a result of higher financing volume in finance lease.

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

Social Responsibility

Erste 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.

The clients

The Bank continuously offers products under more favourable conditions than the regular ones and engages in other activities in order to get closer to its clients, as well as to the community it operates in. In 2015 it introduced a new offer of loans for employees with a set period of employment, and the bank occasionally organises especial educational models and workshops intended for its clients, as well as the interested public. While furnishing its business premises, it pays serious attention to adjustment of the space to the needs of persons with disabilities, in order to provide them with equal access to financial products and services.

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.

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 2015 the Bank spent around HRK 7.3 million on donations and sponsorships, helping numerous fund-raising projects for hospitals, sports clubs, children and youth programmes, cultural institutions and others.

Sponsorships and Donations

The Bank actively participates in socially engaged projects and continuously supports humanitarian and social projects and institutions in the community it operates in. Out of numerous donations in 2015, we would like to stress out: SOS Children's Village Croatia, Children's Hospital Zagreb, Psychiatric Hospital Rab, Association Red Noses, Centre for Rehabilitation Zagreb, as well as numerous kindergartens and elementary schools throughout Croatia.

Upon request, the Bank also donates material property which is no longer used in the everyday operation of the Bank due to application of new standards in decorating and furnishing of business offices or for similar reasons, but which is in good condition and can still be used, such as IT equipment, furniture, etc.

During 2015, the Bank sponsored numerous sport clubs: Water polo club Primorje Erste Bank, Running and workout festival Homo si teć (Let's run), Sand Volleyball Club Zagreb Erste, Croatian Athletics Federation (Erste Blue League/Hanzekovic Memorial Meeting), Croatian Table Tennis Association – Zagreb Open tournament, Ice Hockey Club Medvescak, Basketball Club Zadar, Football and Handball Club Bjelovar and many others.

When it comes to sponsorships segment, we would like to point out our participation in the segment of cultural development: the International Small Scene Theatre Festival, Rijeka Carnival, Museum of Contemporary Art (Summer in MSU), Zagreb Culture Factory, Theatre Festival BOK fest, Christmas Concert of Bjelovar Jazz Club, International Retro Festival Terezijana, the town of Pag – Pag lace festival, Osor Musical Evenings and numerous other projects.

Social Responsibility (continued)

Erste Fragments and Urbanka – Erste Bank's art connection

Erste Fragments, held 11th time in year 2015, a project designed by Erste 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 150 arts of young artis were bought.

Erste 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.

Following the success of Erste fragments project, another, newer initiative developed within Erste Bank with time – the Urbanka project, initiated in 2012. The project was initiated with the goal of unifying various urban projects and initiatives supported by Erste Bank and creating a unique platform for presenting the interesting, diverse and creative urban offer which does not always get the attention it deserves. A significant contribution to the initiative is provided by the www.urbanka.hr internet portal owned by Erste Bank, which published news and covered numerous topics related to urban culture during 2015.

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 Erste'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. Erste 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.

Stepping into Life

The Bank joined Rotary Club Zagreb's project Korak u život (Stepping into Life) in 2010 with other members of Erste 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).

Environment

Office design

Erste 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.

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) to its business, adopted by the Management Board and the Supervisory Board of the Bank. 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 prescribed by the Accounting Policies of the Bank, 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 laws and by-laws, as well as through fair business practice. The Bank's internal control system is established through parallel operating of three mutually independent functions: (a) risk 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.

In order to improve the Bank's coordination and simplify the shareholder structure, indirect shareholders of the Bank, companies Erste Group Bank AG and Steiermärkische Bank und Sparkassen AG have decided to become direct shareholders, by taking over the Bank's shares from the company ESB Holding GmbH in the same percentage in which they had shares in the capital of stated company.
In accordance with the aforementioned, until December 30, 2015, all shares of the Bank held the company ESB Holding GmbH, and as of December 30, 2015, all shares of the Bank hold companies Erste Group Bank AG (59.02%) and Steiermärkische Bank und Sparkassen AG (40.98%).

Corporate Governance Principles Implementation (continued)

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.

On June 17, 2015 the Bank held its regular General Meeting at which a decision was made on the use of the Bank's profit achieved in 2014. A part of net profit in the amount of HRK 155,811,083.80 that is 67.09% was allocated to the retained earnings. The remaining amount of HRK 76,428,787.50 or 32.91% was allocated for shareholders' dividend or 4.50% of share's nominal value, which amounts to HRK 4.50 per share. The shareholders were paid dividend on 10 July 2015.

Ernst & Young d.o.o. was appointed as the Bank's auditor for 2015, and the decision on Amendments of the Articles of Associations was adopted, as well.

Besides the above mentioned ordinary General Meeting, in 2015 two extraordinary General Meeting were held, one on 28 January 2015, and the other on 18 November 2015.

At the extraordinary General Meeting held on 28 January 2015, the decision on the suitability assessment of the Supervisory Board member and the decision on election of the Supervisory Board member were made.

At the extraordinary General Meeting held on18 November 2015, the decision on amendments of the Articles of Association of the Bank and on the determination of remuneration for the Supervisory Board member were made, as well as the decision on adoption of the Policy for the Bank Supervisory Board Members Selection and Suitability Assessment.

Financial Statements for the year ended 31 December 2015

Erste&Steiermärkische Bank d.d.

Responsibility for the Financial Statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that unconsolidated and consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by International Accounting Standards Board (IASB) and adopted in the EU, which give a true and fair view of the financial position, results of operations and cash flow of Erste&Steiermärkische Bank d.d. together with its subsidiaries and associates (the Group) for that period as well as of Erste&Steiermärkische Bank d.d. (the Bank), separately.

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.

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.

Signed on behalf of the Management Board

Christoph Schoefboeck

Slađana Jagar

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

17 March 2016

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IBAN: HR3324020061100280716
SWIFT: ESBCHR22

Independent Auditor's Report

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

We have audited the accompanying consolidated and separate financial statements ('the financial statements') of Erste&Steiermärkische Bank d.d. (the 'Bank') and its subsidiaries (together, the 'Group'), which comprise Consolidated and Separate statement of financial position as at 31 December 2015 and Consolidated and Separate statement of comprehensive income, Consolidated and Separate statement of changes of equity and Consolidated and Separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (as set out on pages 37 to 154).

Management Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated and separate 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 consolidated and separate 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the 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 entity'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 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 2015, their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

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Independent Auditor's Report (continued)

Report on Other Legal Reporting Requirements

1) In accordance with the Bylaw on the structure and content of the annual financial statements (National Gazette no 62/08) (hereinafter "the Bylaw") the Bank's management has prepared forms which are presented on pages 155 to 170, and which contain a balance sheet as at 31 December 2015, profit and loss account, statement of changes in equity and cash flow statement for the year then ended together with reconciliation with the primary financial statements of the Bank and the Group. This financial information is the responsibility of the Bank's management and is, pursuant to International Financial Reporting Standards as adopted in the European Union, not a required part of the financial statements, but is required by the Bylaw. Our responsibility with respect to this financial information is to perform the procedures we consider appropriate to conclude whether this financial information have been properly derived from the audited financial statements. In our opinion based on the procedures performed the financial information presented in the forms has been properly derived, in all material respects, from the audited financial statements of the Bank and the Group which were prepared in accordance with International Financial Reporting Standards as adopted in the European Union as presented on pages 37 to 154 and are based on underlying accounting records of the Bank.

2) Management Board of the Bank has prepared Annual report as set out on pages 2 to 32. The Management Board is responsible for the preparation of the Annual report in accordance with the Croatian Accounting Law and for its accuracy. Our responsibility is to perform procedures we consider necessary to reach a conclusion on whether the Annual report is consistent with the audited financial statements. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Bank and the Group. In our opinion, the accounting information presented in the Annual report of the Bank and the Group for the year 2015 is consistent, in all material respects, with the audited financial statements for that year which are presented on pages 37 to 154.

Other Matter

The financial statements of the Bank and the Group for the year ended 31 December 2014 were audited by another auditor who expressed an unmodified opinion on those separate and consolidated financial statements on 15 March 2015.

Zvonimir Madunić
Member of the Board and certified auditor

Ernst & Young d.o.o., Zagreb
Republic of Croatia
Zagreb, 17 March 2016

I. Statement of Comprehensive Income for the Year ended 31 December 2015

Statement of Profit or Loss

in HRK million		GROUP		BANK	
	Notes	2014	2015	2014	2015
Net interest income	1	2,120	2,148	1,609	1,632
Net fee and commission income	2	610	646	381	413
Dividend income	3	2	1	79	55
Net trading and fair value result	4	184	121	177	114
Net result from equity method investments		10	10	-	-
Rental income from investment properties & other operating leases	5	242	210	2	2
Personnel expenses	6	(560)	(586)	(402)	(422)
Other administrative expenses	6	(583)	(598)	(414)	(413)
Depreciation and amortisation	6	(296)	(249)	(44)	(50)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	7	12	3	7	1
Net impairment loss on financial assets not measured at fair value through profit or loss	8	(1,185)	(1,274)	(1,100)	(1,248)
Other operating result	9	(52)	(1,365)	(29)	(1,325)
Thereof Loan conversion expenses		-	(986)	-	(986)
Pre-tax result from continuing operations		**504**	**(933)**	**266**	**(1,241)**
Taxes on income	10	(92)	164	(34)	229
Net result for the period		**412**	**(769)**	**232**	**(1,012)**
Net result attributable to non-controlling interests		35	47	-	-
Net result attributable to owners of the parent		**377**	**(816)**	**-**	**-**
Earnings per share					
Basic and diluted (HRK)	42	**22.17**	**(48.07)**	**-**	**-**

Statement of Other Comprehensive Income

in HRK million	GROUP		BANK	
	2014	2015	2014	2015
Net result for the period	**412**	**(769)**	**232**	**(1,012)**
Other comprehensive income				
Items that may not be reclassified to profit or loss				
Remeasurement of net liability of defined pension plans	-	1	-	-
Deferred taxes relating to items that may not be reclassified	-	-	-	-
Total	**-**	**1**	**-**	**-**
Items that may be reclassified to profit or loss				
Available for sale reserve (including currency translation)	86	32	89	33
Gain/loss during the period	91	35	89	34
Reclassification adjustments	(5)	(3)	-	(1)
Currency translation	(3)	(1)	-	-
Gain/loss during the period	(3)	(1)	-	-
Reclassification adjustments	-	-	-	-
Deferred taxes relating to items that may be reclassified	(17)	(8)	(18)	(7)
Gain/loss during the period	(17)	(8)	(18)	(7)
Reclassification adjustments	-	-	-	-
Total	**66**	**23**	**71**	**26**
Total other comprehensive income	**66**	**24**	**71**	**26**
Total comprehensive income	**478**	**(745)**	**303**	**(986)**
Total comprehensive income attributable to non-controlling interests	35	47	-	-
Total comprehensive income attributable to owners of the parent	**443**	**(792)**	**-**	**-**

II. Statement of Financial position as at 31 December 2015

in HRK million		GROUP		BANK	
	Notes	31 December 2014	31 December 2015	31 December 2014	31 December 2015
Assets					
Cash and cash equivalents	11	4,674	5,299	4,035	4,847
Financial assets - held for trading		476	233	478	232
Derivatives	12	94	61	96	64
Other trading assets	13	382	172	382	168
Financial assets - available for sale	14	7,273	6,824	6,693	6,445
Financial assets - held to maturity	15	1,456	1,432	1,288	889
Loans to and receivables from credit institutions	17	6,194	5,441	5,720	5,197
Loans to and receivables from customers	18	46,711	46,159	39,607	38,833
Property and equipment	20	1,314	1,221	338	545
Investment properties	20	20	20	19	18
Intangible assets	21	729	409	48	72
Investment in subsidiaries	19	-	-	1,317	983
Investments in associates	19	58	61	38	38
Current tax assets	22	98	100	85	84
Deferred tax assets	22	197	415	19	241
Other assets	23	561	617	495	571
Total assets		**69,761**	**68,231**	**60,180**	**58,995**
Liabilities and equity					
Financial liabilities - held for trading		94	103	94	103
Derivatives	12	94	103	94	103
Financial liabilities measured at amortised cost		60,915	59,234	52,323	51,220
Deposits from banks	24	21,227	16,174	14,165	10,581
Deposits from customers	24	38,027	41,445	37,151	39,654
Debt securities issued	24	933	931	933	931
Other financial liabilities	24	728	684	74	54
Provisions	25	264	1,169	213	1,111
Current tax liabilities	22	9	5	-	-
Deferred tax liabilities	22	2	1	-	-
Other liabilities	26	536	608	360	425
Total liabilities		**61,820**	**61,120**	**52,990**	**52,859**
Total equity	27	**7,941**	**7,111**	**7,190**	**6,136**
Equity attributable to non-controlling interests		162	201	-	-
Equity attributable to owners of the parent		7,779	6,910	-	-
Total liabilities and equity		**69,761**	**68,231**	**60,180**	**58,995**

III. Statement of Changes in Equity

GROUP

in HRK million	Subscribed capital	Capital reserves and share premium	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 at 1 January 2015	**1,698**	**1,887**	**3,924**	**334**	**4**	**(3)**	**(65)**	**7,779**	**162**	**7,941**
Dividends paid	-	-	(77)	-	-	-	-	(77)	(8)	(85)
Total comprehensive income	-	-	(816)	32	(1)	1	(8)	(792)	47	(745)
Net result for the period	-	-	(816)	-	-	-	-	(816)	47	(769)
Other comprehensive income	-	-	-	32	(1)	1	(8)	24	-	24
As at 31 December 2015	**1,698**	**1,887**	**3,031**	**366**	**3**	**(2)**	**(73)**	**6,910**	**201**	**7,111**
As at 1 January 2014	**1,698**	**1,887**	**3,529**	**249**	**7**	**(3)**	**(48)**	**7,319**	**51**	**7,370**
Dividends paid	-	-	-	-	-	-	-	-	(23)	(23)
Acquisition of additional shares in subsidiaries	-	-	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 at 31 December 2014	**1,698**	**1,887**	**3,924**	**334**	**4**	**(3)**	**(65)**	**7,779**	**162**	**7,941**

BANK

in HRK million	Subscribed capital	Capital reserves and share premium	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 at 1 January 2015	**1,698**	**1,887**	**3,365**	**299**	**-**	**1**	**(60)**	**-**	**-**	**7,190**
Dividends paid	-	-	(77)	-	-	-	-	-	-	(77)
Merger of subsidiaries	-	-	9	-	-	-	-	-	-	9
Total comprehensive income	-	-	(1,012)	33	-	-	(7)	-	-	(986)
Net result for the period	-	-	(1,012)	-	-	-	-	-	-	(1,012)
Other comprehensive income	-	-	-	33	-	-	(7)	-	-	26
As at 31 December 2015	**1,698**	**1,887**	**2,285**	**332**	**-**	**1**	**(67)**	**-**	**-**	**6,136**
As at 1 January 2014	**1,698**	**1,887**	**3,133**	**210**	**-**	**1**	**(42)**	**-**	**-**	**6,887**
Total comprehensive income	-	-	232	89	-	-	(18)	-	-	303
Net result for the period	-	-	232	-	-	-	-	-	-	232
Other comprehensive income	-	-	-	89	-	-	(18)	-	-	71
As at 31 December 2014	**1,698**	**1,887**	**3,365**	**299**	**-**	**1**	**(60)**	**-**	**-**	**7,190**

IV. Statement of Cash Flow for the year ended 31 December 2015

in HRK million	GROUP		BANK	
	2014	2015	2014	2015
Net result for the period	**412**	**(769)**	**232**	**(1,012)**
Non-cash adjustments for items in net profit/loss for the year				
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	315	604	56	395
Allocation to and release of provisions (including risk provisions)	1,238	2,134	1,122	2,100
Gains/(losses) from the sale of assets	63	(12)	(1)	(12)
Other adjustments	252	(62)	34	(127)
Changes in assets and liabilities from operating activities after adjustment for non-cash components	**1,868**	**2,664**	**1,211**	**2,356**
Financial assets - held for trading	(227)	210	(257)	214
Financial assets - at fair value through profit or loss	-	-	-	-
Financial assets - available for sale	(1,023)	346	(805)	146
Loans to and receivables from credit institutions	261	68	297	(173)
Loans to and receivables from customers	(485)	(102)	353	149
Derivatives	(3)	43	(5)	43
Other assets from operating activities	(1,079)	(146)	(193)	(86)
Financial liabilities measured at amortised cost				
Deposits from banks	239	(5,053)	(445)	(3,584)
Deposits from customers	813	3,418	137	2,503
Debt securities issued	2	(2)	2	(2)
Other financial liabilities	156	(44)	(1)	(20)
Other liabilities from operating activities	56	(46)	23	(51)
Cash flow from operating activities	**990**	**587**	**549**	**483**
Proceeds from disposal				
Financial assets - held to maturity and associated companies	-	-	-	-
Property and equipment, intangible assets and investment properties	94	111	5	13
Acquisition of				
Financial assets - held to maturity and associated companies	(637)	9	(738)	384
Property and equipment, intangible assets and investment properties	(328)	(265)	(42)	(62)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	(83)	-	(90)	-
Merger of subsidiaries	-	-	-	(208)
Cash flow from investing activities	**(954)**	**(145)**	**(865)**	**127**
Dividends paid to equity holders of the parent	-	(77)	-	(77)
Dividends paid to non-controlling interests	(23)	(8)	-	-
Cash flow from financing activities	**(23)**	**(85)**	**-**	**(77)**
Cash and cash equivalents at beginning of period	**5,671**	**5,684**	**5,218**	**4,902**
Cash flow from operating activities	990	587	549	483
Cash flow from investing activities	(954)	(145)	(865)	127
Cash flow from financing activities	(23)	(85)	-	(77)
Cash and cash equivalents at end of period[1)]	**5,684**	**6,041**	**4,902**	**5,435**
Cash flows related to taxes, interest and dividends				
Payments for taxes on income (included in cash flow from operating activities)	(109)	(69)	(30)	-
Interest received	3,399	1,448	2,750	825
Dividends received	5	7	78	53
Interest paid	(1,385)	(311)	(1,211)	(91)

1) Cash and cash equivalents are equal to cash in hand and equivalents held with central banks and placements with banks with maturity up to 3 months (Note 11).

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.
The Bank is a holding company for the Erste Bank Croatia Group (the Group) which has operations in the Republic of Croatia, Republic of Montenegro and Slovenia.

These financial statements comprise both the separate financial statement of the Bank and the consolidated financial statement of the Group (together financial statements).

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 until 31 December 2014
Andreas Gottschling	President from 6 March 2014
Sava Ivanov Dalbokov	Deputy President
Mag. Franz Kerber	Member
Mag. Reinhard Ortner	Member
Hannes Frotzbacher	Member
Mag. Gerhard Maier	Member until 20 January 2014
Dr. Ernst Gideon Loudon	Member until 31 January 2014
Dr. Judit Agnes Havasi	Member from 5 May 2014
Mag. Renate Veronika Ferlitz	Member from 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 until 30 April 2015
Christoph Schoefboeck	President from 13 May 2015
Tomislav Vuić	Deputy President until 31 May 2014
Borislav Centner	Member
Slađana Jagar	Member
Zdenko Matak	Member from16 July 2014
Martin Hornig	Member from 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 of issuing these financial statements does not have procurator.

The Bank's share capital, fully subscribed, amounts to HRK 1,698,417,500 and is divided into 16,984,175 ordinary shares. Until 30 December 2015, all shares of the Bank were held by the company ESB Holding GmbH, and as of 30 December 2015 shares are held by companies Erste Group Bank AG (10,023,326 shares or 59.02%) and Steiermärkische Bank und Sparkassen AG (6,960,849 shares or 40.98%).

DEFINITION OF THE CONSOLIDATED GROUP

The Bank is a parent company of the banking group (the Group) which includes the following subsidiaries and associates 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 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
Name of aassociate				
S Immorent Zeta d.o.o.	19	49%	Real estate business	Ivana Lučića 2A, Zagreb
Immokor Buzin d.o.o.	19	49%	Real estate business	Ivana Lučića 2A, Zagreb
Erste d.o.o.- društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima	19	45.86%	Management company for obligatory and voluntary pension fund	Ivana Lučića 2A, Zagreb
S IT Solution HR d.o.o.	19	20%	IT engineering	Jurja Haulika 19/A, Bjelovar

Acquisitions
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.

Loss of control or significant influence
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%.

Merger
As of 1 January 2015 the Bank merged 100% owned company, Erste Delta d.o.o. whose major item in the statement of financial position was a property in Zagreb (headquarter of the Bank, HRK 216 million).

B. SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF PREPARATION

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as published by IASB and adopted in the EU, under the historical cost convention 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 transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.
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) which is the functional and presentation currency of the Bank and the Group, 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 financial position date and actual results could differ from those estimates.
The Bank maintains its books of accounts in accordance with the regulations of the statutory accounting requirements for banks in Croatia. The accompanying financial statements are based on the accounting records of the Bank and its subsidiaries, together with appropriate adjustments and reclassifications necessary for the fair presentation in accordance with IFRS as 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) together with the Group's share in associates.

Subsidiaries

Subsidiaries are entities over which the Group has control. 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 statement profit or loss from the effective date on which control commences or up to the effective date when control ceases, 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 statement of profit or loss and within equity in the Group’s statement of financial position, 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 but no control. 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 statement of financial position 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 statement of profit or loss.

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

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 translated into HRK at the appropriate spot rates of exchange prevailing at the financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated 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 translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in statement of profit or loss for the period in Net trading and fair value result. Exchange differences arising on the translation of non-monetary assets carried at fair value are included in statement of profit or loss for the period except for exchange differences arising on the translation 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 other comprehensive income.

The assets and liabilities of foreign operations (foreign subsidiaries) are translated into HRK, at the rate of exchange as at statement of financial position date. The income and expense are translated at average exchange rates calculated on the basis of daily rates. Goodwill, intangible assets recognised on acquisition of foreign subsidiaries and fair value adjustments to the carrying amounts of assets and liabilities on acquisition are treated as asset and liabilities of the foreign subsidiaries and are translated at closing date. Exchange differences arising on translation are recognised in other comprehensive income. On disposal of foreign subsidiary, the cumulative amount of translation differences recognised in other comprehensive income is recognised in the income statement under the line item Other operating result.

The principal rates of exchange set forth by the CNB and used in the preparation of the Group and the Bank’s statement of financial position at the reporting dates were as follows:

31 December 2015	EUR 1=HRK 7.635047	USD 1=HRK 6.991801	CHF 1=HRK 7.059683
31 December 2014	EUR 1=HRK 7.661471	USD 1=HRK 6.302107	CHF 1=HRK 6.368108

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 statement of financial position 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 (with two subcategories financial asset or liabilities – held for trading and financial asset or liabilities designated 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 statement of financial position. Relationships between the statement of financial position line items and categories of financial instruments are described in the table at point (x).

Financial instruments – recognition and measurement (continued)

(i) Initial recognition
Regular way (spot) purchase and sales of financial assets are recognized at settlement date, which is the date when an asset is delivered. Applying settlement date accounting, the financial instruments are recognized at trade date only in the off balance sheet and are fair valued until settlement date with effects of fair value changes recognized in profit or loss in case of financial assets at fair value through profit or loss or in OCI in case of available-for-sale financial assets. Loans and receivables are initially recognised on the date at which they are originated. All other financial assets and liabilities (derivatives) are recognised on trade date at which the Group becomes a party to the contractual provisions of the instrument. 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 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.

(ii) Cash and cash equivalents
Cash balances include cash on hand and 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.

(iii) Derivative financial instruments
In the normal course of business the Group enters into derivative financial instruments to manage currency, liquidity and interest rate risks and such financial instruments are classified as Financial assets or liabilities - held for trading - Derivatives. Derivatives entered into by the Group includes foreign currency forwards, swaps and interest rate swaps.
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. Fair values are principally obtained from discounted cash flow models and option pricing models as appropriate.
Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, are treated as derivatives in Banking book with fair value gains and losses reported in the statement of profit or loss 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 changes and changes from market interest rates which influence fair value.

(iv) Financial assets or financial liabilities – held for trading
Financial assets or financial liabilities – held for trading comprise derivatives and other trading assets and liabilities. Treatment of derivatives – held for trading is discussed above in (iii).
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 statement of financial position, 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 statement of profit or loss under the line item Net trading and fair value result. Interest income and expenses are reported in the statement of profit or loss under the line item Net interest income. Dividend income is shown under the line item Dividend income.

(v) 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). Upon initial recognition the Group shall financial asset or liability designate as at fair value through profit or loss only when doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases,
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Bank's management,
- the contract contains one or more embedded derivative which is not closely related and significantly modifies the cash flows of the underlying financial instrument.

At any subsequent time, assets and liabilities 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 statement of profit or loss in the respective period, in net amount.

Financial instruments – recognition and measurement (continued)

(vi) 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.

