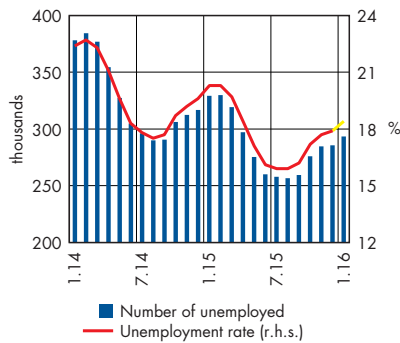


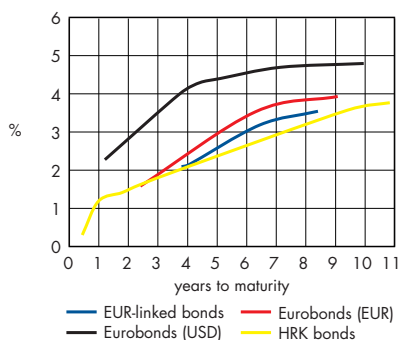
The first LTRO without market reactions

Unemployment indicators



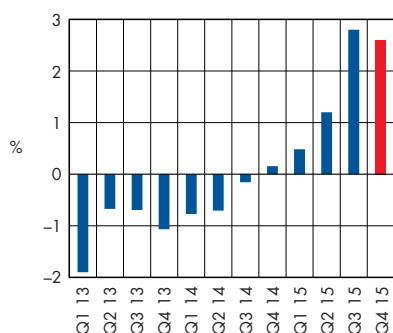
Sources: CES, CBS, Raiffeisen RESEARCH

Croatia – sovereign bonds yield curve



As of 19 February, 8:30 a.m. (CET)
Sources: Bloomberg, Economic RESEARCH/RBA

Real GDP, yoy



Sources: CNB, Raiffeisen RESEARCH

The empty week in terms of macroeconomic releases was brightened up by the first central bank's **structural LTRO auction**. As we expected, due to a solid liquidity position of the domestic banks, the total amount of bids accepted was relatively modest (at HRK 565mn with maturity of 4-years at fixed repo rate 1.8%). In fact, there was no significant market reaction as the local bonds had previously priced the official announcement, resulting in a slight drop in yields while money market interest rates were also retained at the still low current levels. In case of a more pronounced banking sector interest, the downward trend might continue. However, the relatively subdued trading on the local bond market finally closed the week with a slight increase in prices, following the trends of the eurobond markets. Calm trading is expected to continue during this week so the bond prices could oscillate around the current levels.

Regarding the **FX market**, the week was marked by mild appreciation pressures on the domestic currency. Due to an increased FCY supply by the domestic banks, the EUR/HRK slid to the level of 7.61 kuna per euro. We anticipate a possible higher FCY corporate demand thus, stable trading within the range 7.61–7.64 kuna per euro is expected during the upcoming days.

The schedule for this week's data release will be quite exciting. The CBS will publish a few important figures related to the labor market: the first results on average **gross and net wages** for December could confirm the trend of positive growth rates on annual level while the **unemployment rate** (underpinned by unfavorable seasonal movements during the winter) is expected to reach 18.4% in January. Namely, according to the latest CES data, the total number of people unemployed at the end of January exceeded 293 thousands (+2.7%mom, -10.9%yoy) but the first positive signs on the labor market are not expected before the low tourist season begins (Easter holidays).

The **PPI and CPI** figures are scheduled for release on Wednesday. The imported deflationary pressures, strongly driven by drops in oil prices, are expected to make a significant impact on the domestic prices. Additionally, supported by the seasonal post-holiday sales (primarily in the category of Clothing and footwear), we expect that the CPI in January could record an annual decline by 0.2%.

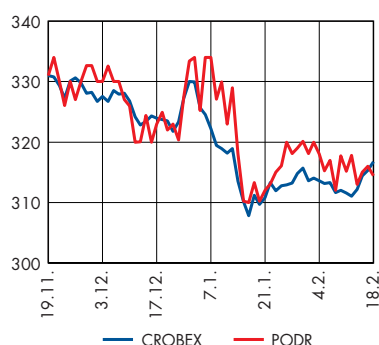
However, the focus will be on the first estimate of **GDP in Q4 15**. The high-frequency indicators for the last quarter confirmed that economic recovery has continued (upward trends for consumer confidence indicators and retail trade suggest a boost in personal consumption as the largest constituent of GDP). Paired with continuing favorable growth in exports of goods and services in annual terms, we expect the GDP in Q4 15 could grow at 2.6%yoy.

