Annual Report 2013

Raiffeisen BANK

Annual Report 2013

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Survey of key data

Raiffeisen Group (IFRS – compliant) – Monetary values in HRK millions

	2013	Change	2012	2011
Income statement				
Net interest income	1,203	(1.96%)	1,227	1,375
Net commission income	350	2.34%	342	413
Trading profit (loss)	150	97.37%	76	(64)
Administrative expenses	(1,208)	(1.15%)	(1,222)	(1,321)
Profit before tax	384	(9.43%)	424	387
Profit after tax	295	(12.98%)	339	305
Consolidated profit	309	(8.04%)	336	302
Balance Sheet				
Loans and advances to banks	1,622	(21.26%)	2,060	1,837
Loans and advances to customers	23,844	(2.73%)	24,513	27,119
Deposits from banks	543	(7.65%)	588	769
Deposits from customers	21,672	(5.11%)	22,840	23,454
Borrowings	6,923	(9.88%)	7,682	9,599
Equity	5,467	(1.16%)	5,531	5,743
Balance-sheet total	36,152	(6.02%)	38,468	41,029
Regulatory own funds				
Total own funds	5,003	(1.40%)	5,074	5,420
Own funds requirement	3,399	(4.47%)	3,558	3,887
Excess cover	47.19%	4.59 PP	42.60%	39.45%
Core capital ratio	17.66%	0.55 PP	17.11%	16.73%
Own funds ratio	17.66%	0.55 PP	17.11%	16.73%
Performance				
Return on equity (ROE) before tax	7.61%	(0.12 PP)	7.73%	7.01%
Cost/income ratio	57.22%	(2.30 PP)	59.52%	62.46%
Earnings per share (HRK)	85	(8.60%)	93	83
Return on assets (ROA) before tax	1.03%	(0.03PP)	1.06%	0.92%
Provisions for possible loan losses/risk – weighted assets	9.03%	1.54 PP	7.49%	5.30%
Resources				
Number of staff on balance-sheet date	2,274	(3.40%)	2,354	2,393
Number of outlets on balance-sheet date	70	(4.11%)	73	73

Introduction

Letter from the Chief Executive Officer

On behalf of the Management Board of Raiffeisenbank Austria d.d., I am delighted to present the key figures of the 2013 Annual Report as audited by Deloitte.

Last year, Raiffeisenbank Austria's profit after tax amounted to HRK 276 million; profit at the local Group level amounted to HRK 295 million. While our operating result was lower than in the previous year, it had to be achieved under more difficult circumstances. Net interest income declined in relation to 2012, while net provisioning for impairment losses on loans and other assets rose. Net fee and commission income and net trading income made a positive contribution to the operating result. The reduction in general administrative expenses also had a positive effect. Unfortunately, the negative economic trends of the past few years continued, resulting in a decline in average creditworthiness of borrowers and more difficult collection of monies owed by customers. Changes in regulations on enforced debt collection processes and consumer loans also had an adverse effect on our operating result, leading to an increase in net provisioning for impairment losses. Furthermore, law suits launched by debtors against us also contributed to an increase in asset write-offs. The decline in profit after tax resulted from our adjustments to the challenging business conditions.

The economic development has not been ideal for Raiffeisenbank Austria and its local Group. Five years of consecutive economic recession that has still not ended, lead to a decline in employment and corporate business activities, limited the demand for financial products and services and complicated debt collection. External market conditions also had a negative effect on our profit. 2013 saw a recession in the euro area, which is having a significant impact on domestic economic trends and on the local financial market. Croatia acceded to the European Union on 1 July 2013, but the growth boost witnessed in neighboring countries in the previous two EU enlargement rounds failed to materialize in Croatia. As the euro area economies were amidst a second wave of recession when Croatia entered the EU, the expected positive effects on export demand and the price of capital were not felt immediately. Instead, we experienced the negative effects of losing preferential status in neighboring markets that remain outside the EU. The recovery process of European economies started just before the end of the year, but this had not yet a positive impact on the Croatian economy.

Stable conditions prevailed on the external financial markets, but the risk premium paid by borrowers in Croatia rose slightly due to the downgrade of the sovereign credit rating to non-investment grade. The government continued to borrow, increasing balance-sheet imbalances in the public sector and endangering the sovereign credit rating. The rating deteriorations continued in the first quarter of 2014, when Standard & Poor's reduced Croatia's credit rating from BB+ to BB, two levels below investment grade, and Moody's and Fitch changed their outlooks from stable to negative.

Household loans remained stable against a backdrop of reduced employment and a fall in real salaries. The negative trends accelerated the decrease of car loans, because the disbursement of new car loans is missing. Demand for new car loans fell due to more competitive leasing products and reduced car purchases compared to the period before the recession. There is a considerable fear among households of taking on debt due to their expectations of a falling standard of living and their future ability to pay off loans, thus preferring to delay the purchase of durable goods. The announcement of the introduction of a property tax adversely affected the demand for mortgages. Only the demand for general-purpose loans, which generally smaller with shorter repayment terms compared to fixed-purpose loans, has been stable.

In a nutshell, during the past year we responded to difficult market conditions by improving our operational processes. In doing so, we continually use our resources as productive and profitably as possible and improve the quality of service and operational efficiency. Our main goal remains to increase customer satisfaction. Through the efforts of all our local Group's employees, we continue to develop our comprehensive financial. I thank all management and staff for their dedication and commitment in achieving all those objectives. Finally, I would like to thank all our clients and business partners, hoping that our fruitful co-operation will continue.

Zdenko Adrović
Chief Executive Officer

Report of the Supervisory Board

Ladies and Gentlemen,

After years of extremely low or even negative growth, 2013 finally showed the first signs of an economic recovery in the euro area and Central and Eastern Europe alike. We also saw an increasing shift of economic growth to Central Europe with Poland, Czech Republic and Slovakia taking on a leading role in the region. In addition, political decisions about the future of the European Banking Union were finally made and provided more clarity for the European banking sector. However, the business environment for banks remained difficult. Especially the short-term raising of equity capital requirements and various complex regulatory requirements, as well as banking levies, have been and continue to be an additional burden on banks leading to restricted lending.

In autumn 2013 RBI Group launched the program "Fit for Future 2016" with the goal to lower costs to the level of 2012 by the year 2016. This means that over the next three years we will more than offset inflation and save around EUR 450 million in total. We were also very satisfied with the EUR 2.78 billion result of the recent capital increase. The higher free float makes our shares even more attractive for both private and institutional investors. The proceeds will be used to achieve our goal, for the coming 12 to 18 months, of achieving a fully loaded Basel III CET ratio of 10.0 per cent by the end of the transition period. Both actions were taken in order to support our successful business model across the region and guarantee a sustainable development of the Group in this still challenging environment. Hence, the RBI Group is proud of posting a profit before tax of EUR 835 billion.

As far as Raiffeisenbank Austria d.d. Zagreb is concerned, I am glad to state that last year's operational adaptations in response to changes of market conditions after the accession to the European Union proved successful. In July 2013, Croatia became a member of the "European family". In addition to the long term benefit provided by the opening of the latter's economies, this has brought changes in the goods and services markets as well as labor and capital markets. Opportunities for selling financial products and services were impeded by increased competition in the market. This has to be seen against a backdrop of reduced demand for loans as a result of the lengthy local economic recession and fall in employment. Despite these difficult market conditions, our Croatian Raiffeisen Group achieved a profit after tax of HRK 295 million.

With limited possibilities for sales growth, the Managing Board of Raiffeisenbank Austria directed its resources to improving business processes and risk management methods. Limitations on the demand side stimulated a development of activities aimed at increasing business efficiency by improving resource management and creating greater added value. The development of business processes, the excellence of the range of products and services and the recognition of customer needs are crucial in order to move forward in the challenging processes related to full integration into the EU. In a highly competitive market, timely preparation for the swift adjustment of products and services to customer needs, additional operational support in order to meet increasing operational and regulatory demands, as well as risk assessment and monitoring in the common market can only be achieved by introducing the highest business standards and generating synergies within the RBI Group. The experience accrued by RBI from operating in countries that have already passed the EU accession process is a considerable advantage for Raiffeisenbank Austria.

I would like to thank all employees of Raiffeisenbank Austria for their hard work in this continuously challenging environment and their constant efforts to serve our customers and bring benefits to both the entire local Raiffeisen Group as well as to its parent company RBI.

On behalf of the Supervisory Board,

Peter Lennkh
Chairman of the Supervisory Board

Macroeconomic environment

Economic review

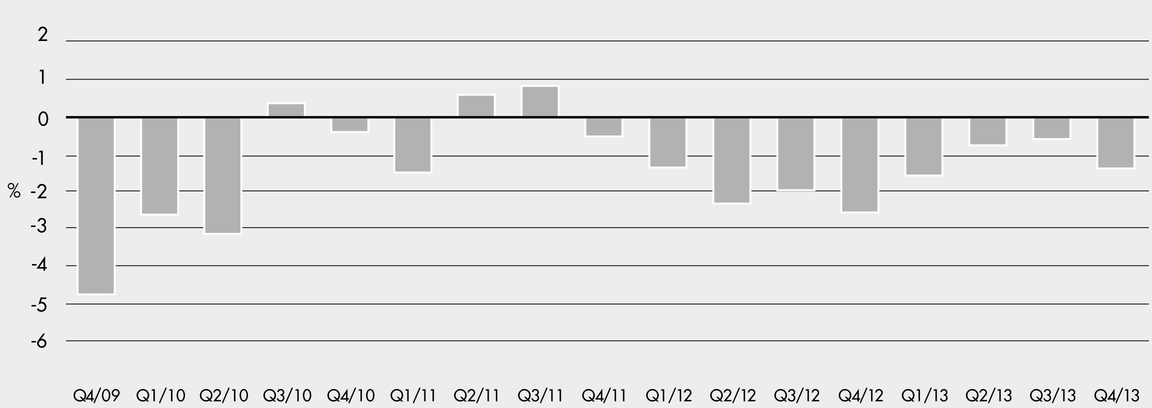
The strengthening of economic activities in developed countries and gradual slowing of growth in emerging markets were the main features of the global economy in the first part of 2013. Of the developed economies, Japan and the USA had particularly positive results due to, among other things, the implementation of an expansive monetary policy. After the Fed decided in mid-September to delay its announced withdrawal of certain stimulative monetary policy measures, financial markets gradually calmed and depreciatory pressures on some emerging markets currencies eased. The Euro area saw economic growth from the second quarter of 2013, but the dynamics of recovery were very slow due to the continued process of deleveraging in many member states. In conditions of reduced demand and weak outlook for economic growth, the inflation rate fell significantly below the ECB's inflation target. Global economic growth accelerated in the final quarter of 2013, largely as a result of dynamic growth in developed economies, especially the USA. The Euro area saw a positive growth rate for the third consecutive quarter, although economic recovery continued to be uneven and weak.

There were positive economic growth rates in the countries of Central and Eastern Europe throughout 2013, with the exception of the Czech Republic, Slovenia, and Croatia, which all saw an annual contraction in GDP. Economic activities in these countries largely depend on foreign demand. As regards Croatia's main external trading partners, economic activity in Germany and Austria strengthened in the final quarter of 2013 following favorable trends in domestic and foreign demand. Italy also achieved economic growth after a lengthy recession, while economic trends in Slovenia continued to be adversely affected by the process of bank restructuring and private sector deleveraging. Croatia's main external trading partners outside the Euro area also recorded positive trends in 2013. The key factor driving growth in economic activity in Serbia was the increased exports in the car industry, while the growth seen in Bosnia and Herzegovina is reliant on the transfer of positive trends from the Euro area.

Macroeconomic indicators

2013 also ended with a drop in economic activities in Croatia. The fall of gross investment in fixed capital, fall in household consumption and sharper fall in exports than in imports of goods finally resulted in a real contraction of the economy of 1 per cent on an annual level. When we consider the continuous decline for a fifth consecutive year, GDP is approximately 12 per cent lower on a cumulative basis than in 2008. The negative trend in gross investment in fixed capital also continued, and has contracted by almost a third since 2008, seeing a fall of 1 per cent in 2013. Investment trends are a reflection of the lengthy economic recession that has completely exhausted the private sector, especially the real (manufacturing) sector, which is going through a restructuring process at the same time. Household consumption, with the exception of a slight annual rise in 2011 of 0.3 per cent, has recorded negative annual growth rates since 2009. In 2013 it was 1.0 per cent lower. The export of goods and services fell by 1.8 per cent, while the import of goods and services was 1.7 per cent lower in 2013. After three years of negative trends, government spending slightly increased by 0.5 per cent in 2013, thus cushioning the higher annual contraction of gross domestic product. In

Gross domestic product, year-on-year growth rate

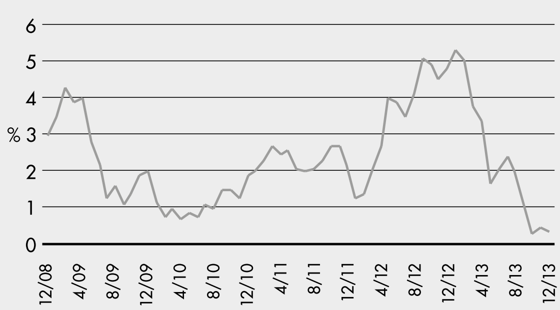


Source: CBS

terms of GVA, the largest annual fall continued to be in the construction sector (-4.3 per cent on an annual level) and in manufacturing (-3.7 per cent).

Relatively stable crude oil prices, or their slight rise in the second half of last year, and falling domestic demand resulted in a weakening of inflationary pressures. Prices rose in the food sector (comprising 26.9 per cent of the structure) and in fuel and energy, while prices of clothing, transportation and communications fell. The effects of weak domestic demand also spilled over into manufacturing prices. Manufacturing prices on the domestic market have declined on an annual basis since August of last year. Retail prices saw an annual average increase of 2.2 per cent in 2013, while manufacturing prices on the domestic market rose slightly by 0.5 per cent.

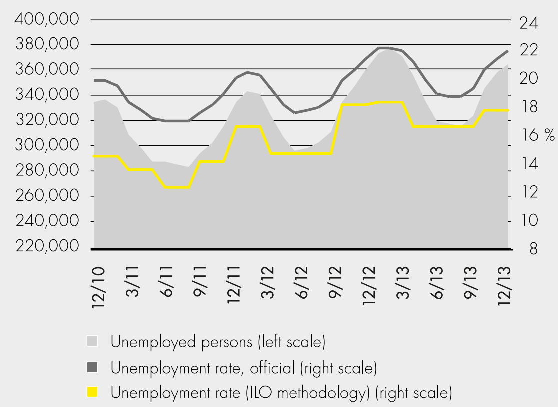
Consumer price index (inflation rate) in %, year-on-year



Source: CBS

The labor market also saw very negative trends, as confirmed by the continued fall in employment and rise in unemployment over several consecutive years. The average number of those unemployed in 2013 was approximately 21,000 higher than in 2012 (363,411 people). The average unemployment rate last year was 20.3 per cent, 1.2 percentage points higher than the average unemployment rate in 2012, and the highest level since 2002. Of particular note was the considerable drop in employee numbers in the construction sector (over 30,000 people since 2008), resulting from a five-year-long reduction in activity. Furthermore, the headline unemployment rate continued to rise. It climbed from an average rate of 15.9 per cent in 2012 to 17.2 per cent in 2013, while rates of activity and employment fell. At the end of 2013 the activity rate fell to 43.7 per cent, while the employment rate fell to 36.1 per cent. If we compare the headline rate of unemployment in Croatia and selected countries, we see that Croatia has the highest rate (17.2 per cent), while Slovakia, Bulgaria, Slovenia and the Czech Republic, for example, have unemployment rates of 14.2 per cent, 13 per cent, 10.1 per cent and 7 per cent respectively.

Unemployed persons and unemployment rates



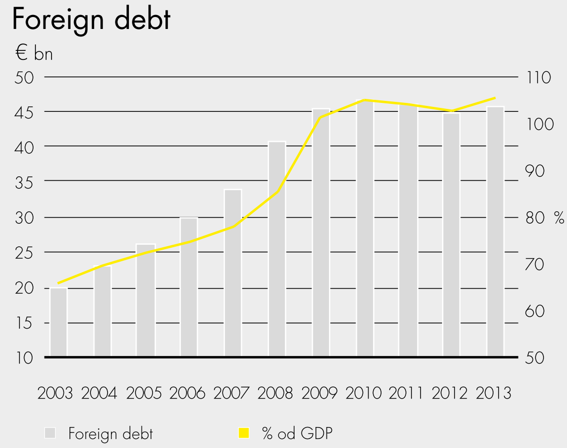
Source: CBS, CES

External relations

Weak economic activity and domestic demand, coupled with an increase in tourism income, resulted in the first current-account surplus in 2013 on an annual level since records began in 1999. The positive impact of the good tourist season was confirmed by the fact that the current account surplus in the third quarter exceeded the combined deficit of all other quarters. The current account surplus in 2013 was € 564.4 million, or 1.3 per cent of GDP. The trade deficit was 3.6 per cent higher than in 2012, with a greater decline in exports (-6.25 per cent on an annual level) than in imports (-2.5 per cent annually).

Portfolio investments – foreign bonds issued by the state and large public and private companies – dominated the financial transaction account, while foreign direct investment remains at relatively low levels compared to the pre-crisis years. The deficit in other investments was significantly lower compared to 2012 as a result of deleveraging in all sectors apart from the state.

Foreign debt



Source: CNB

Foreign direct investment in Croatia halved in comparison to 2012. Foreign direct investment in 2013 amounted to € 437 million, a decline of € 618 million from 2012. A reduction in equity capital made up the largest contribution to the reduction in foreign direct investment last year. The majority of last year's foreign direct investment came from the Netherlands (34.9 per cent), followed by Germany, Austria and Italy. According to sectors, most foreign direct investment was made in real estate (42.4 per cent), followed by investment in core business areas and equity investment in property.

Although the EUR/HRK exchange rate remained relatively stable, the average rate throughout 2013 was 7.58 HRK to the euro, which is 0.06 HRK or 0.74 per cent higher in comparison to 2012. On the other hand, as in previous years, the volatility of the EUR/HRK exchange rate was relatively low. Seasonal oscillations continued to be present, although the usual strengthening of the domestic currency against the euro during the peak tourist season was not as pronounced as in previous years. This exchange rate stability is the result of low demand for foreign currencies due to the deleveraging of all domestic sectors apart from the state. Croatia's trade balance with foreign countries helped the stability of the HRK, because the trade deficit in goods was offset by the trade surplus in services. In 2013 the market did not react significantly to the downgrade of the credit rating, or to the relatively weak economic indicators.

At the end of 2013 gross foreign debt rose to € 45.6 billion, or 105.3 per cent of GDP. The reduction in external exposure of financial institutions and state-owned companies did not succeed in moderating the growth of government borrowing abroad and higher cross-border borrowing by corporations, resulting in a level of gross foreign debt that was 1.7 per cent higher than at the end of 2012. Furthermore, the proportion of foreign public debt has increased by 7 percentage points since the beginning of the crisis to reach 34 per cent of the total foreign debt at the end of 2013. A moderate fall was seen in the share of foreign private debt (not including inter-corporate loans) in line with the gradual deleveraging of that sector.

Fiscal and monetary movements

In addition to harmonization of budgetary statistics with European standards (ESA 95), the final quarter of 2013 also saw the expected revision of the state budget for 2013, the budget for 2014 with projections for 2015 and 2016, and confirmation that Croatia has entered the excessive deficit procedure. The harmonization of data with European statistics significantly increased the deficits recorded in previous years. The greatest impact on the increase in historical deficits was the inclusion in the statistics of liabilities under guarantees for the debts of state-owned corporations (mainly shipbuilding) and payments made on called-in state guarantees. According to Eurostat data for the first nine months of 2013, consolidated general state income was HRK 99 billion (0.7 per cent lower than the first nine months of 2012). These movements are the result of a fall in income from direct taxes and social contributions, as well as from sales of goods and services. On the other hand, thanks to the increase in income from VAT and duties, income from indirect taxes significantly softened the decline in total income. The increase in VAT income in the period under consideration would have been significantly higher were it not for the temporary significant fall at the beginning of the second half of 2013, caused by the changed calculation of VAT on goods imported from the EU. Consolidated general state expenditure in the first nine months of 2013, according to Eurostat data (ESA 95), was HRK 112.5 billion, almost the same as in the same period of the previous year, while according to Ministry of Finance data (GFS 2001, cash principal) there was a noticeable rise. Looking at expenditure according to ESA 95 methodology, the most significant contribution of all the main categories to the increase in total expenditure was made by social welfare payments. The most significant impact in the opposite direction was in employee costs, which can be partially linked to the wage reduction of 3 per cent in public and state services since March 2013, the abolition of holiday payments and the base effect of the reduction in social contributions for health insurance. Ministry of Finance data available to November 2013 indicates that there was an annual increase in general state expenditure in the rest of the year according to ESA 95. In line with these movements, the general government deficit according to ESA 95 methodology in the first nine months was HRK 13.5 billion, which is HRK 1 billion more than for the same period in 2012. The total consolidated general government fiscal deficit in the first eleven months of 2013, according to Ministry of Finance data (GFS 2001, cash principal), amounted to approximately 85 per cent of the annual level anticipated in the November budget revision, or HRK 17.9 billion.

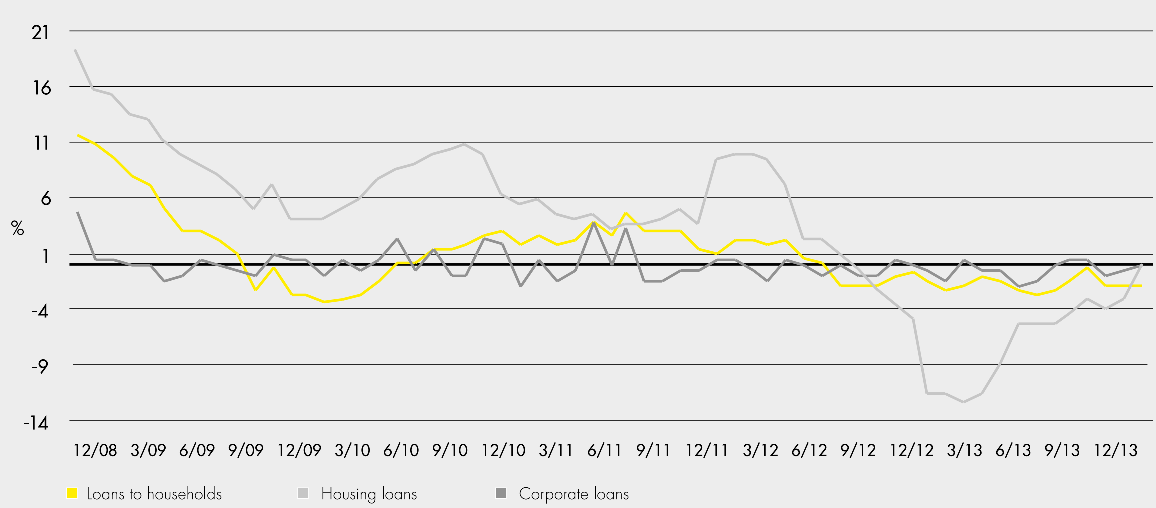
The constant primary budget deficit, ever increasing interest costs, and the delay in reforms contributed to the strong growth in the general government debt, which rose by HRK 36 billion (19.7 per cent) in 2013 to HRK 219.4 billion. Combined with the continued GDP contraction, its ratio exceeded 66 per cent (a rise of 11 basis points). Total guarantees at the end of 2013 amounted to HRK 54.9 billion. The government entered the capital markets three times during the year, once on the domestic market and twice abroad. It issued five-year kuna bonds in the amount of HRK 2.75 billion on the domestic market in July and the second tranche of ten-year bonds with a currency clause amounting to € 750 million, while it issued Eurobonds on the foreign market in April and November in the amount of USD 1.5 billion and USD 1.75 billion respectively.

High liquidity in the financial sector continued in 2013, mainly as a result of the weak demand for loans, restrictive funding conditions and a lack of attractive investment opportunities. At the end of the year, the total loan portfolio was 0.9 per cent higher than at the end of 2012. Bank exposure to central government increased significantly, while the balance of loans to households declined and loans to non-financial corporations stagnated. The ratio of non-performing loans to total loans continued to rise, and at the end of 2013 amounted to 15.63 per cent, of which the ratio for corporations was significantly higher than for households (28.1 per cent, compared to 11.1 per cent). Meanwhile there was a significant process of deleveraging abroad in the banking sector, and the banks' share in the total foreign debt was reduced from 20.9 per cent in 2012 to 19.1 per cent at the end of 2013. A nominal rise in deposits continued on an annual level, but with a very low annual rate of increase.

The Croatian National Bank (HNB) continued to pursue a monetary policy in line with its goal of preserving price stability by maintaining a stable HRK/EUR exchange rate. In order to encourage the maintenance of the very high liquidity of the system, the HNB decided to reduce the mandatory reserve requirement in December 2013 by 1.5 percentage points to 12 per cent. This decision potentially releases HRK 4.7 billion additional liquidity to the domestic banks, with the aim of increasing corporate loans. Namely, dependent on the rise in corporate loans, the HNB will gradually release additional liquidity via the purchase of treasury bills subscribed to by the banks. Hence, at the end of December, the HNB purchased treasury bills in the amount of HRK 333.3 million from the banks, which increased their corporate loan portfolio in November by an amount double that of the purchased bills.

Banking assets saw a fall of 0.5 per cent in 2013 compared to 2012 due to deleveraging and the decline in loan activity, and amounted to HRK 399.1 billion at the end of the year. The banks' share in the total assets of the financial system declined slightly in comparison to 2012, and amounted to 73.15 per cent. The banking system is well capitalized with a capital adequacy ratio of 20.9 per cent.

Loan growth in %, annual level



Source: CNB

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Macroeconomic indicators for the 2009 – 2013 period

	2013	2012	2011	2010	2009
GDP & Production					
Gross Domestic Product (GDP), % (constant prices)	-1,0	-1,9	-0,2	-2,3	-6,9
GDP at current prices (€ millions)	43.342	43.707	44.220	44.441	44.781
GDP per capita at current prices (€)	10.163	10.273	10.350	10.045	10.108
Retail trade, % real annual changes	-0,5	-4,2	0,9	-1,9	-15,0
Industrial production, % annual changes	-2,0	-5,5	-1,2	-1,4	-9,2
Prices, Employment and Budget					
Consumer Prices, %, eop	0,3	4,7	2,1	1,8	1,9
%, avg	2,2	3,4	2,3	1,1	2,4
Producer Prices, %, eop	-2,6	6,9	5,8	5,7	1,6
%, avg	0,5	7,0	6,4	4,3	-0,4
Unemployment rate (official rate, avg)	20,3	19,1	18,0	17,4	14,9
Unemployment rate (ILO, avg)	17,2	15,9	13,5	11,8	9,1
Average net wage, in HRK	5.515	5.478	5.441	5.342	5.311
General Government Balance, % of GDP, ESA 95	-5,8	-5,0	-7,8	-6,4	-5,3
Public debt, HRK billion	219,4	183,3	170,5	145,3	120,4
Public debt, % of GDP	66,8	55,8	51,9	44,9	36,6
Balance of Payment and External Debt					
Good's and Services Exports, € million	18.736	19.092	18.769	17.715	16.315
% change	-1,9	1,7	6,0	8,6	-17,8
Good's and Services Imports, € million	18.176	18.693	18.715	17.685	17.831
% change	-2,8	-0,1	5,8	-0,8	-24,5
Current Account Balance, % of GDP	1,3	-0,1	-0,9	-1,1	-5,1
Official International Reserves, € million, eop	12.908	11.236	11.195	10.660	10.376
Official International Reserves, in terms of months of imports of goods and services, eop	8,5	7,2	7,2	7,2	7,0
Foreign Direct Investment, € million	437	1.055	1.091	370	2.409
Tourism – nightstays, % change	3,3	4,0	7,0	2,6	-1,3
External debt, € billion	45,6	44,9	45,9	46,5	45,2
External debt, as % of GDP	105,3	102,6	103,8	104,7	101,1
External debt, as % export of goods and services	243,5	235,0	244,6	262,6	277,3
Monetary and Financial Data					
Exchange rate, eop, USD/HRK	5,55	5,72	5,80	5,51	5,10
avg, USD/HRK	5,71	5,85	5,34	5,49	5,26
Exchange rate, eop, EUR/HRK	7,64	7,55	7,53	7,39	7,31
avg, EUR/HRK	7,57	7,52	7,43	7,29	7,34
Money (M1), HRK billion, eop	58,5	52,8	51,9	48,3	47,2
% change	10,9	1,6	7,5	2,3	-14,6
Broadest money (M4), HRK billion, eop	271,5	263,8	255,7	251,7	244,4
% change	2,9	3,2	1,6	3,0	0,1
Credits, HRK billion	256,6	258,5	269,1	256,5	241,9
% change	-0,7	-3,9	4,9	6,1	0,0
ZIBOR 3m, %, avg	1,5	3,4	3,2	2,4	8,9
Treasury bills rate 12m, %, avg	2,5	4,1	4,0	4,0	7,5

[1] without capital revenues (privatization), GFS 2001 2 in euro termse
eop – end of period; avg – average
Source: Croatian National Bank, Ministry of Finance, Croatian Bureau of Statistics, Forecasts: Economic Research Department, Raiffeisenbank Austria d.d.

2013 Business developments

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Officers of the Bank

The Supervisory Board controls and monitors the Bank's operations while the Management Board steers and manages its business. The officers of the Bank serving during 2013 were as follows:

Members of the Supervisory Board

Mag. Peter Lennkh (Chairman)
Mag. Razvan Munteanu (Deputy Chairman)
Mag. Franz Rogi (Member until 3rd December 2013)
Lovorka Penavić (Member)
Mag. Paul Alan Kocher (Member until 3rd December 2013)
Mag. Peter Bazil (Member)
František Ježek (Member until 11th March 2013)
Peter Jacenko (Member from 11th March 2013)

Management Board

Zdenko Adrović
Chairman

Vlasta Žubrinić-Pick
Member

Jasna Širola
Member

Zoran Košćak
Member

Vesna Ciganek-Vuković
Member

Mario Žižek
Member

Chief Executives

Vesna Muratović	Financial Institution Division and Transaction Service Division
Ivan Žižić	Treasury and Investment Banking Division
Ivan Jandrić	Corporate and SME Sales Division
Vesna Ciganek-Vuković	Member of the Managemet Board Credit Risk Management Division
Ivan Vidaković	Retail Banking Division
Robert Kuzmanić	Accounting and Tax Advisory Division
Mladen Gregović	IT Division
Zoran Vučićević	Legal Division
Irena Bašić Štefanić	Human Resource Division
Gordana Šaban	Internal Audit Division
Boris Vuksan	Financial Control Division
Vesna Ćebetarević	Support Division
Srđan Šverko	Corporate and SME Products and Development Division
Toni Jurčić	Corporate and SME Network Division
Ines Knapić	Collection and Workout Division

These core divisions are supported by service divisions and independent units.

Vision

Raiffeisenbank Austria d.d. Zagreb (RBA) strives to be the most innovative bank, the most complete in the range of products and services it offers, and when it comes to client satisfaction – the leading bank on the Croatian market. Together with members of Raiffeisen Group in Croatia we would like to be recognized as a financial supermarket.

Mission

The RBA mission is to build long-term customer relations and offer a full, highest quality service on the Croatian market. As a member of Raiffeisen family in Croatia and of the international Raiffeisen family, RBA provides fast and efficient business service to its clients in all segments, both within the country and internationally.

We believe that clients will continue to recognize us as an ideal blend of innovativeness, expertise, quality and safety and that in the future RBA will become their first and best choice.

Organisational procceses

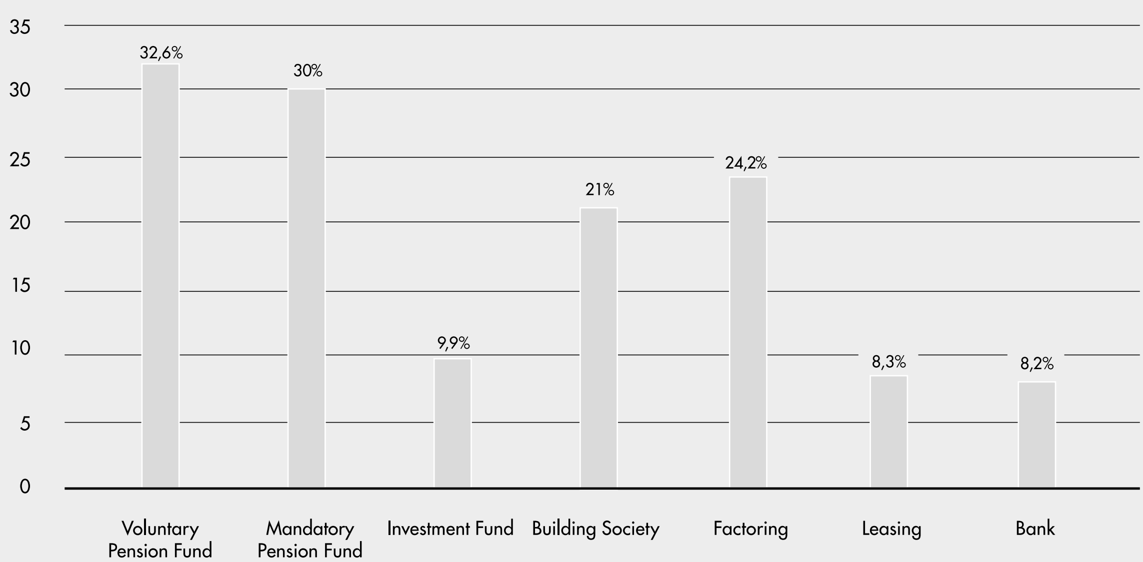
Since its establishment in 1994, RBA has continually monitored market changes and business requirements, prompting its management board to introduce changes and adjustments to the organizational structure. The Bank has gone through several types of organisation models; nowadays, it boasts an efficient process organisation, characterised by productive and profitable operating and management business processes.