Financial instruments 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 Other comprehensive income (OCI) until the financial asset is disposed of or impaired when the cumulative gain or loss previously recognized in OCI is reclassified to profit or loss.

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

Dividend income on equity instruments is recognized in profit or loss, 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 carried at cost (acquisition) less impairment.

(vii) 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 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, discount and 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 Group shall not classify any financial assets as held to maturity if the Group 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 Group assesses at the date of acquisition and at every financial position date.

Interest earned on financial assets held to maturity is reported in the profit or loss 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 statement of profit or loss under the line item Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net.

(viii) Loans and receivables

The statement of financial position line item Loans to and receivables from credit institutions includes financial instruments which are allocated to financial instrument category loans and receivables with a contractual maturity more than 24 hours. The statement of financial position line item Loans to and receivables from 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 statement of financial position 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 Group intend to sell immediately or in the near term, which shall be classified as held for trading, and those that the Group, upon initial recognition, designates as at fair value through profit or loss,
- Loans and receivables that the Group, upon initial recognition, designate as available for sale,
- Loans and receivables for which 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 profit or loss.

Financial instruments – recognition and measurement (continued)

Impairment losses arising from loans and receivables are recognised in the statement of profit or loss under the line item Net impairment loss on financial assets.

(ix) 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 statement of financial position 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 statement of profit or loss. 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.

(x) Relationships between statement of financial position items, measurement methods and categories of financial instruments:

Statement of financial 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 to and receivables from credit institutions		x		Loans and receivables
Finance lease			IAS 17	
Loans to and receivables from 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.

(xi) 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 retain substantially all the risks and rewards of ownership.
Securities sold under sale and repurchase agreements (repos) are recorded as assets in the statement of financial position according to the original classification or the Group reclassifies the asset on its statement of financial position, as a Loans to and receivables from credit institutions or loans to and receivables from 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 statement of financial position. The consideration paid, is recorded in the statement of financial position line Loans to and receivables from credit institutions or Loans to and receivables from 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.

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 Group makes reclassifications only in rare circumstances in accordance with the changes in investment policy. The Group has decided to hold some positions to maturity, hence these were reclassified from available for sale to held to maturity portfolio in 2014 - 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 Group transfers assets and the transfer qualifies for derecognition,

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 Group transfers substantially all the risks and rewards of ownership, financial asset should be derecognised
- when the Group has 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 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 Group also recognises an associated liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of: (i) the consideration received and (ii) any accumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.
Financial liability or part of financial liability should be derecognised when and only when it is extinguished (cancelled or expires).

Impairment of financial assets and credit risk losses of contingent liabilities

All financial assets are assessed, at each statement of financial position 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 Group uses 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.

The Group considers evidence of impairment for financial asset at both specific and collective level.

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

(i) Financial assets carried at amortised cost

The Group classifies loans and receivables and financial asset classified as held to maturity into the following categories:

- fully recoverable financial assets carried at amortised cost for which there is no objective evidence of impairment. For such on balance exposures collective allowances for incurred but not reported losses are allocated,
- financial assets carried at amortised cost 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 asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

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

Accordingly, the Group recognise following allowances:

- for significant exposures, specific allowances are calculated individually 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),

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 statement of financial position 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 profit or loss, 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 Group individually assess whether there is objective evidence of impairment based on the same criteria 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 statement of profit or loss. On recognising impairment, any amount of losses retained in the other comprehensive income item Available-for-sale reserve is reclassified to the statement of profit or loss 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, which can be related objectively to an event occurring after the impairment was recognized, the impairment loss is reversed through the statement of profit or loss under the line item Net impairment loss on financial assets. Impairment losses and their reversals are recognised directly against the assets on the statement of financial position.

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 statement of profit or loss, is shown as an impairment loss in the statement of profit or loss 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 statement of profit or loss 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 statement of profit or loss; 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 statement of financial position.

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 statement of financial position line item Provisions. The related expense or its reversal is reported in the statement of profit or loss under the line item Other operating result. 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.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported on the statement of financial position 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.
Income and expenses are presented on net basis only when permitted under IFRS or for gain and losses arising from group of similar transactions such as in the Group's trading activity.

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that 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 statement of financial position 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 statement of financial position 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 statement of profit or loss 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 of the assets to the lessee. Lessor shall recognise assets held under an operating lease at cost less accumulated depreciation. Lease income shall be recognised in profit or loss 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.

Business combinations and goodwill (continued)

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 statement of profit or loss in the period of acquisition in line Other operating result.
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 statement of profit or loss reflects the results of the combining entities for the full year, irrespective of when the combination took place;

Comparatives are not restated.

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:

Statement of financial position	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)**

Business combinations and goodwill (continued)

Merger of Erste Delta d.o.o.

As of 1 January 2015 the Bank merged 100% owned company, Erste Delta d.o.o. whose major item in the statement of financial position was a property in Zagreb (headquarter of the Bank, HRK 216 million).

(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. 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. 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

Property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment loss. 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	
	2014	**2015**
Buildings	40	40
Office furniture and equipment	3-10	3-10
Motor vehicles	4-6	4-6
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 statement of profit or loss 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 statement of financial position 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 statement of profit or loss 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 statement of profit or loss line item Other operating result.

Intangible assets

In addition to goodwill, the Group's intangible assets include computer software and customer relationships and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the bank.
Costs of internally generated software are capitalised if the Group can demonstrate the technical feasibility and intention of completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to measure the expenditures reliably. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.
The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. In the Group, these are customer relationships, and they are capitalised on acquisition if they can be measured with sufficient reliability.
The estimated useful lives are as follows:

	Useful life in years	
	2014	2015
Software	4	4
Customer relationship	5.5-8	5.5-8
Other intangible assets	5	5

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

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 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 statement of profit or loss under the line item Other operating result.

Inventory

The Group also invests 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 statement of profit or loss line item Other operating result, together with costs of sales and other costs incurred in selling the assets.

Off-balance-sheet commitments

In the ordinary course of business, the Group enters 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's statement of financial position if and when they become payable.

Provisions

Provisions are recognized when the Group has a present obligation that can be reliably estimated as a result of a past event and it is probable that the Group 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 statement of financial position date. Provisions are discounted to present value where the effect is material. On the statement of financial position, 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 statement of financial position 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 statement of profit or loss 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 statement of financial position represents the present value of the defined benefit obligation.

Taxes on income

Taxes on income comprises current and deferred taxes, recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in OCI.

(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 statement of financial position 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 statement of financial position 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.

Taxes on income (continues)

The carrying amount of deferred tax assets is reviewed at each statement of financial position 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 statement of financial position 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 statement of financial position date. For the subsidiaries, local tax environments apply.
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 acts 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 statement of profit or loss 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 to and receivables from 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 Group recognises fee and commission income and expenses 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.

Recognition of income and expenses (continued)

(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.

(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 statement of financial position.

(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.

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 and amounts of income and expenses 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 statement of financial position 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.

Control

IFRS 10 Consolidated Financial Statements defines the investor's control over an investee in terms of the investor having all of the following: (a) power to direct the relevant activities of the investee, i.e. activities that significantly affect the investee's returns; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect the amount of the investor's returns.

Hence, assessing the existence of control under this definition may require considerable accounting judgements, assumptions and estimates, notably in non-standard situations such as: (1) power stemming both from voting rights and from contractual arrangements (or mostly from the latter); (2) exposure stemming both from on-balance investments and from off-balance commitments or guarantees (or mostly from the latter); or (3) variable returns stemming both from readily identifiable income streams (e.g. dividends, interest, fees) and from cost savings, economies of scale and/or operational synergies (or mostly from the latter) .

In the course of acquiring additional share in S-Leasing d.o.o. (the Company) during 2014, the Bank has assessed whether it controls the entity in accordance with IFRS 10 and concluded that in the judgment of the Management the Bank controls the Company as it has the ability to direct the relevant activities of the Company, direct influence on the structure of the Company's business as well as has material impact on the Company's turnover. Furthermore, the Bank has the ability to use its power over the Company to affect the amount of the investor's returns. The Bank has established frame within which can keep track of The Company's portfolio movement as well as their entire business operations. Close collaboration has been established between sales business lines as well as constant coordination of risk management organisational parts, respectively strategic risk management of the Company has been implemented and strategic management of the entire Company's relevant business aspects.

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.

Impairment of financial assets

While it is possible that in particular periods the Group 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.

Impairment of non-financial assets

The Bank reviews its non-financial assets at each balance sheet date to assess whether there is an indication of impairment loss that should be recorded in the income statement. Furthermore, cash-generating units to which goodwill is allocated are tested for impairment on a yearly basis. Judgement and estimates are required to determine the value in use and fair value less costs of disposal by estimating the timing and amount of future expected cash flows and the discount rates. Assumptions and estimates used for impairment on non-financial asset calculations are described in the parts Business combinations and goodwill and Impairment of non-financial assets (property and equipment, investment property, intangible assets) in the Accounting Policies. Inputs used for goodwill impairment testing and their sensitivities can be found in Note 27 Intangible assets.

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

Fair value of financial assets
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available judgement is required to establish fair values. Disclosures for valuation models, the fair value hierarchy and fair values of financial instruments can be found in Note 46 Fair value of assets and liabilities.

Provisions
In the ordinary course of business, the Group is 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.
On 26 January 2015, following a proposal of the Croatian government, the Croatian parliament approved a change in Consumer Protection Act, by fixing payments of future monthly annuities for a period of one year for CHF/HRK exchange rate at 6.39 for customers who have CHF denominated loans.
At the proposal of the Government of the Republic of Croatia, the Croatian parliament on 11 September 2015 unanimously adopted amendments to the Consumer Credit Act and the Credit Institutions Act. The purpose of the law is to offer the borrowers of CHF loans the possibility to be placed by their banks in the same position that they would have been in had their loans, from inception, been denominated in euros (or denominated in HRK with currency clauses linking payments to euros). The original principal amount of the CHF loans will be converted into euros or loans denominated in HRK which contain a currency clause linking payments to euros at the exchange rate applicable at the date the CHF loans were made to the borrowers. This exchange rate will be equal to the exchange rate that the lender applied at that date to loans denominated in or linked to euros of the same type and duration. The relevant original principal amount will be the amount registered in the accounts of the lender.
The Bank has followed the guidance of IAS 37: Provisions, Contingent Liabilities and Contingent Assets and recognised the provision for expected conversion expense, in the total amount of HRK 1 billion. Total amount of affected loans as at 30 September 2015 amounted CHF 514 million (HRK 3.6 billion). As at 31 December 2015 87% of clients, with gross amount of CHF 445 million accepted conditions of the conversion, as stated by the lay. On the day of issuing this report 94.76% of accepted conversion has already been converted.
Due to the new amendment in Consumer Protection Act described above, the Bank has released most of the provision for expected individual legal case created in 2013 and 2014 for loans linked to CHF, initially based on the decision of the first instance court in Zagreb from 4 July 2013 which 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). That claim was stating 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.

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 1 January 2015:

- *IFRIC 21 Levies*
- *Annual Improvements to IFRSs 2011-2013 Cycle*

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. These criteria are among others applied for recovery & resolution fund which is presented in other operating income. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014, but in EU for annual periods beginning on or after 17 June 2014.

Annual Improvements to IFRSs 2011 2013 Cycle

In December 2013, the IASB issued a set of amendments to various standards. The amendments are effective for annual periods beginning on or after 1 July 2014, but in EU for annual periods beginning on or after 1 January 2015. Application of these amendments did not have a significant impact on financial statements of the Group.

Standards and interpretations not yet effective

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

Following standards, amendments and interpretations are not yet endorsed by the EU:

- *IFRS 9: Financial Instruments*
- *IFRS 14 Regulatory Deferral Accounts: The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard*
- *IFRS 15: Revenue from Contracts with Customers including amendments to IFRS 15: Effective date of IFRS 15*
- *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, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception*
- *IFRS 16: Leases*
- *Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses*

Following standards, amendments and interpretations are already endorsed by the EU:

- *Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions*
- *Annual Improvements to IFRSs 2010-2012 Cycle*
- *Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*
- *Amendments to IFRS 11: Accounting for Acquisitions of Interest in Joint Operations*
- *Amendments to IAS 1: Disclosure Initiative*
- *Annual Improvements to IFRSs 2012-2014 Cycle*

Standards and interpretations not yet effective (continued)

The adoption of standards and interpretation is described below:

IFRS 9: Financial Instruments (IASB Effective Date: 1 January 2018)
IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 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 of a fair value through other comprehensive income is applicable to financial assets that meet condition 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 provides a uniform impairment model applied to both financial assets and off-balance sheet credit risk bearing exposures (loan commitments and financial guarantees). At initial recognition of financial instruments loss allowance to reflect credit loss is recognised in the form of 12-month expected losses. Lifetime expected losses are to 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.

During the year 2015, the Group proceeded with the development of master business concepts and business requirements documentation addressing the changes in policies, procedures, processes and systems, assessed as necessary in preparation for transition to IFRS 9 on 1 January 2018. As part of this effort, iterative financial impact studies (notably with regards to classification/measurement and impairment of financial assets) were started across the Group and are planned to continue throughout 2016, along with gradually moving from the concept phase to the implementation phase of the documented business requirements.

On this basis, the Group upholds its original expectations that this standard will have a significant effect on balance sheet items and measurement methods for financial instruments. Thus, in the area of classification and measurement, the Group identified a risk that part of its loan portfolio will have to be re-measured at fair value through profit or loss, due to the contractual cash flow characteristics. In the same time, this risk is already actively managed, notably by mitigation activities which have been planned and partly started across the Group, in respect of the lending products assessed as being at risk of such re-measurement. The impact on allowances will be analysed. Also, the Group expects that the structure of the financial statements (both main components and explanatory notes) will be have to be adapted, notably in the light of the new reporting and disclosure requirements of IFRS7, as triggered by IFRS9. Such adaptions would also consider any new regulatory reporting requirements (notably FINREP related) which EU or national regulators may contemplate as part of preparing for initial application of IFRS 9 at the level of the wider European and national banking sector.

IFRS 14 Regulatory Deferral Accounts (IASB Effective Date: 1 January 2016)
IFRS 14 Regulatory Deferral Accounts permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for regulatory deferral account balances in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. The Group does not expect any significant impact from application of IFRS 14.

IFRS 15 Revenue from Contracts with Customers (IASB Effective Date: 1 January 2018)
IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 15 specifies how and when an entity recognises revenue from contracts with customers. It also requires such entities to provide users of financial statements with more informative and more relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. Also in the areas of variable considerations and capitalisation of cost IFRS 15 provides modified regulations. The standard is not focused on recognition of revenues from financial services. The Group does not expect any significant impact from application of IFRS 15.

Standards and interpretations not yet effective (continued)

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (IASB Effective Date: 1 January 2016)
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 subsidiaries 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 subsidiaries constitute a business, as defined in IFRS 3. Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (IASB Effective Date: 1 January 2016)
The amendments confirm that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value. Also, they clarify that when applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries. Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (IASB Effective Date: 1 January 2016)
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 IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (IASB Effective Date: 1 January 2016)
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 the 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.

Amendments to IAS 1: Disclosure Initiative (IASB effective date: 1 January 2016)
Disclosure Initiative (Amendments to IAS 1) makes the following changes:

Materiality
The amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.

Statement of financial position and statement of profit or loss and other comprehensive income
The amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

Notes
The amendments add additional examples of possible ways of ordering the notes to clarify that understand ability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful.

These changes and clarifications are not expected to trigger significant changes in the presentation of the Group's financial statements.

Standards and interpretations not yet effective (continued)

Annual Improvements to IFRSs 2012-2014 Cycle (IASB effective date: 1 January 2016)
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.

IFRS 16 Leases (IASB Effective Date: 1 January 2019)
In January 2016, the IASB issued IFRS 16 being effective for annual periods beginning on or after 1 January 2019. IFRS 16 specifies the depiction of lease arrangements in the financial statements. Compared to the previous standard IAS 17, there is a fundamental alteration in respect of the recognition of operating leasing arrangements for the lessee. As defined in IFRS 16, the standard requires the lessee to recognize a right of use asset on the debit side of the statement of financial position as well as a corresponding lease liability on the credit side of the statement of financial position except for immateriality in cases of short term leasing arrangements and small ticket leasing arrangements for low-value assets. By contrast, accounting changes for the lessor are only minor compared to IAS 17. Compared to IAS 17 the notes will be much more comprehensive under IFRS 16.
The Group does not expect any significant impact from application of IFRS 16.

Amendments to IAS 12 – Recognition of deferred tax assets for unrealised losses (IASB effective date: 1 January 2017)
Amendments to IAS 12 were issued in January 2016 and are effective for annual periods beginning on or after 1 January 2017. The amendments clarify that unrealised losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes can lead to deductible temporary differences. The amendments also clarify that not the carrying amount but the tax base of an asset is the relevant base for the estimate of future taxable profits and that the carrying amount is not the ceiling to be used for the calculation. When comparing deductible temporary differences with future taxable profits, the future taxable profits exclude tax deductions resulting from the reversal of those deductible temporary differences.
Application of these amendments is not expected to have a significant impact on the Group's financial statements.

C. NOTES

1. Net interest income

	GROUP		BANK	
in HRK million	2014	2015	2014	2015
Interest income				
Financial assets - held for trading	92	85	90	85
Financial assets - available for sale	240	209	218	191
Financial assets - held to maturity	26	59	19	46
Loans and receivables	3,081	2,904	2,430	2,290
Total interest income	**3,439**	**3,257**	**2,757**	**2,612**
Interest expenses				
Financial liabilities - held for trading	(22)	(2)	(17)	(2)
Financial liabilities measured at amortised cost	(1,296)	(1,114)	(1,131)	(986)
Other liabilities	(1)	(1)	-	-
Total interest expense	**(1,319)**	**(1,117)**	**(1,148)**	**(988)**
Interest income from negative interest rates	-	10	-	10
Interest expenses from negative interest rates	-	(2)	-	(2)
Net interest income	**2,120**	**2,148**	**1,609**	**1,632**

2. Net fee and commission income

	GROUP		BANK	
in HRK million	2014	2015	2014	2015
Securities	24	22	24	22
Own issues	20	18	20	18
Transfer orders	4	4	4	4
Asset management	21	18	16	18
Custody	6	5	6	6
Payment services	488	527	270	302
Card business	264	278	48	56
Other	224	249	222	246
Customer resources distributed but not managed	14	16	13	16
Collective investment	(1)	(1)	(1)	(1)
Insurance products	12	14	11	13
Building society brokerage	3	3	3	4
Lending business	42	43	31	32
Guarantees given, guarantees received	3	5	-	1
Loan commitments given, loan commitments received	35	34	30	30
Other lending business	4	4	1	1
Other	15	15	21	17
Net fee and commission income	**610**	**646**	**381**	**413**
Fee and commission income	801	845	526	564
Fee and commission expenses	(191)	(199)	(145)	(151)

3. Dividend income

	GROUP		BANK	
in HRK million	**2014**	**2015**	**2014**	**2015**
Financial assets - available for sale	2	1	1	1
Dividend income from equity investments	-	-	78	54
Dividend income	**2**	**1**	**79**	**55**

4. Net trading and fair value result

	GROUP		BANK	
in HRK million	**2014**	**2015**	**2014**	**2015**
Net trading result				
Securities and derivatives trading	32	45	35	46
Foreign exchange transactions	152	76	142	68
Net trading and fair value result	**184**	**121**	**177**	**114**

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 and other operating leases

	GROUP		BANK	
in HRK million	**2014**	**2015**	**2014**	**2015**
Investment properties	2	2	2	2
Other operating leases	240	208	-	-
Rental income from investment properties & other operating leases	**242**	**210**	**2**	**2**

6. General administrative expenses

	GROUP		BANK	
in HRK million	**2014**	**2015**	**2014**	**2015**
Personnel expenses	**(560)**	**(586)**	**(402)**	**(422)**
Wages and salaries	(473)	(494)	(339)	(354)
Compulsory social security	(74)	(77)	(54)	(56)
Long-term employee provisions	(2)	(1)	(1)	(1)
Other personnel expenses	(11)	(14)	(8)	(11)
Other administrative expenses	**(583)**	**(598)**	**(414)**	**(413)**
Deposit insurance contribution	(77)	(81)	(67)	(71)
IT expenses	(138)	(147)	(104)	(110)
Expenses for office space	(100)	(95)	(101)	(77)
Office operating expenses	(128)	(128)	(70)	(75)
Advertising/marketing	(73)	(71)	(36)	(32)
Legal and consulting costs	(49)	(58)	(22)	(34)
Sundry administrative expenses	(18)	(18)	(14)	(14)
Depreciation and amortisation	**(296)**	**(249)**	**(44)**	**(50)**
Software and other intangible assets	(24)	(22)	(14)	(10)
Owner occupied real estate	(17)	(17)	(10)	(14)
Investment properties and assets leased to third parties	(185)	(162)	(1)	(1)
Customer relationships	(37)	(9)	-	-
Office furniture and equipment and sundry property and equipment	(33)	(39)	(19)	(25)
General administrative expenses	**(1,439)**	**(1,433)**	**(860)**	**(885)**

The Group does 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 or 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)

	2014	2015
Erste&Steiermärkische Bank d.d.	2,057.84	2,131.08
Erste Card Club d.o.o.	239.94	249.98
Erste DMD d.o.o.[1]	4.56	-
Erste Nekretnine d.o.o.	17.72	19.65
Erste Factoring d.d.	27.05	27.76
Diners Club BH d.o.o. Sarajevo[2]	6.39	-
Erste bank Podgorica d.d.	237.68	238.30
Erste Card Slovenia d.o.o.	58.28	59.21
Erste&Steiermärkische S-Leasing d.o.o.	65.08	66.71
Total	**2,714.54**	**2,792.69**

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	**2014**	**2015**	**2014**	**2015**
From sale of financial assets available for sale	12	3	7	1
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	**12**	**3**	**7**	**1**

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

	GROUP		BANK	
in HRK million	**2014**	**2015**	**2014**	**2015**
Financial assets - available for sale	(8)	-	(4)	-
Loans and receivables	(1,177)	(1,274)	(1,096)	(1,248)
Allocation to risk provisions	(2,694)	(3,135)	(2,326)	(2,764)
Release of risk provisions	1,398	1,710	1,135	1,386
Direct write-offs	(2)	(4)	(2)	(2)
Recoveries recorded directly to the statement of profit or loss	121	155	97	132
Net impairment loss on financial assets not measured at fair value through profit or loss	**(1,185)**	**(1,274)**	**(1,100)**	**(1,248)**

9. Other operating result

	GROUP		BANK	
in HRK million	**2014**	**2015**	**2014**	**2015**
Result from properties/movables/other intangible assets other than goodwill	(2)	10	-	19
Allocation to/release of other provisions	(33)	(938)	(9)	(939)
' Loan Conversion expenses	-	(986)	-	(986)
Allocation to/release of provisions for commitments and guarantees given	(4)	(37)	(12)	(28)
Other taxes	(19)	(25)	(13)	(18)
Impairment of goodwill	-	(334)	-	-
Impairment of investment in subsidiaries	-	-	-	(334)
Result from other operating expenses/income	6	(41)	5	(25)
Other operating result	**(52)**	**(1,365)**	**(29)**	**(1,325)**

Line Allocation to/release of other provisions contains changes of provisions for litigations and provision for loan conversion expense.

The Group has followed the guidance of IAS 37: Provisions, Contingent Liabilities and Contingent Assets and recognised the provision for expected loan conversion expense, in the total amount of HRK 986 million as at 31 December 2015 (for details please see Accounting polices note d).

Line Impairment of goodwill and investment in subsidiaries contains impairment expense of goodwill and investment in Erste Card Club d.o.o. (for details please see note 21).

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	**2014**	**2015**	**2014**	**2015**
Current tax expense / income	111	63	33	-
Current period	120	63	42	-
Prior period	(9)	-	(9)	-
Deferred tax expense / income	(19)	(227)	1	(229)
Current period	(11)	(223)	1	(229)
Prior period	(8)	(4)	-	-
Total	**92**	**(164)**	**34**	**(229)**

The following table reconciles the income taxes reported in the statement of profit or loss to the pre-tax profit/loss multiplied by the nominal Croatian tax rate (20% for 2014 and 2015).

