Erste&Steiermärkische Bank d.d.

Annual Report for the year ended 31 December 2016

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, Non-financial Reporting, Corporate Governance Principles implementation statement, the audited financial statements together with an Independent auditor’s report and supplementary reports for the Croatian National Bank (CNB). The audited financial statements are presented for the Group and the Bank.

Croatian and English language version

This document comprises the Annual Report of Erste&Steiermärkische Bank d.d. for the year ended 31 December 2016 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

Intensification of positive economic trends, mild Gross Domestic Product (GDP) growth and unemployment rate decline, continued fiscal consolidation process, public debt stabilisation and foreign debt decline, and risk premium decline, signal the long-awaited beginning of recovery of the Croatian economy, which we expect will continue in 2017. We therefore must lay a strong emphasis on the need to further consolidate public finances and make sure that the recovery of economic activity continues, primarily by implementing structural reforms more actively. Success in these two areas will pave the way for further macroeconomic stabilisation and generate the potential for positive developments regarding credit rating, mainly further risk premium decline.

The banking system is the bloodstream of any economy

Political and legal stability is the number one challenge that the banking system faces: it is the basic prerequisite for staying on the course of recovery and getting the investors' trust back. Croatia needs a stable political and legal framework because stability is the only guarantee of continuous and sustainable growth. To accomplish it, we need to put dialogue and constructive discussion back in focus. It would certainly be advisable to stay clear of reluctance to open dialogue and proclivity to solutions with a populist undertone that happen to imply negative legal and financial risks. It is worth repeating that the financial system is the bloodstream of any economy. And the economy can perform better only if the blood count is stable.

Further decline of margins, an erosion of sorts, is another challenge that the banking system has been up against for a while now. We are also facing very strong regulatory pressure, both domestic and international, making it harder for us to keep our primary focus on the client. Regulations are necessary, but the rules should serve the purpose of better and more efficient performance, and not vice versa. It is impossible to not mention digitalisation, the inevitable process that continues at increasing speeds, along with increasing competition in the market, made even fiercer by the fin-techs. This will certainly have an impact on the banks' operations in 2017 and in the years to come.

The banks still want to provide adequate support to positive initiatives and good projects in the private sector, which should be the generator of healthy economic growth and new job generation, ensuring long-term stability. Entrepreneurs and their initiatives should be in the focus and we should work on eliminating all obstacles standing in the way of realisation of their potentials.

2016 financial results confirm the sustainability of the business model of ESB Group

After the negative financial effects of the CHF conversion in the previous year, the banking sector in general is back in the green result zone in 2016. The results of ESB Group in Croatia in 2016 confirmed the quality, the correctness and the sustainability of the group's business model. Operating business stability, responsible risk policy management, growing trend of new placements and use of the bank' digital channels have further consolidated our position in the Croatian banking market, laying strong foundations for long-term business success.

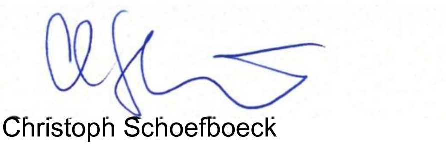
Report of the President of the Management Board (continued)

ESB Group posted a net profit of HRK 912.7 million compared to the loss of HRK 769.0 million in 2015. Lower provision costs, stable and mild upward operating result trend, and the one-time effect of the divestment of the ESB Group's share in the company VISA Europe Limited, amounting to HRK 74.9 million, were the most important influences on the profit. The total assets of ESB Group at the end of 2016 stood at HRK 65.6 billion and were down 3.9% compared to the end of December 2015, when they had amounted to HRK 68.2 billion. Total loans on 31 December 2016 for the ESB Group stood at HRK 43.7 billion and were down 5.4% compared to 31 December 2015, when they had stood at HRK 46.2 billion. The Group's total deposits at the end of December 2016 stood at HRK 43.3 billion and were up 4.5% compared to 31 December 2015, when they had stood at HRK 41.4 billion.

Taking the stand that an adequate market environment is slowly forming in Croatia, and that the right conditions are established for a better affirmation of the option of selling problematic liabilities in the banking sector, we decided to take advantage of this option and, in line with a business practice that is customary in many EU member states, including the markets where the international Erste Group is operating, offered a selection of our non-preforming loans (NPLs) to interested companies. We must stress that only renowned and well-established companies could appear in the role of the buyers. The objective of such a decision was, on the one hand, to lower the share of NPLs in our total credit portfolio, which was thus lowered to 10.8% for the Bank at the end of December 2016 (compared to 15.0% on 31 December 2015), but also, on the other hand, to focus on new opportunities for more extensive crediting of good projects in the market.

We will keep our strong focus on small and medium-size enterprises in 2017. The Bank can only be successful if its clients are successful and satisfied, because we depend on each other. Therefore, we want to continue to be a reliable partner to our clients in the realisation of their financial needs and business plans, while maintaining a strong focus on continued digitalisation of our business. Sustainable growth and long-term success in the Croatian market are our goals, and the Bank's positive financial result eventually benefits the Croatian society as a whole. To illustrate my point, the Bank contributed more than HRK 3.1 billion to the state budget of the Republic of Croatia in the past ten years in form of all types of taxes and contributions.

To conclude, I would like to thank our clients, business partners and employees. We wish to continue building our business success through open communication and continued joint effort in building a partnership with our clients, and thus contribute to the development of the Croatian economy as a whole and the improvement of the overall quality of life for all Croatian citizens. We believe that the society in the full meaning of the word is built by everyone working together, and we are very dedicated to our role and wish to contribute actively to the process.



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 and Portfolio Management and Sales Office.

BORISLAV CENTNER, Member of the Board
Responsible for: Corporate Division and Financial Markets Division

SLAĐANA JAGAR, Member of the Board
Responsible for: Accounting and Controlling Division, Assets and Liabilities Management Division and Internal Audit Division.

MARTIN HORNIG, Member of the Board
Responsible for: IT Division, Cluster Organisation Division, Processing Division, IBIS Refactoring, IT Steering & Governance Office and Property and Cash Management Division.

ZDENKO MATAK, Member of the Board
Responsible for: Retail Division, Direct Channels Division, Marketing Division and from 1 September 2016 responsible also for Digital Transformation Team

Business results of Erste&Steiermärkische Bank d.d. and its subsidiaries in 2016

I. Macroeconomic indicators

Following 2015 recovery year, GDP expansion gained momentum throughout 2016, with average growth in first three quarters amounting to 2.8% y/y. A detailed structure revealed further strengthening on the domestic demand side, where both private consumption and investments activity showed steady growth throughout the quarters. Despite resilient exports tone and solid dynamic, rising pressures on the imports side amid revived domestic demand ultimately resulted in overall negative net exports contribution thus far in 2016, with exception being strong third quarter 2016 (amid support from the record tourist season). Though growth rate gradually accelerated quarter by quarter, we see slightly different tone in fourth quarter 2016, as less supportive exports channel implies some slowdown in the growth pace. Bottom line, we expect GDP expanding around 2.7% mark in 2016.

Growth is seen remaining in a similar gear going forward, where we still see supportive role from the domestic demand side. Private consumption footprint would continue to receive support from the improving labor market conditions, stabilized consumer sentiment and the proposed tax reform, though gradual inflation pick-up should weigh on the disposable income. We should also see additional acceleration on the investments side, supported by private sector activity, EU-funded investments and a more active public sector, amid political stabilization. On the other hand, high tourism base effect and uncertainty over the sustainability of external growth momentum should imply somewhat slower, though still supportive, exports role, while revived imports performance suggests overall mild negative net exports contribution. Taking it all in account, we see GDP expanding by 2.9% in 2017, with risks being broadly balanced on both sides.

Current account trends remained favorable, though we saw certain slowdown in surplus dynamic, with figure currently moving around 3% GDP mark (as of third quarter 2016). This was result of several factors, among which fade-out of the CHF one-off effect and somewhat weaker trade balance trends, as it came under pressures amid revived domestic demand profile, which fueled imports side. We see current accounts (CA) standing slightly below 3% of GDP in 2016, and remaining in a comfortable zone throughout 2017 as well. External position further improves, with foreign debt slipping below 100% of GDP threshold.

Labor market conditions started to improve, with unemployment rate trending on average 2.5 percentage point (pp) lower on annual basis thus far in 2016 (registered unemployment), while employment levels also showed signs of recovery. Following 1 pp reduction in average unemployment rate in 2015 (International Labor Organization (ILO) methodology), we expect even stronger performance in 2016, with average figure landing at 13.7% vs. 16.3% in 2015. Wage performance showed no surprises, with both nominal and real wages maintaining stable developments, where latter one also benefited from the ongoing low inflation trajectory.

Following pronounced deflationary pressures in first half 2016, the second half brought moderation of the downturn, which ultimately resulted in Consumer Price Index (CPI) reversal to green at the very end of 2016, bringing average inflation to -1.1% y/y (vs. -0.5% y/y in 2015). We see inflation maintaining positive footprint in the following period as well, where the low base effect, reversal on cost-side pressures and a stronger domestic demand profile should provide support to the gradual CPI recovery ahead i.e. imply average inflation above 1% mark in 2017.

I. Macroeconomic indicators (continued)

2016 exchange rate movements were largely in line with the expectation, where we saw on average 1% stronger footprint vs. currency performance in 2015.

However, improved macro factors, namely the fiscal position, growth profile and subsiding political risks, on top of the strong seasonal effect, prompted Croatian National Bank (CNB) to intervene overall four times on the FX market during 2016 (in total amount of EUR 868.80 million), all in purpose of taming excess appreciation pressures. Exchange rate outlook continues to look comfortable, as local factors are still supportive and the HRK traditionally shows limited sensitivity to global jitters and the monetary policy course.
We see the exchange rate moving in the 7.40-7.60 band in 2017, with the intra-year pattern shaped by the traditional tourism-driven seasonality.

Following the aggressive consolidation effort in 2015 (2.1 pp of GDP, deficit at 3.3% of GDP), fiscal trends remained positive in 2016, and the YTD budget figure and adopted budget rebalance suggest a budget gap of around 1.7% of GDP, signaling another strong consolidation effort. Looking into 2017, the budget incorporates extensive tax reform focused on supporting growth and investments and keeping the targeted budget gap virtually flat at 1.6% of GDP. We remain a tad more conservative on both sides, but still see a deficit of around 2% of GDP, which, in our view, should support more benevolent tones from the European Commission (EC) and rating agencies throughout 2017.

	2010	2011	2012	2013	2014	2015	2016(f)[1]
Nominal GDP (HRK, billion)	328.0	332.6	330.5	329.6	328.1	333.8	342.7
Nominal GDP (EUR, billion)	45.0	44.8	44.0	43.5	43.0	43.9	45.5
GDP per capita (in thousand EUR)	10.2	10.4	10.2	10.1	10.0	10.2	10.6
Real GDP (growth y/y, %)	(1.7)	(0.3)	(2.2)	(1.1)	(0.5)	1.6	2.7
CPI (y/y, average %)	1.2	2.3	3.4	2.2	(0.2)	(0.5)	(1.1)
Current account balance (EUR, billion)	(0.5)	(0.3)	0.0	0.4	0.9	2.2	1.3
Current account balance (% of GDP)	(1.1)	(0.7)	(0.1)	1.0	2.1	5.1	2.8
Foreign debt (EUR, billion)	46.9	46.4	45.3	46.0	46.7	45.5	42.9
Foreign debt to GDP (%)	104.2	103.7	103.0	105.6	108.5	103.8	94.4
Loc. Curr./EUR year-end	7.39	7.53	7.55	7.64	7.66	7.64	7.56
Loc. Curr./EUR average	7.29	7.43	7.52	7.57	7.63	7.61	7.53
Unemployment (%, ILO definition)	11.8	13.5	15.8	17.3	17.3	16.3	13.7

[1] forecast

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

II. Erste Bank's lending operations in 2016

Erste Bank’s total loans on 31 December 2016 amounted to HRK 36.3 billion, which is a 6.6% decrease when compared to the end of 2015, when they amounted to HRK 38.8 billion. According to the Croatian National Bank’s statistics from the end of December 2016, Erste Bank’s market share in total loans amounted to 14.95%, which is a 0.45 percentage point decrease when compared to 2015.

With demand for new loans on the market still being modest, reduction of volume of total loans was also greatly influenced by some other factors, such as the conversion of loans in Swiss Francs, which was regulated by law and started in 2015 and continued in 2016, and the activities conducted to reduce partially recoverable and completely irrecoverable receivables.

Downward trend in the market of retail loans has increased during the last year as a result of the implementation of the statutory conditioned conversion of loans in Swiss Francs, and consequentially the write-off of a part of the loan principal. Upon the end of the conversion, there was significant demand for refinancing the converted loans to loans denominated in local currency without a currency clause, and with fixed interest rate. This was also the main characteristic of demand on the consumer loan market, which continued displaying positive trends during the previous year. The Bank’s total retail loans portfolio on 31 December 2016 amounted to HRK 15.87 billion, having decreased by HRK 1.7 billion compared to the previous year. The data from 31 December 2016 show that the Bank’s market share in retail loans decreased by 0.55 percentage points compared to end of 2015, and amounted to 13.33%.

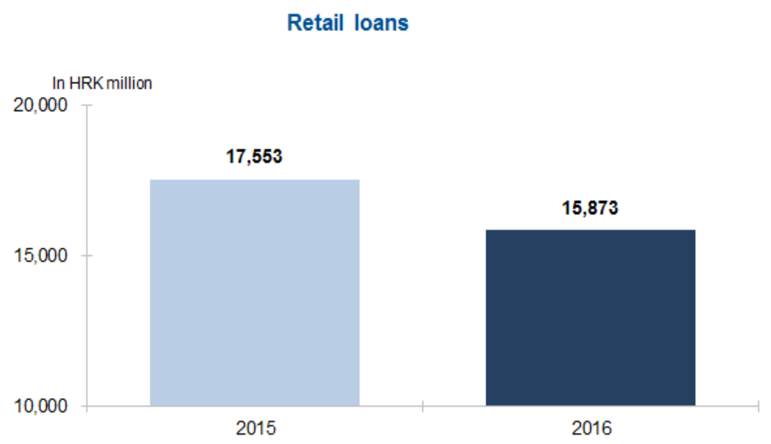


Chart 1: Retail Loans (Loans and advances to customers)

In 2016 the Erste 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. Positive trends in the recovery of the investment cycle and macroeconomic indicators from 2015 continued in 2016, but 2016 is marked by the reduction of non-performing loan portfolio (in the Bank’s total credit portfolio), which is caused by selling that part of the portfolio, a slightly lower demand for financing in the private and public sector, and a higher pressure interest rates when it comes for clients applying for loans.

II. Erste Bank's lending operations in 2016 (continued)

Because of the above mentioned, The Bank's total gross corporate loan portfolio on 31 December 2016 was down by HRK 2 billion, and amounted to HRK 23.52 billion at year end.

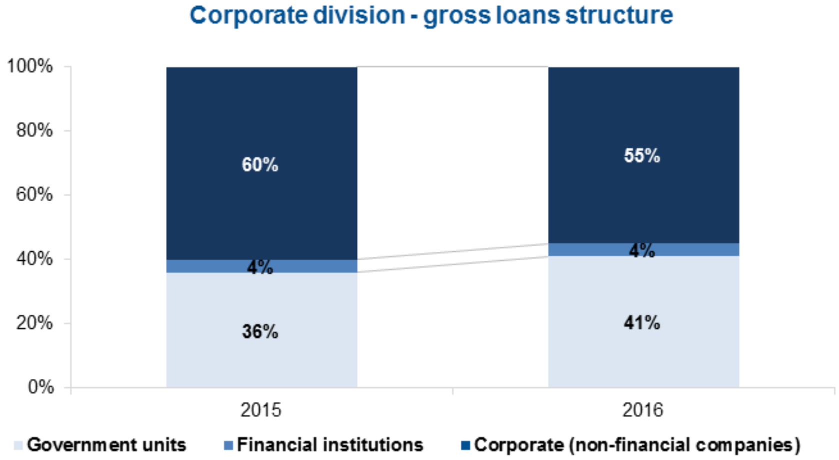


Chart 2: Corporate division – gross loans structure

The Bank's total corporate loans market share decreased from 16.62% (31 December 2015) to 16.27% (31 December 2016).

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 2016 loans from this source amounted to HRK 2.14 billion.

III. Deposits in 2016

Total deposits at the end of 2016 amounted to HRK 41.3 billion, which is 4.1% more than at the end of 2015, when they amounted to HRK 39.7 billion.

The main characteristic of the retail deposit market in 2016 was the continuing trend of decreasing interest rates on retail term deposits, which resulted in a decrease of retail term deposit volume in the entire market, while sight deposit market achieved double-digit growth.

The Bank's total retail deposits on 31 December 2016 amounted to HRK 27.70 billion, and increased by HRK 607.92 million, with significant growth of sight deposits. Their share amounted to 28% at the end of 2016, while the share of term deposits dropped, and it amounted to 72%. According to the data, on 31 December 2016, the market share of retail deposits rose by 0.36 percentage points when compared to end of 2015, and it amounts to 13.67%. This was a result of growth rates bigger than those of the market.

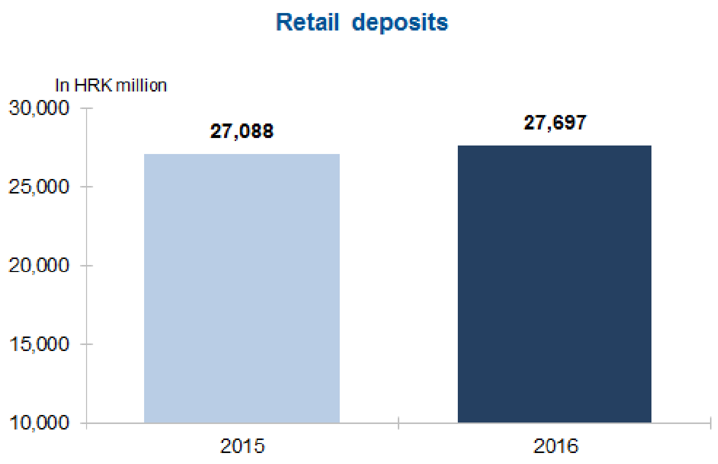


Chart 3: Retail deposits

Total corporate deposits on 31 December 2016 amounted to HRK 13.60 billion, and increased by 8.25%, when compared to 31 December 2015, when they amounted to HRK 12.57 billion. This year the corporate deposit structure shifted in favour of sight deposits, which increased by 13.26%. Term deposits decreased by 12.24% when compared to year end 2015. The Bank's total corporate deposit market share increased from 11.63% (31 December 2015) to 12.53% (31 December 2016).

III. Deposits in 2016 (continued)

The total deposit of the market in this segment grew by 9.64%, while the Bank's deposits grew by 18.17%. When examining the growth by client segments, the most significant growth of market share in total deposits was achieved in the company segment, in which the market share grew from 11.25% (31 December 2015) to 13.24% (31 December 2016). In this segment, the market grew by 7.13%, while the Bank grew by 26.07%.

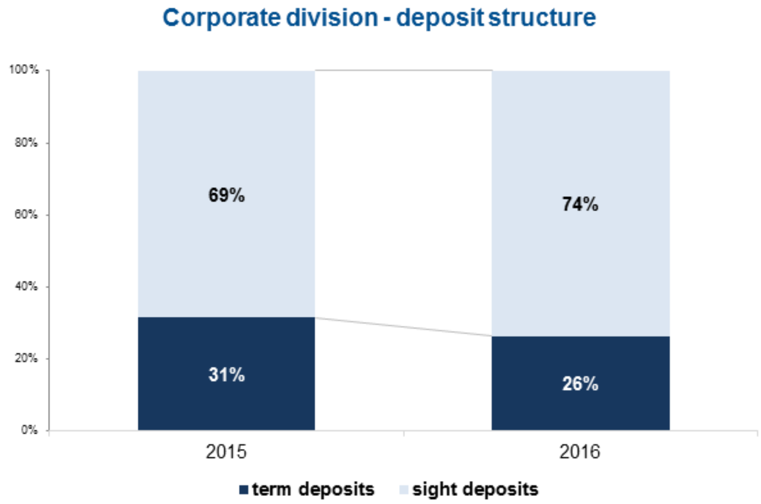


Chart 4: Corporate division – deposit structure

IV. Erste Bank's Retail and Corporate products in 2016

Retail customers

In order to improve services and the clients' user experience activities focused on internal and external digitalization continued during 2016, as one of strategic guidelines. The number of branches with *WiFi* infrastructure and digital corners for clients was increased, and the implementation of the *Branch advocacy* program was continued. In this program, sales employees act as digital advisers and educators for clients, in the way that as experienced users of digital services they are able to demonstrate all available possibilities to clients, and answer all their questions.

With the existing possibility of applying for cash loans *on-line*, as a part of the Bank's new website, clients are now able to apply for housing loans on-line, with the option of enclosing documentation.

As the first Bank on the market involved in European Bank for Reconstruction and Development (EBRD's) REEENOVA+ program, dedicated to improving energy efficiency, a special model of Eco housing loans was introduced, as well as consumer Eco loans for financing energy efficient devices and equipment.

The offer of alternative investment products was expanded in 2016 by introducing certificates, which are structured securities, the value of which displays the market value of one or more forms of underlying assets. Certificates are intended for clients interested in dispersing their investment portfolio, and which are less conservative investors.

As a continuation of the long-term strategy of managing client relations from the start of their relationship with the bank, and per clients' requests, during this year we introduced the possibility of opening current accounts with the Maestro card for children. Parents choose at what age they will allow their child to manage funds in the account, and with that prepare the child for responsible funds management and financial literacy.

With the goal of improving the customers' experience with the Bank, Erste Bank was the first on the Croatian financial market to start conducting retail campaigns in real-time, which allows the delivery of personalized offers at the moment when it is estimated that the offer is most relevant to the client. With that it is possible to increase response rate for the offers and customer satisfaction because clients are offered a suiting solution to fulfil their needs in the right time.

Corporate and small business

In addition to competitive financing terms and continual enhancement of product and service quality, activities in the corporate segment in 2016 continued to focus on intensifying and improving the quality of sales activities by creating individual and innovative solutions for target customers/industries. Clients were offered advantageous financing terms through a long-standing successful cooperation with domestic and international financial institutions.

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

During 2016, clients were able to use available sources of funding from the credit line established in cooperation with the EBRD. Along with funds from the credit line for long-term or short-term financing of micro, small, medium, and large companies, clients were able to use special project financing lines in the area of energy efficiency and renewable energy sources (WeBSEFF II), as well as project financing in foreign trade (Trade Facilitation programme).

IV. Erste Bank's Retail and Corporate products in 2016 (continued)

In May 2015 the Bank signed the *Trade Facilitation* programme with EBRD with the goal of encouraging foreign trade, and the funds of the programme are meant for financing projects in foreign trade through pre-financing export, post-financing import, and local distribution activities, as well as issuing warranties to clients in foreign trade operations. During 2016, negotiations were held with EBRD to sign an amendment to the EBRD TFP programme which will enable financing of factoring within the programme's framework.

The long-term successful business cooperation with the European Investment Bank (EIB) was also continued, and affordable sources of financing which enable the financing of clients' needs at inviting prices were available during the whole year.

Active cooperation with HAMAG BICRO also continued in 2016. 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 accordance with the latest banking trends, special attention was paid to the development of new products and the increase of efficiency in order to provide support to clients in the context of the digital banking era. The SEPA Credit Transfer scheme was implemented, with timely and regular informing, consultations, educational materials, workshops and testing, the successful implementation of the new scheme standard was secured. The first online application for business clients was also introduced. It can be used to request the opening of a transaction account, to request e-banking services, or make a financing request depending on the purpose for which funding is needed. This has made our services easier to access, more transparent, and simpler to use, resulting in a smaller use of our physical branches.

In addition, during 2016 more initiatives and project activities were set into motion, with the aim of upgrading the process of cash deposits. The Pametni Sef (Smart Safe) service enables an advanced process of cash deposit, and is constantly upgraded with new functionalities. The process of applying for currency exchange transactions has also been upgraded, and the development of an active currency exchange account was started. Its goal is to provide a better service for licensed currency exchangers. At YE 2016, the development on the NetBanking service for non-resident clients was finished.

In 2016, a significant growth in financing export was recorded, as well as increased share of the Bank and Erste Factoring in the *Supply Chain Finance* through export factoring, with insurance through a policy of an export credit agency, and especially in the segment of credit forfaiting.

During 2016, the Bank became the market leader in the segment of creating complete financial solutions in foreign trade. Activities in supporting export-oriented clients were intensified through structured financing, cooperation with export-credit agencies, recommendation of expert business solutions, organization of workshops, and client visitations. The supplier credit, which improves the competitive edge of an exporter on the market and sped-up payments upon delivery of products and services, the Bank became the only commercial bank on the market which can provide a complete service to exporters.

Cooperation in monitoring and financing exporters on foreign markets led to close cooperation with export-credit agencies. Along with HBOR's previously implemented policies of securing loans to foreign buyers, insurance policies for direct delivery of goods and services, and insurance policies of short-term export receivables, HBOR's policy of insuring loans for preparing export was also implemented in 2016.

V. Direct Channels Division

Card business and mobile payments

The card business and mobile payments division ended 2016 with 812,217 debit cards, which represents a 4.60% decline compared to the previous year. In the same period, the number of debit card transactions rose by 13.63% compared to 2015 while the volume rose by 10.62%. Twenty-six promotional activities were organized with the aim of raising the number of debit cards granted, increasing the frequency of their use and raising the number and volume of transactions at POS terminals. As a result, the number of debit cards granted rose by 3 pp in 2016 compared to 2015, the number of transactions at POS terminals rose by 19.94% and the volume of transactions rose by 16.02%.

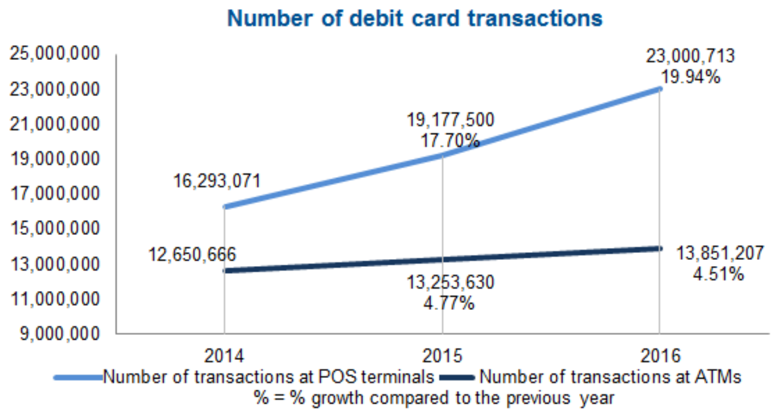


Chart 5: Number of debit card transactions

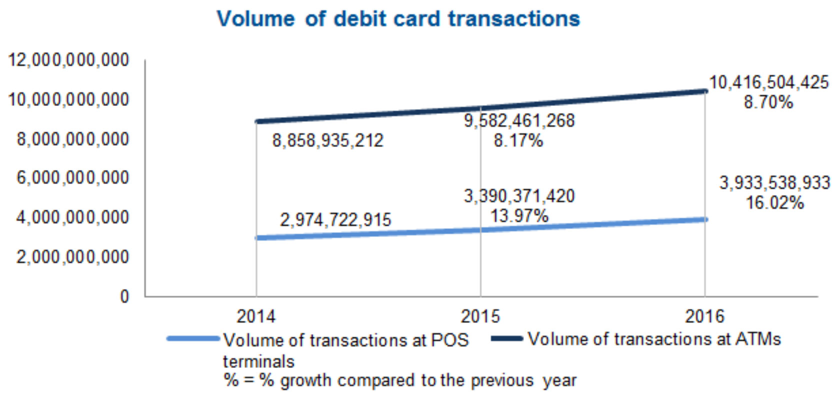


Chart 6: Volume of debit cards transactions

V. Direct Channels Division (continued)

Maestro Plus Service

The service allows cash withdrawals at ATMs, repayable in instalments, as well as making payments in instalments and/or deferred payments at ECC POS terminals. The number and volume of Maestro Plus transactions at ATMs and POS terminals continued to increase compared to 2015. The total number of transactions rose by 7.01% while the total volume increased by 9.33%. At POS terminals, the number of transactions rose by 13.76%, while the volume increased by 17.60%. Five promotional activities targeted at the users of the service were organized with the aim of increasing activity as well as the number and volume of Maestro Plus transactions.

Erste Wallet

Erste Wallet is a cashless payment service which allows quick and secure payment with smartphones at merchants' stores. In order to promote the service, seven promotional activities were organized targeted at users as well as merchants that accept Erste Wallet payments. A more frequent use of the service was recorded compared to 2015, which resulted in the number of transactions growing by 76.21% and the volume of transactions growing by 72.87%. By 31 December 2016, a total of 4,742 customers had opted for the service, which represents an increase of 25.15%, and 711 retail outlets were accepting Erste Wallet payments (a growth of 6.76% compared to the previous year).

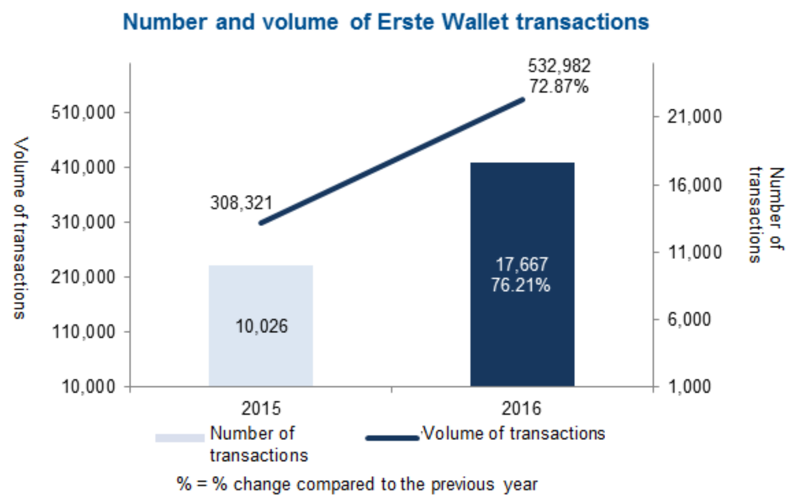


Chart 7: Number and volume of Erste Wallet transactions

Supervision and management of the card acceptance and mobile payments network

As of 31 December 2016, the Bank had 638 ATMs installed. The Bank's market share as of 30 September 2016 was 13.90%. Over 16.74 million transactions were conducted during the year (an increase of 3.17% compared to 2015), while the total volume of transactions amounted to HRK 13.43bn (an increase of 6.67% compared to 2015). Compared to the previous year, the number of deposits made at ATMs rose by 51.03%, while the volume of deposits increased by 36.22%.

V. Direct Channels Division (continued)

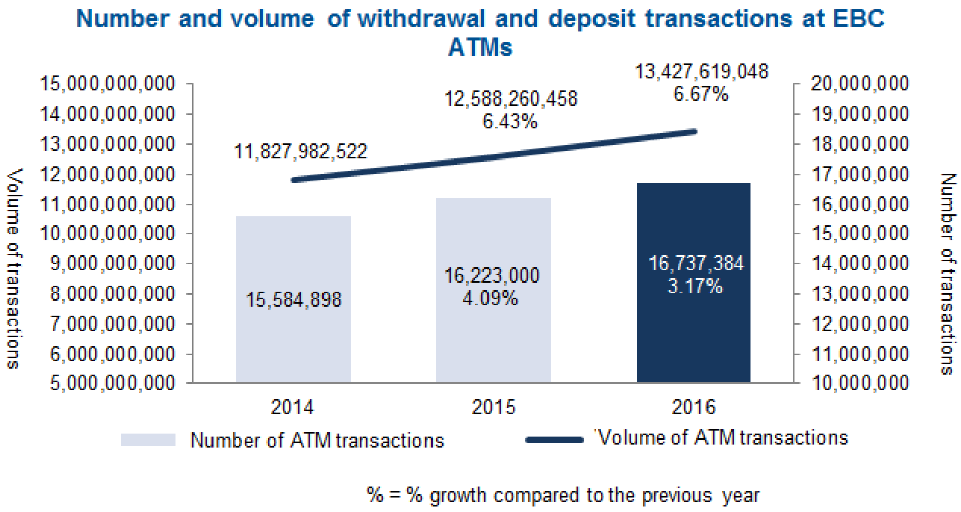


Chart 8: Number and volume of withdrawal and deposit transactions at ECB ATMs

Dynamic Currency Conversion (DCC)

When users of foreign-issued MasterCard/Maestro/Visa payment cards, whose accounts are denominated in EUR, CHF and USD, make a withdrawal at an ATM, the DCC service provides them the information on conversion rates for converting HRK into one of the mentioned foreign currencies and shows them the exact withdrawal amount in the domestic currency. In June, this service was expanded to include accounts denominated in six additional currencies (GBP, SEK, CZK, PLN, HUF and DKK). Compared to the previous year, the number of transactions remained the same, while volume of transactions declined by 3.50%.

News and activities in 2016

Since the beginning of the year, Erste Bank has been issuing the Debit Gold MasterCard to holders of Gold current accounts. The advantage of this card is greater acceptance at retail outlets and availability of discounts, promotional offers and benefits offered exclusively to MasterCard Gold card users. The Bank has also enabled the delivery of PIN numbers via SMS for all debit cards issued for accounts of domestic natural persons. It is possible to receive and activate a PIN number regardless of the place of residence in Croatia, and the PIN number is sent only to the mobile phone number belonging to the card holder. The ATM network has also been modernized. In total, 116 deteriorated ATMs have been replaced and the number of ATMs which offer the option to both deposit and withdraw funds has been increased (from 39 to 57 deposit-enabled ATMs).

Digital banking

Retail business operations

Compared to 2015, the Bank has recorded an increase in the number of users of all digital banking services. Thus the number of users of the Erste mBanking service has increased to 98,167 or by 29.98%, while the number of users of the Erste SMS service has increased to 213,773 or by 7.15%.

V. Direct Channels Division (continued)

The Erste NetBanking service has been recording stable growth: this service was used by 168,713 users or 1.81% more than the previous year. In addition, the number of opened direct debits increased by 1.43% and amounted to 210,458 by the end of the year, while the number of direct debit contracts did not change and still stands at 41. Using Erste NetBanking, Erste mBanking, Erste Kiosk, Erste NetPay and direct debit citizens made 8.86 million transactions, which is an increase of 14.49% compared to 2015, while the volume grew by 10.08% to HRK 8.04 billion.

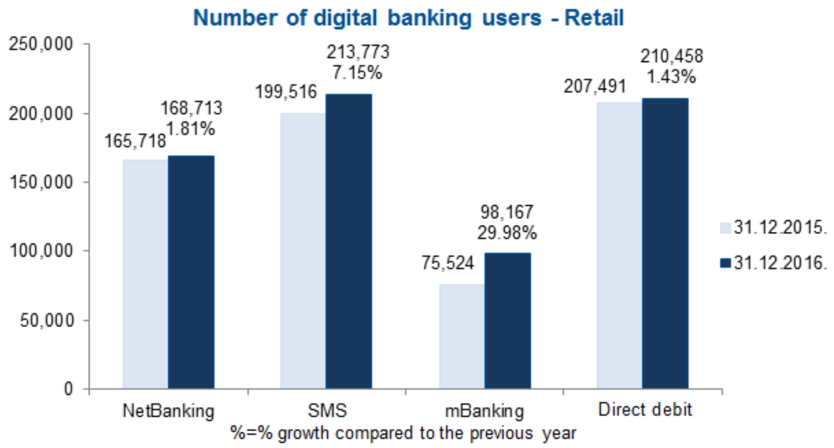


Chart 9: Number of digital banking users - Retail

Corporate business operations

In the corporate segment, the Bank's digital banking services have been recording stable growth. Thus the number of Erste NetBanking corporate users grew to 45,408, up by 4.53% compared to 2015, while the number of companies grew by 4.67% to 33,893. At the end of November 2015, corporate users were also offered the Erste mBaking service; by the end of the year, 4,366 users in 4,116 companies were using the service. Compared to the previous year, the number of Erste SMS service users shrunk by 0.53%. Companies conducted 17.9 million transactions via Erste NetBanking and Multicash services, which represents an increase of 15.81% compared to 2015, while volume grew by 8.85% to HRK 166.9 billion.

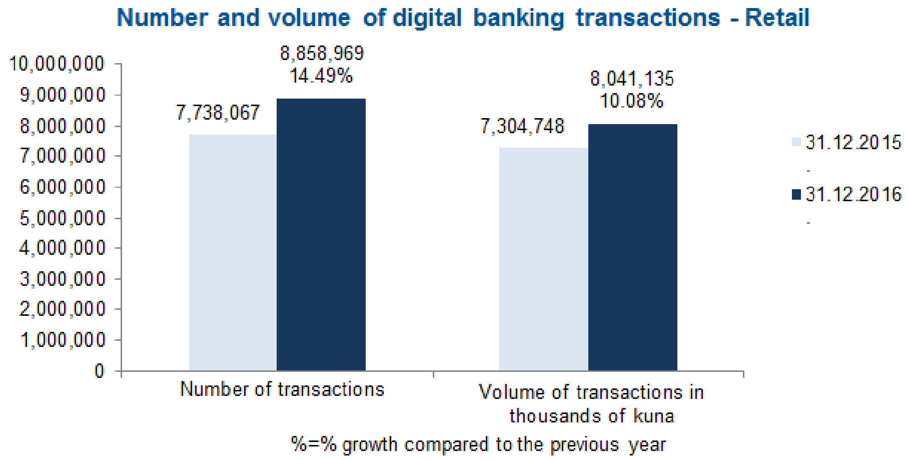


Chart 10: Number and volume of digital banking transactions - Retail

V. Direct Channels Division (continued)

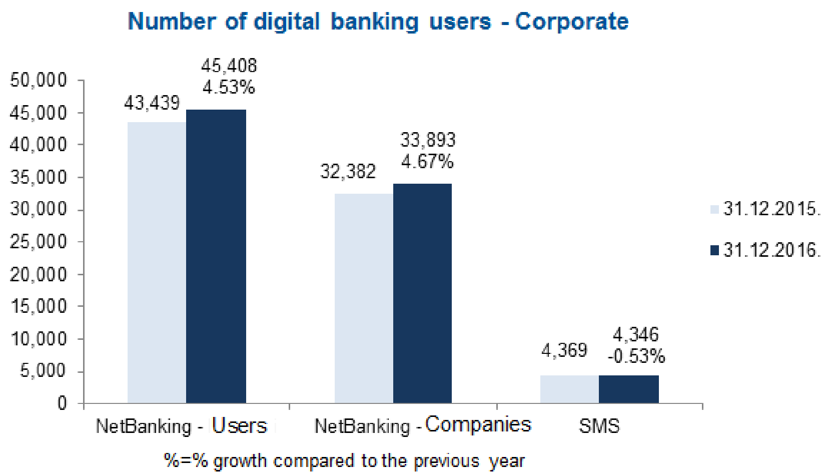


Chart 11: Number of digital banking users - Corporate

Digital channel anti-fraudulent activities in 2016

During the year, the tools for defence against attacks on digital channels were additionally optimized, and security monitoring was added for Erste mBanking and NetBanking services of Erste banka in Montenegro. The monitoring of digital channels was conducted regularly, and no major attack on users of these services was recorded.

News and activities in 2016

The following activities undertaken in 2016 can be singled out:

- IREF – IBIS Refactoring – this project marked 2016, which is why most other development projects were postponed for 2017. As part of this project, a new and more optimal way of opening a savings account through mBanking and NetBanking was developed, offering customers only those savings products for which they are eligible. In addition, the NetBanking service for non-resident legal persons was introduced.
- SEPA – the SEPA credit transfer was implemented, which introduced new for bank statement and payment file formats. As a result, NetBanking and Multicash became the only channels though which users can upload payment transaction files. In addition, preparations for implementing SEPA direct debit began; the production is planned for June 2017.

Client activation

Throughout the year the focus was on the acquisition and activation of digital services clients and the increase in the number of mToken users. For that purpose, 50 Customer Relationship Management (CRM) campaigns were organized, including 15 prize competitions, digital onboarding, 27 digital corners and internal projects like digital coffee and digital league. By the end of the year, the Bank's digital services were used by over 224,000 natural persons and Small Business Division clients, of which 145,405 (64.83%) are active. During the year, the number of mToken users (natural persons and Small Business Division clients) increased to 89,708, which represents an increase of 49.70%.

V. Direct Channels Division (continued)

Contact Centre
In 2016, the Contact Centre's agents handled 503,000 contacts, up by 8% compared to 2015. Of that, 91% of contacts were conducted by phone and the remaining 9% by e-mail and chat. The Contact Centre's Interactive Voice Response (IVR) registered nearly 295,000 entries, which is 13% fewer compared to 2015, while the number of users of the ErsteFon service (phone banking) was 2.6% lower.