Since 2010, RBA has implemented Lean – the globally recognised corporate culture of business process improvement, which enables achieving maximum service excellence and value for clients while also increasing internal efficiency at the same time. A dynamic organisational development, along with a continuous product and service quality assessment, team work and staff motivation are only a few of the activities implemented by RBA on its path to business success and stable business growth.

Market position

Raiffeisenbank Austria was founded in 1994 as the first bank on the Croatian market owned by foreign capital. The founders' goal was to develop a comprehensive range of financial products and services, or a kind of financial supermarket in which customers could satisfy their requirements for financial products and services. So as to achieve its vision of a comprehensive range of products and services, RBA has often led the way in the development of the Croatian financial market. Since its founding it has developed exclusively through organic growth, initially by increasing sales of banking products and services, and then by setting up subsidiary corporations specializing in other financial services. In the local Group gathered around Raiffeisenbank Austria, which is the fourth largest bank on the market in terms of assets, corporations for leasing and factoring as well as for investment and pension fund management hold a significant market position. A reputation as an excellent business partner has helped all members of the Group to expand their businesses.

Market share of particular Raiffeisen individual



Three basic factors have determined the position of the Raiffeisen Group in Croatia from the standpoint of its ownership links and market characteristics:

- The Raiffeisenbank was founded by the RBI international financial group
- The Raiffeisenbank founded a local financial services Group
- The Group's operations are conducted on the Croatian market.

Raiffeisen Bank International (RBI) is an Austrian banking group managing a network of banks and related financial institutions in the region of Central and Eastern Europe (CEE). Membership of a powerful international banking group with a broad range of financial services and extensive experience in developed financial markets has been beneficial in building financial institutions in developing markets. The connection with RBI can be seen in the transfer of experience and expertise from other RBI Group members to members of the local Group, as well as in the synergy effects of introducing advanced support to operations, in the wealth and innovation of the product range, and in establishing high quality standards when working with customers. In the period prior to the founding of a European banking union in which all European banks operate under common rules and a single supervisor, Raiffeisenbank Austria's operations have developed in accordance with local regulations governing the operations of financial institutions. All members of the local Group are registered in Croatia and operate according to Croatian regulations.

The operational results of the local Group depend on trends in the financial market, that is, conditions in the real economy, as well as on actual and expected household income. The business conditions of financial institutions in the Croatian financial market in 2013 were relatively stable. The inflation rate fell from an initial 5.2 per cent in January to 0.3 per cent in December. The constant excess liquidity on the money market did not create inflationary pressures due to the absence of demand for loans, and interest rates on the money market thus fell to a historic low. The three-month Zibor rate declined from 1.69 per cent at the beginning of the year to 0.95 per cent, with a one-off deviation from this downward trend in July. Movements in the kuna compared to the reference currency (euro) were also stable, with some temporary and weak depreciatory pressures. The exchange rate floated in a narrow band of 2.7 per cent, and at the end of the year the kuna was 0.74 per cent weaker against the euro than at the beginning of the year. Croatian risk premium expressed in the five-year CDS spread climbed significantly in 2013 from 255 basis points to 344, reflecting the downgrade of the sovereign credit rating to sub-investment grade. However, the increase in customer deposits in conditions of weak demand for loans allowed the reduction of the financial sector's dependency on foreign sources of financing, and the rise in risk premium did not reduce stability on the financial market.

Trends in the real economy were not favorable for the operations of the local Group. The fall in activity in the corporate sector slowed in comparison to 2012, but the stagnation of demand for financial products and services remains. Corporations faced unexpected losses on amounts owed to them in numerous pre-bankruptcy settlement procedures, which increased uncertainty in debt collection. Corporations have thus attempted to increase liquidity reserves, and an increased aversion to investment has reduced demand for long-term forms of financing. These negative factors were felt in leasing operations, while demand for factoring services increased. The rising level of uncertainty surrounding the collection of corporate loan payments prevented a more expedient adjustment of interest rates on loans, despite stable conditions on the financial market and a reduction in the overall demand for loans.

The tendency for households to borrow continued to decline under the influence of falls in employment and wages, as well as in prices on the real estate and capital markets. The process of legalizing illegally built property that has started has enabled buildings to be marketed with discounted prices of building preparation. This has reduced asking prices on the property market which has still not recovered from the previous price bubble and excessive supply. The long-term decline in income from work has also unfavorably impacted expectations of creditworthiness, and the beginning of deflation is an indication of the increasing burden of repaying loans. As well as the effect of negative income expectations and the decline in property values on the reduction in demand for household loans, borrowers' activities in disputing their debts have continued. The launch of a collective lawsuit against the banks, challenging the indexation of debt levels to the kuna/Swiss franc exchange rate and contractual unilateral changes in interest rates, resulted in a first-instance judgement in favor of the plaintiffs in July 2013. The increased ambitions of borrowers had a negative impact on debt repayments, as did individual decisions concerning amendments to consumer loan regulations.

Economic policy did not create any measures to stimulate lending until November, when the monetary authorities reduced the mandatory reserve requirement of banks by 1.5 per cent with the goal of increasing lending to corporations. Meanwhile, lending to manufacturing and financing of consumption have declined. Only the public sector maintained its appetite for borrowing, which had higher financing requirements due to the increase in the general government deficit and the cost of paying outstanding debts in the healthcare sector. The government actively borrowed on the domestic capital market and from banks.

Movements on foreign markets did not stimulate the domestic economy. The first half was dominated by negative trends in the main export markets, caused by a decline of business activities in the Eurozone. The pessimism of domestic entrepreneurs deepened, and the borrowing demand for working capital and investment further reduced. The beginnings of a recovery in the Eurozone in the second half did not result in an increase in export demand for Croatian products and services. On the contrary, after accession to the European Union, export demand declined in the CEFTA market where Croatia lost its preferential status. Apart from limited domestic demand, a fall in exports also increased pressure for a continued decline in the manufacture of goods and services and lower employment. Amidst a backdrop of falling sales, entrepreneurial investments in the domestic market fell. Demand for loans and other financial services subsequently weakened.

Raiffeisenbank Austria's loan policy is focused on clients with high credit scores or whose risk exposure is largely mitigated by good-quality collateral. However, market conditions were not suitable for loan policy goals to be achieved. Many borrowers in the corporate sector took advantage of the opportunity to commence pre-bankruptcy procedures so as to reduce their debt, thus halting creditors' distraint procedures. Debt collection in the corporate sector and between corporations and the public sector thus became less certain, further increasing the risk surrounding lending to corporations. In the household sector the rise in unemployment, the fall in real wages, and the strong franc led to increased loan arrears. The quality of the loan portfolio in the household sector is a significant improvement on that of the corporate sector, but adverse economic trends also increase the risk surrounding household loan repayments.

The characteristics of the Croatian market can be seen in Croatia's relatively high risk exposure. During 2013 Raiffeisenbank Austria reduced its net direct and indirect exposure to sovereign risk by 12 per cent. However, due to the decline in overall investments the relative significance of sovereign exposure remained unchanged, and amounted to 25 per cent of total assets and potential liabilities for the Group, and 26 per cent for Raiffeisenbank Austria. The downgrade of Croatia's credit rating did not have a significant effect on the government's cost of financing. Accession to the European Union reduced investor fear, thus maintaining the price of government debt instruments at the same level despite increased risk premiums.

Important factors in the high level of sovereign risk in the Bank's assets are the monetary regulations by which the central bank maintains financial stability, and direct or indirect government borrowing on the domestic financial market.

Other factors of exposure to sovereign risk are the temporary excess liquidity on the money market, investment activities in Croatian government debt instruments, the government's direct borrowing from banks and other financial institutions, and government guarantees for the loans of state-owned and private corporations. The mandatory reserve requirement commits banks to hold part of their assets in Croatian National Bank accounts. At the end of 2013 the mandatory reserve requirement was 12 per cent of bank liabilities. No interest is paid by the HNB on funds set aside for the mandatory reserve requirement. Furthermore, in periods of high liquidity on the money market, Raiffeisenbank Austria holds its excess liquidity in an account at the HNB. Raiffeisenbank Austria has a significant relationship with the central government. Other Group members indirectly invest in government debt via their assets under management.

Bank operations

Raiffeisenbank Austria's assets declined 7.2 per cent in 2013, totaling HRK 33,005 million at the end of the year. Three-quarters of the decline in assets related to loans to banks and investments in securities, and one quarter to loans to customers in the household, corporate, and government sectors, and to other assets. Total loans to customers amounted to HRK 22,090 million at the end of the year, and the drop of 3.2 per cent resulted from reduced demand for loans and impairments in asset values. Despite this decline, the ratio of loans to customers increased to 66.9 per cent of total assets.

In the household sector, lending was mainly in the domestic currency, so the ratio of kuna-denominated loans rose to 42 per cent of total loans. The increased demand for kuna-denominated loans resulted from the increasing risk aversion of households. After borrowers whose loans are indexed to the HRK/CHF exchange rate recently experienced significant increases in their debt and repayment installments, they launched a collective lawsuit against banks that had extended them credit. In July 2013 the first-instance judgement was made in favor of the borrowers. The judgement is not final, but the court action increased borrowers' awareness of the potential consequences of exposure to currency risk. The process of amending the Consumer Credit Act also made citizens more aware of the danger of interest and currency risk assumed by borrowers taking out loans with a currency clause. Despite the somewhat higher interest rates on HRK-denominated loans compared to identical loans with a currency clause, Raiffeisenbank Austria made more HRK-denominated loans to households last year. At the same time, the number of people who are accepting long-term exposure to currency risk in exchange for lower initial interest costs is falling.

Bank financial highlights for the 2009 – 2013 period

Bank HRK millions	2013	2012	2011	2010	2009
From Balance sheet at 31 December					
Total assets	33,005	35,553	38,307	40,422	39,499
Shareholders' equity	5,343	5,429	5,632	5,671	5,444
Customer accounts	21,914	22,878	23,565	22,817	21,500
Loans to customers	22,090	22,824	25,688	25,437	24,117
From Income statement for the year ended 31 December					
Operating income	1,614	1,685	1,722	1,803	1,847
Operating expenses	835	853	931	920	872
Profit before tax	327	432	383	450	498
Net profit for the year	276	364	327	376	408
Ratios	%	%	%	%	%
Return on average shareholders' funds	5.09	6.48	6.17	7.12	7.89
Return on average assets	0.81	0.99	0.83	0.94	1.02
Capital adequacy ratio (in accordance with the Croatian National Bank methodology)	18.73	18.30	17.41	17.84	15.01
	HRK	HRK	HRK	HRK	HRK
Earnings per share	76	101	90	104	110

In the corporate sector, lending in foreign currencies increased. HRK-denominated loans dominate short-term loans to corporations, but foreign currency loans dominate long-term loans. The decline in demand for HRK-denominated loans is a consequence of improved liquidity in the corporate sector. Namely, corporate creditors are facing unplanned losses on amounts owed to them in pre-bankruptcy settlement procedures. It is the responsibility of debtors to open these procedures, so corporate creditors are exposed to unexpected losses of short-term assets by the debtors who commence them. In an attempt to improve resilience to unplanned losses in corporate assets, creditors are postponing investments and increasing liquidity. The rise of liquidity reserves in corporations has led to a reduction in demand for short-term loans from banks, so the currency structure of loans is also gradually changing. At the end of last year the ratio of HRK-denominated loans to corporations fell to 29 per cent.

Yields on short-term government debt fell to a historic low in 2013. Excess liquidity is constantly present in the system, with a deflationary effect on the cost of capital. Investment in securities declined due to low yields. Volatility on domestic capital markets is also lower, thus reducing the opportunities to make profits from trading and from the revaluation of portfolios that are valued at market prices. However, despite the increased supply there has been no increase in loans to customers. In response to these conditions, Raiffeisenbank Austria reduced its investment in securities and liquidity reserves held at banks.

The long-term process of reducing secondary sources of funding continued. Following a decline of 21.4 per cent in the amount of loans taken, and of 7.7 per cent in bank deposits in 2013, their ratio fell to 16.7 per cent of total liabilities. The reduction in secondary sources of funding of HRK 1,158 million resulted from Raiffeisenbank Austria's increased liquidity. The trend of a changing structure of funding sources, which began after the global financial crisis had broken out, thus continued. The lack of primary sources before the crisis was substituted by borrowing on external markets. The slowdown in growth, followed by the reduction of loans to customers during the crisis years, has resulted in the increased share of primary sources. At the same time the need for secondary sources of funding has declined.

There was also a slight reduction in customer deposits. Amidst conditions of excess liquidity in the system, the banks' demand for domestic deposits was reduced. It was the scarcity of domestic sources of funding in previous years that supported the premium in market interest rates paid by the banks to customers for fixed-term deposits, which are important in the household deposit sector. However, the decline in demand for loans and reduced investment activity in securities led to interest rates on deposits beginning to be harmonized with market interest rates. Raiffeisenbank Austria reduced its interest rates on household deposits several times during 2013. Despite the subsequent outflow, household deposits amounted to HRK 14,019 million at the end of the year, and their ratio rose to 51 per cent of total liabilities.

Raiffeisenbank Austria has developed exclusively through organic growth, so the concentration of funding sources has been acute since its founding. The decline in secondary sources, with the simultaneous increase in the share of household deposits, has increased funding stability. Last year Raiffeisenbank Austria changed its policy on funding sources in such a way that the process of deleveraging abroad has continued while interest rates on domestic deposits have also been reduced several times. Total deposits amounted to HRK 21,914 million, a decline of 4.2 per cent. The change in policy had a rapid impact on the deposits of corporations and other legal entities with shorter average deposit terms. These declined by HRK 389 million, and amounted to HRK 7,895 million at the end of the year. The impact of this policy change was reduced by the longer terms on deposits in the household sector, which declined by HRK 575 million. Raiffeisenbank Austria's capital amounted to HRK 5,343 million, 1.6 per cent lower than at the beginning of the year. Capital declined more slowly than total assets, so the capital adequacy ratio increased.

The fall in deposits that occurred in conditions where interest rates on deposits were reduced decelerated due to the lack of alternative attractive investments in the domestic capital market, but also due to the fall in prices on the real estate market. The attractiveness of bank savings was preserved in conditions of a relatively high yield on government debt and the stagnation of the local stock market index for investing in equities. From the viewpoint of security, the average investor continues to invest in bank deposits rather than in debt or equity instruments, because losses on these investments in the last few years are too fresh in the memory of customers for short-term positive movements to motivate domestic investors to change their preferences. This is particularly so because the economic situation does not suggest a change in capital market trends. The recent downgrade of Croatia's credit rating is also having an effect on security in comparison to yield.

Raiffeisenbank Austria's profit after tax was HRK 276 million, a decrease of 24.2 per cent from the previous year. Operating income was HRK 1,614 million, a decrease of 4.2 per cent from the previous year. The majority of income was interest income with a share of 69.1 per cent. Fee income contributed 17.3 per cent, and other income 13.6 per cent. Net interest income was 6.4 per cent lower on an annual basis due to a decline in loans to customers that form the basis for charging interest, and a reduction in interest rates on loans and sources of funding.

Net fee income showed an increase of 0.7 per cent. Fee income increased by 8.4 per cent, and fee costs by 21.7 per cent. The largest component of fee costs were fees from card operations, but loan insurance costs also contributed to the rise in costs. Due to the positive impact of revaluing portfolios that are valued at market prices, against a backdrop of increases in the price of debt instruments, other operating income rose by 1.4 per cent. Other income amounted to HRK 85 million, which represents a quarter of the pre-tax profits. In conclusion, the reduction in interest income was not completely offset by the increase in other income, but in actuality, total income for 2013 was maintained at a satisfactory level.

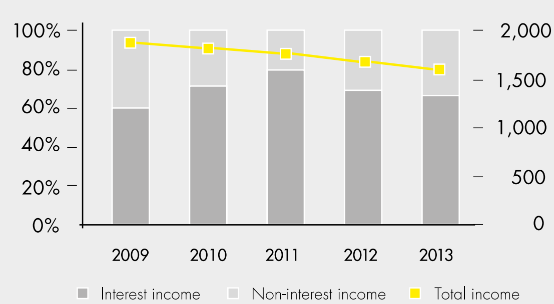
Total operating costs were HRK 835 million, 2.1 per cent lower than the previous year. The reduction in total operating costs resulted from measures to improve cost management. Employee costs rose by HRK 2 million, while other operating expenses were HRK 12 million lower. Along with continuing investment in the development of technology and service quality, depreciation of fixed assets declined by HRK 12 million, and deposit insurance costs increased by HRK 4 million. Net income before impairment charges to assets and liabilities was HRK 779 million, 6.4 per cent lower than the previous year. Impairment charges were HRK 452 million, or 58 per cent of net income. Pre-tax profits were 24.3 per cent, or HRK 105 million lower than the previous year.

The decline in profits resulted from the decline in net interest income and increased asset impairment charges, or risk provision costs. Operating costs and net non-interest income had a positive impact on profit. Although higher than the previous year, risk provision costs rose more slowly than in the banking system generally as a result of Raiffeisenbank Austria's increased debt collection activities, and sales of foreclosed collateral. A comprehensive process of monitoring, early warning and collection of debts in the early, late and enforced debt collection phases has been developed. Market trends had a negative impact on provisions for losses. The fall in economic activity accelerated, and banks' non-performing loans increased.

The Bank continued to improve its business processes in 2013. Against the backdrop of the crisis, opportunities to increase operating income were reduced, and development was thus focused on improving productivity and security standards as well as on technical advancement and the management of business processes. The Bank is focusing its existing personnel as well as its organizational and technological resources on the development of processes to increase service quality and achieve lower unit costs per transaction. Investment in technology and the development of business processes forms the basis for the Bank's innovative range and development of financial products that are responsive to customer demand.

Raiffeisenbank Austria has developed exclusively through organic growth. At the end of 2013 the business network comprised 70 branches, and sales channels were complemented by 420 ATMs and 11,000 contracted card-accepting locations. Despite fierce competition in the domestic banking sector the Bank is among the leading financial institutions with regard to the application of contemporary technology and customer approach. The Bank's Internet banking platform has been improved and access opportunities from mobile devices have been widened. Innovative electronic distribution channels allow customers to carry out financial transactions efficiently with lower costs per transaction.

Total income in HRK millions and structure



Changes in market conditions led to a change in focus of Raiffeisenbank Austria's activities from expanding the loan portfolio to improving risk management and increasing productivity. In this period of economic recession there is less need for traditional banking products. Raiffeisenbank Austria's development resources have been redirected from product innovation to process improvement, and from structural transactions to simplifying sales. Conscious of the changes in the structure of demand, Raiffeisenbank Austria has adjusted its use of resources to develop its range of services according to customer demand in its efforts to maintain the highest levels of service quality.

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Group Operations

Raiffeisenbank Austria d.d. commenced operations on the Croatian financial market in December 1994 when it founded a universal bank. Since 1999 the Bank's local Group has developed, supplementing its range of commercial banking products with other financial services. The Group's developmental goal is to offer its customers a comprehensive financial service. In addition to Raiffeisenbank Austria, which serves as the central institution of the local financial Group, the following related legal entities have been founded:

- Raiffeisen Leasing d.o.o., 50 per cent owned by Raiffeisenbank Austria,
- Raiffeisen Invest d.o.o., Investment Fund Management Company,
- Raiffeisen Mandatory Pension Fund Management Company d.d.,
- Raiffeisen Voluntary Pension Fund Management Company d.o.o.,
- Raiffeisen Pension Insurance Company d.o.o.,
- Raiffeisen Consulting d.o.o. and
- Raiffeisen Factoring d.o.o., all 100 per cent owned by Raiffeisenbank Austria.

Raiffeisen Stambena Štedionica d.d. and Uniqa Osiguranje d.d. have no ownership connection with the Group. The Raiffeisen Group cooperates with them via a joint approach to the Croatian market and a complementing range of financial products and services.

Group financial hightlights for 2009 – 2013 period

Group HRK millions	2013	2012	2011	2010	2009
From Balance sheet at 31 December					
Total assets	36,152	38,468	41,029	43,009	42,621
Shareholders' equity	5,467	5,531	5,743	5,815	5,626
Customer accounts	21,672	22,840	23,454	22,415	21,192
Loans to customers	23,844	24,513	27,119	26,556	25,715
From Income statement for the year ended 31 December					
Operating income	2,084	2,053	2,115	2,457	2,389
Operating expenses	1,208	1,222	1,321	1,475	1,373
Profit before tax	384	424	387	530	500
Net profit for the year	295	339	305	430	390
Ratios	%	%	%	%	%
Return on average shareholders' funds	5.85	6.18	5.52	7.87	7.26
Return on average assets	0.79	0.85	0.72	1.00	0.90
Capital adequacy ratio (in accordance with the Croatian National Bank methodology)	17.66	17.11	16.73	16.70	13.92
	HRK	HRK	HRK	HRK	HRK
Earnings per share	85	93	83	117	102

At the end of 2013, Group assets totaled HRK 36,152 million, HRK 2,316 million less than at the end of 2012. Within the asset structure, loans to customers declined by HRK 669 million, and investments in financial assets valued at market prices and loans to other banks declined by HRK 996 million. Other assets increased by HRK 82 million. Leasing assets declined last year by 12.6 per cent to HRK 1,646 million, while factoring assets increased by 21.4 per cent to HRK 1,934 million at the end of the year. This was a continuation of the long-term trend of growth in demand for short-term funding based on the sale of receivables, with the simultaneous reduction in demand for long-term funding for equipment and vehicles. In other Group members' operations there was a significant increase in the assets of the mandatory pension fund, which rose to HRK 17,483 million at the end of 2013. Last year's growth of 13.6 per cent was based on the requirement of fund members to pay in a proportion of their contributions to the fund, and on the investment return on the value of the fund's units. The fund had 524,000 members at the end of the year, representing 30.8 per cent of the total membership of mandatory pension funds in Croatia. In 2013, fund members paid in HRK 1,519 million in contributions which, when added to the HRK 557 million investment return, increased the fund's assets by HRK 2,094 million. The assets of the investment funds declined by 10.5 per cent in 2013. Money market funds are the largest element in the structure of investment funds. The attractiveness of investing in money market funds declined due to lower yields on short-term government debt instruments and low interest rates on the money market. The demand for voluntary pension savings is based on state incentives. As there were no changes in the level of state incentives, assets rose 13.6 per cent in the open-ended voluntary pension fund. State support for housing savings is being abolished in 2014, but merely the announcement of the withdrawal of this incentive had a negative impact on demand for new contracts.

On the funding side, loans from other banks declined by HRK 759 million, with deposits of legal entities falling a further HRK 593 million. Households deposits were HRK 575 million lower than the previous year. This resulted from the adjustment of sources of funding to the decline in total Group assets. High liquidity on the financial markets reduced yields on financial assets, and subsequently the financial institutions' cost of borrowing. However, due to the decline in demand for financial products and services on the domestic market, commercial institutions are deleveraging abroad. The main part of the Group's secondary sources of funding relates to foreign related groups, and deleveraging results from balancing net positions within the international group. The downgrade of Croatia's credit rating and subsequent rise in risk premium for financial institutions operating on the Croatian market is having an adverse effect on the cost of borrowing of Group members on foreign capital markets. Therefore, preserving primary capital is crucial for stability and for achieving positive results in fluctuating operating conditions.

The Group's capital dropped by HRK 64 million, and at the end of 2013 amounted to HRK 5,467 million. At the same time, total customer deposits totaled HRK 21,672 million, a decline of HRK 1,168 million. Against a backdrop of reduced total assets due to weak customer demand for the Group's financial products and services, reductions in loan liabilities and the deposits of households and legal entities led to an adjustment on the funding side. At the end of the year, loan liabilities totaled HRK 6,923 million, and deposits from banks accounted for a further HRK 543 million. The ratio of secondary capital to the Group's total liabilities was 24.4 per cent, while the ratio of customer deposits was 70.8 percent.

Raiffeisen Group profit after tax was HRK 295 million, a decline of HRK 44 million compared to 2012. Raiffeisenbank Austria's profit declined, while the other Group members collectively achieved an increased profit. Profit on trading income was HRK 150 million, twice as much as the previous year. The net difference of HRK 74 million completely offset the decline in interest income, so total income increased by HRK 31 million.

Net interest income amounted to HRK 1,203 million, a decline of HRK 24 million from the previous year. The relative decline in interest income was twice as fast as the decline in interest costs, but because the absolute amount of income was twice as large, the adverse impact on net interest income was reduced. Interest costs declined by HRK 266 million, and interest income by HRK 290 million. Interest costs for secondary sources of funding depend on movements on the financial markets, while interest costs on household deposits are significantly more stable. That is, changes in market interest rates as a rule are passed on to contractual interest rates on household deposits with a time delay. Conversely, the effect of market developments on interest costs for secondary sources, which are normally agreed with a variable interest rate, occur in real time.

Income from fees and commissions for the period under review totaled HRK 350 million, an increase of HRK 8 million compared to the previous year. Fee income was the main source of income of Group members that manage pension and investment funds. The decline in the investment funds' assets led to a decline in asset management fees, but the rise in mandatory pension funds' assets resulted in higher fund management fees for the management company.

Other non-interest income totaled HRK 531 million, an increase of HRK 47 million from the previous period. The increase in trading profits of HRK 74 million was achieved due to the increase in the valuation of financial assets valued at market prices. In other income, there was significant income from operative leasing hire, amounting to HRK 192 million, and from gross premium income from pension insurance contracts, amounting to HRK 148 million. Other income fell by HRK 27 million. The Group's total income was HRK 2,084 million, HRK 31 million higher than in 2012.

The Group's operating costs were HRK 1,208 million, a reduction of HRK 14 million from the previous year. Operating costs represented 58 per cent of the Group's total income, while this figure was 59.5 per cent in the previous year. The Group continued its streamlining of business processes, and also enjoyed the positive results of its earlier investment in improved technological operational support.

Customer arrears have increased during this crisis period, and the Group has responded by increasing its debt collection activities, developing debt management processes, and restructuring loans. The Group's risk management processes have been improved, portfolio quality is constantly monitored, and debt collection has improved, resulting in reduced losses in asset values. In worsening operating conditions in 2013, the loss from impairment charges to loans and liabilities amounted to HRK 492 million, HRK 85 million more than in the previous year. The Group's total operating income declined 23.6 per cent as a result of impairment charges to loans and liabilities, while in the previous year this category of income fell by 19.8 per cent. After deduction of operating costs and loan impairment charges, pre-tax profits amounted to 18.4 per cent of total Group income.

Losses resulting from the falling quality of loans significantly impaired the Group's operating results. In the period ahead, the rise in credit risks will result in further corrections to asset values, and will have a negative impact on the Group's profit. Improvements in debt collection and overall risk management processes are being implemented to prepare the Group to be able to continue operations in difficult circumstances, in order to continue to achieve a positive operating result.

RBI at a glance

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Raiffeisen Bank International at a glance

A leading bank in Central and Eastern Europe, including Austria

Raiffeisenbank Austria d.d. Zagreb is a subsidiary of Raiffeisen Bank International AG (RBI), which regards Central and Eastern Europe (including Austria), as its home market. For more than 25 years, RBI has been operating in the Central and Eastern Europe (CEE) region, where today it maintains a closely knit network of subsidiary banks, leasing companies and numerous specialized financial service providers in 15 markets. As a universal bank, RBI ranks among the leading banks in the region. The powerful role played by the bank is supported by the Raiffeisen brand, which is one of the most widely recognized brands in the region. Over time, RBI has positioned itself as a fully integrated corporate and retail banking group in CEE. The bank not only has good access to retail and corporate customers, but also boasts a comprehensive product offering. At the end of 2013 around 55,000 staff served approximately 14.5 million customers in around 3,000 business outlets in CEE.

In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers, but also international as well as major multinational clients operating in CEE. Moreover, RBI is represented in the world's financial centres and operates branches and representative offices in Asia. All in all, RBI employs about 57,000 staff and has total assets of around 131 billion.

RBI operates subsidiary banks in the following CEE markets:

■ Albania	Raiffeisen Bank Sh.a.
■ Belarus	Priorbank JSC
■ Bosnia and Herzegovina	Raiffeisen Bank d.d. Bosna i Hercegovina
■ Bulgaria	Raiffeisenbank (Bulgaria) EAD
■ *Croatia*	*Raiffeisenbank Austria d.d.*
■ Czech Republic	Raiffeisenbank a.s.
■ Hungary	Raiffeisen Bank Zrt.
■ Kosovo	Raiffeisen Bank Kosovo J.S.C.
■ Poland	Raiffeisen Bank Polska S.A.
■ Romania	Raiffeisen Bank S.A.
■ Russia	ZAO Raiffeisenbank
■ Serbia	Raiffeisen banka a.d.
■ Slovakia	Tatra banka, a.s.
■ Slovenia	Raiffeisen Banka d.d.
■ Ukraine	Raiffeisen Bank Aval JSC

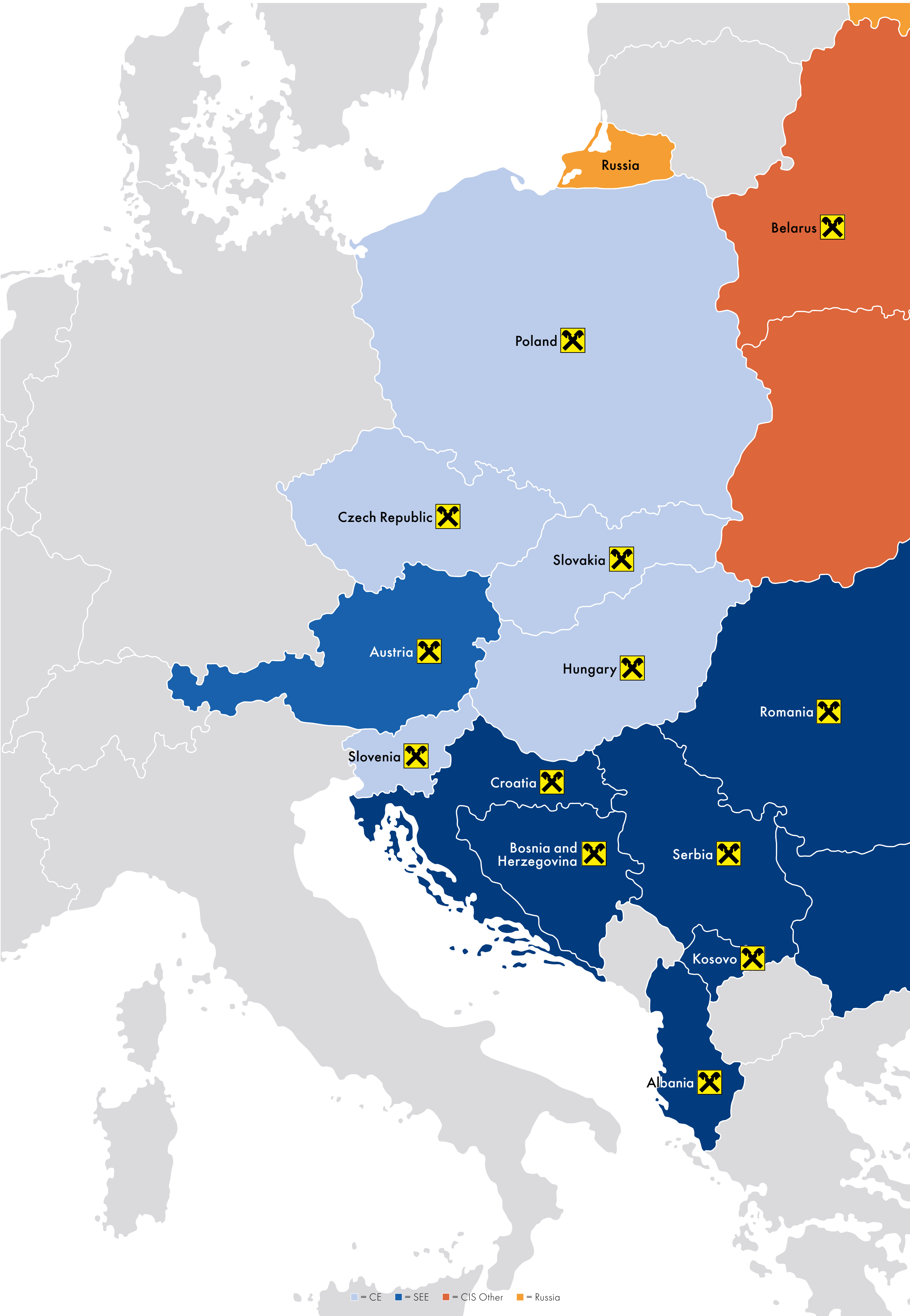
As the parent company of these banks, RBI's shareholding in them is at or near to 100 per cent in most cases.

RBI's development

RZB was founded in 1927 as "Genossenschaftliche Zentralbank". Raiffeisen established its first subsidiary bank in Central and Eastern Europe already back in 1987. Other own subsidiaries have since been established. From 2000 onward, Raiffeisen's expansion into CEE countries has mainly been achieved by acquiring existing banks and subsequently combining them into a holding company that from 2003 operated under the name Raiffeisen International. In April 2005 Raiffeisen International was listed on the stock exchange in order to finance its future growth efficiently. Today's RBI was established in 2010 through the merger of Raiffeisen International with the principal business areas of Raiffeisen Zentralbank Österreich AG (RZB).