	GROUP		BANK	
in HRK million	**2014**	**2015**	**2014**	**2015**
Pre-tax profit/loss	504	(933)	266	(1,241)
Income tax expense for the financial year at the domestic statutory tax rate (20%)	101	(187)	53	(248)
Impact of different foreign tax rates	(6)	(6)	-	-
Impact of tax-exempt earnings of investments and other tax-exempt income	(11)	(79)	(16)	(13)
Tax increases due to non-deductible expenses, additional business tax and similar elements	25	45	6	32
Impact of the goodwill impairment loss recognized at Group level, added back to theoretical tax	-	67	-	-
Tax income not attributable to the reporting period	(15)	(4)	(9)	-
Total	**92**	**(164)**	**34**	**(229)**
Effective tax rate	**18%**	**18%**	**13%**	**18%**

11. Cash and cash equivalents

	GROUP		BANK	
in HRK million	**2014**	**2015**	**2014**	**2015**
Cash on hand	1,031	1,187	949	1,093
Cash balances at central banks	2,298	3,350	1,946	3,074
Other demand deposits	1,345	762	1,140	680
Cash and cash equivalents	**4,674**	**5,299**	**4,035**	**4,847**

Analysis of cash and cash equivalents for statement of cash flow

	GROUP		BANK	
in HRK million	**2014**	**2015**	**2014**	**2015**
Cash on hand	1,031	1,187	949	1,093
Cash balances at central banks	2,298	3,350	1,946	3,074
Other demand deposits	1,345	762	1,140	680
Placement with banks with maturity up to 3 months	860	742	717	588
Treasury bills with maturity up to 3 months	150	-	150	-
Cash and cash equivalents	**5,684**	**6,041**	**4,902**	**5,435**

12. Derivatives – held for trading

						GROUP
			2014			2015
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	**7,903**	**90**	**85**	**7,807**	**47**	**47**
Interest rate	888	10	11	992	7	8
Foreign exchange	7,011	80	74	6,815	40	39
Other	4	-	-	-	-	-
Derivatives held in the banking book	**7,916**	**4**	**9**	**9,849**	**14**	**56**
Foreign exchange	7,916	4	9	9,849	14	56
Total	**15,819**	**94**	**94**	**17,656**	**61**	**103**

						BANK
			2014			2015
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	**8,032**	**92**	**85**	**8,181**	**50**	**47**
Interest rate	979	12	11	1,175	10	8
Foreign exchange	7,049	80	74	7,006	40	39
Other	4	-	-	-	-	-
Derivatives held in the banking book	**7,916**	**4**	**9**	**9,811**	**14**	**56**
Foreign exchange	7,916	4	9	9,811	14	56
Total	**15,948**	**96**	**94**	**17,992**	**64**	**103**

13. Other trading assets

		GROUP		BANK
in HRK million	2014	2015	2014	2015
Equity instruments	5	4	5	-
Debt securities	377	168	377	168
General governments	377	168	377	168
Other trading assets	**382**	**172**	**382**	**168**

As at 31 December 2015 financial assets held for trading are Treasury bills of the Croatian Ministry of Finance with maturity in 2016, and with interest rate from 1.500% to 1.950%, bonds issued by the Republic of Croatia with maturity from 2019 to 2024, and with interest rate from 5.370% to 6.500% and shares from other Croatian issuers. As at 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 1.500% to 2.400%, bonds issued by the Republic of Croatia with maturity from 2019 to 2024, and with interest rate from 5.375% to 6.500% and shares from other Croatian issuers.

14. Financial assets – available for sale

	GROUP		BANK	
in HRK million	**2014**	**2015**	**2014**	**2015**
Equity instruments	249	327	97	183
Debt securities	7,024	6,497	6,596	6,262
General governments	6,521	5,975	5,978	5,625
Credit institutions	386	383	501	498
Non-financial corporations	117	139	117	139
Financial assets - available for sale	**7,273**	**6,824**	**6,693**	**6,445**

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 2015, the average interest yields on HRK denominated treasury bills were 0.34% for treasury bills with a maturity of 91 days, 0.63% for treasury bills with a maturity of 181 days and 1.70% for treasury bills with a maturity of 364 days. The average interest yields on the currency clause EUR denominated treasury bills were 0.27% for treasury bills with a maturity of 91 days and 0.47% for treasury bills with a maturity of 364 days. The average interest yields on EUR treasury bills were 3.48% for treasury bills with a maturity of 546 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 181 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.

Bonds of the Republic of Croatia are HRK, EUR and USD denominated fixed income debt securities listed at stock exchanges. These bonds have maturities from 2016 to 2022 and bear coupon interest from 3.875% to 6.750% p.a.

Bonds of Republic of Austria are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturity in 2017 and bear coupon interest of 4.300% 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 5.375% 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 2016 to 2018 and bear coupon interest from 0.178% p.a (bond linked to 6M euribor) to 4.625% 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 4.000% p.a.

Also, in financial investments available for sale are bonds issued by European investment Bank with variable coupon (last coupon 0.248%).

Treasury bills of the Croatian Ministry of Finance with maturity in 2016, and with interest rate from of 1.950% are HRK denominated fixed income debt securities.

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.

Reclassifications out of available for sale

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

The reclassification was made with effect from 31 December 2014 at fair value at that date. The table below sets out the financial assets reclassified and their carrying and fair values.

			2014		2015
in HRK million	**Amounts reclassified**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Debt securities reclassified from Available for sale to held to maturity	508	508	508	492	499

14. Financial assets – available for sale (continued)

The table below sets out the amount actually recognised in profit or loss and OCI in respect of the financial assets reclassified out of available-for-sale debt securities.

		2015
in HRK million	Profit or loss	OCI
Debt securities reclassified from Available for sale to held to maturity		
Interest income	28	-
Net change in fair value	-	-
Amount transferred from fair value reserve to profit or loss	-	(12)
Total	**28**	**(12)**

The table below sets out the amounts that would have been recognised if the reclassifications had not been made.

		2015
in HRK million	Profit or loss	OCI
Debt securities reclassified from Available for sale to held to maturity		
Interest income	16	-
Net change in fair value	-	(9)
Amount transferred from fair value reserve to profit or loss	-	-
Total	**16**	**(9)**

15. Financial assets – held to maturity

GROUP

	Gross carrying amount		Collective allowances		Net carrying amount	
in HRK million	2014	2015	2014	2015	2014	2015
Debt securities						
General governments	1,457	1,433	(1)	(1)	1,456	1,432
Total	**1,457**	**1,433**	**(1)**	**(1)**	**1,456**	**1,432**

BANK

	Gross carrying amount		Collective allowances		Net carrying amount	
in HRK million	2014	2015	2014	2015	2014	2015
Debt securities						
General governments	1,289	890	(1)	(1)	1,288	889
Total	**1,289**	**890**	**(1)**	**(1)**	**1,288**	**889**

Listed and unlisted bonds issued by the Republic of Croatia are fixed income debt securities denominated in EUR and USD. These bonds have maturities from 2017 to 2020 and bear coupon interest from 5.875% to 6.750% p.a.
The fair value of financial investments held to maturity for the Group and the Bank is approximately HRK 27 million higher than their carrying value as at 31 December 2015 (2014: HRK 19 million higher).

16. Securities

GROUP

in HRK million	Loans to and receivables from customers and credit institutions 2014	Loans to and receivables from customers and credit institutions 2015	Financial assets: Held for trading 2014	Held for trading 2015	Available for sale 2014	Available for sale 2015	Held to maturity 2014	Held to maturity 2015	Total 2014	Total 2015
Bonds and other interest-bearing securities	**565**	**-**	**376**	**168**	**7,024**	**6,497**	**1,456**	**1,432**	**9,421**	**8,097**
Listed	-	-	130	130	5,501	6,350	995	1,426	6,626	7,906
Unlisted	565	-	246	38	1,523	147	461	6	2,795	191
Equity-related securities	**-**	**-**	**6**	**4**	**228**	**306**	**-**	**-**	**234**	**310**
Listed	-	-	6	4	214	220	-	-	220	224
Unlisted	-	-	-	-	14	86	-	-	14	86
Equity holdings	**-**	**-**	**-**	**-**	**21**	**21**	**-**	**-**	**21**	**21**
Total	**565**	**-**	**382**	**172**	**7,273**	**6,824**	**1,456**	**1,432**	**9,676**	**8,428**

BANK

in HRK million	Loans to and receivables from customers and credit institutions 2014	Loans to and receivables from customers and credit institutions 2015	Financial assets: Held for trading 2014	Held for trading 2015	Available for sale 2014	Available for sale 2015	Held to maturity 2014	Held to maturity 2015	Total 2014	Total 2015
Bonds and other interest-bearing securities	**565**	**-**	**376**	**168**	**6,596**	**6,262**	**1,288**	**889**	**8,825**	**7,319**
Listed	-	-	130	130	5,073	6,016	988	884	6,191	7,030
Unlisted	565	-	246	38	1,523	246	300	5	2,634	289
Equity-related securities	**-**	**-**	**6**	**-**	**76**	**162**	**-**	**-**	**82**	**162**
Listed	-	-	6	-	66	80	-	-	72	80
Unlisted	-	-	-	-	10	82	-	-	10	82
Equity holdings	**-**	**-**	**-**	**-**	**21**	**21**	**-**	**-**	**21**	**21**
Total	**565**	**-**	**382**	**168**	**6,693**	**6,445**	**1,288**	**889**	**8,928**	**7,502**

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 to and receivables from credit institutions

Loans to and receivables from credit institutions

				GROUP
in HRK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
2015				
Debt securities	-	-	-	-
Central banks	-	-	-	-
Loans and advances	5,444	-	(3)	5,441
Central banks	3,921	-	(2)	3,919
Credit institutions	1,523	-	(1)	1,522
Total	**5,444**	**-**	**(3)**	**5,441**
2014				
Debt securities	565	-	-	565
Central banks	565	-	-	565
Loans and advances	5,632	-	(3)	5,629
Central banks	3,968	-	(2)	3,966
Credit institutions	1,664	-	(1)	1,663
Total	**6,197**	**-**	**(3)**	**6,194**

Allowances for loans to and receivables from credit institutions

									GROUP
in HRK million	As at	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As at	Amounts written off	Recoveries of amounts previously written off
	2014						**2015**		
Specific allowances									
Loans and advances	-	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-
Collective allowances								**-**	**-**
Loans and advances	(3)	(33)	-	33	-	-	(3)	-	-
Central banks	(2)	(18)	-	18	-	-	(2)	-	-
Credit institutions	(1)	(15)	-	15	-	-	(1)	-	-
Total	**(3)**	**(33)**	**-**	**33**	**-**	**-**	**(3)**	**-**	**-**
	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)**	**-**	**-**

17. Loans to and receivables from credit institutions (continued)

Loans to and receivables from credit institutions

				BANK
in HRK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
2015				
Debt securities	-	-	-	-
Central banks	-	-	-	-
Loans and advances	5,200	-	(3)	5,197
Central banks	3,921	-	(2)	3,919
Credit institutions	1,279	-	(1)	1,278
Total	**5,200**	**-**	**(3)**	**5,197**
2014				
Debt securities	565	-	-	565
Central banks	565	-	-	565
Loans and advances	5,158	-	(3)	5,155
Central banks	3,968	-	(2)	3,966
Credit institutions	1,190	-	(1)	1,189
Total	**5,723**	**-**	**(3)**	**5,720**

With respect to the Decision on Reserve Requirement imposed by the CNB, the Bank is obliged to calculate and maintain an obligatory reserve. The reserve requirement rate, in the period for 2015 and 2014 was 12%. The obligatory reserves can be found in line Loans and advances to central banks.

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. In October 2015 CNB withdrawn this decision.

Allowances for loans to and receivables from credit institutions

									BANK
in HRK million	As at	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As at	Amounts written off	Recoveries of amounts previously written off
	2014						**2015**		
Collective allowances									
Debt securities	-	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-
Loans and advances	(3)	(32)	-	32	-	-	(3)	-	-
Central banks	(2)	(18)	-	18	-	-	(2)	-	-
Credit institutions	(1)	(14)	-	14	-	-	(1)	-	-
Total	**(3)**	**(32)**	**-**	**32**	**-**	**-**	**(3)**	**-**	**-**
	2013						**2014**		
Collective allowances									
Debt securities	-	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-
Loans and advances	(3)	(14)	-	13	-	1	(3)	-	-
Central banks	(1)	(1)	-	-	-	-	(2)	-	-
Credit institutions	(2)	(13)	-	13	-	1	(1)	-	-
Total	**(3)**	**(14)**	**-**	**13**	**-**	**1**	**(3)**	**-**	**-**

18. Loans to and receivables from customers

Loans to and receivables from customers

				GROUP
in HRK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
2015				
Loans and advances to customers	51,471	(4,844)	(468)	46,159
General governments	11,615	-	(25)	11,590
Other financial corporations	607	(2)	(6)	599
Non-financial corporations	18,050	(2,941)	(267)	14,842
Households	21,199	(1,901)	(170)	19,128
Total	**51,471**	**(4,844)**	**(468)**	**46,159**
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**

Allowances for loans to and receivables from customers

									GROUP
in HRK million	As at	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As at	Recoveries of amounts previously written off	Amounts written off
	2014						2015		
Specific allowances									
Loans and advances to customers	(5,396)	(2,389)	1,815	993	173	(40)	(4,844)	155	(4)
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	(2)	(3)	-	3	-	-	(2)	-	-
Non-financial corporations	(3,463)	(1,618)	1,506	532	114	(12)	(2,941)	80	(1)
Households	(1,931)	(768)	309	458	59	(28)	(1,901)	75	(3)
Collective allowances									
Loans and advances to customers	(438)	(713)	-	684	-	(1)	(468)	-	-
General governments	(21)	(16)	-	12	-	-	(25)	-	-
Other financial corporations	(1)	(29)	-	24	-	-	(6)	-	-
Non-financial corporations	(258)	(395)	-	387	-	(1)	(267)	-	-
Households	(158)	(273)	-	261	-	-	(170)	-	-
Total	**(5,834)**	**(3,102)**	**1,815**	**1,677**	**173**	**(41)**	**(5,312)**	**155**	**(4)**
	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)	(1,434)	175	479	138	(71)	(3,463)	61	(1)
Households	(1,657)	(724)	46	378	56	(30)	(1,931)	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)**

18. Loans to and receivables from customers (continued)

Loans to and receivables from customers

BANK

in HRK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
2015				
Loans and advances to customers	43,192	(3,999)	(360)	38,833
General governments	10,630	-	(23)	10,607
Other financial corporations	1,118	(2)	(5)	1,111
Non-financial corporations	13,891	(2,621)	(214)	11,056
Households	17,553	(1,376)	(118)	16,059
Total	**43,192**	**(3,999)**	**(360)**	**38,833**
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**

Allowances for loans to and receivables from customers

BANK

in HRK million	As at	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As at	Recoveries of amounts previously written off	Amounts written off
	2014						**2015**		
Specific allowances									
Loans and advances to customers	(4,438)	(2,145)	1,680	780	166	(42)	(3,999)	132	(2)
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	(2)	(3)	-	3	-	-	(2)	-	-
Non-financial corporations	(3,074)	(1,535)	1,431	457	112	(12)	(2,621)	76	(1)
Households	(1,362)	(607)	249	320	54	(30)	(1,376)	56	(1)
Collective allowances									
Loans and advances to customers	(347)	(587)	-	574	-	-	(360)	-	-
General governments	(18)	(13)	-	8	-	-	(23)	-	-
Other financial corporations	(1)	(32)	-	28	-	-	(5)	-	-
Non-financial corporations	(210)	(287)	-	283	-	-	(214)	-	-
Households	(118)	(255)	-	255	-	-	(118)	-	-
Total	**(4,785)**	**(2,732)**	**1,680**	**1,354**	**166**	**(42)**	**(4,359)**	**132**	**(2)**
	2013						**2014**		
Specific allowances									
Loans and advances to customers	(3,593)	(1,832)	189	630	188	(20)	(4,438)	97	(2)
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	(1)	(5)	-	5	-	(1)	(2)	-	-
Non-financial corporations	(2,439)	(1,309)	156	394	136	(12)	(3,074)	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)	(21)	-	24	-	(3)	(1)	-	-
Non-financial corporations	(241)	(255)	-	282	-	4	(210)	-	-
Households	(108)	(193)	-	181	-	2	(118)	-	-
Total	**(3,951)**	**(2,312)**	**189**	**1,122**	**188**	**(21)**	**(4,785)**	**97**	**(2)**

19. Investment in subsidiaries and associates

Subsidiaries	Main business activity	Ownership % held		Group's share of net assets		Investment at cost less impairment	
in HRK million		2014	2015	2014	2015	2014	2015
Erste Nekretnine d.o.o.	Real estate business	100,00%	100%	4	4	1	1
Erste Factoring d.o.o.	Accounts receivables repurchase	74,996%	74,996%	253	323	38	38
Erste Card Club d.o.o.	Financial intermediation and services	100,00%	100,00%	632	712	1,089	755
Erste Card d.o.o. Slovenia	Financial intermediation and services	100,00%	100,00%	7	14	-	-
Erste Delta d.o.o.	Real estate business	100,00%	-	8	-	-	-
Erste Bank A.D., Podgorica	Credit institution	100,00%	100,00%	352	397	100	100
Erste&Steiermarkische S-leasing d.o.o.	Leasing company	50,00%	50,00%	197	240	89	89
Total subsidiaries:				**1,453**	**1,690**	**1,317**	**983**

The following subsidiaries have non material Non-Controlling interest (NCI):

- Erste Factoring (25%)
- Erste & Steiermarkische S-leasing d.o.o. (50%)

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios.

Impairment losses on investment in subsidiaries in the amount of HRK 334 million were recognised during 2015. This impairment was allocated on the investment in Erste Card Club d.o.o..

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 2014	Dec 2015	Dec 2014	Dec 2015	Dec 2014	Dec 2015	Dec 2014	Dec 2015
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 and voluntary pension fund		IT engineering	
Ownership % held	49%	49%	49%	49%	45.86%	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	-	-	-		5	7	-	-
Impairment loss recognized (cumulative basis)	-	-	34	34	-	-	-	-
Impairment loss recognized (for the reporting year)	-	-	6	-	-	-	-	-
Investee's key financial information for the reporting year (as at reporting-year-end)								
Financial assets	7	3	17	6	96	108	14	13
Other assets	10	10	151	69	16	18	44	50
Financial liabilities	(24)	(20)	(167)	(85)	-	-	(40)	(46)
Other liabilities	-	(10)	(4)	(1)	(6)	(15)	(15)	(13)
Revenue	-	1	7	5	46	62	85	98
Expense	(7)	(11)	(15)	(14)	(32)	(40)	(85)	(97)
Investment at cost	-	-	-	-	38	38	-	-
Reconciliation of investee's net assets against equity investment's carrying amount	-	-	-	-	19	22	1	1
Net assets attributable to the Group	-	-	-	-	57	60	1	1

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

On 26 November 2014 and 07 December 2015, Erste Card d.o.o. Slovenia increased subscribed capital by HRK 8,432,600 (original currency EUR 1,100,000) and HRK 7,627,289 (original currency EUR 1,000,000), respectively.

20. Property, equipment and Investment properties

A) 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 at 1 January 2014	**768**	**257**	**162**	**-**	**1,187**	**32**
Additions in current year (+)	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 at 31 December 2014	**759**	**294**	**163**	**1,143**	**2,359**	**33**
Additions (+)	8	20	14	179	221	2
Disposals (-)	(19)	(10)	(30)	(393)	(452)	-
Adjustment (+/-)	10	6	16	-	32	-
Reclassification (+/-)	7	-	-	-	7	(2)
Balance as at 31 December 2015	**765**	**310**	**163**	**929**	**2,167**	**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 at 1 January 2014	**(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 at 31 December 2014	**(229)**	**(211)**	**(124)**	**(481)**	**(1,045)**	**(13)**
Amortisation and depreciation (-)	(17)	(25)	(14)	(162)	(218)	-
Disposals (+)	21	7	30	279	337	-
Reversal of impairment (+)	-	-	-	12	12	-
Adjustment (+/-)	(10)	(6)	(16)	-	(32)	-
Balance as at 31 December 2015	**(235)**	**(235)**	**(124)**	**(352)**	**(946)**	**(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 at 31 December 2014	**530**	**83**	**39**	**662**	**1,314**	**20**
Balance as at 31 December 2015	**530**	**75**	**39**	**577**	**1,221**	**20**

20. Property, equipment and Investment properties (continued)

A) 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 at 1 January 2014	**461**	**216**	**107**	**-**	**784**	**31**
Additions in current year (+)	3	17	3	-	23	-
Disposals (-)	(6)	(4)	(8)	-	(18)	-
Reclassification (+/-)	-	-	-	-	-	-
Balance as at 31 December 2014	**458**	**229**	**102**	**-**	**789**	**31**
Additions (+)	8	16	2	-	26	-
Disposals (-)	(20)	(9)	(22)	-	(51)	-
Merger of subsidiary	235	25	-	-	260	1
Reclassification (+/-)	7	-	-	-	7	(2)
Balance as at 31 December 2015	**688**	**261**	**82**	**-**	**1,031**	**30**

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 at 1 January 2014	**(164)**	**(172)**	**(101)**	**-**	**(437)**	**(11)**
Amortisation and depreciation (-)	(10)	(15)	(4)	-	(29)	(1)
Disposals (+)	2	4	9	-	15	-
Reclassification (+/-)						
Balance as at 31 December 2014	**(172)**	**(183)**	**(96)**	**-**	**(451)**	**(12)**
Amortisation and depreciation (-)	(14)	(22)	(4)	-	(40)	-
Disposals (+)	22	7	23	-	52	-
Merger of subsidiary	(44)	(3)	-	-	(47)	-
Balance as at 31 December 2015	**(208)**	**(201)**	**(77)**	**-**	**(486)**	**(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 at 31 December 2014	**286**	**46**	**6**	**-**	**338**	**19**
Balance as at 31 December 2015	**480**	**60**	**5**	**-**	**545**	**18**

The carrying amount of expenditure recognised in the items fixed assets during their construction is HRK 33 million for the Group and HRK 26 million for the Bank (2014: HRK 30 million and HRK 23 million for the Group and the Bank respectively). The contractual commitments for purchase of fixed assets are HRK 2 million for the Group and the Bank as at 31 December 2015 (2014: HRK 6 million).
Tangible asset under operating leasing in 2015 in S-Leasing amounted to HRK 578 million as at 31 December (2014: HRK 662 million).

21. Intangible assets

A) COST

					GROUP
		Acquisition costs			
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January. 2014	**603**	**181**	**101**	**97**	**982**
Additions in current year (+)	-	-	42	5	47
Disposals (-)	-	-	-	(9)	(9)
Acquisition of subsidiaries (+)	-	-	3	-	3
Disposal of subsidiaries (-)	-	-	(1)	-	(1)
Reclassification	-	-	7	(7)	-
Balance as at 31 December 2014	**603**	**181**	**152**	**86**	**1,022**
Additions (+)	-	-	52	6	58
Disposals (-)	-	-	-	(10)	(10)
Acquisition of subsidiaries (+)	-	-	-	-	-
Adjustment (+/-)	-	-	19	5	24
Reclassification (+/-)	-	-	(10)	5	(5)
Balance as at 31 December 2015	**603**	**181**	**213**	**92**	**1,089**

B) ACCUMULATED DEPRECIATION

					GROUP
		Accumulated depreciation			
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2014	**-**	**(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 at 31 December 2014	**-**	**(171)**	**(85)**	**(37)**	**(293)**
Amortisation and depreciation (-)	-	(10)	(13)	(8)	(31)
Disposals (+)	-	-	-	2	2
Impairment (-)	(334)	-	-	-	(334)
Adjustment (+/-)	-	-	(19)	(5)	(24)
Reclassification (+/-)	-	-	8	(8)	-
Balance as at 31 December 2015	**(334)**	**(181)**	**(109)**	**(56)**	**(680)**

C) CARRYING AMOUNTS

					GROUP
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 31 December 2014	**603**	**10**	**67**	**49**	**729**
Balance as at 31 December 2015	**269**	**-**	**104**	**36**	**409**

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 at 1 January 2014	**-**	**-**	**75**	**71**	**146**
Additions in current year (+)	-	-	23	2	25
Balance as at 31 December 2014	**-**	**-**	**98**	**73**	**171**
Additions (+)	-	-	33	5	38
Disposals (-)	-	-	-	(3)	(3)
Reclassification (+/-)	-	-	(11)	6	(5)
Balance as at 31 December 2015	**-**	**-**	**120**	**81**	**201**

B) ACCUMULATED DEPRECIATION

					BANK
	Accumulated depreciation				
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2014	**-**	**-**	**(52)**	**(57)**	**(109)**
Amortisation and depreciation (-)	-	-	(11)	(3)	(14)
Balance as at 31 December 2014	**-**	**-**	**(63)**	**(60)**	**(123)**
Amortisation and depreciation (-)	-	-	(7)	(3)	(10)
Disposals (+)	-	-	-	4	4
Reclassification (+/-)	-	-	9	(9)	-
Balance as at 31 December 2015	**-**	**-**	**(61)**	**(68)**	**(129)**

C) CARRYING AMOUNTS

					BANK
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 31 December 2014	**-**	**-**	**35**	**13**	**48**
Balance as at 31 December 2015	**-**	**-**	**59**	**13**	**72**

21. Intangible assets (continued)

Goodwill

The goodwill impairment assessment for the year 2015 and 2014 addressed the subsidiary Erste Card Club d.o.o. (CGU).