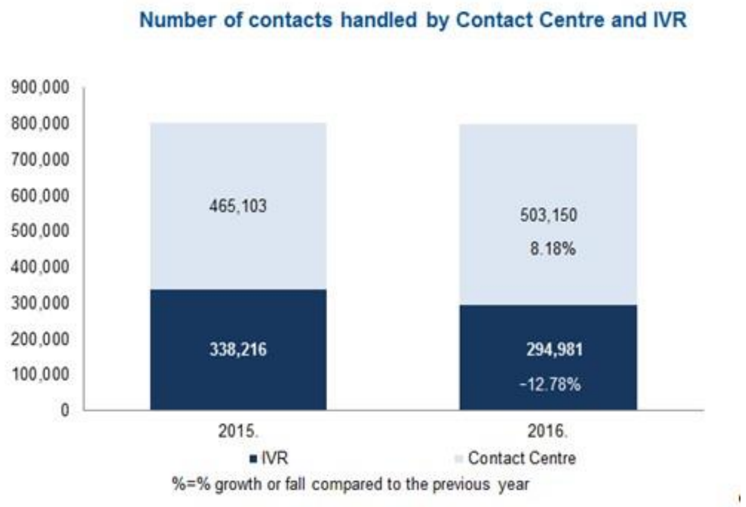


Chart 12: Number of contacts handled by Contact Centre and IVR

Contact Centre news and activities in 2016
In 2016 the Contact Centre introduced organizational changes; in addition, a separate team in charge of the development and quality of the Centre's activities was established. Internal training was introduced which, apart from training new agents, continuously trained existing agents with the aim of achieving a high quality of service. Around 4,000 hours was spent on training, of which 41% was spent on training new agents. The personal advisor service for 3,808 clients was also introduced. Through high quality advisory service, this service aims to make it easier for clients to communicate with the Bank and achieve a higher level of user experience. The Contact Centre also actively participated in implementing the Bank's key projects – SEPA and IBIS Refactoring.

Sales at the Contact Centre
Like in the previous year, the Contact Centre continued to sell current accounts, digital channels, credit cards, pre-approved loans and insurance policies. In total, 1,870 accounts, 2,497 digital channels and 1,031 credit cards were activated, 3,339 insurance policies were renewed and 1,771 pre-approved loans were realized based on calls from the Contact Centre. As part of sales campaigns, a total of 68,608 contacts were made, up by 12% compared to 2015.

Contact Centre's quality of service in 2016
In 2016 the Contact Centre's service level (the percentage of calls that are answered within a defined period) was 70.16% in 30 seconds, which is in line with the defined targets and the industry standard. Missed calls stood at 12.16% and were significantly lower compared to 2015 (by 2 pp), which confirms the efficacy of the service. During the year, the Centre began to track the Service Quality Index which represents a weighted average of two indicators: results of the Mystery Shopping research and the results of the Customer Experience research. The Service Quality Index showed an exceptionally high level (93.37%) and indicates a continued rise in the quality of services. For the second year in a row, Erste Bank's Contact Centre received the annual award for the best contact centre (in the category of centres with 31 or more agents) which is awarded by the Contact Center Akademija.

VI. Financial markets

Overview

Erste Bank had a 31.6% share in the secondary domestic bond market in 2016. The domestic bond turnover (excluded turnover between the Bank and Erste Group) amounted to HRK 6.3 billion.

The Bank maintains its position of market leader in the segment of securities trading, with the market share of 40%, the market share of more than 50% (54%) at REPO market, while its share on the FX market increased to 32%.

Money Market

2016 was much calmer and more stable than the previous year, when the markets suffered significant shocks such as the conversion of CHF loans. The average daily excess of liquidity in the system confirms this. During 2016, it amounted to HRK 7.56 billion, i.e. almost HRK 1 billion more y/y, while in December it had reached the highest level ever, HRK 12.2 billion.

On the domestic interbank market, the most traded maturities were overnights (O/N) and 1 week (W). O/N ZIBOR rate ranged from 0.35%, when it was the lowest in the beginning of June, and 0.74% when peaking in late September, due to the extended tourist summer season and consequentially lower liquidity of the system.

CNB held four structural repo auctions in 2016. The first was held in February, offering HRK 585 million at the fixed interest rate of 1.8% for the period of 4 years. A total of HRK 993.4 million was offered last year, and in July the rate was decreased by 0.4 bps to 1.4%. Throughout the entire year, the CNB held reverse repo auctions, where the amount of HRK offered gradually decreased by the end of the year with the increase of the liquidity in the system. In September, the CNB decreased the rates for regular reverse repo auctions from 0.5% to 0.3%. The already mentioned increase of ZIBOR rates during the summer and until the end of October could partially be ascribed to the big pressure on *fx swap* market, where foreign investors financed their long positions on fx spot EUR/HRK. During the period, the o/n interest rate arising from the swap curve traded at over 3%.

Significant events of the last year also include the Federal Reserve District (FED's) increase of the reference rate to 0.75% and the announcement of three new rounds of increasing interest rates in the year ahead of us. That increase of the reference interest rate did not influence the domestic money market.

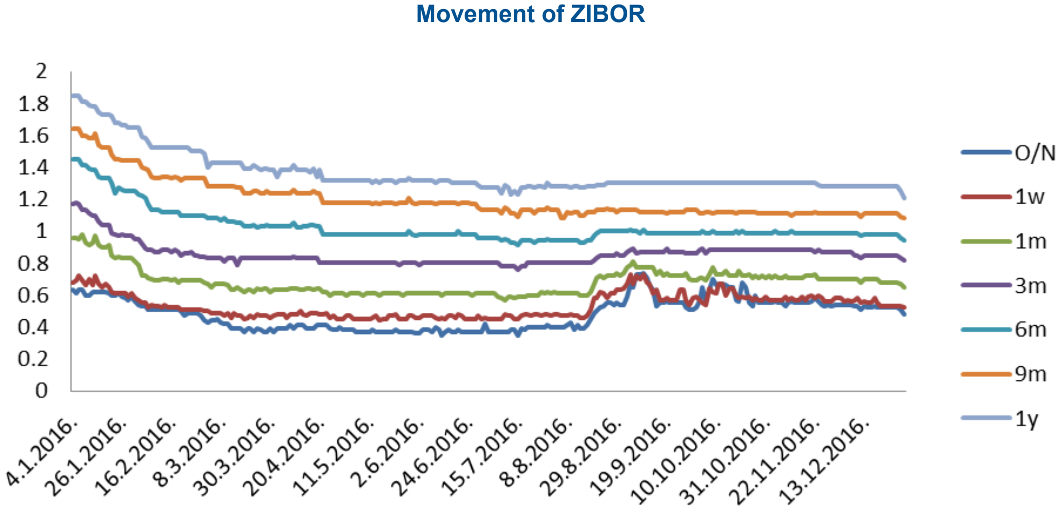


Chart 13: Movement of ZIBOR (source: Reuters)

VI. Financial Markets (continued)

The largest treasury bills (T-bills) auction was held in August, when EUR 1.5 billion was offered for the period of 15 months with the yield of 0.7%, so EUR 250 billion more was issued than the amount of the maturing treasury bill. Regarding other treasury bills, the yield of the most demanded one, the 364-day HRK T-bills, decreased by 82 bp on annual level and was issued at 0.65% for the last time in 2016. The yield of the 91-day HRK T-bills dropped by 3 bp to 0.40%, but was issued in February for the last time. The yield of the 181-day HRK T-bill dropped by 25 bp to 0.3%, while the yields on currency treasury bills dropped by 10 bp for 91-day currency treasury bill and 35 bp for 364-day HRK T-bill, respectively, and were issued for the last time in 2016 at 0.1% and 0.05%, respectively.

The aggregated debt of the state decreased by some HRK 320 million last year through the auctions of treasury bills.

As the liquidity of the entire system throughout the year was significantly higher than in 2015, the overall market demand for HRK decreased compared to the year before.

FX market

At the beginning of the year, the EUR/HRK exchange rate revolved around HRK 7.650 HRK for 1 EUR.

Relatively narrow range of trading continued throughout January and February when EUR/HRK exchange rate ranged from 7.650 to 7.670. In the end of February, a significant interest of domestic institutional investors in forward selling of EUR/HRK maturing in summer months was recorded. In addition to domestic funds, some foreign banks joined the sales.

Arrival of the Easter usually represents the beginning of tourist season, observed through the increased inflow of foreign currencies, as well as through depreciation pressures on the EUR/HRK exchange rate. Somewhat earlier date of Easter in 2016 resulted in a strong trend of strengthening of the domestic currency, which began in the end of February and peaked during July and August. During the abovementioned period, the EUR/HRK exchange rate dropped from 7.6500 to 7.480 with occasional mild corrections.

Maturing of FX forward transactions during summer months decreased the pressure on further strengthening of HRK against EUR. After the peak of the tourist season, the EUR/HRK exchange rate returned to the level of 7.500, where it remained until the end of November. In the meantime, CNB intervened once again by purchasing EUR.

Bigger shifts occurred in December, when the EUR/HRK exchange rate started from 7.510 and reached the 7.560 level. Nevertheless, it would not have happened if the CNB had not once again intervened on the FX market, purchasing almost EUR 800 million from banks. In the end of the year, the EUR/HRK exchange rate reached the upper level of the 7.560 range.

The exchange rate of USD against HRK ranged from 6.540 in the beginning of May to 7.270 in the end of the year. Strengthening of the USD is a consequence of FED’s policy and significantly better state of fundamentals in the US compared to Europe.

Debt securities market

Domestic capital market, both the stock and the debt market, still do not achieve their full potential, although a certain improvement has been noted compared to previous years. The activities of debt issuers that use the public offerings are often limited to mature debt refinancing with a significant increase of inquiries related to new issues i.e. financing on both the debt market and the owners’ capital market.

VI. Financial Markets (continued)

Republic of Croatia maintained the continuous activity on the domestic debt market by issuing two bonds of the total nominal value of HRK 10 billion, mostly to cover the matured domestic bonds.

In 2016, the Bank acted as the joint lead manager for two bond issues of the Ministry of Finance of the Republic of Croatia with the total nominal value of HRK 10 billion and the Atlantic Grupa bond issue with the nominal value of HRK 200 million.

The Bank is continuously ranked among the leading arrangers of debt securities in the Republic of Croatia, with 21.38% market share in 2016, confirming its strategic orientation towards supporting the development of capital markets despite a very challenging environment.

In addition to the abovementioned transactions on the domestic capital market, the Bank has also acted as issuing agent in the process of the re-financing of Ilirija d.d. (SPO).

Equity market

Although the stock transactions on Zagreb Stock Exchange reached HRK 6.2 billion, it was not enough to reach and beat the transactions from 2013 amounting to HRK 6.4 billion. Nevertheless, we may conclude that activities were abundant this year.

This year, CROBEX index grew by more than 20%, from 1,667 points in the beginning of the year, to 2,003 points in the end of the year.

Hrvatski Telekom share was still the most liquid share, with the 17% share in the total turnover of Zagreb Stock Exchange. The share of Valamar Rivijera from Poreč should be mentioned as the leader when it comes to tourist sector stocks, accounting for the 11.3% of the total turnover of Zagreb Stock Exchange. The share of AD plastik d.d. was the share the price of which has increased the most and the Atlantska plovidba was the share with the largest increase in the turnover.

2016 was the year of rearranging portfolios and the year in which the state sold its stakes in joint-stock companies. The most significant sales was the sales of the 20% shares of Koncar Elektroindustrija to pension funds, dating from June this year, worth almost HRK 360 million. Our brokers' department also participated in the transaction. In that way, pension funds acquired a share of almost 45% in the company.

The next big transaction occurred in the beginning of November, when Norwegian pension fund SKAGEN sold its 7% stake in Podravka d.d. to pension and investment funds. The value of the transaction amounted to HRK 186.5 million and was completed in its entirety by Erste Bank's brokers.

Custody

The market value of assets under custody in 2016 increased by 11.74% compared to 2015 and amounted to HRK 7.98 billion on 31 December 2016. A 22.65% drop in number of clients' transactions with financial instruments compared to 2015 was recorded.

VII. Risk management

Risk management is a set of procedures and methods established for identifying, measuring, assessing, controlling and monitoring of risks, including reporting of risks to which the credit institution is or might be exposed in its operations. The Bank is obliged to regularly measure and assess the risks identified in its business. Methods of measuring and assessing risk must include appropriate quantitative and/or qualitative measurement methods and risk assessment that will enable the observation of changes in Bank's risk profile, including the emergence of new risks.

The most significant risks that affect Bank's business operations are credit, market, operational and liquidity risk.

Credit risk is the risk of potential loss due to a debtor's non-payment of obligations towards the Bank, and it arises from the possibility that the Bank's credit claims and related fees and interest will not be repaid in the foreseen amount and timeframe. The Bank identifies, measures, follows up on, controls, i.e. actively manages the credit risk as one of the most important risks and determines existence of appropriate capital level for covering of such risks. Risks related to credit risk are: currency induced credit risk, residual risk, sovereign risk, dilution risk and concentration risk.

Market risks represent the risk of loss in open position stemming from the change in the movements of the market prices, including changes in interest rates, exchange currencies and prices of securities. In this sense, market risk include: (i) interest rate risk, (ii) currency risk and (iii) equity investment risk.

Operational risk is a risk of unexpected direct or indirect loss occurring due to the functioning of the human factor, inadequate procedures and controls, technological oversights, accidents and external factors. It is also a legal risk representing the possibility of outflow of the Bank's capital due to established fees or issued penalties and sanctions derived from a legislative, administrative or other proceeding on the basis of the failure to meet contractual or legal obligations, while contemporaneously excluding strategic and reputational risk.

Liquidity risk is a risk of loss stemming from an existing or expected inability of a credit institution to settle its monetary obligations upon maturity. Liquidity risk arises from maturity mismatch between assets and liabilities.

Except above mentioned risks the Bank manages and all other risk that could affect their business operations such as: systemic risk, regulatory risk, business environment risk etc.

VIII. Erste Bank AD Podgorica

Erste Bank AD Podgorica (EBM), during 2016, continued its best practice of obtaining new clients and further developing relationships with existing, resulting in a profit before tax in the amount of EUR 8.68 million, which is 18% higher compared to the previous year. Profit after tax amounted to EUR 7.9 million with return on equity of 14.2%, and return on assets of 1.9%. Total operating income amounted to EUR 22.8 million, which is 3% higher compared to 2015.

Net interest income amounted to EUR 19.1 million and increased by 3% compared to the previous reporting period. Net interest margin decreased from 6.30% at the end of 2015, to 5.79% at the end of 2016. A substantial fall in interest rates led to the decrease in interest margins in spite of the fall of passive interest rates.
Net fees and commissions income increased by 3.66% and amounted to EUR 3.3 million. Increase of net fee and commission income is in line with EBM's orientation to increase non-interest income as well as the number of active clients and services offered to clients.

Risk costs were positive and amounted to EUR 678 thousands. Credit risk cost amounted to -0.3% and was higher compared to the end of 2015, when it has amounted to -0.6%. NPL coverage was high and at the end of 2016 it amounted to 106%, which represent increase form 98% at the end of 2015. This is result of significant efforts on control of repayments, and also conservative risk appetite of EBM adapted to the demanding market conditions.

Operating costs were amounted to EUR 14.66 million and increased by 0.2% compared to previous year. Cost/Income ratio declined from 66.2% to 64.4%. At the end of the year, total assets amounted to EUR 450.48 million and increased by 22% compared to 2015. Net loans to customers amounted to EUR 251.8 million and increased by 6.8% compared to 2015. Retail loans amounted to EUR 156.7 million and corporate loans amounted to EUR 95.1 million.

In the retail sector, EUR 89.41 million was granted through 11,034 loan arrangements, which represents increase of EUR 36.14 million or 67.84% compared to the previous year. The biggest share in the total placement relates to cash loans (70.44%), housing loans (20.05%), mortgage loans and loans for adaptation (4.20%). In accordance with the EBM strategy, clients continued their orientation towards standard retail products and thus, in 2016, core retail products accounted for 94.69% of total lending. Market share in retail loan portfolio amounted to 16.07%, and increased by 0.73 pp compared to previous year.

In SME/Corporate division, gross loan portfolio decreased by EUR 7.13 million (6.46%) compared to the end of 2015. This result is mainly due to public sector regular repayment of the existing portfolio of EUR 11 million, wherewith in accordance with the financing strategy related to this segment. As for net loans to private companies, growth by EUR 4 million (5.55%) was recorded, which represents market share increase from 7.87% to 8.39%, representing 36.6% of net market growth. Quality of loan portfolio was improved, NPL further improved from 7.69% at the end of 2015 to 5.64% at the end of 2016.

VIII. Erste Bank AD Podgorica (continued)

Additional effort was put into retail and corporate division’s joint appearance aimed at attracting new companies and their employees. Additionally, efforts were made by intensifying cooperation with clients, which resulted in the increase in non-interest bearing income.
In 2016, total deposits from customers decreased by EUR 57.1 million and amounted to EUR 336.9 million at the end of 2016, out of which retail deposits accounted for EUR 185.8 million, and corporate sector deposits accounted for EUR 151.1 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 17 offices throughout Montenegro and served more than 83,000 clients by year end 2016.

EBM will continue to develop targeted products and services, by analyzing 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

IX. Erste Card Club d.o.o.

Company's activities in general

During 2016, Erste Card Club d.o.o. (hereinafter referred to as: ECC) increased the number of credit cards and the volume of transactions. The spreading of EFT POS network continued, as well as positioning on sales points, with a special focus on touristic sector and internet. This compensated regulatory pressures on income, together with optimizations on the cost side. The growth of personal consumption expenditures and retail sales influenced the growth of the credit card business market in number of cards, number and volume of transactions. The influence of touristic season had a positive impact on the growth of acquiring volume (acquiring volume: the volume of transactions done through ECC's own EFT POS network). The trend of decreasing average merchants' commissions as an indirect market response to implementation of EU IF regulation continued.

ECC activities in 2016 were focused on realization of several ECC projects, participation in group projects (IFRS 9, BIC, IRB, uCOIN) and continuous implementation and alignment with the group policies and regulatory requirements. In addition, in the middle of January 2016, the ECC migrated to the new business system, more advanced in technological sense. In addition to the migration of all operations, the transfer to the new operational system C3.1. also encompassed the development of new business functionalities that ensure keeping pace with the technology and future development of new card products and services.

Operating overview of 2016

Credit cards

By the end of the year ECC issued a total of 370,316 credit cards (DC 298,402; VISA 34,212; MC 37,702), which is 2,033 cards more y/y, representing a 0.55% increase. Total number of Erste Card d.o.o. Slovenia (fully owned by Erste Card Club d.o.o., hereinafter referred to as: EC Slovenia) credit cards at 31 December 2016 amounted to 62,773, with an increase of 6.8% y/y and new sales of 7,056 credit cards.

Card volumes in 2016

Total ECC issuing volume (issuing volume: the volume of transactions done through ECC's own EFT POS network and at POS owned by third parties) increased by +0.8% compared to 2015, with a market share of 23.69% (-4 bps compared to third quarter 2015). ECC acquiring volume (acquiring volume: the volume of transactions done through ECC's own EFT POS network) increased by +11.8% with a market share of 14.20% (+37 bps compared to third quarter 2015).

Acquiring volume of Visa and MasterCard retained significant growth, 27.95% compared to 2015 as a result of market positioning and intense activities of continuous expansion of EFT POS network, focusing on the touristic sector, expansion of Dynamic Currency Conversion (DCC) service and contracting acquiring on the Internet. By 31 December 2016, ECC had a total of 19.631 installed EFT POS devices, which is 2% more than in 2015, while the market share of ECC's EFT POS network was 18.65% at 30 September 2016 (+116 bps y/y). The total number of ECC transactions in 2016 amounted to 36,340,934, with an increase of 14% compared to 2015. The total volume of EC Slovenia achieved in 2016 amounted to EUR 140 million, with a 2.2% increase compared to 2015, while the total number of transactions amounted to 2,030,169, with an increase of 5.2%.

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

Financial overview of 2016

Consolidated net profit (of ECC and EC Slovenia) amounted to HRK 124.1 million, with an increase of 24% compared to 2015, with positive net result of EC Slovenia (net profit of HRK 1.58 million). The significant growth of net result was influenced by: one-off effects of the sale of ECC building, income from the sale of Visa share and income from the sale of a part of non-performing receivables, including write-off of investment in franchise rights of EC Slovenia.
Operating result was realized at the level of HRK 176.8 million, with the decrease of 6.9% compared to last year, as a result of regulatory changes of decreasing interest rates (in force since August 2015) and effect on lower income from penalty interest.

As a response to the introduction of the interchange fee regulations (IF) from August 2015, the decrease of average commissions at sales points was continued, compensated by the increase in acquiring volumes.
According to the Erste Group recommendation, ECC conducted the write-off and sell out of non-performing receivables in a total amount of HRK 148 million. This supported the trend of lowering non-performing loans, along with efficient collection and stable NPL inflow.

On consolidated level (ECC and ECC Slovenia), the net interest from income amounted to HRK 173 million, with a decrease of 14.7% compared to 2015, as a result of continued application of Croatian regulations on the decrease of interest rates and reallocation of a part of income (HRK 9 million) to Net Fee and Commission income. The repayment of the additional EUR 50 million of loans and the new HRK 200 million loan granted by ESB resulted in the decrease of income from management of liquidity surplus and interest expense.

The consolidated Net Fee and Commission income amounted to HRK 232 million, representing an increase of 9.5% compared to 2015, as a result of higher membership fee income and the increase of ECC and EC Slovenia volumes, which compensated the trend of decreasing MSC, but also optimizations on the expenses' side (royalty pooling, lower payment fees).

Risk provisions amounted to HRK 13 million on consolidated level and decreased by HRK 34 million compared to 2015 due to stable NPL inflow and improvement of NPL ageing distribution as a consequence of efficient collection. Portfolio provisions model was updated causing increase of portfolio provisions in amount of HRK 34 million. Significantly lower level of risk provisions compared to 2015 is influenced by one-off effect of income from the sale of bad receivables in the amount of HRK 27.7 million. The non-performing loans coverage ratio is stable and amounts to 94.1%.

Net trading result (NTR) amounted to HRK 4.6 million (2015: HRK 2.1 million). The higher level of NTR is a consequence of more favourable movements of swap points on the market, as well as lower FX swap exposure resulting from switch to HRK model of financing instead of EUR.

General administrative expenses on consolidated level amounted to HRK 232.7 million, which is an increase of 2.6% compared to 2015. In the structure, PEREX increased due to higher overtime expenses (finalization of Dinamic project) and higher bonus provisions (based on Group's decision), and the depreciation costs increased as a result of full depreciation of the Dinamic project. Other administrative expenses are at lower level than the previous year.

Other operating result in 2016 amounted to HRK 6.3 million and refers to impairment of EC Slovenia license and DC Travel investment, tax on financial transactions in EC Slovenia and income from sale of ECC building and Visa share.

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

Balance sheet

Total assets of ECC on consolidated level amounted to HRK 3,179 million on 31 December 2016, which represents a 7% decrease compared to 2015.

Loans and advances to customers and financial institutions amounted to HRK 3,008 million, with a decrease by 5.9% compared to 2015, as a result of write-off and sell out of non-performing ECC receivables in the amount of HRK 148 million. Risk provisions amounted to HRK 454 million and decreased by 19% compared to 2015 as a result of collection, lower inflow of new provisions and write-offs and sale out of non-performing receivables. Consolidated liabilities to credit institutions at 31 December 2016 amounted to HRK 1,734 million with a decrease of 18.2% compared to 2015, due to return of Erste Group Bank AG loan in the amount of EUR 50 million, with new HRK 200 million loan granted and the decrease of liabilities for REPO business following expiration of treasury bills of Ministry of Finance. The total equity amounted to HRK 821.7 million, with an increase of 16.9% compared to 2015, with dividend payout amounting to 10% of the net profit from 2015.

INDICATORS	Actual 2015	Actual 2016	Index
RoE	14.98%	15.95%	106
RoA	2.87%	3.74%	131
Cost Income Ratio	54.41%	56.82%	104
NPL coverage	90.95%	94.13%	103

X. Erste Factoring d.o.o

Erste Factoring (EF) posted remarkable results in 2016. The company recognised the existing market environment as an opportunity to keep up its business success trend and a challenge to realize the best possible final result and reinforce its market leader position.

According to the data compiled by the Croatian Financial Supervisory Agency (HANFA), Erste Factoring was still the factoring market leader on 30 September 2016 with a 43% share in total assets of factoring companies in Croatia. From a net profit point of view, the company is holding a market share of 41%, same as in the equivalent period of the previous year.

Return on assets in 2016 was 2.9%, down slightly compared to 3.1% in 2015, while return on equity was down from 32.7% to 22.1% as a result of higher average equity in 2016. Net profit was HRK 80.4 million, down by 14.6% compared to 2015, mostly due to a decrease in net interest income and a decrease of the average interest margins and fees in the market. Amendments to the Corporate Income Tax Act in late 2016 also had an impact on profit, lowering the net profit by HRK 2.1 million due to alignment with the new regulations. Operating result amounted HRK 102.1 million (-12.7%) compared to the last year, for the most part as a result of lower net interest income (2015: HRK 127.5 million; 2016: HRK 113.8 million), but also of slightly higher operating expenses (2015: HRK 12.1 million; 2016: 12.9 million). Loan liabilities at year end 2016 stood at EUR 300 million and HRK 25 million.

The growth of factoring demand remains the highest in the Group Large Corporate segment because this segment has the longest payment terms. However, a significant increase in demand for factoring has been observed in the SME segment, which is one of the most important strategic objectives for EF in near future. Mildly improving its macroeconomic indicators in line with its plan, EF will keep working on improving its client portfolio, especially in the SME segment, but also generally among companies that are positioned as stable leaders in their respective industries, because EF has been able to get factoring recognised as a fast and efficient financing instrument through its activities in recent years, in better and in worse macroeconomic conditions alike. EF will work on expanding its existing client and buyer portfolio in order to reduce the concentration risk. Its important strategic objectives include continuous advancement of the EF product range through the development of new products and alignment with new projects (SPRING, BIC, IFRS 9). In line with the above, an effort will be invested in further database development and process optimisation to reduce operational risks and enhance service quality and speed. RICOS was rolled out in late 2016 to further enhance placement and exposure control and monitoring at Group level.

We accomplished some remarkable successes in 2016. EF staff did a great job and contributed to the results with their professionalism, team work, personalized approach and building of long-term relationships with clients. Erste Factoring will keep up its unique market approach and focus its efforts on continuing the success trend and keeping the position of the factoring company leader both within and outside of banking institutions.

After the Factoring Act was promulgated in 2014 and the regulator extended the deadline for the alignment of reporting with the new regulations, as of first quarter 2017 reporting will be aligned with the Act and new regulations passed by the HANFA.

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

Erste&Steiermärkische S-Leasing d.o.o. (Erste Leasing) ended 2016 with an extremely successful business result. On 31 December 2016, the total value of newly concluded operating lease contracts amounted to HRK 196.4 million, which is an increase of 18.7% when compared to the previous year. The total value of new finance lease contracts on 31 December 2016 amounted to HRK 939.2 million, which is an increase of 58.9% when compared to 2015. According to the value of newly concluded contracts, Erste Leasing is the market leader, with a share of 19.37%.

The market share by value of assets is 12.1%, which is an increase of 2.31% when compared with 2015, and it's a result of new financing volume increase.

The company's total operating income in 2016 amounted to HRK 45.5 million, which is a decrease of HRK 10 million (18%) when compared with 2015. This is the result of lower operating lease financing that led to lower rental income (netted), including income from operating leases and depreciation of leasing asset, by HRK 16.4 million. Operating lease share in the total portfolio continues to drop since 2012, and has decreased by 6% on an annual level, which now amounts to 21% in 2016.

As of 31 December 2016, the Company's net profits amounted to HRK 35.6 million, down by 25% (HRK 12.1 million), when compared with 2015. This is primarily the result of the release of impairment loss of assets (HRK 11.4 million) in 2015.

As of 31 December 2016, Erste Leasing's total assets amounted to HRK 2,176 million, which is a 18.4 increase when compared to 2015. Loans and other receivables amounted at HRK 1,560 million with a share of 71.7% in total assets, which is a 31.4% increase when compared to 2015, and this is a result of higher financing volume in finance lease.

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

Non-financial reporting

In the Directive 2014/95/EU, the European Union (EU) stipulated mandatory non-financial reporting of companies within the EU, and the same directive was implemented in the Croatian legislation in December 2016. Regardless of this recently adopted legal obligation, Erste Bank had already established the tradition of reporting its activities from the segment of non-financial operations and corporate social responsibility to the public through its Annual Report.

With non-financial reporting and corporate social responsibility, the Bank supports and encourages the development of various segments of the society, through a wide range of activities, either oriented towards the well-being of its own clients or of a much wider social community in which it lives and operates, by supporting many humanitarian and educational, as well as cultural and sports institutions all over the Republic of Croatia. In doing so, the Bank always considers specific regional characteristics and local needs in the society.

I. Clients

Responsibility in business, especially in the relationship with clients, represents the fundamental determinant of Erste Bank’s business, which is reflected through the offer of special products and services intended for specific groups of clients, as a response to their needs and life situations. This enables better accessibility of financial products to more clients, such as the special offer of loan products to persons employed on a fixed-term or the possibility of using a grace period during loan repayment.

Apart from that, the Bank periodically organises various workshops and educational modules for clients and the wider public. Thus, a series of lectures titled *Small school of banking* was held during 2016. It was aimed at financial literacy and intended for elementary school children, and presented in an understandable manner by learning basic information and interesting facts about money, savings, internet shopping and other related subjects.

Clear, transparent and simple communication with clients is one of our main goals, as we want to offer them the best solutions for the realisation of their goals. We regularly publish useful advice from the area of finance on Facebook and on the Bank’s website and thus contribute to the education and transparent communication with our clients, as well as the wider public, on many subjects, such as the security of bank cards, protection from frauds, etc.

A meeting and panel discussion was held in 2016 with the clients – small entrepreneurs, so that we would have an opportunity to directly hear the voice of the clients through an open discussion and work in groups, as well as their thoughts on Bank’s current work with business subjects. We also wanted to get answers and proposals that would enable the Bank to better adapt its way of work, including the creation and adaptation of products and services, through an open discussion on clients’ daily needs, all with the goal of facilitating their operations and mutual successful cooperation. The Bank’s intention is to have an opportunity, through similar events, to hear its clients and their needs through open communication, all with the goal of achieving better service and quality cooperation, and partnership relationship with the clients.

During last year, as a kind of continuation of the successful project of microfinancing carried out in the period from 2011 to 2014, the Bank became involved in the Group’s initiative of social banking *Step by Step*, the objective of which is to directly respond to the needs of those segments of the society which traditionally had no access to banking services.

I. Clients (continued)

Thus, a special department for social banking was established within Erste Bank and its goal is to encourage financial inclusion of individuals with low income, beginner entrepreneurs and social organisations, by offering them access to basic financial products, financial counselling and mentorship tailored according to their needs, which enables them to acquire financial confidence and raises the quality of life in the long run. During 2016, the programme *Entrepreneur Starter* was initiated. It is intended for unemployed persons who want to start an enterprise, i.e. beginner entrepreneurs who started a business within the past two years. This is a unique programme in the Croatian market, aimed at encouraging self-employment and developing entrepreneurship by providing support on the path of shaping and realising a business idea, and it also includes free online educations on relevant entrepreneurial subjects, counselling and financing in cooperation with the HBOR, European Investment Fund (EIF) and the EU within the Competitiveness and Innovation Framework Programme (CIP).

Erste Bank pays a lot of attention to the quality of service and strives to be the leading bank when it comes to consumer protection and outstanding user experience. In order to achieve that, we operate above the framework of what is prescribed by law (we enable transparent and simple submission and resolution of complaints, where we resolve 77% of the complaints within three working days). We strive to create a user experience based on our clients' feedback. We continually measure user experience and improve our processes, products and services based on the results. Among the key performance indicators, goals related to service quality have an important place in our organisation.

Additionally, Bank has developed for its clients several products with the purpose of financing energy efficiency, that is eco loans, both for citizens and for companies, and that encourage the exploitation of ecological forms of energy, use of renewable energy sources, energy efficiency and the like, and thereby further encourage the development of sustainability and energy efficiency in the company. The Bank cooperates with domestic and international financial institutions to clients in the private and public sectors, offer more favorable terms of financing projects in the field of energy efficiency and renewable energy sources and to those lines also give customers the option of getting a grant, with the aim to further encourage 'eco-friendly' investment and thus contribute to the ecology and the overall sustainability of the company.

II. Employees

The Bank endeavours to ensure quality work environment to all its employees through adequate training and education, health protection, gender equality and reduction of inequality, ensuring safe working conditions and social dialogue, preventing the violation of human rights and discrimination, and endeavours to realise maximum transparency and dialogue with the local community.

Training and education

In our company, we believe that the optimal way of learning is a combined approach, so Erste Bank offers various possibilities and types of educational programmes:

- learning in a classroom: formal type of education (seminars, trainings, workshops, conferences)
- education alongside work and with a mentor
- coaching
- rotations
- e-learning
- expert literature
- participation in projects, etc.

Standardised trainings and educations organised in the Bank are contained in the Education Catalogue which represents a separate document and is published on the Bank's intranet and available to all employees. The Education Catalogue is divided into:

- Professional educations by specialised knowledge, i.e. organisational units
- Educations related to the model of key company educations – separate for employees and managers
- E-learning educations related to key company educations which were introduced in 2016
- *MS Office* educations
- Employee rotation programmes
- Educations from the domain of the Department of Human Resources (*Train-the-Trainer*, education of mentors, etc.)

All employees have the possibility to apply for a part of the educations at their own initiative and regardless of the type of work they do and the position they have. In the past year, 100% of employees went through some form of education. The total number of hours spent in training last year amounted to 74,993 hours, and the average number per employee was 33.34 hours.

Health protection

Employee health protection is an important factor for the operation of every enterprise. The Bank offers several basic possibilities in the area of health protection:

- Private health insurance policy at a polyclinic which all Bank employees are entitled to use; free annual physical examination, with indicated check-ups; preventive flu vaccination at the expense of the employer
- 24-hour additional accident insurance
- Lectures with the topic of health which are available to employees in several biggest cities
- Benefits in the sense of more favourable prices of services and products, which are enabled through a wide and stable network of external partners (e.g. discounts in sports facilities, etc.)
- Participation in sports events (Banking games, B2B race, etc.)

II. Employees (continued)

All benefits related to health are equally available to all employees – members of the Management Board, as well as all other Bank employees. The Bank pays a lot of attention to providing all employees an equal package for encouraging well-being and health.

Gender equality and reduction of inequality

Erste Bank pays attention to equal representation of both genders while employing and regularly checks ratios per gender, both generally and in special categories (e.g. managing positions). The Bank also participated in educational programmes for women managers. As of 2016, Human Resources Director at Erste Bank Croatia is also the chief Diversity Manager on the international Erste Group level. The Bank adopted a Diversity Policy which is unique for the entire Erste Group, and as of 2017 it will be amended on local levels, depending on specific issues of a certain country. It also has an adopted Code of Ethics.

During 2016, there were several initiatives related to encouraging diversity, such as:
- Scholarships – representation of women in the IT sector, i.e. profession (*IT LAB*)
- Sign language educations
- *Future leaders – development of women leadership potential* education
- *Europa Donna Association* – education of women employees

Erste Bank 75.5% of the employees are women and the remaining 24.3% are men. However, the ratio of men and women in management positions is such that larger proportions are women, 64.24%, while men occupy 35.76 percent of managerial positions. The average age of employees in the company is 39 years, while the average age of employees in management positions is slightly higher and amounts to 43 years. The Erste Bank employees with disabilities make up 1.11% of the total number.

Work conditions and social dialogue, preventing the violation of human rights and discrimination

Prevention of discrimination is prescribed by the 'Work Regulations', in which the procedure of reporting is also described, as well as the activities that need to be taken by persons authorised to resolve complaints. By virtue of a special decision of the Management Board, persons have been appointed from the Department of Legal Affairs and the Department of Human Resources to be in charge of resolving complaints regarding applications for protection of dignity and protection from discrimination within Erste Bank.

There is no discrimination in the process of recruitment and selection, and the invitations for job applications always emphasise that persons of both genders may apply. All interested candidates who meet the requirements for the position, which are defined in the text of the published invitation, have a chance to apply.

Transparency and dialogue with the local community

Erste Bank tries to nurture two-way communication with the local community and realise as much transparency as possible. This is contributed to by partnership cooperation with many organisations, faculties, lectures and presentations at fairs and conventions all over Croatia, and only some of the examples are the following:

- Partnerships with student organisations:
  - In 2016 the Bank became the *Golden Partner* of the student organisation AIESEC
  - Participation in projects of other student organisations, among which we point out:
    - Sponsorship of the Engineers' Day of the BEST organisation
    - Participation in the eSTUDENT organisation's *Smartup* project
    - Students' visit to the Bank, organised in cooperation with faculties-partners

II. Employees (continued)

- Fairs:
    - Fairs of the Croatian Employment Service in all bigger cities in Croatia
    - Presentation at the Scholarships and Higher Education Fair in Zagreb and Rijeka
    - Presentation at the Faculty of Electrical Engineering and Computing within the 5^{th} Career Week
    - Bronze presenter at the Virtual Career and Knowledge Fair

- Cooperation with faculties:
    - In 2016 an agreement on strategic cooperation was signed between the High Technical School in Bjelovar and Erste Bank, with the goal of establishing an undergraduate professional study programme in computing, by virtue of which the Bank undertook to cooperate in the creation of the curriculum of the professional study programme and, in the academic year 2017/2018, to participate in the execution of the curriculum (electoral courses);
    - Participation in conferences organised by faculties, e.g. *InspireMe* conference organised by the Faculty of Economics in Rijeka;
    - Cooperation was agreed with the Varaždin-based Faculty of Organisation and Informatics (FOI) based on which students of FOI will be able to perform mandatory internships that are an integral part of the students' education at the graduate, i.e. professional study programme. Apart from the internship itself, the Bank will provide support to students in writing their diploma theses, allow them to complete their theoretical knowledge with practical one, and include them in the work environment. As part of the cooperation, the Bank will allow students who are enrolling their first year of the study programme to realise the service of Erste package for the young under special terms – without a fee for the first six months;
    - Various *ad hoc* expert lectures and presentations of student programmes;
    - Support in finding a mentor at the Bank for writing diploma theses for students.

Since the beginning of 2016, focus has been on student population. Along with the Retail Sector – branch offices for the young called Erste Club, special visuals have been created for unified communication with this population for various purposes, such as:

- Student internships in the duration of a month
- Student jobs (under student contracts)
- Student programmes: General Rehearsal and *IT Lab*, and
- Scholarships programme: *Best of South-East*

Apart from the aforementioned, Erste Bank also encourages and organises certain forms of corporate volunteering to additionally encourage social awareness and empathy of their employees for those in the social community who need it most.

Workplace safety

Workplace safety is a constituent part of our labour organisation and execution of work processes. It is achieved through the application of basic, special and recognised workplace safety rules, technical instructions and producers' instruction guidelines, superior measures introduced by controlling authorities, and so on. The purpose of workplace safety implementation at the Bank is to establish safe working conditions to prevent workplace injuries and accidents. We regularly train our staff in safe work procedures in order to teach them about the hazards and dangers to their life and health, as well as protective measures in the performance of specific tasks and jobs to eliminate or minimize existing hazards as required by the Workplace Safety Act and by-laws.

III. Society and community

Erste Bank nurtures a long tradition of donating and corporate social responsibility and supports a wide range of humanitarian and educational, as well as cultural and sports institutions all over Croatia, taking into consideration specific regional characteristics and local needs in the society. For that purpose, it set aside more than HRK 8 million in 2016. The summary of the contents of the most important initiatives we supported as sponsors or donors is the following:

- 120 projects and institutions of humanitarian character
- 88 projects of educational character
- 107 clubs, organisations and projects of sports character
- 95 projects and institutions of cultural and artistic character

Regarding initiatives in culture, we would especially like to point out the project 'Urbanka' – the creative platform of Erste Bank for helping cultural projects. An integral part of Urbanka is the project 'Erste Fragments' which was held for the 12th time in a row last year. This is the annual competition for the purchase of artworks of young Croatian artists (up to 30 years of age), which had a record-breaking number of applications last year, as many as 250. Apart from the purchase of works selected by an expert jury, Erste Bank supports young artists through awards and scholarships to students of the Academy of Fine Arts. Since the beginning of Erste Fragments in 2002 until today, Erste Bank purchased more than 170 works of art through the project.

Apart from that, during 2016 the Bank organised the second edition of the project 'Fragmentologija', an exhibition cycle in the new, urban gallery premises (one in Rovinj and three in Zagreb), which include 24-hour pop-up presentations of works purchased through 'Erste Fragments' and which encouraged the development of culture in Croatia.