RBI has been listed on the Vienna stock exchange since 25 April 2005 (as Raiffeisen International up until 12 October 2010). RZB, which functions as the central institution of the Austrian Raiffeisen Banking Group (RBG), remained the majority shareholder following the merger, holding approximately 78.5 per cent of the shares as of 31 December 2013. The remaining approximate 21.5 per cent of RBI's shares were in free float. Due to the capital increase at the beginning of 2014, the free float rose significantly to about 39.3 per cent after RZB waived its subscription rights and participated in the amount of just 750 million. As of the editorial deadline RZB held 60.7 per cent of RBI's shares.

For more information please refer to www.rbinternational.com and www.rzb.at.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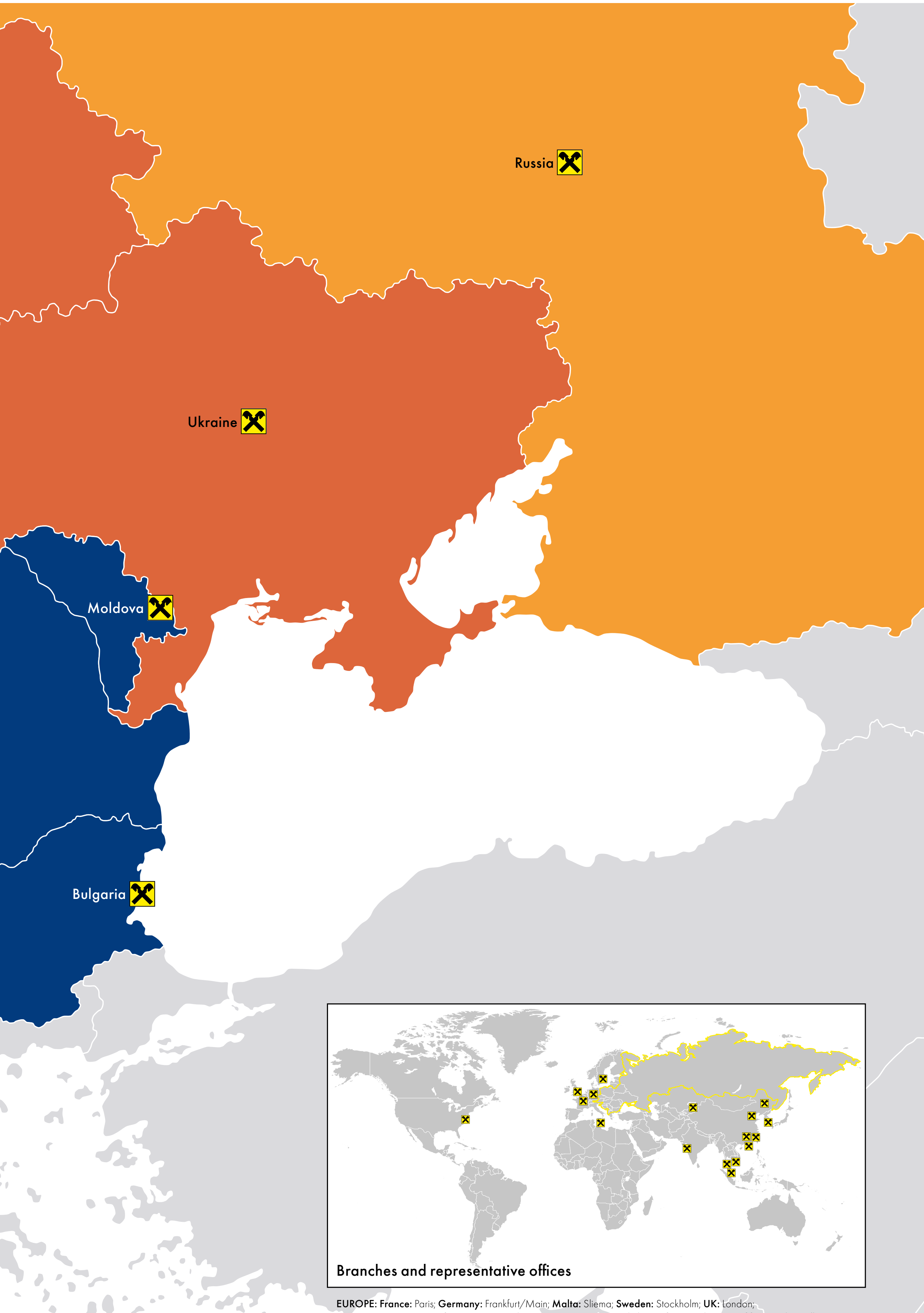
= SEE
= CIS Other
= Russia



EUROPE: France: Paris; **Germany:** Frankfurt/Main; **Malta:** Sliema; **Sweden:** Stockholm; **UK:** London;
ASIA AND AMERICA: China: Beijing, Harbin, Hong Kong, Xiamen, Zhuhai; **India:** Mumbai; **Kazakhstan:** Almaty (leasing company); **Korea:** Seoul; **Malaysia:** Labuan; **Singapore:** Singapore; **USA:** New York; **Vietnam:** Ho Chi Minh City.

Financial Statements

Responsibilities of the Management and Supervisory Board for the preparation and approval of the annual financial statements

The Management Board of the Bank is required to prepare unconsolidated and consolidated financial statements for each financial year which give a true and fair view of the financial position of the Bank and Group and of the results of their operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and the Group and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making judgements and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its financial statements on the Bank and the Group together with the annual financial statements for acceptance. If the Supervisory Board approves the annual financial statements they are deemed confirmed by Management Board and Supervisory Board .

The unconsolidated and consolidated financial statements set out on pages 41 to 151 as well as the schedules prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 30 May 2008 (Official Gazette 62/08) were authorised by the Management Board on 26 March 2014 for issue to the Supervisory Board and are signed below to signify this.

Signed on behalf of the Raiffeisenbank Austria d.d. Zagreb

Zdenko Adrović
President of the Management Board

Vesna Ciganek-Vuković
Member of the Management Board

Vlasta Žubrinić-Pick
Member of the Management Board

Jasna Širola
Member of the Management Board

Zoran Košćak
Member of the Management Board

Mario Žižek
Member of the Management Board

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Independent Auditor's Report

To the Shareholders of Raiffeisenbank Austria d.d. Zagreb

We have audited the accompanying unconsolidated and consolidated financial statements of Raiffeisenbank Austria d.d. Zagreb ("the Bank") and its subsidiaries (together "the Group") which comprise unconsolidated and consolidated statements of financial position as at 31 December 2013 and unconsolidated and consolidated statements of comprehensive income, unconsolidated and consolidated changes in equity and unconsolidated and consolidated cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with statutory accounting requirement for banks in Croatia, and for such internal control as management determines is necessary to enable the preparation of unconsolidated and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.

Emphasis of the Matter
Other legal and regulatory requirements

Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No. 62/08, hereinafter: "the Decision"), the Bank's management has prepared the forms, as presented in the Appendix to these unconsolidated and consolidated financial statements on pages 152 to 163, which comprise the consolidated balance sheet as of 31 December 2013, and the consolidated statement of total comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, as well as the reconciliation to the consolidated financial statements. These forms and the accompanying reconciliation to the consolidated financial statements are the responsibility of the Bank's management, and do not represent components of the financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 41 to 151, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the financial statements of the Bank and the Group.

Deloitte d.o.o.

Branislav Vrtačnik, Certified Auditor and President of the Management Board

Zagreb, 26 March 2014

Consolidated statement of financial position as of 31 December 2013

HRK millions	Notes	Group 2013	Group 2012
Assets			
Cash and amounts due from banks	5	1,812	2,086
Obligatory reserve with the Croatian National Bank	6	2,033	2,485
Financial assets at fair value through profit or loss	7	3,610	4,168
Placements with and loans to other banks	8	1,622	2,060
Financial assets available for sale	9	85	98
Loans and advances to customers	10	23,844	24,513
Financial investments held to maturity	11	795	789
Property, plant and equipment	13	1,554	1,459
Intangible assets	14	192	198
Deferred tax assets	15	217	233
Other assets	16	388	379
Total assets		**36,152**	**38,468**

The accounting policies and other notes on pages 54 to 151 form an integral part of these financial statements.

Consolidated statement of financial position as of 31 December 2013 (continued)

HRK millions	Notes	Group 2013	Group 2012
Liabilities			
Financial liabilities at fair value through profit or loss	17	651	845
Deposits from banks	18	543	588
Deposits from companies and other similar entities	19	7,653	8,246
Deposits from individuals	20	14,019	14,594
Borrowings	21	6,923	7,682
Provisions for liabilities and charges	22	172	141
Other liabilities	23	662	761
Total liabilities		**30,623**	**32,857**
Equity			
Share capital	33	3,621	3,621
Share premium	34	12	12
Capital reserve		1	1
Legal reserve	34	178	178
Fair value reserve	34	10	13
Retained earnings		1,645	1,706
Total equity attributable to equity holders of the parent		**5,467**	**5,531**
Non-controlling interest	36	62	80
Total equity		**5,529**	**5,611**
Total liabilities and equity		**36,152**	**38,468**

The accounting policies and other notes on pages 54 to 151 form an integral part of these financial statements.

Consolidated statement of total comprehensive income for the year ended 31 December 2013

HRK millions	Notes	Group 2013	Group 2012
Interest and similar income	24	1,856	2,146
Interest expense and similar charges	25	(653)	(919)
Net interest income		**1,203**	**1,227**
Fee and commission income	26	579	530
Fee and commission expense	27	(229)	(188)
Net fee and commission income		**350**	**342**
Net trading income	28	150	76
Other operating income	29	381	408
Dealing and other income		**531**	**484**
Operating income		**2,084**	**2,053**
Operating expenses	30	(1,208)	(1,222)
Impairment losses on loans and advances to customers and other assets	31	(461)	(426)
(Charge)/reversal of impairment losses on provisions for liabilities and charges	22	(31)	19
Profit before tax		**384**	**424**
Income tax expense	32	(89)	(85)
Profit for the year		**295**	**339**
Other comprehensive income			
Net revaluation (loss)/gain on available for sale financial instruments		(3)	3
Other comprehensive (loss)/income for the year, net of tax		**(3)**	**3**
Total comprehensive income for the year		**292**	**342**
Profit attributable to:			
– Equity holders of the parent		309	336
– Non-controlling interest	36	(14)	3
Earnings per share attributable to the equity holders of the parent	37	**85**	**93**

The accounting policies and other notes on pages 54 to 151 form an integral part of these financial statements

Consolidated statement of changes in equity for the year ended 31 December 2013

Attributable to equity holders of the parent									
HRK millions	Share capital	Share premium	Capital reserve	Legal reserve	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total
At 1 January 2013	3,621	12	1	178	13	1,706	5,531	80	5,611
Other comprehensive loss for the year, net of tax	–	–	–	–	(3)	–	(3)	–	(3)
Profit for the year	–	–	–	–	–	309	309	(14)	295
Losses carried forward from merger of Kam Nekretnine	–	–	–	–	–	(7)	(7)	–	(7)
Dividend paid for 2012	–	–	–	–	–	(363)	(363)	(4)	(367)
At 31 December 2013	3,621	12	1	178	10	1,645	5,467	62	5,529

The accounting policies and other notes on pages 54 to 151 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2012

Attributable to equity holders of the parent									
HRK millions	Share capital	Share premium	Capital reserve	Legal reserve	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total
At 1 January 2012	3,621	12	1	178	10	1,921	5,743	77	5,820
Other comprehensive income for the year, net of tax	–	–	–	–	3	–	3	–	3
Profit for the year	–	–	–	–	–	336	336	3	339
Dividend paid for 2011	–	–	–	–	–	(551)	(551)	–	(551)
At 31 December 2012	3,621	12	1	178	13	1,706	5,531	80	5,611

The accounting policies and other notes on pages 54 to 151 form an integral part of these financial statements.

Consolidated statement of cash flow for the year ended 31 December 2013

HRK millions	Notes	Group 2013	Group 2012
Cash flows from operating activities			
Profit before tax		384	424
Adjustments for:			
– Amortisation and depreciation	30	220	244
– Foreign exchange differences	28	(133)	(68)
– Net gains/(losses) on available-for-sale instruments		17	(18)
– Impairment losses	5,7,8,10,11,16,22,31	492	407
– Loss on disposal of assets under operating leases		–	5
– Net interest income on trading and non-trading financial instruments	24,25	(1,203)	(1,227)
– Loss carried forward from merger of Kam Nekretnine		(7)	–
Changes in operating assets and liabilities			
Net decrease/(increase) in financial assets at fair value through profit or loss		784	(11)
Net increase in placements with banks, with original maturity more than three months		(116)	(184)
Net decrease in obligatory reserve with the Croatian National bank		459	308
Net decrease in loans and advances to customers		2,001	4,092
Net decrease/(increase) in other assets		122	(182)
Net decrease/(increase) in financial investments held to maturity		38	(5)
Net decrease in financial liabilities at fair value through profit or loss		(264)	(4)
Net decrease in deposits from banks		(43)	(191)
Net decrease in deposits from companies and other similar entities		(669)	(873)
Net decrease in deposits from individuals		(972)	(281)
Net (decrease)/increase in other liabilities		(112)	297
Net cash from operating activities before tax		**998**	**2,733**
Income tax paid		(124)	(112)
Net cash from operating activities		**874**	**2,621**

The accounting policies and other notes on pages 54 to 151 form an integral part of these financial statements.

Consolidated statement of cash flow for the year ended 31 December 2013 (continued)

HRK millions	Notes	Group 2013	Group 2012
Cash flows from investing activities			
Interest received from non-trading financial instruments		(74)	–
Proceeds from selling an available for sale instruments		–	63
Purchase of property, plant and equipment and intangible assets		(507)	(114)
Proceeds from disposal of assets under operating lease		–	115
Proceeds/(payments) from disposal of property, plant and equipment and intangible assets		198	(109)
Net cash generated used in investing activities		**(383)**	**(45)**
Cash flows from financing activities			
Increase in borrowings	21	4,695	2,924
Decrease in borrowings	21	(5,674)	(5,128)
Dividend paid		(367)	(551)
Net cash used in financing activities		**(1,346)**	**(2,755)**
Effects of foreign exchange differences on cash and cash equivalents		12	(13)
Net decrease in cash and cash equivalents		**(843)**	**(192)**
Cash and cash equivalents at beginning of the year	38	**3,544**	**3,736**
Cash and cash equivalents at end of the year	38	**2,701**	**3,544**

The accounting policies and other notes on pages 54 to 151 form an integral part of these financial statements.

Unconsolidated statement of financial position as of 31 December 2013

HRK millions	Notes	Bank 2013	Bank 2012
Assets			
Cash and amounts due from banks	5	1,775	2,086
Obligatory reserve with the Croatian National Bank	6	2,033	2,485
Financial assets at fair value through profit or loss	7	3,518	4,129
Placements with and loans to other banks	8	1,453	1,983
Financial assets available for sale	9	6	4
Loans and advances to customers	10	22,090	22,824
Financial investments held to maturity	11	617	611
Investments in subsidiaries and associates	12	301	211
Property, plant and equipment	13	443	457
Intangible assets	14	190	194
Deferred tax assets	15	209	231
Other assets	16	370	338
Total assets		**33,005**	**35,553**

The accounting policies and other notes on pages 54 to 151 form an integral part of these financial statements.

Unconsolidated statement of financial position as of 31 December 2013 (continued)

HRK millions	Notes	Bank 2013	Bank 2012
Liabilities			
Financial liabilities at fair value through profit or loss	17	652	846
Deposits from banks	18	543	588
Deposits from companies and other similar entities	19	7,895	8,284
Deposits from individuals	20	14,019	14,594
Borrowings	21	4,091	5,204
Provisions for liabilities and charges	22	159	128
Other liabilities	23	303	480
Total liabilities		**27,662**	**30,124**
Equity			
Share capital	33	3,621	3,621
Share premium	34	12	12
Capital reserve		1	1
Legal reserve	34	173	173
Fair value reserve	34	2	1
Retained earnings		1,534	1,621
Total equity		**5,343**	**5,429**
Total liabilities and equity		**33,005**	**35,553**

The accounting policies and other notes on pages 54 to 151 form an integral part of these financial statements.

Unconsolidated statement of total comprehensive income for the year ended 31 December 2013

HRK millions	Notes	Bank 2013	Bank 2012
Interest and similar income	24	1,715	2,020
Interest expense and similar charges	25	(599)	(828)
Net interest income		**1,116**	**1,192**
Fee and commission income	26	475	438
Fee and commission expense	27	(196)	(161)
Net fee and commission income		**279**	**277**
Net trading income	28	134	71
Other operating income	29	85	145
Dealing and other income		**219**	**216**
Operating income		**1,614**	**1,685**
Operating expenses	30	(835)	(853)
Impairment losses on loans and advances to customers and other assets	31	(421)	(419)
(Charge)/release of provisions for liabilities and charges	22	(31)	19
Profit before tax		**327**	**432**
Income tax expense	32	(51)	(68)
Profit for the year		**276**	**364**
Other comprehensive income			
Net gain/(loss) on available for sale financial instruments		1	(16)
Other comprehensive income/(loss) for the year, net of tax		**1**	**(16)**
Total comprehensive income for the year		**277**	**348**
Earnings per share attributable to the equity holders of the parent	37	**76**	**101**

The accounting policies and other notes on pages 54 to 151 form an integral part of these financial statements.

Unconsolidated statement of changes in equity for the year ended 31 December 2013

HRK millions	Share capital	Share premium	Capital reserve	Legal reserve	Fair value reserve	Retained earnings	Total
At 1 January 2012	**3,621**	**12**	**1**	**173**	**17**	**1,808**	**5,632**
Other comprehensive loss for the year, net of tax	–	–	–	–	(16)	–	(16)
Profit for the year	–	–	–	–	–	364	364
Dividend paid for 2011	–	–	–	–	–	(551)	(551)
At 31 December 2012	**3,621**	**12**	**1**	**173**	**1**	**1,621**	**5,429**
Other comprehensive income for the year	–	–	–	–	1	–	1
Profit for the year	–	–	–	–	–	276	276
Dividend paid for 2012	–	–	–	–	–	(363)	(363)
At 31 December 2013	**3,621**	**12**	**1**	**173**	**2**	**1,534**	**5,343**

The accounting policies and other notes on pages 54 to 151 form an integral part of these financial statements.

Unconsolidated statement of cash flow for the year ended 31 December 2013

HRK millions	Notes	Bank 2013	Bank 2012
Cash flows from operating activities			
Profit before tax		327	432
Adjustments for:			
– Amortisation and depreciation	30	87	99
– Foreign exchange differences	28	(115)	(48)
– Impairment losses	5,7,8,10,11,16,22,31	452	400
– Net losses on available for sale instruments		–	(21)
– Net interest income on trading and non-trading financial instruments	24,25	(1,116)	(1,192)
– Dividend income from investment in subsidiaries		(56)	(89)
Changes in operating assets and liabilities			
Net (decrease)/increase in financial assets at fair value through profit or loss		830	(11)
Net increase in placements with banks, with original maturity more than three months		(112)	(184)
Net decrease obligatory reserve with the Croatian National bank		459	308
Net decrease in loans and advances to customers		1,936	4,219
Net decrease in financial investment held to maturity		33	32
Net decrease/(increase) in other assets		10	(170)
Net decrease in financial liabilities at fair value through profit or loss		(264)	(5)
Net decrease in deposits from banks		(43)	(192)
Net decrease in deposits from companies and other similar entities		(467)	(949)
Net decrease in deposits from individuals		(973)	(281)
Net (decrease)/increase other liabilities		(179)	264
Net cash from operating activities before tax		**809**	**2,612**
Income tax paid		(80)	(96)
Net cash from operating activities		**729**	**2,516**

The accounting policies and other notes on pages 54 to 151 form an integral part of these financial statements.

Unconsolidated statement of cash flow for the year ended 31 December 2013 (continued)

HRK millions	Notes	Bank 2013	Bank 2012
Cash flows from investing activities			
Investment in subsidiaries		(90)	–
Net proceeds from sale of available-for-sale financial instruments		–	19
Dividend received		56	89
Proceeds from selling of property, plant and equipment and intangible asset		–	3
Purchase of property, plant and equipment and intangible assets		(69)	(78)
Net cash from investing activities		**(103)**	**33**
Cash flows from financing activities			
Increase of borrowings	21	2,275	1,443
Repayment of borrowings	21	(3,518)	(3,644)
Dividend paid		(363)	(551)
Net cash used in financing activities		**(1,606)**	**(2,752)**
Effects of foreign exchange differences on cash and cash equivalents		12	(13)
Net decrease in cash and cash equivalents		**(968)**	**(216)**
Cash and cash equivalents at beginning of the year	38	**3,524**	**3,740**
Cash and cash equivalents at end of the year	38	**2,556**	**3,524**

The accounting policies and other notes on pages 54 to 151 form an integral part of these financial statements.

Notes to the financial statements

1. General information

Raiffeisenbank Austria d.d. Zagreb ("the Bank" or "the Parent") is a joint stock company incorporated and domiciled in Croatia. The Bank is the parent of the Raiffeisenbank Austria Zagreb d.d. Group ("the Group"). These financial statements are the financial statements of the Bank and the Group as defined in International Accounting Standard 27: "Consolidated and Separate Financial Statements".

These financial statements were authorised by the Management Board on 26 March 2014 for issue to the Supervisory Board.

The principal accounting policies applied in the preparation of these financial statements are summarised below. Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards as adopted by the EU, reference may be made to certain Standards in describing the accounting policies of the Group; unless otherwise stated, these references are to Standards applicable at 31 December 2013.

Statement of compliance

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Republic of Croatia. The Bank's operations are subject to the Credit Institutions Act, in accordance with which the Bank's financial reporting is regulated by the Croatian National Bank ("CNB") which is the central monitoring institution of the banking system in Croatia. These financial statements have been prepared in accordance with these regulations.

The accounting regulations of the CNB are based on International Financial Reporting Standards as adopted by the EU. The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of International Financial Reporting Standards as adopted by the EU are as follows:

- The CNB requires banks to recognise impairment losses, in statement of comprehensive income, on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets carried at fair value). The Bank has made portfolio based provisions of HRK 361 million (2012: HRK 371 million) carried in the statement of financial position in compliance with these regulations, and has recognised income of HRK 8 million (2012: HRK 31 million).

- Although the Bank calculates impairment losses on corporate lending as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate, in accordance with International Financial Reporting Standards, the CNB requires the amortisation of the discount calculated to be presented in the statement of comprehensive income within the movement on impairment losses on loans and advances to customers and other assets, rather than as interest income, as required by International Financial Reporting Standards as adopted by the EU. Additionally the CNB prescribes minimum levels of impairment losses against certain specifically identified impaired exposures, which may be different from the impairment loss required to be recognised in accordance with IFRS as adopted by the EU.

- In accordance with CNB requirements the Group and the Bank have classified leasehold improvements in total amount of HRK 70 million (2012: HRK 80 million) as intangible assets.

1. General information (continued)

Basis of preparation

The financial statements are prepared on the fair value basis for derivative financial instruments, trading assets and liabilities, other financial assets and liabilities at fair value through profit or loss, and financial and non-financial assets available for sale, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortised or historical cost.

The financial statements are intended for general use and information; they are not intended for the purposes of any specific user or consideration of any specific transactions. Accordingly, users should not rely exclusively on these financial statements when making decisions.

Use of judgments and estimates

In preparing the financial statements, Management has made judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosure of commitments and contingencies at date of reporting, as well as amounts of income and expenses for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available at the date of the preparation of the financial statements, the results of which form the basis of making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods. Judgments made by management in the application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

The accounting policies have been consistently applied to all periods presented in these financial statements.

The Bank also expects that, in the ordinary course of updating its accounting regulations, the CNB will take into account the following Standards and Interpretations issued by the International Accounting Standards Board and its International Financial Reporting Interpretations Committee, which were in issue as of the date on which these financial statements have been authorised for issue, but which are applicable to entities reporting under IFRS in periods commencing after 31 December 2012, and which may have an impact on the Group.

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- IFRS 13 “Fair Value Measurement”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 “First-time Adoption of IFRS” – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 “First-time Adoption of IFRS” – Government Loans, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IAS 1 “Presentation of financial statements” – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

1. General information (continued)

Standards and Interpretations effective in the current period (continued)

- Amendments to IAS 19 "Employee Benefits" – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to various standards "Improvements to IFRSs (cycle 2009-2011)" resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 27 March 2013 (amendments are to be applied for annual periods beginning on or after 1 January 2013),
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The adoption of these amendments to the existing standards has not led to any changes in the Entity's accounting policies.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorization of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- IFRS 10 "Consolidated Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 11 "Joint Arrangements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 12 "Disclosures of Interests in Other Entities", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 27 (revised in 2011) "Separate Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements" – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 32 "Financial instruments: presentation" – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 "Impairment of assets" – Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

1. General information (continued)

Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use at date of authorization of these financial statements:

- IFRS 9 "Financial Instruments" (effective date was not yet determined),
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – Mandatory Effective Date and Transition Disclosures,
- FRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
- Amendments to various standards "Improvements to IFRSs (cycle 2010 – 2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- Amendments to various standards "Improvements to IFRSs (cycle 2011 – 2013)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- IFRIC 21 "Levies" (effective for annual periods beginning on or after 1 January 2014).

The Bank and the Group anticipate that the adoption of these standards, except IFRS 9, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Bank and the Group in the period of initial application.

The Management of the Bank anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the Bank's and Group`s estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement", would not significantly impact the financial statements, if applied as at the statement of financial position date.

Functional and presentation currency

These financial statements are presented in Croatian kuna (HRK), which is the functional currency. Amounts are rounded to the nearest million (unless otherwise stated).
The effective exchange rate as at 31 December 2013 was HRK 7.637643 to EUR 1 (2012: HRK 7.545624); HRK 5.549000 to USD 1 (2012: HRK 5.726794) and HRK 6.231758 to CHF 1 (2012: HRK 6.245343).

Changes in presentation or classification of the items in the financial statements

Where necessary, comparative information has been reclassified to achieve consistency with current financial year amounts and other disclosures.

1. General information (continued)

Basis of consolidation

a) Consolidated and separate financial statements

Financial statements are presented for the Bank and the Group. The Group financial statements comprise the consolidated financial statements of the Bank and its subsidiary entities (disclosed in Note 12). The separate, unconsolidated financial statements of the Bank are also presented. As set out in Note 12 “Investment in subsidiaries” the Parent has classified its 50% investment in Raiffeisen leasing d.o.o. as a subsidiary, whose financial statements are included in the consolidated financial statements of the Group, even though the Parent does not have a majority of the equity of the investee, in accordance with CNB regulations.

b) Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

c) Transactions with non-controlling interest

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to non-controlling interests result in gains and losses for the Group that are recorded in the statement of comprehensive income. Purchases from non-controlling interests may result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

d) Associates

Associates are all entities over which the Group has significant influence but not control. In the Group financial statements investments in associates are accounted for using the equity method. The Group’s investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group’s share of its associates post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of their post-acquisition movements in reserves is recognised in reserves. The cumulative postacquisition movements are adjusted against the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

e) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group’s interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2. Significant accounting policies

Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income as they accrue, for all interest bearing financial instruments including those measured at amortised cost, at fair value through profit or loss, available for sale, and the interest income component of finance lease receivables, using the effective interest rate method except for financial instruments at fair value through profit or loss, where interest is accrued at the coupon rate. Such income and expense is presented as interest and similar income or interest expense and similar charges in the statement of comprehensive income.

2. Significant accounting policies (continued)

Interest income and expense (continued)

Interest income and expense also include fee and commission income and expense in respect of loans provided to customers or borrowings from other banks, premium or discount amortisation, and other differences between the initial carrying amount of an interest bearing financial instrument and its value at maturity, recognised on an effective interest basis. Interest income and expense on all trading assets and liabilities are presented as interest income or expense.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group does not consider future credit losses. The calculation includes all fees and percentage points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fee and commission income and expense

Fee and commission income and expense arises on financial services provided by the Group and received by the Group, and mainly comprises fees related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and other services provided by and to the Group including asset management and custodial services. Fee and commission income and expense are recognised in the statement of comprehensive income when the related service is performed.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities where draw down is not probable are recognised over the term of the commitment. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part for itself, or has retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment fund management are recognised on an accruals basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

Dividend income

Dividend income from equity securities or, in the case of the Parent's separate financial statements, investments in subsidiaries, is recognised in the statement of comprehensive income when the rights to receive the dividend are established.

Gains less losses from dealing and investment financial instruments

Gains less losses from dealing securities include unrealized and realized gains and losses arising from derivative financial instruments, trading debt securities and other financial instruments designated at fair value through profit or loss. Gains less losses arising from investment securities comprise realized gains and losses from financial instruments available for sale.

Gains less losses arising from dealing in foreign currencies

Gains less losses from dealing in foreign currencies include unrealized and realized gains and losses arising from spot dealings in foreign currencies.

Foreign currencies

Transactions in foreign currencies are exchanged into HRK at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at date of reporting are translated into HRK at the foreign exchange rate ruling at that date. Foreign exchange differences arising from exchange are recognized in the statement of comprehensive income. Non-monetary assets and items that are measured in terms of historical cost in foreign currency are exchanged using the exchange rate at date of the transaction and are not retranslated at date of reporting.

2. Significant accounting policies (continued)

Foreign currencies (continued)

Changes in the fair value of financial assets denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. The exchange differences are recognized in the statement of comprehensive income as part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities presented within other operating income in the statement of comprehensive income. Exchange differences on non-monetary financial assets, such as equity instruments classified as available for sale, are included in the fair value reserve in equity.

Financial instruments: classification

The Group classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, available for sale, held to maturity or financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. The management determines the classification of financial instruments upon initial recognition.

a) Financial assets and financial liabilities at fair value through profit or loss

This category comprises: financial instruments held for trading (including derivatives), and those designated by management as at fair value through profit or loss at inception. The Group designates financial assets and liabilities at fair value through profit or loss when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

b) Loans and receivables

This category comprises non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money to a debtor with no intention of trading with the receivable and include loans to and receivables from banks, loans to and receivables from customers, and the obligatory reserve with the CNB.

c) Financial instruments held to maturity

This category comprises non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. These include purchased loans and receivables and some debt securities.

d) Financial assets available for sale

This category comprises non-derivative financial assets which are designated as available for sale or are not designated as loans and receivables, held-to-maturity investments, or financial assets at fair value through profit or loss. Financial assets designated as available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices. Available-for-sale financial assets include certain debt and equity securities.

e) Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not designated at fair value through profit or loss.

Financial instruments: recognition and derecognition

Purchases and sales of financial assets and financial liabilities at fair value through profit or loss, and financial assets held to maturity and available for sale, are recognised on the settlement date. Loans and receivables and financial liabilities at amortised cost are recognised when advanced to borrowers or received from lenders.

The Group derecognises financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights over financial assets. It occurs when the Group transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired.

2. Significant accounting policies (continued)

Financial instruments: recognition and derecognition (continued)

The Group derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Group will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

Realised gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

Financial instruments: initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Group measures financial instruments at fair value through profit or loss and available for sale at their fair value, without any deduction for selling costs. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost, less impairment if needed.

Loans and receivables and held-to-maturity investments and financial liabilities not designated at fair value through profit or loss are measured at amortised cost using the effective interest method.

Financial instruments: gains and losses

Gains or losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss are recognised in the statement of comprehensive income.

Gains or losses from a change in the fair value of available-for-sale monetary assets are recognised directly in a fair value reserve within equity and are disclosed in the statement of changes in equity. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on available-for-sale monetary assets are recognised in the statement of comprehensive income. Foreign exchange differences on equity instruments are part of the fair value of these instruments and are recognised in equity. Dividend income is recognised in the statement of comprehensive income. Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses on the instrument are transferred to the statement of comprehensive income.

Gains or losses arising from financial assets and financial liabilities carried at amortised cost are recognised as interest in the statement of comprehensive income over the period of amortisation. Gains or losses may also be recognised in the statement of comprehensive income when a financial instrument is derecognised or when its value is impaired.

Fair value measurement principles

The fair value of quoted financial instruments in an active market is based on their closing bid prices. If there is no active market for the financial instrument, or if, due to any other reason, the fair value cannot be reliably measured by the market price, the Group uses an internal evaluation model for fair value estimation as described in note 50. Such models include the use of prices achieved in recent transactions, reference to similar financial instruments, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate.

The fair value of non-exchange-traded derivatives is estimated at the amount that the Group would receive or pay to terminate the contract on date of reporting taking into account current market conditions and the current creditworthiness of the counterparties.

Impairment of financial assets

a) Impairment of assets identified as impaired

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The Group estimates and performs impairment of all financial assets, except financial assets at fair value through profit or loss.

2. Significant accounting policies (continued)

Impairment of financial assets (continued)

a) Impairment of assets identified as impaired (continued)

If any evidence of impairment exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

The recoverable amount of financial instruments measured at amortised cost is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Allowances for uncollectibility are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts (or lower amount if required by applicable CNB regulations). The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the impairment losses account are recognised in the statement of comprehensive income. When a loan is known to be uncollectable, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or impairment loss is reversed through the statement of comprehensive income.

b) Impairment of assets not identified as impaired

In addition to the above described impairment losses on assets identified as impaired, the Bank recognises impairment losses, in the statement of comprehensive income, on on- and off-balance-sheet credit risk exposures not identified as impaired at rate of 1% as the bank has no internal methodology (2012 from 0.85 – 1.20%), in accordance with the accounting regulations of the CNB.

Debt securities carried at fair value were excluded from the basis of such calculation at date of reporting.

Raiffeisen Leasing ("the Leasing") reviews its portfolios of non-current loans and receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Leasing makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables before the decrease can be identified with an individual loan or receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with parameters relevant to assets in the group. Receivables from finance lease and loans that are individually assessed for impairment and found not to be impaired are included in groups of similar financial assets that are assessed for impairment on portfolio basis.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce differences between loss estimates and actual loss experience.

Specific financial instruments

a) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks, placements with other banks with original maturities of three months or less and items in course of collection and are carried at amortised cost in the statement of financial position.