For these purposes we used discounted cash flow method, based on budgeted figures of Erste Card Club d.o.o. for the period of 2015 till 2020. Discount rate applied to determine the value in use was 11.48% (2014: 11.44%).
Erste Card Club d.o.o. predicts a stable and moderate growth in operating revenues / profits in the next five years, but management considers period after the year 2020 as significantly challengeable. Low rates of macroeconomic growth and low domestic CPI, increased regulatory requirements, development of new technologies together with digitalisation which represents a high challenge for credit card business and new foreign competition will impact the profitability of credit card operations after 2020. Due to these expectations the Management reduced the estimate of terminal growth rate which resulted in impairment of its investment in this subsidiary and an impairment of goodwill of Erste Card Club d.o.o. in consolidated financial statements in amount of HRK 334 million.

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

2015		Risk free rate	
Beta Factor	0.3%	1.3%	2.3%
0.5	1,264	1,133	1,033
0.9	1,038	958	892
1.1	895	841	794

2015		Risk free rate	
TV growth rate	0.3%	1.3%	2.3%
2.0%	1,016	944	884
3.0%	1,038	958	892
4.0%	1,065	975	902

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

22. Tax assets and liabilities

							GROUP
					Net variance 2015		
in HRK million	Tax assets 2014	Tax assets 2015	Tax liabilities 2014	Tax liabilities 2015	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	205	191	-	-	14	14	-
Financial assets - available for sale	-	-	(57)	(61)	4	(4)	8
Property and equipment	3	1	-	-	2	2	-
Acquisition of new subsidiary	14	-	-	-	14	14	-
Long-term employee provisions	1	1	-	-	-	-	-
Sundry provisions	2	5	-	-	(3)	(3)	-
Carry forward of tax losses	-	145	-	-	(145)	(145)	-
Customer relationships and brand	-	-	(2)	-	(2)	(2)	-
Other	29	132	-	-	(103)	(103)	-
Effect of netting gross deferred tax position	(57)	(60)	57	60	-	-	-
Total deferred taxes	**197**	**415**	**(2)**	**(1)**	**(219)**	**(227)**	**8**
Current taxes	**98**	**100**	**(9)**	**(5)**			
Total taxes	**295**	**515**	**(11)**	**(6)**			

							BANK
					Net variance 2015		
in HRK million	Tax assets 2014	Tax assets 2015	Tax liabilities 2014	Tax liabilities 2015	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	38	33	-	-	5	5	-
Financial assets - available for sale	-	-	(51)	(58)	7	-	7
Investments in subsidiaries, joint ventures and associates	-	67	-	-	(67)	(67)	-
Long-term employee provisions	1	1	-	-	-	-	-
Sundry provisions	1	1	-	-	-	-	-
Carry forward of tax losses	-	144	-	-	(144)	(144)	-
Other	30	53	-	-	(23)	(23)	-
Effect of netting gross deferred tax position	(51)	(58)	51	58	-	-	-
Total deferred taxes	**19**	**241**	**-**	**-**	**(222)**	**(229)**	**7**
Current taxes	**85**	**84**	**-**	**-**			
Total taxes	**104**	**325**	**-**	**-**			

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 2015 and 2014 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets. The part of temporary differences as at 31 December 2015 is fiscal loss in amount of HRK 145 million in the Group and HRK 144 million in the Bank. Tax losses can be carried forward until 2020.

23. Other assets

	GROUP		BANK	
in HRK million	2014	2015	2014	2015
Prepayments and accrued income	39	45	34	36
Allowances for impairment	*(10)*	*(14)*	*(10)*	*(9)*
Inventories	522	584	488	552
Value adjustments of inventories	*(37)*	*(40)*	*(26)*	*(20)*
Sundry assets	47	42	9	12
Other assets	**561**	**617**	**495**	**571**

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

in HRK million	GROUP		BANK	
	2014	2015	2014	2015
Balance at as 1 January	**11**	**10**	**11**	**10**
Release of previously recognized allowances	(3)	(3)	(3)	(3)
Additional allowances	6	11	6	6
Amounts written off	(4)	(4)	(4)	(4)
Balance as at 31 December	**10**	**14**	**10**	**9**

In line Inventories the Group holds collateral obtained in foreclosure procedures which Group has intention to sell in upcoming years.
In 2015 the Group and the Bank recognised impairment of inventories in amount of HRK 22 million (2014: HRK 13 million) and HRK 10 million (2014: HRK 7 million), respectively.

24. Financial liabilities measured at amortised costs

Deposits from banks

	GROUP		BANK	
in HRK million	2014	2015	2014	2015
Overnight deposits	220	452	259	473
Term deposits	19,517	14,526	12,708	8,947
Subordinated loan	847	1,073	847	1,073
Repurchase agreements	643	123	351	88
Deposits from banks	**21,227**	**16,174**	**14,165**	**10,581**

24. Financial liabilities measured at amortised costs (continued)

Deposits from customers

	GROUP		BANK	
in HRK million	**2014**	**2015**	**2014**	**2015**
Overnight deposits	**10,228**	**12,457**	**9,567**	**11,724**
Savings deposits	1,438	1,700	1,436	1,700
Other financial corporations	189	168	189	168
Non-financial corporations	117	297	116	297
Households	1,132	1,235	1,131	1,235
Non-savings deposits	8,790	10,757	8,131	10,024
General governments	452	686	382	654
Other financial corporations	281	333	442	496
Non-financial corporations	3,485	4,163	3,232	3,909
Households	4,572	5,575	4,075	4,965
Term deposits	**26,908**	**28,131**	**26,693**	**27,073**
Deposits with agreed maturity	26,566	27,400	26,351	26,342
Savings deposits	23,709	24,543	24,057	24,074
Other financial corporations	1,125	1,245	2,081	1,471
Non-financial corporations	1,433	1,744	1,591	1,748
Households	21,151	21,554	20,385	20,855
Non-savings deposits	2,857	2,857	2,294	2,268
General governments	2,366	2,388	2,294	2,268
Other financial corporations	63	28	-	-
Non-financial corporations	424	436	-	-
Households	4	5	-	-
Deposits redeemable at notice	342	731	342	731
General governments	1	3	1	3
Other financial corporations	-	4	-	4
Non-financial corporations	299	691	299	691
Households	42	33	42	33
Repurchase agreements	**891**	**857**	**891**	**857**
General governments	547	300	547	300
Non-financial corporations	344	557	344	557
Deposits from customers	**38,027**	**41,445**	**37,151**	**39,654**
General governments	**3,366**	**3,377**	**3,224**	**3,225**
Other financial corporations	**1,658**	**1,778**	**2,712**	**2,139**
Non-financial corporations	**6,102**	**7,888**	**5,582**	**7,202**
Households	**26,901**	**28,402**	**25,633**	**27,088**
Other financial liabilities	**728**	**684**	**74**	**54**

Due to principle of comparability of data, loans and deposits from Croatian Bank of Reconstruction and Development (HBOR) at 31 December 2014 have been reclassified from other financial institutions to general governments in accordance with ESA 2010.

Debt securities issued

	GROUP		BANK	
in HRK million	**2014**	**2015**	**2014**	**2015**
Subordinated liabilities	631	629	631	629
Subordinated issues	631	629	631	629
Other debt securities issued	302	302	302	302
Bonds	302	302	302	302
Debt securities issued	**933**	**931**	**933**	**931**

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 March 2015, new subordinated loan was contracted in the amount of up to EUR 80 million and tranche in amount of EUR 30 million has been withdrawn. The possibility of the tranches withdrawal is till 30.06.2016. Also, maturity of the existing subordinated loan, which was contracted in 2011, was extended to 31.12.2022.
In September 2015, zero floor clause was incorporated in each of the three withdrawn subordinated lines.

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 2015 and 2014.

25. Provisions

	GROUP		BANK	
in HRK million	2014	2015	2014	2015
Long-term employee provisions	15	14	9	9
Pending legal issues and tax litigation	171	122	143	95
Provision for commitments and guarantees given	78	116	61	90
Other provision	-	917	-	917
Provisions for loan conversion	-	906	-	906
Other other provision	-	11	-	11
Provisions	**264**	**1,169**	**213**	**1,111**

a) Long-term employee provisions

			GROUP
in HRK million	Pensions	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 December 2013	**5**	**7**	**12**
Service cost	-	1	1
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**
Service cost	-	-	-
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	-	-	-
Present value of long-term employee benefit obligations, 31 December 2015	**6**	**8**	**14**

25. Provisions (continued)

			BANK
in HRK million	Pensions	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 December 2013	**3**	**5**	**8**
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**
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	-	-	-
Present value of long-term employee benefit obligations, 31 December 2015	**3**	**6**	**9**

Actuarial assumptions

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

in %	2014	2015
Interest rate	4.20	4.20
Expected increase in retirement benefits	6.02	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.

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 2015

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

25. Provisions (continued)

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
2016	-	1	1
2017	-	1	1
2018	-	1	1
2019	-	1	1
2020	-	1	1
2021 (2024)	5	11	16

Duration

The following table presents the weighted average duration of the defined-benefit obligations as of year end 2015

in years	Pensions	Jubilee payments	Total
Duration	14.40	11.01	13.00

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

Sundry provisions 2015

								GROUP
in HRK million	2014	Acquisition/ disposal of subsidiaries	Currency translation	Allocations	Use	Releases	Reclassifi-cation	2015
Provisions for contingent credit risk liabilities	78	-	-	266	-	(228)	-	116
Provisions for legal proceedings and litigations	171	-	-	41	(1)	(89)	-	122
Other provision	-	-	-	1,142	(101)	(124)	-	917
Provision for loan conversion	-	-	-	1,110	(80)	(124)	-	906
Other other provision	-	-	-	32	(21)	-	-	11
Total	**249**	**-**	**-**	**1,449**	**(102)**	**(441)**	**-**	**1,155**

								BANK
in HRK million	2014	Acquisition/ disposal of subsidiaries	Currency translation	Allocations	Use	Releases	Reclassifi-cation	2015
Provisions for contingent credit risk liabilities	61	-	-	235	-	(206)	-	90
Provisions for legal proceedings and litigations	143	-	1	35	(1)	(83)	-	95
Other provision	-	-	-	1,142	(101)	(124)	-	917
Provision for loan conversion	-	-	-	1,110	(80)	(124)	-	906
Other other provision	-	-	-	32	(21)	-	-	11
Total	**204**	**-**	**1**	**1,412**	**(102)**	**(413)**	**-**	**1,102**

25. Provisions (continued)

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**

26. Other liabilities

		GROUP		BANK
in HRK million	2014	2015	2014	2015
Prepayments received from borrowers	160	152	160	152
Salaries and bonuses payable	123	141	103	111
Amounts due to suppliers	60	63	38	44
Deferred income and accrued fee expenses	85	91	4	7
Payables to State Agency for deposit	19	21	17	18
Sundry liabilities	89	140	38	93
Other liabilities	**536**	**608**	**360**	**425**

27. Total equity

Share capital

As at 31 December 2015 and 2014 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 2015 the legal reserves of the Bank disclose non-distributable reserves of HRK 85 million, as at 31 December 2014 legal reserves amounted to HRK 85 million.
Share premium as at 31 December 2015 and 2014 amounted to HRK 1,802 million.

Dividends

The dividends for 2015 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. The dividend declared by the Bank for the year 2014 was HRK 4.5 per share (total amount HRK 77 million).

28. Segment reporting

Business segmentation

The segment reporting comprise seven business segments reflecting the Group's management structure and its internal management reporting in 2015.

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 2014	RETAIL 2015	SME 2014	SME 2015	Large Corporate 2014	Large Corporate 2015	Commercial RE 2014	Commercial RE 2015	ALM 2014	ALM 2015	Group Markets 2014	Group Markets 2015	OTHER 2014	OTHER 2015	GROUP 2014	GROUP 2015
Net interest income	1,115	1,172	761	683	171	266	10	16	(52)	(94)	12	16	103	89	2,120	2,148
Net fee and commission income	360	387	204	216	25	24	2	2	(2)	-	29	27	(8)	(10)	610	646
Dividend income	-	-	-	-	-	-	-	-	-	-	-	-	2	1	2	1
Net trading and fair value result	50	20	23	30	4	2	-		8	4	91	66	8	(1)	184	121
Net result from equity method investments	7	10	-	-	-	-	-	-	-	-	-	-	3	-	10	10
Rental income from investment properties & other operating leases	60	52	182	157	-	-	-	-	-	-	-	-	-	1	242	210
General administrative expenses	(892)	(916)	(378)	(374)	(23)	(29)	(11)	(13)	(10)	(9)	(44)	(46)	(81)	(46)	(1,439)	(1,433)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	-	-	-	-	1	-	-	-	14	2	-	-	(3)	1	12	3
Net impairment loss on financial assets not measured at fair value through profit or loss	(327)	(241)	(725)	(925)	(58)	(1)	(86)	(78)	(1)	2	2	(26)	10	(5)	(1,185)	(1,274)
Other operating result	(7)	(982)	(7)	(8)	(10)	(15)	-	(4)	-	(4)	-	-	(28)	(352)	(52)	(1,365)
Loan conversion expenses	-	(986)	-	-	-	-	-	-	-	-	-	-	-	-	-	(986)
Pre-tax result from continuing operations	**366**	**(498)**	**60**	**(221)**	**110**	**247**	**(85)**	**(77)**	**(43)**	**(99)**	**90**	**37**	**6**	**(322)**	**504**	**(933)**
Taxes on income	(74)	107	(8)	49	(22)	(50)	17	15	10	22	(18)	(7)	3	28	(92)	164
Net result for the period	**292**	**(391)**	**52**	**(172)**	**88**	**197**	**(68)**	**(62)**	**(33)**	**(77)**	**72**	**30**	**9**	**(294)**	**412**	**(769)**
Net result attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(35)	47	(35)	47
Net result attributable to owners of the parent	**292**	**(391)**	**52**	**(172)**	**88**	**197**	**(68)**	**(62)**	**(33)**	**(77)**	**72**	**30**	**(26)**	**(341)**	**377**	**(816)**
Operating income	1,592	1,641	1,170	1,086	200	292	12	18	(46)	(90)	132	109	108	80	3,168	3,136
Operating expenses	(892)	(916)	(378)	(374)	(23)	(29)	(11)	(13)	(10)	(9)	(44)	(46)	(81)	(46)	(1,439)	(1,433)
Operating result	**700**	**725**	**792**	**712**	**177**	**263**	**1**	**5**	**(56)**	**(99)**	**88**	**63**	**27**	**34**	**1,729**	**1,703**
Risk-weighted assets (credit risk, eop)	10,688	10,061	14,206	12,606	2,400	4,132	661	443	3,796	5,729	355	674	1,757	2,071	33,863	35,716
Average allocated capital[1]	989	1,071	1,373	1,081	204	346	61	51	481	664	111	112	4,518	4,461	7,737	7,786
Cost/income ratio	56.0%	55.9%	32.3%	34.4%	11.5%	9.8%	86.1%	72.2%	(21.2%)	(9.9%)	33.0%	42.6%	76.6%	57.5%	45.4%	45.7%
Return on allocated capital	297%	(36.8%)	3.9%	(15.8%)	43.3%	57.2%	(110.2%)	(117.3%)	(6.7%)	(11.6%)	64.8%	25.2%	(0.7%)	7.6%	4.9%	(10.5%)
Total assets (eop)	20,691	20,624	22,719	19,422	4,708	6,766	577	432	18,511	17.381	1,577	2,047	978	1,559	69,761	68,231
Total liabilities excluding equity (eop)	27,584	29,423	11,165	8,589	626	1,036	114	124	20,799	19.335	1,453	1,293	79	1,320	61,820	61,120
Impairments and risk provisions	**(330)**	**(241)**	**(720)**	**(944)**	**(67)**	**(16)**	**(86)**	**(82)**	**(1)**	**(2)**	**2**	**(26)**	**(5)**	**(363)**	**(1,207)**	**(1,674)**
Net impairment loss on loans and receivables from credit institutions and customers	(326)	(241)	(718)	(925)	(57)	(1)	(86)	(78)	(1)	2	2	(26)	8	(5)	(1,178)	(1,274)
Net impairment loss on other financial assets not measured at fair value through profit or loss	-	-	(6)	-	-	-	-	-	-	-	-	-	-	-	(6)	-
Allocation/release of provisions for contingent credit risk liabilities	(2)	1	9	(16)	(10)	(15)	-	(3)	-	(4)	-	-	-	-	(3)	(37)
Impairments from Goodwill	-	-	-	-	-	-	-	-	-	-	-	-	-	(334)	-	(334)
Net impairment loss on other non-financial assets	(2)	(1)	(5)	(3)	-	-	-	(1)	-	-	-	-	(13)	(24)	(20)	(29)

29. Leases

a) Finance leases

Finance leases receivables are included under the statement of financial position item Loans to and receivables from 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 are as follows:

	GROUP	
in HRK million	**2014**	**2015**
Outstanding minimum lease payments	1,077	1,285
Non-guaranteed residual values	-	-
Gross investment	**1,077**	**1,285**
Unrealised financial income	(127)	(122)
Net investment	**950**	**1,163**
Present value of non-guaranteed residual values	-	-
Present value of minimum lease payments	**950**	**1,163**

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	**2014**	**2015**	**2014**	**2015**
< 1 year	336	384	290	336
1-5 years	650	831	576	761
> 5 years	91	70	84	66
Total	**1,077**	**1,285**	**950**	**1,163**

b) Operating leases

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

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

Minimum lease payments from operating leases were as follows:

	GROUP		BANK	
in HRK million	**2014**	**2015**	**2014**	**2015**
< 1 year	182	164	8	10
1 -5 years	308	271	24	21
> 5 years	8	7	-	-
Total	**498**	**442**	**32**	**31**

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

Minimum lease payments from operating leases were as follows:

	GROUP		BANK	
in HRK million	**2014**	**2015**	**2014**	**2015**
< 1 year	31	27	29	26
1-5 years	104	93	100	90
> 5 years	62	51	62	50
Total	**197**	**171**	**191**	**166**

Lease payments from operating leases recognised as expense in the period for the Group amounted to HRK 34 million (2014: HRK 37 million) and for the Bank HRK 30 million (2014: HRK 53 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). Entity with significant influence on the Group is Steiermärkische Bank und Sparkassen AG.

As at 31 December 2015 and 31 December 2014, balances outstanding with related parties comprised:

ASSET						GROUP
	Loans and receivables	Derivatives	Other	Loans and receivables	Derivatives	Cash
in HRK million			2014			2015
Entity with significant influence on the Group	-	2	-	-	11	-
Key management personnel	39	-	-	21	-	-
Parent company	426	39	918	587	27	143
Other EGB companies	12	-	1	6	1	42
Other	-	-	-	-	-	-
Associates	56	-	-	51	2	-
Total assets	**533**	**41**	**919**	**665**	**41**	**185**

LIABILITIES						GROUP
	Deposits	Derivatives	Other	Deposits	Derivatives	Other
in HRK million			2014			2015
Entity with significant influence on the Group	6,161	2	-	5,718	-	-
Key management personnel	100	-	-	33	-	-
Parent company	12,856	60	11	8,595	46	8
Other EGB companies	99	-	14	191	-	15
Other	9	-	-	9	-	-
Associates	6	-	8	32	3	8
Total liabilities	**19,231**	**62**	**33**	**14,578**	**49**	**31**

ASSET						BANK
	Loans and receivables	Derivatives	Other	Loans and receivables	Derivatives	Cash
in HRK million			2014			2015
Entity with significant influence on the Group	-	2	-	-	11	-
Key management personnel	37	-	-	21	-	-
Parent company	426	39	910	587	27	120
Other EGB companies	2	-	1	1	1	26
Other	-	-	-	-	-	-
Subsidiaries	239	3	-	521	3	-
Associates	54	-	-	51	2	-
Total assets	**758**	**44**	**911**	**1,181**	**44**	**146**

LIABILITIES						BANK
	Deposits	Derivatives	Other	Deposits	Derivatives	Other
in HRK million			2014			2015
Entity with significant influence on the Group	4,670	2	-	4,400	-	-
Key management personnel	98	-	-	30	-	-
Parent company	7,844	60	11	4,505	46	8
Other EGB companies	95	-	13	135	-	14
Other	9	-	-	9	-	-
Subsidiaries	1,322	-	5	446	-	7
Associates	6	-	8	32	3	8
Total liabilities	**14,044**	**62**	**37**	**9,557**	**49**	**37**

30. Related-party transactions (continued)

Transactions with related parties comprised:

STATEMENT OF PROFIT OR LOSS	GROUP		BANK	
in HRK million	2014	2015	2014	2015
Interest income	**95**	**97**	**99**	**106**
Entity with significant influence on the Group	42	42	42	42
Key management personnel	2	-	2	-
Parent company	48	53	48	53
Other EGB companies	1	-	-	-
Subsidiaries	-	-	5	9
Associates	2	2	2	2
Fee income	**18**	**23**	**73**	**82**
Parent company	2	5	2	2
Other EGB companies	16	17	16	17
Subsidiaries	-	-	55	62
Associates	-	1	-	1
Other operating income	**12**	**7**	**13**	**11**
Parent company	2	1	2	1
Subsidiaries	-	-	1	4
Associates	10	6	10	6
Total income	**125**	**127**	**185**	**199**

STATEMENT OF PROFIT OR LOSS	GROUP		BANK	
in HRK million	2014	2015	2014	2015
Interest expense	**490**	**401**	**383**	**309**
Entity with significant influence on the Group	179	157	147	132
Key management personnel	4	-	4	-
Other EGB companies	-	1	-	-
Parent company	307	243	206	169
Subsidiaries	-	-	26	8
Fee expense	**36**	**35**	**40**	**40**
Parent company	1	1	1	1
Other EGB companies	35	34	30	28
Associates	-	-	9	11
Other administrative expenses	**72**	**80**	**86**	**73**
Parent company	10	9	10	9
Other EGB companies	23	25	18	20
Other	(1)	-	(1)	-
Subsidiaries	-	-	21	5
Associates	40	46	38	39
Total expenses	**598**	**516**	**509**	**422**

30. Related-party transactions (continued)

OFF BALANCE ITEMS	GROUP		BANK	
in HRK million	2014	2015	2014	2015
Guarantees issued	**170**	**40**	**49**	**41**
Parent company	124	40	47	40
Other EGB companies	46	-	-	-
Other	-	-	-	-
Subsidiaries	-	-	2	1
Undrawn credit and loan commitments	**28**	**11**	**88**	**71**
Key management personnel	1	-	1	-
Other EGB companies	-	-	-	-
Subsidiaries	-	-	60	60
Associates	27	11	27	11
Total commitments and contingent liabilities	**198**	**51**	**137**	**112**

As at 31 December 2015, the Group has had cash deposit as collateral within Amounts due to banks from the parent company in the amount of HRK 1,929 million (2014: HRK 1,434 million).

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

	GROUP		BANK	
in HRK million	2014	2015	2014	2015
Wages and salaries	32	32	10	10
Bonuses	12	8	5	5
pension costs	3	3	1	1
Total remuneration	**44**	**40**	**15**	**15**

31. Asset pledged as collateral

The following assets were pledged as security for liabilities:

Pledged assets	GROUP		BANK	
in HRK million	2014	2015	2014	2015
Loans to and receivables from customers	596	198	596	198
Financial assets - available for sale	2,926	1,842	2,616	1,494
Financial assets - held to maturity	107	151	-	-
Total	**3,629**	**2,191**	**3,212**	**1,692**

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 1,556 million (2014: HRK 1,053 million) for the Group and HRK 2,049 million for the Bank (2014: HRK 1,237 million).
Collateral with fair value of HRK 584 million was repledged (2014: HRK 356 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	2014 Carrying amount of transferred assets	2014 Carrying amount of associated liabilities	2015 Carrying amount of transferred assets	2015 Carrying amount of associated liabilities
				GROUP
Repurchase agreements				
Financial assets - available for sale	1,243	1,086	757	423
Financial assets - held to maturity	107	104	151	-
Total - repurchase agreements	**1,350**	**1,190**	**908**	**423**
				BANK
Repurchase agreements				
Financial assets - available for sale	932	898	409	387
Total - repurchase agreements	**932**	**898**	**409**	**387**

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

The total amount of HRK 908 million (2014: HRK 1,350 million) for the Group and HRK 409 million (2014: HRK 932 million) for the Bank represents the carrying amount of financial assets under the respective statement of financial position items for which the transferee has a right to sell or repledge.

Liabilities from repo transactions in the amount of HRK 423 million (2014: HRK 1,190 million) for the Group and HRK 387 million (2014: HRK 898 million) for the Bank, which are measured at amortised cost.
We made a correction of 2014 due to different approach of presenting repo transactions. Repo transactions with re-used collateral (which comes from reverse repo loans) aren't include in this figures.