Finally, a better GDP outcome will positively contribute to the fiscal performance in 2015. In the meantime all eyes will be on the Government's Economic and Fiscal Policy Guidelines and the 2016 Budget as well.

Financial analyst: Tomislava Ujević (+385 1 61 74 606), Raiffeisenbank Austria d. d., Zagreb

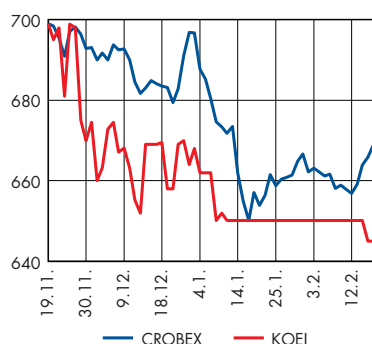
Stock indices supported by the reporting season

Podravka (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Končar El (3 m)



Sources: ZSE, Raiffeisen RESEARCH

Trading comment

Although the reporting season on the Zagreb Stock Exchange is getting its momentum, the trading volumes remain thin; HRK 5.9 mn of regular stock turnover on average daily. However, the general stock indices CROBEX and CROBEX10 had a positive performance on the back of the reported results and added 1.78% and 2.10%, respectively. From the sector perspective, index of transport companies increased the most (1.55%) while CROBEXnutris index was on the flop side (-0.28%). Among CROBEX constituents, shares of Đuro Đaković Holding increased the most while shares of RIZ Odašiljači lost the most. The most traded stock was that of Hrvatski Telekom (HRK 8.3 mn of regular turnover). Stock indices in the region also had positive performance mostly led by Polish WIG30 index.

Company news

Podravka published consolidated Q4 2015 results with 25.7% higher yoy sales mostly supported by the consolidation of the Slovenian Žito but the growth was also reported on organic level. Furthermore, the acquisition related gain of HRK 115.7 mn boosted the operating result while the bottom line was additionally improved by deferred tax revenues related to new Belupo's factory construction tax incentive. **Petrokemija group** also reported higher top line (+3.7% yoy) in Q4 2015 what coupled with 13.8% lower yoy operating expenses resulted in much lower net loss yoy (HRK 175.5 mn in Q4 2014 vs. HRK 39.7 mn in Q4 2015). **Valamar Riviera** reported 18% higher yoy sales on the back of Hoteli Baška acquisition but also due to strong improvement in occupancy and average rates yoy in existing capacities. This, coupled with operating efficiency raising measures doubled the bottom line yoy to HRK 105.3 mn. **Končar Grupa** had 4% lower sales yoy, flat EBITDA and 22% lower net income in Q4 2015 yoy. Still, the full year 2015 result shows improvement of operating indicators and somewhat lower net income yoy.

In this week

As the reporting season on the ZSE continues throughout the February we still expect trading activity to improve as well as continuation of stock indices performance.

Financial analyst Nada Harambašić Nereau (+385 1 55 75 733), Raiffeisenbank Austria d. d. Zagreb

Market performance

Index	1w %	ytd %	Value on*
19.2.2016			
WIG30 (PL)	4.31	-1.12	2,052
NTX (SEE,CE,EE)	4.14	-7.56	887
ATX (AT)	3.86	-11.89	2,112
MICEX (RU)	3.75	1.67	1,791
BETI (RO)	3.13	-10.70	6,255
PX (CZ)	2.97	-8.92	871
BUX (HU)	1.84	-3.34	23,123
CROBEX (HR)	1.78	-4.05	1,621
SBITOP (SI)	1.04	-3.10	675
SASX10 (BH)	0.96	-3.78	673
SOFIX (BG)	-0.04	-3.74	444
BELEX15 (RS)	-0.50	-9.93	580.15