2. Significant accounting policies (continued)

Specific financial instruments (continued)

b) Derivative financial instruments

The Group uses derivative financial instruments to hedge economically its exposure to currency risk and interest rate risk arising from operating, financing and investing activities. In accordance with its investment policies, the Group holds or issues a limited number of derivative financial instruments for the purpose of trading. Hedge accounting has not been applied and consequently, all derivative agreements are classified as financial instruments at fair value through profit or loss.

Derivative financial instruments include foreign currency agreements, forward and forward rate agreements, futures, interest rate swaps, cross currency swaps, options and other financial derivatives. They are initially recognised at fair value which is the value of consideration paid to acquire the instrument less transaction costs. Subsequent to initial recognition, derivatives are measured at fair value. The fair value is determined based on the quoted market price or, if more appropriate, based on discounted cash flow calculations. All derivative instruments are presented as assets if their fair value is positive and as liabilities if their fair value is negative.

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. An embedded derivative is treated as a separate derivative and classified at fair value through the statement of comprehensive income, except where its recognition is not in conflict with the requirements of the CNB, when the economic characteristics and risks of the embedded derivatives are not closely related to the host contract and where the hybrid contract itself is not measured at fair value through profit or loss with the presentation of all unrealised gains and losses in the statement of comprehensive income unless there is a reliable fair value measure.

Changes in the fair value of derivatives are included in net trading income.

c) Treasury bills and debt securities

Treasury bills and debt securities that the Group holds for the purpose of short-term profit taking are classified as trading financial instruments, included as financial instruments at fair value through profit or loss at inception. Treasury bills that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets. Other treasury bills and debt securities are classified as available for sale.

d) Equity securities and investments in open ended investment funds

Equity securities and investments in open ended investment funds are classified as at fair value through profit or loss or available for sale.

e) Placements with banks

Placements with banks are classified as loans and receivables and are carried at amortised cost less impairment losses.

f) Loans and advances to customers

Loans and advances are presented net of impairment losses.
In accordance with CNB requirements, the amortisation of any discounts included within impairment losses is included in impairment losses.

g) Investments in subsidiaries

In the Bank's separate financial statements investments in subsidiaries are accounted for at cost less impairment losses. Other equity securities are classified as at fair value through profit and loss or available-for-sale financial assets and measured at fair value.

h) Borrowings

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis.

2. Significant accounting policies (continued)

Specific financial instruments (continued)

i) Repurchase and sale buy-back agreements

The Group enters into purchases/(sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to such commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans and advances to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the sale and repurchase consideration is recognised on an accrual basis over the period of the transaction and is included in interest income or expense.
The Group also enters into linked sale and buy-back transactions. In accordance with their substance, these are similarly accounted for as transactions under repurchase or resale agreements, as described above.

j) Bonds issued

Bonds issued by the Bank are classified as other liabilities and are initially recorded at the fair value of the consideration received, net of transaction costs. Subsequent to initial recognition bonds issued by the Bank are stated at amortised cost, net of the nominal value of any repurchased bonds. Any premium or discount on issue is debited or credited to interest expense on an effective interest rate basis.

Income tax

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at date of reporting, and any adjustments to tax payable in respect of previous years.

Deferred taxes are calculated by using the balance sheet liability method. Deferred income 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 income tax purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at date of reporting.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at date of reporting, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each statement of financial position date, the Group reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

Property, plant and equipment

Items of property, plant and equipment are stated at historical cost or deemed cost, less accumulated depreciation and, if any, impairment losses.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other expenditure on repairs and maintenance is expensed as incurred.

Leases in terms of which the Group as a lessor assumes substantially all the risks and rewards of ownership are classified as operating leases. Plant and equipment acquired in connection with such leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the leases, less accumulated depreciation and impairment losses. Assets under operating leases are depreciated on a straight line basis so as to write down the cost of the assets over the estimated lease period to their recoverable residual values.

2. Significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation is provided on a straight-line basis to allocate the costs of assets to their residual values over their estimated economic useful life. Land and assets under construction or developed are not depreciated. The estimated useful lives are as follows:

	2013	2012
Buildings	50 years	50 years
Equipment	4 years	4 years
Office furniture	4 years	4 years
Assets under operating leases	2 – 20 years	2 – 20 years

The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. The useful life of investment was changed during the 2012 from 30 to 50 years. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are included in the statement of comprehensive income.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Expenditure on development activities are capitalised if all of the features required by IAS 38 "Intangible assets" are satisfied. Depreciation is provided on a straight-line basis over the estimated useful lives of intangible assets. Costs associated with developing or maintaining intangible assets are recognised as an expense as incurred. In accordance with CNB regulations, intangible assets include leasehold improvements.

Intangible assets are depreciated on a linear basis over their estimated useful economic lives as follows:

	2013	2012
Leasehold improvements	1 – 20 years	1 – 20 years
Software	5 – 8 years	5 – 8 years

Non-current assets held for sale

Initially, non-current assets held for sale are recognised at the lower of carrying amount and fair value less costs to sell.

The Group discontinues to classify an asset as held for sale if its sale is no longer highly probable. The Group measures non-current assets that cease to be classified as held for sale at the lower of the asset's carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortisation or revaluations and its recoverable amount at the date of subsequent decision not to sell. Any gain or loss from disposal or reclassification of non-current assets held for sale is recognised in the statement of comprehensive income as incurred.

Non-current assets held for sale include foreclosed assets acquired in settlement of impaired collateralized receivables. Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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2. Significant accounting policies (continued)

Impairment of non-financial assets

The recoverable amount of property, plant and equipment and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). In assessing 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 or cash-generating unit. Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each date of reporting. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.
Impairment of non-financial assets is recognised in the statement of financial position.

Provisions for liabilities and charges

The Group recognises a provision when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the obligation.

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. The management 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.
Provisions are released only for such expenditure in respect of which provision are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

Leases – Group as lessor

a) Finance leases

Leases where the Group as lessor transfers substantially all the risks and rewards incidental to ownership to the lessee are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognised. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognised over the term of the lease using the effective interest rate method. Finance lease receivables are included in loans and advances to customers.

b) Operating leases

Leases where the Group as lessor retains substantially all the risks and rewards incidental to ownership are included in tangible and intangible assets at cost net of accumulated depreciation. Rental income under operating leases is recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

Employee benefits

a) Defined pension contributions

The Group pays contributions to mandatory pension plans on a mandatory, contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Since the Group records severance payments based on actuarial calculations, all gains and losses from increases and decreases in the present value of the defined benefit obligation, which arise from actuarial risks, are recorded through other comprehensive income.

b) Share based compensation

The Bank operates share-based compensation plan allowing the Bank's employees to purchase its preference shares, at the market price at the date of the purchase. As the shares are sold to the employees at a price equalling the fair value of the shares at the grant date, the fair value of the service equals zero and the Bank has not recognised any expense in respect of the share based payments.

2. Significant accounting policies (continued)

Employee benefits (continued)

c) Long-term service benefits

The Bank provides employees with one-off retirement awards. The obligation and costs of these benefits are determined by using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

d) Pension insurance

Pension insurance provisions have been computed by the Group's licensed actuary, in accordance with the method prescribed by the Law on Pension Insurance Companies and Payment of Pensions based on Individual Capitalised Savings.

Dividends

Dividends are recognised when declared by shareholders in General Assembly meeting.

Share capital

Share capital represents the nominal value of paid-in ordinary and non-redeemable noncumulative preference shares classified as equity, on which dividends are payable at the discretion of the ordinary shareholders, and are stated in HRK at nominal value.

Treasury shares

When the Bank repurchases ordinary or preference shares, the consideration paid is deducted from equity attributable to the Bank's equity holders until the shares are cancelled, reissued or disposed of. When such shares, which are classified as treasury shares, are subsequently sold or reissued, any consideration received, net of transaction costs, is included in equity attributable to the Bank's equity holders.

Retained earnings

Any profit for the year after appropriations is transferred to reserves, in accordance with General Assembly decisions.

Earnings per share

The Bank presents earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Off-balance-sheet commitments and contingent liabilities

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 loan commitments. Such financial commitments are recorded in the Group's statement of financial position if and when they become payable.

Managed funds for and on behalf of third parties

The Group manages assets on behalf of other companies and individuals for which a fee is charged. As these assets do not represent assets of the Group, they are excluded from the statement of financial position.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to set off the recognised amount and the transactions are intended to be settled on a net basis, or to release the assets and settle the liabilities simultaneously.

3. Significant accounting estimates and judgements

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. Significant judgements made in determining the most appropriate methodology for estimating the fair value of financial instruments carried at fair value, and other significant judgements affecting how items and transactions are accounted for, are also described below.

Impairment losses on loans and receivables

The Bank monitors the creditworthiness of its customers on an ongoing basis. In accordance with CNB regulations, the need for impairment of the Bank's on- and off-balance-sheet credit risk exposure is assessed at least quarterly. Impairment losses are made mainly against the carrying value of loans and advances to corporate and retail customers (summarised in Note 10), placements with and loans to other banks (Note 8) and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers, mainly in the form of guarantees and documentary letters of credits (summarised in Notes 22 and 41). Impairment losses are also considered for credit risk exposures to banks, and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

HRK millions	Notes	Group 2013	Group 2012	Bank 2013	Bank 2012
Summary of impairment losses for customers					
Impairment losses on balance sheet exposure	5,6,7,8,10,11,16	2,471	2,111	2,375	2,053
Provision for off-balance-sheet exposure	22	107	95	107	95
		2,578	**2,206**	**2,482**	**2,148**

Financial assets carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for assets that are individually significant (mainly corporate exposures) and collectively for assets that are not individually significant (mainly retail exposures). However, assets assessed individually as unimpaired are then included in groups of assets with similar credit risk characteristics. These portfolios are then assessed collectively for impairment.

The Group estimates impairment losses in cases where it judges that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets. Such evidence includes delinquency in payments or other indications of financial difficulty of borrowers; and adverse changes in the economic conditions in which borrowers operate or in the value or enforceability of security, where these changes can be correlated with defaults.

The Group takes into consideration the combined effect of several events when assessing impairment and uses its experienced judgement in cases where the observable data required to estimate impairment is limited. In estimating impairment losses on items individually or collectively assessed as impaired, the Group uses a flow rate model for retail loan portfolio developed by the Bank's parent bank in Austria, and also has regard to the ranges of impairment loss prescribed by the CNB based on the age of overdue amounts. In estimating impairment losses on items individually assessed as impaired for non-retail portfolio the Group uses discounted cash flow model.

3. Significant accounting estimates and judgements (continued)

At the year end, the gross value of specifically impaired loans and advances, and the rate of impairment loss recognised, was as follows:

	Corporate	Retail	2013 Total	Corporate	Retail	2012 Total
Group						
Gross value of exposure (in HRK millions)	2,665	1,180	3,845	3,207	1,031	4,238
Impairment rate (in %)	57	58	57	40	54	43
Bank						
Gross value of exposure (in HRK millions)	2,485	1,180	3,665	3,058	1,031	4,089
Impairment rate (in %)	57	58	58	40	54	43

Each additional increase of one percentage point in the impairment rate on the gross portfolio of specifically identified impaired loans at 31 December 2013 would lead to the recognition of an additional impairment loss of HRK 38.4 million (2012: HRK 41 million) at the Bank level and an additional impairment loss of HRK 36.6 million (2012: HRK 42.3 million) at the Group level.

The amount of impairment losses at 31 December 2013 estimated on a portfolio basis amounted to HRK 361 million (2012: HRK 371 million) of the relevant on-and off-balance-sheet exposure. The total of these portfolio based impairment losses amounted to 1.1% (2012: 1.05%) on balance sheet exposure and to 1% (2012: 0.97%) on off-balance-sheet exposure, in both cases net of amounts individually assessed as impaired.

Fair value of derivatives

The fair value of OTC derivatives are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

Fair value of treasury bills

The Bank determines the fair value of treasury bills issued by the Ministry of Finance of the Republic of Croatia, using an internal model which considers their remaining maturity and the latest available auction prices of equivalent instruments. As at 31 December 2013, the carrying amount of treasury bills classified as financial assets at fair value through profit or loss was HRK 1,147 million (2012: HRK 1,671 million).

Provisions for severance payments

In calculating provisions for severance payments, the Group discounts expected future cash flows in respect of the liabilities, using discount rates that, in opinion of the Bank's management, best represent the time value of money.

Provisions for court cases

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are maintained at the level that the Group's management considers sufficient for absorption of incurred losses. The management determines the sufficiency of provisions on the basis of insight into specific items, current legal circumstances, as well as other relevant factors.

3. Significant accounting estimates and judgements (continued)

Provisions for court cases (continued)

According to the CNB decision a credit institution shall allocate litigation to risk groups A (no risk of loss established or a cash flow outflow or less than 10% of the total estimated amount), B (a risk of loss established or a cash outflow between 10% and 70% of total amount estimated) or C (high risk of loss established or a cash outflow of more than 70% of the total amount estimated).In determining the current value of future cash flows, taking into account all factors that have influenced or will influence the time effect of the value of money, the Bank applies a discount rate in the amount of legal penalty interest, and in the amount of CNB discount rate applicable for the last day of the half year preceding the current half year increased by 8 basis points for court cases led against the Bank by corporate entities, and 5 basis points for all other court cases led against the Bank.

Provisions for court cases are booked in a credit institution`s books as the cost of provision for the period in which the provisions are recognized.

Pension insurance

The Group undertakes to provide pensions to savers in specially regulated obligatory and voluntary private pension funds in accordance with specific legal requirements. Once savers become pensionable, their savings in regulated pension funds are transferred to a regulated pension insurance company selected by the member. The pension insurance company thereby undertakes to provide pensions to the former members of compulsory pension funds during their lifetime in accordance with the funds transferred. Pension benefits to former members of voluntary pension funds will be paid over their lifetime or for a predetermined fixed period in accordance with contracted arrangements. Currently, Raiffeisen mirovinsko osiguravajuce društvo d.o.o. is the only such regulated pension insurance company in Croatia.

Technical reserves have been computed by the Group's licensed actuary, in accordance with methods prescribed by the Law on Pension Insurance Companies and Payment of Pensions based on Individual Capitalised Savings, and in accordance with formulae pre-approved by the Croatian Financial Services Supervisory Agency.

The actual liability is necessarily uncertain. The principal assumptions underlying the calculation of the technical reserves are the use of newer Republic of Croatia mortality tables from 2000 – 2002 and of technical interest rates at 2.5% – 4% per annum.

Taxation

The Group provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records.

4. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Limited segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Bank's management and internal reporting structure.

Business segments

The Group comprises the following main business segments:

Corporate Banking	Includes loans, deposits and other transactions and balances with corporate customers, and leasing activities at Group level;
Retail Banking	Includes loans, deposits and other transactions and balances with retail customers;
Treasury	Undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities;
Asset management	Includes management of investment and pension funds under Group management;
Shared services	Undertakes Group property management activities and centralised advertising and marketing services.

4. Segment reporting (continued)

Group 2013 HRK millions	Corporate	Retail	Treasury	Asset management	Shared services	Unallocated	Total
Net interest income	415	548	221	23	(4)	–	1,203
Net fee and commission income	144	96	18	93	(1)	–	350
Dealing and other income	299	29	41	148	14	–	531
Operating income	**858**	**673**	**280**	**264**	**9**	**–**	**2,084**
Operating expenses	(498)	(451)	(48)	(193)	(18)	–	(1,208)
Impairment losses on loans and advances to customers and other assets	(288)	(172)	(1)	–	–	–	(461)
Provisions for liabilities and charges	(33)	2	–	–	–	–	(31)
Operating expenses	**(819)**	**(621)**	**(49)**	**(193)**	**(18)**	**–**	**(1,700)**
Profit before tax	**39**	**52**	**231**	**71**	**(9)**	**–**	**384**
Income tax expense	–	–	–	–	–	(89)	(89)
Profit for the year	**39**	**52**	**231**	**71**	**(9)**	**(89)**	**295**
Segment assets	12,429	11,459	9,994	426	11	–	34,319
Unallocated assets	–	–	–	–	–	1,833	1,833
Total assets	**12,429**	**11,459**	**9,994**	**426**	**11**	**1,833**	**36,152**
Segment liabilities	10,433	14,236	5,483	311	160	–	30,623
Unallocated equity	–	–	–	–	–	5,529	5,529
Total equity and liabilities	**10,433**	**14,236**	**5,483**	**311**	**160**	**5,529**	**36,152**

4. Segment reporting (continued)

Group 2012 HRK millions	Corporate	Retail	Treasury	Asset management	Shared services	Unallocated	Total
Net interest income	414	608	184	21	–	–	1,227
Net fee and commission income	164	90	7	82	(1)	–	342
Dealing and other income	332	33	(24)	118	25	–	484
Operating income	**910**	**731**	**167**	**221**	**24**	**–**	**2,053**
Operating expenses	(492)	(469)	(57)	(158)	(46)	–	(1,222)
Impairment losses on loans and advances to customers and other assets	(329)	(96)	1	(2)	–	–	(426)
Provisions for liabilities and charges	9	8	2	–	–	–	19
Operating expenses	**(812)**	**(557)**	**(54)**	**(160)**	**(46)**	**–**	**(1,629)**
Profit before tax	**98**	**174**	**113**	**61**	**(22)**	**–**	**424**
Income tax expense	–	–	–	–	–	(85)	(85)
Profit for the year	**98**	**174**	**113**	**61**	**(22)**	**(85)**	**339**
Segment assets	12,071	11,646	12,350	379	41	–	36,487
Unallocated assets	–	–	–	–	–	1,981	1,981
Total assets	**12,071**	**11,646**	**12,350**	**379**	**41**	**1,981**	**38,468**
Segment liabilities	11,068	14,654	6,885	245	5	–	32,857
Unallocated equity	–	–	–	–	–	5,611	5,611
Total equity and liabilities	**11,068**	**14,654**	**6,885**	**245**	**5**	**5,611**	**38,468**

4. Segment reporting (continued)

Bank 2013 HRK millions	Corporate	Retail	Treasury	Unallocated	Total
Net interest income	347	548	221	–	1,116
Net fee and commission income	165	96	18	–	279
Dealing and other income	93	29	97	–	219
Operating income	**605**	**673**	**336**	**–**	**1,614**
Operating expenses	(336)	(451)	(48)	–	(835)
Impairment losses on loans and advances to customers and other assets	(248)	(172)	(1)	–	(421)
Provisions for liabilities and charges	(33)	2		–	(31)
Operating expenses	**(617)**	**(621)**	**(49)**	**–**	**(1,287)**
Profit before tax	**(12)**	**52**	**287**	**–**	**327**
Income tax expense	–	–	–	(51)	(51)
Profit for the year	**(12)**	**52**	**287**	**(51)**	**276**
Segment assets	10,847	11,459	9,994	–	32,300
Unallocated assets	–	–	–	705	705
Total assets	**10,847**	**11,459**	**9,994**	**705**	**33,005**
Segment liabilities	7,944	14,235	5,483	–	27,662
Unallocated equity	–	–		5,343	5,343
Total equity and liabilities	**7,944**	**14,235**	**5,483**	**5,343**	**33,005**

Bank 2012 HRK millions	Corporate	Retail	Treasury	Unallocated	Total
Net interest income	400	608	184	–	1,192
Net fee and commission income	180	90	7	–	277
Dealing and other income	115	33	68	–	216
Operating income	**695**	**731**	**259**	**–**	**1,685**
Operating expenses	(327)	(469)	(57)	–	(853)
Impairment losses on loans and advances to customers and other assets	(324)	(96)	1	–	(419)
Provisions for liabilities and charges	9	8	2	–	19
Operating expenses	**(642)**	**(557)**	**(54)**	**–**	**(1,253)**
Profit before tax	**53**	**174**	**205**	**–**	**432**
Income tax expense	–	–	–	(68)	(68)
Profit for the year	**53**	**174**	**205**	**(68)**	**364**
Segment assets	10,589	11,646	12,350	–	34,585
Unallocated assets	–	–	–	968	968
Total assets	**10,589**	**11,646**	**12,350**	**968**	**35,553**
Segment liabilities	8,585	14,654	6,885	–	30,124
Unallocated equity	–	–	–	5,429	5,429
Total equity and liabilities	**8,585**	**14,654**	**6,885**	**5,429**	**35,553**

5. Cash and amounts due from banks

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Cash in hand	621	658	621	658
Items in the course of collection	1	1	1	1
Gyro account with the Croatian National Bank	1,012	1,223	1,012	1,223
Current accounts with other banks				
– With parent bank	90	157	53	157
– With other Raiffeisen Bank International AG ("the RBI") Group banks	2	1	2	1
– With other banks	99	61	99	61
	1,825	**2,101**	**1,788**	**2,101**
Impairment losses	(13)	(15)	(13)	(15)
	1,812	**2,086**	**1,775**	**2,086**

a) Movement in impairment losses for cash and amounts due from banks

				Unidentified losses
At 1 January	**15**	**19**	**15**	**19**
Net charge through statement of profit or loss	(2)	(4)	(2)	(4)
At 31 December	**13**	**15**	**13**	**15**

6. Obligatory reserve with the Croatian National Bank

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Obligatory reserve in domestic currency	1,748	2,065	1,748	2,065
Obligatory reserve in foreign currency	308	446	308	446
	2,056	**2,511**	**2,056**	**2,511**
Impairment losses	(23)	(26)	(23)	(26)
	2,033	**2,485**	**2,033**	**2,485**

a) Movement in impairment losses for obligatory reserve with the Croatian National Bank

				Unidentified losses
At 1 January	26	29	26	29
Net charge through statement of profit or loss	(3)	(3)	(3)	(3)
At 31 December	23	26	23	26

The obligatory reserve represents amounts required to be deposited with the Croatian National Bank ("the CNB").

The HRK obligatory reserve requirement at 31 December 2013 represented 12% of the relevant HRK sources of funds – deposits, borrowings and other financial liabilities (2012: 13.5%). At least 70% (2012: 70%) of the total obligatory reserve requirement must be deposited on a special account with the CNB and the remainder may be held in cash and/or on gyro accounts. At year end the Bank held 70% (2012: 70%) of the total requirement in a special obligatory reserve deposit account with the CNB.

The foreign currency obligatory reserve requirement at 31 December 2013 represented 12% (2012: 13.5%) of both foreign currency personal and corporate deposits and foreign currency borrowings.

At 31 December 2013 60% (2012: 60%) of this foreign currency obligatory reserve was deposited with the CNB in accordance with requirements and the remainder was placed with foreign banks in accordance with CNB selection criteria. In accordance with requirements 75% (2012: 75%) of the total foreign currency obligatory reserve is included in the HRK obligatory reserve and is maintained in HRK in accordance with CNB regulations.

7. Financial assets at fair value through profit or loss

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Trading instruments				
Debt securities:				
– Domestic government bonds, listed	550	125	550	125
– Foreign government bonds, listed	275	229	275	229
– Treasury bills issued by the Ministry of Finance	667	688	667	688
– Treasury bills issued by the foreign government, quoted	267	–	267	–
– Bonds issued by banks, listed	856	830	856	830
	2,615	**1,872**	**2,615**	**1,872**
Equity instruments, listed	**9**	**20**	**9**	**20**
Positive fair value of OTC derivative instruments	55	66	62	66
Gain on unsettled OTC foreign exchange spot transactions	1	2	1	2
	56	**68**	**63**	**68**
Accrued interest	22	23	22	23
Total trading instruments	**2,702**	**1,983**	**2,709**	**1,983**
Financial assets designated at fair value through profit or loss				
Debt securities:				
– Domestic government bonds, listed	92	37	–	–
– Bonds issued by banks, listed	12	23	12	23
– Securities issued by companies, listed	334	325	333	324
– Treasury bills issued by the Ministry of Finance	461	964	461	964
– Treasury bills issued by the foreign government, quoted	–	830	–	830
	899	**2,179**	**806**	**2,141**
Investments in investment funds managed by related and third parties	4	–	–	–
Accrued interest	15	13	13	12
Total financial assets designated at fair value through profit or loss	**918**	**2,192**	**819**	**2,153**
Impairment losses	(10)	(7)	(10)	(7)
Total	**3,610**	**4,168**	**3,518**	**4,129**

The fair value of securities included in trading instruments pledged as collateral for repo transactions amounted at the year end to HRK 76 millions of trading instruments (2012: HRK 187 million), whereas there were no instruments pledged as collateral for repo transactions in financial assets designated at fair value through profit and loss (2012: HRK 108 million).

7. Financial assets at fair value through profit or loss (continued)

a) Movement in impairment losses

Identified losses

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
At 1 January	**7**	**–**	**7**	**–**
Net charge through statement of profit or loss	3	7	3	7
At 31 January	**10**	**7**	**10**	**7**

8. Placements with and loans to other banks

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Loans	353	668	353	668
Deposits	920	1,416	751	1,339
Deposits with the Croatian National Bank	370	–	370	–
Accrued interest	–	1	–	1
	1,643	**2,085**	**1,474**	**2,008**
Impairment losses	(21)	(25)	(21)	(25)
	1,622	**2,060**	**1,453**	**1,983**

Group deposits include a guarantee deposit of HRK 60 million (2012: HRK 56 million) placed by Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.d. with custodian bank in accordance with the Law on Mandatory and Voluntary Pension Funds. These deposits, which are in the form of rolling short term deposits, are not available for the Group's liquidity requirements and their use is restricted.

Deposits with the Croatian National Bank are related to the compulsory Croatian National Bank bills denominated in HRK with the mat urity on 12 December 2016 and the possibility of early redemption in case of the bank's credit growth.

a) Movement in impairment losses

Group and Bank			2013			2012
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	**4**	**21**	**25**	**4**	**18**	**22**
Net charge to income statement	–	(5)	(5)	–	3	3
Net foreign exchange gain	1	–	1	–	–	–
At 31 December	**5**	**16**	**21**	**4**	**21**	**25**

9. Financial assets available for sale

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Debt securities:				
– Domestic government bonds, listed on stock exchange	69	83	–	–
– Securities issued by companies, listed on stock exchange	8	9	–	–
Equity securities, not listed on stock exchange	6	4	6	4
Accrued interest	2	2	–	–
	85	**98**	**6**	**4**

10. Loans and advances to customers

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Loans to companies and similar entities				
– Denominated in domestic currency	3,682	4,055	3,703	4,049
– Denominated in or linked to foreign currency	10,261	9,960	9,112	9,053
Loans to individuals				
– Denominated in domestic currency	4,812	4,633	4,812	4,633
– Denominated in or linked to foreign currency	6,665	6,981	6,665	6,981
Finance lease receivables, denominated in or linked to foreign currency	695	816	–	–
– Accrued interest	195	179	176	167
– Less deferred income	(135)	(136)	(133)	(133)
	26,175	**26,488**	**24,335**	**24,750**
Impairment losses	(2,331)	(1,975)	(2,245)	(1,926)
	23,844	**24,513**	**22,090**	**22,824**

Loans and advances to customers include loans with one way currency clause which gives the Bank the option to revalue the loans at the current foreign exchange rate. This represents an embedded derivative, which is included in contracts in the amount of HRK 3 million (2012: HRK 8 million). These embedded derivatives are valued using the valuation model prescribed by the Croatian National Bank, rather than an option pricing model. In accordance with CNB rules these embedded derivatives are not separated.

10. Loans and advances to customers (continued)

a) Movement in impairment losses for loans and advances to customers (including finance lease receivables)

Group			2013			2012
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	1,762	213	1,975	1,362	245	1,607
Increase in impairment losses	497	9	506	476	(32)	444
Amounts recovered during the year	(49)	–	(49)	(48)	–	(48)
Net charge to income statement	448	9	457	428	(32)	396
Net foreign exchange gain	2	–	2	1	–	1
Write offs	(103)	–	(103)	(29)	–	(29)
At 31 December	2,109	222	2,331	1,762	213	1,975
Hereof Bank	2,025	220	2,245	1,716	210	1,926
Hereof Raiffeisen Leasing	79	2	81	40	3	43
Hereof other members of Group	5	–	5	6	–	6
	2,109	222	2,331	1,762	213	1,975

Bank			2013			2012
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	1,716	210	1,926	1,316	242	1,558
Increase in impairment losses	443	10	453	456	(32)	424
Amounts recovered during the year	(35)	–	(35)	(32)	–	(32)
Net charge to income statement	408	10	418	424	(32)	392
Net foreign exchange gain	2	–	2	1	–	1
Write offs	(101)	–	(101)	(25)	–	(25)
At 31 December	2,025	220	2,245	1,716	210	1,926

10. Loans and advances to customers (continued)

b) Finance lease receivables

The Group acts as a lessor under finance leases, mainly of plant and equipment. The leases typically run for a period of one to seven years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease based on market related interest rates. The receivables are secured by the underlying assets. Loans and advances to customers include the following finance lease receivables.

HRK millions	Group 2013	Group 2012
Gross investment in finance leases	770	920
– Accrued interest	1	3
– Less deferred income	(2)	(2)
Unearned finance income	(75)	(105)
Net investment in finance leases	**694**	**816**
Less impairment losses	(80)	(41)
Net investment in finance leases	**614**	**775**
Gross investment in finance leases, with remaining maturities		
Less than one year	384	410
More than one and less than five years	317	421
More than five years	69	89
	770	**920**

11. Financial investments held to maturity

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Debt securities				
– Government bonds, listed on stock exchange	780	773	611	604
– Corporate bonds, listed on stock exchange	8	8	–	–
– Accrued interest	16	16	13	13
	804	**797**	**624**	**617**
Impairment losses	(9)	(8)	(7)	(6)
	795	**789**	**617**	**611**

Financial investments held to maturity comprise bonds issued by Government of Republic Croatia in HRK and EUR, with interest rates from 4.13% to 10% and maturity from year 2014 to 2022.

a) Movement in impairment losses for financial investments held to maturity

Group			2013			2012
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	**2**	**6**	**8**	**–**	**6**	**6**
Net charge through statement of profit or loss	–	1	1	2	–	2
At 31 December	**2**	**7**	**9**	**2**	**6**	**8**

Bank	2013	2012
HRK millions	Unidentified losses	Unidentified losses
At 1 January	**6**	**6**
Net charge through statement of profit or loss	1	–
At 31 December	**7**	**6**

12. Investments in subsidiaries and associates

The Group and the Bank had the following investments in subsidiaries and associates, all incorporated in Croatia, as at 31 December 2013 and 31 December 2012:

	Nature of business	Ownership 2013 %	Ownership 2012 %	Investments 2013 HRK millions	Investments 2012 HRK millions
Investment in subsidiaries					
Direct holding					
Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.d.	Pension fund management	100	100	110	110
Raiffeisen mirovinsko društvo za upravljanje dobrovoljnim mirovinskim fondovima d.o.o.	Pension fund management	100	100	34	34
Raiffeisen Consulting d.o.o.	Financial and consulting services	100	100	105	15
Raiffeisen Leasing d.o.o.	Leasing	50	50	15	15
Raiffeisen mirovinsko osiguravajuće društvo d.o.o.	Pension insurance	100	100	14	14
Raiffeisen Invest d.o.o.	Investment fund management	100	100	8	8
Raiffeisen Factoring d.o.o.	Factoring	100	100	15	15
Indirect holding					
Raiffeisen Bonus d.o.o.	Insurance and re-insurance	75	75	–	–
Investment in associates					
Raiffeisen training centar d.o.o.	Training services to Group companies and their affiliates	20	20	–	–
				301	**211**

The Parent has classified its 50% investment in Raiffeisen Leasing d.o.o. as a subsidiary, whose financial statements are included in the consolidated financial statements of the Group, even though the Parent does not have a majority of the equity of the investee, in accordance with CNB regulations. The remaining 50% of Raiffeisen Leasing d.o.o. is held by affiliates of RBI, the Banks's ultimate parent company.

Raiffeisen training centar d.o.o is currently undergoing the process of liquidation.

During 2013 Raiffeisen Consulting d.o.o. acquired Kam Nekretnine d.o.o. after which Kam Nekretnine d.o.o. was merged to Raiffeisen Consulting d.o.o.

13. Property, plant and equipment

Group 2013 HRK millions	Land and buildings	Equipment	Office furniture	Assets under operating leases	Assets under construction	Total
Gross carrying amount						
1 January 2013	560	434	79	1,264	14	2,351
Additions	312	–	–	–	206	518
Disposals	–	(15)	(1)	(363)	–	(379)
Transfers	6	23	1	179	(209)	–
At 31 December 2013	**878**	**442**	**79**	**1,080**	**11**	**2,490**
Accumulated depreciation and impairment losses						
1 January 2013	146	354	75	317	–	892
Charge for the year	13	33	3	126	–	175
Charge for additions	51	–	–	–	–	51
Disposals	–	(15)	(1)	(166)	–	(182)
At 31 December 2013	**210**	**372**	**77**	**277**	**–**	**936**
Carrying amount						
At 1 January 2013	**414**	**80**	**4**	**947**	**14**	**1,459**
At 31 December 2013	**668**	**70**	**2**	**803**	**11**	**1,554**

There were no capitalized borrowing costs related to the acquistion of property, plant and equipment during the year (2012: nil).

A building with the carrying amount of approximately HRK 233 million (2012: nil) has been pledged to secure borrowings of the Group (see note 21). The building has been pledged as security for bank loans under a mortgage. The Group is not allowed to pledge this asset as security for other borrowings or to sell them to another entity.