In its daily activities, Erste Bank always takes account of the education of both clients and the wider public. Thus, to additionally encourage the education in the area of financial literacy, it organised the year-round exhibition 'Alphabet of Money', which was realised in cooperation with the 'ZOOM' Children's Museum from Vienna and 'Frida & Fred' Children's Museum from Graz. The exhibition was initiated within Erste Group's programme 'sponsorship for better tomorrow', and the exhibition is interactive and intended for children aged 8 and more. The exhibition teaches children the basics of financial literacy and history of money through a series of practical exercises. The exhibition was set up in the Technical Museum in Zagreb, and as many as 164,000 visitors saw it during 2016.

We encourage social responsibility even true selection of suppliers and types of goods and services that we use, including promotional and marketing materials. Among other things, we often choose products that have environmental certification or the final product of a socially responsible project that includes work of marginalized groups of society. For example, at the end of each year we order holiday greeting cards from SOS Children's Village Croatia and not from commercial suppliers thereby we encourage responsible business in society and community.

IV. Ethics, ecology and human rights

In the segment of ecology and environment, Erste Bank strives for business processes of the highest possible quality and environmentally sustainable operations. It is striving to achieve the highest possible environmental standards when decorating branch offices, but also in its daily operations and in communication with clients.

Due to the ecological aspect of paper saving, but also simpler use, we encourage the Bank's clients to work and operate online as much as possible. The Bank also enabled digital submission of applications for its products, and the General Terms and Conditions are available in the Bank's branch offices on tablets instead of paper. We are trying to replace posters in branch offices with digital screens as much as possible. Instead of classical notices which we send by mail to home addresses, we try to send as many letters as possible electronically, and we often carry out individual campaigns for transfer from monthly statements on paper to electronic statements.

In our daily operations, the entire Erste Bank in Croatia uses ecological, recycled paper for printing. Apart from that, at the employees' initiative, the praiseworthy 'Project for PET' has been motioned. This is a project of organised collection of plastic packaging in Erste business centres in Zagreb and in Bjelovar, which is carried out in cooperation with the Association for Promoting Inclusion. The Bank employees collect plastic bottles which users of the Association bring for recycling, and they finance a part of their needs from the raised funds. With organised collection of plastic packaging, Erste Bank helps the environment in which it does business twice. Apart from recycling large quantities of plastic bottles, which is an environmentally beneficial act in itself, the Bank helps the motioning of entrepreneurial activity of socially vulnerable population – persons with intellectual challenges who usually have a lot of difficulties in finding employment.

Supplier selection

Erste Group views its suppliers as partners in shaping its business to be more sustainable. Therefore, procurement decisions include the suppliers' social and environmental impacts.

Covering the entire supply chain, Erste Group Procurement (EGP) is the sourcing and procurement company of Erste Group. Our main goal is to insure a transparent and fair process of acquisition and supply, along with such contracts. Meeting all the needs of Erste Group for foreign and domestic goods and services delivered in time and in accordance with their particular quality requirements, and at the best possible terms, therefore represents a key element.

Erste Group's suppliers are obliged to fulfil the prescribed standards in terms of business ethics, environmental protection, and human rights.

We expect our suppliers of materials, equipment, and services selected for our partners to adhere to the following during their contractual commitments: compliance with national and local laws and regulations, implementation of all legal obligations concerning the health and safety of their employees and contractors, resolute adherence to environmental regulations, compliance and application of basic principles of corporate social responsibility, protection of human and workers' rights, environmental protection, promotion of health and safety, and a determined fight against corruption.

This is also expressed in the Supplier Code of Conduct that is publicly available on the web page of Erste Group Procurement.

Erste Group Procurement is certified with the 'CIPS Ethics mark'. This certificate is issued by the Chartered Institute of Procurement and Supply (CIPS). The certificate is given to companies committed to high standards of ethics, and those which have proven that they train their employees and do business according to those standards.

IV. Ethics, ecology and human rights (continued)

Sustainability is also taken into account when selecting suppliers on a strategic and operational level. An initial assessment also entails an examination of the supplier's operations, and this covers the most important or the most risk-associated suppliers. On an operational level, an audit questionnaire is needed for all purchases above EUR 100,000. The supplier audit questionnaire deals with issues such as: the existence of an environmental management system, participation in the Carbon Disclosure Project, existence of a written environmental policy, methods of measuring CO_2 emissions, existence of environmental targets, information on fines or charges for environmental regulations infringements, and a description of the supplier's supply chain.

When procuring goods, the audit questionnaire is amended with questions on potentially hazardous chemicals, product's recycling capabilities, the return policy at the end of the product's useful life, and Energy Star or similar standards.

We are pleased to emphasize that in Erste Group's supply chain, no real or possible negative impacts on the environment were discovered, and that no contract with a supplier was terminated as a result of significant actual or potential impact on the environment.

When choosing suppliers, we also take note of social aspects, and the questionnaire covers issues such as: child labour, elimination of all forms of forced labour, elimination of discrimination when employing, the freedom of association and the right to collective bargaining, reasonable working hours and fair remuneration, health care, occupational health and safety, job restructuring, pay, fair working conditions, and other important social criteria in the supply chain.

We can safely say that none of Erste Group's suppliers violated or put at risk the employees' right to exercise freedom of association and collective bargaining, nor was in any way associated with risk of exposing children to dangerous labour, or exposing people to forced labour.

Construction of business outlets and saving energy in everyday business

When planning offices and business premises the Bank takes into account all aspects of doing environmentally friendly and sustainable business. In its operations the Bank uses energy saving lamps and LED savings city lights and is trying to recycle as much paper as it can. The Bank also uses eco-friendly gas for air conditioning, regularly maintain equipment to increase it durability and to save on waste.

Also, the Bank has adopted the Policy of energy management and the Policy for protecting the environment, saving energy, and preserving the climate. The Policies are renewed annually, and based on the goals of these Policies, significant savings and improvements concerning energy efficiency are achieved.

In 2016, all preliminary actions were taken to implement the ISO 14001:2015 standard (Environmental management systems) Bank-wide, and the standard will be applied by the end of 2017. In compliance with the legal obligation ordered by the Ministry of Economy, Entrepreneurship and Crafts, an Energy audit for large companies is in the making.

In line with Erste Group targets and guidelines, the Bank saved the following amounts of energy in 2016 in comparison with 2012 as the referential year:

Electricity: 6% (compared to 10,036 MWh in 2012)
Heat: 4% (compared to 4,147 MWh in 2012)
Total CO_2 emissions: 60% (compared to 5,326 t in 2012).

IV. Ethics, ecology and human rights (continued)

Electricity

The Bank spent 9,450 MWh of electricity in 2016, having reduced its consumption by 6% compared to 2012. The Bank also implemented some electricity conservation projects prior to referential year 2012 that are not included in this percentage.
Electricity conservation in 2016 was the result of implementation of the following measures:

1.1. Use of 100% green energy

In August 2013 the Bank signed a contract with HEP to use 100% green energy, with the following results:

- The Bank is now a carrier of the 'Green Energy - Friend of Nature' trademark
- It is the first Croatian bank and one of the first ten Croatian companies to sign such a contract
- The Bank's total CO2 emissions were reduced by a substantial 60% compared to 2012, which is largely due to the use of 100% green energy
- Erste Bank Croatia and Erste Bank Austria are far ahead of other Erste Group members in terms of lowering CO2 production per employee and per unit of office floor area

1.2. The project of electricity conservation in branches

The project was rolled out in mid-2013 as the first such initiative in Erste Group. After it produced positive energy conservation results, it became a mandatory standard for all other Erste Group members. Electricity conservation is achieved by proper use of resources without additional investments. The project is defined as an ongoing activity and has no planned end date.

Project results compared to referential year before project roll-out (prior to 1 July 2013, consumption 4,424,718 kWh): we saved 778,611 kWh in the first year (17.60%), 692,092 kWh in the second year (15.64%), 512,380 kWh in the third year (11.58%) and 265,429 kWh (11.1%) in six months of the fourth year. We saved a total of 2,248,512 kWh of electrical energy in three and a half years or 58.06% of the total consumption of the analysed branches in 2016.

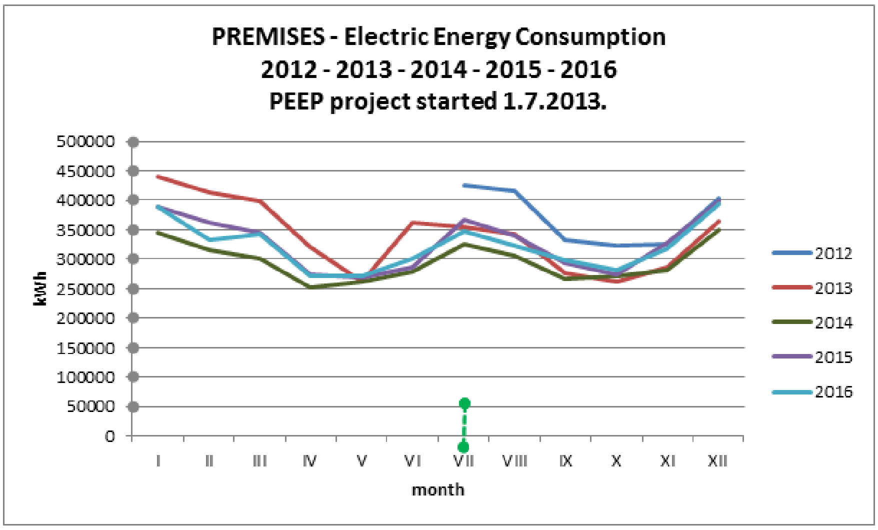


Chart 14: Electricity consumption divided by branches in Croatia

IV. Ethics, ecology and human rights (continued)

1.3. Standard temperature and ventilation settings control (summer/winter)

The minimum and maximum settings at the offices are set to the Erste Group standards in winter and in summer, resulting in lower consumption and protecting the health of the employees.

1.4. Installation of LED lighting fixtures

Our plan is to gradually introduce LED lighting fixtures to our branches going forward, as the market prices of LED lighting decrease and its lighting efficiency increases.

1.5. Educative measures

The Bank continually educates users through the Project of electricity conservation in branches and in all other occasions, informing them about the proper ways to use heating, cooling, air-conditioning and ventilation devices, and teaching them responsible behavior (turning off lights and computers, shutting doors and windows, airing rooms in short intensive bursts, refraining from the use of electric heaters (primarily for safety reasons), with an emphasis on maintaining temperature limits and on optimal energy consumption. In addition to employees, instructions are provided to the maintenance staff about proper use of lighting fixtures during the night and the proper use of other devices such as electric water heaters etc. The educative measures extend to designers working on branch decoration or redecoration, with the Bank accepting systems that offer lower energy consumption when in use rather than the solutions with the lowest initial price.

1.6. Installation of sunlight and heat reducing protective films

The positive effects of protective film installation on the working environment have resulted in additional electricity conservation (reduced need for air-conditioning; no need to turn on lights during the day because windows are covered with blinds).

1.7. Installation of timers on small electric water heaters

Timers were installed on electrical water heaters in kitchenettes and restrooms at several branches in 2016, timed to automatically turn the water heaters on an hour before the branch opens, turn them off an hour before the branch closes, and keep them turned off during the weekends. The Bank plans to install timers at all branches equipped with electrical water heaters by the end of 2017.

Heat, gas and fuel oil

The Bank spent 3,985 MWh of heat in 2016, having reduced its consumption by 4% compared to 2012. Heat was conserved by introducing the following measures: standard temperature and ventilation setting control (winter), continual monitoring and analysis of the consumption of heat, gas and fuel oil, and continual implementation of educative measures.

Other actions taken with the goal of raising awareness on environmental issues with other employees of ESB Group and shareholders

We have forwarded the Policy of energy management and the Policy for protecting the environment, saving energy and preserving the climate to our associated companies: Erste Card Club, Erste&Steirmärkische S-Leasing, Erste Factoring and Erste AD Podgorica, and they are obliged to adopt the Policies. With their cooperation, we are trying to promote environmental and other standards of socially responsible operations even further.

V. Protection of privacy and personal information

We are aware that the purpose of protecting the personal information of our clients is to protect their personal lives and other human rights and fundamental liberties in collecting, processing and using personal information, which is guaranteed to every physical person irrespective of their nationality, residence, race, skin colour, gender, political or other conviction, ethical or social background, income status, birth, education, social position or other characteristics. The right to the protection of personal information is the right to the protection of the legitimate interests of the Bank's clients, which pertains to the prevention and sanctioning of the abuse of personal information, and is guaranteed by international and national regulations. As the manager of a personal information database, the Bank has undertaken technical, human resources and organisational measures of personal information protection required to adequately protect personal information. Respondent rights and the protection of rights are of utmost importance for us, and we have made official contact information of our personal information protection officials available to our clients on our website.

a) PCI/DSS (Payment Card Industry Data Security Standard) certificate

Erste Bank continually implements and maintains the best safety measures in the card system to protect the clients in the card payment process. The PCI/DSS certificate defines the manner or storage, transmission and processing of confidential card information as well as information about the card owners. For above reasons, Erste Bank has made additional investments in required supervisions technologies and in the modification of business processes and procedures, as well as in the consolidation of application platforms that come into contact with sensitive card data.

Corporate Governance Statement

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 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.

In subsidiaries of the Bank in which is necessary due to the activities performed by the company, size, importance and regulatory framework, the compliance function, risk control function and internal audit division is also established.

The main features of the Bank's and subsidiaries' internal control system are reflected in independent bearers of control functions responsible for the identification, assessment and risk management, including Risk control and Compliance function, while Internal Audit Division overseas the overall operations of the Bank and the Group to assess the adequacy of the established system of internal controls.

Code of Conduct of the Bank regulates the basic rules of business conduct of employees of the Bank in order to preserve and further expand the reputation of the banking sector and the Bank in society by promoting the idea of professionalism, responsibility and transparency of business activities.

Corporate Governance Statement (continued)

Furthermore, the Bank will adopt the Diversity policy till the end of the April 2017. In accordance with Group principles, this policy outlines framework and guidelines and provides general principles and direction on integrating diversity management into corporate culture and business.

Regarding the risk relating to the financial reporting procedures, the main risk is that errors or deliberate actions (fraud) prevent facts from adequately reflecting the company's financial position and performance. This is the case whenever the data provided in the financial statements and notes is essentially inconsistent with the correct figures, i.e. whenever alone or in aggregate they apt to influence the decisions made by the users or financial statements. Such a decision may incur serious damage, such as financial loss, the imposition of sanctions by the banking supervisor or reputational harm.

Furthermore, especially estimates for the determination of the fair value of financial instruments for which no reliable market value is available accounting estimates for the risk provisions for loans and receivables, complex measurement requirements for accounting as well as difficult business environment bear the risk of significant financial reporting errors.

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%).
General Meeting decides on all matters as required by relevant regulations and the Articles of Association of the Bank. General Meeting shall be called by the Management Board or by the Supervisory Board not less than once a year and when the interests of the Bank require it. 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 20, 2016 the Bank held its regular General Meeting at which a decision on the coverage of the Loss of the Bank for the year 2015 was made.

The Bank has realized a net loss in the year 2015 in the amount of HRK 1,012,455,331.46, and the realized net loss was covered in total from the retained earnings from previous years. Due to occurred losses, the dividend for the year 2015 was not paid out.

In addition, the Decision on appointment on the Bank's auditor for 2016 was also made at General Meeting. Ernst & Young d.o.o. was appointed as the Bank's auditor for 2016, and the decisions on distribution of brought forward profit of merged company Erste Delta d.o.o., on granting discharge to the Management Board and Supervisory Board members and on suitability of the Supervisory Board members were adopted, as well.

Corporate Governance Statement (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 members of the Management Board represent the Bank and operate the Bank's business on its own responsibility according to the Companies Act, the Credit Institutions Act and internal acts of the Bank. The Management Board has 5 (five) members. One member of the Management Board is appointed as the chairman of the Board. The Management Board conducts its activities and adopts its decisions and resolutions at the Meetings. The organization, operation and decision making of the Management Board are regulated by the Rules of Procedure of the Management Board.

Members of the Management Board are:

- Slađana Jagar, member of the Management Board
- Borislav Centner, member of the Management Board
- Christoph Schoefboeck, President of the Management Board
- Martin Hornig, member of the Management Board
- Zdenko Matak, member of the Management Board

The Supervisory Board shall supervise the management of the Bank. The Supervisory Board has seven (7), members. The members of the Supervisory Board are elected by the General Meeting.

Members of the Supervisory Board are:

- Andreas Gottschling, President of the Supervisory Board
- Sava Ivanov Dalbokov, Deputy Chairman of the Supervisory Board
- Franz Kerber, member of the Supervisory Board
- Hannes Frotzbacher, member of the Supervisory Board
- Judit Agnes Havasi, member of the Supervisory Board
- Renate Veronika Ferlitz, member of the Supervisory Board
- Reinhard Ortner, member of the Supervisory Board

The Supervisory Board conducts its activities at the Meetings. Summoning and holding meetings and process of making decisions and authorizations are prescribed by the Rules of procedure of the Supervisory Board. Supervisory Board has five (5) committees as follows: Audit Committee, Credit Committee, Remuneration Committee, Nomination Committee and Risk Committee which are established with the aim of making competent and independent judgements on all issues placed in their jurisdiction by the Bank's internal acts and the relevant regulations. Committee members are appointed from the members of the Supervisory Board and every Committee has three (3) members.

Corporate Governance Statement (continued)

Audit Committee:
- Reinhard Ortner, President
- Sava Ivanov Dalbokov, Member
- Hannes Frotzbacher, Member

Remuneration Committee:
- Andreas Gottschling, President
- Sava Ivanov Dalbokov, member
- Reinhard Ortner, member

Nomination Committee:
- Andreas Gottschling, President
- Sava Ivanov Dalbokov, member
- Reinhard Ortner, member

Credit Committee:
- Mr. Reinhard Ortner
- Mr. Hannes Frotzbacher
- Ms. Renate Veronika Ferlitz

Risk Committee:
- Mr. Hannes Frotzbacher, President
- Renate Ferlitz, member
- Reinhard Ortner, member

Financial Statements for the year ended 31 December 2016

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.

Responsibility for the Financial Statements (continued)

The Management Board

Christoph Schoefboeck
Chairman

Slađana Jagar
Member

Martin Hornig
Member

Borislav Centner
Member

Zdenko Matak
Member

Erste&Steiermärkische Bank d.d.

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Republic of Croatia

21 March 2017

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Jadranski trg 3A, 51000 Rijeka, Hrvatska / Croatia
IBAN: HR3324020061100280716
SWIFT: ESBCHR22

Independent auditor's report

To the Shareholders of Erste&Steiermärkische bank d.d.

Report on the audit of the separate and consolidated financial statements

Opinion

We have audited the separate and consolidated financial statements of Erste&Steiermärkische bank d.d. (the Bank) and its subsidiaries (together, the 'Group'), which comprise the separate and consolidated statement of financial position as at 31 December 2016, separate and consolidated statement of comprehensive income, separate and consolidated statement of changes in equity and separate and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2016 and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS as adopted by EU").

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the separate and consolidated financial statements* section of our report. We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

Description	Response
1. Loan Loss Provisions (separate and consolidated financial statements) Impairment is a subjective area due to the level of judgement applied by management in determining provisions. Credit impairment is a highly subjective area due to the level of judgement applied by management in determining loan loss provisions. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, and expected net selling prices of collaterals. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions.	Our work covered impairment of both Bank's and Group's Retail receivables and Receivables from corporate counterparties. We assessed Bank's and Group's collective impairment methodologies for both portfolios, including the assessment of whether historic experience is appropriate when assessing the likelihood of incurred losses in the portfolios (particularly given the improving economic conditions). We also focused on the measurement of impairment, including the assessment of whether historic experience is appropriate when assessing the likelihood of incurred losses in the portfolios (particularly given the prolonged period of low interest rates). In addition, we also focused on Bank's and Group's individually significant exposures that either continued to be, have become, or were at risk of being individually impaired.

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The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from estimates of future cash flows and realizable value of collateral, calculated using collective impairment models, are unsecured or are subject to potential collateral shortfalls. Judgement is applied to determine appropriate Parameters and assumptions used to calculate impairment.

Due to the significance of loans and advances (representing 74% of total Bank's assets and representing 75% of total Group's assets) and the related estimation uncertainty, this is considered a key audit matter.

We assessed the design of the Bank's and Group's controls over individual and collective impairment calculations and tested the operating effectiveness of the Bank's and Group's controls over individual impairment calculations including the quality of underlying data and systems. For Bank's and Group's loan loss provisions calculated on an individual basis we tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. This included taking into consideration the impact of forbearance. For Bank's and Group's loan loss provisions calculated on a collective basis we evaluated the methodologies, inputs and assumptions used, including model validations and backtesting. We also assessed whether the separate and consolidated financial statement disclosures appropriately reflect the Bank's and Group's exposure to credit risk and are compliant with the International Financial Reporting standards as adopted by EU („IFRS EU") requirements. Refer to Note 34.4 Credit risk for further details.

2. Goodwill impairment (consolidated financial statements)

The Group shows significant amounts of goodwill (HRK 216 million) relating to the acquisition of Erste Card Club d.d. on the balance sheet which is supported by an annual impairment review. Impairment charge has been recorded against goodwill in the current (HRK 53 million) and in the previous year.
Certain assumptions used in the impairment review are subjective and are key judgements, these include:
- The future cash flow growth assumptions used in the most recent budgets and plans for the next five years approved by management (the "plan"), and the growth rate used beyond the period covered by the plan; and
- The discount rate applied to future cash flows.

Due to the uncertainty of forecasting and discounting future cash flows and the significance of the Group's recognised goodwill, this is considered a key audit matter.

Our audit focused on the risk that the carrying value of goodwill in consolidated financial statements could be overstated. We assessed the reasonableness of cash flow projections and compared key inputs, such as the discount rates and growth rates, to externally available industry, economic and financial data and the Subsidiary's own historical data and performance. We used our specialists in assessing the overall discount rates used, and observed them to be within a reasonable range. We assessed the assumptions and methodologies used to forecast value-in-use where goodwill was found to be sensitive to changes in those assumptions. Additionally we considered whether the Group's disclosures in consolidated financial statements of the application of judgement in estimating cash flows and the sensitivity of the results of those estimates adequately reflect the risks associated with goodwill impairment. Refer to Note 21 for further details.

3. Information Technology (IT) environment (separate and consolidated financial statements)

The Bank is heavily reliant upon the effective and continual operation of its IT platform which has been developed in-house. The IT platform with automated processes and controls over the capture, storage and extraction of information is key to its revenue generation and is also relied upon for many aspects of the financial reporting process. In-house development gives rise to a greater risk of unauthorised access or alteration to the system.

A fundamental component of controls over the capture, storage and extraction of information is ensuring that appropriate user access and change management protocols exist and are being adhered to. These protocols are important because they ensure that access and changes to IT systems and related data are made and authorized in an appropriate manner.

The reliability of accounting-relevant IT systems is a key factor in ensuring the completeness and correctness of the data processed and reported.

Due to significance of information technology environment on the Bank's operations, this is considered a key audit matter.

We understood and assessed the overall IT control environment and the controls in place which included controls over access to systems and data, as well as system changes. We tailored our audit approach based on the financial significance of the system and whether there were automated procedures supported by that system.

As audit procedures over the IT systems and application controls require specific expertise, we also involved IT audit specialists in the audit procedures.

The procedures performed included testing the operating effectiveness of controls over appropriate access rights and validating that only appropriate users had the ability to create, modify or delete user accounts for the relevant in-scope applications. In addition, we tested the operating effectiveness of controls around system development and program changes to establish that changes to the system were appropriately authorised and also developed and implemented properly.

Other information included in The Bank's and the Group's 2016 separate and consolidated Annual Report
Management is responsible for the other information. Other information consists of the information included in the separate and consolidated Annual Report which includes the Management report and Corporate Governance Statement, other than the separate and consolidated financial statements and our auditor's report thereon. Our opinion on the separate and consolidated financial statements does not cover the Other information including the Management report and Corporate Governance Statement.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act (NN 78/15, 34/15, 120/16) in Croatia. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the information given in the enclosed Management report for the 2016 financial year are consistent, in all material respects, with the enclosed separate and consolidated financial statements;

2. the enclosed Management report for 2016 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

3. Corporate Governance Statement, included in the Bank's and Group's separate and consolidated Annual report, includes the information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act; and

4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Bank's and Group's separate and consolidated Annual report are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed separate and consolidated financial statements;

In addition, in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report, Corporate Governance Statement and separate and consolidated Annual report. We have nothing to report in this respect.

Responsibilities of management and Audit Committee for the separate and consolidated financial statements
Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with IFRSs as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Bank's and Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and Group or to cease operations, or has no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Bank's and Group's financial reporting process.

Auditor's responsibilities for the audit of the separate and consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal Reporting Requirements

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 207 to 216, and which contain a balance sheet as at 31 December 2016, profit and loss account, statement of changes in equity and cash flow statement for the year then ended together with reconciliation with the separate and consolidated financial statements of the Bank and the Group ("financial information"). This financial information is the responsibility of the Bank's management and is, pursuant to IFRS as adopted by EU, 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 separate and consolidated 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 separate and consolidated financial statements of the Bank and the Group which were prepared in accordance with IFRS as adopted by EU as presented on pages 53 to 206 and are based on underlying accounting records of the Bank and the Group.

The partner in charge of the audit resulting in this independent auditor's report is Zvonimir Madunić.

Zvonimir Madunić
Member of the Board and certified auditor

Ernst & Young d.o.o.
Radnička cesta 50 (Green Gold), Zagreb
21 March 2017

I. Statement of Comprehensive Income for the Year ended 31 December 2016

Statement of Profit or Loss

in HRK million		GROUP			BANK
	Notes	2015	2016	2015	2016
Net interest income	1	2,148	2,060	1,632	1,582
Net fee and commission income	2	646	663	413	410
Dividend income	3	1	1	55	31
Net trading and fair value result	4	121	222	114	212
Net result from equity method investments		10	9	-	-
Rental income from investment properties & other operating leases	5	210	178	2	2
Personnel expenses	6	(586)	(635)	(422)	(453)
Other administrative expenses	6	(598)	(593)	(413)	(431)
Depreciation and amortisation	6	(249)	(236)	(50)	(42)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	7	3	65	1	50
Net impairment loss on financial assets not measured at fair value through profit or loss	8	(1,274)	(364)	(1,248)	(363)
Other operating result	9	(1,365)	(157)	(1,325)	(167)
Pre-tax result from continuing operations		**(933)**	**1,213**	**(1,241)**	**831**
Taxes on income	10	164	(300)	229	(204)
Net result for the period		**(769)**	**913**	**(1,012)**	**627**
Net result attributable to non-controlling interests		47	38	-	-
Net result attributable to owners of the parent		**(816)**	**875**	**-**	**-**
Earnings per share					
Basic and diluted (HRK)	42	**(48.07)**	**51.48**	**-**	**-**

Statement of Other Comprehensive Income

in HRK million	GROUP			BANK
	2015	2016	2015	2016
Net result for the period	**(769)**	**913**	**(1,012)**	**627**
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)	32	(43)	33	(50)
Gain/loss during the period	35	22	34	-
Reclassification adjustments	(3)	(65)	(1)	(50)
Currency translation	(1)	(4)	-	-
Gain/loss during the period	(1)	(4)	-	-
Reclassification adjustments	-	-	-	-
Deferred taxes relating to items that may be reclassified	(8)	15	(7)	16
Gain/loss during the period	(8)	15	(7)	16
Reclassification adjustments	-	-	-	-
Total	**23**	**(32)**	**26**	**(34)**
Total other comprehensive income	**24**	**(32)**	**26**	**(34)**
Total comprehensive income	**(745)**	**881**	**(986)**	**593**
Total comprehensive income attributable to non-controlling interests	47	38	-	-
Total comprehensive income attributable to owners of the parent	**(792)**	**843**	**-**	**-**

II. Statement of Financial Position as at 31 December 2016

in HRK million		GROUP		BANK	
	Notes	31 December 2015	31 December 2016	31 December 2015	31 December 2016
Assets					
Cash and cash balances	11	5,299	4,388	4,847	3,737
Financial assets - held for trading		233	73	232	76
Derivatives	12	61	73	64	76
Other trading assets	13	172	-	168	-
Financial assets - available for sale	14	6,824	7,832	6,445	7,254
Financial assets - held to maturity	15	1,432	1,653	889	1,137
Loans to and receivables from credit institutions	17	5,441	5,329	5,197	5,320
Loans to and receivables from customers	18	46,159	43,656	38,833	36,254
Property and equipment	20	1,221	1,309	545	548
Investment properties	20	20	59	18	36
Intangible assets	21	409	390	72	110
Investments in subsidiaries	19	-	-	983	972
Investments in associates	19	61	59	38	38
Current tax assets	22	100	30	84	10
Deferred tax assets	22	415	219	241	90
Other assets	23	617	607	571	537
Total assets		**68,231**	**65,604**	**58,995**	**56,119**
Liabilities and equity					
Financial liabilities - held for trading		103	77	103	76
Derivatives	12	103	77	103	76
Financial liabilities measured at amortised cost		59,234	56,687	51,220	48,720
Deposits from banks	24	16,174	11,652	10,581	6,341
Deposits from customers	24	41,445	43,323	39,654	41,298
Debt securities issued	24	931	924	931	924
Other financial liabilities	24	684	788	54	157
Provisions	25	1,169	260	1,111	216
Current tax liabilities	22	5	12	-	-
Deferred tax liabilities	22	1	2	-	-
Other liabilities	26	608	578	425	378
Total liabilities		**61,120**	**57,616**	**52,859**	**49,390**
Total equity	27	**7,111**	**7,988**	**6,136**	**6,729**
Equity attributable to non-controlling interests		201	235	-	-
Equity attributable to owners of the parent		6,910	7,753	-	-
Total liabilities and equity		**68,231**	**65,604**	**58,995**	**56,119**

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 2016	**1,698**	**1,887**	**3,031**	**366**	**3**	**(2)**	**(73)**	**6,910**	**201**	**7,111**
Dividends paid	-	-	-	-	-	-	-	-	(5)	(5)
Acquisition of additional shares in subsidiaries	-	-	-	-	-	-	-	-	1	1
Total comprehensive income	-	-	875	(43)	(4)	-	15	843	38	881
Net result for the period	-	-	875	-	-	-	-	875	38	913
Other comprehensive income	-	-	-	(43)	(4)	-	15	(32)	-	(32)
As at 31 December 2016	**1,698**	**1,887**	**3,906**	**323**	**(1)**	**(2)**	**(58)**	**7,753**	**235**	**7,988**
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**

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 2016	**1,698**	**1,887**	**2,285**	**332**	**-**	**1**	**(67)**	**-**	**-**	**6,136**
Dividends paid	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	627	(50)	-	-	16	-	-	593
Net result for the period	-	-	627	-	-	-	-	-	-	627
Other comprehensive income	-	-	-	(50)	-	-	16	-	-	(34)
As at 31 December 2016	**1,698**	**1,887**	**2,912**	**282**	**-**	**1**	**(51)**	**-**	**-**	**6,729**
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**

IV. Statement of Cash Flow for the year ended 31 December 2016

in HRK million	GROUP		BANK	
	2015 reclassified	2016	2015 reclassified	2016
Net result for the period	**(769)**	**913**	**(1,012)**	**627**
Non-cash adjustments for items in net profit/loss for the year				
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	604	378	395	177
Allocation to and release of provisions (including risk provisions)	2,134	(1,228)	2,100	(1,208)
Gains/(losses) from the sale of assets	(12)	(3)	(12)	-
Other adjustments	(62)	340	(127)	203
Changes in assets and liabilities from operating activities after adjustment for non-cash components	**2,664**	**(513)**	**2,356**	**(828)**
Financial assets - held for trading	210	172	214	168
Financial assets - at fair value through profit or loss	-	-	-	-
Financial assets - available for sale	346	(1,036)	146	(843)
Financial assets - held to maturity	9	(243)	384	(267)
Loans to and receivables from credit institutions	68	(469)	(173)	(559)
Loans to and receivables from customers	(102)	2,927	149	3,001
Derivatives	43	(38)	43	(39)
Other assets from operating activities	(146)	(107)	(86)	(33)
Financial liabilities measured at amortised cost				
Deposits from banks	(5,053)	(4,568)	(3,584)	(4,240)
Deposits from customers	3,418	1,879	2,503	1,644
Debt securities issued	(2)	(6)	(2)	(6)
Other financial liabilities	(44)	93	(20)	94
Other liabilities from operating activities	(46)	(177)	(51)	(186)
Cash flow from operating activities	**596**	**(1,173)**	**867**	**(1,467)**
Proceeds from disposal				
Property and equipment, intangible assets and investment properties	111	162	13	8
Acquisition of				
Property and equipment, intangible assets and investment properties	(265)	(487)	(62)	(89)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	-	2	-	-
Merger of subsidiaries	-	-	(208)	-
Cash flow from investing activities	**(154)**	**(323)**	**(257)**	**(81)**
Dividends paid to equity holders of the parent	(77)	-	(77)	-
Dividends paid to non-controlling interests	(8)	(6)	-	-
Cash flow from financing activities	**(85)**	**(6)**	**(77)**	**-**
Cash and cash equivalents at beginning of period	**5,684**	**6,041**	**4,902**	**5,435**
Cash flow from operating activities	596	(1,173)	867	(1,467)
Cash flow from investing activities	(154)	(323)	(257)	(81)
Cash flow from financing activities	(85)	(6)	(77)	-
Cash and cash equivalents at end of period[1)]	**6,041**	**4,539**	**5,435**	**3,887**
Cash flows related to taxes, interest and dividends				
Payments for taxes on income (included in cash flow from operating activities)	(69)	(11)	-	-
Interest received	3,188	2,907	2,739	2,413
Dividends received	7	10	53	30
Interest paid	(1,070)	(746)	(1,036)	(631)

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

Andreas Gottschling	President until 31 December 2016
Sava Ivanov Dalbokov	Deputy President
Mag. Franz Kerber	Member
Mag. Reinhard Ortner	Member
Hannes Frotzbacher	Member
Dr. Judit Agnes Havasi	Member
Mag. Renate Veronika Ferlitz	Member

MANAGEMENT BOARD

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

Christoph Schoefboeck	President
Borislav Centner	Member
Slađana Jagar	Member
Zdenko Matak	Member
Martin Hornig	Member

A. GENERAL INFORMATION (CONTINUED)

PROCURATORS:

The Bank at the moment does not have procurators.

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

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 2A, Zagreb
Erste Bank a.d. Podgorica, Montenegro	19	100%	Credit institution	Studentska bb, 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
Izbor Nekretnina d.o.o.	19	100%	Real estate management and lease	Ivana Lučića 2, Zagreb
Erste Group IT HR d.o.o.	19	80%	IT engineering	Jurja Haulika 19/A, Bjelovar
Name of associate				
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

Acquisitions
On 12 April 2016 the Bank acquired additional 60% of shares in Erste Group IT HR d.o.o. increasing its ownership to 80%. Detailed information is noted in Accounting and measurement methods under Business combination and Goodwill.

On 13 April 2016 the Bank increase capital reserves in non-consolidated subsidiary Izbor Nekretnina d.o.o. in amount of HRK 38 million. From that date Izbor Nekretnine d.o.o. started their business actively and the Bank decided to consolidate them in their Group financial statements.

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.

Cash flow disclosure reclassification

In 2016 the Group reviewed the cash flow disclosure regarding the business model of underlying financial instruments. The result of the review led to change in the cash flow disclosure of Financial asset – held to maturity. Based on reassessment, cash flow from Financial asset – held to maturity are shown as cash flow from operating activities, previously cash flow from investing activities. The Group also change the last year additional cash flow information on interest paid and interest received. The disclosure reclassification was made in order to provide more relevant and reliable cash flow information of the Group.

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.

b) BASIS OF CONSOLIDATION (continued)

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.

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 2016	EUR 1=HRK 7.557787	USD 1=HRK 7.168536	CHF 1=HRK 7.035735
31 December 2015	EUR 1=HRK 7.635047	USD 1=HRK 6.991801	CHF 1=HRK 7.059683

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 (classes) 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 balances
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.

Financial instruments – recognition and measurement (continued)

(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 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.

(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 instruments.

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 has 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.

Financial instruments – recognition and measurement (continued)

The Group shall not classify any financial assets as held to maturity if during the current financial year or during the two preceding financial years the Group has 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).

The Group assesses the intent and the ability to hold the asset to maturity 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 intends 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, designates 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.
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.

Financial instruments – recognition and measurement (continued)

(x) Relationships between statement of financial position items, measurement methods and categories (classes) 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 retains 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

A financial asset (or where applicable part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset
  or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - it has transferred substantially all the risks and rewards connected with the ownership of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards connected with the ownership of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, 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 an 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.

For the assessment at portfolio level, the Group uses the incurred but not reported losses concept. It identifies the time period between the moment of the loss event causing future problems and actual detection of the problems by the bank at the moment of default.

(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.

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

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 recognises 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 assesses 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 instruments 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. 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.

Business combinations and goodwill (continued)

Acquisition of Erste Group IT HR d.o.o.:

On 12 April 2016, the Bank acquired additional 60% of shares in Erste Group IT HR d.o.o. increasing its ownership to 80% for a consideration of HRK 2 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 Group It HR d.o.o. was used.

Amounts recognised on initial consolidation:

Statement of financial position	in HRK million
Amounts due from other banks	4
Loans and advances to customers	9
Other assets	50
ASSETS	**63**
Amounts due to other banks	46
Amounts due to customers	-
Other liabilities	13
LIABILITIES	**59**
Net assets acquired	**4**
Non- controlling interest (20% of net asset)	(1)
Net assets acquired before 2016	(1)
Total net asset acquired	2
Adjustment directly in equity	-
Cost of acquisition	**2**
Cash inflow on acquisition of the subsidiary:	
Cash acquired with the subsidiary	4
Cash paid	(2)
Net cash inflow	**2**

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).

Business combinations and goodwill (continued)

(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 Other operating result. 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 note 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. Assets in the course of construction are not depreciated.
The estimated economic useful lives are set out below:

	Useful life in years	
	2015	**2016**
Buildings	40	40
Office furniture and equipment	3-10	3-10
Motor vehicles	4-6	4-6
Computer hardware	4	4

Property and equipment (continued)

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	
	2015	2016
Software	4	4
Core banking software	-	6
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 assesses 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.

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

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 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 collateral obtained in foreclosure procedures. 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 in the statement of profit or loss under the 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. In 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.

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.

Taxes on income (continues)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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.

Recognition of income and expenses (continued)

(ii) Net fee and commission income
The Group recognises fee and commission income and expenses from a diverse range of services that are provided to its customers.

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

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

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

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

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

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

(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.

Recognition of income and expenses (continued)

(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 losses 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 Erste Leasing (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.

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

Impairment of non-financial assets
The Group reviews its non-financial assets at each statement of financial position date to assess whether there is an indication of impairment loss that should be recorded in the statement of profit or loss. 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.

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 as of 30 September 2015. As at 31 December 2016 remaining provision was HRK 16 million (31 December 2015: HRK 906 million). Major part of conversion process took place in 2016 which result in decrease in provision.

Due to the mention amendment in Consumer Protection Act described above, the Bank has released most of the provision in 2015 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 2016 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 2016:

- *Amendments to IAS 1: Disclosure Initiative*
- *Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*
- *Annual Improvements to IFRSs 2012-2014 Cycle*

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.
Application of these changes and clarifications did not result in significant changes in the presentation of 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 did not have a significant impact on the Group’s financial statements.

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 did not have a significant impact on the Group’s financial statements.

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 16: Leases*
- *Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses*
- *Amendments to IAS 7: Disclosure Initiative*
- *Amendments to IFRS 2: Classification and Measurement of Shared-based Payment Transaction*

Standards and interpretations not yet effective (continued)

Following standards, amendments and interpretations are already endorsed by the EU:
- *IFRS 9: Financial Instruments*
- *IFRS 15: Revenue from Contracts with Customers including Amendments to IFRS 15: Effective date of IFRS 15*

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 (SPPI) 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 debt instruments 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. Group intends to use this election for some of its investments in equity instruments which are of a long-term nature and do not have quoted market price.

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. IFRS 9 provides an option to apply this requirement early, however the Group does not intend to make use of this option.

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 clarifies rules for accounting for losses resulting from modification of contractual conditions of financial assets.

Based on the accounting policy choice embedded into the transition requirements of IFRS 9, Erste Group will not restate comparative information upon initial application of IFRS 9. Instead, the one-off impact from initial application of IFRS 9 will be reflected in the opening equity as of the initial application date.