* as at 16:30 CET. Source: Bloomberg

Top/Flop – CROBEX index

Share	1w %	Price on*	Share	1w %	Price on*
19.2.2016					
Đuro Đaković H.	8.45	38	Maistra	0.92	220
Atlantska Plov.	7.00	107	Tankerska NG	0.69	71
OT-Optima T.	6.15	2	Atlantik Grupa	0.47	809
Ericsson NT	5.74	994	Končar El	0.24	641
Adris Grupa (P)	5.56	360	Ina	0.04	2,601
HT	4.48	147	Valamar Riviera	-0.26	23
Zagrebačka Banka	3.32	39	Arenaturist	-0.59	335
Luka Ploče	3.17	650	Podravka	-0.88	315
Luka Rijeka	3.06	40	Petrokemija	-1.96	10
Belje	2.22	23	Ingra	-2.33	3
Kraš	1.98	510	Dalekovod	-2.92	11
AD Plastik	1.69	97	RIZ Odašiljači	-10.76	88

* as at 16:30 CET. Source: ZSE, Raiffeisen RESEARCH

Economic RESEARCH

Raiffeisenbank Austria d.d. Zagreb (abbreviated as "RBA")

Economic Research

Zrinka Živković Matijević, MSc, Head of Department; tel: +385 1/61 74 338, email: zrinka.zivkovic-matijevic@rba.hr
 Elizabeta Sabolek Resanović, Economic Analyst; tel: +385 1/46 95 099, e-mail: elizabeta.sabolek-resanovic@rba.hr
 Tomislava Ujević, Economic Analyst; tel: + 385 1/61 74 606, email: tomislava.ujevic@rba.hr
 Mate Rosan, Economic Analyst; tel: + 385 1/61 74 388, email: mate.rosan@rba.hr

Financial Advisory

Nada Harambašić Nereau, MSc, Financial Analyst; tel.: + 385 1/61 74 870, email nada.harambasic-nereau@rba.hr
 Damjan Sutlić, Financial Analyst; tel: +385 1/55 75 733, email: damjan.sutlic@rba.hr

Markets and Investment Banking

Robert Mamić, Executive Director; tel: +385 1/46 95 076, email: robert.mamic@rba.hr

Abbreviations

avg – average	EUR – Euro	MoF – Ministry of Finance
bp – basis points	FCY – foreign currency	mom – month over month
C/A – current account	FED – Federal Reserve System	ON – overnight
CBRD – Croatian Bank for Reconstruction and Development	FI – financial institutions	MM – money market
CBS – Croatian Bureau of Statistics	FY – full year	MFEA – Ministry of Foreign and European Affairs
CES – Croatian Employment Service	GDP – Gross Domestic Product	qoq – quarter over quarter
CNB – Croatian National Bank	GFCF – Gross fixed capital formation	RBA – Raiffeisenbank Austria d.d.
DPS – dividend per share	ILO – International Labour Organisation	RoC – Republic of Croatia
EC – European Commission	IMF – International Monetary Fund	SMP – Securities markets programme
ECB – European Central Bank	kn, HRK – Kuna	SNA – System of national accounts
EDP – Excessive Deficit Procedure	LSE – London Stock Exchange	USD – Dollar
EM – Emerging Markets	MIP – Macroeconomic imbalance procedure	w.d.a – working day adjusted
eop – end of period		yoy – year over year

Publisher

Raiffeisenbank Austria d.d. Zagreb
 Petrinjska 59, 10000 Zagreb
 www.rba.hr
 tel. ++385 1/45 66 466
 fax: ++385 1/48 11 626

Publication finished on February 19th, 2016

Disclaimer Financial Analysis

Publisher: Raiffeisenbank Austria d. d. (abbreviated as "RBA")

RBA is a credit institution according to §5 Credit Institution Act with the registered office Petrinjska 59, 10000 Zagreb, Croatia.

Research and analysis is an organisational unit of RBA.