13. Property, plant and equipment (continued)

Group 2012 HRK millions	Land and buildings	Equipment	Office furniture	Assets under operating leases	Assets under construction	Total
Gross carrying amount						
1 January 2012	535	456	82	1,393	3	2,469
Additions	–	–	–	–	180	180
Disposals	–	(51)	(4)	(243)	–	(298)
Transfers	25	29	1	114	(169)	–
At 31 December 2012	**560**	**434**	**79**	**1,264**	**14**	**2,351**
Accumulated depreciation and impairment losses						
1 January 2012	137	363	73	304	–	877
Charge for the year	9	40	6	139	–	194
Disposals	–	(49)	(4)	(126)	–	(179)
At 31 December 2012	**146**	**354**	**75**	**317**	**–**	**892**
Carrying amount						
At 1 January 2012	**398**	**93**	**9**	**1,089**	**3**	**1,592**
At 31 December 2012	**414**	**80**	**4**	**947**	**14**	**1,459**

Operating lease receivables, gross of unearned future income

The Group acts as a lessor under operating leases, mainly of plant and equipment. The leases typically run for a period of two to twenty years. The total gross investment in operating leases at 31 December 2013 is as follows:

HRK millions	Group 2013	Group 2012
Up to one year	152	186
More than one and less than five years	303	323
Over five years	348	438
	803	**947**

13. Property, plant and equipment (continued)

Operating lease receivables, unearned future income

HRK millions	Group 2013	Group 2012
Up to one year	153	172
More than one and less than five years	327	356
Over five years	130	211
	610	**739**
Less future income charges	(217)	(272)
	393	**467**

Bank 2013 HRK millions	Land and buildings	Equipment	Office furniture	Assets under construction	Total
Gross carrying amount					
1 January 2013	458	420	75	9	962
Additions	–	–	–	29	29
Disposals	–	(15)	(1)	–	(16)
Transfers	6	21	1	(28)	–
At 31 December 2013	**464**	**426**	**75**	**10**	**975**
Accumulated depreciation					
1 January 2013	90	345	70	–	505
Charge for the year	8	32	3	–	43
Disposals	–	(15)	(1)	–	(16)
At 31 December 2013	**98**	**362**	**72**	**–**	**532**
Carrying amount					
At 1 January 2013	**368**	**75**	**5**	**9**	**457**
At 31 December 2013	**366**	**64**	**3**	**10**	**443**

Assets under construction comprise buildings at cost of HRK 6 million (2012: HRK 6 million) and equipment and office furniture at cost of HRK 4 million (2012: HRK 3 million), which are being prepared for use by the Bank.

There were no capitalized borrowing costs related to the acquistion of property, plant and equipment during the year (2012: nil).

13. Property, plant and equipment (continued)

Bank 2012 HRK millions	Land and buildings	Equipment	Office furniture	Assets under construction	Total
Gross carrying amount					
1 January 2012	434	443	78	25	980
Additions	–	–	–	36	36
Disposals	–	(50)	(4)	–	(54)
Transfers	24	27	1	(52)	–
At 31 December 2012	458	420	75	9	962
Accumulated depreciation					
1 January 2012	82	355	69	–	506
Charge for the year	8	38	5	–	51
Disposals	–	(48)	(4)	–	(52)
At 31 December 2012	90	345	70	–	505
Carrying amount					
At 1 January 2012	352	88	9	25	474
At 31 December 2012	368	75	5	9	457

14. Intangible assets

Group 2013 HRK millions	Leasehold improvement	Software	Assets under construction	Total
Gross carrying amount				
1 January 2013	205	449	2	656
Additions	–	–	40	40
Disposals	(3)	–	–	(3)
Transfers	7	34	(41)	–
At 31 December 2013	**209**	**483**	**1**	**693**
Accumulated amortisation				
1 January 2013	125	333	–	458
Charge for the year	15	30	–	45
Disposals	(2)	–	–	(2)
At 31 December 2013	**138**	**363**	**–**	**501**
Carrying amount				
At 1 January 2013	**80**	**116**	**2**	**198**
At 31 December 2013	**71**	**120**	**1**	**192**

Assets under construction comprise software in the process of installation in the amount of HRK 1 million (2012: HRK 2 million).

There were no capitalized borrowing costs related to the acquistion of intangible assets during the year 2012.

14. Intangible assets (continued)

Group 2012 HRK millions	Leasehold improvement	Software	Assets under construction	Total
Gross carrying amount				
1 January 2012	202	412	1	615
Additions	–	–	43	43
Disposals	(2)	–	–	(2)
Transfers	5	37	(42)	–
At 31 December 2012	**205**	**449**	**2**	**656**
Accumulated amortisation				
1 January 2012	110	299	–	409
Charge for the year	16	34	–	50
Disposals	(1)	–	–	(1)
At 31 December 2012	**125**	**333**	**–**	**458**
Carrying amount				
At 1 January 2012	**92**	**113**	**1**	**206**
At 31 December 2012	**80**	**116**	**2**	**198**

Bank 2013 HRK millions	Leasehold improvement	Software	Assets under construction	Total
Gross carrying amount				
1 January 2013	195	438	2	635
Additions	–	–	41	41
Disposals	(3)	–	–	(3)
Transfers	7	34	(41)	–
At 31 December 2013	**199**	**472**	**2**	**673**
Accumulated amortisation				
1 January 2013	116	325	–	441
Charge for the year	15	29	–	44
Disposal	(2)	–	–	(2)
At 31 December 2013	**129**	**354**	**–**	**483**
Carrying amount				
At 1 January 2013	**79**	**113**	**2**	**194**
At 31 December 2013	**70**	**118**	**2**	**190**

Assets under construction comprise software in the process of installation in the amount of HRK 2 million (2012: HRK 2 million).

There were no capitalized borrowing costs related to the acquistion of intangible assets during the year 2013.

14. Intangible assets (continued)

Bank 2012 HRK millions	Leasehold improvement	Software	Assets under construction	Total
Gross carrying amount				
1 January 2012	191	402	1	594
Additions	–	–	42	42
Disposals	(1)	–	–	(1)
Transfers	5	36	(41)	–
At 31 December 2012	**195**	**438**	**2**	**635**
Accumulated amortisation				
1 January 2012	101	292	–	393
Charge for the year	15	33	–	48
At 31 December 2012	**116**	**325**	**–**	**441**
Carrying amount				
At 1 January 2012	**90**	**110**	**1**	**201**
At 31 December 2012	**79**	**113**	**2**	**194**

15. Deferred tax assets

Recognised deferred tax assets and liabilities

Movements in temporary differences and components of deferred tax assets and deferred tax liabilities are as follows:

Group	Assets		Liabilities		Net credit/(charge) through statement of profit or loss	
HRK millions	2013	2012	2013	2012	2013	2012
Property, plant and equipment	–	–	(3)	(4)	1	–
Deferred fee and commission expense	–	–	(2)	(4)	2	–
Benefits of tax losses recognised	7	–	–	–	7	–
Deferred fee and commission income	30	30	–	–	–	(4)
Unrealised losses on financial instruments with fair value through profit and loss	173	202	–	–	(29)	26
Other provisions	12	9	–	–	3	5
Deferred tax assets/(liabilities)	**222**	**241**	**(5)**	**(8)**	**(16)**	**27**
Set off	(5)	(8)	5	8	–	–
Net deferred tax assets	**217**	**233**	**–**	**–**	**–**	**–**

Bank	Assets		Liabilities		Net credit/(charge) through statement of profit or loss	
HRK millions	2013	2012	2013	2012	2013	2012
Deferred fee and commission expense	–	–	(1)	(3)	2	–
Deferred fee and commission income	28	26	–	–	2	(2)
Unrealised losses on financial instruments with fair value through profit and loss	173	202	–	–	(29)	26
Other provisions	9	6	–	–	3	4
Deferred tax assets/(liabilities)	**210**	**234**	**(1)**	**(3)**	**(22)**	**28**
Set off	(1)	(3)	1	3	–	–
Net deferred tax assets	**209**	**231**	**–**	**–**	**–**	**–**

16. Other assets

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Accrued fee and commission receivables	31	29	21	20
Deferred fee and commission expenses	15	24	14	24
Non-current asset held for sale	143	134	120	134
Prepayments	48	45	51	47
Receivables from credit and debit card business	32	40	32	40
Receivables in respect of operating leases	12	16	–	–
Current tax asset	32	10	52	4
Other receivables and other assets	139	138	136	117
	452	436	426	386
Impairment losses	(64)	(57)	(56)	(48)
– Hereof Raiffeisen Bank	(56)	(48)	(56)	(48)
– Hereof Raiffeisen Leasing	(8)	(9)	–	–
	388	379	370	338

Movement in impairment losses

Group			2013			2012
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	45	12	57	35	2	37
Net charge/(release) to statement of comprehensive income	11	(2)	9	14	10	24
Write offs	(2)	–	(2)	(4)	–	(4)
At 31 December	54	10	64	45	12	57

Bank			2013			2012
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	36	12	48	27	2	29
Net charge/(release) to statement of comprehensive income	11	(2)	9	14	10	24
Write offs	(1)	–	(1)	(5)	–	(5)
At 31 December	46	10	56	36	12	48

16. Other assets (continued)

Fair value hierarchy of non-current asset held for sale

			2013			2012
HRK millions	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Group Buildings	–	–	143	–	–	134
Bank Buildings	–	–	120	–	–	134

In the current year buildings in the amount of HRK 143 million (2012: HRK 134 million) are classified as held for sale. These buildings comprise of business offices, residential houses and apartments, all appraised by certified appraisors from Raiffeisen Consulting, based on which recording was performed.

17. Financial liabilities at fair value through profit or loss

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Trading instruments				
Negative fair value of OTC derivative instruments	645	832	646	833
Loss on unsettled OTC foreign exchange spot transactions	1	1	1	1
Accrued interest	5	12	5	12
	651	**845**	**652**	**846**

18. Deposits from banks

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Current accounts and demand deposits				
– From ultimate parent bank	3	–	3	–
– From RBI Group banks other than ultimate parent bank	37	19	37	19
– From other banks	108	189	108	189
Term deposits				
– From ultimate parent bank	–	96	–	96
– From other RBI Group banks	1	13	1	13
– From other banks	394	270	394	270
Accrued interest	–	1	–	1
	543	**588**	**543**	**588**

19. Deposits from companies and other similar entities

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Current accounts and demand deposits	6,244	5,692	6,480	5,790
Time deposits	1,396	2,518	1,402	2,458
Accrued interest	13	36	13	36
	7,653	**8,246**	**7,895**	**8,284**

20. Deposits from individuals

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Current accounts and demand deposits	2,601	2,325	2,601	2,325
Time deposits	11,285	12,107	11,285	12,107
Accrued interest	133	162	133	162
	14,019	**14,594**	**14,019**	**14,594**

21. Borrowings

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
From ultimate parent bank	4,218	2,772	1,939	2,138
From other banks	2,611	4,828	2,063	2,993
From companies and other financial institutions	73	74	73	74
Accrued interest	25	17	21	9
Less deferred income	(4)	(9)	(5)	(10)
	6,923	**7,682**	**4,091**	**5,204**

Movements of outstanding borrowings

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
At 1 January	7,682	9,581	5,204	7,219
New borrowings	4,868	3,235	2,391	1,650
Repayment of borrowings	(5,674)	(5,142)	(3,518)	(3,668)
Foreign exchange differences	47	8	14	3
At 31 December	**6,923**	**7,682**	**4,091**	**5,204**

In accordance with their terms, borrowings from other banks include borrowings from the Croatian Bank for Reconstruction and Development ("HBOR") used to fund loans to customers for eligible construction and development projects at preferential interest rates, and include a one-way foreign currency clause which gives HBOR the option to revalue the borrowing at the current foreign exchange rate. This represents an embedded derivative which is included in contracts in the amount HRK 3 million (2012: HRK 8 million) which the Bank has not separated and which has been valued using the valuation model prescribed by CNB, rather than an option pricing model. Borrowings from companies and other financial institutions relate to repurchase agreements.

22. Provisions for liabilities and charges

Group HRK millions	Total	Off balance sheet items Identified	Off balance sheet items Unidentified	Employee retirement provisions	Unused employee vacations	Provision for court cases
At 1 January 2013	141	18	77	2	5	39
Provision reversed during the year	(115)	(39)	(63)	–	(1)	(12)
Provision charged during the year	146	56	58	–	–	32
At 31 December 2013	172	35	72	2	4	59

Based on the first instance ruling of Commercial Court in Zagreb from 4 July 2013 in case of the CHF currency clause lending, which was in favor of the plaintiff, the Court has established that eight banks violated the collective interests and rights of consumers. The judge has ordered the banks to convert the principal of loans into HRK with an FX rate at the date of the contract and with a fixed interest rate within 60 days from the finality of the ruling. The Bank has appealed on the verdict on 12 July 2013. The Supreme trade court decision is currently awaited. As at 31 December 2013 the Bank has recorded provisions for the lawsuit in the amount of HRK 27 million, which is an estimate based on the actual facts, recorded according to the CNB requirement. The final outcome and timing of settlement is uncertain and can vary from the current estimate.

Group HRK millions	Total	Off balance sheet items Identified	Off balance sheet items Unidentified	Employee retirement provisions	Unused employee vacations	Provision for court cases
At 1 January 2012	160	32	83	2	8	35
Provision reversed during the year	(109)	(37)	(47)	(2)	(4)	(19)
Provision charged during the year	90	23	41	2	1	23
At 31 December 2012	141	18	77	2	5	39

Bank HRK millions	Total	Off balance sheet items Identified	Off balance sheet items Unidentified	Employee retirement provisions	Unused employee vacations	Provision for court cases
At 1 January 2013	128	18	77	2	3	28
Provision reversed during the year	(115)	(39)	(63)	–	(1)	(12)
Provision charged during the year	146	56	58	–	–	32
At 31 December 2013	159	35	72	2	2	48

Bank HRK millions	Total	Off balance sheet items Identified	Off balance sheet items Unidentified	Employee retirement provisions	Unused employee vacations	Provision for court cases
At 1 January 2012	147	32	83	2	7	23
Provision reversed during the year	(108)	(37)	(47)	(2)	(4)	(18)
Provision charged during the year	89	23	41	2	–	23
At 31 December 2012	128	18	77	2	3	28

23. Other liabilities

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Accrued fees	1	1	–	–
Liabilities for unsettled purchased debt securities	3	194	–	194
Deferred fee and commission income	21	16	11	6
Prepaid loans and advances collected from individuals	15	17	15	17
Technical reserves for pension insurance	280	220	–	–
Liabilities to employees	71	67	63	58
Liabilities to suppliers	71	68	68	59
Liabilities in respect of credit and debit card business	76	81	76	81
Other liabilities	124	97	70	65
	662	**761**	**303**	**480**

Technical reserves for pension insurance provisions have been computed by the Group's licensed actuary, in accordance with the method prescribed by the Law on Pension Insurance Companies and Payment of Pensions based on Individual Capitalised Savings.

The management believes that the current level of technical reserves is sufficient to meet all liabilities which may arise from the pension insurance contracts concluded by 31 December 2013.

24. Interest and similar income

a) Interest and similar income – analysis by product

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Financial assets at fair value through profit or loss	142	174	139	174
Derivative financial instruments	48	92	50	92
Financial assets available for sale	6	9	–	–
Placements with banks	10	19	8	16
Loans and advances to customers and similar entities	746	914	628	815
Loans and advances to individuals	860	895	857	891
Financial instruments held to maturity	44	43	33	32
	1,856	**2,146**	**1,715**	**2,020**

24. Interest and similar income (continued)

b) Interest and similar income – analysis by source

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Companies	664	796	547	693
Individuals	860	895	857	891
State and the public sector	274	362	255	343
Banks and other financial institutions	56	90	54	90
Other organisations	2	3	2	3
	1,856	2,146	1,715	2,020

25. Interest expense and similar charges

a) Interest expense and similar charges – analysis by product

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Derivative financial instruments	70	91	70	92
Deposits from banks	3	13	3	13
Deposits from companies and other similar entities	62	124	64	128
Deposits from individuals	345	412	345	412
Borrowings	173	279	117	183
	653	919	599	828

b) Interest expense and similar charges – analysis by recipient

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Companies	63	129	65	133
Individuals	345	412	345	412
State and public sector	1	1	1	1
Banks and other financial institutions	242	374	186	279
Other organizations	2	3	2	3
	653	919	599	828

26. Fee and commission income

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Domestic payment transactions	97	89	97	90
Investment management, custody and consultancy fees	143	124	26	19
Credit cards	140	125	140	125
Foreign payment transactions	63	61	63	61
Recharge of credit insurance costs (Note 27)	22	18	22	18
Guarantees and letter of credits	43	43	43	43
Loans and accounts administration fee	32	35	32	33
Other fees and commission income	39	35	52	49
	579	**530**	**475**	**438**

27. Fee and commission expense

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Credit card related charges	111	97	111	97
Domestic payment transactions	21	20	21	20
Rechargeable credit insurance costs (Note 26)	28	24	28	24
Other fees and commission expense	69	47	36	20
	229	**188**	**196**	**161**

Based on loan insurance contracts the Bank pays premium to insurance companies, which is recharged to customers.

28. Net trading income/(expense)

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Gains less losses from trading financial instruments				
Debt securities	(14)	39	(14)	39
Treasury bills	(5)	(9)	(5)	(9)
Equity securities	(2)	(5)	(2)	(5)
Derivative financial instruments	(3)	(64)	(8)	(64)
	(24)	**(39)**	**(29)**	**(39)**
Gains less losses from financial assets designated at fair value through profit or loss				
Realised gain/(loss) on disposal of:				
– Debt securities	4	17	3	17
– Treasury bills	(2)	(7)	(2)	(8)
Unrealised loss on:				
– Debt securities	(45)	(63)	(40)	(54)
– Treasury bills	(5)	(7)	(5)	(7)
	(48)	**(60)**	**(44)**	**(52)**
Gains less losses arising from dealing in foreign currencies	89	107	92	114
Gains less losses arising from revaluation of monetary assets and liabilities, other than dealing securities				
– Exchange loss on foreign currency assets and liabilities	(14)	(6)	19	(4)
– Exchange gain on valuation clause assets and liabilities	147	74	96	52
	222	**175**	**207**	**162**
	150	**76**	**134**	**71**

Net losses from derivative instruments include net trading losses from interest rate and currency swaps, futures, forwards and forward rate agreements.

29. Other operating income

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Rental income from operating leases	185	201	–	–
Gains less losses from financial instruments	–	21	–	21
Service contract revenue	7	30	–	–
Gross written premium on pension insurance contracts	148	115	–	–
Dividend income from investments in subsidiaries	–	–	56	89
Other income	41	41	29	35
	381	**408**	**85**	**145**

30. Operating expenses

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Personnel expenses	412	411	366	364
Depreciation	175	194	43	51
Amortisation	45	50	44	48
Increase in technical reserve for pension insurance	59	49	–	–
Loss on disposal of assets under operating lease	6	4	–	–
Service contract expenses	3	20	–	–
Deposit insurance	40	36	40	36
Administrative expenses	468	458	342	354
	1,208	**1,222**	**835**	**853**

Personnel expenses of the Group include HRK 66 million (2012: HRK 65 million) of defined pension contributions paid or payable into obligatory pension plans. Contributions are calculated as a percentage of employees' gross salaries. The Group had 2,274 employees at 31 December 2013 (2012: 2,354 employees).

Personnel expenses of the Bank include HRK 58 million (2012: HRK 57 million) of defined pension contributions paid or payable into obligatory pension plans. Contributions are calculated as a percentage of employee's gross salaries. The Bank had 2,086 employees at 31 December 2013 (2012: 2,156 employees).

31. Impairment losses on loans and advances to customers and other assets

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Cash and amounts due from banks	(2)	(4)	(2)	(4)
Obligatory reserve with the Croatian National Bank	(3)	(3)	(3)	(3)
Placements with and loans to other banks	(5)	3	(5)	3
Financial assets at fair value through PL	3	7	3	7
Loans and advances to customers	458	396	418	392
Financial investments held to maturity	1	2	1	–
Other assets	9	25	9	24
	461	**426**	**421**	**419**
Hereof:				
Identified losses	**465**	**451**	**423**	**444**
Unidentified losses	**(4)**	**(25)**	**(2)**	**(25)**

32. Income tax expense

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Recognised in statement of comprehensive income				
– Current tax expense	(73)	(112)	(29)	(96)
– Deferred tax benefit	(16)	27	(22)	28
Income tax expense	**(89)**	**(85)**	**(51)**	**(68)**
Reconciliation of income tax expense				
Profit before tax	**384**	**424**	**327**	**432**
Income tax at 20%	(77)	(85)	(65)	(86)
Adjustment of income tax from the previous year in current year	3	(2)	3	(2)
Non-deductible expenses	(19)	(2)	(2)	(2)
Tax incentives and tax exempt income	1	5	13	22
Effects of previously unrecognised deferred tax benefit from tax losses available for future periods	3	(1)	–	–
Income tax expense	**(89)**	**(85)**	**(51)**	**(68)**
Effective income tax rate	**23.21%**	**20.03%**	**19.88%**	**15.74%**

32. Income tax expense (continued)

Unrecognised deferred tax assets

As at 31 December 2013, the Bank has no unused gross tax losses (2012: nil), whereas the subsidiaries` gross tax losses are disclosed below. Such tax losses may only be used by the company that incurred the loss to reduce taxable profits of the following five years. The expiry dates for unused tax losses for 2013 were as follows:

Group HRK millions	Gross tax losses 2013	Tax benefit 2013	Gross tax losses 2012	Tax benefit 2012
31 December 2013	–	–	5	1
31 December 2014	6	1	2	1
31 December 2015	10	2	1	1
31 December 2016	12	2	4	1
31 December 2017	–	–	3	–
	28	5	15	4

33. Share capital

Group and Bank HRK millions	2013 Total of ordinary shares	2012 Total of ordinary shares
Share capital	3,621	3,621
Nominal value per share	HRK 1,000	HRK 1,000
Number of shares	3,621,432	3,621,432

The parent bank of the Group is Raiffeisen Bank International AG, a company founded in Austria. The shareholders at the year-end were as follows:

	2013 Ordinary Shares %	2012 Ordinary Shares %
Raiffeisen CEE Region Holding Gmbh	100	75
Raiffeisen Zagreb Beteiligungsgesellschaft mbh, Graz	–	25
	100	100

Based on agreement on transfer of shares Raiffeisen Zagreb Beteiligungsgesellschaft mbh, Graz, transferred 25% of the Bank's shares on Raiffeisen CEE Region Holding GmbH who became the sole shareholder of the Bank.

34. Other reserves

Share premium

The share premium represents the accumulated positive difference between the nominal value and amount received upon issue of share capital.

Legal reserve

The legal reserve represents accumulated transfers from retained earnings in accordance with the Croatian Companies Act, which requires a minimum of 5% of the Group's net profit to be transferred to a non-distributable statutory reserve until the reserve (including share premium) reaches 5% of the Group's registered share capital. The legal reserve may be used to cover prior period losses if the losses are not covered by current year profits or if other reserves are not available.

Fair value reserve

The fair value reserve includes unrealised gains and losses on changes in the fair value of financial assets available for sale, net of deferred tax.

35. Proposed dividends

Dividends payable are not accounted for until they have been ratified at the General Meeting of Shareholders. On 20th February 2014 the dividend in the amount of HRK 460 million (HRK 126.90 per ordinary share) was paid to our shareholders. The decision for payment was made on the General Assembly meeting held on 14th February 2014.

At a meeting to be held on 17 April 2014, a dividend of HRK 95.3 per ordinary share (2012: HRK 100.3 per ordinary share), totaling HRK 345 million (2012: HRK 363 million) is to be proposed.

During 2013 some of the Group`s companies declared payment of HRK 56 million of dividends from retained earnings (2012: HRK 89 million), which was approved by the CNB.

36. Non-controlling interest

HRK millions	Group 2013	Group 2012
At 1 January	80	77
Share of retained (loss)/profit for the year	(14)	3
Distribution of dividend	(4)	–
At 31 December	**62**	**80**

37. Earnings per share attributable to equity holders of the parent

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Net profit for the year attributable to equity holders of the parent net of proposed dividend on preference shares	309	336	276	364
Weighted average number of ordinary shares outstanding during the year	3,621,432	3,621,432	3,621,432	3,621,432
Earnings per share attributable to equity holders of the parent	**85**	**93**	**76**	**101**

38. Cash and cash equivalents

HRK millions	Notes	Group 2013	Group 2012	Bank 2013	Bank 2012
Cash in hand	5	621	658	621	658
Items in the course of collection	5	1	1	1	1
Gyro account with the Croatian National Bank	5	1,012	1,223	1,012	1,223
Current accounts with other banks	5	191	219	154	219
Placements with and loans to other banks with original maturity up to three months		897	1,473	789	1,453
Less impairment losses		(21)	(30)	(21)	(30)
		2,701	**3,544**	**2,556**	**3,524**

39. Concentration of assets and liabilities

The Group's and Bank's assets are significantly concentrated on amounts due from the Republic of Croatia, as follows:

HRK millions	Notes	Group 2013	Group 2012	Bank 2013	Bank 2012
Gyro account with the Croatian National Bank	5	1,012	1,223	1,012	1,223
Deposits with the Croatian National Bank	8	370	–	370	–
Obligatory reserve with the Croatian National Bank	6	2,056	2,511	2,056	2,511
Government bonds, direct exposure	7, 9, 11	1,540	1,039	1,183	745
Treasury bills issued by the Ministry of Finance	7	1,128	1,652	1,128	1,652
Loans and advances to customers		2,445	2,909	2,445	2,909
Impairment losses		(61)	(64)	(61)	(64)
Deposits from the Republic of Croatia		(89)	(71)	(89)	(71)
		8,401	**9,199**	**8,044**	**8,905**

In addition, the Bank had indirect exposure to the Croatian state in respect of loans and advances to public funds and off-balance-sheet exposures as follows:

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Loans to customers guaranteed by the State	1,981	2,354	1,981	2,354
Guarantees, letters of credit and undrawn lending facilities	95	5	95	5
	2,076	**2,359**	**2,076**	**2,359**

The total net direct and indirect on and off-balance-sheet exposure to Croatian state risk represents 24% of the total assets and off-balance-sheet exposure of the Group (2012: 25%) and 25% of the total assets and off-balance-sheet exposure of the Bank (2012: 26%).

40. Repurchase and resale agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. The financial instruments sold are not derecognised and the proceeds are accounted for as interest bearing borrowings. At the year-end assets sold under repurchase agreements were as follows:

Group and Bank HRK millions	Fair value of underlying assets	Carrying amount of corresponding liabilities	Repurchase date	Repurchase price
2013				
Securities at fair value through profit or loss	76	73	January 2014	74
Financial investments held to maturity	429	405	January 2014	405
2012				
Securities at fair value through profit or loss	108	104	January – March 2013	105
Financial investments held to maturity	522	490	January 2013	494

At the end of the year 2012 the Group and the Bank provided a security lending transaction with the parent bank in the amount of HRK 146 million where two counterparties exchanged agreed securities which will reverse at an agreed date in the future.

The Group also purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds to customers and are accounted for as loans and advances to customers; the underlying financial instruments are not recognised. At year end assets purchased subject to agreements to resell them were as follows:

Group and Bank HRK millions	Carrying amount of receivable	Fair value of assets held as collateral	Repurchase date	Repurchase price
Loans and advances to customers				
2013	130	149	January 2014	130
2012	164	140	January 2013	165

41. Commitments and contingent liabilities

The aggregate amounts of outstanding guarantees, letters of credit and undrawn loan commitments at 31 December 2013 were:

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Guarantees	3,418	4,037	3,495	4,075
Letters of credit	70	170	70	170
Undrawn loan commitments	3,890	4,060	3,723	3,984
	7,378	8,267	7,288	8,229

At 31 December 2013, the Group and the Bank recognised portfolio based provisions for off-balance-sheet risks arising from the issue of guarantees, letters of credits and undrawn lending commitments, in the amount of HRK 72 million (2012: HRK 77 million), which are included in provisions for liabilities and charges (see Note 22).

Group as a lessee

The Group leases certain business premises and other assets under operating lease arrangements. Lease payments are originally denominated in EUR. In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", such lease commitments should be accounted for as an embedded derivative. Since market rates for forward EUR currency agreements in excess of six months are currently not easily available in Croatia, the Group is not able to calculate the fair value of the embedded option. Accordingly, gains and losses will be recognised through statement of profit or loss upon payment of the lease installment.

42. Assets and liabilities managed on behalf of third parties

The Group provides trust and custody services to companies, banks, individuals, and investment and pension funds (all non-Group) whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets are not assets of the Group and are not recognised in the consolidated statement of financial position. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2013, the total assets under custody held by the Group on behalf of customers were HRK 5,194 million (2012: HRK 4,933 million).

In addition, at 31 December 2013, total assets of investment and pension funds under Group management amounted to HRK 19,587 million (2012: HRK 17,584 million).

During 2013 the Group made income in the amount of HRK 113 million (2012: HRK 101 million) of fees on trust activities provided to companies, banks and individuals, and management of investment and pension funds.

As at 31 December 2013 the Group and the Bank managed loans on behalf of third parties as follows:

HRK millions	2013	2012
Assets		
– Loans to companies	13	68
Total assets	**13**	**68**
Liabilities		
– Financial institutions	13	68
Total liabilities	**13**	**68**

43. Derivative instruments and dealings in foreign currencies

The Group and the Bank had the following derivative contracts accounted for as trading instruments open at year-end.

Group 2013 HRK millions	Up to 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total	Assets	Liabilities
	Notional amount, remaining life					Fair values	
– Forward foreing exchange contracts – OTC							
– CHF	45	29	–	–	74	6	1
– EUR	4,267	3,651	122	–	8,040	–	–
– USD	370	57	–	–	427	–	2
– Other fx	48	10	–	–	58	2	8
– HRK	1,663	2,287	8	–	3,958	22	35
– Forward rate agreement	–	4,054	993	–	5,047	2	1
– Cross currency swap – OTC	10	1,339	1,699	88	3,136	6	536
– Interest rate swap – OTC	56	1,605	1,433	445	3,539	16	61
– Options – purchased	33	–	–	–	33	1	–
– Options – sold	33	–	–	–	33	–	1
– Futures	15	–	–	–	15	–	–
	6,540	**13,032**	**4,255**	**533**	**24,360**	**55**	**645**
Unsettled foreign currency spot transactions – OTC	1,330	–	–	–	1,330	1	1

Group 2012 HRK millions	Up to 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total	Assets	Liabilities
	Notional amount, remaining life					Fair values	
– Forward foreign exchange contracts – OTC							
– CHF	11	44	39	–	94	1	1
– EUR	1,679	1,147	38	–	2,864	–	–
– USD	107	2	–	–	109	–	–
– Other fx	29	–	–	–	29	2	9
– HRK	894	352	–	–	1,246	16	9
– Cross currency swap – OTC	8	1,555	2,814	103	4,480	3	686
– Interest rate swap – OTC	62	722	3,646	531	4,961	44	127
	2,790	**3,822**	**6,537**	**634**	**13,783**	**66**	**832**
Unsettled foreign currency spot transactions – OTC	1,714	–	–	–	1,714	2	1

43. Derivative instruments and dealings in foreign currencies (continued)

At the Group and the Bank level unsettled foreign currency spot transactions are denominated in EUR in the amount of HRK 519 million (2012: HRK 1,054 million), in USD in the amount of HRK 144 million (2012: HRK 183 million) in other currencies in the amount of HRK 31 million (2012: HRK 73 million) and in HRK in the amount of HRK 636 million (2012: HRK 404 million).

Bank 2013	Notional amount, remaining life					Fair values	
HRK millions	Up to 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total	Assets	Liabilities
– Forward foreign exchange contracts – OTC							
– CHF	45	29	–	–	74	6	1
– EUR	4,423	3,651	122	–	8,196	–	–
– USD	370	57	–	–	427	–	2
– Other fx	48	10	–	–	58	2	8
– HRK	1,738	2,287	8	–	4,033	22	35
– Forward rate agreement	–	4,054	993	–	5,047	2	1
– Cross currency swap – OTC	10	1,339	1,699	88	3,136	6	536
– Interest rate swap – OTC	59	1,618	1,489	543	3,709	23	62
– Options – purchased	33	–	–	–	33	1	–
– Options – sold	33	–	–	–	33	–	1
– Futures	15	–	–	–	15	–	–
	6,774	**13,045**	**4,311**	**631**	**24,761**	**62**	**646**
Unsettled foreign currency spot transactions – OTC	1,330	–	–	–	1,330	1	1

43. Derivative instruments and dealings in foreign currencies (continued)

Bank 2012 HRK millions	Notional amount, remaining life Up to 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total	Fair values Assets	Liabilities
– Forward foreign exchange contracts – OTC							
– CHF	11	44	39	–	94	1	1
– EUR	1,679	1,147	38	–	2,864	–	–
– USD	107	2	–	–	109	–	–
– Other fx	29	–	–	–	29	2	9
– HRK	966	352	–	–	1,318	16	9
– Cross currency swap – OTC	8	1,555	2,814	103	4,480	3	686
– Interest rate swap – OTC	62	724	3,656	531	4,973	44	128
	2,862	**3,824**	**6,547**	**634**	**13,867**	**66**	**833**
Unsettled foreign currency spot transactions – OTC	1,714	–	–	–	1,714	2	1

43. Derivative instruments and dealings in foreign currencies (continued)

Interest rate related contracts

The Group has economically hedged its exposure to interest rate risk on borrowings and government bonds, entering into interest rate swaps, denominated in EUR under which the Group pays a fixed rate and receives a floating rate or pays a floating rate and receives a fixed rate. Other interest rate swaps are customer driven.

The following table indicates the swaps and their weighted average interest rates. Average floating rates are based on rates implied in the yield curve at 31 December. These may change significantly, affecting future cash flows.