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	2014 Fair value of transferred assets	2014 Fair value of associated liabilities	2014 Net position	2015 Fair value of transferred assets	2015 Fair value of associated liabilities	2015 Net position
						GROUP
Financial assets - available for sale	1,243	1,086	156	757	423	334
Financial assets - held to maturity	107	104	3	151	-	151
Total	**1,350**	**1,190**	159	**908**	**423**	**485**
						BANK
Financial assets - available for sale	932	898	34	409	387	22
Total	**932**	**898**	**34**	**409**	**387**	**22**

33. Offsetting

Financial assets subject to offsetting and potential offsetting agreements in 2015

GROUP

in HRK million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Potential effects of netting agreements not qualifying for statement of financial position offsetting: Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	61	-	61	(31)	-	-	30
Reverse repurchase agreements	1,320	-	1,320	-	-	(1,320)	-
Total	**1,381**	**-**	**1,381**	**(31)**	**-**	**(1,320)**	**30**

Financial liabilities subject to offsetting and potential offsetting agreements in 2015

GROUP

in HRK million	Gross amounts in statement of financial position	Amounts set off against financial assets	Net amounts in statement of financial position	Potential effects of netting agreements not qualifying for statement of financial position offsetting: Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	103	-	103	(31)	-	-	72
Repurchase agreements	980	-	980	-	-	(980)	-
Total	**1,083**	**-**	**1,083**	**(31)**	**-**	**(980)**	**72**

Financial assets subject to offsetting and potential offsetting agreements in 2015

BANK

in HRK million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Potential effects of netting agreements not qualifying for statement of financial position offsetting: Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	64	-	64	(31)	-	-	33
Reverse repurchase agreements	1,776	-	1,776	-	-	(1,776)	-
Total	**1,840**	**-**	**1,840**	**(31)**	**-**	**(1,776)**	**33**

Financial liabilities subject to offsetting and potential offsetting agreements in 2015

BANK

in HRK million	Gross amounts in statement of financial position	Amounts set off against financial assets	Net amounts in statement of financial position	Potential effects of netting agreements not qualifying for statement of financial position offsetting: Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	103	-	103	(31)	-	-	72
Repurchase agreements	944	-	944	-	-	(944)	-
Total	**1,047**	**-**	**1,047**	**(31)**	**-**	**(944)**	**72**

33. Offsetting (continued)

Financial assets subject to offsetting and potential offsetting agreements in 2014

GROUP

				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	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

				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial assets	Net amounts in statement of financial position	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

				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	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

				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial assets	Net amounts in statement of financial position	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)

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's proactive risk policy and strategy aims at achieving balanced risk and return in order to generate a sustainable and adequate return on equity.

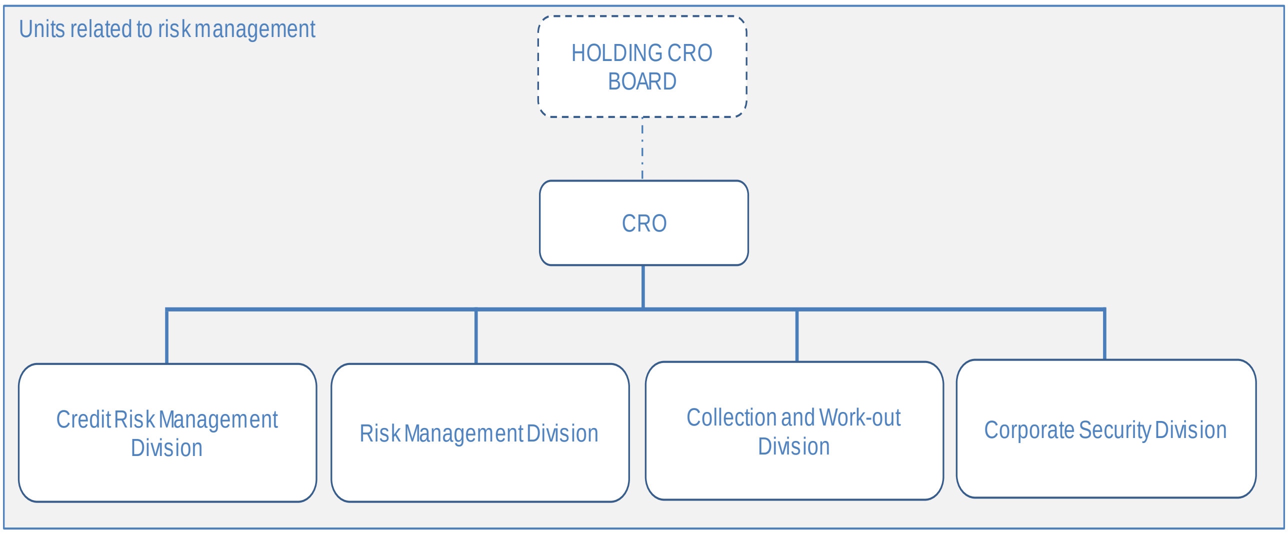
The Group uses a risk management and control system that is proactive and tailored to its business and risk profile. It is based on a clear risk strategy that is consistent with the Group's business strategy and focused on early identification and management of risks and trends. In addition to meeting 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.

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:

- Credit Risk Management Division
- Risk Management Division
- Collection and Work-out Division
- Corporate Security Division

Further breakdown to departments/units is set within mentioned organizational units with clearly defined responsibilities:

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, Large Corporate Clients Division and the Financial Markets Division. The department analyses requests for credits, 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 Risk Management Department

Retail Risk Management Department manages credit risk and monitors the credit portfolio balance of clients from the retail sector. The Department analyses requests for credits, 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.

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 is 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.
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 Expected Risk Margin (ERM) and 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 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 II 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 Division

The Collection and Work-out Division is in charge of managing collection and bad placements by means of a continuous and systematic development of solutions to eliminate and reduce risks in dealing with work-out clients.
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 Division proposes the most adequate means alternative payment of outstanding debts. Besides that, Division 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.
Division 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. Division is, also, in charge of the assets taken over by the Bank.

34.2) Risk management organisation (continued)

Corporate Security Division

Corporate Security Division 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 Division 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) 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 through introduction of new and more advanced models and methods for measurement of certain types of risks.

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.

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.

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

In 2015, the RAS framework was further enhanced by increasing the level of granularity and adjustment of risk measures in line with Risk strategy.

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 to 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.

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 2015, the Bank performed comprehensive stress test exercise using the a certain stress scenario, in line with internal policies. 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 II, other risk types are also considered within the required economic capital through 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.

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

Risk-weighted asset management

As 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 plan

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 2015, the regulator was provided with an enhanced recovery plan, amended also in line with regulatory changes which came into force during 2015 and with findings from the regulators with respect to the previous plan.

The Erste Group AG 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.

34.4) 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 in place business and risk strategies, 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 RWA 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

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 AG 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.

34.4) Credit risk (continued)

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: clients who meet one or more of the default criteria according to Article 178 of Regulation (EU) No 575/2013 and Croatian National Bank bylaws, which precisely defined by the Bank's and Group's internal documentation: full repayment unlikely, more than 90 days past due on a material exposure, 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 including Retail clients; if a customer default on one product then that entire customer's performing products are classified as non-performing. In 2015, definition of non-performing exposure was slightly changed in a way that non-performing forbearance was included into non-performing exposure even when a client does not meet criteria for default.

Erste Bank rating category	Agencies
Low Risk	Aaa/AAA … Ba3/BB-
Management Attention	B1/B+ … B3/B-
Substandard	Caa1 … CC
Non-Performing	C, D

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 re-approvals.
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.

34.4) Credit risk (continued)

Credit risk exposure

Credit risk exposure relates to the following statement of financial position items:
- 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 decreased for 4% or HRK 2.6 billion from HRK 63.94 billion as at 31 December 2014 to HRK 61.37 billion as at 31 December 2015.
During the same period the gross carrying amount of the credit risk exposure of the Group decreased for HRK 2.6 billion from HRK 75.63 billion to HRK 73.02 billion at the end of 2015.
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 at 31 December 2015 and 31. December 2014. The credit risk exposure does not include position *Cash balances at central banks*, therefore, due to comparability reasons, credit risk exposure for 2014 is corrected according to valid definition in all tables in this part of the Report.

	GROUP		BANK	
in HRK million	**Gross carrying amount**	**Carrying amount**	**Gross carrying amount**	**Carrying amount**
31 December 2015				
Other demand deposits	762	762	680	680
Loans and advances to credit institutions	5,444	5,441	5,200	5,197
Loans and advances to customers	51,471	46,159	43,192	38,833
Held to maturity	1,433	1,432	890	889
Trading assets	168	168	168	168
At fair value through profit or loss	-	-	-	-
Available for sale	6,497	6,497	6,262	6,262
Positive fair value of derivative financial instruments	61	61	64	64
Contingent credit liabilities	7,186	7,186	4,919	4,919
Total	**73,022**	**67,706**	**61,375**	**57,012**
31 December 2014				
Other demand deposits	1,345	1,345	1,140	1,140
Loans and advances to credit institutions	6,197	6,194	5,723	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	**75,628**	**69,790**	**63,941**	**59,152**

34.4) Credit risk (continued)

Breakdown of credit risk exposure

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

- by exposure classes and financial instrument,
- by industry and financial instrument,
- by risk category,
- by region and risk category,
- by industry and risk category,
- by business segment and risk category.

Thereafter, a breakdown of credit risk exposure to sovereigns by region and financial instrument is presented.

This is followed by presentation of

- non-performing credit risk exposure by business segment and credit risk allowances,
- the composition of allowances,
- Forbearance comparison with total credit risk exposure and allowances
- credit risk exposure by business segment and collateral,
- credit risk exposure past due and not covered by specific allowances by collateralisation and
- breakdown of loans to and receivables from 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 classes and financial instrument as at 31 December 2015 and 31 December 2014, respectively. The assignment of obligors to Basel III exposure classes is based on legal regulations. For reasons of clarity, individual Basel III exposure classes are presented in aggregated form in the table below and in other tables in the section Credit Risk.

Credit risk exposure by Basel III exposure class and financial instrument

										GROUP
				Debt instruments						
in HRK million	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 2015										
Sovereign	-	3,921	10,151	1,433	168	-	6,358	-	453	22,484
Institutions	734	1,523	51	-	-	-	-	42	331	2,681
Corporates	28	-	19,431	-	-	-	139	19	4,282	23,899
Retail	-	-	21,838	-	-	-	-	-	2,120	23,958
Total	**762**	**5,444**	**51,471**	**1,433**	**168**	**-**	**6,497**	**61**	**7,186**	**73,022**
31 December 2014										
Sovereign	-	4,533	10,204	1,457	377	-	6,906	-	187	23,664
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	**1,345**	**6,197**	**52,545**	**1,457**	**377**	**-**	**7,024**	**94**	**6,589**	**75,628**

34.4) Credit risk (continued)

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

											BANK
				Debt instruments							
in HRK million	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 2015											
Sovereign	-	3,921	9,199	890	-	168	-	6,008	-	408	20,594
Institutions	652	1,279	15	-	-	-	-	-	42	69	2,057
Corporates	28	-	16,413	-	-	-	-	254	22	3,539	20,256
Retail	-	-	17,565	-	-	-	-	-	-	903	18,468
Total	**680**	**5,200**	**43,192**	**890**		**168**	**-**	**6,262**	**64**	**4,919**	**61,375**
31 December 2014											
Sovereign	-	4,534	9,370	1,289		377	-	6,363	-	117	22,050
Institutions	1,140	1,189	24	-		-	-	115	41	16	2,525
Corporates	-	-	17,311	-		-	-	118	53	3,345	20,827
Retail	-	-	17,687	-		-	-	-	2	850	18,539
Total	**1,140**	**5,723**	**44,392**	**1,289**		**377**	**-**	**6,596**	**96**	**4,328**	**63,941**

34.4) Credit risk (continued)

Credit risk exposure by industry and financial instrument

The following table include the Banks' (Group's) credit risk exposure broken down by industry and financial instruments for reporting dates

Credit risk exposure by industry and financial instrument

										GROUP
				Debt instruments						
in HRK million	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 2015										
Agriculture, forestry	-	-	1,363	-	-	-	-	-	100	1,463
Mining	-	-	158	-	-	-	-	-	82	240
Manufacturing	-	-	3,205	-	-	-	40	-	1,210	4,455
Energy	-	-	238	-	-	-	-	-	66	304
Water supply	-	-	321	-	-	-	-	-	43	364
Construction	-	-	4,742	-	-	-	11	-	643	5,396
Trade	-	-	5,122	-	-	-	5	2	1,321	6,450
Transport	-	-	2,403	-	-	-	77	-	99	2,579
Hotels and restaurants	-	-	2,285	-	-	-	-	3	140	2,428
Communication	-	-	320	-	-	-	-	-	52	372
Financial and insurance services	762	5,444	1,307	157	-	-	626	43	343	8,682
Real estate	-	-	1,216	-	-	-	-	1	206	1,423
Professional activities	-	-	905	-	-	-	5	1	234	1,145
Administrative and support service activities	-	-	499	-	-	-	-	-	85	584
Public administration	-	-	6,729	1,276	168	-	5,733	11	192	14,109
Education	-	-	58	-	-	-	-	-	4	62
Health services	-	-	178	-	-	-	-	-	261	439
Art	-	-	258	-	-	-	-	-	96	354
Private households	-	-	20,083	-	-	-	-	-	1,998	22,081
Others	-	-	81	-	-	-	-	-	11	92
Total	**762**	**5,444**	**51,471**	**1,433**	**168**	**-**	**6,497**	**61**	**7,186**	**73,022**
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	1,345	6,197	1,292	7	-	-	386	43	33	9,303
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	**1,345**	**6,197**	**52,545**	**1,457**	**377**	**-**	**7,024**	**94**	**6,589**	**75,628**

34.4) Credit risk (continued)

Credit risk exposure by industry and financial instrument (continued)

										BANK
				Debt instruments						
in HRK million	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 2015										
Agriculture, forestry	-	-	849	-	-	-	-	-	96	945
Mining	-	-	143	-	-	-	-	-	82	225
Manufacturing	-	-	2,752	-	-	-	40	-	1,194	3,986
Energy	-	-	173	-	-	-	-	-	64	237
Water supply	-	-	248	-	-	-	-	-	43	291
Construction	-	-	4,425	-	-	-	11	-	551	4,987
Trade	-	-	3,213	-	-	-	5	2	687	3,907
Transport	-	-	2,031	-	-	-	77	-	87	2,195
Hotels and restaurants	-	-	2,179	-	-	-	-	3	140	2,322
Communication	-	-	215	-	-	-	-	-	52	267
Financial and insurance services	680	5,200	1,807	-	-	-	499	46	136	8,368
Real estate	-	-	1,183	-	-	-	-	1	179	1,363
Professional activities	-	-	826	-	-	-	5	1	223	1,055
Administrative and support service activities	-	-	304	-	-	-	-	-	79	383
Public administration	-	-	5,785	890	168	-	5,625	11	147	12,626
Education	-	-	55	-	-	-	-	-	3	58
Health services	-	-	159	-	-	-	-	-	261	420
Art	-	-	225	-	-	-	-	-	95	320
Private households	-	-	16,547	-	-	-	-	-	789	17,336
Others	-	-	73	-	-	-	-	-	11	84
Total	**680**	**5,200**	**43,192**	**890**	**168**	**-**	**6,262**	**64**	**4,919**	**61,375**
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	1,140	5,723	1,522	-	-	-	501	45	90	9,021
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	**1,140**	**5,723**	**44,392**	**1,289**	**377**	**-**	**6,596**	**96**	**4,328**	**63,941**

34.4) 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 at 31 December 2015, compared with the credit risk exposure as at 31 December 2014

Credit risk exposure by risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Credit risk exposure December 2015	55,612	7,776	1,644	7,990	73,022
Share of credit risk exposure	76.16%	10.65%	2.25%	10.94%	-
Credit risk exposure December 2014	54,739	8,847	2,249	9,793	75,628
Share of credit risk exposure	72.38%	11.70%	2.97%	12.95%	-
Change in credit risk exposure from December 2014 to December 2015	873	(1,071)	(605)	(1,803)	(2,606)
Change in credit risk exposure in %	1.59%	(12.10%)	(26.89%)	(18.41%)	(3.45%)

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Credit risk exposure December 2015	47,265	5,957	1,225	6,928	61,375
Share of credit risk exposure	77.01%	9.71%	2.00%	11.29%	-
Credit risk exposure December 2014	46,356	7,112	1,872	8,601	63,941
Share of credit risk exposure	72.50%	11.12%	2.93%	13.45%	-
Change in credit risk exposure from December 2014 to December 2015	909	(1,155)	(647)	(1,673)	(2,566)
Change in credit risk exposure in %	1.96%	(16.24%)	(34.54%)	(19.45%)	(4.02%)

34.4) 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 at 31 December 2015 and 2014, 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 2015					
Agriculture, forestry	1,196	121	13	133	1,463
Mining	211	-	-	29	240
Manufacturing	3,017	331	187	920	4,455
Energy	276	25	1	2	304
Water supply	275	41	1	47	364
Construction	3,539	320	148	1,389	5,396
Trade	4,639	691	115	1,005	6,450
Transport	2,402	87	9	81	2,579
Hotels and restaurants	1,407	247	37	737	2,428
Communication	269	9	2	92	372
Financial and insurance services	8,288	389	2	3	8,682
Real estate	736	272	119	296	1,423
Professional activities	463	312	50	320	1,145
Administrative and support service activities	286	72	22	204	584
Public administration	13,968	141	-	-	14,109
Education	53	7	-	2	62
Health services	402	22	2	13	439
Art	235	33	9	77	354
Private households	13,893	4,648	916	2,624	22,081
Others	58	8	11	16	93
Total	**55,612**	**7,776**	**1,644**	**7,990**	**73,022**
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	9,128	171	1	3	9,303
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	**54,739**	**8,847**	**2,249**	**9,793**	**75,628**

34.4) 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 2015					
Agriculture, forestry	700	109	12	124	945
Mining	196	-	-	29	225
Manufacturing	2,690	270	179	847	3,986
Energy	232	2	1	2	237
Water supply	231	13	-	47	291
Construction	3,304	251	108	1,324	4,987
Trade	2,630	358	71	848	3,907
Transport	2,067	50	6	72	2,195
Hotels and restaurants	1,349	223	36	714	2,322
Communication	178	8	-	81	267
Financial and insurance services	7,988	376	2	2	8,368
Real estate	721	260	87	295	1,363
Professional activities	420	286	45	304	1,055
Administrative and support service activities	202	22	15	144	383
Public administration	12,621	5	-	-	12,626
Education	50	6	-	2	58
Health services	392	14	2	12	420
Art	207	29	8	76	320
Private households	11,033	3,669	644	1,990	17,336
Others	54	6	9	15	84
Total	**47,265**	**5,957**	**1,225**	**6,928**	**61,375**
31 December 2014					
Agriculture, forestry	565	138	38	179	920
Mining	187	-	8	41	236
Manufacturing	1,894	433	103	1124	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	8,851	165	2	3	9,021
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	**46,356**	**7,112**	**1,872**	**8,601**	**63,941**

34.4) Credit risk (continued)

Credit risk exposure by region and risk category

The following table presents the credit risk exposure of the Bank (Group) divided by region and risk category as at 31 December 2015 and 31 December 2014.

Credit risk exposure by region and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
31 December 2015					
Erste Group markets	**51,664**	**7,158**	**1,450**	**7,745**	**68,017**
Austria	1,106	5	0	0	1,111
Croatia	48,564	7,102	1,446	7,718	64,830
Serbia	89	19	-	19	127
Slovakia	1,002	0	-	-	1,002
Slovenia	898	32	4	8	942
Czech Republic	5	-	-	-	5
Other EU countries	**1,233**	**10**	**1**	**66**	**1,310**
Other developed countries	**281**	**10**	**0**	**36**	**327**
Emerging markets	**2,434**	**598**	**193**	**143**	**3,368**
Southeastern Europe/CIS	2,433	596	193	143	3,365
Asia	1	2	-	-	3
Total	**55,612**	**7,776**	**1,644**	**7,990**	**73,022**
31 December 2014					
Erste Group markets	**50,771**	**8,344**	**2,111**	**9,491**	**70,717**
Austria	2,023	2	-	-	2,025
Croatia	46,918	8,228	2,109	9,468	66,723
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 developed countries	**445**	**10**	**-**	**46**	**501**
Emerging markets	**2,566**	**484**	**136**	**197**	**3,383**
Southeastern Europe/CIS	2,566	484	136	197	3,383
Total	**54,739**	**8,847**	**2,249**	**9,793**	**75,628**

34.4) 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 2015					
Erste Group markets	**45,049**	**5,929**	**1,225**	**6,851**	**59,054**
Austria	1,057	2	-	-	1,059
Croatia	42,700	5,926	1,224	6,851	56,701
Serbia	90	-	-	-	90
Slovakia	1,002	-	-	-	1,002
Slovenia	200	1	1	-	202
Other EU countries	**1,202**	**10**	**-**	**66**	**1,278**
Other industrialised countries	**271**	**8**	**-**	**9**	**288**
Emerging markets	**743**	**10**	**-**	**2**	**755**
Southeastern Europe/CIS	742	8	-	2	752
Asia	1	2	-	-	3
Total	**47,265**	**5,957**	**1,225**	**6,928**	**61,375**
31 December 2014					
Erste Group markets	**44,241**	**7,090**	**1,868**	**8,509**	**61,708**
Austria	1,945	2	-	-	1,947
Croatia	41,085	7,025	1,867	8,509	58,486
Serbia	2	61	-	-	63
Slovakia	1,002	-	-	-	1,002
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	**46,356**	**7,112**	**1,872**	**8,601**	**63,941**

34.4) Credit risk (continued)

Credit risk exposure by business segment and risk category

The reporting segment of the Bank (Group) is based on the matrix organization by business segment and risk category. The following tables show the credit risk exposure of Bank (Group) broken down by reporting segments and risk category as at 31 December 2015 and 31 December 2014.

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 2015					
Retail	14,580	4,949	974	3,076	23,579
Small and Medium Enterprises	18,493	1,770	515	4,258	25,036
Large Corporates	7,127	448	64	302	7,941
Group Markets	1,209	387	-	-	1,596
Commercial Real Estate	239	78	90	339	746
Asset/Liability Management	13,915	140	-	-	14,055
Other	49	4	1	15	69
Total	**55,612**	**7,776**	**1,644**	**7,990**	**73,022**
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	16,088	53	-	-	16,141
Other	48	4	2	13	67
Total	**54,739**	**8,847**	**2,249**	**9,793**	**75,628**

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
31 December 2015					
Retail	11,617	3,900	692	2,418	18,627
Small and Medium Enterprises	15,860	1,273	378	3,876	21,387
Large Corporates	5,434	313	63	281	6,091
Group Markets	1,667	387	1	-	2,055
Commercial Real Estate	239	78	90	338	745
Asset/Liability Management	12,399	2	-	-	12,401
Other	49	4	1	15	69
Total	**47,265**	**5,957**	**1,225**	**6,928**	**61,375**
31 December 2014					
Retail	11,358	3,659	1,244	2,467	18,728
Small and Medium Enterprises	14,793	1,877	313	5,314	22,297
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	14,231	1	-	-	14,232
Other	48	4	2	13	67
Total	**46,356**	**7,112**	**1,872**	**8,601**	**63,941**

34.4) Credit risk (continued)

Credit risk exposure to sovereigns by region and financial instrument

The following tables show the credit risk exposure to sovereigns broken down by region and financial instrument as at 31 December 2015 and 31 December 2014, respectively. The assignment of obligors to sovereigns is based on Basel III exposure classes.