During the year 2016, the Erste Group has completed the development of 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. On this basis, Group's entities started the localization of the group-level requirements, both in terms of local implementation of new group-wide solutions (e.g. in respect of fair valuation of non-SPPI non-trading debt instrument assets, or, to some extent, in respect of calculation of expected credit losses), and in terms of adapting existing local solutions to the group-level requirements. As part of this effort, iterative financial impact studies (notably with regards to classification/measurement and impairment of financial assets but gradually also with regards to regulatory capital and ratios) continued across the Group and are planned be further refined throughout the first half of 2017.

Standards and interpretations not yet effective (continued)

Starting with the second half of 2017 a parallel run of the ‘as is’ IAS 39 and the ’to be’ IFRS 9 driven processes for classification, measurement, impairment and disclosure/reporting for financial instruments is planned. At the same time, Group acknowledges that the above mentioned financial impact assessments and the simulated IFRS 9-driven outputs throughout the parallel run will bear an inherent degree of approximation, that is expected to reduce along with different IFRS 9-driven functionalities being implemented, tested and transferred from testing to the bank’s operating systems, at the level of each affected group entity.
On this basis, Group upholds its previous expectations that this standard will have a significant effect on Statement of Financial Position items and measurement methods for financial instruments

In the area of expected credit loss modelling and ensuing impairment loss, the Group believes that one of the key drivers of the expected impact from adopting the new impairment model required by IFRS 9 is the assessment of significant increase in credit risk for exposures that are not identified as credit-impaired. In this respect, across portfolios and product types, quantitative indicators defined for assessing significant increase in credit risk will include adverse change in lifetime probability of default and days-past-due in excess of 30 days. Qualitative indicators will include specific early-warning-system risk type flag (adversely changing since initial recognition), specific forbearance type flag (adversely changing since initial recognition) or work-out transfer flag being assigned. Some of the qualitative indicators (assignments of some specific flag types) will inherently rely on experienced credit risk judgment being exercised adequately and timely. The related group-wide and entity-level credit risk controlling policies and procedures (most of them already in place, some of them in progress of being adapted in preparation for IFRS 9) will ensure the necessary governance framework. Besides the qualitative indicators defined on client level, it is planned to use and perform the assessment of significant increase in credit risk on portfolio level if the increase in credit risk on individual instrument or client level is only available with a certain time lag. The portfolio triggers should cover the unexpected increase in credit risk on portfolio level. However, the exact definition of such portfolio triggers has yet to be stabilized. Also, the Group believes that another significant driver of the expected impact from adopting the IFRS 9 impairment model is incorporation of forward-looking macroeconomic information. In this respect, the Group has developed a methodology for lifetime probabilities of default calculation that requires the application of a macroeconomic overlay. That is, the probabilities of default are modified by using a macroeconomic function as estimated for stress testing purposes. In consideration of these methodological requirements, credit loss allowances are expected to increase more than insignificantly for some non-defaulted exposures.

Also, the Group expects that the structure of the financial statements will be have to be adapted, notably in the light of the new reporting and disclosure requirements of IFRS 7, as triggered by IFRS 9. 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 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. Clarifications to IFRS 15 was issued April 2016. 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.

Amendments to IAS 7: Disclosure Initiative (IASB effective date: 1 January 2017).
Amendments to IAS 7 were issued in January 2016 and are effective for annual periods beginning on or after 1 January 2017. The amendments require disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Application of these amendments is not expected to result in new disclosures .

Standards and interpretations not yet effective (continued)

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 is still assessing 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.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 2 were issued in June 2016 and are effective for annual periods beginning on or after 1 January 2018. The amendments clarify treatment for the effects of vesting conditions on a cash-settled share-based payment transaction, the classification of a share-based payment with net settlement features for with-holding tax obligations and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. 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	**2015**	**2016**	**2015**	**2016**
Interest income				
Financial assets - held for trading	85	41	85	41
Financial assets - available for sale	209	203	191	186
Financial assets - held to maturity	59	74	46	49
Loans and receivables	2,904	2,592	2,290	2,038
Total interest income	**3,257**	**2,910**	**2,612**	**2,314**
Interest expenses				
Financial liabilities - held for trading	(2)	(4)	(2)	(1)
Financial liabilities measured at amortised cost	(1,114)	(840)	(986)	(725)
Other liabilities	(1)	-	-	-
Total interest expense	**(1,117)**	**(844)**	**(988)**	**(726)**
Interest income from negative interest rates	10	-	10	-
Interest expenses from negative interest rates	(2)	(6)	(2)	(6)
Net interest income	**2,148**	**2,060**	**1,632**	**1,582**

2. Net fee and commission income

	GROUP		BANK	
in HRK million	**2015**	**2016**	**2015**	**2016**
Securities	22	17	22	17
Own issues	18	14	18	14
Transfer orders	4	4	4	4
Securities Other	-	(1)	-	(1)
Asset management	18	20	18	20
Custody	5	8	6	5
Payment services	527	546	302	305
Card business	278	288	56	53
Other	249	258	246	252
Customer resources distributed but not managed	16	19	16	18
Collective investment	(1)	(1)	(1)	(1)
Insurance products	14	16	13	15
Building society brokerage	3	4	4	4
Lending business	43	49	32	31
Guarantees given, guarantees received	5	12	1	1
Loan commitments given, loan commitments received	34	32	30	29
Other lending business	4	5	1	1
Other	15	4	17	14
Net fee and commission income	**646**	**663**	**413**	**410**
Fee and commission income	845	865	564	560
Fee and commission expenses	(199)	(202)	(151)	(150)

3. Dividend income

	GROUP		BANK	
in HRK million	**2015**	**2016**	**2015**	**2016**
Financial assets - available for sale	1	1	1	1
Dividend income from equity investments	-	-	54	30
Dividend income	**1**	**1**	**55**	**31**

4. Net trading and fair value result

	GROUP		BANK	
in HRK million	**2015**	**2016**	**2015**	**2016**
Net trading result				
Securities and derivatives trading	45	63	46	63
Foreign exchange transactions	76	159	68	149
Net result on financial assets and liabilities designated at fair value through profit or loss	-	-	-	-
Net trading and fair value result	**121**	**222**	**114**	**212**

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	**2015**	**2016**	**2015**	**2016**
Investment properties	2	3	2	2
Other operating leases	208	175	-	-
Rental income from investment properties & other operating leases	**210**	**178**	**2**	**2**

6. General administrative expenses

	GROUP		BANK	
in HRK million	**2015**	**2016**	**2015**	**2016**
Personnel expenses	**(586)**	**(635)**	**(422)**	**(453)**
Wages and salaries	(494)	(531)	(354)	(378)
Compulsory social security	(77)	(86)	(56)	(60)
Long-term employee provisions	(1)	-	(1)	(1)
Other personnel expenses	(14)	(18)	(11)	(14)
Other administrative expenses	**(598)**	**(593)**	**(413)**	**(431)**
Deposit insurance contribution	(81)	(82)	(71)	(70)
IT expenses	(147)	(133)	(110)	(121)
Expenses for office space	(95)	(100)	(77)	(80)
Office operating expenses	(128)	(124)	(75)	(66)
Advertising/marketing	(71)	(66)	(32)	(36)
Legal and consulting costs	(58)	(64)	(34)	(41)
Sundry administrative expenses	(18)	(24)	(14)	(17)
Depreciation and amortisation	**(249)**	**(236)**	**(50)**	**(42)**
Software and other intangible assets	(22)	(26)	(10)	(8)
Owner occupied real estate	(17)	(16)	(14)	(15)
Investment properties and assets leased to third parties	(162)	(147)	(1)	(1)
Customer relationships	(9)	-	-	-
Office furniture and equipment and sundry property and equipment	(39)	(47)	(25)	(18)
General administrative expenses	**(1,433)**	**(1,464)**	**(885)**	**(926)**

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. In 2016 expense amount for pension contributions was HRK 98 million in the Group (2015: HRK 94 million) and HRK 67 million for the Bank (2015: HRK 64 million).

6. General administrative expenses (continued)

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

	2015	2016
Erste&Steiermärkische Bank d.d.	2,131.08	2,205.61
Erste Card Club d.o.o.	249.98	259.66
Izbor Nekretnina d.o.o.	-	-
Erste Nekretnine d.o.o.	19.65	19.94
Erste Factoring d.d.	27.76	28.14
Erste Group IT HR d.o.o.	-	122.43
Erste bank Podgorica d.d.	238.30	250.45
Erste Card Slovenia d.o.o.	59.21	59.22
Erste&Steiermärkische S-Leasing d.o.o.	66.71	76.62
Total	**2,792.69**	**3,022.07**

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

		GROUP		BANK
in HRK million	**2015**	**2016**	**2015**	**2016**
Gains/losses from sale of financial assets available for sale	3	65	1	50
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	**3**	**65**	**1**	**50**

In June 2016 the Group and the Bank sold its shares in VISA Europe Ltd. which resulted in a gain related to the sale of shares of HRK 75 million for the Group and HRK 63 million for the Bank.

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

		GROUP		BANK
in HRK million	**2015**	**2016**	**2015**	**2016**
Financial assets - available for sale	-	-	-	-
Loans and receivables	(1,274)	(357)	(1,248)	(359)
Allocation to risk provisions	(3,135)	(2,155)	(2,764)	(1,832)
Release of risk provisions	1,710	1,642	1,386	1,367
Direct write-offs	(4)	(6)	(2)	(4)
Recoveries recorded directly to the statement of profit or loss	155	162	132	110
Financial assets - held to maturity	-	(7)	-	(4)
Net impairment loss on financial assets not measured at fair value through profit or loss	**(1,274)**	**(364)**	**(1,248)**	**(363)**

9. Other operating result

		GROUP		BANK
in HRK million	**2015**	**2016**	**2015**	**2016**
Result from properties/movables/other intangible assets other than goodwill	10	(83)	19	(75)
Allocation to/release of other provisions	(938)	59	(939)	42
Loan Conversion expenses	(986)	16	(986)	16
Allocation to/release of provisions for commitments and guarantees given	(37)	(45)	(28)	(39)
Other taxes	(25)	(26)	(18)	(19)
Impairment of goodwill	(334)	(53)	-	-
Impairment of investment in subsidiaries	-	-	(334)	(53)
Result from other operating expenses/income	(41)	(9)	(25)	(23)
Other operating result	**(1,365)**	**(157)**	**(1,325)**	**(167)**

9. Other operating result (continued)

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. On 31 December 2016 the Group had release in amount of HRK 16 million (for details please see note d) Significant Accounting Judgements, assumptions and estimates).

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).

In result of properties/moveable's/other intangible assets other than goodwill, the impairment losses of property, plant and equipment, intangible asset and foreclosed assets are included. In 2016 the Group and Bank impairment losses for foreclosed asset were HRK 88 million and HRK 82 million, respectively.

Recovery and Resolution Fund

In the line Result from other operating expense/income contributions to the national resolution funds payable in 2015 for the first time in the amount of HRK 32 million and for 2016 in the amount of HRK 39 million for the Group and the Bank are disclosed. The contributions are based on the European Recovery and Resolution Directive, which, inter alia, establishes a financing mechanism for the resolution of credit institutions. As a consequence, banks are required to contribute annually to a resolution fund, which in first step is installed on a national level. According to these regulations, until 31 December 2024 the available financial means to resolution funds shall reach at least 1% of the amount of covered deposits of all the credit institutions authorized within the European Union. Therefore the resolution funds have to be built over 10 years, during which the contributions shall be spread out as even as possible until target level is reached.

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	**2015**	**2016**	**2015**	**2016**
Current tax expense / income	(63)	(88)	-	(37)
Current period	(63)	(88)	-	(37)
Prior period	-	-	-	-
Deferred tax expense / income	227	(212)	229	(167)
Current period	223	(212)	229	(167)
Prior period	4	-	-	-
Total	**164**	**(300)**	**229**	**(204)**

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 2015 and 2016).

	GROUP		BANK	
in HRK million	**2015**	**2016**	**2015**	**2016**
Pre-tax profit/loss	(933)	1,213	(1,241)	830
Income tax expense for the financial year at the domestic statutory tax rate (20%)	187	(243)	248	(166)
Impact of different foreign tax rates	6	7	-	7
Impact of tax-exempt earnings of investments and other tax-exempt income	79	14	13	(29)
Tax increases due to non-deductible expenses, additional business tax and similar elements	(45)	(39)	(32)	-
Impact from taxable participation impairment	(67)	(10)	-	-
Tax income not attributable to the reporting period	4	1	-	-
Tax income/(expense) out of changes of the tax rate	-	(30)	-	(16)
Total	**164**	**(300)**	**229**	**(204)**
Effective tax rate	**18%**	**25%**	**18%**	**25%**

From 01 January 2017 corporate income tax rate will be reduced from 20% to 18% in Croatia. In respect of this change, the Group and the Bank already decreased deferred tax asset and liability. The effect of change of deferred tax asset and liability was shown in Profit or Loss under the line Tax on income in amount of HRK 30 million for the Group and HRK 16 million for the Bank.

11. Cash and cash balances

	GROUP		BANK	
in HRK million	2015	2016	2015	2016
Cash on hand	1,187	1,216	1,093	1,101
Cash balances at central banks	3,350	2,624	3,074	2,186
Other demand deposits	762	548	680	450
Cash and cash balances	**5,299**	**4,388**	**4,847**	**3,737**

Analysis of cash and cash equivalents for statement of cash flow

	GROUP		BANK	
in HRK million	2015	2016	2015	2016
Cash on hand	1,187	1,216	1,093	1,101
Cash balances at central banks	3,350	2,624	3,074	2,186
Other demand deposits	762	548	680	450
Placement with banks with maturity up to 3 months	742	151	588	150
Cash and cash equivalents	**6,041**	**4,539**	**5,435**	**3,887**

12. Derivatives - held for trading

						GROUP
			2015			2016
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	**7,807**	**47**	**47**	**5,666**	**73**	**71**
Interest rate	992	7	8	374	6	5
Foreign exchange	6,815	40	39	5,292	67	66
Other	-	-	-	-	-	-
Derivatives held in the banking book	**9,849**	**14**	**56**	**1,901**	**-**	**6**
Foreign exchange	9,849	14	56	1,901	-	6
Total	**17,656**	**61**	**103**	**7,567**	**73**	**77**

						BANK
			2015			2016
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	**8,181**	**50**	**47**	**5,821**	**76**	**71**
Interest rate	1,175	10	8	529	9	5
Foreign exchange	7,006	40	39	5,292	67	66
Other	-	-	-	-	-	-
Derivatives held in the banking book	**9,811**	**14**	**56**	**1,901**	**-**	**5**
Foreign exchange	9,811	14	56	1,901	-	5
Total	**17,992**	**64**	**103**	**7,722**	**76**	**76**

13. Other trading assets

	GROUP		BANK	
in HRK million	2015	2016	2015	2016
Equity instruments	4	-	-	-
Debt securities	168	-	168	-
General governments	168	-	168	-
Other trading assets	**172**	**-**	**168**	**-**

Financial assets and liabilities held for trading are measured at fair value based on quoted prices. In circumstances where quoted market prices are not readily available, the fair value of those securities is estimated using the present value of future cash flows.
As of 31 December 2016 there is no financial assets held for trading. As of 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 Croatian issuers.

14. Financial assets - available for sale

	GROUP		BANK	
in HRK million	2015	2016	2015	2016
Equity instruments	327	266	183	123
Debt securities	6,497	7,566	6,262	7,131
General governments	5,975	6,647	5,625	6,212
Credit institutions	383	378	498	378
Other financial corporations	-	322	-	322
Non-financial corporations	139	219	139	219
Financial assets - available for sale	**6,824**	**7,832**	**6,445**	**7,254**

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, 181, 364, 546 and 728 days.
During 2016, the average interest yields on HRK denominated treasury bills were 0.42% for treasury bills with a maturity of 91 days, 0.46% for treasury bills with a maturity of 181 days and 1.25% for treasury bills with a maturity of 364 days. The average interest yields on the currency clause EUR denominated treasury bills were 0.20% for treasury bills with a maturity of 91 days and 0.32% for treasury bills with a maturity of 364 days. The average interest yields on EUR treasury bills were 1.33% for treasury bills with a maturity of 546 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.
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 2017 to 2022 and bear coupon interest from 2.750% 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 2017 to 2018 and bear coupon interest from 1.500% to 4.625% p.a. Bonds of United States of America are fixed income debt securities denominated in USD and listed on stock exchanges. These bonds have maturity in 2018 and bear coupon interest of 0.750% p.a.

14. Financial assets - available for sale (continued)

Also, in financial investments available for sale are bonds issued by European Investment Bank with variable coupon (last coupon 0.000%) and also bonds issued by KfW Bank from 0.875% to 1.661% p.a. (bond linked to 3M libor).
Treasury bills of the Croatian Ministry of Finance with maturity in 2017, and with interest rate from of 0.700% are EUR 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.

			2015		2016
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	492	499	474	496

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		2016
in HRK million	**Profit or loss**	**OCI**	**Profit or loss**	**OCI**
Debt securities reclassified from Available for sale to held to maturity				
Interest income	28	-	28	-
Net change in fair value	-	-	-	-
Amount transferred from fair value reserve to profit or loss	-	(12)	-	(15)
Total	**28**	**(12)**	**28**	**(15)**

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

		2015		2016
in HRK million	**Profit or loss**	**OCI**	**Profit or loss**	**OCI**
Debt securities reclassified from Available for sale to held to maturity				
Interest income	16	-	13	-
Net change in fair value	-	(9)	-	(3)
Amount transferred from fair value reserve to profit or loss	-	-	-	-
Total	**16**	**(9)**	**13**	**(3)**

15. Financial assets - held to maturity

GROUP

in HRK million	Gross carrying amount 2015	Gross carrying amount 2016	Collective allowances 2015	Collective allowances 2016	Net carrying amount 2015	Net carrying amount 2016
Debt securities						
General governments	1,433	1,502	(1)	(4)	1,432	1,498
Non-financial corporations	-	159	-	(4)	-	155
Total	**1,433**	**1,661**	**(1)**	**(8)**	**1,432**	**1,653**

BANK

in HRK million	Gross carrying amount 2015	Gross carrying amount 2016	Collective allowances 2015	Collective allowances 2016	Net carrying amount 2015	Net carrying amount 2016
Debt securities						
General governments	890	983	(1)	(1)	889	982
Non-financial corporations	-	159	-	(4)	-	155
Total	**890**	**1,142**	**(1)**	**(5)**	**889**	**1,137**

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. Bonds of Montenegro are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturity in 2020 and bear coupon interest of 4.000% p.a. Bonds of Zagrebački holding are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturity in 2023 and bear coupon interest of 3.875% p.a.
The fair value of financial investments held to maturity for the Group and the Bank is approximately HRK 51.4 million higher than their value as at 31 December 2016 (2015: HRK 26.3 million higher).

Allowances for financial assets – held to maturity

GROUP

in HRK million	As at 2015	Allocations	Uses	Releases	Exchange-rate and other changes (+/-)	As at 2016
Collective allowances						
Debt securities	(1)	(7)	-	-	-	(8)
General governments	(1)	(3)	-	-	-	(4)
Non-financial corporations	-	(4)	-	-	-	(4)
Total	**(1)**	**(7)**	**-**	**-**	**-**	**(8)**

BANK

in HRK million	As at 2015	Allocations	Uses	Releases	Exchange-rate and other changes (+/-)	As at 2016
Collective allowances						
Debt securities	(1)	(4)	-	-	-	(5)
General governments	(1)	-	-	-	-	(1)
Non-financial corporations	-	(4)	-	-	-	(4)
Total	**(1)**	**(4)**	**-**	**-**	**-**	**(5)**

16. Securities

GROUP

in HRK million	Loans to and receivables from customers and credit institutions 2015	2016	Financial assets: Held for trading 2015	2016	Available for sale 2015	2016	Held to maturity 2015	2016	Total 2015	2016
Bonds and other interest-bearing securities	**-**	**-**	**168**	**-**	**6,497**	**7,566**	**1,432**	**1,653**	**8,097**	**9,219**
Listed	-	-	130	-	6,350	7,444	1,432	1,653	7,912	9,097
Unlisted	-	-	38	-	147	122	-	-	185	122
Equity-related securities	**-**	**-**	**4**	**-**	**306**	**245**	**-**	**-**	**310**	**245**
Listed	-	-	4	-	220	206	-	-	224	206
Unlisted	-	-	-	-	86	39	-	-	86	39
Equity holdings	**-**	**-**	**-**	**-**	**21**	**21**	**-**	**-**	**21**	**21**
Total	**-**	**-**	**172**	**-**	**6,824**	**7,832**	**1,432**	**1,653**	**8,428**	**9,485**

BANK

in HRK million	Loans to and receivables from customers and credit institutions 2015	2016	Financial assets: Held for trading 2015	2016	Available for sale 2015	2016	Held to maturity 2015	2016	Total 2015	2016
Bonds and other interest-bearing securities	**-**	**-**	**168**	**-**	**6,262**	**7,131**	**889**	**1,137**	**7,319**	**8,268**
Listed	-	-	130	-	6,016	7,009	889	1,137	7,035	8,146
Unlisted	-	-	38	-	246	122	-	-	284	122
Equity-related securities	**-**	**-**	**-**	**-**	**162**	**102**	**-**	**-**	**162**	**102**
Listed	-	-	-	-	80	69	-	-	80	69
Unlisted	-	-	-	-	82	33	-	-	82	33
Equity holdings	**-**	**-**	**-**	**-**	**21**	**21**	**-**	**-**	**21**	**21**
Total	**-**	**-**	**168**	**-**	**6,445**	**7,254**	**889**	**1,137**	**7,502**	**8,391**

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
2016				
Loans and advances	5,332	-	(3)	5,329
Central banks	3,132	-	(1)	3,131
Credit institutions	2,200	-	(2)	2,198
Total	**5,332**	**-**	**(3)**	**5,329**
2015				
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**

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
	2015						**2016**		
Collective allowances									
Loans and advances	(3)	(17)	-	17	-	-	(3)	-	-
Central banks	(2)	-	-	1	-	-	(1)	-	-
Credit institutions	(1)	(17)	-	16	-	-	(2)	-	-
Total	**(3)**	**(17)**	**-**	**17**	**-**	**-**	**(3)**	**-**	**-**
	2014						**2015**		
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)**	**-**	**-**

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
2016				
Loans and advances	5,322	-	(2)	5,320
Central banks	3,132	-	(1)	3,131
Credit institutions	2,190	-	(1)	2,189
Total	**5,322**	**-**	**(2)**	**5,320**
2015				
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**

With respect to the Decision on Reserve Requirement imposed by the CNB, the Bank is obliged to calculate and maintain an obligatory reserve for sources of funding. Received deposits and loans, issued debt securities, hybrid and subordinated instruments and other financial liabilities are the base for reserve requirement calculation. Calculation period lasts from the first to the last day of a calendar month.

The reserve requirement calculation rate for 2016 and 2015 is 12%.
In the calculation, 75% of total calculated foreign currency obligatory reserve is included into calculated HRK component of reserve requirement and is allocated in HRK.
The percentage for allocating HRK reserve requirements on special account with the CNB amounts 70%, while the remaining portion of the amount, 30% shall be maintained through average daily balances in the settlement account and in the clearing account with the NCS. Percentage for allocating foreign currency (FCY) reserve requirement amounts 0%, while maintenance shall be carried out through average daily balances of liquid foreign exchange claims against OECD countries and credit institutions in OECD countries (with lowest rating criteria as defined by CNB), funds in own foreign exchange settlement accounts with the CNB and foreign exchange cash and cheques denominated in FCY.

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
	2015						**2016**		
Collective allowances									
Loans and advances	(3)	(17)	-	18	-	-	(2)	-	-
Central banks	(2)	-	-	1	-	-	(1)	-	-
Credit institutions	(1)	(17)	-	17	-	-	(1)	-	-
Total	**(3)**	**(17)**	**-**	**18**	**-**	**-**	**(2)**	**-**	**-**
	2014						**2015**		
Collective allowances									
Loans and advances	(3)	(32)	-	32	-	-	(3)	-	-
Central banks	(2)	(18)	-	18	-	-	(2)	-	-
Credit institutions	(1)	(14)	-	14	-	-	(1)	-	-
Total	**(3)**	**(32)**	**-**	**32**	**-**	**-**	**(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
2016				
Loans and advances to customers	47,511	(3,376)	(479)	43,656
General governments	10,357	(1)	(27)	10,329
Other financial corporations	471	(7)	(3)	461
Non-financial corporations	17,099	(2,005)	(268)	14,826
Households	19,584	(1,363)	(181)	18,040
Total	**47,511**	**(3,376)**	**(479)**	**43,656**
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**

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
	2015						**2016**		
Specific allowances									
Loans and advances to customers	(4,844)	(1,431)	1,838	928	95	38	(3,376)	162	(6)
General governments	-	(1)	-	-	-	-	(1)	-	-
Other financial corporations	(2)	(7)	1	1	-	-	(7)	-	-
Non-financial corporations	(2,941)	(849)	1,276	434	52	23	(2,005)	58	(2)
Households	(1,901)	(574)	561	493	43	15	(1,363)	104	(4)
Collective allowances									
Loans and advances to customers	(468)	(707)	-	697	-	(1)	(479)	-	-
General governments	(25)	(11)	-	9	-	-	(27)	-	-
Other financial corporations	(6)	(41)	-	43	-	1	(3)	-	-
Non-financial corporations	(267)	(346)	-	347	-	(2)	(268)	-	-
Households	(170)	(309)	-	298	-	-	(181)	-	-
Total	**(5,312)**	**(2,138)**	**1,838**	**1,625**	**95**	**37**	**(3,855)**	**162**	**(6)**
	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)**

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
2016				
Loans and advances to customers	39,390	(2,787)	(349)	36,254
General governments	9,657	-	(26)	9,631
Other financial corporations	1,042	(2)	(5)	1,035
Non-financial corporations	12,818	(1,803)	(218)	10,797
Households	15,873	(982)	(100)	14,791
Total	**39,390**	**(2,787)**	**(349)**	**36,254**
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**

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
	2015						**2016**		
Specific allowances									
Loans and advances to customers	(3,999)	(1,254)	1,561	778	92	35	(2,787)	110	(4)
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	(2)	(1)	1	-	-	-	(2)	-	-
Non-financial corporations	(2,621)	(812)	1,150	406	51	23	(1,803)	52	(2)
Households	(1,376)	(441)	410	372	41	12	(982)	58	(2)
Collective allowances									
Loans and advances to customers	(360)	(561)	-	571	-	1	(349)	-	-
General governments	(23)	(11)	-	8	-	-	(26)	-	-
Other financial corporations	(5)	(46)	-	45	-	1	(5)	-	-
Non-financial corporations	(214)	(259)	-	255	-	-	(218)	-	-
Households	(118)	(245)	-	263	-	-	(100)	-	-
Total	**(4,359)**	**(1,815)**	**1,561**	**1,349**	**92**	**36**	**(3,136)**	**110**	**(4)**
	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)**

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		2015	2016	2015	2016	2015	2016
Erste Nekretnine d.o.o.	Real estate business	100%	100%	4	4	1	1
Erste Factoring d.o.o.	Accounts receivables repurchase	74,996%	74,996%	323	394	38	38
Erste Card Club d.o.o.	Financial intermediation and services	100%	100%	712	829	755	703
Erste Card d.o.o. Slovenia	Financial intermediation and services	100%	100%	14	16	-	-
Izbor Nekretnina d.o.o.	Real estate management and lease	100%	100%	-	40	-	39
Erste Bank A.D., Podgorica	Credit institution	100%	100%	397	454	100	100
Erste&Steiermarkische S-leasing d.o.o.	Leasing company	50%	50%	240	271	89	89
Erste Group IT HR d.o.o.	IT engineering	20%	80%		5		2
Total subsidiaries:				**1,690**	**2,013**	**983**	**972**

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

- Erste Factoring (25.004%)
- Erste & Steiermarkische S-leasing d.o.o. (50%)
- Erste Group IT HR d.o.o. (20%)

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 and additional HRK 53 million during 2016. 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.		Erste Group IT HR d.o.o.	
in HRK million	2015	2016	2015	2016	2015	2016	2015	2016
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%	-
IFRS Classification	Associate	Associate	Associate	Associate	Associate	Associate	Associate	-
Reporting currency	HRK	HRK	HRK	HRK	HRK	HRK	HRK	-
Dividend income received	-	-	-	-	7	10	-	-
Impairment loss recognized (cumulative basis)	-	-	34	34	-	-	-	-
Impairment loss recognized (for the reporting year)	-	-	-	-	-	-	-	-
Investee's key financial information for the reporting year (as at reporting-year-end)								
Financial assets	3	1	6	2	108	102	13	-
Other assets	10	1	69	36	18	14	50	-
Financial liabilities	(20)	(25)	(85)	(83)	-	-	(46)	-
Other liabilities	(10)	-	(1)	-	(15)	(7)	(13)	-
Revenue	1	1	5	1	62	64	98	-
Expense	(11)	(7)	(14)	(35)	(40)	(43)	(97)	-
								-
Investment at cost	-	-	-	-	38	38	-	-
Reconciliation of investee's net assets against equity investment's carrying amount	-	-	-	-	22	21	1	-
Net assets attributable to the Group	-	-	-	-	60	59	1	-

On 07 December 2015 Erste Card d.o.o. Slovenia increased subscribed capital by HRK 7,627,289 (original currency EUR 1,000,000).

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 2015	**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**
Additions (+)	109	24	43	227	403	40
Disposals (-)	(26)	(24)	(25)	(254)	(329)	-
Acquisition of subsidiaries (+)	-	1	110	-	111	-
Reclassification (+/-)	-	-	-	-	-	-
Balance as at 31 December 2016	**848**	**311**	**291**	**902**	**2,352**	**73**

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 2015	**(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)**
Amortisation and depreciation (-)	(16)	(20)	(27)	(146)	(209)	(1)
Disposals (+)	10	14	19	143	186	-
Acquisition of subsidiaries (-)	-	-	(77)	-	(77)	-
Reclassification (+/-)	-	(1)	4	-	3	-
Balance as at 31 December 2016	**(241)**	**(242)**	**(205)**	**(355)**	**(1,043)**	**(14)**

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 2015	**530**	**75**	**39**	**577**	**1,221**	**20**
Balance as at 31 December 2016	**607**	**69**	**86**	**547**	**1,309**	**59**

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 2015	**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**
Additions (+)	7	18	19	-	44	19
Disposals (-)	-	(19)	(13)	-	(32)	-
Merger of subsidiary	-	-	-	-	-	-
Reclassification (+/-)	-	1	(1)	-	-	-
Balance as at 31 December 2016	**695**	**261**	**87**	**-**	**1,043**	**49**

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 2015	**(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)**
Amortisation and depreciation (-)	(15)	(15)	(3)	-	(33)	(1)
Disposals (+)	-	11	13	-	24	-
Merger of subsidiary	-	-	-	-	-	-
Balance as at 31 December 2016	**(223)**	**(205)**	**(67)**	**-**	**(495)**	**(13)**

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 2015	**480**	**60**	**5**	**-**	**545**	**18**
Balance as at 31 December 2016	**472**	**56**	**20**	**-**	**548**	**36**

The carrying amount of expenditure recognised in the items fixed assets during their construction is HRK 103 million for the Group and HRK 11 million for the Bank (2015: HRK 33 million and HRK 26 million for the Group and the Bank respectively). The contractual commitments for purchase of fixed assets are HRK 9 million for the Group and HRK 8 million for the Bank as at 31 December 2016 (2015: HRK 2 million for Group and the Bank).
Tangible asset under operating leasing in Erste Leasing amounted to HRK 547 million as at 31 December 2016 (2015: HRK 578 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. 2015	**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**
Additions (+)	-	-	55	10	65
Disposals (-)	-	-	(4)	(19)	(23)
Acquisition of subsidiaries (+)	-	-	31	3	34
Adjustment (+/-)	-	-	-	-	-
Reclassification (+/-)	-	-	(46)	58	12
Balance as at 31 December 2016	**603**	**181**	**249**	**144**	**1,177**

B) ACCUMULATED DEPRECIATION

					GROUP
		Accumulated depreciation			
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2015	**-**	**(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)**
Amortisation and depreciation (-)	-	-	(14)	(12)	(26)
Disposals (+)	-	-	8	1	9
Acquisition of subsidiaries (-)	-	-	(19)	(3)	(22)
Impairment (-)	(53)	-	-	-	(53)
Adjustment (+/-)	-	-	-	-	-
Reclassification (+/-)	-	-	28	(43)	(15)
Balance as at 31 December 2016	**(387)**	**(181)**	**(106)**	**(113)**	**(787)**

C) CARRYING AMOUNTS

					GROUP
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 31 December 2015	**269**	**-**	**104**	**36**	**409**
Balance as at 31 December 2016	**216**	**-**	**143**	**31**	**390**

Goodwill and customer relationship in whole relates to Erste Card Club d.o.o.

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 2015	**-**	**-**	**98**	**73**	**171**
Additions in current year (+)	-	-	33	5	38
Disposals (-)	-	-	-	(3)	(3)
Reclassification (+/-)	-	-	(11)	6	(5)
Balance as at 31 December 2015	**-**	**-**	**120**	**81**	**201**
Additions (+)	-	-	41	5	46
Disposals (-)	-	-	-	(1)	(1)
Reclassification (+/-)	-	-	-	-	-
Balance as at 31 December 2016	**-**	**-**	**161**	**85**	**246**

B) ACCUMULATED DEPRECIATION

					BANK
		Accumulated depreciation			
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2015	**-**	**-**	**(63)**	**(60)**	**(123)**
Amortisation and depreciation (-)	-	-	(7)	(3)	(10)
Disposals (+)	-	-	-	4	4
Reclassification (+/-)	-	-	9	(9)	-
Balance as at 31 December 2015	**-**	**-**	**(61)**	**(68)**	**(129)**
Amortisation and depreciation (-)	-	-	(5)	(3)	(8)
Disposals (+)	-	-	-	1	1
Reclassification (+/-)	-	-	-	-	-
Balance as at 31 December 2016	**-**	**-**	**(66)**	**(70)**	**(136)**

C) CARRYING AMOUNTS

					BANK
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 31 December 2015	**-**	**-**	**59**	**13**	**72**
Balance as at 31 December 2016	**-**	**-**	**95**	**15**	**110**

Software acquired column relates to core banking system. Increase in comparison with last year relates to the optimization and new features of core banking system.

21. Intangible assets (continued)

Goodwill

The goodwill impairment assessment for the year 2016 and 2015 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 2016 till 2021. Discount rate applied to determine the value in use was 12.88% (2015: 11.48%). 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 2021 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 2021. 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 53 million in 2016 and HRK 334 million 2015.

Following table show sensitivity analysis of the recoverable value dependent of investment in Erste Card Club d.o.o. on the main variables (terminal growth rate, beta factor and risk free rate):

2016		Risk free rate	
Beta Factor	(0.1)%	0.9%	1.9%
0.8	1,268	1,172	1,094
1.1	1,087	**1,024**	971
1.4	966	921	881

2016		Risk free rate	
TV growth rate	(0.1)%	0.9%	1.9%
1.9%	1,076	1,017	967
2.9%	1,089	**1,024**	970
3.9%	1,105	1,033	975

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

22. Tax assets and liabilities

GROUP

in HRK million	Tax assets 2015	Tax assets 2016	Tax liabilities 2015	Tax liabilities 2016	Net variance 2016 Total	Net variance 2016 Through profit or loss	Net variance 2016 Through other compre-hensive income
Temporary differences relate to the following items:							
Loans and advances to credit institutions and customers	191	133	-	-	(58)	58	-
Financial assets - available for sale	-	-	(61)	(56)	5	10	(15)
Property and equipment	1	1	-	-	-	-	-
Investments in subsidiaries, joint ventures and associates	67	76	-	-	9	(9)	-
Long-term employee provisions	1	1	-	-	-	-	-
Sundry provisions	5	2	-	-	(3)	3	-
Carry forward of tax losses	145	1	-	-	(144)	144	-
Customer relationships and brand	-	-	-	-	-	-	-
Other	65	61	-	(2)	(6)	6	-
Effect of netting gross deferred tax position	(60)	(56)	60	56	-	-	-
Total deferred taxes	**415**	**219**	**(1)**	**(2)**	**(197)**	**212**	**(15)**
Current taxes	**100**	**30**	**(5)**	**(12)**			
Total taxes	**515**	**249**	**(6)**	**(14)**			

BANK

in HRK million	Tax assets 2015	Tax assets 2016	Tax liabilities 2015	Tax liabilities 2016	Net variance 2016 Total	Net variance 2016 Through profit or loss	Net variance 2016 Through other compre-hensive income
Temporary differences relate to the following items:							
Loans and advances to credit institutions and customers	33	25	-	-	(8)	8	-
Financial assets - available for sale	-	-	(58)	(50)	8	8	(16)
Investments in subsidiaries, joint ventures and associates	67	76	-	-	9	(9)	-
Long-term employee provisions	1	-	-	-	(1)	1	-
Sundry provisions	1	1	-	-	-	-	-
Carry forward of tax losses	144	-	-	-	(144)	144	-
Other	53	38	-	-	(15)	15	-
Effect of netting gross deferred tax position	(58)	(50)	58	50	-	-	-
Total deferred taxes	**241**	**90**	**-**	**-**	**(151)**	**167**	**(16)**
Current taxes	**84**	**10**	**-**	**-**			
Total taxes	**325**	**100**	**-**	**-**			

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 2016 and 2015 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 which were used in 2016.

23. Other assets

	GROUP		BANK	
in HRK million	2015	2016	2015	2016
Prepayments and accrued income	45	58	36	39
Allowances for impairment	*(14)*	*(16)*	*(9)*	*(9)*
Inventories	584	620	552	587
Value adjustments of inventories	*(40)*	*(112)*	*(20)*	*(90)*
Sundry assets	42	57	12	10
Other assets	**617**	**607**	**571**	**537**

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

in HRK million	GROUP		BANK	
	2015	2016	2015	2016
Balance at as 1 January	**10**	**14**	**10**	**9**
Release of previously recognized allowances	(3)	(3)	(3)	(3)
Additional allowances	11	9	6	6
Amounts written off	(4)	(4)	(4)	(3)
Balance as at 31 December	**14**	**16**	**9**	**9**

In line Inventories the Group holds collateral obtained in foreclosure procedures which Group has intention to sell in upcoming years.
In 2016 the Group and the Bank recognised impairment of inventories in amount of HRK 88 million (2015: HRK 22 million) and HRK 82 million (2015: HRK 10 million), respectively.

24. Financial liabilities measured at amortised costs

Deposits from banks

	GROUP		BANK	
in HRK million	2015	2016	2015	2016
Overnight deposits	452	192	473	235
Term deposits	14,526	10,362	8,947	5,044
Subordinated loan	1,073	1,062	1,073	1,062
Repurchase agreements	123	36	88	-
Deposits from banks	**16,174**	**11,652**	**10,581**	**6,341**

24. Financial liabilities measured at amortised costs (continued)

Deposits from customers

	GROUP		BANK	
in HRK million	**2015**	**2016**	**2015**	**2016**
Overnight deposits	**12,457**	**15,876**	**11,724**	**15,005**
Savings deposits	1,700	2,521	1,700	2,521
Other financial corporations	168	467	168	467
Non-financial corporations	297	678	297	678
Households	1,235	1,376	1,235	1,376
Non-savings deposits	10,757	13,355	10,024	12,484
General governments	686	649	654	635
Other financial corporations	333	231	496	509
Non-financial corporations	4,163	5,322	3,909	4,898
Households	5,575	7,153	4,965	6,442
Term deposits	**28,131**	**26,663**	**27,073**	**25,509**
Deposits with agreed maturity	27,400	26,490	26,342	25,335
Savings deposits	24,543	23,400	24,074	23,054
Other financial corporations	1,245	1,090	1,471	1,431
Non-financial corporations	1,744	1,779	1,748	1,782
Households	21,554	20,531	20,855	19,841
Non-savings deposits	2,857	3,090	2,268	2,281
General governments	2,388	2,457	2,268	2,281
Other financial corporations	28	48	-	-
Non-financial corporations	436	581	-	-
Households	5	4	-	-
Deposits redeemable at notice	731	173	731	174
General governments	3	4	3	4
Other financial corporations	4	2	4	2
Non-financial corporations	691	130	691	130
Households	33	37	33	38
Repurchase agreements	**857**	**784**	**857**	**784**
General governments	300	-	300	-
Non-financial corporations	557	784	557	784
Deposits from customers	**41,445**	**43,323**	**39,654**	**41,298**
General governments	**3,377**	**3,110**	**3,225**	**2,920**
Other financial corporations	**1,778**	**1,838**	**2,139**	**2,409**
Non-financial corporations	**7,888**	**9,274**	**7,202**	**8,272**
Households	**28,402**	**29,101**	**27,088**	**27,697**
Other financial liabilities	**684**	**788**	**54**	**157**

Debt securities issued

	GROUP		BANK	
in HRK million	**2015**	**2016**	**2015**	**2016**
Subordinated liabilities	629	622	629	622
Subordinated issues	629	622	629	622
Other debt securities issued	302	302	302	302
Bonds	302	302	302	302
Debt securities issued	**931**	**924**	**931**	**924**

24. Financial liabilities measured at amortised costs (continued)

On 31 December 2016 the Bank's long-term funding amounted EUR 908 million, out of which subordinated funding amounted EUR 220 million. Subordinated funding consists of three loans in total amount of EUR 140 million and bond in amount of EUR 80 million.
Bank withdrew first subordinated loan in June, 2011 (maturity 31 December 2022). New subordinated loan agreement was signed in 2014 pursuant to which Bank withdrew EUR 80 million (maturity 09 July 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 (maturity 19 March 2022). Interest rate on stated subordinated loans amounts 3 month EURIBOR plus margin, while weighted average margin amounts 3.82%. Also, in July 2011, bank issued its own subordinated bond in amount of EUR 80 million. Maturity of the bond is 6 years with interest to maturity 6.5% p.a.