Group HRK millions	2013	2012
Pay fixed swaps – notional amount	2,434	3,558
Pay variable swaps – notional amount	1,102	1,403
Average pay fixed rate	1.96%	2.03%
Average receive variable rate	0.21%	0.20%
Average pay variable rate	0.22%	0.19%
Average receive fixed rate	1.96%	2.11%

Bank HRK millions	2013	2012
Pay fixed swaps – notional amount	2,444	3,570
Pay variable swaps – notional amount	1,261	1,403
Average pay fixed rate	2.05%	2.11%
Average receive variable rate	0.22%	0.20%
Average pay variable rate	0.21%	0.19%
Average receive fixed rate	2.01%	2.11%

44. Related party transactions

Raiffeisenbank Austria d.d. and its subsidiaries are immediately owned by Raiffeisen Bank International AG ("the RBI"), a Company founded in Austria. The ultimate parent bank is RBI, incorporated in Austria, to whom and to whose affiliates (collectively "the RBI Group") the Group provides banking services. The Bank considers that it has an immediate related party relationship with its subsidiaries and associates ("the Group"), and the Group considers that it has an immediate related relationship with the RBI Group, the Supervisory and Management Board members and other executive management of the Bank and its subsidiaries (together "key management personnel"), close family members of key management personnel, and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members.

a) Key transactions with related parties

Assets and liabilities and off balance sheet exposures and income and expenses as at and for the year ended 31 December 2013 and 2012, arising from transactions with related parties were as follows:

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Statement of comprehensive income				
Interest, fee and commission income				
– Raiffeisen Leasing d.o.o.	–	–	24	24
– Raiffeisen Consulting d.o.o.	–	–	4	3
– Raiffeisen mirovinsko društvo za upravljanje dobrovoljnim mirovinskim fondovima d.o.o.	–	–	1	–
– Raiffeisen mirovinsko osiguravajuće društvo d.o.o.	–	–	1	1
– Raiffeisen Factoring d.o.o.	–	–	12	18
– Raiffeisen Invest d.o.o.	–	–	4	4
– RBI	25	62	25	62
– RBI Group	2	–	2	–
Total	**27**	**62**	**73**	**112**
Interest, fee and commission expense				
– Raiffeisen Leasing d.o.o.	–	–	(1)	(2)
– Raiffeisen Consulting d.o.o.	–	–	(1)	(3)
– Raiffeisen mirovinsko društvo za upravljanje dobrovoljnim mirovinskim fondovima d.o.o.	–	–	(1)	(1)
– Raiffeisen mirovinsko osiguravajuće društvo d.o.o.	–	–	(1)	(1)
– RBI	(172)	(214)	(140)	(177)
– RBI Group	(29)	(56)	(14)	(6)
Total	**(201)**	**(270)**	**(158)**	**(190)**
Dealing and other income				
– Raiffeisen Leasing d.o.o.	–	–	6	2
– Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.d.	–	–	36	56
– Raiffeisen Invest d.o.o.	–	–	1	7
– Raiffeisen Consulting d.o.o.	–	–	(5)	1
– Raiffeisen Factoring d.o.o.	–	–	22	32
– RBI	95	86	95	86
– RBI Group	–	5	–	5
Total	**95**	**91**	**155**	**189**

44. Related party transactions (continued)

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Operating expenses				
– Raiffeisen Leasing d.o.o.	–	–	(8)	(9)
– Raiffeisen Consulting d.o.o.	–	–	(12)	(18)
– Raiffeisen Factoring d.o.o.	–	–	(5)	(5)
– RBI	(38)	(44)	(38)	(44)
– RBI Group	(1)	(1)	(1)	(1)
Total	(39)	(45)	(64)	(77)
Assets Current accounts and placements with banks				
– RBI	53	223	53	223
– RBI Group	5	1	5	1
Total	58	224	58	224
Loans to customers				
– Raiffeisen Consulting d.o.o.	–	–	33	45
– Raiffeisen Leasing d.o.o.	–	–	387	398
– Raiffeisen Factoring d.o.o.	–	–	160	233
Total	–	–	580	676
Accrued income and other assets				
– Raiffeisen Leasing d.o.o.	–	–	8	8
– Raiffeisen Consulting d.o.o.	–	–	6	2
– Raiffeisen Invest d.o.o.	–	–	1	–
– Raiffeisen Factoring d.o.o.	–	–	2	2
– RBI	4	9	4	9
– RBI Group	–	1	–	1
Total	4	10	21	22

44. Related party transactions (continued)

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Liabilities				
Deposits				
– Raiffeisen Leasing d.o.o.	–	–	15	66
– Raiffeisen Consulting d.o.o.	–	–	1	–
– Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.d.	–	–	28	12
– Raiffeisen mirovinsko društvo za upravljanje dobrovoljnim mirovinskim fondovima d.o.o.	–	–	38	32
– Raiffeisen mirovinsko osiguravajuće društvo d.o.o.	–	–	38	33
– Raiffeisen Factoring d.o.o.	–	–	198	3
– Raiffeisen Invest d.o.o.	–	–	8	4
– RBI	2	96	2	96
– RBI Group	49	32	49	32
Total	**51**	**128**	**377**	**278**
Borrowings				
– RBI	4,239	2,773	1,958	2,141
– RBI Group	76	1,582	–	–
Total	**4,315**	**4,355**	**1,958**	**2,141**
Accruals and other liabilities				
– Raiffeisen Consulting d.o.o.	–	–	–	1
– RBI	13	26	13	19
– RBI Group	1	5	1	3
Total	**14**	**31**	**14**	**23**
Off balance sheet exposure				
Derivative instruments				
– Raiffeisen Leasing d.o.o.	–	–	85	84
– Raiffeisen Consulting d.o.o.	–	–	316	–
– RBI	10,426	8,998	10,426	8,998
– RBI Group	8	20	8	20
Total	**10,434**	**9,018**	**10,835**	**9,102**

44. Related party transactions (continued)

2013 HRK millions	Exposure	Liabilities	Income	Expense
Group **Key management personnel**				
Short-term benefits (bonuses, salaries and fees)	–	21	–	56
Loans and advances	50	–	2	–
Deposits	–	18	–	1
Total	**50**	**39**	**2**	**57**
Bank **Key management personnel**				
Short-term benefits (bonuses, salaries and fees)	–	17	–	29
Loans and advances	20	–	1	–
Deposits	–	9	–	–
Total	**20**	**26**	**1**	**29**

2012 HRK millions	Exposure	Liabilities	Income	Expense
Group **Key management personnel**				
Short-term benefits (bonuses, salaries and fees)	–	19	–	58
Loans and advances	50	–	2	–
Deposits	–	22	–	1
Total	**50**	**41**	**2**	**59**
Bank **Key management personnel**				
Short-term benefits (bonuses, salaries and fees)	–	15	–	31
Loans and advances	21	–	1	–
Deposits	–	9	–	–
Total	**21**	**24**	**1**	**31**

45. Risk management

This section provides details of the Group's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Group is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity price risk.

An integrated system of risk management is established at the Group level by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Group. The limits are set according to the amount of regulatory capital and apply to all types of risk. Methodologies and models for managing operational risk have been developed.

Credit risk

The Group is exposed to credit risk through its trading, lending, economic hedging and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The risk that counterparties to derivative or other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Group deals with counterparties of good credit standing, and when appropriate, obtains collateral.

The Group's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. In addition, the Group is exposed to off-balance-sheet credit risk through unutilized part of loans granted and guarantees issued – refer to Note 41.

Exposure to credit risk is managed in accordance with the Group's policies. Credit exposures to portfolios and individual risk groups are reviewed on a regular basis. Breaches of set limits are reported to appropriate authority level. Any substantial increases in credit exposure are authorized by the Credit Committee. The Credit Committee and Problem Loan Committee monitor changes in the creditworthiness of borrowers.

In case the analysis of borrower's creditworthiness proves to be inadequate a workout officer calculates and recommends creation of individual loan loss provisions. Problem loan committee decides upon individual loan loss provisions. Credit risk assessment is an ongoing process designed to facilitate the early identification of impairment of credit exposures.

The Group applies a prudent approach to credit risk assessment. When credit exposure is through EWS system classified as „Work-out" („WO") the first time the case has to be transferred to the Collections and Workout Division and it is reported to the Problem Loan Committee. However, in case default is recognised prior to regular transfer through EWS system the client has to be evidenced in Default Data Base (DDB) and immediately transferred to Workout Department.

The Bank uses an early warning system for identifying potentially doubtful accounts among its non-retail customers. This is a kind of support to timely identify any changes in the risk level of a particular customer. Monitoring is performed on a monthly basis. Once an early warning is provided, it is acted upon by analyzing its value and root cause. Depending on the risk level rating of a customer (1 – 4), the customer remains within the Corporate Division (1 – regular customer and 2 – pre-workout customer) or is transferred to the Loan Workout Division (3 – Early workout stage or 4 – Late workout stage or legal action).

Early Warning System is also used for Micro segment. The EWS output is mainly based on an evaluation of the customer's behavior and the monitoring is performed on a monthly basis. Customers are classified according to their risk profile (low, medium, high) and appropriate actions are taken as per their category.

The Credit Committee has the authority to approve new limit to the clients of risk status 1 and 2. The decision of the Credit Committee can be reversed only by the Supervisory Board. The Problem Loan Committee has the authority for credit reviews of the clients with risk status 3 and 4, and is in charge of determination of individual loan loss provisions.

45. Risk management (continued)

Credit risk (continued)

The Group's credit policies contain retail and corporate customer lending guidelines. The credit policies define the criteria for providing funds to e.g. target industries, structuring portfolios in line with customer ratings, by type of collateral, and similar. The Group has internal policies in place that regulate acceptable types of collateral and their valuation. Most frequently provided security instruments comprise real estate, cash deposits, movable property, inventories, listed securities and other assets.

Concentration of risk and maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

HRK millions	Notes	2013 Group	2012 Group	2013 Bank	2012 Bank
Cash and current accounts with banks	5	1,203	1,442	1,166	1,442
Obligatory reserve with the Croatian National Bank	6	2,056	2,511	2,056	2,511
Placements with, and loans and advances to banks	8	1,643	2,085	1,474	2,008
Loans and advances to customers	10				
– Corporate		14,760	14,932	12,920	13,194
– Retail (individuals)		11,415	11,556	11,415	11,556
Financial assets available for sale	9	85	98	6	4
Financial investments held to maturity	11	802	795	624	617
Income tax receivables	16	32	10	52	4
Other assets	16	177	144	113	251
		32,173	33,573	29,826	31,587

The table below shows the maximum exposure to credit risk for the components of the off balance:

HRK millions	Notes	2013 Group	2012 Group	2013 Bank	2012 Bank
Guarantees	41	3,418	4,037	3,495	4,075
Credit and other liabilities	41	3,960	4,230	3,793	4,154
		7,378	8,267	7,288	8,229

45. Risk management (continued)

Concentration of risk and maximum exposure to credit risk (continued)

Concentration of credit risk by geographic region and industry

The Group and Bank have a diversified portfolio within Croatia covering all sectors of the economy. The majority of commercial lending is to companies and individuals domiciled in Croatia. The Group and Bank have the following gross credit risk concentration by geographic region and industry in respect of the commercial loan portfolio (including finance leases):

HRK millions	Assets	2013 Group Off-balance sheet items	Assets	2012 Group Off-balance sheet items	Assets	2013 Bank Off-balance sheet items	Assets	2012 Bank Off-balance sheet items
Geographic region:								
Croatia	30,956	7,325	31,944	8,167	28,609	7,235	29,958	8,129
Rest of EU	1,005	49	1,497	96	1,005	49	1,497	96
Non EU	129	–	55	–	129	–	55	–
Other	83	4	77	4	83	4	77	4
Total	32,173	7,378	33,573	8,267	29,826	7,288	31,587	8,229

Concentration of credit risk by industry:

	Group 2013 %	Group 2012 %	Bank 2013 %	Bank 2012 %
Individuals	31	30	33	31
Financial services	13	15	15	17
Trade	13	13	11	11
Central and local government	6	6	6	6
Construction	10	10	10	10
Food and drink industry	6	4	5	4
Non-metal industry	5	6	5	6
Electronics	3	3	3	3
Wood and paper industry	1	1	1	1
Craft and services	9	9	9	8
Other business activities	3	3	2	3
Total loans and advances to customers	100	100	100	100

45. Risk management (continued)

Credit risk (continued)

Concentration of risk and maximum exposure to credit risk (continued)

Concentration of assets related to risk groups

Group's rating HRK millions	2013 Group Gross exposure to customers	2013 Group Impairment allowance	2012 Group Gross exposure to customers	2012 Group Impairment allowance	2013 Bank Gross exposure to customers	2013 Bank Impairment allowance	2012 Bank Gross exposure to customers	2012 Bank Impairment allowance
A	35,705	363	37,600	371	33,449	361	35,727	367
B1	1,032	171	1,943	172	999	167	1,843	164
B2	1,319	678	1,275	711	1,221	645	1,267	707
B3	827	688	448	371	823	677	443	367
C	668	668	574	574	622	622	536	536
Total	**39,551**	**2,568**	**41,840**	**2,199**	**37,114**	**2,472**	**39,816**	**2,141**

Ageing of past due but not impaired

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Up to 30 days	10,144	9,360	8,372	7,605
Up to 31 – 90 days	560	592	542	586
Up to 91 – 180 days	157	246	156	245
Up to 181 – 365 days	115	122	115	122
Over 365 days	105	133	113	141
	11,081	**10,453**	**9,298**	**8,699**

Liquidity risk

One of the important roles banks play in financial markets is maturity transformation. The need for the maturity transformation comes from the fact that the banks depositors' require quick and short term access to their deposited funds while on the other hand other group of bank clients requires funding via long term loans. This situation gives rise to the persistent discrepancies between inflows and outflows of the bank in various time bands (liquidity gaps). In order to manage these discrepancies or gaps, the bank engages in various transactions with other members of the financial market. Hence, liquidity gaps result in liquidity risk which manifests itself in the form of the risk that the bank won't be able to finance (refinance) its positions under acceptable terms and in the form of the risk that the bank won't be able to efficiently liquidate its assets.

The Group continually assesses liquidity risk by identifying and monitoring changes in the level of mismatch between inflows and outflows and changes in the availability of funds needed for achieving defined business and strategic goals. In addition to this, the Group maintains a portfolio of liquid assets which can, if needed, be used as a source of fresh funds.

Special attention is devoted to defining the Group's financial plans that include a wide variety of financing for mitigation funding liquidity risks. Funds are raised using a broad range of instruments including deposits, borrowings, and share capital. Different funding sources are mutually coordinated and optimized.

The Group aligns its business activities in line with the local regulation concerning liquidity risk and in line with the internal or the RBI Group acts concerning the management of liquidity reserve. The management of liquidity risk is formalized in the liquidity risk management plan on an annual basis. This document forms a strategic plan for managing liquidity risk. The liquidity risk is managed through alignment of assets and liabilities, though setup of market, credit and liquidity gaps limits and through achieving appropriate levels of liquidity indicators. To further control and limit the liquidity risk, target loan/deposits ratios are reviewed for certain members of the Group, taking into account the requirements of Basel III.

45. Risk management (continued)

Liquidity risk (continued)

The management of liquidity risk is distributed on Asset and Liability Management Unit and Money Market Unit of the Treasury and Investment Banking Division. The required level of short term liquidity is planned over the horizon on 6 months in the future and managed on a daily basis. The Money Market Unit manages the liquidity reserve on a daily basis, taking into account the needs of all of the Bank's clients.

One of the liquidity indicators is the deposits (retail/corporate) to total assets ratio. The annual indicators, based on management accounting information, are set out below.

		2013		2012
	Retail (%)	Corporate (%)	Retail (%)	Corporate (%)
31 December	47.32%	18.08%	45.16%	18.63%
Average	46.19%	17.79%	42.28%	17.57%
Minimum	44.13%	16.20%	35.49%	15.03%
Maximum	48.12%	19.47%	45.16%	20.07%

Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and others will affect the Group's income or the value of its holdings of financial instruments. Market risk estimates are based on changes in exchange rates, interest rates, credit spreads, equity and commodity prices, and other market parameters. The Objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Market risk management of the Group and the Bank is conducted in accordance with legislative requirements and directives of domestic and foreign regulators, which is defined in internal policies and procedures which are regularly revised by risk division.

Group, within RBI Group, uses a comprehensive risk management approach for both the trading book and banking book (total-return approach). Market risks are managed consistently in the trading and banking book. The following values are measured and limited on a daily basis in the market risk management system:

- Value at Risk (confidence level 99%, 1 day)

Value at risk (VaR) is most important instrument to in measuring market risks in normal situation. It represents maximum expected loss that is acceptable for the bank at a certain point of time. The VaR risk measure is a statistically defined estimate of the worst potential loss of a current portfolio, for a specified confidence level, over a given period during which positions can be closed. Group is using a combination of a hybrid Monte Carlo and historical methods for VaR calculation. This methodology has been developed internally in the RBI Group to monitor the interest rate risk, foreign exchange risk, price risk, and the credit spread risk on the basis of a one-day holding period and a confidence level of 99%. This confidence level is used for internal monitoring.

The quality of the VaR model is continuously monitored by backtesting.

- Positions and sensitivities limits (to changes in exchange rates, interest rates, ect).

Sensitivity limits are used to avoid clustering in normal market situations and are the main management instruments in stress situations or in markets that are illiquid or structurally difficult to measure.

- Stop loss limits.

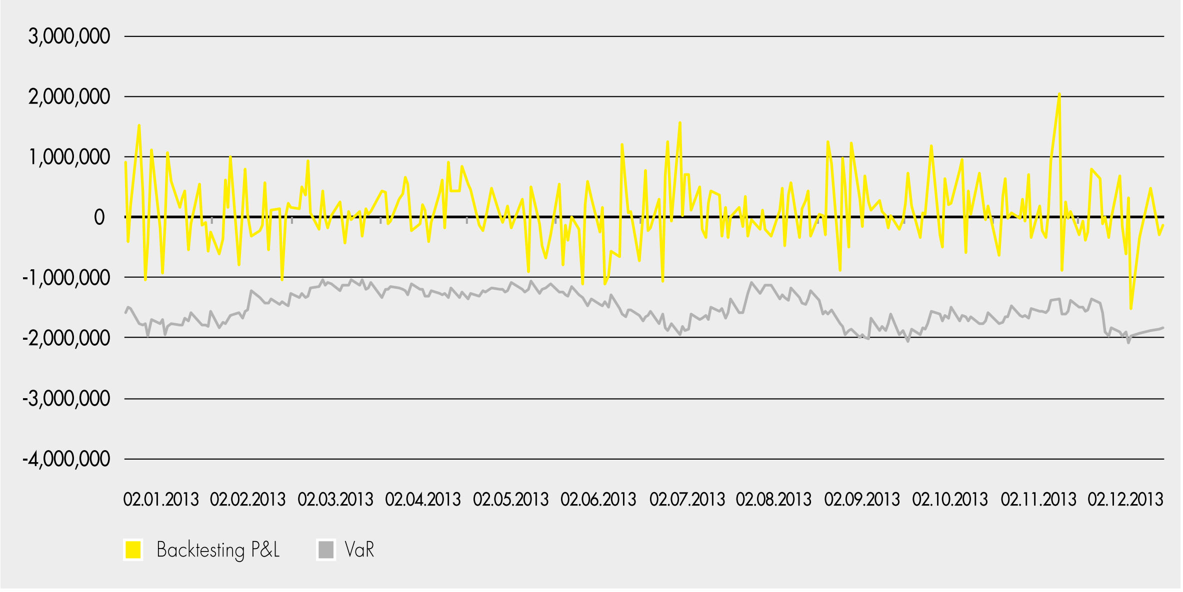
45. Risk management (continued)

Market risk (continued)

This limit supports traders' discipline in measuring proprietary trading positions and severely limiting losses rather than allowing them to accumulate.

Value at risk number provides the maximum losses that will not be exceeded at a certain confidence level under normal market conditions, but does not provide additional information on potential effects in the case of extreme market movements. So, in order to take these events into account as well, Group carries out daily stress tests with an emphasis on market movements over the past five years. In this way the Bank simulates possible crisis situations and their impact on the current positions. The stress tests consequently deliver important results for the management of risks, for all risk categories monitored and for various risk factors. Stress tests concept complements this multi-level limit system.

HRK millions	December 2012	December 2013	Average	Min	Max
Interest rate risk					
– Trading book	0,5	3,7	1,5	0,3	4,1
– Banking book	11,5	12,3	10,0	5,0	15,1
Currency risk	1,1	0,5	0,7	0,1	2,1
Credit Spread Risk	4,9	3,1	5,0	2,8	7,8
Price risk	1,1	0,4	0,8	0,4	1,1
Total VaR	**11,6**	**14,0**	**11,6**	**7,8**	**15,9**



The efficiency of VaR model is periodically tested with backtesting procedures. Backtesting methods comprise comparison of 1-day VaR figures with appropriate (hypothetical) statement of comprehensive income figures as seen on the next working day (i.e. over the horizon for which the VaR figure was calculated). Backtesting breach is recorded on date on which (hypothetical) statement of comprehensive income is negative and its absolute value is higher than the VaR calculated for that date (i.e. when the hypothetical loss is greater than the VaR). The high number of backtesting breaches detected during a certain period, in an amount that is higher than the one expected considering the confidence level chosen during the calculation of VaR figures, can indicate that there are certain deficiencies in the VaR model. As the figure shows, during 2013 no backtesting breaches were recorded.

Interest rate risk

Interest rate risk is reflected as negative impact of interest rates on the present value of future cash flows, and hence the net interest income and other cash flows are sensitive to interest rate changes.

45. Risk management (continued)

Interest rate risk (continued)

The primary sources of interest rate risk are as follows:
- reprising risk is a result of a timing differences in the maturity (for fix-rate) and repricing mismatch(for floating-rate) of assets and liabilities as well as off-balance-sheet positions;
- yield curve risk arises when unanticipated shifts of the yield curve have adverse effect on a bank's income or underlying economic value;
- basis risk arises from imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics;
- optionality.

Risk management activities are aimed at optimizing net interest income, given market interest rate levels, consistent with the Group's business strategies. To achieve its risk management objectives, the Group also uses interest rate derivatives.

Interest rate risk in Trading book

The following two tables show the largest present value changes for the trading book (BPV per currencies (material) for 2013 and 2012:

BPV/Currency	EUR	USD	HRK
31 December 2013	(10,442.1)	–	(16,638.7)
Average	(12,209.3)	(720.9)	(5,161.9)
Minimum	(28,244.9)	(6,178.9)	(16,638.7)
Maximum	(856.9)	2,882.8	1,509.2

BPV/Currency	EUR	USD	HRK
31 December 2012	4,337.0	(2,360.1)	(934.8)
Average	(7,348.6)	(1,437.8)	(4,570.3)
Minimum	(32,812.2)	(6,646.8)	(14,084.7)
Maximum	8,445.0	5,809.9	(882.2)

Interest rate risk in banking book

Asset-liability risk management activities are conducted in the context of the Group's sensitivity to interest rate changes. Decisions are based on various interest income analyses and simulations that ensure proper interest rate sensitivity in line with expected changes in market rates and overall risk appetite.

The following two tables show the largest present value changes for the trading book (BPV per currencies (material)) for 2013 and 2012:

BPV/Currency	HRK	EUR	USD	CHF
31 December 2013	(81,461.0)	(42,562.9)	(3,116.9)	(53,422)
Average	(67,582.3)	(37,491.8)	(819.2)	(3,897.2)
Minimum	(94,522.6)	(74,298.4)	(4,452.8)	(53,422.34)
Maximum	(47,539.8)	(11,480.1)	4,474.3	6,030.1

BPV/Currency	HRK	EUR	USD	CHF
31 December 2012	(56,401.4)	(41,900.2)	1,746.1	(14,566.2)
Average	(39,483.3)	(21,578.4)	2,567.5	(2,520.1)
Minimum	(61,841.4)	(97,032.1)	(1,908.1)	(15,593.4)
Maximum	(8,111.9)	133,152.9	7,242.5	4,370.8

45. Risk management (continued)

Interest rate risk in banking book (continued)

Interest rate risk in the banking book is not only measured in a value-at-risk framework but also managed by the traditional tools of nominal and interest rate gap analyses. For the purpose of managing and monitoring of interest rate risk exposures via analyses of the effect on the market value of own funds, the Bank applies an externally defined Basel II methodology, which implies measuring the effects of a standard stress test of a 200bp parallel shift in the referent yield curve.

	31 December 2013	31 December 2012
CHF	77,870	13,458
EUR	33,277	87,929
HRK	82,006	37,067
Other	(10,805)	(17,668)
Total	182,348	120,787
%	3.9%	2.5%

Equity price risk

Equity price risk is the possibility that equity prices will fluctuate, affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment. The primary exposure to equity prices arises from equity securities measured at fair value through profit and loss.

Equity Delta is the indicator of the Bank's exposure to equity price risk arising from positions in equity securities and equity derivatives held for trading. The Bank has established equity delta and VaR limits per position in a single instrument and a total equity delta limit.

The Group's and the Bank's portfolio of equity investments comprises equities issued by domestic entities. The total value of the maximum exposure toward equities is determined by the risk management group of the Bank's ultimate parent bank. For the monitoring of its equity portfolio the Bank analyses the equity portfolio's sensitivity through Equity delta limits and VaR limits.

Exchange rate risks

The Group is exposed to currency risk/exchange rate risk which denotes the risk that one suffers losses due to open foreign exchange position.

Foreign currency exposure arises from foreign-currency denominated credit, deposit-taking, investment and trading activities. It is monitored daily in accordance to legislation and internally set limits, for each currency and for the total statement of financial position denominated in or linked to foreign currency.

The Group manages its currency risk by setting principles and limits for foreign currency exposures and by monitoring these limits (including stop-loss limits). The Group directs its business activities towards trying to minimize the gap between assets and liabilities denominated in or linked to foreign currency, and maintaining daily business activities within daily allowed open limits per currency.

The Group is primarily exposed to EUR. Further currency exposure arises from financial instruments denominated in CHF and USD. In order to protect itself against currency risk, Group uses derivative financial instruments.

Assets and liabilities denominated in domestic currency include HRK 7 million (2012: HRK 17 million) of loans and advances to customers and borrowings, which the Group and the Bank have the option to revalue in line with HRK movements against EUR, if HRK depreciates against EUR beyond a certain level.

45. Risk management (continued)

Operational risk

Operational risk is defined as the risk of financial losses resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, but excludes strategic and reputational risk. Specificity of operational risk is its distinctiveness to all activities, processes, products and systems.

With the aim of efficient operational risk management, the Group built system based on standards and principles defined in Credit Institutions Act, Basel Committee documents and RBI Group Directives.

Whilst ultimate responsibility for risk resides with the Management Board, system of responsibilities for managing operational risk is based on responsibilities of Operational Risk Managers, which are in charge of operational enforcement of risk strategy and identification and managing of operational risk within its business areas, and on responsibility of Operational Risk Unit for establishment of operational risk management system through development of rules, processes, methods and system of measuring, control, monitoring and reporting on operational risk exposure.

Risk Coordination has been established as Committee responsible also for discussing operational risk issues, suggesting procedures and risk mitigation actions to the Board when necessary, whilst Operational Risk Managers are finally responsible for their implementation.

In addition, several dedicated organizational units provide support to business units for reducing operational risk (e.g. fraud prevention teams).

Within established operational risk management system, the Group implemented particular qualitative and quantitative tools and techniques which include risk self-assessment, loss data collection and analysis, (key) risk indicators monitoring and scenario analyses.

Risk identification, assessment and monitoring

Operational risk self-assessment is executed in a structured and Group-wide uniform manner and represents the foundation for identification of risks in business activities as well as for creating risk map which reflects estimation of exposure to particular risk category within each business process, thereby forming the basis for defining risk mitigation measures.

Within the early warning system, scenario analyses are used in order to assess potential impact of low probability/ high impact events whereat special accent is put on identification of weak control points, optimization of processes and taking decision on needed mitigation measures.

Risk indicators are objective and quantifiable information which enable the Group regular monitoring of exposure to operational risk by measuring status of defined risk indicator, providing continuous overview of risk profile of the particular business segment and allowing prompt mitigation. These are also specifically tailored to individual Group units and business areas. Regular monitoring of risk indicators complements the assessment of bank and Group members' exposure to operational risks which is performed through the process of risk self-assessment, and gathering and analysing internal losses.

Loss data collection is indispensible prerequisite of risk analysis as well as measuring and mitigating operational risks. Loss data is collected in a central database (Operational Risk Controlling Application) on the RBI level, in a structured manner and on a Group-wide basis.

Reporting and mitigation of operational risk

Based on analyses of results of methods used for identification, assessment and monitoring operational risks, risk exposure is determined and decision brought on implementation of particular mitigation method or combination of methods which include acceptance, reduction, avoidance or transfer of risk.

Detailed analysis of significant losses and identified operational risk is being performed on regular and continuous basis which enables definition of adequate mitigation measures and informing Management Board and other relevant bodies and/or persons, while risk control function monitors its implementation.

All members of the Group currently calculate regulatory capital requirement for operational risk using the Standardized Approach.

45. Risk management (continued)

Derivative financial instruments

The Group enters into derivative financial instruments mostly for risk management purposes and on behalf of customers. Derivative financial instruments used by the Group include swaps and forwards whose value changes in response to changes in interest rates and foreign exchange rates. Derivatives are either standardized contracts transacted through regulated exchanges or individually negotiated over-the-counter contracts. Interest rate swaps are mainly used for economically hedging interest rate exposures.

Swaps

Swaps are over-the-counter agreements between the Group and other parties to exchange future cash flows based upon agreed notional amounts. The swaps most commonly used by the Group are interest rate swaps, whereby the Group agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. The Group is subject to credit risk arising from the respective counterpartie's failure to perform. Market risk arises from the possibility of unfavorable movements in interest rates relative to the contractual rates of the contract.

Forwards

Forward contracts are commitments either to purchase or sell a designated financial instrument or currency at a specified future date for a specified price and may be settled in cash or with another financial instrument. Forwards are individually traded over-the-counter contracts. Forward contracts result in credit exposure to the counterparty and exposure to market risk based on changes in market prices relative to the contracted amounts.

Futures

Futures contracts are commitments either to purchase or sell a designated financial instrument or currency, at a specified future date for a specified price and may be settled in cash or with another financial instrument. Futures are standardized exchange-traded contracts. Initial margin requirements for futures are met in cash or other instruments, and changes in future contract value are settled daily. Futures contracts have limited credit risk because, essentially, the counterparties in futures transactions are futures exchanges themselves.

Forward rate agreements

Forward rate agreements are individually negotiated interest rate forwards that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Options

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the writer a specified underlying instrument at a specified price on or before a specified date. The Group enters into exchange-traded and over-the-counter option contracts to meet the requirements of its risk management and trading activities.

The risk in writing a call option is that the Group may incur a loss if the market price of the security increases and the option is exercised. The risk in writing a put option is that the Group may incur a loss if the market price of the security decreases and the option is exercised. The risk in buying an option is that the Group pays a premium whether or not the option is exercised. The Group also has the additional risk of not being able to enter into an offsetting transaction if a liquid secondary market does not exist.

46. Maturity analysis

The remaining contractual maturity of the Group's assets and liabilities as at 31 December 2013 and 31 December 2012 is presented in the tables below.

The items with undefined maturity are included in terms over 5 years:

Group 2013 HRK millions	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Assets						
Cash and amounts due from banks	1,812	–	–	–	–	1,812
Obligatory reserve with the Croatian National Bank	2,033	–	–	–	–	2,033
Financial assets at fair value through profit or loss	2,771	1	838	–	–	3,610
Placements with and loans to other banks	888	–	61	673	–	1,622
Financial assets available for sale	–	–	–	20	65	85
Loans and advances to customers	3,101	1,512	5,709	7,867	5,655	23,844
Financial investments held to maturity	–	617	–	101	77	795
Property, plant and equipment	–	–	–	–	1,554	1,554
Intangible assets	–	–	–	–	192	192
Deferred tax assets	–	–	–	216	1	217
Other assets	199	7	52	127	3	388
Total assets	**10,804**	**2,137**	**6,660**	**9,004**	**7,547**	**36,152**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	651	–	–	–	–	651
Deposits from banks	419	18	106	–	–	543
Deposits from companies and other similar entities	6,754	301	411	172	15	7,653
Deposits from individuals	4,512	2,584	6,014	826	83	14,019
Borrowings	904	1,873	2,085	1,615	446	6,923
Provisions for liabilities and charges	–	–	40	130	2	172
Other liabilities	351	27	33	58	193	662
Equity attributable to the equity holders of the parent	–	–	–	–	5,467	5,467
Non-controlling interest	–	–	–	–	62	62
Total equity and liabilities	**13,591**	**4,803**	**8,689**	**2,801**	**6,286**	**36,152**
Maturity gap	**(2,787)**	**(2,666)**	**(2,029)**	**6,203**	**1,279**	**–**
Maturity gap (2012)	**(2,807)**	**(2,022)**	**(4,009)**	**7,424**	**1,414**	**–**

46. Maturity analysis (continued)

Group 2012 HRK millions	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Assets						
Cash and amounts due from banks	2,086	–	–	–	–	2,086
Obligatory reserve with the Croatian National Bank	2,485	–	–	–	–	2,485
Financial assets at fair value through profit or loss	2,210	786	1,172	–	–	4,168
Placements with and loans to other banks	1,471	–	186	403	–	2,060
Financial assets available for sale	2	–	1	16	79	98
Loans and advances to customers	2,996	1,549	4,917	9,277	5,774	24,513
Financial investments held to maturity	14	–	–	699	76	789
Property, plant and equipment	–	–	–	–	1,459	1,459
Intangible assets	–	–	–	–	198	198
Deferred tax assets	–	–	–	233	–	233
Other assets	178	13	35	151	2	379
Total assets	**11,442**	**2,348**	**6,311**	**10,779**	**7,588**	**38,468**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	845	–	–	–	–	845
Deposits from banks	493	19	76	–	–	588
Deposits from companies and other similar entities	6,855	417	672	255	47	8,246
Deposits from individuals	4,305	2,913	6,556	736	84	14,594
Borrowings	1,248	1,012	2,963	2,181	278	7,682
Provisions for liabilities and charges	–	–	23	116	2	141
Other liabilities	504	9	30	67	151	761
Equity attributable to the equity holders of the parent	–	–	–	–	5,531	5,531
Non-controlling interest	–	–	–	–	80	80
Total equity and liabilities	**14,250**	**4,370**	**10,320**	**3,355**	**6,173**	**38,468**
Maturity gap	**(2,808)**	**(2,022)**	**(4,009)**	**7,424**	**1,415**	**–**
Maturity gap (2011)	**(2,449)**	**(3,121)**	**(3,876)**	**7,346**	**2,100**	**–**

46. Maturity analysis (continued)

The remaining contractual maturity of the Bank's assets and liabilities as at 31 December 2013 and 31 December 2012 is presented in the tables below.