Credit risk exposure to sovereigns by region and financial instrument

										GROUP
				Debt instruments						
in HRK million	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 2015										
Erste Group markets	**-**	**3,921**	**9,805**	**1,041**	**168**	**-**	**5,609**	**-**	**340**	**20,884**
Austria	-	-	-	-	-	-	167	-	-	167
Croatia	-	3,921	9,805	1,041	168	-	4,226	-	340	19,501
Slovakia	-	-	-	-	-	-	1,002	-	-	1,002
Slovenia	-	-	-	-	-	-	198	-	-	198
Serbia	-	-	-	-	-	-	16	-	-	16
Other EU countries	**-**	**-**	**-**	**-**	**-**	**-**	**383**	**-**	**-**	**383**
Emerging markets	**-**	**-**	**346**	**392**	**-**	**-**	**366**	**-**	**113**	**1,217**
Southeastern Europe/CIS	-	-	346	392	-	-	366	-	113	1,217
Total	**-**	**3,921**	**10,151**	**1,433**	**168**	**-**	**6,358**	**-**	**453**	**22,484**
31 December 2014								-		
Erste Group markets	**-**	**4,533**	**9,773**	**1,396**	**377**	**-**	**5,957**	**-**	**117**	**22,153**
Austria	-	-	-	-	-	-	570	-	-	570
Croatia	-	4,533	9,773	1,396	377	-	4,163	-	117	20,359
Slovakia	-	-	-	-	-	-	1,003	-	-	1,003
Slovenia	-	-	-	-	-	-	205	-	-	205
Serbia	-	-	-	-	-	-	16	-	-	16
Other EU countries	**-**	**-**	**-**	**-**	**-**	**-**	**386**	**-**	**-**	**386**
Emerging markets	**-**	**-**	**431**	**61**	**-**	**-**	**563**	**-**	**70**	**1,125**
Southeastern Europe/CIS	-	-	431	61	-	-	563	-	70	1,125
Total	**-**	**4,533**	**10,204**	**1,457**	**377**	**-**	**6,906**	**-**	**187**	**23,664**

34.4) Credit risk (continued)

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

										BANK
				Debt instruments						
in HRK million	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 2015										
Erste Group markets	**-**	**3,921**	**9,133**	**890**	**168**	**-**	**5,350**	**-**	**340**	**19,802**
Austria	-	-	-	-	-	-	167	-	-	167
Croatia	-	3,921	9,133	890	168	-	3,983	-	340	18,435
Slovakia	-	-	-	-	-	-	1,002	-	-	1,002
Slovenia	-	-	-	-	-	-	198	-	-	198
Other EU countries	**-**	**-**	**-**	**-**	**-**	**-**	**383**	**-**	**-**	**383**
Emerging markets	**-**	**-**	**66**	**-**	**-**	**-**	**275**	**-**	**68**	**409**
Southeastern Europe/CIS	-	-	66	-	-	-	275	-	68	409
Total	**-**	**3,921**	**9,199**	**890**	**168**	**-**	**6,008**	**-**	**408**	**20,594**
31 December 2014										
Erste Group markets	**-**	**4,534**	**9,253**	**1,289**	**377**	**-**	**5,702**	**-**	**117**	**21,272**
Austria	-	-	-	-	-	-	570	-	-	570
Croatia	-	4,534	9,253	1,289	377	-	3,924	-	117	19,494
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	**-**	**4,534**	**9,370**	**1,289**	**377**	**-**	**6,363**	**-**	**117**	**22,050**

34.4) Credit risk (continued)

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 64.3% of the reported non-performing credit risk exposure as at 31 December 2015 and 68.0% 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 2015, the non-performing credit risk exposure in the Bank decreased by HRK 1.67 billion, from HRK 8.6 billion as at 31 December 2014. to HRK 6.9 billion as at 31 December 2015. During the same period, non-performing credit risk exposure in the Group decreased by HRK 1.80 billion from HRK 9.79 billion to below 8 billion as at 31 December 2015. In 2015, the definition of non-performing exposure was slightly changed in a way that non-performing forbearance was included into non-performing exposure even when a client does not meet criteria for default.

Credit risk allowances were decreased by HRK 486 million in the Group, from HRK 5.91 billion as at 31 December 2014 to HRK 5.43 billion as at 31 December 2015. The decrease of credit risk allowances in the Bank during 2015 was 396 million from HRK 4.85 billion as at 31 December 2014 to 4.45 billion as at 31 December 2015. The higher decrease of non performing credit risk exposure than credit risk allowances resulted with increase of the coverage of the non-performing credit risk exposure by credit risk allowances by 7.5 pp in the Group: from 60.4% up to 68.0%, and in the Bank by 7.9 pp from 56.4% to 64.3%.

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 at 31 December 2015 and 31 December 2014, 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 2015					
Retail	3,076	23,579	2,192	13%	71%
Small and Medium Enterprises	4,258	25,036	2,730	17%	64%
Large Corporates	302	7,941	253	4%	84%
Group Markets	-	1,596	4	-	-
Commercial Real Estate	339	746	224	45%	66%
Asset/Liability Management	-	14,055	12	-	-
Other	15	69	16	22%	99%
Total	**7,990**	**73,022**	**5,431**	**11%**	**68%**
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	-	16,141	4	-	-
Other	13	67	8	19%	62%
Total	**9,793**	**75,628**	**5,915**	**13%**	**60%**

34.4) Credit risk (continued)

Non-performing credit risk exposure by business segment and credit risk allowances (continued)

					BANK
	Credit risk exposure				
in HRK million	Non-performing	Credit risk exposure	Risk provisions	NPE ratio	NPE coverage ratio
31 December 2015					
Retail	2,418	18,627	1,611	13%	67%
Small and Medium Enterprises	3,876	21,387	2,390	18%	62%
Large Corporates	281	6,091	206	5%	73%
Group Markets	-	2,055	4	-	-
Commercial Real Estate	338	745	224	45%	66%
Asset/Liability Management	-	12,401	2	-	-
Other	15	69	15	22%	99%
Total	**6,928**	**61,375**	**4,452**	**11%**	**64%**
31 December 2014					
Retail	2,467	18,728	1,588	13%	64%
Small and Medium Enterprises	5,314	22,297	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	-	14,232	4	-	-
Other	13	67	8	19%	62%
Total	**8,601**	**63,941**	**4,849**	**13%**	**56%**

34.4) 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.

Collective allowances 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 at 31 December 2015 and 31 December 2014, respectively.

	GROUP		BANK	
In HRK million	**2015**	**2014**	**2015**	**2014**
Specific allowances	4,844	5,396	3,999	4,438
Collective allowances	471	441	363	350
Provision for guarantees	116	78	90	61
Total	**5,431**	**5,915**	**4,452**	**4,849**

34.4) 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.

34.4) Credit risk (continued)

In the table below, comparison of forbearance and credit risk exposure and allowances is given for the Bank and the Group for 31 December 2014 and 31 December 2015. In this table, total credit risk exposure does not include *Other demand deposits*, *Trading assets* and *Positive fair value of derivative financial instruments* since there is no forbearance in those positions.

Forbearance comparison with total credit risk exposure and allowances

				GROUP
in HRK million	Loans and advances excl. HfT	Debt Instruments excl. HfT	Loan commitments	Total
31st December 2015				
Gross exposure	56,915	7,930	7,186	**72,031**
thereof gross forborne exposure	2,237	-	1	**2,238**
Performing exposure	49,035	7,925	7,081	**64,041**
thereof performing forborne exposure	732	-	-	**732**
Allowances/provisions for performing exposure	458	-	41	**499**
thereof allowances/provisions for performing forborne exposure	36	-	-	**36**
Non-performing exposure	7,880	5	105	**7,990**
thereof non-performing forborne exposure	1,506	-	-	**1,506**
Allowances/provisions for non-performing exposure	4,856	7	5	**4,868**
thereof allowances/provisions for non-performing forborne exposure	572	-	-	**572**
31st December 2014				
Gross exposure	58,742	8,481	6,589	**73,812**
thereof gross forborne exposure	2,086	-	1	**2,087**
Performing exposure	49,078	8,476	6,465	**64,019**
thereof performing forborne exposure	838	-	1	**839**
Allowances/provisions for performing exposure	439	1	28	**468**
thereof allowances/provisions for performing forborne exposure	38	-	-	**38**
Non-performing exposure	9,664	5	124	**9,793**
thereof non-performing forborne exposure	1,249	-	-	**1,249**
Allowances/provisions for non-performing exposure	5,398	6	4	**5,408**
thereof allowances/provisions for non-performing forborne exposure	396	-	-	**396**

34.4) Credit risk (continued)

				BANK
in HRK million	Loans and advances excl. HfT	Debt Instruments excl. HfT	Loan commitments	Total
31st December 2015				
Gross exposure	48,392	7,152	4,919	**60,463**
thereof gross forborne exposure	2,150	-	1	**2,151**
Performing exposure	41,537	7,147	4,851	**53,535**
thereof performing forborne exposure	722	-	-	**722**
Allowances/provisions for performing exposure	350	-	34	**384**
thereof allowances/provisions for performing forborne exposure	36	-	-	**36**
Non-performing exposure	6,855	5	68	**6,928**
thereof non-performing forborne exposure	1,428	-	-	**1,428**
Allowances/provisions for non-performing exposure	4,012	7	-	**4,019**
thereof allowances/provisions for non-performing forborne exposure	510	-	-	**510**
31st December 2014				
Gross exposure	50,115	7,885	4,328	**62,328**
thereof gross forborne exposure	1,974	-	1	**1,975**
Performing exposure	41,610	7,880	4,237	**53,727**
thereof performing forborne exposure	802	-	1	**803**
Allowances/provisions for performing exposure	348	1	22	**371**
thereof allowances/provisions for performing forborne exposure	37	-	-	**37**
Non-performing exposure	8,505	5	91	**8,601**
thereof non-performing forborne exposure	1,172	-	-	**1,172**
Allowances/provisions for non-performing exposure	4,439	6	1	**4,446**
thereof allowances/provisions for non-performing forborne exposure	337	-	-	**337**

Collateral

Recognition of collateral

The Collateral Management unit is a staff unit within the Collection and Work-out Division. 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 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.

34.4) 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 does 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.

The following tables compare the credit risk exposure broken down by business and geographical segments as at 31 December 2015 and 31 December 2014 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 2015						
Retail	23,579	8,405	11	6,945	1,449	15,174
Small and Medium Enterprises	25,036	10,891	1,678	6,852	2,361	14,145
Large Corporates	7,941	4,599	4,000	496	103	3,342
Group Markets	1,596	561	-	-	561	1,035
Commercial Real Estate	746	403	-	366	37	343
Asset/Liability Management	14,055	120	97	21	2	13,935
Other	69	-	-	-	-	69
Total	**73,022**	**24,979**	**5,786**	**14,680**	**4,513**	**48,043**
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	16,141	39	-	33	6	16,102
Other	67	-	-	-	-	67
Total	**75,628**	**24,632**	**5,655**	**17,010**	**1,967**	**50,996**

34.4) Credit risk (continued)

Credit risk exposure by business segment and collateral (continued)

BANK

in HRK million	Credit risk exposure	Collateral total	Collateral and other credit risk mitigation: Guarantees	Real estate	Other	Credit risk exposure net of collateral
31 December 2015						
Retail	18,627	7,736	12	6,453	1,271	10,891
Small and Medium Enterprises	21,387	9,621	1,667	6,297	1,657	11,766
Large Corporates	6,091	4,599	3,999	496	104	1,492
Group Markets	2,055	561	-	-	561	1,494
Commercial Real Estate	745	403	-	367	36	342
Asset/Liability Management	12,401	-	-	-	-	12,401
Other	69	-	-	-	-	69
Total	**61,375**	**22,920**	**5,678**	**13,613**	**3,629**	**38,455**
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	14,232	-	-	-	-	14,232
Other	67	-	-	-	-	67
Total	**63,942**	**23,440**	**5,612**	**16,013**	**1,815**	**40,502**

The following table shows the credit risk exposure that was past due but for which specific allowances had not been established as at 31 December 2015 and 31 December 2014 respectively.

Credit risk exposure past due and not covered by specific allowances by 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 2015												
Total	**3,854**	**2,724**	**906**	**197**	**18**	**9**	**1,582**	**950**	**510**	**112**	**10**	**-**
31 December 2014												
Total	**5,028**	**3,327**	**1,238**	**286**	**52**	**125**	**2,568**	**1,761**	**642**	**149**	**15**	**1**

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 2015												
Total	**2,430**	**1,681**	**603**	**119**	**18**	**9**	**1,220**	**719**	**399**	**92**	**10**	**-**
31 December 2014												
Total	**3,465**	**2,316**	**914**	**202**	**26**	**7**	**2,370**	**1,629**	**596**	**133**	**12**	**-**

34.4) Credit risk (continued)

Loans to and receivables from customers

The following table shows loans to and receivables from customers divided by business segments and currency as at 31 December 2015 and 31 December 2014 respectively.

Loans to and receivables from customers by business segment and currency

						GROUP
in HRK million	EUR	HRK	CHF	USD	Other currencies	Loans to customers
31 December 2015						
Retail	9,541	8,576	3,351	7	-	21,475
Small and Medium Enterprises	16,878	3,276	494	529	40	21,217
Large Corporates	6,470	497	-	-	-	6,967
Group Markets	45	619	-	61	-	725
Commercial Real Estate	584	-	70	-	-	654
Asset/Liability Management	280	122	-	-	-	402
Other	7	18	-	6	-	31
Total	**33,805**	**13,108**	**3,915**	**603**	**40**	**51,471**
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**

						BANK
in HRK million	EUR	HRK	CHF	USD	Other currencies	Loans to customers
31 December 2015						
Retail	8,054	6,327	3,347	7	-	17,735
Small and Medium Enterprises	14,632	2,669	484	529	40	18,354
Large Corporates	4,787	329	-	-	-	5,116
Group Markets	45	1,075	-	61	-	1,181
Commercial Real Estate	583	-	70	-	-	653
Asset/Liability Management	-	122	-	-	-	122
Other	7	18	-	6	-	31
Total	**28,108**	**10,540**	**3,901**	**603**	**40**	**43,192**
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**

34.5) 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. Market risk is divided into interest rate risk, currency risk and equity risk. This concerns both trading and banking book positions.

Methods and instruments employed

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 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. 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 9/11 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 Bank is using the standardized model.

Methods and instruments of risk mitigation

The Bank manages market risks 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 all the way down to the individual traders. 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.

34.5) Market risk (continued)

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 and 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 at 31 December 2015 and 31 December 2014 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 2015

in HRK thousands	Total	Interest	Currency	Shares	Commodity	Volatility
Banking book	2,922	2,523	1,744	-	-	-
Fixed Income AFS	17,317	17,327	-	227	-	-
Fixed Income Investment	2,293	2,293	-	-	-	-
Trading book	1,963	422	1,916	-	-	-

Value at Risk of banking book and trading book 2014

n HRK thousands	Total	Interest	Currency	Shares	Commodity	Volatility
Banking book	1,527	1,528	1	-	-	-
Fixed Income AFS	9,602	9,658	-	267	-	-
Fixed Income Investment	1,208	1,208	-	-	-	-
Trading book	1,048	102	1,049	185	-	-

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.

34.5) Market risk (continued)

The following tables list the open fixed-income positions held by the Bank in the four currencies that carry an interest rate risk – EUR, HRK, USD and CHF – as at 31 December 2015 and 31 December 2014

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 2015

in HRK million	1(3) years	3(5) years	5(7) years	7(10) years	Over 10 years
Fixed-interest gap in HRK positions	1,040	839	324	120	(12)
Fixed-interest gap in EUR positions	(648)	664	417	(52)	(78)
Fixed-interest gap in CHF positions	288	298	294	387	1,172
Fixed-interest gap in USD positions	133	71	(1)	(7)	-

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

in HRK million	1(3) years	3(5) years	5(7) years	7(10) years	Over 10 years
Fixed-interest gap in HRK positions	1,119	508	627	333	(21)
Fixed-interest gap in EUR positions	(2,001)	1,599	229	223	(48)
Fixed-interest gap in CHF positions	302	309	303	401	1,280
Fixed-interest gap in USD positions	158	67	(1)	(7)	-

Exchange rate risk

The Bank is exposed to several types of risks related to exchange rates. These concern risks from open foreign exchange positions and others.

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 Bank per year end 2015 as at 31 December 2015 and 31 December 2014 respectively.

Open exchange rate positions

in HRK thousands	2015	2014
Euro (EUR)	(6,384)	5,133
Bosnia and Herzegovina convertible mark (BAM)	(5,512)	(5,483)
Swiss franc (CHF)	3,599	(3,972)
Swedish krona (SEK)	2,197	774
Australian dollar (AUD)	1,553	950
Canadian dollar (CAD)	1,283	321
Norwegian krone (NOK)	1,180	233
US dollar (USD)	945	(12)

34.6) Liquidity risk

Definition and overview

The liquidity risk is defined in the Bank in line with the principles set out by the Basel Committee on Banking Supervision and the 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 Bank 2015 liquidity strategy was implemented successfully.

The Bank continues 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.

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.

34.6) Liquidity risk (continued)

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 at 31 December 2015 and 31 December 2014.

								BANK
	< 1 month		1(12) months		1(5) years		> 5 years	
in HRK million	2015	2014	2015	2014	2015	2014	2015	2014
Liquidity GAP	7,151	8,167	(12,963)	(16,215)	3,580	4,275	2,800	(4,345)

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.

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 2015 and year end 2014 are shown in the tables below:

Term structure of counterbalancing capacity 2015

in HRK million	< 1 week	1 week(1) month	1(3) months	3(6) months	6(12) months
Cash, excess reserve	1,602	-	-	-	-
Liquid assets	5,719	(117)	(238)	(293)	(121)
Counterbalancing capacity	**7,321**	**(117)**	**(238)**	**(293)**	**(121)**

Term structure of counterbalancing capacity 2014

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)**

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.

34.6) Liquidity risk (continued)

Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as at 31 December 2015 and 31 December 2014 respectively, were as follows:

Financial liabilities 2015

GROUP

in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**59,234**	**61,019**	**19,423**	**21,744**	**16,150**	**3,702**
Deposits by banks	15,101	15,881	1,435	3,447	9,849	1,150
Customer deposits	42,129	42,789	17,964	18,297	5,190	1,338
Debt securities in issue	302	364	2	-	362	-
Subordinated liabilities	1,702	1,985	22	-	749	1,214
Derivative liabilities	**103**	**103**	**77**	**13**	**12**	**1**
Contingent liabilities	**7,186**	**7,186**	**832**	**4,572**	**1,534**	**248**
Financial guarantees	2,631	2,631	211	1,598	690	132
Irrevocable commitments	4,555	4,555	621	2,974	844	116
Total	**66,523**	**68,308**	**20,332**	**26,329**	**17,696**	**3,951**

BANK

in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**51,220**	**52,766**	**17,683**	**17,776**	**14,177**	**3,130**
Deposits by banks	9,508	10,082	931	197	8,308	646
Customer deposits	39,708	40,335	16,728	17,579	4,758	1,270
Debt securities in issue	302	364	2	-	362	-
Subordinated liabilities	1,702	1,985	22	-	749	1,214
Derivative liabilities	**103**	**103**	**77**	**13**	**12**	**1**
Contingent liabilities	**4,919**	**4,919**	**284**	**3,079**	**1,335**	**221**
Financial guarantees	2,194	2,194	194	1,345	550	105
Irrevocable commitments	2,725	2,725	90	1,734	785	116
Total	**56,242**	**57,788**	**18,044**	**20,868**	**15,524**	**3,352**

34.6) Liquidity risk (continued)

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[1]	**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[1]	**56,745**	**59,024**	**15,353**	**23,730**	**12,050**	**7,891**

34.7) Operational risk

Definition and overview

In line with Section 2, (57) (d) of the Austrian Banking Act, 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 ESB 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 2014, the Bank received approval to use insurance contracts for mitigation within the AMA pursuant to Section 22l of the Austrian Banking Act.

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 2015.

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.

34.7) Operational risk (continued)

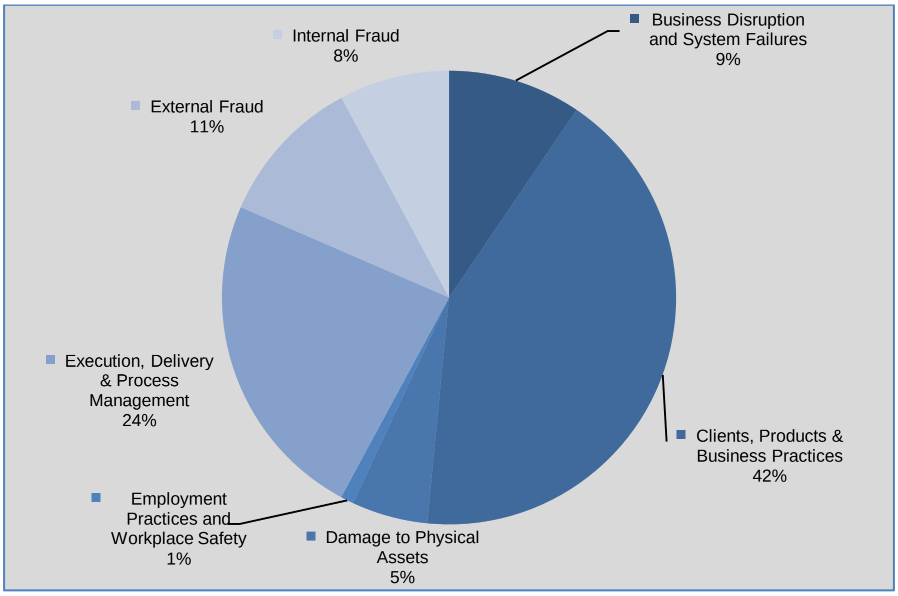
Clients, products and business practices:
Losses arising from unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) or from the nature or design of a product.

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 2015



35. Fair value of assets and liabilities

Fair values of financial instruments

All financial instruments are measured at fair value on recurring basis.

Financial instruments measured at fair value in the statement of financial position

The measurement of fair value at the Group is 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 uses 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. In 2015, as a consequence of the negative interest environment, valuation models of interest rate options for the respective currencies were adjusted. Log-normal valuation models were replaced by standard market models which are based on a shifted log-normal distribution or a standard distribution. For such models negative interest rates are no restriction.

Securities

For plain vanilla (fixed and floating) debt securities the fair value is calculated by discounting the future cash-flows using a discounting curve depending on the interest rate for the respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instruments. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option-like features such as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash-flow models and more sophisticated modelling techniques including methods described for OTC-derivatives.

OTC-derivative financial instruments

Derivative instruments traded in liquid markets are valued by standard valuation models.

The Group 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.

According to the described methodology the cumulative CVA-adjustments amounts to HRK 914 thousands as at 31 December 2015 (31 December 2014: HRK 1,447 thousands) and the total DVA-adjustment amounts to HRK 176 thousands (31 December 2014: HRK 620 thousands).

35. Fair value of assets and liabilities (continued)

Validation and control

The responsibility for valuation of a position of measured at fair value is independent from trading units. Additionally the Group has 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

Financial assets and financial liabilities measured at fair value are categorized under the three levels of the IFRS fair value hierarchy.

Level 1 of the fair value hierarchy

The fair value of financial instruments assigned to level 1 of the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets and liabilities. More particular, the evaluated fair value can qualify as a level 1 input if transactions occur with sufficient frequency, volume and pricing consistency on an ongoing basis.

These include shares, government bonds as well as other bonds and funds, which are traded in highly liquid and active markets.

Level 2 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.

These include OTC derivatives, less liquid shares, bonds and funds and own issues.

Level 3 of the fair value hierarchy

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 probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters.

These include shares and funds not quoted, illiquid bonds.

35. Fair value of assets and liabilities (continued)

The table below shows details of the classification of financial instruments carried at 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	2014	2015	2014	2015	2014	2015	2014	2015
ASSETS								
Financial assets - held for trading	6	159	469	74	-	-	475	233
Derivatives	-	-	94	61	-	-	94	61
Other trading assets	6	159	375	13	-	-	381	172
Financial assets - available for sale	5,766	6,557	1,479	163	8	83	7,253	6,803
Total assets	**5,772**	**6,716**	**1,948**	**237**	**8**	**83**	**7,728**	**7,036**
LIABILITIES								
Financial liabilities held for trading	-	-	94	103	-	-	94	103
Derivatives	-	-	94	103	-	-	94	103
Other trading liabilities	-	-	-	-	-	-	-	-
Total liabilities	**-**	**-**	**94**	**103**	**-**	**-**	**94**	**103**

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	2014	2015	2014	2015	2014	2015	2014	2015
ASSETS								
Financial assets - held for trading	6	155	472	77	-	-	478	232
Derivatives	-	-	97	64	-	-	97	64
Other trading assets	6	155	375	13	-	-	381	168
Financial assets - available for sale	5,298	6,082	1,369	263	5	79	6,672	6,424
Total assets	**5,304**	**6,237**	**1,841**	**340**	**5**	**79**	**7,150**	**6,656**
LIABILITIES								
Financial liabilities held for trading	-	-	94	103	-	-	94	103
Derivatives	-	-	94	103	-	-	94	103
Other trading liabilities	-	-	-	-	-	-	-	-
Total liabilities	**-**	**-**	**94**	**103**	**-**	**-**	**94**	**103**

35. Fair value of assets and liabilities (continued)

Valuation process for financial instruments categorised as 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.

Transfer of Level 1 and Level 2

This tables shows the tranfer of Level 1 and Level 2 of financial instruments measured at fair value in the statement of financial position.