Apart from subordinated loans and bond, structure of Bank's long-term funding consists of financing from Erste Group Bank AG and Steiermärkische Bank und Sparkassen AG, issuance of HRK bond on the domestic market and credit lines from supranational institutions, European Investment Bank (EIB) and European Bank for Reconstruction and Development (EBRD). On 31 December 2016 bank's long-term funding, excluding subordinated loans and bond, amounted EUR 688 million, out of which EUR 40 million relates to HRK bond (in original currency HRK 300 million).

Erste Bank a.d., Podgorica did not have any subordinated funding lines in their Statement of Financial Position for the year ended 2016.

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. 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 2016 and 2015.

25. Provisions

	GROUP		BANK	
in HRK million	2015	2016	2015	2016
Long-term employee provisions	14	14	9	9
Pending legal issues and tax litigation	122	69	95	62
Provision for commitments and guarantees given	116	161	90	129
Other provision	917	16	917	16
Provisions for loan conversion	906	16	906	16
Other remaining provisions	11	-	11	-
Provisions	**1,169**	**260**	**1,111**	**216**

a) Long-term employee provisions

	GROUP		
in HRK million	Pensions	Jubilee payments	Total
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**
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 2016	**6**	**8**	**14**

25. Provisions (continued)

			BANK
in HRK million	**Pensions**	**Jubilee payments**	**Total**
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**
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 2016	**3**	**6**	**9**

Actuarial assumptions

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

in %	2015	2016
Interest rate	4.20	3.54
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 2016

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

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
2017	-	1	1
2018	-	1	1
2019	-	1	1
2020	1	-	1
2021	1	-	1
2022 (2025)	1	3	4

Duration

The following table presents the weighted average duration of the defined-benefit obligations as of year end 2016

in years	Pensions	Jubilee payments	Total
Duration	14.40	11.01	13.00

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

Sundry provisions 2016

						GROUP
in HRK million	**2015**	**Allocations**	**Use**	**Releases**	**Reclassifi-cation**	**2016**
Provisions for contingent credit risk liabilities	116	297	-	(252)	-	161
Provisions for legal proceedings and litigations	122	13	(10)	(56)	-	69
Other provision	917	39	(924)	(16)	-	16
Provision for loan conversion	906	-	(874)	(16)	-	16
Other other provision	11	39	(50)	-	-	-
Total	**1,155**	**349**	**(934)**	**(324)**	**-**	**246**

						BANK
in HRK million	**2015**	**Allocations**	**Use**	**Releases**	**Reclassifi-cation**	**2016**
Provisions for contingent credit risk liabilities	90	282	-	(243)	-	129
Provisions for legal proceedings and litigations	95	13	(7)	(39)	-	62
Other provision	917	39	(924)	(16)	-	16
Provision for loan conversion	906	-	(874)	(16)	-	16
Other other provision	11	39	(50)	-	-	-
Total	**1,102**	**334**	**(931)**	**(298)**	**-**	**207**

25. Provisions (continued)

Sundry provisions 2015

							GROUP
in HRK million	2014	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	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**

26. Other liabilities

		GROUP		BANK
in HRK million	2015	2016	2015	2016
Prepayments received from borrowers	152	155	152	148
Salaries and bonuses payable	141	173	111	130
Deferred income and accrued fee expenses	91	100	7	7
Payables to State Agency for deposit	21	21	18	17
Sundry liabilities	203	129	137	76
Other liabilities	**608**	**578**	**425**	**378**

27. Total equity

Share capital

As at 31 December 2016 and 2015 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 2016 the legal reserves of the Bank disclose non-distributable reserves of HRK 85 million, as at 31 December 2015 legal reserves amounted to HRK 85 million.
Share premium as at 31 December 2016 and 2015 amounted to HRK 1,802 million.

Dividends

The dividends for 2016 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. Due to occurred losses for the year 2015 the Bank did not paid out the dividend.

28. Segment reporting

Business segmentation

The EBC segment reporting comprises four operating segments reflecting EBC management structure.

Erste Group- Business segments and Business lines										
EBC operating segments	Retail	Corporates					ALM/LCC		Group Markets	
EBC business lines	Retail	Small and medium- sized enterprises	Public Sector	Local Large Corporates	Commercial Real Estate	Group Large Corporates	ALM/LCC	FREE CAPITAL	Trading and Market services	Financial institutions

Retail
Retail segment comprises the business activities which are in the responsibility of account managers in the Retail network. Targeted customers are mainly privates, micros and free professionals. This business is mainly operated by the local banks in cooperation with their subsidiaries such as Leasing, Asset Management with the focus on simple products ranged from loans, investment products, current accounts, savings products, credit cards and cross selling products such as leasing, insurance, building society products.

Corporates
Corporates segment comprises business done with corporate customers of different turnover size and public sector.

Small and Medium Enterprises
Small and medium-sized enterprises (SME) are clients which are under the responsibility of the local corporate commercial center network, mainly consisting of companies with an annual turnover 7.5 million HRK to 375 million HRK.

Public Sector
Public Sector consists of the following three sets of customers: public sector, public corporations and non-profit sector. Public sector includes such customers as central ministries and state funded funds and agencies, non-profit entities established by or under control of central government entities, regional governments and organizations funded by them, state capitals, public health and social insurance companies. In general Public sector excludes banks and non-bank financial institutions (FI), pension funds, bond issuing agencies (incl. government debt agencies), asset management based organizations which are part of the Group Markets segment.
Public corporations includes all non-financial state companies and corporations with more than 50% share of state or regional governments or municipals excluding stock exchange listed companies.
Non-profit sector comprises the following private non-profit companies: central authorities of churches, country-wide labor unions, political parties and nationally significant foundations, private schools and humanitarian organizations.

Large Corporates
Local Large Corporates (LLC) are clients with a consolidated annual turnover threshold above 375 million HRK which are not defined as Group Large Corporate customers according to the Group Large Corporate client list.

Commercial Real Estate
Commercial Real Estate (CRE) business covers investors in real estate for the purpose of generating income from the rental of individual properties or portfolios of properties, developers of individual properties or portfolios of properties for the purpose of generating capital gains through sale, asset management services, construction services (applicable only for EGI), own development for business purpose.

28. Segment reporting (continued)

Group Large Corporates

Group Large Corporates (GLC) are large corporate customers/client groups with substantial operations in core markets/extended core markets of Erste Group with an indicative consolidated annual turnover of at least 3.7 billion HRK. GLC clients can be found on the Group-wide GLC client list, which is maintained by the Group GLC. Group Large Corporates business covers the following customer types in principle: customers across the region with an annual turnover above 3.7 billion HRK, selected customers with an annual turnover below 3.7 billion HRK in case of multinational setup or strong capital markets service needs, listed and to be listed sovereign owned corporates, financial sponsors (e.g. Private Equity Funds), the participations (in case of majority stake) of the financial sponsors will be grouped together with the financial sponsor, therefore treated within GLC. International groups headquartered outside the extended core market and which have an annual consolidated turnover above 3.7 billion HRK are segmented as GLC client only if Erste Group has a relationship with the international groups' headquarter.

Asset Liability Management (ALM) and Local Corporate Center (LCC)

Asset Liability Management (ALM) and Local Corporate Center (LCC) segment comprises on the one side the management of bank assets and liabilities in the light of uncertainty of cash flows, cost of funds and return on investments in order to determine the optimal trade-off between risk, return and liquidity. Furthermore it comprises funding transactions, hedging activities, investments into securities other than held for trading purpose, management of own issues and FX positions.
On the other side it also includes the residual local corporate center which comprises all non-core banking business activities such as non-profit servicing participations (e.g. IT, Procurement, Facility Management), intragroup eliminations within the respective partial group, dividends, refinancing costs of participations, all non-banking balance sheet positions (e.g. fixed assets, intangible assets) which cannot be allocated to other business segments as well as the profit and loss positions resulting from these balance sheet items. Apart from that the Corporate Center includes the reconciliations to the accounting result.
Free Capital of EBC defined as a difference between the average IFRS capital and the sum of the average allocated equity to the operating segments is reported under Operating segment ALM/Local Corporate Center.

Group Markets

Group Markets (GM) segment comprises trading and markets services as well as business with financial institutions. Trading and Market services comprises all activities related to active risk taking and managing in EBC regulatory trading books, additional to that the execution of trades against the market using the trading books of EBC for market making, short-term liquidity management and warehousing purposes. Specifically revenues and fair value results not directly attributable to client transactions (which can be valid also for ALM deals) and generally risk premiums and execution fees are taken into account. It also includes 20% compensation fee from Retail for the treasury sales services.
Financial institutions (FI) are companies that provide financial services for their clients or members and act as professional and active participant on financial markets for the purpose of proprietary trading or on behalf of their clients (banks, central banks, development banks, investment banks, investment funds, brokerages, insurance companies, pension funds, credit unions, building societies, asset management companies, government debt agencies, sovereign wealth funds, exchanges).
Business connected with serving financial institutions as a client including custody, depository services, commercial business (loans, cash management, trade & export finance) and capital markets business falls under FI.

28. Segment reporting (continued)

	RETAIL		SME		Public Sector		Local Large Corporates		Commercial RE		Group Large Corporates	
in HRK million	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Net interest income	1,174	1,243	443	413	300	273	77	84	36	25	99	84
Net fee and commission income	387	417	196	198	10	10	19	19	2	2	10	10
Dividend income	-	-	-	-	-	-	-	-	-	-	-	-
Net trading and fair value result	27	73	32	39	6	2	4	3	1	2	1	3
Net result from equity method investments	10	9	-	-	-	-	-	-	-	-	-	-
Rental income from investment properties & other operating leases	52	44	157	133	-	-	-	-	-	-	-	-
General administrative expenses	(919)	(959)	(354)	(362)	(17)	(16)	(18)	(18)	(12)	(11)	(14)	(14)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	-	-	-	(3)	-	-	-	-	-	-	-	-
Net impairment loss on financial assets not measured at fair value through profit or loss	(242)	-	(592)	(245)	2	(28)	(54)	(21)	(359)	(70)	-	2
Other operating result	(984)	7	(5)	(80)	3	(8)	(9)	2	(3)	(17)	(11)	-
Pre-tax result from continuing operations	**(495)**	**834**	**(123)**	**93**	**304**	**233**	**19**	**69**	**(335)**	**(69)**	**85**	**85**
Taxes on income	105	(166)	30	(24)	(61)	(47)	(4)	(14)	67	14	(17)	(17)
Net result for the period	**(390)**	**668**	**(93)**	**69**	**243**	**186**	**15**	**55**	**(268)**	**(55)**	**68**	**68**
Net result attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-
Net result attributable to owners of the parent	**(390)**	**668**	**(93)**	**69**	**243**	**186**	**15**	**55**	**(268)**	**(55)**	**68**	**68**
Operating income	1,650	1,786	828	783	316	285	100	106	39	29	110	97
Operating expenses	(919)	(959)	(354)	(362)	(17)	(16)	(18)	(18)	(12)	(11)	(14)	(14)
Operating result	**731**	**827**	**474**	**421**	**299**	**269**	**82**	**88**	**27**	**18**	**96**	**83**
Risk-weighted assets (credit risk, eop)	10,061	8,901	9,247	10,017	3,955	3,379	1,673	1.938	575	487	1,701	1,895
Average allocated capital[1]	1,266	1,182	999	1,033	358	366	161	186	64	48	172	188
Cost/income ratio	55.7%	53.7%	42.8%	46.2%	5.4%	5.6%	18.0%	17.0%	30.8%	37.9%	12.7%	14.4%
Return on allocated capital	(30.8%)	56.5%	(9.3%)	6.7%	67.9%	50.8%	9.3%	29.6%	(418.8%)	(114.6%)	39.5%	36.2%
Total assets (eop)	20,623	19,703	11,058	11,016	10,497	9,421	2,281	2,709	996	658	1,702	1,791
Total liabilities excluding equity (eop)	29,424	30,541	6,397	7,638	1,554	1,545	596	636	85	150	270	317
Impairments and risk provisions	**(242)**	**(7)**	**(607)**	**(342)**	**5**	**(34)**	**(63)**	**(18)**	**(363)**	**(92)**	**(11)**	**2**
Net impairment loss on loans and receivables from credit institutions and customers	(242)	-	(592)	(246)	2	(24)	(54)	(21)	(359)	(70)	-	2
Net impairment loss on other financial assets not measured at fair value through profit or loss	-	-	-	-	-	(4)	-	-	-	-	-	-
Allocation/release of provisions for contingent credit risk liabilities	1	(3)	(13)	(35)	3	(6)	(9)	5	(3)	(4)	(11)	-
Impairments from Goodwill	-	-	-	-	-	-	-	-	-	-	-	-
Net impairment loss on other non-financial assets	(1)	(4)	(2)	(61)	-	-	-	(2)	(1)	(18)	-	-

28. Segment reporting (continued)

	Trading and Market services		Financial institutions		ALM		Other		GROUP	
in HRK million	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Net interest income	13	12	13	24	(79)	(147)	72	49	2,148	2,060
Net fee and commission income	1	1	38	26	(7)	(4)	(10)	(16)	646	663
Dividend income	-	-	-	-	-	-	1	1	1	1
Net trading and fair value result	42	85	5	7	4	7	(1)	1	121	222
Net result from equity method investments	-	-	-	-	-	-	-	-	10	9
Rental income from investment properties & other operating leases	-	-	-	-	-	-	1	1	210	178
General administrative expenses	(29)	(24)	(12)	(13)	(11)	(9)	(47)	(38)	(1,433)	(1,464)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	-	-	-	-	2	3	1	65	3	65
Net impairment loss on financial assets not measured at fair value through profit or loss	(26)	2	(1)	1	3	(3)	(5)	(2)	(1,274)	(364)
Other operating result	-	(2)	(1)	(1)	(4)	(22)	(351)	(36)	(1,365)	(157)
Pre-tax result from continuing operations	1	74	42	44	(92)	(175)	(339)	25	(933)	1,213
Taxes on income	-	(15)	(8)	(9)	21	41	31	(63)	164	(300)
Net result for the period	1	59	34	35	(71)	(134)	(308)	(38)	(769)	913
Net result attributable to non-controlling interests	-	-	-	-	-	-	(47)	(38)	(47)	(38)
Net result attributable to owners of the parent	1	59	34	35	(71)	(134)	(355)	(76)	(816)	875
Operating income	56	98	56	57	(82)	(144)	63	36	3,136	3,133
Operating expenses	(29)	(24)	(12)	(13)	(11)	(9)	(47)	(38)	(1,433)	(1,464)
Operating result	27	74	44	44	(93)	(153)	16	(2)	1,703	1,669
Risk-weighted assets (credit risk, eop)	674	398	29	177	5,730	5,861	2,071	2,529	35,716	35,582
Average allocated capital	128	94	25	15	774	757	3,837	3,784	7,784	7,653
Cost/income ratio	51.8%	24.5%	21.4%	22.8%	(13.4%)	(6.3%)	74.6%	105.6%	45.7%	46.7%
Return on allocated capital	0.8%	62.8%	136.0%	233.3%	(9.2%)	(17.7%)	(9.3%)	(2.0%)	(10.5%)	11.4%
Total assets (eop)	2,047	1,651	707	537	16,761	17,004	1,559	1,114	68,231	65,604
Total liabilities excluding equity (eop)	1,235	794	1,023	1,038	19,216	14,769	1,320	188	61,120	57,616
Impairments and risk provisions	(26)	2	(2)	1	(1)	(7)	(364)	(73)	(1,674)	(568)
Net impairment loss on loans and receivables from credit institutions and customers	(26)	2	(1)	1	3	(2)	(5)	1	(1,274)	(357)
Net impairment loss on other financial assets not measured at fair value through profit or loss	-	-	-	-	-	(1)	-	(2)	-	(7)
Allocation/release of provisions for contingent credit risk liabilities	-	-	(1)	-	(4)	(4)	-	2	(37)	(45)
Impairments from Goodwill	-	-	-	-	-	-	(334)	(53)	(334)	(53)
Net impairment loss on other non-financial assets	-	-	-	-	-	-	(25)	(21)	(29)	(106)

28. Business segments (continued)

Measurement

The Profit and Loss Statement of the segment report is based on the measures to the Bank Management Board for the purpose of allocating resources to the segments and assessing their performance. Management reporting as well as the segment report for the Group, is based on IFRS. Accounting standards and methods as well as measurements used in segment reporting are the same as for the consolidated statement of accounting.
Capital consumption per segment is regularly reviewed by the management of the Bank to assess the performance of the segments. The average allocated equity is determined by the credit risk, market risk and operational risk. According to the regular internal reporting to the Bank Management Board, total assets and total liabilities as well as risk weighted assets and allocated equity are disclosed per segment. For measuring and assessing the profitability of segments, the Group also use the return on allocated equity defined as a net result for the period before minorities in relation to the average allocated equity of the respective segment. In addition the cost/income ratio is calculated for each segment as operating expenses (general administrative expenses) in relation to operating income (total of net interest income, net fee and commission income, dividend income, net trading and fair value result, net result from equity method investments, rental income from investment properties and other lease).
Return on asset ratio (ROA) in the Group was 1.3% on 31 December 2016 (2015: -1.2%) and in the Bank 1.1% (2015: -1.7%).

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	**2015**	**2016**
Outstanding minimum lease payments	1,285	1,712
Non-guaranteed residual values	-	-
Gross investment	**1,285**	**1,712**
Unrealised financial income	(122)	(140)
Net investment	**1,163**	**1,572**
Present value of non-guaranteed residual values	-	-
Present value of minimum lease payments	**1,163**	**1,572**

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	**2015**	**2016**	**2015**	**2016**
< 1 year	384	573	336	512
1-5 years	831	1,091	761	1,013
> 5 years	70	49	66	47
Total	**1,285**	**1,713**	**1,163**	**1,572**

b) Operating leases

Under operating leases, the Group and the Bank has entered into commercial leases on premises, vehicles and equipment.

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	**2015**	**2016**	**2015**	**2016**
< 1 year	164	145	10	12
1 -5 years	271	230	21	20
> 5 years	7	13	-	-
Total	**442**	**388**	**31**	**32**

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	**2015**	**2016**	**2015**	**2016**
< 1 year	27	33	26	29
1-5 years	93	98	90	94
> 5 years	51	52	50	51
Total	**171**	**183**	**166**	**174**

Lease payments from operating leases recognised as expense in the period for the Group amounted to HRK 33 million (2015: HRK 34 million) and for the Bank HRK 32 million (2015: HRK 30 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 2016 and 31 December 2015, balances outstanding with related parties comprised:

ASSET						GROUP
	Loans and receivables	Derivatives	Other	Loans and receivables	Derivatives	Other
in HRK million			2015			2016
Entity with significant influence on the Group	-	11	-	-	-	1
Key management personnel	21	-	-	29	-	-
Parent company	587	27	143	1,964	15	442
Other EGB companies	6	1	42	34	-	4
Other	-	-	-	-	-	-
Associates	51	2	-	6	-	-
Total assets	**665**	**41**	**185**	**2,033**	**15**	**447**

LIABILITIES						GROUP
	Deposits	Derivatives	Other	Deposits	Derivatives	Other
in HRK million			2015			2016
Entity with significant influence on the Group	5,718	-	-	3,456	2	-
Key management personnel	33	-	-	33	-	3
Parent company	8,595	46	8	6,610	60	23
Other EGB companies	191	-	15	125	-	-
Other	9	-	-	2	-	-
Associates	32	3	8	20	-	-
Total liabilities	**14,578**	**49**	**31**	**10,246**	**62**	**26**

ASSET						BANK
	Loans and receivables	Derivatives	Other	Loans and receivables	Derivatives	Other
in HRK million			2015			2016
Entity with significant influence on the Group	-	11	-	-	-	-
Key management personnel	21	-	-	28	-	-
Parent company	587	27	120	1,963	15	425
Other EGB companies	1	1	26	33	-	1
Other	-	-	-	-	-	-
Subsidiaries	521	3	-	592	4	1
Associates	51	2	-	46	-	-
Total assets	**1,181**	**44**	**146**	**2,662**	**19**	**427**

LIABILITIES						BANK
	Deposits	Derivatives	Other	Deposits	Derivatives	Other
in HRK million			2015			2016
Entity with significant influence on the Group	4,400	-	-	1,763	2	-
Key management personnel	30	-	-	31	-	3
Parent company	4,505	46	8	3,106	60	23
Other EGB companies	135	-	14	80	-	-
Other	9	-	-	2	-	-
Subsidiaries	446	-	7	709	-	-
Associates	32	3	8	28	-	-
Total liabilities	**9,557**	**49**	**37**	**5,719**	**62**	**26**

30. Related-party transactions (continued)

Transactions with related parties comprised:

STATEMENT OF PROFIT OR LOSS	GROUP		BANK	
in HRK million	2015	2016	2015	2016
Interest income	**97**	**45**	**106**	**54**
Entity with significant influence on the Group	42	23	42	23
Key management personnel	-	-	-	-
Parent company	53	22	53	22
Other EGB companies	-	-	-	-
Subsidiaries	-	-	9	7
Associates	2	-	2	2
Fee income	**23**	**27**	**82**	**77**
Parent company	5	7	2	6
Other EGB companies	17	19	17	19
Subsidiaries	-	-	62	51
Associates	1	1	1	1
Other operating income	**7**	**20**	**11**	**14**
Parent company	1	4	1	3
Subsidiaries	-	-	4	5
Other EGB companies	-	16		-
Associates	6	-	6	6
Total income	**127**	**92**	**199**	**145**

STATEMENT OF PROFIT OR LOSS	GROUP		BANK	
in HRK million	2015	2016	2015	2016
Interest expense	**401**	**277**	**309**	**190**
Entity with significant influence on the Group	157	117	132	88
Key management personnel	-	-	-	-
Other EGB companies	1	1	-	-
Parent company	243	159	169	100
Subsidiaries	-	-	8	2
Fee expense	**35**	**37**	**40**	**38**
Parent company	1	6	1	6
Other EGB companies	34	30	28	22
Other	-	1	-	1
Subsidiaries	-	-	11	9
Other administrative expenses	**80**	**50**	**73**	**93**
Parent company	9	18	9	18
Other EGB companies	25	32	20	22
Other	-	-	-	-
Subsidiaries	-	-	5	6
Associates	46	-	39	47
Total expenses	**516**	**364**	**422**	**321**

30. Related-party transactions (continued)

OFF BALANCE ITEMS		GROUP		BANK
in HRK million	**2015**	**2016**	**2015**	**2016**
Guarantees issued	**40**	**151**	**41**	**38**
Parent company	40	112	40	36
Other EGB companies	-	39	-	-
Other	-	-	-	-
Subsidiaries	-	-	1	2
Undrawn credit and loan commitments	**11**	**1**	**71**	**-**
Key management personnel	-	-	-	-
Other EGB companies	-	1	-	-
Subsidiaries	-	-	60	-
Associates	11	-	11	-
Total commitments and contingent liabilities	**51**	**152**	**112**	**38**

As at 31 December 2016, the Group has had cash deposit as collateral within Amounts due to banks from the parent company in the amount of HRK 1,157 million (2015: HRK 1,929 million).

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

		GROUP		BANK
in HRK million	**2015**	**2016**	**2015**	**2016**
Wages and salaries	32	32	10	9
Bonuses	8	10	5	5
pension costs	3	4	1	1
Total remuneration	**40**	**42**	**15**	**14**

31. Asset pledged as collateral

The following assets were pledged as security for liabilities:

Pledged assets		GROUP		BANK
in HRK million	**2015**	**2016**	**2015**	**2016**
Loans to and receivables from customers	198	614	198	614
Financial assets - available for sale	1,842	1,219	1,494	922
Financial assets - held to maturity	151	-	-	-
Total	**2,191**	**1,833**	**1,692**	**1,536**

The financial assets pledged as collateral consist of bonds, shares in investment funds, equity instruments 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 2,699 million (2015: HRK 1,556 million) for the Group and HRK 3,003 million for the Bank (2015: HRK 2,049 million).
Collateral with fair value of HRK 817 million was repledged (2015: HRK 584 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	2015 Carrying amount of transferred assets	2015 Carrying amount of associated liabilities	2016 Carrying amount of transferred assets	2016 Carrying amount of associated liabilities
				GROUP
Repurchase agreements				
Financial assets - available for sale	757	423	297	36
Financial assets - held to maturity	151	-	-	-
Total - repurchase agreements	**908**	**423**	**297**	**36**
				BANK
Repurchase agreements				
Financial assets - available for sale	409	387	-	-
Total - repurchase agreements	**409**	**387**	**-**	**-**

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

The total amount of HRK 297 million (2015: HRK 908 million) for the Group and nil (2015: HRK 409 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 36 million (2015: HRK 423 million) for the Group and nil (2015: HRK 387 million) for the Bank, which are measured at amortised cost.

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

in HRK million	2015 Fair value of transferred assets	2015 Fair value of associated liabilities	2015 Net position	2016 Fair value of transferred assets	2016 Fair value of associated liabilities	2016 Net position
						GROUP
Financial assets - available for sale	757	423	334	297	36	261
Financial assets - held to maturity	151	-	151	-	-	-
Total	**908**	**423**	**485**	**297**	**36**	**261**
						BANK
Financial assets - available for sale	409	387	22	-	-	-
Total	**409**	**387**	**22**	**-**	**-**	**-**

33. Offsetting

Financial assets subject to offsetting and potential offsetting agreements in 2016

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	73	-	73	(2)	-	-	71
Reverse repurchase agreements	2,414	-	2,414	-	-	(2,414)	-
Total	**2,487**	**-**	**2,487**	**(2)**	**-**	**(2,414)**	**71**

Financial liabilities subject to offsetting and potential offsetting agreements in 2016

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	77	-	77	(2)	-	-	75
Repurchase agreements	820	-	820	-	-	(820)	-
Total	**897**	**-**	**897**	**(2)**	**-**	**(820)**	**75**

Financial assets subject to offsetting and potential offsetting agreements in 2016

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	76	-	76	(2)	-	-	74
Reverse repurchase agreements	2,683	-	2,683	-	-	(2,683)	-
Total	**2,759**	**-**	**2,759**	**(2)**	**-**	**(2,683)**	**74**

Financial liabilities subject to offsetting and potential offsetting agreements in 2016

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	76	-	76	(2)	-	-	74
Repurchase agreements	784	-	784	-	-	(784)	-
Total	**860**	**-**	**860**	**(2)**	**-**	**(784)**	**74**

33. Offsetting (continued)

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			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Non-cash financial collateral received	
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			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
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			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Non-cash financial collateral received	
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			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Derivatives	103	-	103	(31)	-	-	72
Repurchase agreements	944	-	944	-	-	(944)	-
Total	**1,047**	**-**	**1,047**	**(31)**	**-**	**(944)**	**72**

33. Offsetting (continued)

The Bank uses 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.

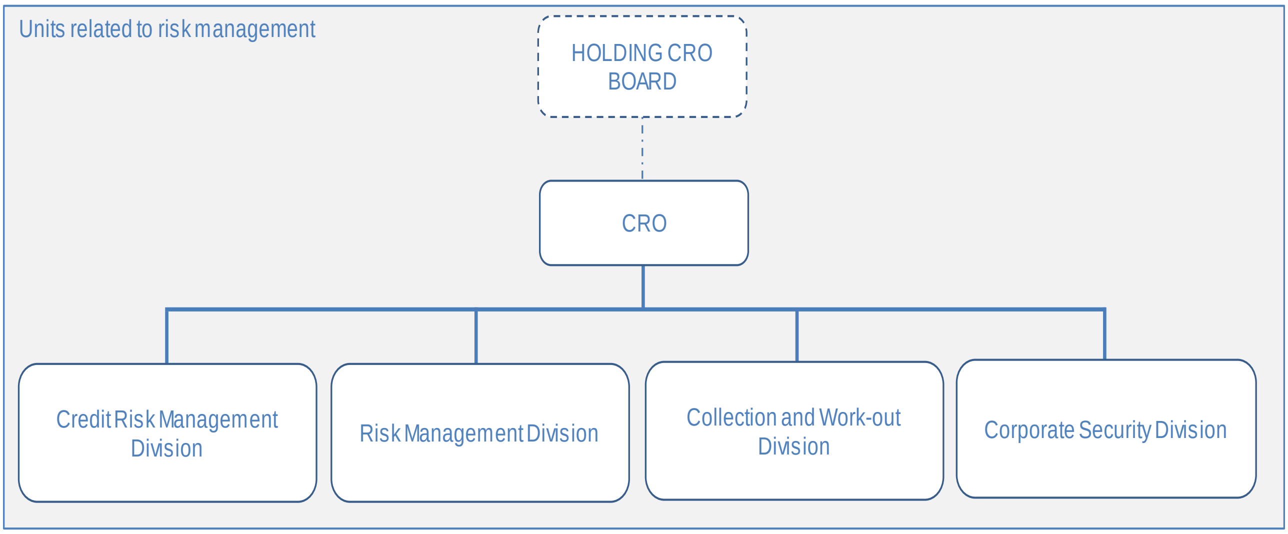
The Group uses a risk management and control system that is proactive and tailored to its business and risk profile. It is based on a clear risk strategy that is consistent with the Group's business strategy and focused on early identification and management of risks and trends. In addition to meeting 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 manages credit risk and monitors the balance of credit portfolios of clients that are belonging to the Corporate Division and the Financial Markets Division, and according to the responsibilities set out in the relevant acts.
The department analyses credit applications, 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/Groups overall exposure to the client/group of connected customers, portfolio analysis, monitors early warning signals and controls early collection.
The Department follows group standards within its scope, initiates, coordinates and creates local policies and procedures and monitors their fulfilment.

Retail Risk Management Department

Retail Risk Management Department manages credit risk and monitors the credit portfolio of clients from the Retail Sector. The Department analyses requests for loans, 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.
The Department follows group standards within its scope, coordinates and creates local policies and procedures and monitors their fulfilment. The Department is responsible, through Credit Risk Monitoring and Collection Group, for carrying out the activities of early collection of clients in its jurisdiction, and in accordance with relevant acts.

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.

34.2) Risk management organisation (continued)

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.

Quantitative Research Department

Quantitative Research Department (QRD) is responsible for implementation of Basel standards, regulatory requirements and guidelines, as well as Erste Group standards with respect to internal rating based approach for calculation of capital requirements for credit risk and enterprise-wide risk management.
QRD introduces, coordinates the development and participates 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 the Bank’s processes (including constant enhancement of business processes connected with above mentioned calculations). QRD is responsible for efficiency of implemented models and performs calibration and participates in calibration of models in line with Erste Group principles and participates in validation of the same in collaboration with Erste Group. QRD also reports about the parameters and models and performs modelling of macroeconomic impact on risk models and bank business as a whole.
QRD strives to achieve holistic approach in managing risks through enterprise-wide risk management. By defining risk strategy and Risk Appetite Statement which includes all risk departments, a framework for responsible and prudent risk taking is ensured. Enterprise-wide risk management encompasses Internal Capital Adequacy Assessment Process (ICAAP) which includes the identification of risks to which the Bank/EBC Group is exposed or might be exposed in the future and the assessment of economic capital adequacy. Identification of risks is performed through risk materiality assessment, concentration risk analysis and stress testing. Material risks are managed through calculation of regulatory and internal capital requirements and through the limit and control systems. Quantitative Research Department calculates the economic capital adequacy on a quarterly basis, i.e. coverage of internal capital requirements, for relevant risks, with internal capital. In addition, through enterprise-wide risk management QRD plans and manages the risk weighted assets, performs back-testing of provisions and participates in determination of price for different products using Expected Risk Margin (ERM), Standard Risk Cost (SRC) and cost of capital, participates in the process of profitability modelling, collection improvement, and development of early warning signal systems, customer relationship management and risk cost planning.
Enterprise-wide risk management is also responsible for the creation of the Recovery Plan of EBC Group and participates in capital management within its field of responsibility.

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..

34.2) Risk management organisation (continued)

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.

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, Enterprise-wide Risk Management (ERM) has continued to strengthen its comprehensive framework which includes improvements in Internal Capital Adequacy Process (ICAAP).

The ERM framework is designed to support the bank's management in managing the risk portfolios as well as coverage potential (internal capital) to assure adequate capital reflecting the nature and magnitude of the Bank's/EBC Group's risk profile. ERM is tailored to the business and risk profile of the Bank, and reflects the strategic goal of protecting shareholders and senior debt holders while ensuring sustainability of the Bank/EBC Group. Prudential risk management is ensured by identification, quantification, aggregation and successful management of all material risk types.

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

ERM is a modular and comprehensive management and steering system and is integral to the Bank's and EBC 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
- Portfolio and risk analysis through Risk materiality assessment, Concentration risk management and Stress testing,
- Risk-bearing capacity calculation,
- Risk planning and management through Risk-weighted assets management and capital allocation and
- Recovery plan.

In addition, ERM department participates in the Capital Management Team with a purpose to maintain the appropriate quantity and quality of capital to support planned operations, while at the same time ensuring that regulatory requirements as well as investors' and stakeholders expectations are fully met. Capital is managed to maintain financial strength, absorb losses so as to withstand adverse economic conditions, allow for growth opportunities and meet risk management and business objectives.

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/EBC Group's management in pursuing its strategy.

Risk Appetite Statement (RAS)

Risk strategy and Risk Appetite Statement are defined through the annual strategic planning process to ensure appropriate alignment of risk, capital and performance targets of the Bank and EBC Group. The RAS represents a strategic statement expressing the maximum level of risk that the Bank/EBC Group is prepared to accept in order to deliver its business objectives. It consists of a set of key risk appetite indicators that provide quantitative direction for risk steering, creating a holistic perspective on optimising capital, funding and risk-return trade-offs and qualitative statements in the form of key risk principles that form part of the strategic guidelines for risk management.

The key objectives of RAS is to ensure sufficient resources to support business and absorb stress events, set boundaries for the risk-return target setting and ensure financial strength and quality of system and controls. In order to ensure that the RAS is operationally efficient, the traffic light system has been established (Red, Amber, Green) for key indicators to achieve timely escalation to the respective governance levels and implementation of effective remediation measures.

In 2016, the RAS framework was further enhanced by including indicators under stressed conditions and by extending the RAS horizon to 5 years to ensure a stronger interplay between the RAS and other strategic processes.

Portfolio and risk analytics

The Bank/EBC Group actively identifies, quantifies, monitors and manages risks within its portfolio.

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 in the ICAAP process, as identified material risk types need to be considered directly in the risk-bearing-capacity calculation or indirectly through other elements of ICAAP. In addition, insights generated by the assessment are used to improve risk management practices also serves as an input for the definition of Risk strategy and RAS of the Bank and EBC Group and stress testing.

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

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. The risk concentration analysis covers credit risk, market risk, operational risk and liquidity risk.

Stress testing and modelling risks represent key, forward-looking elements of ICAAP. Modelling sensitivity of the assets, liabilities and profit or loss and helps in optimising the risk-return profile. Stress testing takes into account severe but plausible scenarios that enriche measuring and risk management system. Comprehensive stress test results are considered in the risk-bearing capacity calculation and the levels of core indicators under stressed conditions are compared to the limits and targets set in the Risk Appetite Statement.

In order to calculate the effect of a given stress scenario on P&L and capital adequacy, internally developed model is used to translate macroeconomic variables into risk parameters. The results for the Comprehensive

Stress Test performed during 2016 demonstrated that the level of regulatory capital of the Bank and EBC Group is adequate.

Risk-bearing Capacity Calculation

The Risk-bearing Capacity Calculation (RCC) is used to define the internal capital adequacy required by the ICAAP. The quantified material risks are compared to the coverage potential (internal capital). Planning process, risk appetite limit as well as a traffic light system support management in its discussions and decision processes.

In addition to 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 internal models (e.g. interest rate risk in the banking book, FX induced credit risk for retail, business risk) or via stress test (e.g. residual risk, macroeconomic risk etc.).

Management Board and Supervisory Board are reported on capital adequacy on a quarterly basis. The traffic light system embedded in the RCC helps to alert the management in case there is a need to plan and execute actions to either replenish the capital base or to take measures for reducing the risk.

Risk planning and forecasting

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

Risk-weighted asset management

As risk weighted assets determine the actual regulatory capital requirement of the Bank/EBC Group and influence the capital ratio as a key performance indicator, particular emphasis is devoted to meeting targeted levels of RWA. 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 has established a process of tracking, planning and defining target levels of RWA. The Bank's Management Board is regularly informed on the levels of RWA and adherence to the limits set within the Risk Appetite Statement.

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

Capital allocation

An important task integral to the risk planning process is the allocation of capital to EBC entities, business lines and segments. This is done via close cooperation 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.

Leverage ratio

The leverage ratio represents the relationship between core capital (tier 1) and leverage exposure according to Article 429 CRR. Essentially, the leverage exposure represents the sum of unweighted on- and off-balance-sheet positions considering valuation and risk adjustments as defined within the CRR. Management Board is informed on the level of leverage ratio for the Bank and EBC Group and on the adherence to defined limits and targets within the Risk Appetite Statement on a quarterly basis.

Recovery plan

In compliance with the regulations issued by the Croatian National Bank (Decision on Recovery Plans of Credit Institutions), the Bank was required to draw up the Recovery Plan of EBC Group. The Recovery plan tests the resilience of the EBC Group under severe, stressed idiosyncratic and macroeconomic scenarios and defines options for the recovery of EBC Group under such conditions. In 2016, the Croatian National Bank was provided with an updated version of the Recovery plan.

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.

34.4) Credit risk (continued)

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 the key element of the RWA calculation which is 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, both retail and non-retail, are regularly validated by the central validation unit based on Group-wide standard methodology. Validations are conducted using statistical techniques and the results of this validation process are reported to the management and regulatory bodies.
The Bank complies with 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.

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.

34.4) Credit risk (continued)

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 are precisely defined by the Group's and the Bank'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 the 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 which includes current rating status, repayment ability, revision of collaterals and compliance with the contracted terms, repayment and other clauses through re-approvals is performed.
The 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 imply 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 in 2016 decreased for 3.4% or HRK 2.1 billion from HRK 61.4 billion as at 31 December 2015 to HRK 59.3 billion as at 31 December 2016.
During the same period the gross carrying amount of the credit risk exposure of the Group decreased for HRK 2.2 billion from HRK 73 billion to HRK 70.8 billion at the end of 2016.
The following tables show the reconciliation between the gross carrying amount and the net carrying amount of the separate components of the Group's and the Bank's credit risk exposure as at 31 December 2016 and 31 December 2015.

	GROUP		BANK	
in HRK million	**Gross carrying amount**	**Carrying amount**	**Gross carrying amount**	**Carrying amount**
2016				
Other demand deposits	548	548	450	450
Loans and advances to credit institutions	5,332	5,329	5,322	5,320
Loans and advances to customers	47,511	43,656	39,390	36,254
Held to maturity	1,661	1,653	1,142	1,137
Available for sale	7,566	7,566	7,131	7,131
Positive fair value of derivative financial instruments	73	73	76	76
Contingent credit liabilities	8,147	8,147	5,764	5,764
Total	**70,838**	**66,972**	**59,275**	**56,132**
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
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**

34.4) Credit risk (continued)

Breakdown of credit risk exposure

The credit risk exposure presented below is divided into the following classes:
- by exposure classes and financial instrument,
- by industry and financial instrument,
- by risk category,
- by industry and risk category,
- by region and risk category,
- by business segment and risk category.