Supervisory authority: Croatian Financial Services Supervisory Agency (HANFA), Miramarska 24b, 10000 Zagreb and Croatian national bank, Trg hrvatskih velikana 3, 10002 Zagreb, Republic of Croatia. Unless set out herein explicitly otherwise, references to legal norms refer to norms enacted by the Republic of Croatia. This document is for information purposes and may not be reproduced or distributed to other persons. This document constitutes neither a solicitation of an offer nor a prospectus in the sense of the Croatian Capital Market Act (CMA) or any other comparable act or foreign law. An investment decision in respect of a security, financial product or investment must be made on the basis of an approved, published prospectus or the complete documentation for the security, financial product or investment in question, and not on the basis of this document. This document does not constitute any kind of recommendation to buy, hold or sell financial instruments in the sense of the CMA. Neither this document nor any of its components shall form the basis for any kind of contract or commitment whatsoever. This document is not a substitute for the necessary advice on the purchase, hold or sale of a security, investment or other financial product. In respect of the sale, hold or purchase of securities, investments or financial products, authorized investment advisor can provide individualised advice which is suitable for investments and financial products. This analysis is fundamentally based on generally available information. Unless otherwise expressly stated in this publication, RBA deems all of the information to be reliable, but does not make any assurances regarding its accuracy and completeness. In emerging markets, there may be higher settlement and custody risk as compared to markets with established infrastructure. The liquidity of stocks/financial instruments can be influenced by the number of market makers. Both of these circumstances can result in elevated risk in relation to the safety of investments made on the basis of the information contained in this document. The information in this publication is current, up to the creation date of the document. It may be outdated by future developments, without the publication being changed. The user of this publication acknowledges, agrees and is consented that, to the fullest extent permitted by law, none of the Croatian banking association ("HUB") as coordinator, or ZIBOR contributor banks or Thomson Reuters as supplier of the data which ZIBOR reference rate is calculated from:

1. Does not accept any responsibility or liability for the frequency and accuracy of ZIBOR rates used by the user, whether or not arising from the negligence of any of the HUB, the ZIBOR contributor banks or Thomson Reuters;
2. Shall not be liable for any loss of business or profits nor any direct, indirect or consequential loss or damage resulting from any such irregularity, inaccuracy or use of the information.

Disclosure of interest and conflict of interest:

RBA and/or related persons of the RBA and/or employee of the RBA which has participated in the preparation of this publication, and/or RBA employee who had access to this publication before its distribution, may have or has or have had a significant financial interest in one or more issuers mentioned in this publication.

RBA and/or related persons of the RBA and/or employee of the RBA which has participated in the preparation of this publication, and/or RBA employee who had access to this publication before its distribution, may be or are in conflict of interest with the issuer that is mentioned in this publication.

There is a possibility that the RBA or any related person of the RBA is:

- currently performing or has acted in the past as the main arranger or co-hosted a process of offering of financial instruments of an issuer mentioned in this publication; and/or
- currently or has in the past acted as market maker or other liquidity provider for an issuer mentioned in this publication; and/or
- has signed an agreement with an issuer mentioned in this publication, relating to the provision of investment banking services; and/or
- has signed an agreement relating to matters of making recommendations for an issuer mentioned in this publication.