				GROUP
		2014		2015
In HRK million	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Securities				
Net transfer from Level 1	-	(136)	-	(30)
Net transfer from Level 2	136	-	30	-
Net transfer from Level 3	-	(2)	-	-
Purchases/sales/expiries	1,241	60	(171)	(1,420)
Total year-to-date change	**1,377**	**(78)**	**(141)**	**(1,450)**

				BANK
		2014		2015
In HRK million	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Securities				
Net transfer from Level 1	-	(136)	-	(45)
Net transfer from Level 2	136	-	45	-
Net transfer from Level 3	-	(1)	-	-
Purchases/sales/expiries	984	55	(131)	(1,420)
Total year-to-date change	**1,120**	**(82)**	**(86)**	**(1,465)**

35. Fair value of assets and liabilities (continued)

Movements in Level 3 of financial instruments carried at fair value

The following tables show the development of fair value of financial instruments for which valuation models are based on non-observable inputs:

in HRK million		Gain/loss in profit or loss	Gain/loss in other comprehensive income	Transfers into Level 3	Transfers out of Level 3	
						GROUP
	31 December 2014					**31 December 2015**
Assets						
Financial assets - available for sale	8	-	75	-	-	83
Total assets	**8**	**-**	**75**	**-**	**-**	**83**
	31 December 2013					**31 December 2014**
Assets						
Financial assets – available for sale	8	-	-	-	-	8
Total assets	**8**	**-**	**-**	**-**	**-**	**8**

in HRK million		Gain/loss in profit or loss	Gain/loss in other comprehensive income	Transfers into Level 3	Transfers out of Level 3	
						BANK
	31 December 2014					**31 December 2015**
Assets						
Financial assets – available for sale	5	-	74	-	-	79
Total assets	**5**	**-**	**74**	**-**	**-**	**79**
	31 December 2013					**31 December 2014**
Assets						
Financial assets – available for sale	5	-	-	-	-	5
Total assets	**5**	**-**	**-**	**-**	**-**	**5**

The increase of Level 3 Market Values in the category Financial assets – available for sale is based on the fair value valuation of the VISA Europe participation as at 31 December 2015. The revaluation of the participation was necessary due to a purchase offer posted by VISA Inc. The proposed offer is a combination of an initial cash payment combined with preferred shares of VISA Inc. and a potential earn out payment in 2020. All these elements have been considered in the determination of the fair value. As significant input parameters for the fair value determination could not be derived from external observable parameters it was necessary to include assumptions and estimations in the determination of the fair value. In total this revaluation led to an increase within the category Financial Assets Available for Sale amounting to HRK 74 million.

35. Fair value of assets and liabilities (continued)

Financial instruments not measured at fair value

The following table shows fair values and fair value hierarchy of financial instruments not measured at fair value for the year end 2015 and 2014

					GROUP
2015	**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	5,299	5,299			
Financial assets - held to maturity	1,432	1,458	1,187	266	5
Loans to and receivables from credit institutions	5,441	5,457		-	5,457
Loans to and receivables from customers	46,159	48,340		-	48,340
LIABILITIES					
Financial liabilities measured at amortised costs	59,234	59,272	629	312	58,331
Deposits from banks	16,174	15,990		-	15,990
Deposits from customers	41,445	41,657		-	41,657
Debt securities issued	931	941	629	312	-
Other financial liabilities	684	684	-	-	684
FINANCIAL GUARANTEES AND COMMETMENTS					
Financial guarantees	2,632	2,632	-	-	2,632
Irrevocable commitments	4,631	4,631	-	-	4,631

					GROUP
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	4,674	4,674			
Financial assets - held to maturity	1,456	1,459	946	513	-
Loans to and receivables from credit institutions	6,194	6,244		-	6,244
Loans to and receivables from customers	46,711	47,088		-	47,088
LIABILITIES					
Financial liabilities measured at amortised costs	60,915	60,039	528	302	59,209
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

35. Fair value of assets and liabilities (continued)

2015	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
					BANK
in HRK million					
ASSETS					
Cash and cash balances	4,847	4,847			
Financial assets - held to maturity	889	916	911	-	5
Loans to and receivables from credit institutions	5,197	5,213		-	5,213
Loans to and receivables from customers	38,833	40,668		-	40,668
LIABILITIES					
Financial liabilities measured at amortised costs	51,220	51,313	629	312	50,372
Deposits from banks	10,581	10,461		-	10,461
Deposits from customers	39,654	39,857		-	39,857
Debt securities issued	931	941	629	312	-
Other financial liabilities	54	54	-	-	54
FINANCIAL GUARANTEES AND COMMETMENTS					
Financial guarantees	2,194	2,194	-	-	2,194
Irrevocable commitments	2,725	2,725	-	-	2,725

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
					BANK
in HRK million					
ASSETS					
Cash and cash balances	4,035	4,035			
Financial assets - held to maturity	1,288	1,291	885	406	-
Loans to and receivables from credit institutions	5,720	5,767		-	5,767
Loans to and receivables from customers	39,607	39,927		-	39,927
LIABILITIES					
Financial liabilities measured at amortised costs	52,323	51,573	528	302	50,743
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

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 PDs and LGDs 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 2015 and 2014:

					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					
2015					
Investment property	20	22	-	-	22
2014					
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					
2015					
Investment property	18	20	-	-	20
2014					
Investment property	19	27	-	-	27

For non-financial asset owned by the Group the valuations are carried out using the comparative and investment methods. Assessment is made on basis of a comparison and analysis of appropriate comparable investment and rental transactions, together with evidence of demand within the vicinity of the relevant property. The characteristics of such similar transactions are then applied to the asset, taking into account size, location, terms, covenant and other material factors. Such measurements are presented in Level 3 of the fair value hierarchy.

36. Financial instruments per category according to IAS 39

GROUP

	As at 31 December 2015								
	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 ease accor-ding to IAS 17	Total
ASSETS									
Cash and cash equivalents	4,112	-	-	-	-	-	1,187	-	5,299
Loans to and receivables from credit institutions	5,441	-	-	-	-	-	-	-	5,441
Loans to and receivables from customers	45,015	-	-	-	-	-	-	1,144	46,159
Financial assets - held for trading	-	-	233	-	-	-	-	-	233
Financial assets - available for sale	-	-	-	-	6,824	-	-	-	6,824
Financial assets - held to maturity	-	1,432	-	-	-	-	-	-	1,432
Total financial assets	**54,568**	**1,432**	**233**	**-**	**6,824**	**-**	**1,187**	**1,144**	**65,388**
Net gains / losses recognized through profit or loss[1]	1,274	-	194	-	3	-	-	-	1,471
Net gains / losses recognized through OCI	-	-	-	-	(32)	-	-	-	(32)
LIABILITIES				**-**					
Financial liabilities - held for trading	-	-	(103)	-	-	-	-	-	(103)
Financial liabilities measured at amortized cost	-	-	-	-	-	(59,234)	-	-	(59,234)
Total financial liabilities	**-**	**-**	**(103)**	**-**	**-**	**(59,234)**	**-**	**-**	**(59,337)**

GROUP

	As at 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 ease accor-ding to IAS 17	Total
ASSETS									
Cash and cash equivalents	3,643	-	-	-	-	-	1,031	-	4,674
Loans to and receivables from institutions	6,194	-	-	-	-	-	-	-	6,194
Loans to and receivables from 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)**

[1]Including impairments

36. Financial instruments per category according to IAS 39 (continued)

									BANK
	As at 31 December 2015								
	Category of financial instruments								
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 ease accor-ding to IAS 17	Total
ASSETS									
Cash and cash equivalents	3,754	-	-	-	-	-	1,093	-	4,847
Loans to and receivables from credit institutions	5,197	-	-	-	-	-	-	-	5,197
Loans to and receivables from customers	38,833	-	-	-	-	-	-	-	38,833
Financial assets- held for trading	-	-	232	-	-	-	-	-	232
Financial assets - available for sale	-	-	-	-	6,445	-	-	-	6,445
Financial assets - held to maturity	-	889	-	-	-	-	-	-	889
Total financial assets	**47,784**	**889**	**232**	**-**	**6,445**	**-**	**1,093**	**-**	**56,443**
Net gains / losses recognized through profit or loss[1]	1,248	-	191	-	1	-	-	-	1,440
Net gains / losses recognized through OCI	-	-	-	-	(33)	-	-	-	(33)
LIABILITIES									
Financial liabilities - held for trading	-	-	(103)	-	-	-	-	-	(103)
Financial liabilities measured at amortized cost	-	-		-	-	(51,220)	-	-	(51,220)
Total financial liabilities	**-**	**-**	**(103)**	**-**	**-**	**(51,220)**	**-**	**-**	**(51,323)**

									BANK
	As at 31 December 2014								
	Category of financial instruments								
in HRK million	Loans and receivables	Held to maturity	Trading	Designated at fair value	Available for sale	Financial lia-bilities at amor-tised cost	Other financial assets	Finance lease according to IAS 17	Total
ASSETS									
Cash and cash equivalents	3,086	-	-	-	-	-	949	-	4,035
Loans to and receivables from credit institutions	5,720	-	-	-	-	-	-	-	5,720
Loans to and receivables from 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)**

[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 2015 and 2014:

	GROUP		BANK	
in HRK million	2014	2015	2014	2015
Audit fees	3	4	2	2
Total	**3**	**4**	**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 statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank (see Note 34.4 Credit risk).

39. Analysis of remaining maturities

Expected cash flows are broken down by contractual maturities in accordance with the amortization schedule and arranged in maturity ranges less than 1 year and more than 1 year. The following table shows the contractual maturities as at 31 December 2015 and 31 December 2014.

				GROUP
in HRK million		2014		2015
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and cash equivalents	4,674	-	5,299	-
Financial assets - held for trading	462	14	216	17
Available-for-sale financial assets	3,353	3,920	1,801	5,023
Loans and receivables	22,616	30,289	22,000	29,600
Held-to-maturity investments	568	888	227	1,205
Property, plant and equipment	-	1,314	-	1,221
Investment properties	-	20	-	20
Intangible assets	-	729	-	409
Investments in associates	-	58	-	61
Tax assets	295	-	100	415
Other assets	67	494	74	543
TOTAL ASSETS	**32,035**	**37,726**	**29,717**	**38,514**
Financial liabilities - held for trading	82	12	90	13
Financial liabilities measured at amortised cost	38,756	22,159	39,771	19,463
Provisions	8	176	9	127
Commitments and guarantees given	53	26	83	33
Other provisions	-	1	917	-
Tax liabilities	9	2	5	1
Other liabilities	535	1	608	-
TOTAL LIABILITIES	**39,443**	**22,377**	**41,483**	**19,637**

39. Analysis of remaining maturities (continued)

BANK

in HRK million	2014 < 1 year	2014 > 1 year	2015 < 1 year	2015 > 1 year
Cash and cash equivalents	4,035	-	4,847	-
Financial assets- held for trading	462	16	216	16
Available-for-sale financial assets	2,667	4,026	1,905	4,540
Loans and receivables	17,085	28,242	16,814	27,216
Held-to-maturity investments	405	883	5	884
Property, plant and equipment	-	338	-	545
Investment properties	-	19	-	18
Intangible assets	-	48	-	72
Investments in subsidiaries and associates	-	1,355	-	1,021
Tax assets	104	-	84	241
Other assets	30	465	36	535
TOTAL ASSETS	**24,788**	**35,392**	**23,907**	**35,088**
Financial liabilities- held for trading	83	11	90	13
Financial liabilities measured at amortised cost	35,161	17,162	35,154	16,066
Provisions	-	152	917	104
Commitments and guarantees given	47	14	60	30
Other liabilities	360	-	425	-
TOTAL LIABILITIES	**35,651**	**17,339**	**36,646**	**16,213**

40. Country-by-country reporting

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**

Country	Operating income	Pre-tax result from continuing operations	Taxes on income	Employees
				2015
Croatia	2,925	(993)	169	2,540
Bosnia and Herzegovina	-	-	-	-
Montenegro	171	59	(5)	251
Slovenia	40	1	-	60
Total	**3,136**	**(933)**	**164**	**2,851**

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.

Own funds according to CRR consist of Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2). In order to determine the capital ratios, each respective capital component - after application of all regulatory deductions and filters - is considered in relation to the total risk.

The minimum capital ratios amount to 4.5% for CET1, 6% for Tier 1 capital (sum from CET1 and AT1) and 8% for total own funds.

In addition to minimum capital ratios, institutions also have to fulfil additional capital requirements determined in the Supervisory Review and Evaluation Process (SREP) and capital buffer requirements.

Capital buffer requirements are set out in section VII of the Credit institutions Act. Capital conservation buffer, countercyclical buffer, Globally Systemic Important Institutions buffer, Other Systemic Important Institutions and Systemic risk buffer are further specified in Credit Institutions Act section VII. All capital buffers have to be met entirely with CET1 capital.

The Group shall be required, according to Decision on the application of the structural systemic risk buffer (Narodne novine no. 61/2014), to maintain a structural systemic risk buffer of CET1 capital in the amount and in the manner set by the Croatian National Bank.
The level of the structural systemic risk buffer rate shall be determined depending on the nature, scope and complexity of activities of a credit institution, directly depending on relative size, relative risk exposure and dispersion by sectors and geographical areas of credit institution's activity, and indirectly as the share of assets of an individual credit institution in total assets of all credit institutions in Republic of Croatia. If the share is equal or exceeds 5%, credit institution shall apply a structural systemic risk buffer rate of 3%, and if the share is less than 5% credit institution shall apply a structural systemic risk buffer rate of 1.5%The Group should apply structural systemic risk buffer rate of 3%.

According to the article 117 of the Credit Institutions Act, the Group has to establish a capital conservation buffer in the amount of 2.5%.

Countercyclical capital buffer is regulated According to section VII.2 of the Credit Institutions Act and in accordance with Article 92, point 3 CRR 575/2013. For the Republic of Croatia rates are as follows:

- For the period from 1 January 2016 until 31 March 2016 is 0 %;
- For the period from 31 March 2016 until 30 June 2016 is 0%;
- For the period from 30 June 2016 until 30 September 2016 is 0%;
- For the period from 30 September 2016 until 31 December 2016 is 0%;
- For the period from 1 January 2017 until 31 March 2017 is 0 %.

The Group is not subject to a G-SII or O-SII buffer as at 31 December 2015.

41. Own funds and capital requirements (continued)

Capital structure according to the EU directive 575/2013 (CRR)

in HRK million	Article pursuant to CRR	GROUP 2014	GROUP 2015 unaudited	BANK 2014	BANK 2015 unaudited
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	3,499	3,500	3,500
Own CET1 instruments	36 (1) (f), 42	3,500	3,499	3,500	3,500
Retained earnings	26 (1) (c), 26 (2)	3,783	3,817	3,289	3,289
Interim loss	36 (1) (a)	-	(819)	-	(1,012)
Accumulated other comprehensive income	4 (100), 26 (1) (d)	269	294	239	266
Other reserves		85	85	85	85
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	33 (1) (b)	(1)	-	(1)	-
Value adjustments due to the requirements for prudent valuation	34, 105	(8)	(7)	(7)	(7)
Regulatory adjustments relating to unrealised gains and losses	467, 468	(344)	(387)	(309)	(350)
Goodwill	4 (113), 36 (1) (b), 37	(603)	(269)	-	-
Other intangible assets	4 (115), 36 (1) (b), 37 (a)	-	(140)	(48)	(72)
Deferred tax assets dependent upon future profitability and not temporary differences net of associated tax liabilities	36 (1) (c), 38	(127)	(145)	-	(144)
IRB shortfall of credit risk adjustments to expected losses	36 (1) (d), 40, 158, 159	(20)	-	(32)	-
Common equity tier 1 capital (CET1)	**50**	**6,534**	**5,928**	**6,716**	**5,555**
Tier 2 capital (T2)					
Capital instruments and subordinated loans eligible as T2 capital	**62 (a), 63 to 65, 66 (a), 67**	**1,038**	**1,258**	**1,038**	**1,258**
Own T2 instruments	**63 (b) (i), 66 (a), 67**	**1,038**	**1,258**	**1,038**	**1,258**
IRB excess of provisions over expected losses eligible	**62 (d)**	**55**	**165**	**55**	**177**
Tier 2 capital (T2)	**71**	**1,093**	**1,423**	**1,093**	**1,435**
Total own funds		**7,627**	**7,351**	**7,809**	**6,990**
Capital requirement	**92 (3), 95, 96, 98**	**2,099**	**3,539**	**3,062**	**2,829**
CET1 capital ratio	**92 (2) (a)**	**14.01**	**13.40**	**17.55**	**15.71**
Tier 1 capital ratio	**92 (2) (b)**	**14.01**	**13.40**	**17.55**	**15.71**
Total capital ratio	**92 (2) (c)**	**16.35**	**16.61**	**20.40**	**19.77**

41. Own funds and capital requirements (continued)

Risk structure according to EU directive 575/2013 (CRR)

in HRK million	BANK Article pursuant to CRR	Dec 14 Calculation base/total risk	Dec 14 Capital requirement	Dec 15 Calculation base/total risk (phased-in)	Dec 15 Capital requirement (phased-in)
Total risk exposure amount	92 (3), 95, 96, 98	38,272	3,061	35,357	2,828
Risk-weighted assets (credit risk)	92 (3) (a) (f)	34,375	2,750	31,361	2,508
Standardised approach		1,176	94	1,830	146
IRB approach		33,199	2,656	29,531	2,362
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (iii), 92 (4) (b)	102	8	66	5
Operational risk	92 (3) (e) 92 (4) (b)	3,740	299	3,795	304
Exposure for CVA	92 (3) (d)	55	4	135	11

in HRK million	GROUP Article pursuant to CRR	Dec 14 Calculation base/total risk	Dec 14 Capital requirement	Dec 15 Calculation base/total risk (final)	Dec 15 Capital requirement (final)
Total risk exposure amount	92 (3), 95, 96, 98	46,635	3,731	44,243	3,540
Risk-weighted assets (credit risk)	92 (3) (a) (f)	40,676	3,255	38,140	3,052
Standardised approach		10,169	814	10,657	853
IRB approach		30,507	2,441	27,483	2,199
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)	102	8	254	20
Operational risk	92 (3) (e) 92 (4) (b)	5,801	464	5,714	457
Exposure for CVA	92 (3) (d)	56	4	135	11

The capital structure table above shows only those positions which are relevant for the Group and the Bank. Basel III final figures (fully loaded) are calculated based on the current requirements according to the CRR. Changes are possible due to final Regulatory Technical Standards (RTS) that are not available yet.

Figures presented in note 41. Own funds and capital requirements have not been reviewed by the auditors.

42. 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
	2014	2015
Net result for the period	377	(816)
Profit or loss attributable to ordinary shareholders	377	(816)
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)	**22.17**	**(48.07)**

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 2015 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 165 to 170 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	
	2014	2015
1. Interest income	3,439	3,267
2. Interest expense	1,319	1,119
3. Net interest income (1.-2.)	**2,120**	**2,148**
4. Fee and commission income	800	845
5. Fee and commission expense	191	199
6. Net fee and commission income (4.-5.)	**609**	**646**
7. Profit/loss from investments in subsidiaries, associates and joint ventures	-	-
8. Profit/loss from trading	5	(19)
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	6	2
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	11	11
16. Profit/loss from foreign currency differences	180	140
17. Other income	541	554
18. Other expenses	277	303
19. General administrative expenses and depreciation	1,465	1,499
20. Net income from business before value adjustment and loan loss provisions (3.+6. to 17.-18.-19.)	**1,730**	**1,680**
21. Expense of value adjustment and loan loss provisions	1,226	2,613
22. PROFIT/LOSS BEFORE TAX (20.-21.)	**504**	**(933)**
23. INCOME TAX EXPENSE	92	(164)
24. PROFIT/LOSS OF THE CURRENT YEAR (22.-23.)	**412**	**(769)**
25. Earnings per share	22.17	(48.07)
ANNEX TO INCOME STATEMENT (for the Banks that prepare consolidated financial statements)		
1. PROFIT/LOSS OF THE CURRENT YEAR	**412**	**(769)**
2. Assign equity holders of the Bank	**377**	**(816)**
3. Non-controlling interest (1.-2.)	**35**	**47**

Statement of financial position

In HRK million		GROUP
	2014	2015
ASSETS		
1. Cash and deposits with Central bank (1.1.+1.2.)	7,860	8,456
1.1. Cash	1,031	1,187
1.2. Deposits with Central bank	6,829	7,269
2. Deposits with banking institutions	2,543	1,605
3. Treasury bills with ministry of finance and bills of exchange with central bank	1,384	569
4. Securities and other financial instruments held for trading	7	134
5. Securities and other financial instruments available for sale	6,700	6,730
6. Securities and other financial instruments held to maturity	877	872
7. Securities and other financial instruments not actively traded, measured at fair value through profit or loss	-	-
8. Derivative financial assets	94	61
9. Loans to financial institutions	716	1,262
10. Loans to other customers	46,041	45,214
11. Investments in associates, subsidiaries and joint ventures	68	63
12. Repossessed assets	485	541
13. Tangible asset (minus depreciation)	1,334	1,241
14. Interest, fees and other assets	1,652	1,483
A) TOTAL ASSETS (1.+2. to 14.)	**69,761**	**68,231**
LIABILITIES		
1. Borrowings from financial institutions (1.1. + 1.2.)	9,125	7,623
1.1. Short-term borrowings	4,537	4,011
1.2. Long-term borrowings	4,588	3,612
2. Deposits (2.1. to 2.3.)	46,193	45,938
2.1. Deposits of giro and current accounts	9,035	11,271
2.2. Savings deposits	1,910	2,510
2.3. Term deposits	35,248	32,157
3. Other borrowings (3.1.+3.2.)	2,865	2,785
3.1. Short-term borrowings	695	607
3.2. Long-term borrowings	2,170	2,178
4. Derivative financial liabilities and other financial liabilities held for trading	94	103
5. Issued debt securities (5.1.+5.2.)	300	300
5.1. Short-term issued debt instruments	-	-
5.2. Long-term issued debt instruments	300	300
6. Issued subordinated instruments	1,456	1,680
7. Issued hybrid instruments	-	-
8. Interest, fees and other liabilities	1,787	2,691
B) TOTAL LIABILITIES (1.+2.+3.+4.+5.+6.+7.+8.)	**61,820**	**61,120**
EQUITY		
1. Share capital	3,500	3,500
2. Profit/(loss) of the current year	377	(816)
3. Retained profit/(loss)	3,709	4,048
4. Legal reserves	85	85
5. Statutory and other capital reserves	1	1
6. Unrealised profit/(loss) from value adjustment of financial assets available for sale	269	293
7. Reserves resulting from protective transactions	-	-
C) TOTAL EQUITY (1. to 7.)	**7,941**	**7,111**
D) TOTAL LIABILITIES AND EQUITY (B+C)	**69,761**	**68,231**
SUPPLEMENT TO STATEMENT OF FINANCIAL POSITION (filled out by banks that compose a consolidated financial report)		
1. TOTAL EQUITY	**7,941**	**7,111**
2. Attributed to equity holders of the parent	7,779	6,910
3. Minority shares (1.-2.)	162	201

Statement of changes in shareholders' equity

								GROUP
In HRK million								2015
	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
1. Balance at 1 January	**3,500**	-	**86**	**3,547**	**377**	**269**	**162**	**7,941**
2. Changes in accounting policies and corrections of mistakes		-	-	-	-	-	-	-
3. Corrected balance as at 1 January (1+2)	**3,500**	-	**86**	**3,547**	**377**	**269**	**162**	**7,941**
4. Sale of financial assets available for sale	-	-	-	-	-	3	-	3
5. Change of fair value financial asset available for sale	-	-	-	-	-	29	-	29
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	(8)	-	(8)
7. Other profit/(loss) directly recognised in capital and reserves	-	-	-	-	-	-	-	-
8. Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	-	-	-	24	-	24
9. Profit/(loss) for the period	-	-	-	-	(816)		47	(769)
10. Total recognised income and expenses for the period (8+9)	-	-	-	-	(816)	24	47	(745)
11. Increase/(decrease) of share capital	-	-	-	-	-	-	-	-
12. Buy/sell of treasury shares	-	-	-	-	-	-	-	-
13. Other changes	-	-	-	-	-	-	-	-
14. Transfer to reserves	-	-	-	377	(377)	-	-	-
15. Dividends paid	-	-	-	(77)		-	(8)	(85)
16. Distribution on income (14+15)	-	-	-	300	(377)	-	(8)	(85)
17. Balance at reporting date (3+10+11+12+13+16)	**3,500**	-	**86**	**3,847**	**(816)**	**293**	**201**	**7,111**

Statement of changes in shareholders' equity

GROUP

In HRK million	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
								2014
1. Balance at 1 January	**3,500**	**-**	**91**	**3,345**	**184**	**199**	**51**	**7,370**
2. Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	-
3. Corrected balance as at 1 January (1+2)	**3,500**	**-**	**91**	**3,345**	**184**	**199**	**51**	**7,370**
4. Sale of financial assets available for sale	-	-	-	-	-	12	-	12
5. Change of fair value financial asset available for sale	-	-	-	-	-	74	-	74
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	(16)	-	(16)
7. Other profit/(loss) directly recognised in capital and reserves	-	-	(5)	-	-	-	-	(5)
8. Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	(5)	-	-	70	-	65
9. Profit/(loss) for the period	-	-	-	-	377	-	35	412
10. Total recognised income and expenses for the period (8+9)	-	-	(5)	-	377	70	35	477
11. Increase/(decrease) of share capital	-	-	-	-	-	-	-	-
12. Buy/sell of treasury shares	-	-	-	-	-	-	-	-
13. Other changes	-	-	-	18	-	-	99	117
14. Transfer to reserves	-	-	-	184	(184)	-	-	-
15. Dividends paid	-	-	-	-	-	-	(23)	(23)
16. Distribution on income (14+15)	-	-	-	184	(184)	-	(23)	(23)
17. Balance at reporting date (3+10+11+12+13+16)	**3,500**	**-**	**86**	**3,547**	**377**	**269**	**162**	**7,941**