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

This is followed by presentation of
- non-performing credit risk exposure by business segment and credit risk allowances,
- the composition of allowances,
- forbearance comparison with total credit risk exposure and allowances,
- credit risk exposure by business segment and collateral,
- credit risk exposure by financial instrument and collateral,
- credit risk exposure past due and not covered by specific allowances by financial instrument and collateralisation
- breakdown of loans to and receivables from customers by business segment and currency,
- breakdown of non-performing loans to and receivables from customers by business segment and coverage by loan loss allowances and collateral

Credit risk exposure by Basel III exposure classes and financial instrument
The following table includes the Banks' (Group's) credit risk exposure broken down by Basel III exposure classes and financial instrument as at 31 December 2016 and 31 December 2015, 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 classes 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					
2016										
Sovereign	-	3,132	9,916	1,502	-	-	7,347	-	468	22,365
Institutions	548	2,195	106	-	-	-	-	15	261	3,125
Corporates	-	5	17,064	159	-	-	219	58	5,238	22,743
Retail	-	-	20,425	-	-	-	-	-	2,180	22,605
Total	**548**	**5,332**	**47,511**	**1,661**	**-**	**-**	**7,566**	**73**	**8,147**	**70,838**
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**

34.4) Credit risk (continued)

Credit risk exposure by Basel III exposure classes 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					
2016											
Sovereign	-	3,132	9,302	983		-	-	6,912	-	445	20,774
Institutions	450	2,190	16	-		-	-	-	15	27	2,698
Corporates	-	-	14,161	159		-	-	219	61	4,358	18,958
Retail	-	-	15,911	-		-	-	-	-	934	16,845
Total	**450**	**5,322**	**39,390**	**1,142**		**-**	**-**	**7,131**	**76**	**5,764**	**59,275**
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**

34.4) Credit risk (continued)

Credit risk exposure by industry and financial instrument

The following table includes 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					
2016										
Agriculture, forestry	-	-	1,138	-	-	-	-	-	189	1,327
Mining	-	-	129	-	-	-	-	-	115	244
Manufacturing	-	-	3,228	-	-	-	40	4	1,376	4,648
Energy	-	-	314	-	-	-	-	3	53	370
Water supply	-	-	285	-	-	-	-	-	51	336
Construction	-	-	4,387	-	-	-	11	-	888	5,286
Trade	-	-	4,921	-	-	-	45	-	1,368	6,334
Transport	-	-	1,353	-	-	-	80	-	133	1,566
Hotels and restaurants	-	-	2,389	-	-	-	-	0	299	2,688
Communication	-	1	313	-	-	-	-	0	53	367
Financial and insurance services	548	5,331	1,095	2	-	-	944	62	400	8,382
Real estate	-	-	1,059	159	-	-	44	1	220	1,483
Professional activities	-	-	1,143	-	-	-	-	2	337	1,482
Administrative and support service activities	-	-	418	-	-	-	-	-	74	492
Public administration	-	-	6,200	1,500	-	-	6,402	1	92	14,195
Education	-	-	47	-	-	-	-	-	10	57
Health services	-	-	258	-	-	-	-	-	212	470
Art	-	-	207	-	-	-	-	-	202	409
Private households	-	-	18,535	-	-	-	-	-	2,062	20,597
Others	-	-	92	-	-	-	-	-	13	105
Total	**548**	**5,332**	**47,511**	**1,661**	**-**	**-**	**7,566**	**73**	**8,147**	**70,838**
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**

34.4) Credit risk (continued)

Credit risk exposure by industry and financial instrument (continued)

BANK

in HRK million	Other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Debt instruments: Held to maturity	Debt instruments: Trading assets	Debt instruments: At fair value through profit or loss	Debt instruments: Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure (gross)
	At amortised cost				Fair Value					
2016										
Agriculture, forestry	-	-	877	-	-	-	-	-	188	1,065
Mining	-	-	119	-	-	-	-	-	82	201
Manufacturing	-	-	2,687	-	-	-	40	4	1,343	4,074
Energy	-	-	236	-	-	-	-	3	53	292
Water supply	-	-	226	-	-	-	-	-	51	277
Construction	-	-	4,109	-	-	-	11	-	781	4,901
Trade	-	-	2,700	-	-	-	45	-	716	3,461
Transport	-	-	918	-	-	-	80	-	113	1,111
Hotels and restaurants	-	-	2,286	-	-	-	-	-	299	2,585
Communication	-	-	255	-	-	-	-	-	53	308
Financial and insurance services	450	5,321	1,668	-	-	-	700	65	161	8,365
Real estate	-	-	1,022	159	-	-	44	1	193	1,419
Professional activities	-	-	1,015	-	-	-	-	2	333	1,350
Administrative and support service activities	-	-	266	-	-	-	-	-	67	333
Public administration	-	-	5,532	983	-	-	6,211	1	70	12,797
Education	-	-	42	-	-	-	-	-	9	51
Health services	-	-	199	-	-	-	-	-	212	411
Art	-	-	171	-	-	-	-	-	201	372
Private households	-	-	14,980	-	-	-	-	-	826	15,806
Others	-	1	82	-	-	-	-	-	13	96
Total	**450**	**5,322**	**39,390**	**1,142**	**-**	**-**	**7,131**	**76**	**5,764**	**59,275**
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**

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 2016, compared with the credit risk exposure as at 31 December 2015.

Credit risk exposure by risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Credit risk exposure 2016	56,787	7,393	1,238	5,420	70,838
Share of credit risk exposure	80.16%	10.44%	1.75%	7.65%	
Credit risk exposure 2015	55,612	7,776	1,644	7,990	73,022
Share of credit risk exposure	76.16%	10.65%	2.25%	10.94%	-
Change in credit risk exposure from 2015 to 2016	1,175	(383)	(406)	(2,570)	(2,184)
Change in credit risk exposure in %	2.11%	(4.93%)	(24.70%)	(32.17%)	(2.99%)

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Credit risk exposure 2016	48,248	5,571	826	4,630	59,275
Share of credit risk exposure	81.40%	9.40%	1.39%	7.81%	
Credit risk exposure 2015	47,265	5,957	1,225	6,928	61,375
Share of credit risk exposure	77.01%	9.71%	2.00%	11.29%	-
Change in credit risk exposure from 2015 to 2016	983	(386)	(399)	(2,298)	(2,100)
Change in credit risk exposure in %	2.08%	(6.48%)	(32.57%)	(33.17%)	(3.42%)

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 2016 and 31 December 2015, respectively.

Credit risk exposure by industry and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2016					
Agriculture, forestry	1,097	144	5	81	1,327
Mining	192	11	-	41	244
Manufacturing	3,618	347	109	574	4,648
Energy	336	28	4	2	370
Water supply	259	7	17	53	336
Construction	4,119	434	61	672	5,286
Trade	5,109	569	59	597	6,334
Transport	1,412	81	7	66	1,566
Hotels and restaurants	1,915	162	46	565	2,688
Communication	279	5	-	83	367
Financial and insurance services	7,905	430	42	5	8,382
Real estate	906	310	31	236	1,483
Professional activities	558	597	45	282	1,482
Administrative and support service activities	299	70	2	121	492
Public administration	14,063	132	-	-	14,195
Education	50	5	1	1	57
Health services	448	16	1	5	470
Art	361	17	13	18	409
Private households	13,784	4,023	788	2,002	20,597
Others	77	5	7	16	105
Total	**56,787**	**7,393**	**1,238**	**5,420**	**70,838**
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	92
Total	**55,612**	**7,776**	**1,644**	**7,990**	**73,022**

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
2016					
Agriculture, forestry	843	137	5	80	1,065
Mining	150	9	-	42	201
Manufacturing	3,154	314	101	505	4,074
Energy	264	22	4	2	292
Water supply	219	5	-	53	277
Construction	3,959	251	57	634	4,901
Trade	2,801	164	39	457	3,461
Transport	1,009	38	3	61	1,111
Hotels and restaurants	1,849	139	38	559	2,585
Communication	229	4	-	75	308
Financial and insurance services	7,905	417	42	1	8,365
Real estate	896	284	4	235	1,419
Professional activities	499	550	35	266	1,350
Administrative and support service activities	197	18	1	117	333
Public administration	12,795	2	-	-	12,797
Education	44	5	1	1	51
Health services	395	11	1	4	411
Art	330	15	12	15	372
Private households	10,639	3,182	477	1,508	15,806
Others	71	4	6	15	96
Total	**48,248**	**5,571**	**826**	**4,630**	**59,275**
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**

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 2016 and 31 December 2015.

Credit risk exposure by region and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2016					
Erste Group markets	**52,815**	**6,565**	**1,092**	**5,251**	**65,723**
Austria	2,606	-	-	-	2,606
Croatia	48,483	6,539	1,029	5,240	61,291
Serbia	62	5	-	-	67
Slovakia	933	-	-	-	933
Slovenia	730	21	63	11	825
Hungary	1	-	-	-	1
Other EU countries	**917**	**12**	**4**	**29**	**962**
Other developed countries	**252**	**8**	**-**	**15**	**275**
Emerging markets	**2,803**	**808**	**142**	**125**	**3,878**
Southeastern Europe/CIS	2,800	805	142	125	3,872
Asia	2	2	-	-	4
Latin Amerika	-	1	-	-	1
Middle East/Africa	1	-	-	-	1
Total	**56,787**	**7,393**	**1,238**	**5,420**	**70,838**
2015					
Erste Group markets	**51,664**	**7,158**	**1,450**	**7,745**	**68,017**
Austria	1,106	5	-	-	1,111
Croatia	48,564	7,102	1,446	7,718	64,830
Serbia	89	19	-	19	127
Slovakia	1,002	-	-	-	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**	**-**	**36**	**327**
Emerging markets	**2,434**	**598**	**193**	**143**	**3,368**
South Eastern Europe/CIS	2,433	596	193	143	3,365
Asia	1	2	-	-	3
Total	**55,612**	**7,776**	**1,644**	**7,990**	**73,022**

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
2016					
Erste Group markets	**46,447**	**5,518**	**823**	**4,585**	**57,373**
Austria	2,562	-	-	-	2,562
Croatia	42,875	5,515	823	4,585	53,798
Serbia	62	1	-	-	63
Slovakia	933	-	-	-	933
Slovenia	14	2	-	-	16
Hungary	1	-	-	-	1
Other EU countries	**852**	**10**	**2**	**29**	**893**
Other industrialised countries	**248**	**1**	**-**	**15**	**264**
Emerging markets	**701**	**42**	**1**	**1**	**745**
South Eastern Europe/CIS	699	40	1	1	741
Asia	2	2	-	-	4
Total	**48,248**	**5,571**	**826**	**4,630**	**59,275**
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**

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 2016 and 31 December 2015.

Credit risk exposure by business segment and risk category

					GROUP
n HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2016					
Retail	14,664	4,348	840	2,260	22,112
Small and Medium Enterprises	11,714	1,206	243	1,974	15,137
Public sector	10,125	141	-	43	10,309
Large Corporates	4,602	1,137	77	196	6,012
Group Markets	2,694	461	39	-	3,194
Commercial Real Estate	468	92	36	933	1,529
Asset/Liability Management	12,447	-	-	-	12,447
Other	73	8	3	14	98
Total	**56,787**	**7,393**	**1,238**	**5,420**	**70,838**
2015					
Retail	14,580	4,949	974	3,076	23,579
Small and Medium Enterprises	10,408	1,602	426	2,883	15,319
Public sector	10,776	7	1	38	10,822
Large Corporates	4,392	571	131	274	5,368
Group Markets	1,212	413	-	3	1,628
Commercial Real Estate	240	90	111	1,701	2,142
Asset/Liability Management	13,955	140	-	-	14,095
Other	49	4	1	15	69
Total	**55,612**	**7,776**	**1,644**	**7,990**	**73,022**

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2016					
Retail	11,308	3,391	523	1,742	16,964
Small and Medium Enterprises	9,507	836	168	1,749	12,260
Public sector	9,469	11	-	42	9,522
Large Corporates	3,015	788	57	161	4,021
Group Markets	2,958	461	39	0	3,458
Commercial Real Estate	467	76	36	922	1,501
Asset/Liability Management	11,451	-	-	-	11,451
Other	73	8	3	14	98
Total	**48,248**	**5,571**	**826**	**4,630**	**59,275**
2015					
Retail	11,617	3,900	692	2,418	18,627
Small and Medium Enterprises	8,363	1,121	289	2,541	12,314
Public sector	10,139	7	1	37	10,184
Large Corporates	2,726	432	130	256	3,544
Group Markets	1,671	413	-	3	2,087
Commercial Real Estate	240	78	112	1,658	2,088
Asset/Liability Management	12,460	2	-	-	12,462
Other	49	4	1	15	69
Total	**47,265**	**5,957**	**1,225**	**6,928**	**61,375**

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 2016 and 31 December 2015, 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				
2016										
Erste Group markets	**-**	**3,132**	**9,692**	**869**	**-**	**-**	**5,968**	**-**	**399**	**20,060**
Austria	-	-	-	-	-	-	158	-	-	158
Croatia	-	3,132	9,692	869	-	-	4,877	-	399	18,969
Slovakia	-	-	-	-	-	-	933	-	-	933
Slovenia	-	-	-	-	-	-	-	-	-	-
Other EU countries	**-**	**-**	**-**	**-**	**-**	**-**	**700**	**-**	**-**	**700**
Other developed countries	**-**	**-**	**-**	**-**	**-**	**-**	**215**	**-**	**-**	**215**
Emerging markets	**-**	**-**	**224**	**633**	**-**	**-**	**464**	**-**	**69**	**1,390**
Southeastern Europe/CIS	-	-	224	633	-	-	464	-	69	1,390
Total	**-**	**3,132**	**9,916**	**1,502**	**-**	**-**	**7,347**	**-**	**468**	**22,365**
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**

34.4) Credit risk (continued)

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

BANK

in HRK million	Other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Debt instruments: Held to maturity	Debt instruments: Trading assets	Debt instruments: At fair value through profit or loss	Debt instruments: Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
		At amortised cost			Fair Value					
2016										
Erste Group markets	-	3,132	9,274	869	-	-	5,724	-	399	19,398
Austria	-	-	-	-	-	-	158	-	-	158
Croatia	-	3,132	9,274	869	-	-	4,633	-	399	18,307
Slovakia	-	-	-	-	-	-	933	-	-	933
Other EU countries	-	-	-	-	-	-	700	-	-	700
Other developed countries	-	-	-	-	-	-	215	-	-	215
Emerging markets	-	-	28	114	-	-	273	-	46	461
Southeastern Europe/CIS	-	-	28	114	-	-	273	-	46	461
Total	-	3,132	9,302	983	-	-	6,912	-	445	20,774
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

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 71% of the reported non-performing credit risk exposure as at 31 December 2016 and 74% 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 on 31 December 2016, the non-performing credit risk exposure in the Bank decreased by HRK 2.3 billion, from HRK 6.9 billion as at 31 December 2015 to HRK 4.6 billion as at 31 December 2016. During the same period, non-performing credit risk exposure in the Group decreased by HRK 2.6 billion from HRK 8 billion as at 31 December 2015 to HRK 5.4 billion as at 31 December 2016.

Credit risk allowances were decreased by HRK 1.4 billion in the Group, from HRK 5.4 billion as at 31 December 2015 to HRK 4.0 billion as at 31 December 2016. The decrease of credit risk allowances in the Bank during 2016 was HRK 1.2 billion from HRK 4.5 billion as at 31 December 2015 to 3.3 billion as at 31 December 2016. 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 6.3 pp in the Group: from 68.0% up to 74.3%, and in the Bank by 6.4 pp from 64.3% to 70.7%.

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 2016 and 31 December 2015, 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.

34.4) Credit risk (continued)

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

GROUP

in HRK million	Credit risk exposure Non-performing	Credit risk exposure Credit risk exposure	Risk provisions	NPE ratio	NPE coverage ratio
2016					
Retail	2,260	22,112	1,609	10%	71%
Small and Medium Enterprises	1,974	15,137	1,447	13%	73%
Public sector	43	10,309	83	-	193%
Large Corporates	196	6,012	187	3%	95%
Group Markets	-	3,194	3	-	-
Commercial Real Estate	933	1,529	665	61%	71%
Asset/Liability Management	-	12,447	18	-	-
Other	14	98	15	14%	107%
Total	**5,420**	**70,838**	**4,027**	**8%**	**74%**
2015					
Retail	3,076	23,579	2,192	13%	71%
Small and Medium Enterprises	2,883	15,319	1,842	19%	64%
Public sector	38	10,822	49	-	128%
Large Corporates	274	5,368	258	5%	94%
Group Markets	3	1,628	6	-	201%
Commercial Real Estate	1,701	2,142	1,056	79%	62%
Asset/Liability Management	-	14,095	13	-	-
Other	15	69	15	22%	99%
Total	**7,990**	**73,022**	**5,431**	**11%**	**68%**

BANK

in HRK million	Credit risk exposure Non-performing	Credit risk exposure Credit risk exposure	Risk provisions	NPE ratio	NPE coverage ratio
2016					
Retail	1,742	16,964	1,141	10%	65%
Small and Medium Enterprises	1,749	12,260	1,229	14%	70%
Public sector	42	9,522	82	-	195%
Large Corporates	161	4,021	143	4%	89%
Group Markets	-	3,458	3	-	-
Commercial Real Estate	922	1,501	653	61%	71%
Asset/Liability Management	-	11,451	6	-	-
Other	14	98	15	14%	107%
Total	**4,630**	**59,275**	**3,272**	**8%**	**71%**
2015					
Retail	2,416	18,627	1,611	13%	67%
Small and Medium Enterprises	2,541	12,314	1,542	21%	61%
Public sector	37	10,184	48	-	130%
Large Corporates	256	3,544	212	7%	83%
Group Markets	3	2,087	6	-	204%
Commercial Real Estate	1,660	2,088	1,016	79%	61%
Asset/Liability Management	-	12,462	2	-	-
Other	15	69	15	22%	99%
Total	**6,928**	**61,375**	**4,452**	**11%**	**64%**

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, 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 are calculated by 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 individuals) 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 2016 and 31 December 2015, respectively.

	GROUP		BANK	
In HRK million	**2016**	**2015**	**2016**	**2015**
Specific allowances	3,376	4,844	2,787	3,999
Collective allowances	490	471	356	363
Provision for guarantees	161	116	129	90
Total	**4,027**	**5,431**	**3,272**	**4,452**

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 2016 and 31 December 2015. In this table, total credit risk exposure does not include *Trading assets* and *Positive fair value of derivative financial instruments* while includes Cash balances at central banks.

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
2016				
Gross exposure	56,015	9,226	8,147	**73,388**
thereof gross forborne exposure	1,552	-	1	**1,553**
Performing exposure	50,691	9,226	8,051	**67,968**
thereof performing forborne exposure	373	-	-	**373**
Allowances/provisions for performing exposure	472	7	70	**549**
thereof allowances/provisions for performing forborne exposure	15	-	-	**15**
Non-performing exposure	5,324	-	96	**5,420**
thereof non-performing forborne exposure	1,179	-	1	**1,180**
Allowances/provisions for non-performing exposure	3,386	-	6	**3,392**
thereof allowances/provisions for non-performing forborne exposure	536	-	-	**536**
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**

34.4) Credit risk (continued)

Forbearance comparison with total credit risk exposure and allowances

				BANK
in HRK million	Loans and advances excl. HfT	Debt Instruments excl. HfT	Loan commitments	Total
2016				
Gross exposure	47,348	8,273	5,764	**61,385**
thereof gross forborne exposure	1,471	-	1	**1,472**
Performing exposure	42,777	8,273	5,705	**56,755**
thereof performing forborne exposure	368	-	-	**368**
Allowances/provisions for performing exposure	342	5	62	**409**
thereof allowances/provisions for performing forborne exposure	15	-	-	**15**
Non-performing exposure	4,571	-	59	**4,630**
thereof non-performing forborne exposure	1,103	-	1	**1,104**
Allowances/provisions for non-performing exposure	2,796	-	-	**2,796**
thereof allowances/provisions for non-performing forborne exposure	470	-	-	**470**
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**

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 and are currently held:

- 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 as well as residential real estate properties.

The following tables compare the credit risk exposure broken down by business and geographical segments as at 31 December 2016 and 31 December 2015 respectively to the collateral received.

Credit risk exposure by business segment and collateral

			GROUP
in HRK million	**Credit risk exposure**	**Collateral total**	**Credit risk exposure net of collateral**
2016			
Retail	22,112	7,751	14,361
Small and Medium Enterprises	15,137	7,605	7,532
Public sector	10,309	3,532	6,777
Large Corporates	6,012	2,314	3,698
Group Markets	3,194	575	2,619
Commercial Real Estate	1,529	811	718
Asset/Liability Management	12,447	79	12,368
Other	98	-	98
Total	**70,838**	**22,667**	**48,171**
2015			
Retail	23,579	8,405	15,174
Small and Medium Enterprises	15,319	8,505	6,814
Public sector	10,822	4,327	6,495
Large Corporates	5,368	1,905	3,463
Group Markets	1,628	579	1,049
Commercial Real Estate	2,142	1,138	1,004
Asset/Liability Management	14,095	120	13,975
Other	69	-	69
Total	**73,022**	**24,979**	**48,043**

34.4) Credit risk (continued)

Credit risk exposure by business segment and collateral

			BANK
in HRK million	Credit risk exposure	Collateral total	Credit risk exposure net of collateral
2016			
Retail	16,964	6,790	10,174
Small and Medium Enterprises	12,260	6,330	5,930
Public sector	9,522	3,303	6,219
Large Corporates	4,021	2,216	1,805
Group Markets	3,458	569	2,889
Commercial Real Estate	1,501	809	692
Asset/Liability Management	11,451	79	11,372
Other	98	-	98
Total	**59,275**	**20,096**	**39,179**
2015			
Retail	18,627	7,736	10,891
Small and Medium Enterprises	12,314	7,235	5,079
Public sector	10,184	4,327	5,857
Large Corporates	3,544	1,905	1,639
Group Markets	2,087	579	1,508
Commercial Real Estate	2,088	1,138	950
Asset/Liability Management	12,462	-	12,462
Other	69	-	69
Total	**61,375**	**22,920**	**38,455**

34.4) Credit risk (continued)

Credit risk exposure by financial instrument and collateral

									GROUP
			Collateralised by						
in HRK million	Credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral	Neither past due nor impaired	Past due but not impaired	Impaired
2016									
Other demand deposits	548	-	-	-	-	548	55	493	-
Loans and advances to credit institutions	5,332	72	-	-	72	5,260	5,302	30	-
Loans and advances to customers	47,511	20,892	4,745	11,901	4,246	26,619	39,040	3,335	5,136
Held to maturity	1,661	-	-	-	-	1,661	1,656	5	-
Trading assets	-	-	-	-	-	-	-	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available for sale	7,566	-	-	-	-	7,566	7,566	-	-
Positive fair value of derivative financial instruments	73	-	-	-	-	73	70	3	-
Contingent credit liabilities	8,147	1,703	523	747	433	6,444	7,884	172	91
Total	**70,838**	**22,667**	**5,268**	**12,648**	**4,751**	**48,171**	**61,573**	**4,038**	**5,227**
2015									
Other demand deposits	762	-	-	-	-	762	594	168	-
Loans and advances to credit institutions	5,444	69	-	-	69	5,375	5,425	19	-
Loans and advances to customers	51,471	23,342	5,343	13,891	4,108	28,129	40,240	3,514	7,717
Held to maturity	1,433	-	-	-	-	1,433	1,428	5	-
Trading assets	168	-	-	-	-	168	168	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available for sale	6,497	-	-	-	-	6,497	6,492	-	5
Positive fair value of derivative financial instruments	61	-	-	-	-	61	61	-	-
Contingent credit liabilities	7,186	1,568	443	789	336	5,618	6,962	148	76
Total	**73,022**	**24,979**	**5,786**	**14,680**	**4,513**	**48,043**	**61,370**	**3,854**	**7,798**

34.4) Credit risk (continued)

Credit risk exposure by financial instrument and collateral

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in HRK million	Credit risk exposure	Collateral total	Collateralised by: Guarantees	Collateralised by: Real estate	Collateralised by: Other	Credit risk exposure net of collateral	Neither past due nor impaired	Past due but not impaired	Impaired
2016									
Other demand deposits	450	-	-	-	-	450	23	427	-
Loans and advances to credit institutions	5,322	70	-	-	70	5,252	5,292	30	-
Loans and advances to customers	39,390	18,515	4,627	10,862	3,026	20,875	32,891	2,083	4,416
Held to maturity	1,142	-	-	-	-	1,142	1,137	5	-
Trading assets	-	-	-	-	-	-	-	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available for sale	7,131	-	-	-	-	7,131	7,131	-	-
Positive fair value of derivative financial instruments	76	-	-	-	-	76	73	3	-
Contingent credit liabilities	5,764	1,511	523	611	377	4,253	5,583	123	58
Total	**59,275**	**20,096**	**5,150**	**11,473**	**3,473**	**39,179**	**52,130**	**2,671**	**4,474**
2015									
Other demand deposits	680	-	-	-	-	680	567	113	-
Loans and advances to credit institutions	5,200	67	-	-	67	5,133	5,181	19	-
Loans and advances to customers	43,192	21,440	5,245	12,923	3,272	21,752	34,301	2,199	6,692
Held to maturity	890	-	-	-	-	890	885	5	-
Trading assets	168	-	-	-	-	168	168	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available for sale	6,262	-	-	-	-	6,262	6,257	-	5
Positive fair value of derivative financial instruments	64	-	-	-	-	64	64	-	-
Contingent credit liabilities	4,919	1,413	433	690	290	3,506	4,785	94	40
Total	**61,375**	**22,920**	**5,678**	**13,613**	**3,629**	**38,455**	**52,208**	**2,430**	**6,737**

34.4) Credit risk (continued)

The following tables show the credit risk exposure that was past due but for which specific allowances had not been established as at 31 December 2016 and 31 December 2015 respectively.

Credit risk exposure past due and not covered by specific allowances by financial instrument and collateralization

												GROUP
	Credit risk exposure past due						Thereof collateralised					
in HRK million	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due
2016												
Other demand deposits	493	493	-	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	30	30	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	3,335	2,709	518	95	11	2	1,555	1,224	264	61	4	2
Held to maturity	5	-	-	-	-	5	-	-	-	-	-	-
Trading assets	-	-	-	-	-	-	-	-	-	-	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Available for sale	-	-	-	-	-	-	-	-	-	-	-	-
Positive fair value of derivative financial instruments	3	3	-	-	-	-	-	-	-	-	-	-
Contingent credit liabilities	172	131	41	-	-	-	22	8	14	-	-	-
Total	**4,038**	**3,366**	**559**	**95**	**11**	**7**	**1,577**	**1,232**	**278**	**61**	**4**	**2**
2015												
Other demand deposits	168	168	-	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	19	16	-	-	-	3	-	-	-	-	-	-
Loans and advances to customers	3,514	2,433	866	196	18	1	1,541	929	490	112	10	-
Held to maturity	5	-	-	-	-	5	-	-	-	-	-	-
Trading assets	-	-	-	-	-	-	-	-	-	-	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Available for sale	-	-	-	-	-	-	-	-	-	-	-	-
Positive fair value of derivative financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Contingent credit liabilities	148	107	40	1	-	-	41	21	20	-	-	-
Total	**3,854**	**2,724**	**906**	**197**	**18**	**9**	**1,582**	**950**	**510**	**112**	**10**	**-**

34.4) Credit risk (continued)

Credit risk exposure past due and not covered by specific allowances by financial instrument and collateralization

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in HRK million	Credit risk exposure past due						Thereof collateralised					
	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
2016												
Other demand deposits	427	427	-	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	30	30	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	2,083	1,752	261	62	8	-	1,087	888	148	49	2	-
Held to maturity	5	-	-	-	-	5	-	-	-	-	-	-
Trading assets	-	-	-	-	-	-	-	-	-	-	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Available for sale	-	-	-	-	-	-	-	-	-	-	-	-
Positive fair value of derivative financial instruments	3	3	-	-	-	-	-	-	-	-	-	-
Contingent credit liabilities	123	106	17	-	-	-	8	8	-	-	-	-
Total	**2,671**	**2,318**	**278**	**62**	**8**	**5**	**1,095**	**896**	**148**	**49**	**2**	**-**
2015												
Other demand deposits	113	113	-	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	19	16	-	-	-	3	-	-	-	-	-	-
Loans and advances to customers	2,199	1,473	589	118	18	1	1,198	699	397	92	10	-
Held to maturity	5	-	-	-	-	5	-	-	-	-	-	-
Trading assets	-	-	-	-	-	-	-	-	-	-	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Available for sale	-	-	-	-	-	-	-	-	-	-	-	-
Positive fair value of derivative financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Contingent credit liabilities	94	79	14	1	-	-	22	20	2	-	-	-
Total	**2,430**	**1,681**	**603**	**119**	**18**	**9**	**1,220**	**719**	**399**	**92**	**10**	**-**

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 2016 and 31 December 2015 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
2016						
Retail	10,487	9,192	246	6	-	19,931
Small and Medium Enterprises	8,892	2,279	131	4	43	11,349
Public sector	8,862	726	16	-	-	9,604
Large Corporates	3,991	703	-	37	-	4,731
Group Markets	83	154	-	296	-	533
Commercial Real Estate	978	113	227	-	-	1,318
Asset/Liability Management	-	-	-	-	-	-
Other	7	20	-	-	18	45
Total	**33,300**	**13,187**	**620**	**343**	**61**	**47,511**
2015						
Retail	9,542	8,576	3,351	7	-	21,476
Small and Medium Enterprises	9,943	2,008	179	4	40	12,174
Public sector	8,873	1,004	23	525	-	10,425
Large Corporates	3,564	598	-	-	-	4,162
Group Markets	70	620	-	61	-	751
Commercial Real Estate	1,526	163	361	-	-	2,050
Asset/Liability Management	280	122	-	-	-	402
Other	7	17	1	6	-	31
Total	**33,805**	**13,108**	**3,915**	**603**	**40**	**51,471**

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in HRK million	EUR	HRK	CHF	USD	Other currencies	Loans to customers
2016						
Retail	8,645	7,133	242	6	-	16,026
Small and Medium Enterprises	7,288	1,902	123	4	43	9,360
Public sector	8,275	527	15	-	-	8,817
Large Corporates	2,219	484	-	37	-	2,740
Group Markets	79	421	-	296	-	796
Commercial Real Estate	965	99	227	-	-	1,291
Asset/Liability Management	113	201	-	-	-	314
Other	7	21	-	-	18	46
Total	**27,591**	**10,788**	**607**	**343**	**61**	**39,390**
2015						
Retail	8,054	6,327	3,347	7	-	17,735
Small and Medium Enterprises	8,099	1,664	170	4	40	9,977
Public sector	8,529	710	23	525	-	9,787
Large Corporates	1,851	425	-	-	-	2,276
Group Markets	71	1,075	-	61	-	1,207
Commercial Real Estate	1,497	138	361	-	-	1,996
Asset/Liability Management	-	183	-	-	-	183
Other	7	18	-	6	-	31
Total	**28,108**	**10,540**	**3,901**	**603**	**40**	**43,192**

34.4) Credit risk (continued)

In the following tables, the non-performing loans to and receivables from customers divided by reporting segment are contrasted with allowances for customer loans (specific and collective allowances) and the collateral for non-performing loans (NPL). The NPL ratio, the NPL coverage ratio, and the NPL total coverage ratio are also included. The NPL total coverage ratio specifies the coverage of non-performing loans by specific and collective allowances as well as by collateral for non-performing loans.

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

GROUP

in HRK million	Non-performing	Loans to customers	Risk provisions	NPL ratio	NPL coverage ratio	Collateral for NPL	NPL total coverage ratio
2016							
Retail	2,233	19,931	1,596	11%	71%	743	105%
Small and Medium Enterprises	1,922	11,349	1,360	17%	71%	965	121%
Public sector	43	9,604	69	-	160%	6	174%
Large Corporates	180	4,731	156	4%	87%	55	117%
Group Markets	-	533	2	-	-	-	-
Commercial Real Estate	932	1,318	657	71%	70%	489	123%
Asset/Liability Management	-	-	-	-	-	-	-
Other	14	45	15	31%	107%	-	107%
Total	**5,324**	**47,511**	**3,855**	**11%**	**72%**	**2,258**	**115%**
2015							
Retail	3,053	21,476	2,182	14%	71%	1,028	105%
Small and Medium Enterprises	2,821	12,174	1,791	23%	63%	1,435	114%
Public sector	38	10,425	44	-	116%	-	116%
Large Corporates	254	4,162	221	6%	87%	84	120%
Group Markets	-	751	4	-	-	-	-
Commercial Real Estate	1,699	2,050	1,054	83%	62%	845	112%
Asset/Liability Management	-	402	2	-	-	-	-
Other	15	31	14	50%	93%	-	93%
Total	**7,880**	**51,471**	**5,312**	**15%**	**67%**	**3,392**	**110%**

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in HRK million	Non-performing	Loans to customers	Risk provisions	NPL ratio	NPL coverage ratio	Collateral for NPL	NPL total coverage ratio
2016							
Retail	1,740	16,026	1,136	11%	65%	693	105%
Small and Medium Enterprises	1,710	9,360	1,154	18%	67%	907	121%
Public sector	42	8,817	68	-	162%	4	171%
Large Corporates	144	2,740	112	5%	78%	51	113%
Group Markets	-	796	2	-	-	-	-
Commercial Real Estate	921	1,291	646	71%	70%	489	123%
Asset/Liability Management	-	314	3	-	-	-	-
Other	14	46	15	30%	107%	-	107%
Total	**4,571**	**39,390**	**3,136**	**12%**	**69%**	**2,144**	**116%**
2015							
Retail	2,417	17,735	1,608	14%	67%	976	107%
Small and Medium Enterprises	2,493	9,977	1,503	25%	60%	1,358	115%
Public sector	37	9,787	43	-	116%	-	116%
Large Corporates	235	2,276	175	10%	74%	84	110%
Group Markets	-	1,207	4	-	-	-	-
Commercial Real Estate	1,658	1,996	1,012	83%	61%	845	112%
Asset/Liability Management	-	183	-	-	-	-	-
Other	15	31	14	48%	93%	-	93%
Total	**6,855**	**43,192**	**4,359**	**16%**	**64%**	**3,263**	**111%**

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.

34.5) Market risk (continued)

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.

Limit compliance is verified at two levels: by the Market risk management unit in the Bank and by Trading Book Risk Group. 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 daily 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 2016 and 31 December 2015 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 2016

in HRK thousands	Total	Interest	Currency	Shares	Commodity	Volatility
Banking book	404	369	35	-	-	-
Fixed Income AFS	7,752	7,735	-	33	-	-
Fixed Income Investment	3,474	3,474	-	-	-	-
Trading book	377	106	376	-	-	-

Value at Risk of banking book and trading book 2015

n 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	-	-	-

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 2016 and 31 December 2015.

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 2016

in HRK million	1(3) years	3(5) years	5(7) years	7(10) years	Over 10 years
Fixed-interest gap in HRK positions	1,402	1,581	459	15	(96)
Fixed-interest gap in EUR positions	(133)	523	406	15	101
Fixed-interest gap in CHF positions	(17)	6	6	2	1
Fixed-interest gap in USD positions	48	7	(7)	(1)	-

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)	-

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 2016 as at 31 December 2016 and 31 December 2015 respectively.

Open exchange rate positions

in HRK thousands	2016	2015
Euro (EUR)	(1,206)	(6,384)
Bosnia and Herzegovina convertible mark (BAM)	(1,619)	(5,512)
Swiss franc (CHF)	(161)	3,599
Swedish krona (SEK)	-	2,197
Australian dollar (AUD)	(86)	1,553
Canadian dollar (CAD)	467	1,283
Norwegian krone (NOK)	468	1,180
US dollar (USD)	(6,219)	945

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 2016 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

The 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 2015 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.

34.6) Liquidity risk (continued)

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

Analysis of liquidity risk

Liquidity gap

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

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

The following table shows the liquidity gaps as at 31 December 2016 and 31 December 2015.

								BANK
	< 1 month		1(12) months		1(5) years		> 5 years	
in HRK million	2016	2015	2016	2015	2016	2015	2016	2015
Liquidity GAP	8,251	8,147	7,146	7,806	(6,693)	(9,957)	(291)	(710)

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 2016 and year end 2015 are shown in the tables below:

Term structure of counterbalancing capacity 2016

in HRK million	< 1 week	1 week(1) month	1(3) months	3(6) months	6(12) months
Cash, excess reserve	2,155	(1,342)	-	-	-
Liquid assets	7,024	(1,571)	(289)	(432)	(1,855)
Counterbalancing capacity	**9,179**	**(2,913)**	**(289)**	**(432)**	**(1,855)**

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)**

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)

Contractual Undiscounted Cash Flows from Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as at 31 December 2016 and 31 December 2015 respectively, were as follows:

Financial liabilities

2016						GROUP
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**56,687**	**58,036**	**21,019**	**22,215**	**10,736**	**4,066**
Deposits by banks	11,652	12,454	427	4,192	5,063	2,772
Customer deposits	44,111	44,605	20,572	17,066	5,673	1,294
Debt securities in issue	302	318	2	316	-	-
Subordinated liabilities	622	659	18	641	-	-
Derivative liabilities	**77**	**77**	**56**	**16**	**3**	**2**
Contingent liabilities	**8,147**	**8,147**	**8,147**	**-**	**-**	**-**
Financial guarantees	2,730	2,730	2,730	-	-	-
Irrevocable commitments	5,417	5,417	5,417	-	-	-
Total	**64,911**	**66,260**	**29,222**	**22,231**	**10,739**	**4,068**

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**	**7,186**	**-**	**-**	**-**
Financial guarantees	2,631	2,631	2,631	-	-	-
Irrevocable commitments	4,555	4,555	4,555	-	-	-
Total	**66,523**	**68,308**	**26,686**	**21,757**	**16,162**	**3,703**

34.6) Liquidity risk (continued)

2016					BANK	
in HRK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**48,720**	**49,810**	**19,472**	**17,732**	**9,400**	**3,206**
Deposits by banks	6,341	6,903	325	459	4,127	1,992
Customer deposits	41,455	41,930	19,127	16,316	5,273	1,214
Debt securities in issue	302	318	2	316	-	-
Subordinated liabilities	622	659	18	641	-	-
Derivative liabilities	**76**	**76**	**55**	**16**	**3**	**2**
Contingent liabilities	**5,764**	**5,764**	**5,764**	**-**	**-**	**-**
Financial guarantees	2,262	2,262	2,262	-	-	-
Irrevocable commitments	3,502	3,502	3,502	-	-	-
Total	**54,560**	**55,650**	**25,291**	**17,748**	**9,403**	**3,208**

2015						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**	**4,919**	**-**	**-**	**-**
Financial guarantees	2,194	2,194	2,194	-	-	-
Irrevocable commitments	2,725	2,725	2,725	-	-	-
Total	**56,242**	**57,788**	**22,679**	**17,789**	**14,189**	**3,131**

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 2015, 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 II definition. The observation period is from 1 January 2011 to 31 December 2016.

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.

34.7) Operational risk (continued)

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.

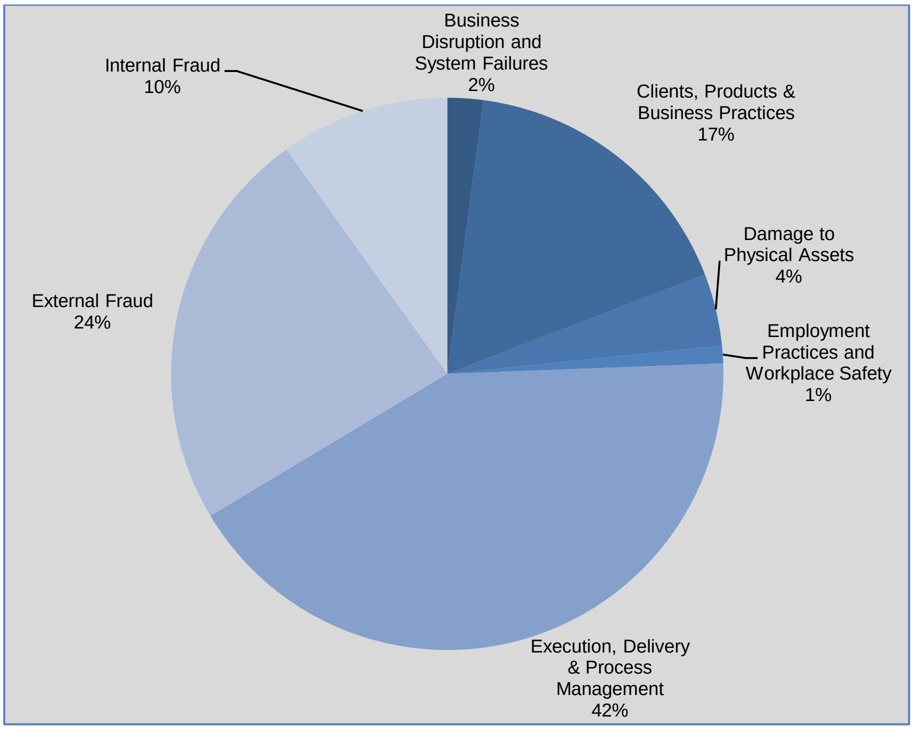
Clients, products and business practices:
Losses arising from unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) or from the nature or design of a product.

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 2016



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 case of the negative interest environment the Group uses models which are able to deal sufficiently with the presented market conditions. Consequently, such negative interest rates do not restrict the valuation models.