The items with undefined maturity are included in terms over 5 years.

Bank 2013 HRK millions	Less than 1month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Assets						
Cash and amounts due from banks	1,775	–	–	–	–	1,775
Obligatory reserve with the Croatian National Bank	2,033	–	–	–	–	2,033
Financial assets at fair value through profit or loss	2,778	1	739	–	–	3,518
Placements with and loans to other banks	780	–	–	673	–	1,453
Financial assets available for sale	–	–	–	–	6	6
Loans and advances to customers	2,796	1,244	4,471	7,602	5,977	22,090
Financial investments held to maturity	–	617	–	–	–	617
Investment in subsidiaries	–	–	–	–	301	301
Property, plant and equipment	–	–	–	–	443	443
Intangible assets	–	–	–	–	190	190
Deferred tax assets	–	–	–	209	–	209
Other assets	170	7	57	133	3	370
Total assets	**10,332**	**1,869**	**5,267**	**8,617**	**6,920**	**33,005**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	652	–	–	–	–	652
Deposits from banks	420	17	106	–	–	543
Deposits from companies and other similar entities	7,018	300	456	107	14	7,895
Deposits from individuals	4,512	2,584	6,014	826	83	14,019
Borrowings	539	1,239	967	1,035	311	4,091
Provisions for liabilities and charges	–	–	37	120	2	159
Other liabilities	261	3	27	12	–	303
Equity	–	–	–	–	5,343	5,343
Total liabilities and equity	**13,402**	**4,143**	**7,607**	**2,100**	**5,753**	**33,005**
Maturity gap	**(3,070)**	**(2,274)**	**(2,340)**	**6,517**	**1,167**	**–**
Maturity gap (2012)	**(2,778)**	**(1,983)**	**(3,882)**	**7,597**	**1,046**	**–**

46. Maturity analysis (continued)

Bank 2012 HRK millions	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Assets						
Cash and amounts due from banks	2,086	–	–	–	–	2,086
Obligatory reserve with the Croatian National Bank	2,485	–	–	–	–	2,485
Financial assets at fair value through profit or loss	2,209	784	1,136	–	–	4,129
Placements with and loans to other banks	1,450	–	129	404	–	1,983
Financial assets available for sale	–	–	–	–	4	4
Loans and advances to customers	2,743	1,019	4,131	8,942	5,989	22,824
Financial investments held to maturity	13	–	–	598	–	611
Investment in subsidiaries	–	–	–	–	211	211
Property, plant and equipment	–	–	–	–	457	457
Intangible assets	–	–	–	–	194	194
Deferred tax assets	–	–	–	231	–	231
Other assets	152	6	26	152	2	338
Total assets	**11,138**	**1,809**	**5,422**	**10,327**	**6,857**	**35,553**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	846	–	–	–	–	846
Deposits from banks	494	19	75	–	–	588
Deposits from companies and other similar entities	6,951	414	704	200	15	8,284
Deposits from individuals	4,302	2,913	6,556	736	84	14,594
Borrowings	882	443	1,924	1,677	278	5,204
Provisions for liabilities and charges	–	–	20	106	2	128
Other liabilities	441	3	25	8	3	480
Equity	–	–	–	–	5,429	5,429
Total liabilities and equity	**13,916**	**3,792**	**9,304**	**2,730**	**5,811**	**35,553**
Maturity gap	**(2,778)**	**(1,983)**	**(3,882)**	**7,597**	**1,046**	**–**
Maturity gap (2011)	**(2,145)**	**(3,168)**	**(3,938)**	**7,837**	**1,414**	**–**

47. Currency analysis

Assets and liabilities denominated in domestic currency include HRK 7 million (2012: HRK 17 million) of loans and advances to customers and borrowings, which the Group and the Bank, and lenders of the Group and the Bank, have the option to revalue in line with HRK movements against EUR, if HRK depreciates against to EUR beyond a certain level.

Group 2013 HRK millions	EUR	EUR linked	Other foreign currencies	Total foreign currencies	Domestic currency	Total currencies
Assets						
Cash and amounts due from banks	158	–	111	270	1,543	1,812
Obligatory reserve with the Croatian National Bank	305	–	–	305	1,729	2,033
Financial assets at fair value through profit or loss	2,149	483	140	2,771	838	3,609
Placements with and loans to other banks	770	–	56	826	797	1,622
Financial assets available for sale	14	59	–	72	12	84
Loans and advances to customers	4,643	10,284	2,289	17,216	6,628	23,844
Financial investments held to maturity	15	715	–	730	65	795
Property, plant and equipment	–	–	–	–	1,554	1,554
Intangible assets	–	–	–	–	192	192
Deferred tax assets	–	–	–	–	217	217
Other assets	3	9	2	14	373	387
Total assets	**8,057**	**11,549**	**2,598**	**22,205**	**13,947**	**36,152**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	65	–	539	604	48	652
Deposits from banks	158	–	6	164	379	543
Deposits from companies and other similar entities	1,570	84	335	1,989	5,664	7,653
Deposits from individuals	10,279	8	1,601	11,888	2,130	14,019
Borrowings	4,120	784	–	4,903	2,020	6,923
Provisions for liabilities and charges	26	1	1	28	143	172
Other liabilities	32	287	6	325	336	661
Total equity attributable to the equity holders of the parent	–	–	–	–	5,467	5,467
Non–controlling interest	–	–	–	–	62	62
Total equity and liabilities	**16,250**	**1,164**	**2,487**	**19,902**	**16,250**	**36,152**
Currency gap	**(8,194)**	**10,385**	**111**	**2,303**	**(2,303)**	**–**
Currency gap (2012)	**(9,989)**	**10,640**	**(47)**	**604**	**(604)**	**–**

47. Currency analysis (continued)

Group 2012 HRK millions	EUR	EUR linked	Other foreign currencies	Total foreign currencies	Domestic currency	Total currencies
Assets						
Cash and amounts due from banks	78	–	236	314	1,772	2,086
Obligatory reserve with the Croatian National Bank	442	–	–	442	2,043	2,485
Financial assets at fair value through profit or loss	2,778	554	32	3,364	804	4,168
Placements with and loans to other banks	1,116	–	288	1,404	656	2,060
Financial assets available for sale	18	70	–	88	10	98
Loans and advances to customers	3,957	10,594	2,842	17,393	7,120	24,513
Financial investments held to maturity	16	710	–	726	63	789
Property, plant and equipment	–	–	–	–	1,459	1,459
Intangible assets	–	–	–	–	198	198
Deferred tax assets	–	–	–	–	233	233
Other assets	36	11	4	51	328	379
Total assets	**8,441**	**11,939**	**3,402**	**23,782**	**14,686**	**38,468**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	138	–	687	825	20	845
Deposits from banks	179	–	5	184	404	588
Deposits from companies and other similar entities	1,631	145	776	2,552	5,694	8,246
Deposits from individuals	10,724	10	1,914	12,648	1,946	14,594
Borrowings	5,569	910	25	6,504	1,178	7,682
Provisions for liabilities and charges	–	5	2	7	134	141
Other liabilities	189	229	40	458	303	761
Total equity attributable to the equity holders of the parent	–	–	–	–	5,531	5,531
Non-controlling interest	–	–	–	–	80	80
Total equity and liabilities	**18,430**	**1,299**	**3,449**	**23,178**	**15,290**	**38,468**
Currency gap	**(9,989)**	**10,640**	**(47)**	**604**	**(604)**	**–**
Currency gap (2011)	**(12,199)**	**11,440**	**1,135**	**376**	**(376)**	**–**

47. Currency analysis (continued)

Bank 2013 HRK millions	EUR	EUR linked	Other foreign currencies	Total foreign currencies	Domestic currency	Total currencies
Assets						
Cash and amounts due from banks	121	–	111	232	1,543	1,775
Obligatory reserve with the Croatian National Bank	304	–	–	304	1,729	2,033
Financial assets at fair value through profit or loss	2,154	396	140	2,690	828	3,518
Placements with and loans to other banks	661	–	56	717	736	1,453
Financial assets available for sale	1	–	–	1	5	6
Loans and advances to customers	4,768	8,429	2,256	15,453	6,637	22,090
Financial investments held to maturity	–	617	–	617	–	617
Investment in subsidiaries	–	–	–	–	301	301
Property, plant and equipment	–	–	–	–	443	443
Intangible assets	–	–	–	–	190	190
Deferred tax assets	–	–	–	–	209	209
Other assets	20	–	2	22	348	370
Total assets	**8,029**	**9,442**	**2,565**	**20,036**	**12,969**	**33,005**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	66	–	539	605	47	652
Deposits from banks	158	–	6	164	379	543
Deposits from companies and other similar entities	1,706	–	335	2,041	5,854	7,895
Deposits from individuals	10,279	9	1,601	11,889	2,130	14,019
Borrowings	1,287	784	–	2,071	2,020	4,091
Provisions for liabilities and charges	26	1	1	28	131	159
Other liabilities	32	7	5	44	259	303
Equity	–	–	–	–	5,343	5,343
Total liabilities and equity	**13,554**	**801**	**2,487**	**16,842**	**16,163**	**33,005**
Currency gap	**(5,525)**	**8,641**	**78**	**3,194**	**(3,194)**	**–**
Currency gap (2012)	**(7,467)**	**9,034**	**(88)**	**1,479**	**(1,479)**	**–**

47. Currency analysis (continued)

Bank 2012 HRK millions	EUR	EUR linked	Other foreign currencies	Total foreign currencies	Domestic currency	Total currencies
Assets						
Cash and amounts due from banks	77	–	237	314	1,772	2,086
Obligatory reserve with the Croatian National Bank	442	–	–	442	2,043	2,485
Financial assets at fair value through profit or loss	2,775	522	32	3,329	800	4,129
Placements with and loans to other banks	1,096	–	288	1,384	599	1,983
Financial assets available for sale	1	–	–	1	3	4
Loans and advances to customers	4,089	8,867	2,776	15,732	7,092	22,824
Financial investments held to maturity	–	611	–	611	–	611
Investment in subsidiaries	–	–	–	–	211	211
Property, plant and equipment	–	–	–	–	457	457
Intangible assets	–	–	–	–	194	194
Deferred tax assets	–	–	–	–	231	231
Other assets	35	–	3	38	300	338
Total assets	**8,515**	**10,000**	**3,336**	**21,851**	**13,702**	**35,553**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	139	–	687	826	20	846
Deposits from banks	179	–	5	184	404	588
Deposits from companies and other similar entities	1,637	34	775	2,446	5,838	8,284
Deposits from individuals	10,724	10	1,914	12,648	1,946	14,594
Borrowings	3,114	910	2	4,026	1,178	5,204
Provisions for liabilities and charges	–	5	1	6	122	128
Other liabilities	189	7	40	236	244	480
Equity	–	–	–	–	5,429	5,429
Total liabilities and equity	**15,982**	**966**	**3,424**	**20,372**	**15,181**	**35,553**
Currency gap	**(7,467)**	**9,034**	**(88)**	**1,479**	**(1,479)**	**–**
Currency gap (2011)	**(9,853)**	**10,183**	**1,124**	**1,454**	**(1,454)**	**–**

48. Interest rate repricing, gap analysis and amounts subject to fixed interest rates

The following tables present the Group's and the Bank's assets and liabilities and equity analysed according to repricing periods determined as the earlier of remaining contractual maturity and contractual repricing.

The tables are management's estimate of the interest rate risk for the Group and the Bank as at 31 December 2013 and are not necessarily indicative of the positions at other times but provide some indication of the sensitivities of the Group's and the Bank's earnings to movements in interest rates. Earnings will also be affected by the currency of the assets and liabilities and equity. The Group and the Bank have a significant proportion of interest-earning assets and interest-bearing liabilities in foreign currency.

Group 2013 HRK millions	Non-interest bearing	Less than 1 month	1 – 3 months	3 – 12 months	Over 12 months	Total	Fixed interest rates
Assets							
Cash and amounts due from banks	1,635	177	–	–	–	1,812	–
Obligatory reserve with the Croatian National Bank	2,033	–	–	–	–	2,033	–
Financial assets at fair value through profit or loss	96	2,618	69	827	–	3,610	2,558
Placements with and loans to other banks	355	788	133	36	310	1,622	1,159
Financial assets available for sale	6				79	85	79
Loans and advances to customers	105	19,841	498	1,281	2,119	23,844	3,617
Financial investments held to maturity	6	–	635	–	154	795	789
Property, plant and equipment	1,554	–	–	–	–	1,554	–
Intangible assets	192	–	–	–	–	192	–
Deferred tax assets	217	–	–	–	–	217	–
Other assets	388	–	–	–	–	388	–
Total assets	**6,587**	**23,424**	**1,335**	**2,144**	**2,662**	**36,152**	**8,202**
Liabilities and equity							
Financial liabilities at fair value through profit or loss	651	–	–	–	–	651	–
Deposits from banks	147	273	17	106	–	543	395
Deposits from companies and other similar entities	1,580	5,381	242	335	115	7,653	6,399
Deposits from individuals	133	11,503	688	1,524	171	14,019	9,714
Borrowings	23	2,626	2,935	643	696	6,923	1,390
Provisions for liabilities and charges	172	–	–	–	–	172	–
Other liabilities	662	–	–	–	–	662	–
Equity attributable to the equity holders of the parent	5,467	–	–	–	–	5,467	–
Non-controlling interest	62	–	–	–	–	62	–
Total liabilities and equity	**8,897**	**19,783**	**3,882**	**2,608**	**982**	**36,152**	**17,899**
Interest rate gap	**(2,311)**	**3,642**	**(2,547)**	**(465)**	**1,680**	**–**	**(9,696)**
Interest rate gap (2012)	**(2,203)**	**10,582**	**(5,058)**	**(5,176)**	**1,855**	**–**	**(10,277)**

48. Interest rate repricing, gap analysis and amounts subject to fixed interest rates (continued)

Group 2012 HRK millions	Non-interest bearing	Less than 1 month	1 – 3 months	3 – 12 months	Over 12 months	Total	Fixed interest rates
Assets							
Cash and amounts due from banks	2,026	60	–	–	–	2,086	–
Obligatory reserve with the Croatian National Bank	2,485	–	–	–	–	2,485	–
Financial assets at fair value through profit or loss	116	2,102	783	1,167	–	4,168	3,496
Placements with and loans to other banks	1	1,438	35	173	413	2,060	2,059
Financial assets available for sale	6	–	–	1	91	98	92
Loans and advances to customers	66	21,720	472	263	1,992	24,513	2,332
Financial investments held to maturity	16	–	–	–	773	789	779
Property, plant and equipment	1,459	–	–	–	–	1,459	–
Intangible assets	198	–	–	–	–	198	–
Deferred tax assets	233	–	–	–	–	233	–
Other assets	379	–	–	–	–	379	–
Total assets	**6,985**	**25,320**	**1,290**	**1,604**	**3,269**	**38,468**	**8,758**
Liabilities and equity							
Financial liabilities at fair value through profit or loss	845	–	–	–	–	845	–
Deposits from banks	223	271	19	75	–	588	365
Deposits from companies and other similar entities	1,401	5,575	406	652	212	8,246	6,844
Deposits from individuals	162	6,449	2,505	5,401	77	14,594	9,516
Borrowings	44	2,443	3,418	652	1,125	7,682	2,310
Provisions for liabilities and charges	141	–	–	–	–	141	–
Other liabilities	761	–	–	–	–	761	–
Equity attributable to the equity holders of the parent	5,531	–	–	–	–	5,531	–
Non-controlling interest	80	–	–	–	–	80	–
Total liabilities and equity	**9,188**	**14,738**	**6,348**	**6,780**	**1,414**	**38,468**	**19,035**
Interest rate gap	**(2,203)**	**10,582**	**(5,058)**	**(5,176)**	**1,855**	**–**	**(10,277)**
Interest rate gap (2011)	**(5,699)**	**16,212**	**(6,809)**	**(5,740)**	**2,036**	**–**	**(7,201)**

48. Interest rate repricing, gap analysis and amounts subject to fixed interest rates (continued)

Bank 2013 HRK millions	Non-interest bearing	Less than 1 month	1 – 3 months	3 – 12 months	Over 12 months	Total	Fixed interest rates
Assets							
Cash and amounts due from banks	1,635	140	–	–	–	1,775	–
Obligatory reserve with the Croatian National Bank	2,033	–	–	–	–	2,033	–
Financial assets at fair value through profit or loss	97	2,618	69	734	–	3,518	2,550
Placements with and loans to other banks	355	788	–	–	310	1,453	1,098
Financial assets available for sale	6	–	–	–	–	6	–
Loans and advances to customers	105	18,090	152	1,324	2,419	22,090	3,984
Financial investments held to maturity	6	–	611	–	–	617	611
Investment in subsidiaries	301	–	–	–	–	301	–
Property, plant and equipment	443	–	–	–	–	443	–
Intangible assets	190	–	–	–	–	190	–
Deferred tax assets	209	–	–	–	–	209	–
Other assets	370	–	–	–	–	370	–
Total assets	**5,750**	**21,636**	**832**	**2,058**	**2,729**	**33,005**	**8,243**
Liabilities and equity							
Financial liabilities at fair value through profit or loss	652	–	–	–	–	652	–
Deposits from banks	147	273	17	106	–	543	395
Deposits from companies and other similar entities	1,170	5,865	299	446	115	7,895	6,725
Deposits from individuals	133	11,503	688	1,524	171	14,019	9,714
Borrowings	23	765	2,291	329	683	4,091	1,380
Provisions for liabilities and charges	159	–	–	–	–	159	–
Other liabilities	303	–	–	–	–	303	–
Equity	5,343	–	–	–	–	5,343	–
Total liabilities and equity	**7,930**	**18,406**	**3,295**	**2,405**	**969**	**33,005**	**18,215**
Interest rate gap	**(2,179)**	**18,405**	**(2,463)**	**(348)**	**1,760**	**–**	**(9,972)**
Interest rate gap (2012)	**(2,485)**	**10,182**	**(5,290)**	**(4,714)**	**2,307**	**–**	**(9,856)**

48. Interest rate repricing, gap analysis and amounts subject to fixed interest rates (continued)

Bank 2012 HRK millions	Non-interest bearing	Less than 1 month	1 – 3 months	3 – 12 months	Over 12 months	Total	Fixed interest rates
Assets							
Cash and amounts due from banks	2,026	60	–	–	–	2,086	–
Obligatory reserve with the Croatian National Bank	2,485	–	–	–	–	2,485	–
Financial assets at fair value through profit or loss	115	2,101	781	1,132	–	4,129	3,474
Placements with and loans to other banks	–	1,438	–	132	413	1,983	2,003
Financial assets available for sale	4	–	–	–	–	4	–
Loans and advances to customers	34	20,040	56	395	2,299	22,824	2,838
Financial investments held to maturity	13	–	–	–	598	611	604
Investment in subsidiaries	211	–	–	–	–	211	–
Property, plant and equipment	457	–	–	–	–	457	–
Intangible assets	194	–	–	–	–	194	–
Deferred tax assets	231	–	–	–	–	231	–
Other assets	338	–	–	–	–	338	–
Total assets	**6,108**	**23,639**	**837**	**1,659**	**3,310**	**35,553**	**8,919**
Liabilities and equity							
Financial liabilities at fair value through profit or loss	846	–	–	–	–	846	–
Deposits from banks	223	271	19	75	–	588	365
Deposits from companies and other similar entities	1,290	5,673	406	703	212	8,284	6,994
Deposits from individuals	162	6,449	2,505	5,401	77	14,594	9,516
Borrowings	35	1,064	3,197	194	714	5,204	1,900
Provisions for liabilities and charges	128	–	–	–	–	128	–
Other liabilities	480	–	–	–	–	480	–
Equity	5,429	–	–	–	–	5,429	–
Total liabilities and equity	**8,593**	**13,457**	**6,127**	**6,373**	**1,003**	**35,553**	**18,775**
Interest rate gap	**(2,485)**	**10,182**	**(5,290)**	**(4,714)**	**2,307**	**–**	**(9,856)**
Interest rate gap (2011)	**(6,102)**	**15,848**	**(6,407)**	**(5,508)**	**2,169**	**–**	**(7,242)**

49. Average interest rates

The average interest rates set out below represent the weighted average yield on financial instruments at the end of the reporting period, and are not necessarily representative of the yield at other times during the year.

The major part of liabilities and interest earning assets are denominated in or linked to foreign currency.

Group 2013	Less than 1 month %	1 – 3 months %	3 – 12 months %	Over 12 months %
Assets				
Cash and amounts due from banks	0.24	–	–	–
Financial assets at fair value through profit or loss	2.20	2.82	4.72	–
Placements with and loans to other banks	0.15	1.12	2.54	0.71
Financial assets available for sale	–	–	–	6.64
Loans and advances to customers	6.99	5.52	8.04	7.08
Financial investments held to maturity	–	–	–	5.95
Liabilities				
Deposits from banks	0.15	0.25	0.74	–
Deposits from companies and other similar entities	0.49	1.32	2.16	3.18
Deposits from individuals	2.04	2.74	2.82	2.91
Borrowings	1.26	2.52	2.01	2.71

Group 2012	Less than 1 month %	1 – 3 months %	3 – 12 months %	Over 12 months %
Assets				
Cash and amounts due from banks	1.21	–	–	–
Financial assets at fair value through profit or loss	1.87	0.31	4.42	–
Placements with and loans to other banks	0.22	2.29	3.13	0.91
Financial assets available for sale	–	–	7.83	6.46
Loans and advances to customers	7.17	5.50	4.85	6.48
Financial investments held to maturity	–	–	–	5.58
Liabilities				
Deposits from banks	0.25	0.30	1.20	–
Deposits from companies and other similar entities	0.55	2.32	3.19	3.24
Deposits from individuals	1.94	3.39	3.59	3.78
Borrowings	2.39	2.67	2.94	3.82

49. Average interest rates (continued)

Bank 2013	Less than 1 month %	1 – 3 months %	3 – 12 months %	Over 12 months %
Assets				
Cash and amounts due from banks	0.24	–	–	–
Financial assets at fair value through profit or loss	2.20	2.82	4.50	–
Placements with and loans to other banks	0.15	–	–	0.71
Loans and advances to customers	7.06	5.15	7.91	6.87
Financial investments held to maturity	–	5.50	–	–
Liabilities				
Deposits from banks	0.15	0.25	0.74	–
Deposits from companies and other similar entities	0.48	1.36	2.12	3.18
Deposits from individuals	2.04	2.74	2.82	2.91
Borrowings	1.07	2.78	1.56	2.66

Bank 2012	Less than 1 month %	1 – 3 months %	3 – 12 months %	Over 12 months %
Assets				
Cash and amounts due from banks	1.21	–	–	–
Financial assets at fair value through profit or loss	1.87	0.30	4.39	–
Placements with and loans to other banks	0.22	–	3.12	0.91
Loans and advances to customers	7.21	4.87	4.59	6.33
Financial investments held to maturity	–	–	–	5.50
Liabilities				
Deposits from banks	0.25	0.30	1.20	–
Deposits from companies and other similar entities	0.55	2.32	3.19	3.24
Deposits from individuals	1.94	3.39	3.59	3.78
Borrowings	0.79	2.57	2.38	2.74

50. Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market condition (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

Financial instruments at fair value through profit or loss and available for sale are measured at fair value. Loans and receivables and held-to-maturity assets are measured at amortised cost less impairment.

The carrying amount of cash and amounts due from banks, obligatory reserve with the Croatian National Bank, and placements with banks, deposits from banks and deposits from companies and similar entities, are deemed to reflect their fair value due to the short-term maturity of these financial instruments.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Loans and advances

The fair value of loans and advances is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment including portfolio based impairment allowances for performing loans calculated at rates prescribed by the CNB. Expected future cash flows for homogeneous categories of loans, such as residential mortgage loans, are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. As the Group has a very limited portfolio of loans and advances with fixed rates and longer-term maturity, the fair value of loans and advances is not significantly different from their carrying value. Differences between the fair value of future losses from currently performing loans in the portfolio and the effect of the portfolio based provisions recognised in accordance with CNB rules, are not taken into account.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at date of reporting. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

Borrowings

Most of the Group's long-term debt has no quoted market price and fair value is estimated as the present value of future cash flows, discounted at interest rates available at date of reporting to the Group for new debt of similar type and remaining maturity.

50. Fair value of financial instruments (continued)

The following table summarises fair values of financial instruments held by the Group and the Bank at 31 December 2013 and 2012:

Group			2013			2012
HRK millions	Carrying amount	Fair value	Unrecognised estimated gains/(losses)	Carrying amount	Fair value	Unrecognised estimated gains/(losses)
Cash and amounts due from banks	1,812	1,812	–	2,086	2,086	–
Obligatory reserve with the Croatian National Bank	2,033	2,033	–	2,485	2,485	–
Financial assets at fair value through profit or loss	3,610	3,610	–	4,168	4,168	–
Placements with and loans to other banks	1,622	1,573	(49)	2,060	1,951	(109)
Financial assets available for sale	85	85	–	98	98	–
Loans and advances to customers	23,844	23,834	(10)	24,513	24,536	23
Financial investments held to maturity	795	792	(3)	789	808	19
Financial liabilities at fair value through profit or loss	(651)	(651)	–	(845)	(845)	–
Deposits from banks	(543)	(543)	–	(588)	(588)	–
Deposits from companies and other similar entities	(7,653)	(7,644)	9	(7,682)	(7,673)	9
Deposits from individuals	(14,019)	(13,992)	27	(14,594)	(14,594)	–
Borrowings	(6,923)	(6,882)	41	(7,682)	(7,639)	43
Total			**15**			**(15)**

50. Fair value of financial instruments (continued)

Bank HRK millions	Carrying amount	Fair value	2013 Unrecognised estimated gains/(losses)	Carrying amount	Fair value	2012 Unrecognised estimated gains/(losses)
Cash and amounts due from banks	1,775	1,775	–	2,086	2,086	–
Obligatory reserve with the Croatian National Bank	2,033	2,033	–	2,485	2,485	–
Financial assets at fair value through profit or loss	3,518	3,518	–	4,129	4,129	–
Placements with and loans to other banks	1,453	1,404	(49)	1,983	1,874	(109)
Financial assets available for sale	6	6	–	4	4	–
Loans and advances to customers	22,090	22,092	2	22,824	22,865	41
Financial investments held to maturity	617	616	(1)	611	627	16
Financial liabilities at fair value through profit or loss	(652)	(652)	–	(846)	(846)	–
Deposits from banks	(543)	(543)	–	(588)	(588)	–
Deposits from companies and other similar entities	(7,895)	(7,886)	9	(8,248)	(8,275)	9
Deposits from individuals	(14,019)	(13,992)	27	(14,594)	(14,594)	–
Borrowings	(4,091)	(4,050)	41	(5,204)	(5,161)	43
Total			29			–

50. Fair value of financial instruments (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable).

Group				2013				2012
HRK millions	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss								
Trading instruments								
– Debt securities	1,948	667	–	2,615	1,184	688	–	1,872
– Equity instruments	7	–	2	9	15	–	5	20
– Derivative financial assets	–	55	–	55	–	68	–	68
Financial assets designated at fair value through profit or loss								
– Debt securities	251	644	4	899	954	1,176	49	2,179
– Investments in investments fund managed	4	–	–	4	–	–	–	–
Financial assets available for sale								
– Debt securities	72	6		78	85	6	1	92
– Equity securities	–	1	5	6	–	–	4	4
Total	**2,282**	**1,373**	**11**	**3,666**	**2,238**	**1,938**	**59**	**4,235**
Financial liabilities at fair value through profit or loss								
– Derivative financial liabilities	–	(645)	–	(645)	–	(833)	–	(833)
Total	**–**	**(645)**	**–**	**(645)**	**–**	**(833)**	**–**	**(833)**

50. Fair value of financial instruments (continued)

Bank HRK millions	Level 1	Level 2	Level 3	2013 Total	Level 1	Level 2	Level 3	2012 Total
Financial assets at fair value through profit or loss								
Trading instruments								
– Debt securities	1,948	667	–	2,615	1,184	688	–	1,872
– Equity instruments	7	–	2	9	15	–	5	20
– Derivative financial assets	–	62	–	62	–	68	–	68
Financial assets designated at fair value through profit or loss								
– Debt securities	158	644	4	806	920	1,172	49	2,141
Financial assets available for sale								
– Equity securities	–	1	5	6	–	–	4	4
Total	2,113	1,374	11	3,498	2,119	1,928	58	4,105
Financial liabilities at fair value through profit or loss								
– Derivative financial liabilities	–	(646)	–	(646)	–	(834)	–	(834)
Total	–	(646)	–	(646)	–	(834)	–	(834)

During the current year the Bank transferred HRK 15 million from Level 1 to Level 2, wherefrom HRK 12 million refers to securities of Erste and Steiermarkische Bank d.d. and HRK 2 million of Jadran Galenski Laboratorij d.d. (2012: nil).

50. Fair value of financial instruments (continued)

Group	Trading instruments	Financial assets designated at fair value through profit or loss	Financial assets available for sale	
	Equity instruments	Debt securities issued by companies	Equity securities	Debt securities issued by companies
1 January 2012	–	–	4	–
Unrealised gain and loss in profit or loss	–	(33)	–	–
Gains and losses in other comprehensive income	–	–	–	(2)
Transfer into Level 3	5	82	–	3
At 31 December 2012	5	49	4	1
Unrealised gain and loss in profit or loss	–	(31)	–	–
Gains and losses in other comprehensive income	–	–	1	(1)
Disposals in financial year	(3)	(15)	–	–
Transfer into Level 3	–	1	–	–
At 31 December 2013	2	4	5	–

Bank	Trading instruments	Financial assets designated at fair value through profit or loss	Financial assets available for sale
	Equity instruments	Debt securities issued by companies	Equity securities
1 January 2012	–	–	4
Unrealised gain and loss in profit or loss	–	(33)	–
Gains and losses in other comprehensive income	–	–	–
Transfer into Level 3	5	82	–
At 31 December 2012	5	49	4
Unrealised gain and loss in profit or loss	–	(31)	–
Gains and losses in other comprehensive income	–	–	1
Disposals in financial year	(3)	(15)	–
Transfer into Level 3	–	1	–
At 31 December 2013	2	4	5

50. Fair value of financial instruments (continued)

Group		Fair value 2013	Fair value 2012	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservables inputs to fair value
1) Foreign currency derivatives (Note 7 and 43)	Forward foreign exchange contracts; cross currency swaps; fx options	Assets HRK 36 million Liabilities HRK 618 million	Assets HRK 22 million Liabilities HRK 705 million	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates available on end of reporting period and contracted forward exchange rates discounted at a rate that reflects the credit risk of various counterparties.	Not applicable	Not applicable
2) Interest rate derivatives (Note 7 and 43)	Interest rate swaps; forward rate agreements	Assets HRK 18 million Liabilities HRK 63 million	Assets HRK 44 million Liabilities HRK 127 million	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves available on end of reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	Not applicable	Not applicable
3) Listed debt securities (Note 7)	Domestic and foreign government bonds	Assets HRK 917 million Liabilities –	Assets HRK 387 million Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Domestic and foreign government bonds	Assets – Liabilities –	Assets HRK 4 million Liabilities –	Level 2	Discounted cash flow. Discounted at a rate that reflects the market interest rate including credit risk of various counterparties.	Not applicable	Not applicable
	Treasury bills issued by foreign governmnet	Assets HRK 267 million Liabilities	Assets HRK 830 million Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Bonds issued by banks	Assets HRK 856 million Liabilities –	Assets HRK 853 million Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Securities issued by companies	Assets HRK 159 million Liabilities –	Assets HRK 68 million Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Securities issued by companies	Assets HRK 171 million Liabilities –	Assets HRK 208 million Liabilities –	Level 2	Discounted cash flow. Discounted at a rate that reflects the market interest rate including credit risk of various counterparties.	Not applicable	Not applicable
	Securities issued by companies	Assets HRK 4 million Liabilities –	Assets HRK 49 million Liabilities –	Level 3	Valuation based on discounted cashflows with cap defined by the expert opinion	Issuer credit risk spread applied on the yield curve used for discounting cashflows. Conservativity driven haircut applied to the discounted cashflow price. Expert opinion (Management Board) on the price cap (maximum price).	The change in the amount of credit risk spread would have an impact on price derived through discounting cashflows. Change of cap based on expert opinion would have an impact on the final valuation of the position.