RBA may have affected an own account transaction in any investment mentioned herein or related investments and or may have a position or holding in such investments as a result. RBA may have been, or might be, acting as a manager or co-manager of a public offering of any securities mentioned in this report or in any related security. RBA may have been, or might be, acting as a market maker or liquidity provider for company or securities mentioned in this report. Unless otherwise expressly stated, the analysts employed by RBA are not compensated for specific investment banking transactions. Compensation of the author or authors of this report is based (amongst other things) on the overall profitability of RBA, which includes, inter alia, earnings from investment banking and other transactions of RBA. In general, RBA forbids its analysts and persons reporting to the analysts from acquiring securities or other financial instruments of any enterprise which is covered by the analysts, such acquisition must be authorised in advance by RBA's Compliance Department. Analyst investment portfolios are disclosed at www.limun.hr RBA has put in place the following organisational and administrative agreements, including information barriers, to impede or prevent conflicts of interest in relation to recommendations: RBA has designated fundamentally binding confidentiality zones. Confidentiality zones are typically units within credit institutions, which are isolated from other units by organisational measures governing the exchange of information, because compliance-relevant information is continuously or temporarily handled in these zones. Compliance-relevant information may fundamentally not leave a confidentiality zone and is to be treated as strictly confidential in internal business operations, including interaction with other units. This does not apply to the transfer of information necessary for usual business operations. Such transfer of information is limited, however, to what is absolutely necessary (need-to-know principle). The exchange of compliance-relevant information between two confidentiality zones may only occur with the involvement of the Compliance Officer. This document does not constitute either a public offer in the meaning of the Kapitalmarktgesetz ("KMG") nor a prospectus in the meaning of the KMG or of the Börsengesetz. Furthermore this document does not intend to recommend the purchase or the sale of securities or investments in the meaning of the Wertpapieraufsichtsgesetz. This document shall not replace the necessary advice concerning the purchase or the sale of securities or investments. For any advice concerning the purchase or the sale of securities of investments kindly contact your RAIFFEISENBANK. SPECIAL REGULATIONS FOR THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (UK): this publication has been either approved or issued by Raiffeisen Bank International AG (RBI) in order to promote its investment business. Raiffeisen Bank International AG, London Branch is authorised by the Austrian Financial Market Authority and subject to limited regulation by the Financial Conduct Authority ("FCA"). Details about the extent of our regulation by the Financial Conduct Authority are available from us on request. This publication is not intended for investors who are Retail Customers within the meaning of the FCA rules and should therefore not be distributed to them. Neither the information nor the opinions expressed herein constitute or are to be construed as an offer or solicitation of an offer to buy (or sell) investments. RBI may have affected an Own Account Transaction within the meaning of FCA rules in any investment mentioned herein or related investments and or may have a position or holding in such investments as a result. RBI may have been, or might be, acting as a manager or co-manager of a public offering of any securities mentioned in this report or in any related security. SPECIFIC RESTRICTIONS FOR THE UNITED STATES OF AMERICA AND CANADA: This document may not be transmitted to, or distributed within, the United States of America or Canada or their respective territories or possessions, nor may it be distributed to any U. S. person or any person resident in Canada, unless it is provided directly through RB International Markets (USA) LLC, a U. S. registered broker-dealer ('RBIM'), and subject to the terms set forth below. SPECIFIC INFORMATION FOR THE UNITED STATES OF AMERICA AND CANADA: This research document is intended only for institutional investors and is not subject to all of the independence and disclosure standards that may be applicable to research documents prepared for retail investors. This report was provided to you by RB International Markets (USA) LLC, a U. S. registered broker-dealer ('RBIM'), but was prepared by our non-U. S. affiliate, Raiffeisen Bank International AG (RBI). Any order for the purchase or sale of securities covered by this report must be placed with RBIM. You can reach RBIM at 1133 Avenue of the Americas, 16th Floor, New York, NY 10036, 212-600-2588. This document was prepared outside the United States by one or more analysts who may not have been subject to rules regarding the preparation of reports and the independence of research analysts comparable to those in effect in the United States. The analyst or analysts who prepared this research (i) are not registered or qualified as research analysts with the Financial Industry Regulatory Authority (FINRA) in the United States, and (ii) are not allowed to be associated persons of RBIM and are therefore not subject to FINRA regulations, including regulations related to the conduct or independence of research analysts. The opinions, estimates and projections contained in this report are those of RBI only as of the date of this report and are subject to change without notice. The information contained in this report has been compiled from sources believed to be reliable by RBI, but no representation or warranty, express or implied, is made by RBI or its affiliated companies or any other person as to the report's accuracy, completeness or correctness. Securities which are not registered in the United States may not be offered or sold, directly or indirectly, within the United States or to U. S. persons (within the meaning of Regulation S under the Securities Act of 1933 [the 'Securities Act']), except pursuant to an exemption under the Securities Act. This report does not constitute an offer with respect to the purchase or sale of any security within the meaning of Section 5 of the Securities Act and neither shall this report nor anything contained herein form the basis of, or be relied upon in connection with, any contract or commitment whatsoever. This report provides general information only. In Canada it may only be distributed to persons who are resident in Canada and who, by virtue of their exemption from the prospectus requirements of the applicable provincial or territorial securities laws, are entitled to conduct trades in the securities described herein. INFORMATION REGARDING THE PRINCIPALITY OF LIECHTENSTEIN: COMMISSION DIRECTIVE 2003/125/EC of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the fair presentation of investment recommendations and the disclosure of conflicts of interest has been incorporated into national law in the Principality of Liechtenstein by the Finanzanalyse-Marktmisbrauchs-Verordnung.

If any term of this Disclaimer is found to be illegal, invalid or unenforceable under any applicable law, such term shall, insofar as it is severable from the remaining terms, be deemed omitted from this Disclaimer; it shall in no way affect the legality, validity or enforceability of the remaining terms.