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. The Bank's probability of default has been derived from the buy-back levels of the Bank's issuances.

35. Fair value of assets and liabilities (continued)

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 971 thousands as at 31 December 2016 (2015: HRK 914 thousands) and the total DVA-adjustment amounts to HRK 812 thousands as at 31 December 2016 (2015: HRK 176 thousands).

Validation and control

The responsibility for valuation of a position 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 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)

A reclassification from level 1 into level 2 or level 3 as well as vice versa will be performed if the financial instruments does no longer meet the criteria described above for the respective level.

The table below shows 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	2015	2016	2015	2016	2015	2016	2015	2016
ASSETS								
Financial assets - held for trading	159	-	74	73	-	-	233	73
Derivatives	-	-	61	73	-	-	61	73
Other trading assets	159	-	13	-	-	-	172	-
Financial assets - available for sale	6,557	7,280	163	157	83	374	6,803	7,811
Total assets	**6,716**	**7,280**	**237**	**230**	**83**	**374**	**7,036**	**7,884**
LIABILITIES								
Financial liabilities held for trading	-	-	103	77	-	-	103	77
Derivatives	-	-	103	77	-	-	103	77
Other trading liabilities	-	-	-	-	-	-	-	-
Total liabilities	**-**	**-**	**103**	**77**	**-**	**-**	**103**	**77**

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	2015	2016	2015	2016	2015	2016	2015	2016
ASSETS								
Financial assets - held for trading	155	-	77	76	-	-	232	76
Derivatives	-	-	64	76	-	-	64	76
Other trading assets	155	-	13	-	-	-	168	-
Financial assets - available for sale	6,082	6,959	263	20	79	254	6,424	7,233
Total assets	**6,237**	**6,959**	**340**	**96**	**79**	**254**	**6,656**	**7,309**
LIABILITIES								
Financial liabilities held for trading	-	-	103	76	-	-	103	76
Derivatives	-	-	103	76	-	-	103	76
Other trading liabilities	-	-	-	-	-	-	-	-
Total liabilities	**-**	**-**	**103**	**76**	**-**	**-**	**103**	**76**

35. Fair value of assets and liabilities (continued)

Valuation process for financial instruments categorised as Level 3

The valuation of financial instruments categorised as level 3 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

These tables show the transfer of Level 1 and Level 2 of financial instruments measured at fair value in the statement of financial position.

				GROUP
		2015		2016
In HRK million	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Securities				
Net transfer from Level 1	-	(30)	-	138
Net transfer from Level 2	30	-	(138)	-
Net transfer from Level 3	-	-	(95)	(86)
Purchases/sales/expiries	(171)	(1,420)	369	(155)
Total year-to-date change	**(141)**	**(1,450)**	**136**	**(103)**

				BANK
		2015		2016
In HRK million	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Securities				
Net transfer from Level 1	-	(45)	-	-
Net transfer from Level 2	45	-	-	-
Net transfer from Level 3	-	-	(93)	(86)
Purchases/sales/expiries	(131)	(1,420)	328	(139)
Total year-to-date change	**(86)**	**(1,465)**	**235**	**(225)**

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		Purchase / New Issuance	Sales	Gain/loss in other comprehensive income	Transfers into Level 3	
						GROUP
	2015					2016
Assets						
Financial assets - available for sale	83	189	(79)	-	181	374
Total assets	**83**	**189**	**(79)**	**-**	**181**	**374**
	2014					**2015**
Assets						
Financial assets – available for sale	8	-	-	75	-	83
Total assets	**8**	**-**	**-**	**75**	**-**	**83**

in HRK million		Purchase / New Issuance	Sales	Gain/loss in other comprehensive income	Transfers into Level 3	
						BANK
	2015					2016
Assets						
Financial assets – available for sale	79	74	(79)	-	180	254
Total assets	**79**	**74**	**(79)**	**-**	**180**	**254**
	2014					**2015**
Assets						
Financial assets – available for sale	5	-	-	74	-	79
Total assets	**5**	**-**	**-**	**74**	**-**	**79**

The sale of the shares in VISA Europe to VISA Inc. was effectuated according to plan in the second quarter of 2016. The initial offer of VISA Inc. from November 2015 included a cash payment, VISA Inc preferred shares and a potential Earn-out-payment in the year 2020. In the course of the fair valuation of the VISA shares as of 31 December 2015, all parts of the offer were taken into account. In May 2016 the offer was adjusted, whereas the earn-out-payments were replaced by a future payments 3 years after closing. This adjustment resulted in an additional increase of the fair value via other comprehensive income. The sales price of HRK 79 million comprising cash payment, VISA Inc preferred shares and future payments was considered as a Level 3 sale.

As of 31 December 2016, the fair valuation of VISA Inc preferred shares was based on reasonable assumptions and estimations and was consequently classified in Level 3. The shares cannot be sold before a minimum holding period of 12 years and are limited to certain conditions which may restrict the conversion of preferred shares into tradeable VISA Inc shares. Due to these limiting conditions the fair value of the preferred shares was capped based on assumptions compared to free tradeable VISA Inc. class A common shares.

35. Fair value of assets and liabilities (continued)

The reclassification of securities to level 3 was mainly caused by increased effect of classification effects within Valuation Adjustment Process Procedure and Valuation Adjustment Methods – technical documentation which both proscribe fair value level setting process into details. According to proscribed rules, most corporate bonds in Bank's portfolio were classified to level 3 due to lack of observable market quotes and significance of credit spreads calculated via internal model.

Unobservable inputs and sensitivity analysis for level 3 measurements

In case the fair value of a financial asset is retrieved from input parameters which are not observable in the market, those parameters can be retrieved from a range of alternative parameters. For the preparation of the Statement of Financial Position the parameters were chosen to reflect the market situation at the reporting date.

The range of unobservable valuation parameters used in level 3 measurements is shown in the following table.

Financial assets	Type of instrument	Fair value	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (weighted average)
31 December 2016					**GROUP**
Financial assets - available for sale	Bonds and commercial papers	287	Discounted cash flow	Credit spread	1.53% – 5.32% (4.12%)
31 December 2016					**BANK**
Financial assets - available for sale	Bonds and commercial papers	173	Discounted cash flow	Credit spread	1.53% – 5.32% (4.12%)

In estimating sensitivity impacts, mainly changes in credit spreads for bonds were considered. The ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis for debt securities range of credit spreads between +100 basis points and - 75 basis points. Effect in other comprehensive income for positive fair value change is HRK 6 million and for negative HRK 8 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 2016 and 2015.

					GROUP
2016	**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	4,388	4,388			
Financial assets - held to maturity	1,653	1,600	1,402	169	29
Loans to and receivables from credit institutions	5,329	5,332		-	5,332
Loans to and receivables from customers	43,656	43,670		-	43,670
LIABILITIES					
Financial liabilities measured at amortised costs	56,687	57,065	-	622	56,443
Deposits from banks	11,652	12,263		-	12,263
Deposits from customers	43,323	43,094		-	43,094
Debt securities issued	924	924	-	622	302
Other financial liabilities	788	784	-	-	784
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	2,730	2,852	-	-	2,852
Irrevocable commitments	5,417	5,504	-	-	5,504

					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 COMMITMENTS					
Financial guarantees	2,631	2,631	-	-	2,631
Irrevocable commitments	4,555	4,555	-	-	4,555

35. Fair value of assets and liabilities (continued)

BANK					
2016	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
in HRK million					
ASSETS					
Cash and cash balances	3,737	3,737			
Financial assets - held to maturity	1,137	1,085	912	167	6
Loans to and receivables from credit institutions	5,320	5,324		-	5,324
Loans to and receivables from customers	36,254	36,268		-	36,268
LIABILITIES					
Financial liabilities measured at amortised costs	48,720	48,834	-	622	48,212
Deposits from banks	6,341	6,674		-	6,674
Deposits from customers	41,298	41,080		-	41,080
Debt securities issued	924	924	-	622	302
Other financial liabilities	157	156	-	-	156
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	2,262	2,363	-	-	2,363
Irrevocable commitments	3,502	3,558	-	-	3,558

BANK					
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	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 COMMITMENTS					
Financial guarantees	2,194	2,194	-	-	2,194
Irrevocable commitments	2,725	2,725	-	-	2,725

35. Fair value of assets and liabilities (continued)

The fair value of loans to and receivables from 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 receivables 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).

The fair values of deposits and other liabilities, measured at amortised cost, is estimated by taking into account the current interest rate environment, as well as the own credit spread. 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. For issued securities where fair value cannot be retrieved from quoted market prices, fair value is calculated by discounting the future cash flows. The applied discount rate is based on the interest rates at which instruments with comparable characteristics could have been issued at the balance sheet date. Moreover optionality is taken into account when calculating the fair value.

The fair value of off-balance sheet liabilities (i.e. financial guarantees and unused loan commitments) is estimated with the help of regulatory credit conversion factors. The resulting loan equivalents are treated like other on-balance sheet assets.

Fair values of non-financial assets

The following table shows fair values and fair value hierarchy of non-financial instruments at the year end 2016 and 2015:

					GROUP
in HRK million Assets whose Fair Value is disclosed in the notes	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
2016					
Investment property	59	64	-	-	64
2015					
Investment property	20	22	-	-	22

					BANK
in HRK million Assets whose Fair Value is disclosed in the notes	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
2016					
Investment property	36	41	-	-	41
2015					
Investment property	18	20	-	-	20

35. Fair value of assets and liabilities (continued)

For non-financial assets 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 2016								
	Category of financial instruments								
in HRK million	Loans and receivables	Held to maturity	Held for trading	Designated at fair value	Available for sale	Financial liabilities at amortised cost	Other financial assets	Finance lease according to IAS 17	Total
ASSETS									
Cash and cash balances	3,172	-	-	-	-	-	1,216	-	4,388
Loans to and receivables from credit institutions	5,329	-	-	-	-	-	-	-	5,329
Loans to and receivables from customers	42,105	-	-	-	-	-	-	1,551	43,656
Financial assets - held for trading	-	-	73	-	-	-	-	-	73
Financial assets - available for sale	-	-	-	-	7,832	-	-	-	7,832
Financial assets - held to maturity	-	1,653	-	-	-	-	-	-	1,653
Total financial assets	**50,606**	**1,653**	**73**	**-**	**7,832**	**-**	**1,216**	**1,551**	
Net gains / losses recognized through profit or loss[1]	357	7	178	-	65	-	-	-	607
Net gains / losses recognized through OCI	-	-	-	-	43	-	-	-	43
LIABILITIES									
Financial liabilities - held for trading	-	-	(77)	-	-	-	-	-	(77)
Financial liabilities measured at amortized cost	-	-	-	-	-	(56,687)	-	-	(56,687)
Total financial liabilities	**-**	**-**	**(77)**	**-**	**-**	**(56,687)**			

									GROUP
	As at 31 December 2015								
	Category of financial instruments								
in HRK million	Loans and receivables	Held to maturity	Held for trading	Designated at fair value	Available for sale	Financial liabilities at amortised cost	Other financial assets	Finance lease according to IAS 17	Total
ASSETS									
Cash and cash balances	4,112	-	-	-	-	-	1,187	-	5,299
Loans to and receivables from 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)**

[1]Including impairments

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

BANK

in HRK million	Loans and receivables	Held to maturity	Trading	Desig-nated at fair value	Available for sale	Financial liabilities at amortised cost	Other financial assets	Finance lease according to IAS 17	Total
	As at 31 December 2016								
	Category of financial instruments								
ASSETS									
Cash and cash balances	2,636	-	-	-	-	-	1,101	-	3,737
Loans to and receivables from credit institutions	5,320	-	-	-	-	-	-	-	5,320
Loans to and receivables from customers	36,254	-	-	-	-	-	-	-	36,254
Financial assets - held for trading	-	-	76	-	-	-	-	-	76
Financial assets - available for sale	-	-	-	-	7,254	-	-	-	7,254
Financial assets - held to maturity	-	1,137	-	-	-	-	-	-	1,137
Total financial assets	**44,210**	**1,137**	**76**	**-**	**7,254**	**-**	**1,101**	**-**	**53,778**
Net gains / losses recognized through profit or loss[1]	359	4	179	-	50	-	-	-	592
Net gains / losses recognized through OCI	-	-	-	-	50	-	-	-	50
LIABILITIES									
Financial liabilities - held for trading	-	-	(76)	-	-	-	-	-	(76)
Financial liabilities measured at amortized cost	-	-	-	-	-	(48,720)	-	-	(48,720)
Total financial liabilities	**-**	**-**	**(76)**	**-**	**-**	**(48,720)**	**-**	**-**	**(48,796)**

BANK

in HRK million	Loans and receivables	Held to maturity	Trading	Designa-ted at fair value	Available for sale	Financial lia-bilities at amortised cost	Other financial assets	Finance lease according to IAS 17	Total
	As at 31 December 2015								
	Category of financial instruments								
ASSETS									
Cash and cash balances	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)**

[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 2016 and 2015:

	GROUP		BANK	
in HRK million	2015	2016	2015	2016
Audit fees	4	3	2	2
Total	**4**	**3**	**2**	**2**

38. Contingent liabilities

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank and the Group (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 2016 and 31 December 2015.

				GROUP
in HRK million	< 1 year	2015 > 1 year	< 1 year	2016 > 1 year
Cash and cash balances	5,299	-	4,388	-
Financial assets - held for trading	216	17	67	6
Financial assets – available for sale	1,801	5,023	3,257	4,575
Loans and receivables	22,000	29,600	20,618	28,367
Financial assets – held to maturity	227	1,205	176	1,477
Property, plant and equipment	-	1,221	-	1,309
Investment properties	-	20	-	59
Intangible assets	-	409	-	390
Investments in associates	-	61	-	59
Tax assets	100	415	30	219
Other assets	74	543	87	520
TOTAL ASSETS	**29,717**	**38,514**	**28,623**	**36,981**
Financial liabilities - held for trading	90	13	72	5
Financial liabilities measured at amortised cost	39,771	19,463	42,902	13,785
Provisions	9	127	7	77
Commitments and guarantees given	83	33	99	61
Other provisions	917	-	16	-
Tax liabilities	5	1	12	2
Other liabilities	608	-	578	-
TOTAL LIABILITIES	**41,483**	**19,637**	**43,686**	**13,930**

39. Analysis of remaining maturities (continued)

BANK

in HRK million	2015 < 1 year	2015 > 1 year	2016 < 1 year	2016 > 1 year
Cash and cash balances	4,847	-	3,737	-
Financial assets - held for trading	216	16	67	9
Financial assets – available for sale	1,905	4,540	3,263	3,991
Loans and receivables	16,814	27,216	15,647	25,927
Financial assets – held to maturity	5	884	151	986
Property, plant and equipment	-	545	-	548
Investment properties	-	18	-	36
Intangible assets	-	72	-	110
Investments in subsidiaries and associates	-	1,021	-	1,010
Tax assets	84	241	10	90
Other assets	36	535	39	498
TOTAL ASSETS	**23,907**	**35,088**	**22,914**	**33,205**
Financial liabilities - held for trading	90	13	71	5
Financial liabilities measured at amortised cost	35,154	16,066	36,943	11,777
Provisions	917	104	16	71
Commitments and guarantees given	60	30	70	59
Other liabilities	425	-	378	-
TOTAL LIABILITIES	**36,646**	**16,213**	**37,478**	**11,912**

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40. Country-by-country reporting

Country	Operating income	Pre-tax result from continuing operations	Taxes on income	Employees
GROUP				**2016**
Croatia	2,916	1,141	(294)	2,751
Montenegro	172	67	(6)	261
Slovenia	45	5	-	61
Total	**3,133**	**1,213**	**(300)**	**3,073**

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

41. Own funds and capital requirements

Regulatory Scope of Consolidation

In the following pages the Group fulfills the disclosure requirements according to CRR, in detail articles 436 (b) – (e) CRR and articles 437 (1) (a) – (f) CRR.

Regulatory Requirements

Since 1 January 2014, the Group has been calculating the regulatory capital and the regulatory capital requirements according to Basel III. The requirements were implemented within the EU by the CRR and the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 (CRD IV) that were enacted in national law in Croatian Credit Institutions Act (ZOKI), as well as within various technical standards issued by the European Banking Authority (EBA).
All requirements as defined in the CRR, ZOKI and the aforementioned technical standards are fully applied by the Group for regulatory purposes and for the disclosure of regulatory information.

Accounting Principles

The financial and regulatory figures published by the Group are based on IFRS. Eligible capital components derive from the Statement of financial position and Statement of profit or loss which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scope of consolidation (for details see the following chapter Comparison of consolidation for accounting purposes and regulatory purposes) and for items where the regulatory treatment is not equal to the accounting requirements.
The uniform closing date of the consolidated financial statements and consolidated regulatory figures of the Group is the 31 December of each respective year.

Comparison of consolidation for accounting purposes and regulatory purposes

Disclosure requirements covered: Art. 436 (b) CRR

Scope of Consolidation

Details regarding the accounting scope of consolidation are disclosed in chapter B Significant accounting policies especially under section b) Basis of consolidation of Annual report.
The regulatory scope of consolidation is used as a synonym for the scope of consolidation that follows the regulatory requirements for consolidation as defined by the CRR and Croatian National Bank (CNB) which introduces the requirements of the CRD IV into national law.

Regulatory scope of consolidation

The regulatory scope of consolidation is defined in Part One, Title II, Chapter 2 Section 3 of the CRR.
The definition of entities to be consolidated for regulatory purposes are mainly defined in articles 4 (1) (3) and (16) to (27) CRR in conjunction with the articles 18 and 19 CRR. Based on the relevant sections in article 4 CRR, entities to be consolidated are determined based on the business activity of the relevant entities.

41. Own funds and capital requirements (continued)

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

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

Consolidation methods

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

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

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

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

Carrying amounts representing the investments in financial sector entities as defined in article 4 (27) CRR that are not fully consolidated or considered by using the at equity consolidation method for regulatory purposes have to be deducted from the own funds based on the requirements as defined in articles 36 (1) (h), 45 and 46 CRR for non-significant investments and articles 36 (1) (i), 43, 45, 47 and 48 CRR for significant investments.
For these purposes, non-significant investments are defined as investments in financial sector entities in which the participation is equal to or less than 10% of Common Equity Tier 1 (CET1) of the relevant financial sector entities, while significant investments are defined as investments that are above 10% of the CET1 of the relevant financial sector entities. To determine the participation in the relevant financial sector entities, these participations are calculated based on the direct, indirect and synthetic holdings in the relevant entities. According to article 46 (1) (a) CRR, holdings in non-significant investments have to be deducted only if the total amount for such investments, including Additional Tier 1 (AT1) items according to article 56 (c) and 59 CRR and Tier 2 items according to article 66 (c) and 70 CRR, exceeds a defined threshold of 10% in relation to CET1 of the reporting institution.

41. Own funds and capital requirements (continued)

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

For the deduction of significant investments in the CET1 of financial sector entities, a threshold is defined in article 48 (2) CRR. According to article 48 (2) CRR, significant investments in the CET1 of financial sector entities have only to be deducted if they exceed 10% of the CET1 of the reporting institution. If 10% threshold is exceeded, the deduction is limited to the amount by which the defined threshold is exceeded. The remaining amount has to be considered within the calculation of the risk weighted assets (RWA). The risk weight (RW) is defined at 250% according to article 48 (4) CRR.
In addition to the aforementioned threshold, a combined threshold for the deduction of significant investments according to article 36 (1) (i) CRR and for deferred tax assets that rely on future profitability and arise from temporary differences according to article 36 (1) (c) CRR as well as according to article 38 CRR is defined in article 48 (2) CRR. The combined threshold according to article 48 (2) CRR is defined at 17.65% of the CET1 of the reporting institution. If the threshold is exceeded, the exceeding amount has to be deducted from the CET1 of the reporting institution. The remaining amount has to be considered within the RWAs according to article 48 (3) CRR. A 250% RW shall be applied for the amount not exceeding the 17.65% threshold according to article 48 (4) CRR.

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

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

Threshold calculations according to articles 46 and 48 CRR

in HRK million	2015	2016
Non-significant investments in financial sector entities		
Threshold (10% of CET1)	631	705
Holdings in CET1	(3)	(3)
Distance to threshold	**628**	**702**
Significant investments in financial sector entities		
Threshold (10% of CET1)	631	705
Holdings in CET1	(2)	(43)
Distance to threshold	**629**	**662**
Deferred tax assets		
Threshold (10% of CET1)	631	705
Deferred tax assets dependent on future profitability and arises from temporary differences	(271)	(219)
Distance to threshold	**360**	**486**
Combined threshold for deferred tax assets and significant investments		
Threshold (17.65% of CET1)*	947	1.057
Deferred tax assets dependent on future profitability and arises from temporary differences and CET1 instruments of financial sector entities where the institution has a significant investment	(273)	(262)
Distance to threshold	**674**	**795**

*In transition period (from 1 January 2014 until 31 December 2017) threshold percentage is 15% in accordance with article 470 CRR.

41. Own funds and capital requirements (continued)

Presentation of the scope of consolidation

Entities within the different scopes of consolidation

2016	IFRS Full	IFRS Equity	CRR Full	CRR Proportional	CRR De Minimis
Credit institutions:					
Erste bank a.d. Podgorica, Montenegro	x	-	x	-	-
Financial institutions, financial holding companies and mixed financial holding companies:					
Erste & Steiermärkische S-Leasing d.o.o.	x	-	x	-	-
Erste Card d.o.o., Slovenia	x	-	x	-	-
Erste Factoring d.o.o. za factoring	x	-	x	-	-
ERSTE CARD CLUB d.o.o. za financijsko posredovanje i usluge	x	-	x	-	-
Ancillary service undertakings, investment firms and asset management companies:					
Erste Nekretnine d.o.o.	x	-	-	-	x
S Immorent Zeta d.o.o.	-	x	-	-	x
Erste Group IT HR d.o.o.	x	-	-	-	x
Izbor nekretnina d.o.o.	x	-	-	-	x
Other companies					
Immokor Buzin d.o.o.	-	x	-	-	-
Erste d.o.o. društvo za upravljanje obveznim mirovinskim fondom	-	x	-	-	-

2015	IFRS Full	IFRS Equity	CRR Full	CRR Proportional	CRR De Minimis
Credit institutions:					
Erste bank a.d. Podgorica, Montenegro	x	-	x	-	-
Financial institutions, financial holding companies and mixed financial holding companies:					
Erste & Steiermärkische S-Leasing d.o.o.	x	-	x	-	-
Erste Card d.o.o., Slovenia	x	-	x	-	-
Erste Factoring d.o.o. za factoring	x	-	x	-	-
ERSTE CARD CLUB d.o.o. za financijsko posredovanje i usluge	x	-	x	-	-
Ancillary service undertakings, investment firms and asset management companies:					
Erste Nekretnine d.o.o.	x	-	-	-	x
S Immorent Zeta d.o.o.	-	x	-	-	x
Erste Group IT HR d.o.o	-	x	-	-	x
Other companies					
Immokor Buzin d.o.o.	-	x	-	-	-
Erste d.o.o. društvo za upravljanje obveznim mirovinskim fondom	-	x	-	-	-

41. Own funds and capital requirements (continued)

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

There were no changes during year 2016 within regulatory scope of consolidated entities since the new companies consolidated for the IFRS scope (details explained within headline Business combinations and goodwill) do not exceed limits set by article 19 (1).
During 2015 there were changes in regulatory scope of fully consolidated entities. 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 in amount of HRK 216 million. Second change refers to Erste nekretnine d.o.o. that was deconsolidated in second half of the year. For regulatory scope of consolidation the reason for deconsolidation was the decrease of total assets below minimum requirements set by article 19 (1) CRR.

Impediments to the transfer of own funds

Disclosure requirements covered: art. 436 (c) CRR

Currently there are no restrictions or significant impediments to the transfer of financial funds or regulatory capital within the group of credit institutions. Further details can be found in chapter B Significant accounting policies within Annual report.

Total capital shortfall of all subsidiaries not included in the consolidation

Disclosure requirements covered: art. 436 (d) (e) CRR

There were no capital shortfall at any of the companies of the Group not included in consolidation.

Own funds

Own funds according to Basel III consists of Common equity Tier 1 (CET 1), Additional Tier 1 capital (AT 1) and Tier 2 capital (T2). According to article 92 CRR credit institutions are required to fulfill following requirements; CET 1 capital ratio in amount of 4.5%, Tier 1 capital ratio in amount of 6% and total capital ratio in amount of 8%. Except regulatory minimum ratios, the Group is obliged to cover capital buffers in amount of 2.5%.
Own funds of the Group consists of CET 1 and Tier 2. For disclosure purposes the Group follows article 437 CRR and requirements defined in Commission implementing Regulation (EU) No 1423/2013.
Above mentioned Regulation request to disclose following information:

- fully adjusted own funds with audited financial statements according to articles 32 - 35, 36, 56, 66, and 79 CRR (Note 3.1.),
- description of the main features of the CET 1, Additional Tier 1 and Tier 2 issued by the institutions according to articles 437 (1) (b) CRR (Note 4.1.),
- all conditions of CET 1 instruments, Additional Tier 1 and Tier 2 issued by institution (Note 4.1.),
- disclosure of types and amounts of own funds items during transitional period according to templates from EBA (Note 3.1.).

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 2015	GROUP 2016	BANK 2015	BANK 2016
Common equity tier 1 capital (CET1)					
Capital instruments eligible as CET1 capital	26 (1) (a) (b), 27 to 30, 23 (1) (f), 42	3,500	3,500	3,500	3,500
Own CET1 instruments	36 (1) (f), 42	3,500	3,500	3,500	3,500
Retained earnings	26 (1) (c), 26 (2)	3,817	3,592	3,289	2,705
Interim loss	36 (1) (a)	(819)	-	(1.012)	-
Accumulated other comprehensive income	4 (100), 26 (1) (d)	293	261	266	232
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	(7)	(14)	(7)	(13)
Regulatory adjustments relating to unrealised gains and losses	467, 468	(387)	(324)	(350)	(283)
Goodwill	4 (113), 36 (1) (b), 37	(269)	(216)	-	-
Other intangible assets	4 (115), 36 (1) (b), 37 (a)	(140)	(161)	(72)	(110)
Deferred tax assets dependent upon future profitability and not temporary differences net of associated tax liabilities	36 (1) (c), 38	(145)	(1)	(144)	-
IRB shortfall of credit risk adjustments to expected losses	36 (1) (d), 40, 158, 159	-	-	-	-
Common equity tier 1 capital (CET1)	**50**	**5,928**	**6,721**	**5,555**	**6,115**
Tier 2 capital (T2)					
Capital instruments and subordinated loans eligible as T2 capital	**62 (a), 63 to 65, 66 (a), 67**	**1,258**	**1,066**	**1,258**	**1,066**
Own T2 instruments	**63 (b) (i), 66 (a), 67**	**1,258**	**1,066**	**1,258**	**1,066**
IRB excess of provisions over expected losses eligible	**62 (d)**	**165**	**154**	**177**	**165**
Tier 2 capital (T2)	**71**	**1,423**	**1,220**	**1,435**	**1,231**
Total own funds		**7,351**	**7,941**	**6,990**	**7,346**
Capital requirement	**92 (3), 95, 96, 98**	**3,542**	**3,449**	**2,831**	**2,716**
CET1 capital ratio	**92 (2) (a)**	**13.39**	**15.59**	**15.70**	**18.01**
Tier 1 capital ratio	**92 (2) (b)**	**13.39**	**15.59**	**15.70**	**18.01**
Total capital ratio	**92 (2) (c)**	**16.60**	**18.42**	**19.75**	**21.63**

41. Own funds and capital requirements (continued)

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

GROUP		2015		2016	
in HRK million	Article pursuant to CRR	Calculation base/total risk	Capital requirement	Calculation base/total risk (final)	Capital requirement (final)
Total risk exposure amount	92 (3), 95, 96, 98	44,274	3,542	43,116	3,449
Risk-weighted assets (credit risk)	92 (3) (a) (f)	38,171	3,054	36,854	2,947
Standardised approach		10,657	853	11,250	899
IRB approach		27,514	2,201	25,604	2,048
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)	254	20	244	20
Operational risk	92 (3) (e) 92 (4) (b)	5,714	457	5,787	463
Exposure for CVA	92 (3) (d)	135	11	231	19

BANK		2015		2016	
in HRK million	Article pursuant to CRR	Calculation base/total risk	Capital requirement	Calculation base/total risk (phased-in)	Capital requirement (phased-in)
Total risk exposure amount	92 (3), 95, 96, 98	35,388	2,831	33,956	2,716
Risk-weighted assets (credit risk)	92 (3) (a) (f)	31,392	2,511	29,766	2,381
Standardised approach		1,830	146	2,215	177
IRB approach		29,562	2,365	27,551	2,204
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (iii), 92 (4) (b)	66	5	29	2
Operational risk	92 (3) (e) 92 (4) (b)	3,795	304	3,931	315
Exposure for CVA	92 (3) (d)	135	11	230	18

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.

41. Own funds and capital requirements (continued)

Statement of financial position reconciliation

Disclosure requirements covered: Art. 437 (1) (a) CRR

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

			2015			2016
in HRK million	IFRS	Effects - scope of consolidation	CRR	IFRS	Effects - scope of consolidation	CRR
Assets						
Cash and cash balances	5,299	-	5,299	4,388	-	4,388
Financial assets - held for trading	233	-	233	73	-	73
Derivatives	61	-	61	73	-	73
Other trading assets	172	-	172	-	-	-
Financial assets - available for sale	6,824	-	6,824	7,832	-	7,832
Financial assets - held to maturity	1,432	-	1,432	1,653	-	1,653
Loans to and receivables from credit institutions	5,441	-	5,441	5,329	-	5,329
Loans to and receivables from customers	46,159	-	46,159	43,656	38	43,694
Property and equipment	1,221	-	1,221	1,309	(51)	1,258
Investment properties	20	-	20	59	(21)	38
Intangible assets	409	-	409	390	(13)	377
Investments in associates and joint ventures	61	(23)	38	59	22	81
Current tax assets	100	-	100	30	-	30
Deferred tax assets	415	-	415	219	-	219
Other assets	617	-	617	607	-	603
Total assets	**68,231**	**(23)**	**68,208**	**65,604**	**(29)**	**65,575**
Liabilities and equity						
Financial liabilities - held for trading	103	-	103	77	-	77
Derivatives	103	-	103	77	-	77
Financial liabilities measured at amortised costs	59,234	3	59,237	56,687	7	56,694
Deposits from banks	16,174	-	16,174	11,652	-	11,652
Deposits from customers	41,445	3	41,448	43,323	9	43,332
Debt securities issued	931	-	931	924	-	924
Other financial liabilities	684	-	684	788	(2)	786
Provisions	1,169	-	1,169	260	-	-
Current tax liabilities	5	-	5	12	-	-
Deferred tax liabilities	1	-	1	2	-	-
Other liabilities	608	-	608	578	(8)	570
Total liabilities	**61,120**	**3**	**61,123**	**57,616**	**(1)**	**57,615**
Total equity	**7,111**	**(26)**	**7,085**	**7,988**	**(28)**	**7,960**
Equity - attributable to non-controlling interests	201	-	201	235	-	235
Equity - attributable to owners of the parent	6,910	(26)	6,884	7,753	(28)	7,725
Total liabilities and equity	**68,231**	**(23)**	**68,208**	**65,604**	**(29)**	**65,575**

41. Own funds and capital requirements (continued)

The differences between IFRS financial statements and financial statements in accordance with CRR scope of consolidation refers to the scope of companies included in mentioned balances. As of 31 December 2016 difference on position Investments in associates and joint ventures in amount of HRK 22 million (2015: HRK 23 million) refers to investment in associates together with investment in companies listed in table Entities within the different scopes of consolidation that are out of the CRR scope of consolidation. The same amount effects total equity through position Retained earnings and Loss for the year. Details are shown in table Total equity.

Differences on other positions in the Statement of financial position refer to the effects of the companies not included in CRR scope while included in the IFRS scope.

Further details regarding the number of entities within the different scopes of consolidation are disclosed in table Presentation of the scope of consolidation.

Total equity

						2016
in HRK million	IFRS	effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Subscribed capital	1,698	-	1,698	-	1,698	a
Capital reserves	1,801	-	1,801	-	1,801	b
Capital instruments and the related share premium accounts	86	-	86	-	86	c
Retained earnings	3,031	(25)	3,006	-	3,006	d
Loss for the year	875	(2)	873	(287)	586	e
Other comprehensive income (OCI)	262	(1)	261	-	261	c
Available for sale reserve	323	(1)	322	-	322	
unrealized gains according to Art. 35 CRR	324	-	324	-	324	f
unrealized losses according to Art. 35 CRR	(1)	(1)	(2)	-	(2)	
Currency translation	(1)	-	(1)	-	(1)	
Deferred tax	(58)	-	(58)	-	(58)	
Equity attributable to owners of the parent	7,753	(28)	7,725	(287)	7,438	
Equity attributable to non-controlling interests	235	-	235	(235)	-	
Total equity	**7,988**	**(28)**	**7,960**	**(522)**	**7,438**	

41. Own funds and capital requirements (continued)

						2015
in HRK million	IFRS	effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Subscribed capital	1,698	-	1,698	-	1,698	a
Capital reserves	1,887	-	1,801	-	1,801	b
Capital instruments and the related share premium accounts	-	-	86	-	86	c
Retained earnings	3,847	(22)	3,825	(8)	3,817	d
Loss for the year	(816)	(3)	(819)	-	(819)	e
Other comprehensive income (OCI)	294	(1)	293	-	293	c
Available for sale reserve	366	-	366	-	366	
unrealized gains according to Art. 35 CRR	387	-	387	-	387	f
unrealized losses according to Art. 35 CRR	(21)	-	(21)	-	(21)	
Currency translation	3	-	3	-	3	
Deferred tax	(73)	-	(73)	-	(73)	
Other	(2)	-	(2)		(2)	
Equity attributable to owners of the parent	6,910	(26)	6,884	-	6,876	
Equity attributable to non-controlling interests	201	(201)	-	-	-	
Total equity	**7,111**	**(227)**	**6,884**	**(8)**	**6,876**	

Regulatory adjustments in amount of HRK 287 million HRK refer to distributable dividend that is deducted from the profit for the year 2016.
Regulatory adjustments in the amount of HRK 8 million refer to retained earnings from Erste Delta d.o.o. that was merged with the Bank during the year 2015 and at the time of the issue of Annual report this was not approved by General Assembly of the Bank to be eligible for inclusion within Own funds. During the year 2016 this amount was approved by the General Assembly and became eligible for inclusion within Own funds.
Further details regarding the development of IFRS equity are disclosed within Part III Statement of Changes in Equity.

Intangible assets

						2016
in HRK million	IFRS	effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Intangible assets	**390**	**(13)**	**377**	**-**	**377**	
100% deductible from CET 1 acc. to transitional provisions	390	(13)	377	-	377	g

						2015
in HRK million	IFRS	effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Intangible assets	**409**	**-**	**409**	**-**	**409**	
100% deductible from CET 1 acc. to transitional provisions	409	-	409	-	409	g

Details regarding the development of intangible assets are disclosed under Note 21 Intangible assets.

41. Own funds and capital requirements (continued)

Deferred Taxes

				2016
in HRK million	**IFRS**	**effects - scope of consolidation**	**Own Funds**	**Own funds disclosure table - reference**
Deferred tax assets	**219**	**-**	**219**	
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	1	-	1	h
Deferred tax assets that rely on future profitability and arise from temporary differences	218	-	218	

				2015
in HRK million	**IFRS**	**effects - scope of consolidation**	**Own Funds**	**Own funds disclosure table - reference**
Deferred tax assets	**415**	**-**	**415**	
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	145	-	145	h
Deferred tax assets that rely on future profitability and arise from temporary differences	270	-	270	

Based on the threshold definition according to article 48 CRR deferred tax assets that rely on future profitability and arise from temporary differences are not deductible for the Group at year end 2016 and 2015. In accordance with article 48 (4) CRR the non-deductible amount is risk weighted with 250% and considered within the credit risk. Deferred tax assets that rely on future profitability but do not arise from temporary differences are not subject to any threshold (i.e. are completely deducted from CET1).
Details regarding deferred tax assets are disclosed under Note 22 Tax assets and liabilities.

Subordinated liabilities

						2016
in HRK million	**IFRS**	**effects - scope of consolidation**	**CRR**	**Regulatory adjustments**	**Own funds**	**Own funds disclosure table - reference**
Tier 2 capital instruments	**1,684**	**-**	**1,684**	**(618)**	**1,066**	**i**
Subordinated loan	1,062	-	1,062	(62)	1,000	
Subordinated issues	622	-	622	(556)	66	

						2015
in HRK million	**IFRS**	**effects - scope of consolidation**	**CRR**	**Regulatory adjustments**	**Own funds**	**Own funds disclosure table - reference**
Tier 2 capital instruments	**1,702**	**-**	**1,702**	**(444)**	**1,258**	**i**
Subordinated loan	1,073	-	1,073	(4)	1,069	
Subordinated issues	629	-	629	(440)	189	

Details regarding subordinated liabilities are disclosed under Note 24 Financial liabilities measured at amortised costs.

41. Own funds and capital requirements (continued)

Transitional provisions

The transitional provisions which are applied by the Group are based on the CNB's decision on implementing standard of CRR.

Own funds disclosure

Disclosure requirements covered: Art. 437 (1) (d) (e) CRR

The Group does not consider Art. 437 (1) (f) CRR for the calculation of consolidated own funds.
The table below presents the composition of the regulatory capital during the transitional period based on the Implementing Technical Standards on the disclosure of own funds published in the Official Journal of the EU. In column (A) is disclosed current amount, which considers all the transitional requirements, is disclosed. Column (C) discloses the residual amount, implying full CRR implementation. Column (D) provides reference on comparable figures related to IFRS equity, intangible assets, deferred tax assets and subordinated liabilities.

41. Own funds and capital requirements (continued)

in HRK million	(A) 2016	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
Common equity tier 1 (CET1) capital: instruments and reserves				
1 Capital instruments and the related share premium accounts	3,499	26 (1), 27, 28, 29, 26 (3)		
1a Ordinary shares	1,698	26 (3)		a
1b Share premium	1,801	26 (3)		b
2 Retained earnings	3,006	26 (1) (c)		d
3 Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	347	26 (1)		c
3a Fund for general banking risk	-	26 (1) (f)		
4 Amount of qualifying items referred to in article 484 (3) and the related share premium accounts subject to phase out from CET1	-	486 (2)		
Public sector capital injections grandfathered until 1 January 2018	-	483 (2)		
5 Minority Interests (amount allowed in consolidated CET1)	-	84, 479, 480		
5a Independently reviewed interim profits net of any foreseeable charge or dividend	586	26 (2)		e
6 CET1 capital before regulatory adjustments	**7,438**			
Common Equity Tier 1 (CET 1) capital: regulatory adjustments				
7 Additional value adjustments (negative amount)	(14)	34, 105		
8 Intangible assets (net of related tax liability) (negative amount)	(377)	36 (1) (b), 37, 472 (4)		g
9 Empty set in the EU	-			
10 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in article 38 (3) are met) (negative amount)	(1)	36 (1) (c), 38, 472 (5)		h
11 Fair value reserves related to gains or losses on cash flow hedges	-	33 (a)		
12 Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159, 472 (6)		
13 Any increase in equity that results from securitised assets (negative amount)	-	32 (1)		
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(1)	33 (b)		
15 Defined benefit pension fund assets (negative amount)	-	36 (1) (e), 41, 472 (7)		
16 Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42, 472 (8)		
17 Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36 (1) (g), 44, 472 (9)		
18 Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)		
19 Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)		
20 Empty set in the EU	-			
20a Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	36 (1) (k)		
20b of which: qualifying holdings outside the financial sector (negative amount)	-	36 (1) (k) (i), 89 to 91		
20c of which: securitisation positions (negative amount)	-	36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258		
20d of which: free deliveries (negative amount)	-	36 (1) (k) (iii), 379 (3)		
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)		

The table is continued on the next page

41. Own funds and capital requirements (continued)

in HRK million	(A) 2016	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
22 Amount exceeding the 15% threshold (negative amount)	-	48 (1)		
23 of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36 (1) (i), 48 (1) (b), 470, 472 (11)		
24 Empty set in the EU	-			
25 of which: deferred tax assets arising from temporary differences	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)		
25a Losses for the current financial year (negative amount)	-	36 (1) (a), 472 (3)		
25b Foreseeable tax charges relating to CET1 items (negative amount)	-	36 (1) (l)		
26 Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-			
26a Regulatory adjustments relating to unrealised gains and losses pursuant to articles 467 and 468	-			
of which: unrealised losses	-	467		
of which: unrealised gains	(324)	468		f
26b Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-	481		
27 Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	36 (1) (j)		
28 Total regulatory adjustments to Common equity Tier 1 (CET1)	**(717)**			
29 Common equity Tier 1 (CET1) capital	**6,721**			
Additional Tier 1 (AT1) capital: Instruments	**-**			
30 Capital instruments and the related share premium accounts	-	51, 52		
31 of which: classified as equity under applicable accounting standards	-			
32 of which: classified as liabilities under applicable accounting standards	-			
33 Amount of qualifying items referred to in article 484 (4) and the related share premium accounts subject to phase out from AT1	-	486 (3)		
Public sector capital injections grandfathered until 1 January 2018	-	483 (3)		
34 Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	-	85, 86, 480		
35 of which: instruments issued by subsidiaries subject to phase out	-	486 (3)		
36 Additional Tier 1 (AT1) capital before regulatory adjustments	**-**			
Additional Tier 1 (AT1) capital: regulatory adjustments				
37 Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52 (1) (b), 56 (a), 57, 475 (2)		
38 Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	56 (b), 58, 475 (3)		
39 Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (c), 59, 60, 79, 475 (4)		
40 Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (d), 59, 79, 475 (4)		

The table is continued on the next page.