50. Fair value of financial instruments (continued)

Group		Fair value 2013	Fair value 2012	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservables inputs to fair value
	Bonds issued by banks	Assets HRK 12 million Liabilities –	Assets – Liabilities –	Level 2	Discounted cash flow. Discounted at a rate that reflects the market interest rate including credit risk of various counterparties.	Not applicable	Not applicable
	Treasury bills issued by Ministry of Finance	Assets HRK 1,128 million Liabilities –	Assets HRK 1,652 million Liabilities –	Level 2	Discounted cash flow. Discounted at a rate that reflects the market interest rate including credit risk of various counterparties.	Not applicable	Not applicable
4) Equity instruments (Note 7)	Equity securities Corporate	Assets HRK 7 million Liabilities –	Assets HRK 15 million Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Equity securities	Assets HRK 2 million Liabilities –	Assets HRK 5 million Liabilities –	Level 3	Valuation based on balance sheet items	Haircut applied on the value of securities investments. Haircut applied on the value of real-estate investments.	The change in the amount of haircuts applied would cause the change of valuation result. The haircuts applied also depend on the quality of security and real-estate investments present in the fund's balance sheet.
5) Investment funds (Note 7)	Equity securities Corporate	Assets HRK 4 million Liabilities –	Assets – Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
6) Financial assets available for sale (Note 9)	Equity securities	Assets HRK 1 million Liabilities –	Assets – Liabilities –	Level 2	Discounted cash flow. Discounted at a rate that reflects the market interest rate including credit risk of various counterparties.	Not applicable	Not applicable
	Equity securities	Assets HRK 5 million Liabilities –	Assets HRK 4 million Liabilities –	Level 3	Valuation based on median of various valuations which take into account peer group analyses and company's fundamental data; Valuation based on company's fundamental data with liquidity haircut applied	Haircut applied on the value of equity due to its low liquidity. The haircut is based on 10y government HRK bond yield or on company's fundamental data) due to its low liquidity.	The change of the liquidity haircut would have an impact (in opposite direction) on the price based on company's fundamental data.
	Debt securities	Assets HRK 72 million Liabilities –	Assets HRK 85 million Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Debt securities	Assets HRK 6 million Liabilities –	Assets HRK 6 million Liabilities –	Level 2	Discounted cash flow. Discounted at a rate that reflects the market interest rate including credit risk of various counterparties.	Not applicable	Not applicable
	Debt securities	Assets – Liabilities –	Assets HRK 1 million Liabilities –	Level 3	Valuation based on discounted cashflows with cap defined by the expert opinion	Issuer credit risk spread applied on the yield curve used for discounting cashflows Expert opinion (Management Board) on the price cap (maximum price)	The change in the amount of credit risk spread would have an impact on price derived through discounting cashflows. Change of cap based on expert opinion would have an impact on the final valuation of the position.

50. Fair value of financial instruments (continued)

Bank		Fair value 2013	Fair value 2012	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservables inputs to fair value
1) Foreign currency derivatives (Note 7 and 43)	Forward foreign exchange contracts; Cross currency swaps; Fx options	Assets HRK 37 million Liabilities HRK 583 million	Assets HRK 22 million Liabilities HRK 705 million	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates available on end of reporting period and contracted forward exchange rates discounted at a rate that reflects the credit risk of various counterparties.	Not applicable	Not applicable
2) Interest rate derivatives (Note 7 and 43)	Interest rate swaps; Forward rate agreements	Assets HRK 25 million Liabilities HRK 63 million	Assets HRK 44 million Liabilities HRK 128 million	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves available on end of reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	Not applicable	Not applicable
3) Listed debt securities (Note 7)	Domestic and foreign government bonds	Assets HRK 825 million Liabilities –	Assets HRK 354 million Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Treasury bills issued by foreign government	Assets HRK 267 million Liabilities –	Assets HRK 830 million Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Bonds issued by banks	Assets HRK 856 million Liabilities –	Assets HRK 853 million	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Securities issued by companies	Assets HRK 158 million Liabilities –	Assets HRK 67 million Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Securities issued by companies	Assets HRK 171 million Liabilities –	Assets HRK 208 million Liabilities –	Level 2	Discounted cash flow. Discounted at a rate that reflects the market interest rate including credit risk of various counterparties.	Not applicable	Not applicable
	Securities issued by companies	Assets HRK 4 million Liabilities –	Assets HRK 49 million Liabilities –	Level 3	Valuation based on discounted cashflows with cap defined by the expert opinion.	Issuer credit risk spread applied on the yield curve used for discounting cashflows. Conservativity driven haircut applied to the discounted cashflow price. Expert opinion (Management Board) on the price cap (maximum price).	The change in the amount of credit risk spread would have an impact on price derived through discounting cashflows. Change of cap based on expert opinion would have an impact on the final valuation of the position.
	Bonds issued by banks	Assets HRK 12 million Liabilities –	Assets – Liabilities –	Level 2	Discounted cash flow. Discounted at a rate that reflects the market interest rate including credit risk of various counterparties.	Not applicable	Not applicable
	Treasury bills issued by Ministry of Finance	Assets HRK 1,128 million Liabilities –	Assets HRK 1,652 million Liabilities –	Level 2	Discounted cash flow. Discounted at a rate that reflects the market interest rate including credit risk of various counterparties.	Not applicable	Not applicable

50. Fair value of financial instruments (continued)

Bank		Fair value 2013	Fair value 2012	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservables inputs to fair value
4) Equity instruments (Note 7)	Equity securities Corporate	Assets HRK 7 million Liabilities –	Assets HRK 15 million Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Equity securities Other financial institutions	Assets HRK 2 million Liabilities –	Assets HRK 5 million Liabilities –	Level 3	Valuation based on balance sheet items.	Haircut applied on the value of securities investments. Haircut applied on the value of real-estate investments.	The change in the amount of haircuts applied would cause the change of valuation result. The haircuts applied also depend on the quality of security and real-estate investments present in the fund's balance sheet.
5) Investment funds (Note 7)	Quity securities Corporate	Assets HRK 4 million Liabilities –	Assets – Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
6) Financial assets available for sale (Note 9)	Equity securities	Assets HRK 1 million Liabilities –	Assets – Liabilities –	Level 2	Discounted cash flow. Discounted at a rate that reflects the market interest rate including credit risk of various counterparties.	Not applicable	Not applicable
	Equity securities	Assets HRK 5 million Liabilities –	Assets HRK 4 million Liabilities –	Level 3	Valuation based on median of various valuations which take into account peer group analyses and company's fundamental data; Valuation based on company's fundamental data with liquidity haircut applied.	Haircut applied on the value of equity due to its low liquidity. The haircut is based on 10y government HRK bond yield or on company's fundamental data) due to its low liquidity.	The change of the liquidity haircut would have an impact (in opposite direction) on the price based on company's fundamental data.

51. Capital management

The Group's lead regulator, the CNB, sets and monitors capital requirements for the Group as a whole. The amount of capital allocated by individual activity is based primarily on regulatory requirements. The procedure of capital allocation for specific activities is performed independently from responsible personnel for certain activities.

Even though the maximization of yield on risk weighted capital represents the most important basis used for determining capital allocation within the Group to individual activities, it is not the sole basis used for decision-making. Consideration is given to synergy with other activities, availability of the Management Board and other resources, and reconciliation of activities with the long-term strategic goals of the Group. The policies related to capital management and capital allocation are regularly reviewed by management.

Law of credit institutions prescribes capital adequacy rate to be at least 12%. Ratio is calculated between guarantee capital and the sum of the credit weighted assets and other risk exposures. The capital requirement for operational risk is determined using the standardised approach.

The computation of capital adequacy ratio in accordance with CNB regulations is presented in the following table.

HRK millions	Group 2013	Group 2012	Bank 2013	Bank 2012
Guarantee capital				
Core capital	5,068	5,139	4,896	4,974
Deductions	(65)	(65)	(321)	(232)
Total guarantee capital	**5,003**	**5,074**	**4,575**	**4,742**
Credit-risk-weighted assets	23,533	24,575	20,352	21,499
Currency risk exposure	260	400	246	395
Position risk exposure	1,076	1,093	1,015	1,097
Settlement and counterparty risk exposure	–	–	–	–
Operational risk exposure	3,455	3,584	2,811	2,916
Credit-risk-weighted assets and other risk exposures	**28,324**	**29,652**	**24,424**	**25,907**
Capital adequacy ratio %	**17.66**	**17.11**	**18.73**	**18.30**

52. Subsequent events

The Bank has signed a subordinated loan agreement with RBI amounting to EUR 60 million as of 31 January 2014. The Bank will use the subordinated loan to increase its Tier 2 Capital. Repayment of the loan will be a bullet payment on 20 February 2020.

During 2014 there were following changes in the officers of the Bank:

- Mario Žižek, member of the Management Board – deputy President of the Management Board from 28 January 2014,
- Vlasta Žubrinić-Pick, member of the Management Board until 1 January 2014 and
- Vlasta Žubrinić-Pick, advisor to the Management Board from 1 January 2014.

Appendix I

Regulatory forms requested by the Croatian National Bank

Pursuant to the Croatian Accounting Law (Official Gazette 109/07) Croatian National Bank issued the Decision on structure and contents of annual financial statement of the banks (Official Gazette 62/08). The following tables present financial statements in accordance to the above mentioned decision:

Consolidated Income Statement

HRK millions	2013	2012
Unaudited		
1. Interest income	1,845	2,140
2. (Interest expenses)	(695)	(955)
3. Net interest income	**1,150**	**1,185**
4. Commission and fee income	579	530
5. (Commission and fee expenses)	(188)	(165)
6. Net commission and fee income	**391**	**365**
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	–	–
8. Gain/(loss) from trading activities	67	59
9. Gain/(loss) from embedded derivatives	–	–
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss	(48)	(49)
11. Gain/(loss) from financial assets available for sale	–	21
12. Gain/(loss) from financial assets held to maturity	13	9
13. Gain/(loss) from hedging transactions	–	–
14. Income from investments in subsidiaries, affiliated companies and joint ventures	–	–
15. Income from other equity investments	–	1
16. Gain/(loss) from foreign exchange differences	134	65
17. Other income	401	404
18. Other expenses	(82)	(52)
19. General and administrative expenses, depreciation and amortization	(1,163)	(1,176)
20. Net income before value adjustments and provisions for losses	**863**	**832**
21. Expenses from value adjustments and provisions for losses	(479)	(408)
22. Profit/(loss) before tax	**384**	**424**
23. Income tax	(89)	(85)
24. Current year profit/(loss)	**295**	**339**
25. Earnings per share	HRK 85	HRK 93

Appendix to the Income Statement

	2013	2012
Current year profit/(loss)	295	339
Distributable to the parent company shareholders	309	336
Minority participation	(14)	3

Regulatory forms requested by the Croatian National Bank (continued)

Consolidated Balance Sheet

HRK millions	2013	2012
Unaudited		
Assets		
1. Cash and deposits with CNB	4,026	4,393
1.1. Cash	622	658
1.2. Deposits with CNB	3,404	3,735
2. Deposits with banking institutions	1,071	1,631
3. Treasury bills of Ministry of Finance and treasury bills of CNB	438	828
4. Securities and other financial instruments held for trading	2,264	1,647
5. Securities and other financial instruments available for sale	83	96
6. Securities and other financial instruments held to maturity	780	779
7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	826	1,596
8. Derivative financial assets	54	66
9. Loans to financial institutions	457	669
10. Loans to other clients	23,619	24,444
11. Investments in subsidiaries, affiliated companies and joint ventures	–	–
12. Repossessed assets	120	134
13. Tangible and intangible assets (minus depreciation and amortisation)	1,798	1,668
14. Interests, fees and other assets	644	670
A. Total assets	**36,180**	**38,621**
Liabilities and equity		
1. Borrowings from financial institutions	3,415	2,021
1.1. Short-term borrowings	411	834
1.2. Long-term borrowings	3,004	1,187
2. Deposits	21,904	23,117
2.1. Deposits on giro-accounts and current accounts	5,827	5,216
2.2. Savings deposits	3,069	2,994
2.3. Term deposits	13,008	14,907
3. Other borrowings	3,480	5,654
3.1. Short-term borrowings	1,200	116
3.2. Long-term borrowings	2,280	5,538
4. Derivative financial liabilities and other trading financial liabilities	645	1,026
5. Issued debt securities	–	–
5.1. Issued short-term debt securities	–	–
5.2. Issued long-term debt securities	–	–
6. Issued subordinated instruments	–	–
7. Issued subordinated debt	–	–
8. Interests, fees and other liabilities	1,207	1,192
B. Total liabilities	**30,651**	**33,010**

Regulatory forms requested by the Croatian National Bank (continued)

Consolidated Balance Sheet (Continued)

HRK millions	2013	2012
Equity		
1. Share capital	3,633	3,633
2. Minority participation	62	80
3. Current year gain/loss	309	336
4. Retained earnings/(loss)	1,336	1,370
5. Legal reserves	178	178
6. Statutory and other capital reserves	1	1
7. Unrealised gain/(loss) from available for sale fair value adjustment	10	13
C. Total equity	**5,529**	**5,611**
D. Total liabilities and equity	**36,180**	**38,621**

Appendix to the Balance Sheet

	2013	2012
Total equity	5,529	5,611
Equity distributable to parent company shareholders	5,467	5,531
Minority participation	62	80

Regulatory forms requested by the Croatian National Bank (continued)

Consolidated Cash Flow Statement

HRK millions	2013	2012
Unaudited		
1.1. Gain/(loss) before tax	384	424
1.2. Value adjustments and provisions for losses	479	407
1.3. Depreciation and amortization	220	244
1.4. Net unrealised (gain)/loss from financial assets and liabilities at fair value through profit and loss	123	(160)
1.5. Gain/(loss) from tangible assets sale	–	–
1.6. Other (gains)/losses	(1,360)	(1,290)
1. Operating cash flow before operating assets movements	**(154)**	**375**
2.1. Deposits with CNB	100	308
2.2. Treasury bills of Ministry of Finance and treasury bills of CNB	390	153
2.3. Deposits with banking institutions and loans to financial institutions	171	(25)
2.4. Loans to other clients	449	2,122
2.5. Securities and other financial instruments held for trading	(744)	(11)
2.6. Securities and other financial instruments available for sale	14	44
2.7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	815	(258)
2.8. Other operating assets	1,896	2,102
2. Net (increase)/decrease in operating assets	**3,091**	**4,435**
Increase/(decrease) in operating liabilities		
3.1. Demand deposits	610	523
3.2. Savings and term deposits	(1,189)	(1,144)
3.3. Derivative financial liabilities and other trading liabilities	(380)	284
3.4. Other liabilities	(503)	(1,372)
3. Net increase/(decrease) in operating liabilities	**(2,162)**	**(1,709)**
4. Net cash flow form operating activities before profit tax paying	**775**	**2,351**
5. Paid profit tax	(124)	(112)
6. Net inflows/(outflows) of cash from operating activities	**651**	**2,239**
Investing activities		
7.1. Receipts from sale/(payments for purchasing) tangible and intangible assets	(309)	(108)
7.2. Receipts from sale/(payments for buying) investments in subsidiaries, affiliated companies and joint ventures	–	–
7.3. Receipts from collection/(payments for buying) securities and other financial instruments held to maturity	(9)	(42)
7.4. Received dividends	–	–
7.5. Other receipts/(payments) form investment activities	24	153
7. Net cash flow from investing activities	**(294)**	**3**

Regulatory forms requested by the Croatian National Bank (continued)

Consolidated Cash Flow Statement (Continued)

HRK millions	2013	2012
Financial activities		
8.1. Net increase/(decrease) in borrowings	(821)	(1,896)
8.2. Net increase/(decrease) in issued debt securities	–	–
8.3. Net increase/(decrease) in subordinated and subordinated debt	–	–
8.4. Receipts from issued share capital	–	–
8.5. (Dividends paid)	(367)	(551)
8.6. Other receipts/(payments) from financial activities	–	–
8. Net cash flow from financial activities	(1,188)	(2,447)
9. Net increase/(decrease) in cash and cash equivalents	(831)	(205)
10. Effects from foreign exchange rates changes on cash and cash equivalents	(12)	13
11. Net increase/(decrease) in cash and cash equivalents	(843)	(192)
12. Cash and cash equivalents at the beginning of the year	3,544	3,736
13. Cash and cash equivalents at the end of the year	2,701	3,544

Regulatory forms requested by the Croatian National Bank (continued)

Consolidated Statement of Changes in Equity

HRK millions	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ loss	Unrealised gain/ losses from available for sale financial assets fair value adjustment	Minority partici-pation	Total capital and reserves
Unaudited								
1. Balance at 1 January 2013	**3,633**	**–**	**179**	**1,706**	**–**	**13**	**80**	**5,611**
2. Changes of Accounting policies and error corrections	–	–	–	–	–	–	–	–
3. Restated current year balance	**3,633**	**–**	**179**	**1,706**	**–**	**13**	**80**	**5,611**
4. Sale of financial assets available for sale	–	–	–	–	–	–	–	–
5. Fair value changes of financial assets available for sale	–	–	–	–	–	(3)	–	(3)
6. Tax on items directly recognised or transferred from capital and reserves	–	–	–	–	–	–	–	–
7. Other gains or losses directly recognised in capital and reserves	–	–	–	–	–	–	–	–
8. Net gains/losses directly recognised in capital and reserves	**–**	**–**	**–**	**–**	**–**	**(3)**	**–**	**(3)**
9. Current year gain/(loss)	–	–	–	–	309	–	(14)	295
10. Total income and expenses recognised for the current year	**–**	**–**	**–**	**–**	**309**	**–**	**(14)**	**295**
11. Increase/(decrease) in share capital	–	–	–	–	–	–	–	–
12. Buying/(sale) of treasury shares	–	–	–	–	–	–	–	–
13. Other changes	–	–	–	(7)	–	–	–	(7)
14. Transfer to reserves	–	–	–	–	–	–	–	–
15. Dividends paid	–	–	–	(363)	–	–	(4)	(367)
16. Distribution of profit	**–**	**–**	**–**	**(370)**	**–**	**–**	**(4)**	**(374)**
17. Balance at 31 December 2013	**3,633**	**–**	**179**	**1,336**	**309**	**10**	**62**	**5,529**

Regulatory forms requested by the Croatian National Bank (continued)

Consolidated Statement of Changes in Equity (continued)

HRK millions	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ loss	Unrealised gain/ losses from available for sale financial assets fair value adjustment	Minority partici-pation	Total capital and reserves
Unaudited								
1. Balance at 1 January 2012	**3,633**	**–**	**179**	**1,921**	**–**	**10**	**77**	**5,820**
2. Changes of Accounting policies and error corrections	–	–	–	–	–	–	–	–
3. Restated current year balance	**3,633**	**–**	**179**	**1,921**	**–**	**10**	**77**	**5,820**
4. Sale of financial assets available for sale	–	–	–	–	–	(14)	–	–
5. Fair value changes of financial assets available for sale	–	–	–	–	–	17	–	–
6. Tax on items directly recognised or transferred from capital and reserves	–	–	–	–	–	–	–	–
7. Other gains or losses directly recognised in capital and reserves	–	–	–	–	–	–	–	–
8. Net gains/losses directly recognised in capital and reserves	**–**	**–**	**–**	**–**	**–**	**3**	**–**	**3**
9. Current year gain/(loss)	–	–	–	–	336	–	3	339
10. Total income and expenses recognised for the current year	**–**	**–**	**–**	**–**	**336**	**–**	**3**	**339**
11. Increase/(decrease) in share capital	–	–	–	–	–	–	–	–
12. Buying/(sale) of treasury shares	–	–	–	–	–	–	–	–
13. Other changes	–	–	–	–	–	–	–	–
14. Transfer to reserves	–	–	–	–	–	–	–	–
15. Dividends paid	–	–	–	(551)	–	–	–	(551)
16. Distribution of profit	**–**	**–**	**–**	**(551)**	**–**	**–**	**–**	**(551)**
17. Balance at 31 December 2012	**3,633**	**–**	**179**	**1,370**	**336**	**13**	**80**	**5,611**

Appendix I

Regulatory forms requested by the Croatian National Bank (continued)

As data in financial statements prepared in accordance with the Croatian National Bank ("CNB") decision are classified differently from those in financial statements prepared according to the statutory accounting requirements for banks in Croatia the following tables present comparatives.

Comparatives for the income statement for years ended 31 December 2013 and 2012

HRK millions	2013 Croatian National Bank decision	2013 Accounting Requirements for banks in Croatia	2013 Difference	2012 Croatian National Bank decision	2012 Accounting Requirements for banks in Croatia	2012 Difference
Interest and interest similar income	1,845	1,856	(11)	2,140	2,146	(6)
Interest and interest similar expenses	(695)	(653)	(42)	(955)	(955)	–
Net interest income	**1,150**	**1,203**	**(53)**	**1,185**	**1,191**	**(6)**
Commission and fee income	579	579	–	530	530	–
Commission and fee expenses	(188)	(229)	41	(165)	(188)	23
Net commission and fee income	**391**	**350**	**41**	**365**	**342**	**23**
Net trading gain	19	150	(131)	10	76	(66)
Gain/(loss) from financial assets available for sale	–	–	–	21	–	21
Gain/(loss) from financial investments held to maturity	13	–	13	9	–	9
Income from other equity investments	–	–	–	1	–	1
Net foreign exchange differences	134	–	134	65	–	65
Other operating income	401	381	20	404	408	(4)
Total other income	**567**	**531**	**36**	**404**	**484**	**26**
General and administrative expenses, depreciation and amortization	(1,163)	(1,208)	45	(1,176)	(1,186)	10
Expenses from value adjustments and provisions for losses	(479)	(492)	13	(408)	(407)	(1)
Other operating expenses	(82)	–	(82)	(52)	–	(52)
Total other expenses	**(1,724)**	**(1,700)**	**(24)**	**(1,636)**	**(1,593)**	**(43)**
Profit before tax	**384**	**384**	**–**	**424**	**424**	**–**
Income tax	(89)	(89)	–	(85)	(85)	–
Net profit for the year	**295**	**295**	**–**	**339**	**339**	**–**
Earnings per share (in HRK)	**85**	**85**	**–**	**93**	**93**	**–**

Appendix I

Regulatory forms requested by the Croatian National Bank (continued)

- Interest and similar income is higher in the annual report prepared according to the accounting requirements for banks in Croatia by the amount of interest income of previously write offs. According to CNB methodology this income is represented in value adjustments.

- According to CNB methodology net foreign exchange differences are classified in positions net interest income, net commission income and expenses from value adjustments. In annual report all foreign exchange differences are classified in net trading gain.

- Deposit insurance costs are classifed as administrative expenses while in CNB report they are part of interest expenses.

- In the income statement presented in accordance with statutory accounting requirements for banks in Croatia rechargeable credit insurance costs increased the position fee and commissions expenses while according to CNB methodology those expenses are recognised as general and administrative expenses.

- In the income statement presented in accordance with statutory accounting requirements for banks in Croatia position provision for employee retirement, unused vacations and for court cases are recognised as impairment losses on provisions for liabilities and charges while in CNB report they are part of other operating expenses.

- Expenses for donations, advertising, promotions and representations are also reclassified from other expenses to administrative expenses in the income statement presented in accordance with statutory accounting requirements for banks in Croatia.

Appendix I

Regulatory forms requested by the Croatian National Bank (continued)

Comparatives for the balance sheet at 31 December 2013 and 31 December 2012

HRK millions	2013 Croatian National Bank decision	2013 Accounting Requirements for banks in Croatia	2013 Difference	2012 Croatian National Bank decision	2012 Accounting Requirements for banks in Croatia	2012 Difference
Assets						
Cash and deposits with CNB	4,026	3,845	181	4,393	4,612	(219)
Treasury bills of Ministry of Finance and CNB	438	–	438	828	–	828
Financial assets at FVTPL	3,090	3,610	(520)	3,243	4,139	(896)
Financial investments held to maturity	780	795	(15)	779	779	–
Placements with and loans to other banks	1,071	1,622	(551)	1,631	2,080	(449)
Loans and receivables	24,076	23,844	232	25,113	24,446	667
Available for sale financial assets	83	85	(2)	96	96	–
Repossessed assets	120	–	120	134	–	134
PPE and intangible assets	1,798	1,746	52	1,668	1,657	11
Derivative financial assets	54	–	54	66	–	66
Deferred tax assets	–	217	(217)	–	233	(233)
Other assets	644	388	256	670	571	99
Total assets	**36,180**	**36,152**	**28**	**38,621**	**38,613**	**8**
Liabilities						
Due to other banks and deposits from customers	28,799	29,138	(339)	30,792	30,904	(112)
Long-term issued debt securities	–	–	–	–	–	–
Provisions for liabilities and charges	–	172	(172)	–	141	(141)
Derivative financial liabilities and other trading financial liabilities	645	651	(6)	1,026	833	193
Other liabilities	1,207	662	545	1,192	1,124	68
Total liabilities	**30,651**	**33,623**	**28**	**33,010**	**33,002**	**8**

Appendix I

Regulatory forms requested by the Croatian National Bank (continued)

Comparatives for the balance sheet at 31 December 2013 and 31 December 2012 (continued)

HRK millions	2013 Croatian National Bank decision	2013 Accounting Requirements for banks in Croatia	2013 Difference	2012 Croatian National Bank decision	2012 Accounting Requirements for banks in Croatia	2012 Difference
Subordinated debt						
Equity						
Share capital	3,633	3,633	–	3,633	3,633	–
Net profit for the year	309	309	–	336	336	–
Retained earnings/(loss carried forward)	1,336	1,336	–	1,370	1,370	–
Hedging reserve	–	–	–	–	–	–
Unrealised gain/(loss) from available for sale fair value adjustment	10	10	–	13	13	–
Reserves	179	179	–	179	179	–
Total equity	**5,467**	**5,467**	**–**	**5,531**	**5,531**	**–**
Total liabilities and equity	**36,118**	**36,090**	**28**	**38,541**	**38,533**	**8**

Appendix I

Regulatory forms requested by the Croatian National Bank (continued)

The difference in total assets and total liabilities of HRK 28 million as of 31 December 2013 (2012: HRK 8 millions) is the result od different presentation of deferred tax and tax liabilities in the balance sheet presented according to the CNB decision and the balance sheet presented in the other assets or other liabilities presented in accordance with statutory accounting requirements for banks in Croatia.

- Cash and balances with the CNB – balances on accounts with other banks and and compulsory CNB bills have been reclassified from/to placements with other banks.

- Financial assets at fair value through profit or loss – the difference relates to the Treasury bills of the Ministry of Finance, the fair value of derivatives and spot transactions and accrued interests.

- Financial investments held to maturity – the difference is the result of accrued interest.

- Loans and receivables – loans and advances to credit institutions that have been reclassified to loans to other banks, accrued interest from other assets.

- Deferred tax assets have been presented in the balance sheet under the bank accounting requirements in Croatia as a separate line item, whereas in the balance sheet as per the CNB Decision they are included in other assets.

- Prepaid rents, repossessed and small inventory have been reclassified in the Annual Report in other assets.

- In the Annual Report, restricted deposits and other liabilities (deposits on the escrow account, investments in equity instruments of domestic corporate issuers) have been reclassified from other liabilities (under the CNB methodology) into deposits from other banks and customers.

- The difference in the position derivative financial liabilities and other trading financial trading liabilities is related to the accrued interest reclassified to the other liability position.

- Provisions for risks and charges are presented separately in the Annual Report. Under the CNB methodology, they are presented within other liabilities.

Supplementary financial statements expressed in EUR and USD

Supplementary financial statements of the Group and Bank are given only for illustration and not represent part of the audited financial statements.

Statement of financial position and statement of comprehensive income reported in the audited financial statements, are translated into EUR and USD usig the following exchange rates at each year end:

31 December 2013	31 December 2012
1 EUR = HRK 7.637643	1 EUR = HRK 7.545624
1 USD = HRK 5.549000	1 USD = HRK 5.726794

Consolidated statement of financial position as of 31 December 2013

Group	2013 EUR millions	2013 USD millions	2012 EUR millions	2012 USD millions
Assets				
Cash and amounts due from banks	237	327	277	364
Obligatory reserve with the Croatian National Bank	266	366	329	434
Financial assets at fair value through profit or loss	473	651	553	728
Placements with and loans to other banks	212	292	273	360
Financial assets available for sale	11	15	13	17
Loans and advances to customers	3,122	4,297	3,249	4,280
Financial investments held to maturity	104	143	105	138
Property, plant and equipment	203	280	193	255
Intangible assets	25	35	26	34
Deferred tax assets	29	39	31	41
Other assets	51	70	50	66
Total assets	**4,733**	**6,515**	**5,099**	**6,717**

Group	2013 EUR millions	2013 USD millions	2012 EUR millions	2012 USD millions
Liabilities				
Financial liabilities at fair value through profit or loss	85	117	112	147
Deposits from banks	71	98	78	103
Deposits from companies and other similar entities	1,002	1,379	1,093	1,440
Deposits from individuals	1,836	2,527	1,934	2,548
Borrowings	906	1,248	1,018	1,341
Provisions for liabilities and charges	23	31	19	25
Other liabilities	87	119	100	133
Total liabilities	**4,010**	**5,519**	**4,354**	**5,737**
Equity				
Share capital	474	653	480	632
Share premium	2	2	2	2
Capital reserve	–	–	–	–
Legal reserve	23	32	24	31
Fair value reserve	1	2	2	2
Retained earnings	215	296	226	299
Total equity attributable to equity holders of the parent	**715**	**985**	**734**	**966**
Non-controlling interest	8	11	11	14
Total equity	**723**	**996**	**745**	**980**
Total liabilities and equity	**4,733**	**6,515**	**5,099**	**6,717**

Consolidated statement of comprehensive income for the year ended 31 December 2012

Group	2013 EUR millions	2013 USD millions	2012 EUR millions	2012 USD millions
Interest and similar income	243	335	284	375
Interest expense and similar charges	(86)	(118)	(122)	(161)
Net interest income	**157**	**217**	**162**	**214**
Fee and commission income	76	104	70	93
Fee and commission expense	(30)	(41)	(25)	(33)
Net fee and commission income	**46**	**63**	**45**	**60**
Net trading income	20	27	10	13
Other operating income	50	69	54	71
Dealing and other income	**70**	**96**	**64**	**84**
Operating income	**273**	**376**	**271**	**358**
Operating expenses	(158)	(218)	(161)	(213)
Impairment losses on loans and advances to customers and other assets	(61)	(83)	(56)	(74)
Reversal of impairment losses on provisions for liabilities and charges	(4)	(6)	2	3
Profit before tax	**50**	**69**	**56**	**74**
Income tax expense	(12)	(16)	(11)	(15)
Profit for the year	**38**	**53**	**45**	**59**
Other comprehensive income				
Net revaluation gain on available for sale financial instruments	–	1	–	1
Other comprehensive income for the year, net of tax	**–**	**1**	**–**	**1**
Total comprehensive income for the year	**38**	**54**	**45**	**60**
Profit attributable to:				
– Equity holders of the parent	40	56	44	58
– Non-controlling interest	(2)	(2)	1	1
Earnings per share attributable to the equity holders of the parent	**EUR 11**	**USD 15**	**EUR 12**	**USD 16**

Unconsolidated statement of financial position as of 31 December 2013

Bank	2013 EUR millions	2013 USD millions	2012 EUR millions	2012 USD millions
Assets				
Cash and amounts due from banks	232	320	276	364
Obligatory reserve with the Croatian National Bank	266	366	329	434
Financial assets at fair value through profit or loss	461	634	547	721
Placements with and loans to other banks	190	262	263	346
Financial assets available for sale	1	1	1	1
Loans and advances to customers	2,892	3,981	3,025	3,985
Financial investments held to maturity	81	111	81	107
Investments in subsidiaries	39	54	28	37
Property, plant and equipment	58	80	61	80
Intangible assets	25	34	26	34
Deferred tax assets	27	38	31	40
Other assets	49	67	45	59
Total assets	**4,321**	**5,948**	**4,713**	**6,208**

Unconsolidated statement of financial position as of 31 December 2013 (continued)

Bank	2013 EUR millions	2013 USD millions	2012 EUR millions	2012 USD millions
Liabilities				
Financial liabilities at fair value through profit or loss	85	118	112	148
Deposits from banks	71	98	78	103
Deposits from companies and other similar entities	1,034	1,423	1,098	1,447
Deposits from individuals	1,835	2,526	1,934	2,548
Borrowings	536	737	690	909
Provisions for liabilities and charges	21	29	17	22
Other liabilities	39	55	64	84
Total liabilities	**3,621**	**4,986**	**3,993**	**5,261**
Equity				
Share capital	474	653	480	632
Share premium	2	2	2	2
Capital reserve	–	–	–	–
Legal reserve	23	31	23	30
Fair value reserve	–	–	–	–
Retained earnings	201	276	215	283
Total equity	**700**	**962**	**720**	**947**
Total liabilities and equity	**4,321**	**5,948**	**4,713**	**6,208**

Unconsolidated statement of comprehensive income for the year ended 31 December 2013

Bank	2013 EUR millions	2013 USD millions	2012 EUR millions	2012 USD millions
Interest and similar income	224	309	268	353
Interest expense and similar charges	(78)	(108)	(110)	(145)
Net interest income	**146**	**201**	**158**	**208**
Fee and commission income	62	86	58	77
Fee and commission expense	(26)	(35)	(21)	(28)
Net fee and commission income	**36**	**51**	**37**	**49**
Net trading income	18	24	10	12
Other operating income	11	15	19	25
Dealing and other income	**29**	**39**	**29**	**37**
Operating income	**211**	**291**	**224**	**294**
Operating expenses	(109)	(150)	(113)	(149)
Impairment losses on loans and advances to customers and other assets	(55)	(76)	(56)	(73)
Reversal of Impairment losses on provisions for liabilities and charges	(4)	(6)	2	3
Profit before tax	**43**	**59**	**57**	**75**
Income tax expense	(7)	(9)	(9)	(12)
Profit for the year	**36**	**50**	**48**	**63**
Other comprehensive income				
Net value gain on available for sale financial instruments	–	–	(2)	(3)
Other comprehensive income for the year, net of tax	**–**	**–**	**(2)**	**(3)**
Total comprehensive income for the year	**36**	**50**	**46**	**60**
Earnings per share	**EUR 10**	**USD 14**	**EUR 13**	**USD 18**

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ISSN: 1334–7756
Publisher: Raiffeisenbank Austria d.d. Zagreb