Cash flow statements

In HRK million	GROUP 2014	2015
OPERATING ACTIVITIES		
1.1. Profit/(loss) before income tax	504	(933)
1.2. Allowances and loss provisions	1,226	2,489
1.3. Depreciation	296	249
1.4. Net unrealized profit/(loss) from financial assets and liabilities through profit or loss	-	
1.5. Profit/(loss) from sale of tangible assets	63	(12)
1.6. Other profit/(losses)	80	(3)
1. Cash flow from operating activities before changes of operating asset (1.1. to 1.6.)	**2,169**	**1,790**
2.1. Deposits with Central Bank	258	612
2.2. Treasury bills of Ministry of Finance and bills of exchange with CB	(336)	665
2.3. Deposits with banks and loans to financial institutions	821	(309)
2.4. Loans to other customers	(1,324)	(393)
2.5. Securities and other financial instruments held for trading	297	(128)
2.6. Securities and other financial instruments available for sale	(1,187)	17
2.7. Securities and other financial instruments not traded actively, measured at fair value through profit or loss	-	-
2.8. Other operating assets	(978)	47
2. Net increase/(decrease) of operating assets (2.1. to 2.8.)	**(2,449)**	**511**
3.1. Demand deposits	362	2,236
3.2. Savings and term deposits	(1,097)	(2,491)
3.3. Financial derivative liabilities and other liabilities actively traded	5	10
3.4. Other liabilities	(1)	(15)
3. Net increase/(decrease) of operating liabilities (3.1. to 3.4.)	**(731)**	**(260)**
4. Net cash flow from operating activities before income tax (1+2+3)	**(1,011)**	**2,041**
5. (Income tax paid)	**(109)**	**(69)**
6. Net inflow/(outflow) of cash from operating activities (4-5)	**(1,120)**	**1,972**
INVESTING ACTIVITIES		
7.1. Receipt from sale/(payment for buying) tangible and intangible assets	(234)	(154)
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)	(10)
7.4. Dividend income	-	(7)
7.5. Other receipts/(payments) from investing activities	-	-
7. Net cash flow from investing activities (7.1. to 7.5.)	**(884)**	**(171)**
FINANCIAL ACTIVITIES		
8.1. Net increase/(decrease) of borrowings	1,425	(1,583)
8.2. Net increase/(decrease) issued debt securities	-	-
8.3. Net increase/(decrease) subordinated and hybrid instruments	592	224
8.4. Receipts from transmitted share capital	-	-
8.5. (Dividends paid)	-	(85)
8.6. Other receipts/(payments) from financial activities	-	-
8. Net cash flow from financial activities (8.1. to 8.6.)	**2,017**	**(1,444)**
9. Net increase/(decrease) of cash and cash equivalents (6+7+8)	13	357
10. Effects of change in foreign exchange rates on cash and cash equivalents	-	-
11. Net increase/(decrease) cash and cash equivalents (9+10)	**13**	**357**
12. Cash and cash equivalents at the beginning of the year	**5,671**	**5,684**
13. Cash and cash equivalents at the end of the year	**5,684**	**6,041**

Off balance sheet items

	GROUP 2014	2015
1. Guarantees	2,010	2,377
2. Letters of credit	193	122
3. Bills of exchange	-	-
4. Undrawn loans and loan commitments	4,329	4,555
5. Other risk off balance items	41	132
6. Futures	-	-
7. Options	42	34
8. Swap	25,527	23,393
9. Forwards	7,110	11,845
10. Other derivatives	-	-

Income statement

in HRK million		BANK
	2014	**2015**
1. Interest income	2,757	2,622
2. Interest expense	1,148	990
3. Net interest income (1.-2.)	**1,609**	**1,632**
4. Fee and commission income	526	564
5. Fee and commission expense	145	151
6. Net fee and commission income (4.-5.)	**381**	**413**
7. Profit/loss from investments in subsidiaries, associates and joint ventures	-	-
8. Profit/loss from trading	8	(17)
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	1	(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	79	55
16. Profit/loss from foreign currency differences	169	131
17. Other income	112	170
18. Other expenses	93	131
19. General administrative expenses and depreciation	882	946
20. Net income from business before value adjustment and loan loss provisions (3.+6. to 17.-18.-19.)	**1,384**	**1,306**
21. Expense of value adjustment and loan loss provisions	1,118	2,547
22. PROFIT/LOSS BEFORE TAX (20.-21.)	**266**	**(1,241)**
23. INCOME TAX EXPENSE	34	(229)
24. PROFIT/LOSS OF THE CURRENT YEAR (22.-23.)	**232**	**(1,012)**
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 (1.-2.)		

Statement of financial position

In HRK million		BANK
	2014	2015
ASSETS		
1. Cash and deposits with Central bank (1.1. + 1.2.)	7,426	8,086
1.1. Cash	949	1,093
1.2. Deposits with Central bank	6,477	6,993
2. Deposits with banking institutions	1,877	1,289
3. Treasury bills with ministry of finance and bills of exchange with central bank	1,223	38
4. Securities and other financial instruments held for trading	7	130
5. Securities and other financial instruments available for sale	6,132	6,358
6. Securities and other financial instruments held to maturity	870	870
7. Securities and other financial instruments not actively traded, measured at fair value through profit or loss	-	-
8. Derivative financial assets	96	64
9. Loans to financial institutions	938	1,762
10. Loans to other customers	38,802	37,460
11. Investments in associates, subsidiaries and joint ventures	1,359	1,023
12. Repossessed assets	462	532
13. Tangible asset (minus depreciation)	357	563
14. Interest, fees and other assets	631	820
A) TOTAL ASSETS (1. + 2. to 14.)	**60,180**	**58,995**
LIABILITIES		
1. Borrowings from financial institutions (1.1. + 1.2.)	2,026	2,014
1.1. Short-term borrowings	695	466
1.2. Long-term borrowings	1,331	1,548
2. Deposits (2.1. to 2.3.)	45,262	44,156
2.1. Deposits of giro and current accounts	8,418	10,559
2.2. Savings deposits	1,786	2,361
2.3. Term deposits	35,058	31,236
3. Other borrowings (3.1. + 3.2.)	2,825	2,670
3.1. Short-term borrowings	695	607
3.2. Long-term borrowings	2,130	2,063
4. Derivative financial liabilities and other financial liabilities held for trading	94	103
5. Issued debt securities (5.1. + 5.2.)	300	300
5.1. Short-term issued debt instruments	-	-
5.2. Long-term issued debt instruments	300	300
6. Issued subordinated instruments	1,456	1,680
7. Issued hybrid instruments	-	-
8. Interest, fees and other liabilities	1,027	1,936
B) TOTAL LIABILITIES (1.+2.+3.+4.+5.+6.+7.+8.)	**52,990**	**52,859**
EQUITY		
1. Share capital	3,500	3,500
2. Profit/(loss) of the current year	232	(1,012)
3. Retained profit/(loss)	3,133	3,297
4. Legal reserves	85	85
5. Statutory and other capital reserves	-	-
6. Unrealised profit/(loss) from value adjustment of financial assets available for sale	240	266
7. Reserves resulting from protective transactions	-	-
C) TOTAL EQUITY (1. To 7.)	**7,190**	**6,136**
D) TOTAL LIABILITIES AND EQUITY (B+C)	**60,180**	**58,995**
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 (1.-2.)		

Statement of changes in shareholders' equity

BANK

In HRK million								2015
	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
1. Balance at 1 January	**3,500**	-	**85**	**3,133**	**232**	**240**		**7,190**
2. Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	-
3. Corrected balance as at 1 January (1+2)	**3,500**	-	**85**	**3,133**	**232**	**240**	-	**7,190**
4. Sale of financial assets available for sale	-	-	-	-	-	(1)	-	(1)
5. Change of fair value financial asset available for sale	-	-	-	-	-	34	-	34
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	(7)	-	(7)
7. Other profit/(loss) directly recognised in capital and reserves	-	-	-	-	-	-	-	
8. Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	-	-	-	26	-	26
9. Profit/(loss) for the period	-	-	-	-	(1,012)	-	-	(1,012)
10. Total recognised income and expenses for the period (8+9)	-	-	-	-	(1,012)	26	-	(986)
11. Increase/(decrease) of share capital	-	-	-	-	-	-	-	-
12. Buy/sell of treasury shares	-	-	-	-	-	-	-	-
13. Other changes	-	-	-	9		-	-	9
14. Transfer to reserves	-	-	-	232	(232)	-	-	
15. Dividends paid	-	-	-	(77)		-	-	(77)
16. Distribution on income (14+15)	-	-	-	155	(232)	-	-	(77)
17. Balance at reporting date (3+10+11+12+13+16)	**3,500**	-	**85**	**3,297**	**(1,012)**	**266**	-	**6,136**

Statement of changes in shareholders' equity

BANK

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
1. Balance at 1 January	**3,500**	**-**	**86**	**3,065**	**68**	**168**	**-**	**6,887**
2. Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	-
3. Corrected balance as at 1 January (1+2)	**3,500**	**-**	**86**	**3,065**	**68**	**168**	**-**	**6,887**
4. Sale of financial assets available for sale	-	-	-	-	-	7	-	7
5. Change of fair value financial asset available for sale	-	-	-	-	-	82	-	82
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	(18)	-	(18)
7. Other profit/(loss) directly recognised in capital and reserves	-	-	(1)	-	-	-	-	(1)
8. Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	(1)	-	-	71	-	70
9. Profit/(loss) for the period	-	-	-	-	232	-	-	232
10. Total recognised income and expenses for the period (8+9)	-	-	(1)	-	232	71	-	302
11. Increase/(decrease) of share capital	-	-	-	-	-	-	-	-
12. Buy/sell of treasury shares	-	-	-	-	-	-	-	-
13. Other changes	-	-	-	-	-	1	-	1
14. Transfer to reserves	-	-	-	68	(68)	-	-	-
15. Dividends paid	-	-	-	-	-	-	-	-
16. Distribution on income (14+15)	-	-	-	68	(68)	-	-	-
17. Balance at reporting date (3+10+11+12+13+16)	**3,500**	**-**	**85**	**3,133**	**232**	**240**	**-**	**7,190**

Cash flow statement

In HRK million	BANK 2014	2015
OPERATING ACTIVITIES		
1.1. Profit/(loss) before income tax	266	(1,241)
1.2. Allowances and loss provisions	1,118	2,444
1.3. Depreciation	43	50
1.4. Net unrealized profit/(loss) from financial assets and liabilities through profit or loss	-	-
1.5. Profit/(loss) from sale of tangible assets	(1)	(12)
1.6. Other profit/(losses)	7	-
1. Cash flow from operating activities before changes of operating asset (1.1. to 1.6.)	**1,433**	**1,241**
2.1. Deposits with Central bank	143	612
2.2. Treasury bills of Ministry of Finance and bills of exchange with CB	(443)	1,035
2.3. Deposits with banks and loans to financial institutions	741	(825)
2.4. Loans to other customers	(268)	152
2.5. Securities and other financial instruments held for trading	119	(124)
2.6. Securities and other financial instruments available for sale	(824)	(177)
2.7. Securities and other financial instruments not traded actively, measured at fair value through profit or loss	-	-
2.8. Other operating assets	(173)	(44)
2. Net increase/(decrease) of operating assets (2.1. to 2.8.)	**(705)**	**629**
3.1. Demand deposits	300	2,140
3.2. Savings and term deposits	(1,876)	(3,247)
3.3. Financial derivative liabilities and other liabilities actively traded	5	10
3.4. Other liabilities	(32)	(1)
3. Net increase/(decrease) of operating liabilities (3.1. to 3.4.)	**(1,603)**	**(1,098)**
4. Net cash flow from operating activities before income tax (1+2+3)	**(875)**	**772**
5. (Income tax paid)	**(30)**	**-**
6. Net inflow/(outflow) of cash from operating activities (4-5)	**(905)**	**772**
INVESTING ACTIVITIES		
7.1. Receipt from sale/(payment for buying) tangible and intangible assets	(36)	(49)
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	(622)	(16)
7.4. Dividend income	-	53
7.5. Other receipts/(payments) from investing activities	-	(208)
7. Net cash flow from investing activities (7.1. to 7.5.)	**(745)**	**(220)**
FINANCIAL ACTIVITIES		
8.1. Net increase/(decrease) of borrowings	718	(166)
8.2. Net increase/(decrease) issued debt securities	-	-
8.3. Net increase/(decrease) subordinated and hybrid instruments	616	224
8.4. Receipts from transmitted share capital	-	-
8.5. (Dividends paid)	-	(77)
8.6. Other receipts/(payments) from financial activities	-	-
8. Net cash flow from financial activities (8.1. to 8.6.)	**1,334**	**(19)**
9. Net increase/(decrease) of cash and cash equivalents (6+7+8)	(316)	533
10. Effects of change in foreign exchange rates on cash and cash equivalents		-
11. Net increase/(decrease) cash and cash equivalents (9+10)	**(316)**	**533**
12. Cash and cash equivalents at the beginning of the year	**5,218**	**4,902**
13. Cash and cash equivalents at the end of the year	**4,902**	**5,435**

Off balance sheet items

	BANK 2014	2015
1. Guarantees	1,597	1,940
2. Letters of credit	193	122
3. Bills of exchange	-	-
4. Undrawn loans and loan commitments	2,496	2,725
5. Other risk off balance items	41	132
6. Futures	-	-
7. Options	42	34
8. Swap	24,785	24,102
9. Forwards	7,110	11,845
10. Other derivatives	-	-

Appendix 2 – Differences between financial statements according to IFRS and local requirements

Year ended 31 December 2015

						GROUP
ANNUAL REPORT (AR)	**in HRK million**	**Form Income statement (CNB)**	**in HRK million**	**Diff.**		**EXPLANATION**
Net interest income	2,148	Net interest income	2,148	-		
Net fee and commission income	646	Net fee and commission income	646	-		
Net trading and fair value result	121	Net trading result Foreign exchange gains/losses	(19) 140	-		
Personnel expenses Other administrative expenses Depreciation and amortisation	(586) (598) (249)	General administrative expenses and amortisation	(1,499)	66	60 11 (5)	AR - Other operating result CNB - Other income CNB - Other expenses
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	3 210 (1,365)	Results of financial assets available for sale Results of financial assets held to maturity Other income Other expenses	2 - 554 (303)	(1,405)	(60) (6) (1,339)	CNB - General administrative expenses and amortisation AR - Other administrative expenses CNB - Expense of value adjustment and loss provisions
Dividend income Net result from equity method investments	1 10	Income of investment in associates	11	-		
Net impairment loss on financial assets not measured at fair value through profit or loss	(1,274)	Expense of value adjustment and loss provisions	(2,613)	1,339	1,339	AR - Other operating result
Pre-tax profit from continuing operations	**(933)**	**PRE-TAX PROFIT**	**(933)**	-		
Taxes on income	164	Taxes on income	164	-		
NET PROFIT OF THE YEAR	**(769)**	**NET PROFIT FOR THE PERIOD**	**(769)**			

Appendix 2 – Differences between financial statements according to IFRS and local requirements

Year ended 31 December 2015

						GROUP
Annual report (AR)	**in HRK million**	**Form Statement of financial position (CNB)**	**in HRK million**	**Diff.**		**Explanation**
Cash and cash balances	5,299	Cash and deposits with central bank Deposits with banking institutions	8,456 1,605	(4,762)	(4,762)	AR - Loans to and receivables from credit institutions
Derivatives	61	Derivative financial assets	61	-		
Other trading assets	172	Securities and other financial instruments held for trading	134	38	38	CNB - Treasury bills with ministry of finance and bills of exchange with central bank
Financial assets designated at fair value through profit or loss	-		-	-		
Loans to and receivables from credit institutions	5,441	Loans to financial institutions	1,262	4,179	(588) 5 4,762	AR - Loans to and receivables from customers CNB - Interest, fees and other assets CNB - deposits with banking institutions
Loans to and receivables from customers	46,159	Loans to other customers	45,214	945	588 357	AR - Loans to and receivables from credit institutions CNB - Interest, fees and other assets
Financial assets - available for sale	6,824	Treasury bills with ministry of finance and bills of exchange with CNB Securities and other financial instruments available for sale	569 6,730	(475)	(38) (531) 94	AR - Other trading assets AR - Financial assets - held to maturity CNB - Interest, fees and other assets
Financial assets - held to maturity	1,432	Securities and other financial instruments held to maturity	872	560	29 531	CNB - Interest, fees and other assets CNB - Treasury bills with ministry of finance and bills of exchange with central bank
Investments in subsidiaries, joint ventures and associates	61	Investments in associates, subsidiaries and joint ventures	63	(2)	(2)	AR - Other assets
Property, plant and equipment	1,221	Tangible asset (minus depreciation)	1,241	(20)	(20)	AR - Investment properties
Intangible assets	409		-	409	409	CNB - Interest, fees and other assets
Investment properties	20		-	20	20	CNB - Tangible asset (minus depreciation)
Tax assets	515		-	515	515	CNB - Interest, fees and other assets
Other assets	617	Interest, fees and other assets Repossessed assets	1,483 541	(1,407)	(1,409) 2	AR - Interest on loans, deposits, securities and derivatives CNB - Investments in subsidiaries, joint ventures and associates
TOTAL ASSETS	**68,231**	**TOTAL ASSETS**	**68,231**			

Appendix 2 – Differences between financial statements according to IFRS and local requirements
Year ended 31 December 2015

						GROUP
Annual report (AR)	**in HRK million**	**Form Statement of financial position (CNB)**	**in HRK million**	**Diff.**		**Explanation**
Deposits from banks	16,174	Borrowings from financial institutions	7,623	8,551	(386) 1,069 7,810 58	AR - Deposits from customers CNB - issued subordinated instruments CNB — Deposits CNB - Interest, fees and other liabilities
Derivatives	103	Derivative financial liabilities and other financial liabilities held for trading	103	-		
Financial liabilities designated at fair value through profit or loss	-		-	-		
Deposits from customers Other financial liabilities	41,445 684	Deposits Other borrowings	45,938 2,785	(6,594)	830 386 (7,810)	CNB - Interest, fees and other liabilities CNB - Borrowings from financial institutions AR - Deposits from banks
Debt securities issued	931	Issued debt securities Issued subordinated instruments	300 1,680	(1,049)	(1,069) 20	AR - Deposits from banks CNB - Interest, fees and other liabilities
Tax liabilities	6		-	6	6	CNB - Interest, fees and other liabilities
Provisions	1,169		-	1,169	1,169	CNB - Interest, fees and other liabilities
Other Liabilities	608	Interest, fees and other liabilities	2,691	(2,083)	(914) (1,169)	AR - Interest on borrowed funds, amounts due to customers and banks and payables on financial derivative AR - Provisions
Total equity	6,910	Total equity	7,111	(201)	(201)	AR - Non-controlling interest
Non-controlling interest	201	Non-controlling interest	-	201	201	CNB - Total equity
TOTAL LIABILITIES AND EQUITY	**68,231**	**TOTAL LIABILITIES AND EQUITY**	**68,231**			

Appendix 2 – Differences between financial statements according to IFRS and local requirements
Year ended 31 December 2015

						BANK
ANNUAL REPORT (AR)	**in HRK million**	**Form Income statement (CNB)**	**in HRK million**	**Diff.**		**EXPLANATION**
Net interest income	1,632	Net interest income	1,632	-		
Net fee and commission income	413	Net fee and commission income	413	-		
Net trading and fair value result	114	Net trading result Foreign exchange gains/losses	(17) 131	-		
Personnel expenses Other administrative expenses Depreciation and amortisation	(422) (413) (50)	General administrative expenses and amortisation	(946)	61	58 6 (3)	AR - Other operating result CNB - Other income CNB - Other expenses
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	1 2 (1,325)	Results of financial assets available for sale Results of financial assets held to maturity Other income Other expenses	(1) - 170 (131)	(1,360)	(58) (3) (1,299)	CNB - General administrative expenses and amortisation AR - Other administrative expenses CNB - Expense of value adjustment and loss provisions
Dividend income	55	Income of investment in associates	55	-		
Net impairment loss on financial assets not measured at fair value through profit or loss	(1,248)	Expense of value adjustment and loss provisions	(2,547)	1,299	1,299	AR - Other operating result
Pre-tax profit from continuing operations	(1,241)	**P R E - T A X P R O F I T**	**(1,241)**			
Taxes on income	229	Taxes on income	229			
NET PROFIT OF THE YEAR	**(1,012)**	**NET PROFIT FOR THE PERIOD**	**(1,012)**			

Appendix 2 – Differences between financial statements according to IFRS and local requirements

Year ended 31 December 2015

						BANK
Annual report (AR)	**in HRK million**	**Form Statement of financial position (CNB)**	**in HRK million**	**Diff.**		**Explanation**
Cash and cash balances	4,847	Cash and deposits with CNB Deposits with banking institutions	8,086 1,289	(4,528)	(4,528)	AR - Loans to and receivables from credit institutions
Derivatives	64	Derivative financial assets	64	-		
Other trading assets	168	Securities and other financial instruments held for trading	130	38	38	CNB - Treasury bills with ministry of finance and bills of exchange with central bank
Financial assets designated at fair value through profit or loss	-		-			
Loans to and receivables from credit institutions	5,197	Loans to financial institutions	1,762	3,435	(1,094) 1 3,919 609	AR - Loans to and receivables from customers CNB - Interest, fees and other assets CNB - Cash and deposits with central bank CNB - Deposits with banking institutions
Loans to and receivables from customers	38,833	Loans to other customers	37,460	1,373	1,094 279	AR - Loans to and receivables from credit institutions CNB - Interest, fees and other assets
Financial assets - available for sale	6,445	Treasury bills with ministry of finance and bills of exchange with CNB Securities and other financial instruments available for sale	38 6,358	49	(38) 87	AR - Financial assets - held to maturity CNB - Interest, fees and other assets
Financial assets - held to maturity	889	Securities and other financial instruments held to maturity	870	19	19	CNB - Interest, fees and other assets
Investments in subsidiaries, joint ventures and associates	1,021	Investments in associates, subsidiaries and joint ventures	1,023	(2)	(2)	AR - Other assets
Property, plant and equipment	545	Tangible asset (minus depreciation)	563	(18)	(18)	AR - Investment properties
Intangible assets	72		-	72	72	CNB - Interest, fees and other assets
Investment properties	18		-	18	18	CNB - Tangible asset (minus depreciation)
Tax assets	325		-	325	325	CNB - Interest, fees and other assets
Other assets	571	Interest, fees and other assets Repossessed assets	820 532	(781)	(783) 2	AR - Interest on loans, deposits, securities and derivatives CNB - Investments in subsidiaries, joint ventures and associates
TOTAL ASSETS	**58,995**	**TOTAL ASSETS**	**58,995**			

Appendix 2 – Differences between financial statements according to IFRS and local requirements
Year ended 31 December 2015

						BANK
Annual report (AR)	**in HRK million**	**Form Statement of financial position (CNB)**	**in HRK million**	**Diff.**		**Explanation**
Deposits from banks	10,581	Borrowings from financial institutions	2,014	8,567	(379) 1,069 7,831 46	AR - Deposits from customers CNB - Issued subordinated instruments CNB – Deposits CNB - Interest, fees and other liabilities
Derivatives	103	Derivative financial liabilities and other financial liabilities held for trading	103	-		
Financial liabilities designated at fair value through profit or loss	-		-	-		
Deposits from customers Other financial liabilities	39,654 54	Deposits Other borrowings	44,156 2,670	(7,118)	334 379 (7,831)	CNB - Interest, fees and other liabilities CNB - Borrowings from financial institutions AR - Deposits from banks
Debt securities issued	931	Issued debt securities Issued subordinated instruments	300 1,680	(1,049)	(1,069) 20	AR - Deposits from banks CNB - Interest, fees and other liabilities
Tax liabilities	-		-	-		
Provisions	1,111		-	1,111	1,111	CNB - Interest, fees and other liabilities
Other Liabilities	425	Interest, fees and other liabilities	1,936	(1,511)	(400) (1,111)	AR - Interest on borrowed funds, amounts due to customers and banks and payables on financial derivative AR - Provisions
Total equity	6,136	Total equity	6,136	-	-	
TOTAL LIABILITIES AND EQUITY	**58,995**	**TOTAL LIABILITIES AND EQUITY**	**58,995**			