41. Own funds and capital requirements (continued)

in HRK million	(A) 2016	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
41 Regulatory adjustments applied to AT1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (ie. CRR residual amounts)	-			
41a Residual amounts deducted from AT1 capital with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)		
Interim loss	-			
Shortfall of provisions to expected loss	-			
41b Residual amounts deducted from AT1 with regard to deduction from T2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	477, 477 (3), 477 (4) (a)		
reciprocal cross holdings in T2 instruments	-			
direct holdings of non-significant investments in the capital of other financial sector entities	-			
41c Amount to be deducted from or added to AT1 with regard to additional filters and deductions required pre- CRR	-	467, 468, 481		
possible filter to unrealised losses	-	467		
possible filter to unrealised gains	-	468		
42 Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)		
43 Total regulatory adjustments to Additional tier 1 (AT1) capital	**-**			
44 Additional Tier 1 (AT1) capital	**-**			
45 Tier 1 capital (T1 = CET1 + AT1)	**6,721**			
Tier 2 (T2) capital: Instruments and provisions	-			
46 Capital instruments and the related share premium accounts	1,066	62, 63		i
47 Amount of qualifying items referred to in article 484 (5) and the related share premium accounts subject to phase out from T2	-	486 (4)		
Public sector capital injections grandfathered until 1 January 2018	-	483 (4)		
48 Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	87, 88, 480		
49 of which: instruments issued by subsidiaries subject to phase-out	-	486 (4)		
50 Credit risk adjustments	154	62 (c) (d)		
51 Tier 2 (T2) capital before regulatory adjustment	**1,220**			
T2 capital: regulatory adjustments	-			
52 Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63 (b) (i), 66 (a), 67, 477 (2)		
53 Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	-	66 (b), 68, 477 (3)		
54 Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70, 79, 477 (4)		
54a of which: new holdings not subject to transitional arrangements	-			
54b of which: holdings existing before 1 January 2013 and subject to transitional arrangements	-			
55 Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	-	66 (d), 69, 79, 477 (4)		
56 Regulatory adjustments applied to T2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-			

The table is continued on the next page

41. Own funds and capital requirements (continued)

in HRK million	(A) 2016	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
56a Residual amounts deducted from T2 with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)		
Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc.	-			
56b Residual amounts deducted from T2 with regard to deduction from AT1 during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	475, 475 (2) (a), 475 (3), 475 (4) (a)		
of which: reciprocal cross holdings in T1 instruments	-			
of which: direct holdings of non-significant investments in the capital of other financial sector entities	-			
56c Amounts to be deducted from or added to T2 with regard to additional filters and deductions required pre- CRR	-	467, 468, 481		
of which: possible filter to unrealised losses	-	467		
of which: possible filter to unrealised gains	-	468		
57 Total regulatory adjustments to Tier 2 (T2) capital	**-**			
58 Tier 2 (T2) capital	**1,220**			
59 Total capital (TC = T1 + T2)	**7,941**			
59a Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	43,116			
of which: items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	-	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)		
of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	-	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)		
Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	-	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)		
60 Total risk-weighted assets	**43,116**			
Capital ratios and buffers	-			
61 Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.59%	92 (2) (a), 465		
62 Tier 1 (as a percentage of total risk exposure amount)	15.59%	92 (2) (b), 465		
63 Total capital (as a percentage of total risk exposure amount	18.42%	92 (2) (c)		
64 Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	10.00%	CRD 128, 129, 130		
65 of which: capital conservation buffer requirement	2.50%			
66 of which: countercyclical buffer requirement	-			
67 of which: systemic risk buffer requirement	3.00%			
67a of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	CRD 131		
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	5.50%	CRD 128		

The table is continued on the next page

41. Own funds and capital requirements (continued)

in HRK million	(A) 2016	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
69 [non-relevant in EU regulation]	-			
70 [non-relevant in EU regulation]	-			
71 [non-relevant in EU regulation]	-			
Capital ratios and buffers	-			
72 Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	3	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)		
73 Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	43	36 (1) (i), 45, 48, 470, 472 (11)		
74 Empty set in the EU	-			
75 Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in article 38 (3) are met)	-	36 (1) (c), 38, 48, 470, 472 (5)		
Applicable caps on the inclusion of provisions in Tier 2	-			
76 Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	62		
77 Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62		
78 Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	154	62		
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	25,604	62		
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	-			
80 Current cap on CET1 instruments subject to phase-out arrangements	-	484 (3), 486 (2) & (5)		
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) & (5)		
82 Current cap on AT1 instruments subject to phase-out arrangements	-	484 (4), 486 (3) & (5)		
83 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3) & (5)		
84 Current cap on T2 instruments subject to phase-out arrangements	-	484 (5), 486 (4) & (5)		
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5), 486 (4) & (5)		

41. Own funds and capital requirements (continued)

in HRK million	(A) 2015	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
Common equity tier 1 (CET1) capital: instruments and reserves				
1 Capital instruments and the related share premium accounts	3,499	26 (1), 27, 28, 29, 26 (3)		
1a Ordinary shares	1,698	26 (3)		a
1b Share premium	1,801	26 (3)		b
2 Retained earnings	3,817	26 (1) (c)		d
3 Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	379	26 (1)		c
3a Fund for general banking risk	-	26 (1) (f)		
4 Amount of qualifying items referred to in article 484 (3) and the related share premium accounts subject to phase out from CET1	-	486 (2)		
Public sector capital injections grandfathered until 1 January 2018	-	483 (2)		
5 Minority Interests (amount allowed in consolidated CET1)	-	84, 479, 480		
5a Independently reviewed interim profits net of any foreseeable charge or dividend	(819)	26 (2)		e
6 CET1 capital before regulatory adjustments	**6,876**			
Common Equity Tier 1 (CET 1) capital: regulatory adjustments				
7 Additional value adjustments (negative amount)	(7)	34, 105		
8 Intangible assets (net of related tax liability) (negative amount)	(409)	36 (1) (b), 37, 472 (4)		g
9 Empty set in the EU	-			
10 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in article 38 (3) are met) (negative amount)	(145)	36 (1) (c), 38, 472 (5)		h
11 Fair value reserves related to gains or losses on cash flow hedges	-	33 (a)		
12 Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159, 472 (6)		
13 Any increase in equity that results from securitised assets (negative amount)	-	32 (1)		
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	33 (b)		
15 Defined benefit pension fund assets (negative amount)	-	36 (1) (e), 41, 472 (7)		
16 Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42, 472 (8)		
17 Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36 (1) (g), 44, 472 (9)		
18 Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)		
19 Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)		
20 Empty set in the EU	-			
20a Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	36 (1) (k)		
20b of which: qualifying holdings outside the financial sector (negative amount)	-	36 (1) (k) (i), 89 to 91		
20c of which: securitisation positions (negative amount)	-	36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258		
20d of which: free deliveries (negative amount)	-	36 (1) (k) (iii), 379 (3)		
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)		

The table is continued on the next page

41. Own funds and capital requirements (continued)

in HRK million	(A) 2015	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
22 Amount exceeding the 15% threshold (negative amount)	-	48 (1)		
23 of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36 (1) (i), 48 (1) (b), 470, 472 (11)		
24 Empty set in the EU	-			
25 of which: deferred tax assets arising from temporary differences	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)		
25a Losses for the current financial year (negative amount)	-	36 (1) (a), 472 (3)		
25b Foreseeable tax charges relating to CET1 items (negative amount)	-	36 (1) (l)		
26 Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-			
26a Regulatory adjustments relating to unrealised gains and losses pursuant to articles 467 and 468	-			
of which: unrealised losses	-	467		
of which: unrealised gains	(387)	468		f
26b Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-	481		
27 Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	36 (1) (j)		
28 Total regulatory adjustments to Common equity Tier 1 (CET1)	**(948)**			
29 Common equity Tier 1 (CET1) capital	**5,928**			
Additional Tier 1 (AT1) capital: Instruments	**-**			
30 Capital instruments and the related share premium accounts	-	51, 52		
31 of which: classified as equity under applicable accounting standards	-			
32 of which: classified as liabilities under applicable accounting standards	-			
33 Amount of qualifying items referred to in article 484 (4) and the related share premium accounts subject to phase out from AT1	-	486 (3)		
Public sector capital injections grandfathered until 1 January 2018	-	483 (3)		
34 Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	-	85, 86, 480		
35 of which: instruments issued by subsidiaries subject to phase out	-	486 (3)		
36 Additional Tier 1 (AT1) capital before regulatory adjustments	**-**			
Additional Tier 1 (AT1) capital: regulatory adjustments				
37 Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52 (1) (b), 56 (a), 57, 475 (2)		
38 Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	56 (b), 58, 475 (3)		
39 Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (c), 59, 60, 79, 475 (4)		
40 Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (d), 59, 79, 475 (4)		

The table is continued on the next page

41. Own funds and capital requirements (continued)

in HRK million	(A) 2015	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
41 Regulatory adjustments applied to AT1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (ie. CRR residual amounts)	-			
41a Residual amounts deducted from AT1 capital with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)		
Interim loss	-			
Shortfall of provisions to expected loss	-			
41b Residual amounts deducted from AT1 with regard to deduction from T2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	477, 477 (3), 477 (4) (a)		
reciprocal cross holdings in T2 instruments	-			
direct holdings of non-significant investments in the capital of other financial sector entities	-			
41c Amount to be deducted from or added to AT1 with regard to additional filters and deductions required pre- CRR	-	467, 468, 481		
possible filter to unrealised losses	-	467		
possible filter to unrealised gains	-	468		
42 Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)		
43 Total regulatory adjustments to Additional tier 1 (AT1) capital	**-**			
44 Additional Tier 1 (AT1) capital	**-**			
45 Tier 1 capital (T1 = CET1 + AT1)	**5,928**			
Tier 2 (T2) capital: Instruments and provisions	-			
46 Capital instruments and the related share premium accounts	1,258	62, 63		i
47 Amount of qualifying items referred to in article 484 (5) and the related share premium accounts subject to phase out from T2	-	486 (4)		
Public sector capital injections grandfathered until 1 January 2018	-	483 (4)		
48 Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	87, 88, 480		
49 of which: instruments issued by subsidiaries subject to phase-out	-	486 (4)		
50 Credit risk adjustments	165	62 (c) (d)		
51 Tier 2 (T2) capital before regulatory adjustment	**1,423**			
T2 capital: regulatory adjustments	-			
52 Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63 (b) (i), 66 (a), 67, 477 (2)		
53 Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	-	66 (b), 68, 477 (3)		
54 Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70, 79, 477 (4)		
54a of which: new holdings not subject to transitional arrangements	-			
54b of which: holdings existing before 1 January 2013 and subject to transitional arrangements	-			
55 Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	-	66 (d), 69, 79, 477 (4)		
56 Regulatory adjustments applied to T2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-			

The table is continued on the next page

41. Own funds and capital requirements (continued)

in HRK million	(A) 2015	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
56a Residual amounts deducted from T2 with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)		
Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc.	-			
56b Residual amounts deducted from T2 with regard to deduction from AT1 during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	475, 475 (2) (a), 475 (3), 475 (4) (a)		
of which: reciprocal cross holdings in T1 instruments	-			
of which: direct holdings of non-significant investments in the capital of other financial sector entities	-			
56c Amounts to be deducted from or added to T2 with regard to additional filters and deductions required pre- CRR	-	467, 468, 481		
of which: possible filter to unrealised losses	-	467		
of which: possible filter to unrealised gains	-	468		
57 Total regulatory adjustments to Tier 2 (T2) capital	**-**			
58 Tier 2 (T2) capital	**1,423**			
59 Total capital (TC = T1 + T2)	**7,351**			
59a Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	44,274			
of which: items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	-	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)		
of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	-	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)		
Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	-	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)		
60 Total risk-weighted assets	**44,274**			
Capital ratios and buffers	-			
61 Common Equity Tier 1 (as a percentage of total risk exposure amount)	13.39%	92 (2) (a), 465		
62 Tier 1 (as a percentage of total risk exposure amount)	13.39%	92 (2) (b), 465		
63 Total capital (as a percentage of total risk exposure amount	16.60%	92 (2) (c)		
64 Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	10.00%	CRD 128, 129, 130		
65 of which: capital conservation buffer requirement	2.50%			
66 of which: countercyclical buffer requirement	-			
67 of which: systemic risk buffer requirement	3.00%			
67a of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	CRD 131		
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	5.50%	CRD 128		

The table is continued on the next page

41. Own funds and capital requirements (continued)

in HRK million	(A) 2015	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
69 [non-relevant in EU regulation]	-			
70 [non-relevant in EU regulation]	-			
71 [non-relevant in EU regulation]	-			
Capital ratios and buffers	-			
72 Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	3	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)		
73 Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	2	36 (1) (i), 45, 48, 470, 472 (11)		
74 Empty set in the EU	-			
75 Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in article 38 (3) are met)	-	36 (1) (c), 38, 48, 470, 472 (5)		
Applicable caps on the inclusion of provisions in Tier 2	-			
76 Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	62		
77 Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62		
78 Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	165	62		
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	27,514	62		
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	-			
80 Current cap on CET1 instruments subject to phase-out arrangements	-	484 (3), 486 (2) & (5)		
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) & (5)		
82 Current cap on AT1 instruments subject to phase-out arrangements	-	484 (4), 486 (3) & (5)		
83 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3) & (5)		
84 Current cap on T2 instruments subject to phase-out arrangements	-	484 (5), 486 (4) & (5)		
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5), 486 (4) & (5)		

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	
	2015	2016
Net result for the period	(816)	875
Profit or loss attributable to ordinary shareholders	(816)	875
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)	**(48.07)**	**51.48**

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 2016 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 217 to 222 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
	2015	**2016**
1. Interest income	3,267	2,911
2. Interest expense	1,119	851
3. Net interest income (1.-2.)	**2,148**	**2,060**
4. Fee and commission income	845	865
5. Fee and commission expense	199	202
6. Net fee and commission income (4.-5.)	**646**	**663**
7. Profit/loss from investments in subsidiaries, associates and joint ventures	-	-
8. Profit/loss from trading	(19)	91
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	2	65
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	10
16. Profit/loss from foreign currency differences	140	131
17. Other income	554	519
18. Other expenses	303	278
19. General administrative expenses and depreciation	1,499	1,532
20. Net income from business before value adjustment and loan loss provisions (3.+6. to 17.-18.-19.)	**1,680**	**1,729**
21. Expense of value adjustment and loan loss provisions	2,613	516
22. PROFIT/LOSS BEFORE TAX (20.-21.)	**(933)**	**1,213**
23. INCOME TAX EXPENSE	(164)	300
24. PROFIT/LOSS OF THE CURRENT YEAR (22.-23.)	**(769)**	**913**
25. Earnings per share	(48.07)	51.48
ANNEX TO INCOME STATEMENT (for the Banks that prepare consolidated financial statements)		
1. PROFIT/LOSS OF THE CURRENT YEAR	**(769)**	**913**
2. Assign equity holders of the Bank	**(816)**	**875**
3. Non-controlling interest (1.-2.)	**47**	**38**

Appendix 1 – Forms according to local requirements

Year ended 31 December 2016

Statement of financial position		
In HRK million		**GROUP**
	2015	**2016**
ASSETS		
1. Cash and deposits with Central bank (1.1.+1.2.)	8,456	6,971
1.1. Cash	1,187	1,216
1.2. Deposits with Central bank	7,269	5,755
2. Deposits with banking institutions	1,605	691
3. Treasury bills with ministry of finance and bills of exchange with central bank	569	327
4. Securities and other financial instruments held for trading	134	-
5. Securities and other financial instruments available for sale	6,730	7,738
6. Securities and other financial instruments held to maturity	872	1,285
7. Securities and other financial instruments not actively traded, measured at fair value through profit or loss	-	-
8. Derivative financial assets	61	73
9. Loans to financial institutions	1,262	2,490
10. Loans to other customers	45,214	42,819
11. Investments in associates, subsidiaries and joint ventures	63	59
12. Repossessed assets	541	506
13. Tangible asset (minus depreciation)	1,241	1,368
14. Interest, fees and other assets	1,483	1,277
A) TOTAL ASSETS (1.+2. to 14.)	**68,231**	**65,604**
LIABILITIES		
1. Borrowings from financial institutions (1.1. + 1.2.)	7,623	7,565
1.1. Short-term borrowings	4,011	4,572
1.2. Long-term borrowings	3,612	2,993
2. Deposits (2.1. to 2.3.)	45,938	43,891
2.1. Deposits of giro and current accounts	11,271	13,612
2.2. Savings deposits	2,510	2,832
2.3. Term deposits	32,157	27,447
3. Other borrowings (3.1.+3.2.)	2,785	2,329
3.1. Short-term borrowings	607	89
3.2. Long-term borrowings	2,178	2,240
4. Derivative financial liabilities and other financial liabilities held for trading	103	77
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	1,680	1,663
7. Issued hybrid instruments	-	-
8. Interest, fees and other liabilities	2,691	1,791
B) TOTAL LIABILITIES (1.+2.+3.+4.+5.+6.+7.+8.)	**61,120**	**57,616**
EQUITY		
1. Share capital	3,500	3,500
2. Profit/(loss) of the current year	(816)	874
3. Retained profit/(loss)	4,048	3,266
4. Legal reserves	85	85
5. Statutory and other capital reserves	1	(3)
6. Unrealised profit/(loss) from value adjustment of financial assets available for sale	293	266
7. Reserves resulting from protective transactions	-	-
C) TOTAL EQUITY (1. to 7.)	**7,111**	**7,988**
D) TOTAL LIABILITIES AND EQUITY (B+C)	**68,231**	**65,604**
SUPPLEMENT TO STATEMENT OF FINANCIAL POSITION (filled out by banks that compose a consolidated financial report)		
1. TOTAL EQUITY	**7,111**	**7,988**
2. Attributed to equity holders of the parent	6,910	7,753
3. Minority shares (1.-2.)	201	235

Statement of changes in shareholders' equity

GROUP

In HRK million	2016							
	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**	**3,847**	**(816)**	**293**	**201**	**7,111**
2. Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	-
3. Corrected balance as at 1 January (1+2)	**3,500**	**-**	**86**	**3,847**	**(816)**	**293**	**201**	**7,111**
4. Sale of financial assets available for sale	-	-	-	-	-	(65)	-	(65)
5. Change of fair value financial asset available for sale	-	-	-	-	-	23	-	23
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	15	-	15
7. Other profit/(loss) directly recognised in capital and reserves	-	-	(4)	-	-	-	-	(4)
8. Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	(4)	-	-	(27)	-	(31)
9. Profit/(loss) for the period	-	-	-	-	874	-	38	912
10. Total recognised income and expenses for the period (8+9)	-	-	(4)	-	874	(27)	38	881
11. Increase/(decrease) of share capital	-	-	-	-	-	-	-	-
12. Buy/sell of treasury shares	-	-	-	-	-	-	-	-
13. Other changes	-	-	-	-	-	-	1	1
14. Transfer to reserves	-	-	-	(816)	816	-	-	-
15. Dividends paid	-	-	-	-	-	-	(5)	(5)
16. Distribution on income (14+15)	-	-	-	(816)	816	-	(5)	(5)
17. Balance at reporting date (3+10+11+12+13+16)	**3,500**	**-**	**82**	**3,031**	**874**	**266**	**235**	**7,988**

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
2015								
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**

Cash flow statements

In HRK million	2015	GROUP 2016
OPERATING ACTIVITIES		
1.1. Profit/(loss) before income tax	(933)	1,213
1.2. Allowances and loss provisions	2,489	(2,081)
1.3. Depreciation	249	236
1.4. Net unrealized profit/(loss) from financial assets and liabilities through profit or loss		
1.5. Profit/(loss) from sale of tangible assets	(12)	(12)
1.6. Other profit/(losses)	(3)	1
1. Cash flow from operating activities before changes of operating asset (1.1. to 1.6.)	**1,790**	**(643)**
2.1. Deposits with Central Bank	612	788
2.2. Treasury bills of Ministry of Finance and bills of exchange with CB	665	242
2.3. Deposits with banks and loans to financial institutions	(309)	(1,110)
2.4. Loans to other customers	(393)	3,768
2.5. Securities and other financial instruments held for trading	(128)	134
2.6. Securities and other financial instruments available for sale	17	(1,035)
2.7. Securities and other financial instruments not traded actively, measured at fair value through profit or loss	-	-
2.8. Other operating assets	47	(159)
2. Net increase/(decrease) of operating assets (2.1. to 2.8.)	**511**	**2,628**
3.1. Demand deposits	2,236	2,341
3.2. Savings and term deposits	(2,491)	(4,390)
3.3. Financial derivative liabilities and other liabilities actively traded	10	(26)
3.4. Other liabilities	(15)	(61)
3. Net increase/(decrease) of operating liabilities (3.1. to 3.4.)	**(260)**	**(2,136)**
4. Net cash flow from operating activities before income tax (1+2+3)	**2,041**	**(151)**
5. (Income tax paid)	**(69)**	**(11)**
6. Net inflow/(outflow) of cash from operating activities (4-5)	**1,972**	**(162)**
INVESTING ACTIVITIES		
7.1. Receipt from sale/(payment for buying) tangible and intangible assets	(154)	(326)
7.2. Receipt from sale/(payment for buying) investments in subsidiaries, associates and joint ventures	-	3
7.3. Receipt from sale/(payment for buying) securities and other financial instruments held to maturity	(10)	(433)
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.)	**(171)**	**(756)**
FINANCIAL ACTIVITIES		
8.1. Net increase/(decrease) of borrowings	(1,583)	(561)
8.2. Net increase/(decrease) issued debt securities	-	-
8.3. Net increase/(decrease) subordinated and hybrid instruments	224	(17)
8.4. Receipts from transmitted share capital	-	-
8.5. (Dividends paid)	(85)	(6)
8.6. Other receipts/(payments) from financial activities	-	-
8. Net cash flow from financial activities (8.1. to 8.6.)	**(1,444)**	**(584)**
9. Net increase/(decrease) of cash and cash equivalents (6+7+8)	357	(1,502)
10. Effects of change in foreign exchange rates on cash and cash equivalents	-	-
11. Net increase/(decrease) cash and cash equivalents (9+10)	**357**	**(1,502)**
12. Cash and cash equivalents at the beginning of the year	**5,684**	**6,041**
13. Cash and cash equivalents at the end of the year	**6,041**	**4,539**

Off balance sheet items

	2015	GROUP 2016
1. Guarantees	2,377	2,462
2. Letters of credit	122	140
3. Bills of exchange	-	-
4. Undrawn loans and loan commitments	4,555	5,417
5. Other risk off balance items	132	128
6. Futures	-	-
7. Options	34	15
8. Swap	23,393	14,074
9. Forwards	11,845	7,179
10. Other derivatives	-	-

Income statement

in HRK million		BANK
	2015	**2016**
1. Interest income	2,622	2,314
2. Interest expense	990	732
3. Net interest income (1.-2.)	**1,632**	**1,582**
4. Fee and commission income	564	560
5. Fee and commission expense	151	150
6. Net fee and commission income (4.-5.)	**413**	**410**
7. Profit/loss from investments in subsidiaries, associates and joint ventures	-	-
8. Profit/loss from trading	(17)	92
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)	50
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	55	31
16. Profit/loss from foreign currency differences	131	120
17. Other income	170	212
18. Other expenses	131	173
19. General administrative expenses and depreciation	946	994
20. Net income from business before value adjustment and loan loss provisions (3.+6. to 17.-18.-19.)	**1,306**	**1,330**
21. Expense of value adjustment and loan loss provisions	2,547	499
22. PROFIT/LOSS BEFORE TAX (20.-21.)	**(1,241)**	**831**
23. INCOME TAX EXPENSE	(229)	204
24. PROFIT/LOSS OF THE CURRENT YEAR (22.-23.)	**(1,012)**	**627**
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
	2015	2016
ASSETS		
1. Cash and deposits with Central bank (1.1. + 1.2.)	8,086	6,418
1.1. Cash	1,093	1,101
1.2. Deposits with Central bank	6,993	5,317
2. Deposits with banking institutions	1,289	592
3. Treasury bills with ministry of finance and bills of exchange with central bank	38	-
4. Securities and other financial instruments held for trading	130	-
5. Securities and other financial instruments available for sale	6,358	7,167
6. Securities and other financial instruments held to maturity	870	1,115
7. Securities and other financial instruments not actively traded, measured at fair value through profit or loss	-	-
8. Derivative financial assets	64	76
9. Loans to financial institutions	1,762	3,048
10. Loans to other customers	37,460	34,932
11. Investments in associates, subsidiaries and joint ventures	1,023	1,010
12. Repossessed assets	532	497
13. Tangible asset (minus depreciation)	563	584
14. Interest, fees and other assets	820	680
A) TOTAL ASSETS (1. + 2. to 14.)	**58,995**	**56,119**
LIABILITIES		
1. Borrowings from financial institutions (1.1. + 1.2.)	2,014	2,224
1.1. Short-term borrowings	466	784
1.2. Long-term borrowings	1,548	1,440
2. Deposits (2.1. to 2.3.)	44,156	41,992
2.1. Deposits of giro and current accounts	10,559	12,783
2.2. Savings deposits	2,361	2,658
2.3. Term deposits	31,236	26,551
3. Other borrowings (3.1. + 3.2.)	2,670	2,139
3.1. Short-term borrowings	607	89
3.2. Long-term borrowings	2,063	2,050
4. Derivative financial liabilities and other financial liabilities held for trading	103	76
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	1,680	1,663
7. Issued hybrid instruments	-	-
8. Interest, fees and other liabilities	1,936	996
B) TOTAL LIABILITIES (1.+2.+3.+4.+5.+6.+7.+8.)	**52,859**	**49,390**
EQUITY		
1. Share capital	3,500	3,500
2. Profit/(loss) of the current year	(1,012)	627
3. Retained profit/(loss)	3,297	2,285
4. Legal reserves	85	85
5. Statutory and other capital reserves	-	1
6. Unrealised profit/(loss) from value adjustment of financial assets available for sale	266	231
7. Reserves resulting from protective transactions	-	-
C) TOTAL EQUITY (1. To 7.)	**6,136**	**6,729**
D) TOTAL LIABILITIES AND EQUITY (B+C)	**58,995**	**56,119**
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

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
								BANK 2016
1. Balance at 1 January	**3,500**	**-**	**85**	**3,297**	**(1,012)**	**266**	**-**	**6,136**
2. Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	-
3. Corrected balance as at 1 January (1+2)	**3,500**	**-**	**85**	**3,297**	**(1,012)**	**266**	**-**	**6,136**
4. Sale of financial assets available for sale	-	-	-	-	-	(50)	-	(50)
5. Change of fair value financial asset available for sale	-	-	-	-	-	-	-	-
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	16	-	16
7. Other profit/(loss) directly recognised in capital and reserves	-	-	-	-	-	-	-	-
8. Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	-	-	-	(34)	-	(34)
9. Profit/(loss) for the period	-	-	-	-	627	-	-	627
10. Total recognised income and expenses for the period (8+9)	-	-	-	-	627	(34)	-	593
11. Increase/(decrease) of share capital	-	-	-	-	-	-	-	-
12. Buy/sell of treasury shares	-	-	-	-	-	-	-	-
13. Other changes	-	-	-	-	-	-	-	-
14. Transfer to reserves	-	-	-	(1,012)	1,012	-	-	-
15. Dividends paid	-	-	-	-	-	-	-	-
16. Distribution on income (14+15)	-	-	-	(1,012)	1,012	-	-	-
17. Balance at reporting date (3+10+11+12+13+16)	**3,500**	**-**	**85**	**2,285**	**627**	**232**	**-**	**6,729**

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**

Cash flow statement

In HRK million	BANK 2015	2016
OPERATING ACTIVITIES		
1.1. Profit/(loss) before income tax	(1,241)	830
1.2. Allowances and loss provisions	2,444	(965)
1.3. Depreciation	50	42
1.4. Net unrealized profit/(loss) from financial assets and liabilities through profit or loss	-	-
1.5. Profit/(loss) from sale of tangible assets	(12)	(55)
1.6. Other profit/(losses)	-	-
1. Cash flow from operating activities before changes of operating asset (1.1. to 1.6.)	**1,241**	**(148)**
2.1. Deposits with Central bank	612	788
2.2. Treasury bills of Ministry of Finance and bills of exchange with CB	1,035	38
2.3. Deposits with banks and loans to financial institutions	(825)	(1,256)
2.4. Loans to other customers	152	3,669
2.5. Securities and other financial instruments held for trading	(124)	130
2.6. Securities and other financial instruments available for sale	(177)	(844)
2.7. Securities and other financial instruments not traded actively, measured at fair value through profit or loss	-	-
2.8. Other operating assets	(44)	(69)
2. Net increase/(decrease) of operating assets (2.1. to 2.8.)	**629**	**2,456**
3.1. Demand deposits	2,140	2,225
3.2. Savings and term deposits	(3,247)	(4,389)
3.3. Financial derivative liabilities and other liabilities actively traded	10	(27)
3.4. Other liabilities	(1)	(980)
3. Net increase/(decrease) of operating liabilities (3.1. to 3.4.)	**(1,098)**	**(3,171)**
4. Net cash flow from operating activities before income tax (1+2+3)	**772**	**(863)**
5. (Income tax paid)	**-**	**-**
6. Net inflow/(outflow) of cash from operating activities (4-5)	**772**	**(863)**
INVESTING ACTIVITIES		
7.1. Receipt from sale/(payment for buying) tangible and intangible assets	(49)	(46)
7.2. Receipt from sale/(payment for buying) investments in subsidiaries, associates and joint ventures	-	(40)
7.3. Receipt from sale/(payment for buying) securities and other financial instruments held to maturity	(16)	(260)
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.)	**(220)**	**(346)**
FINANCIAL ACTIVITIES		
8.1. Net increase/(decrease) of borrowings	(166)	(322)
8.2. Net increase/(decrease) issued debt securities	-	-
8.3. Net increase/(decrease) subordinated and hybrid instruments	224	(17)
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.)	**(19)**	**(339)**
9. Net increase/(decrease) of cash and cash equivalents (6+7+8)	533	(1,548)
10. Effects of change in foreign exchange rates on cash and cash equivalents	-	-
11. Net increase/(decrease) cash and cash equivalents (9+10)	**533**	**(1,548)**
12. Cash and cash equivalents at the beginning of the year	**4,902**	**5,435**
13. Cash and cash equivalents at the end of the year	**5,435**	**3,887**

Off balance sheet items

	BANK 2015	2016
1. Guarantees	1,940	1,994
2. Letters of credit	122	140
3. Bills of exchange	-	-
4. Undrawn loans and loan commitments	2,725	3,502
5. Other risk off balance items	132	128
6. Futures	-	-
7. Options	34	15
8. Swap	24,102	14,307
9. Forwards	11,845	7,179
10. Other derivatives	-	-

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

Year ended 31 December 2016

						GROUP
ANNUAL REPORT (AR)	**in HRK million**	**Form Income statement (CNB)**	**in HRK million**	**Diff.**		**EXPLANATION**
Net interest income	2,060	Net interest income	2,060	-	-	
Net fee and commission income	663	Net fee and commission income	663	-	-	
Net trading and fair value result	222	Net trading result Foreign exchange gains/losses	91 131	-	-	
Personnel expenses Other administrative expenses Depreciation and amortisation	(635) (593) (236)	General administrative expenses and amortisation	(1,532)	68	65 10 (7)	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	65 178 (157)	Results of financial assets available for sale Results of financial assets held to maturity Other income Other expenses	65 - 519 (278)	(220)	(65) (3) (152)	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 9	Income of investment in associates	10	-	-	
Net impairment loss on financial assets not measured at fair value through profit or loss	(364)	Expense of value adjustment and loss provisions	(516)	152	152	AR - Other operating result
Pre-tax profit from continuing operations	**1,213**	**PRE-TAX PROFIT**	**1,213**	-	-	
Taxes on income	(300)	Taxes on income	(300)	-	-	
NET PROFIT OF THE YEAR	**913**	**NET PROFIT FOR THE PERIOD**	**913**	-	-	

Appendix 2 – Differences between financial statements according to IFRS and local requirements
Year ended 31 December 2016

GROUP

Annual report (AR)	in HRK million	Form Statement of financial position (CNB)	in HRK million	Diff.		Explanation
Cash and cash balances	4,388	Cash and deposits with central bank Deposits with banking institutions	6,971 691	(3,274)	(3,274)	AR - Loans to and receivables from credit institutions
Derivatives	73	Derivative financial assets	73	-	-	
Other trading assets	-	Securities and other financial instruments held for trading	-	-	-	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	5,329	Loans to financial institutions	2,490	2,839	(437) 2 3,274	AR - Loans to and receivables from customers CNB - Interest, fees and other assets CNB - deposits with banking institutions
Loans to and receivables from customers	43,656	Loans to other customers	42,819	837	437 400	AR - Loans to and receivables from credit institutions CNB - Interest, fees and other assets
Financial assets - available for sale	7,832	Treasury bills with ministry of finance and bills of exchange with CNB Securities and other financial instruments available for sale	327 7,738	(233)	(327) 94	AR - Financial assets - held to maturity CNB - Interest, fees and other assets
Financial assets - held to maturity	1,653	Securities and other financial instruments held to maturity	1,285	368	41 327	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	59	Investments in associates, subsidiaries and joint ventures	59	-	-	
Property, plant and equipment	1,309	Tangible asset (minus depreciation)	1,368	(59)	(59)	AR - Investment properties
Intangible assets	390			390	390	CNB - Interest, fees and other assets
Investment properties	59			59	59	CNB - Tangible asset (minus depreciation)
Tax assets	249			249	249	CNB - Interest, fees and other assets
Other assets	607	Interest, fees and other assets Repossessed assets	1,277 506	(1,176)	(1,176)	AR - Interest on loans, deposits, securities and derivatives
TOTAL ASSETS	**65,604**	**TOTAL ASSETS**	**65,604**	**-**	**-**	

						GROUP
Annual report (AR)	**in HRK million**	**Form Statement of financial position (CNB)**	**in HRK million**	**Diff.**		**Explanation**
Deposits from banks	11,652	Borrowings from financial institutions	7,565	4,087	(788) 1,058 3,787 30	AR - Deposits from customers CNB - issued subordinated instruments CNB – Deposits CNB - Interest, fees and other liabilities
Derivatives	77	Derivative financial liabilities and other financial liabilities held for trading	77	-	-	
Financial liabilities designated at fair value through profit or loss	-		-	-	-	
Deposits from customers Other financial liabilities	43,323 788	Deposits Other borrowings	43,891 2,329	(2,109)	890 788 (3,787)	CNB - Interest, fees and other liabilities CNB - Borrowings from financial institutions AR - Deposits from banks
Debt securities issued	924	Issued debt securities Issued subordinated instruments	300 1,663	(1,039)	(1,058) 19	AR - Deposits from banks CNB - Interest, fees and other liabilities
Tax liabilities	14		-	14	14	CNB - Interest, fees and other liabilities
Provisions	260		-	260	260	CNB - Interest, fees and other liabilities
Other Liabilities	578	Interest, fees and other liabilities	1,791	(1,213)	(953) (260)	AR - Interest on borrowed funds, amounts due to customers and banks and payables on financial derivative AR - Provisions
Total equity	7,753	Total equity	7,988	(235)	(235)	AR - Non-controlling interest
Non-controlling interest	235		-	235	235	CNB - Total equity
TOTAL LIABILITIES AND EQUITY	**65,604**	**TOTAL LIABILITIES AND EQUITY**	**65,604**	**-**	**-**	

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

Year ended 31 December 2016

						BANK
ANNUAL REPORT (AR)	**in HRK million**	**Form Income statement (CNB)**	**in HRK million**	**Diff.**		**EXPLANATION**
Net interest income	1,582	Net interest income	1,582	-	-	
Net fee and commission income	410	Net fee and commission income	410	-	-	
Net trading and fair value result	212	Net trading result Foreign exchange gains/losses	92 120	- -	-	
Personnel expenses Other administrative expenses Depreciation and amortisation	(453) (431) (42)	General administrative expenses and amortisation	(994)	68	63 8 (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	50 2 (167)	Results of financial assets available for sale Results of financial assets held to maturity Other income Other expenses	50 - 212 (173)	(204)	(63) (5) (136)	CNB - General administrative expenses and amortisation AR - Other administrative expenses CNB - Expense of value adjustment and loss provisions
Dividend income	31	Income of investment in associates	31	-	-	
Net impairment loss on financial assets not measured at fair value through profit or loss	(363)	Expense of value adjustment and loss provisions	(499)	136	136	AR - Other operating result
Pre-tax profit from continuing operations	**831**	**P R E - T A X P R O F I T**	**831**	-	-	
Taxes on income	(204)	Taxes on income	(204)	-	-	
NET PROFIT OF THE YEAR	**627**	**NET PROFIT FOR THE PERIOD**	**627**	-	-	

BANK

Annual report (AR)	in HRK million	Form Statement of financial position (CNB)	in HRK million	Diff.		Explanation
Cash and cash balances	3,737	Cash and deposits with CNB Deposits with banking institutions	6,418 592	(3,273)	(3,273)	AR - Loans to and receivables from credit institutions
Derivatives	76	Derivative financial assets	76	-	-	
Other trading assets	-	Securities and other financial instruments held for trading	-	-	-	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	5,320	Loans to financial institutions	3,048	2,272	(1,002) 1 3,131 142	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	36,254	Loans to other customers	34,932	1,322	1,002 320	AR - Loans to and receivables from credit institutions CNB - Interest, fees and other assets
Financial assets - available for sale	7,254	Treasury bills with ministry of finance and bills of exchange with CNB Securities and other financial instruments available for sale	- 7,167	87	87	CNB - Interest, fees and other assets
Financial assets - held to maturity	1,137	Securities and other financial instruments held to maturity	1,115	22	22	CNB - Interest, fees and other assets
Investments in subsidiaries, joint ventures and associates	1,010	Investments in associates, subsidiaries and joint ventures	1,010	-	-	
Property, plant and equipment	548	Tangible asset (minus depreciation)	584	(36)	(36)	AR - Investment properties
Intangible assets	110		-	110	110	CNB - Interest, fees and other assets
Investment properties	36		-	36	36	CNB - Tangible asset (minus depreciation)
Tax assets	100		-	100	100	CNB - Interest, fees and other assets
Other assets	537	Interest, fees and other assets Repossessed assets	680 497	(640)	(640)	AR - Interest on loans, deposits, securities and derivatives CNB - Investments in subsidiaries, joint ventures and associates
TOTAL ASSETS	**56,119**	**TOTAL ASSETS**	**56,119**	**-**	**-**	

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

Year ended 31 December 2016

						BANK
Annual report (AR)	**in HRK million**	**Form Statement of financial position (CNB)**	**in HRK million**	**Diff.**		**Explanation**
Deposits from banks	6,341	Borrowings from financial institutions	2,224	4,117	(783) 1,058 3,826 16	AR - Deposits from customers CNB - Issued subordinated instruments CNB – Deposits CNB - Interest, fees and other liabilities
Derivatives	76	Derivative financial liabilities and other financial liabilities held for trading	76	-	-	
Financial liabilities designated at fair value through profit or loss	-		-	-	-	
Deposits from customers Other financial liabilities	41,298 157	Deposits Other borrowings	41,992 2,139	(2,676)	367 783 (3,826)	CNB - Interest, fees and other liabilities CNB - Borrowings from financial institutions AR - Deposits from banks
Debt securities issued	924	Issued debt securities Issued subordinated instruments	300 1,663	(1,039)	(1,058) 19	AR - Deposits from banks CNB - Interest, fees and other liabilities
Tax liabilities	-		-	-	-	
Provisions	216		-	216	216	CNB - Interest, fees and other liabilities
Other Liabilities	378	Interest, fees and other liabilities	996	(618)	(402) (216)	AR - Interest on borrowed funds, amounts due to customers and banks and payables on financial derivative AR - Provisions
Total equity	6,729	Total equity	6,729	-	-	
TOTAL LIABILITIES AND EQUITY	**56,119**	**TOTAL LIABILITIES AND EQUITY**	**56,119**	**-**	**-**	