Annual Report 2014

Raiffeisen BANK

Annual Report 2014

Survey of key data

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

	2014	Change	2013	2012
Income statement				
Net interest income	1,182	(1.75%)	1,203	1,227
Net commission income	388	10.86%	350	342
Trading profit (loss)	194	29.33%	150	76
Administrative expenses	(1,263)	4.55%	(1,208)	(1,222)
Profit before tax	465	21.09%	384	424
Profit after tax	364	23.39%	295	339
Consolidated profit	361	16.83%	309	336
Balance Sheet				
Loans and advances to banks	1,428	(11.96%)	1,622	2,060
Loans and advances to customers	21,780	(8.66%)	23,844	24,513
Deposits from banks	302	(44.38%)	543	588
Deposits from customers	23,527	8.56%	21,672	22,840
Borrowings	5,345	(22.79%)	6,923	7,682
Equity	5,052	(7.59%)	5,467	5,531
Balance-sheet total	35,887	(0.73%)	36,152	38,468
Regulatory own funds				
Own funds	4,885	(2.36%)	5,003	5,074
Total capital requirement*	2,071	(39.07%)	3,399	3,558
Core capital ratio	17.10%	(0.56 PP)	17.66%	17.11%
Total capital ratio	18.87%	1.21 PP	17.66%	17.11%
Performance				
Return on equity (ROE) before tax	8.87%	1.26 PP	7.61%	7.73%
Cost/income ratio	59.16%	1.19 PP	57.97%	59.52%
Earnings per share(HRK)	100	17.65%	85	93
Return on assets (ROA) before tax	1.29%	0.26 PP	1.03%	1.06%
Provisions for possible loan losses/risk - weighted assets	1,182	2.81%	9.03%	7.49%
Resources				
Employees as at reporting date	2,329	2.42%	2,274	2,354
Banking outlets on reporting date	70	–	70	73

*year 2014 Basel III methodology (8%), year 2013 Basel II methodology (12%)

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 2014 Annual Report as audited by Deloitte.

Last year, Raiffeisenbank Austria's profit after tax amounted to HRK 294 million (plus 7 per cent); profit at the local group level stood at HRK 364 million (plus 23 per cent). These results were achieved under difficult market conditions. Although the average profitability of the banking sector returned to the level of long-term Croatian kuna bonds after a negative deviation in 2013, market conditions did not permit growth in banking operations. Positive effects were achieved through decreasing risk provisions for portfolio risk, which was ultimately responsible for the increase in profit.

Although interest rates on loans continued to fall, the demand for loans did not recover last year. Furthermore, Croatia's financial markets saw increased liquidity, which increased pressure on declining market interest rates. The deleveraging process of the private sector continued, but state and public-sector corporations increasingly borrowed abroad. Hence, a greater supply of capital on foreign financial markets, influenced by the expansive monetary policies of central banks in the region, had a negative effect on the take-up of the banking sector's loan potential. The increase in client deposits steered banks to reduce secondary sources of financing.

The negative economic trends of the past few years have lessened gradually, but positive effects on the operations of banks and other financial institutions are yet to be felt. The absence of growth in business activity and the rise of unemployment in the corporate sector resulted in a reduction of the average creditworthiness of borrowers and greater difficulties in collection of outstanding debt. Furthermore, regulatory changes regarding consumer loans had a negative impact on banks' operating results. Since the beginning of 2014, interest rate restrictions on consumer loans have been in place. With regard to loans indexed to foreign currencies, consumers have been protected by a drop in interest rates during periods of significant exchange rate fluctuations. The class action launched by debtors before the competent court due to the indexing of loans to the Swiss franc poses the greatest risk for the banks' operations:. The final judgment was delivered in the middle of last year. It did not dispute the use of currency clauses in consumer contracts, but offered debtors the opportunity to individually object any contract with a unilaterally variable interest rate.

After Croatia's accession to the European Union, competition between banks and the availability of alternative financial services increased. Along with faster technological changes, this represents a strategic challenge for the operations of Raiffeisenbank Austria and its local group. In 2014, changes were made to the management structure and the organization of business sectors in order to adjust to the changed operating conditions. Adjustment of the product range to the demands of clients was achieved by improving business processes and developing services.

The local Raiffeisen Group expanded by taking over Raiffeisen Stambena Štedionica d.d., thus unifying the offer of savings and loan products for households. The range of savings and investment products was improved by products developed in cooperation between Raiffeisenbank Austria and Raiffeisen Invest d.d. Regulatory changes to the management of pension funds allowed the merging of subsidiaries for managing mandatory and voluntary pension funds, which increased efficiency in pension fund management.

Despite a reduction in assets, Raiffeisenbank Austria maintained its position as one of the leading loan institutions on the Croatian market. Together with the local group, it offers its customers a comprehensive range of high-quality financial products and services. Customers from all sectors are offered access to our products and services through our extensive sales network, comprising 70 branches as well as alternative electronic distribution channels.

In the corporate sector, the offer of loans from local and international development bank funds was increased, as was the support for using European Union funding. Small and medium-sized enterprises are financed within the local group through factoring for working capital needs and through leasing for fixed-asset investments. Household loans slowly decrease continued against a backdrop of reduced employment and stagnation in households' real income. There is considerable fear of accumulating debt among households due to expectations of a fall in the standard of living and concerns over their future ability to repay loans, resulting in households delaying the purchase of durable goods. The announcement of the introduction of a property tax adversely affected the demand for mortgage loans. Only the demand for general-purpose loans could be maintained. These are approved in smaller amounts and with shorter terms than for fixed-purpose loans.

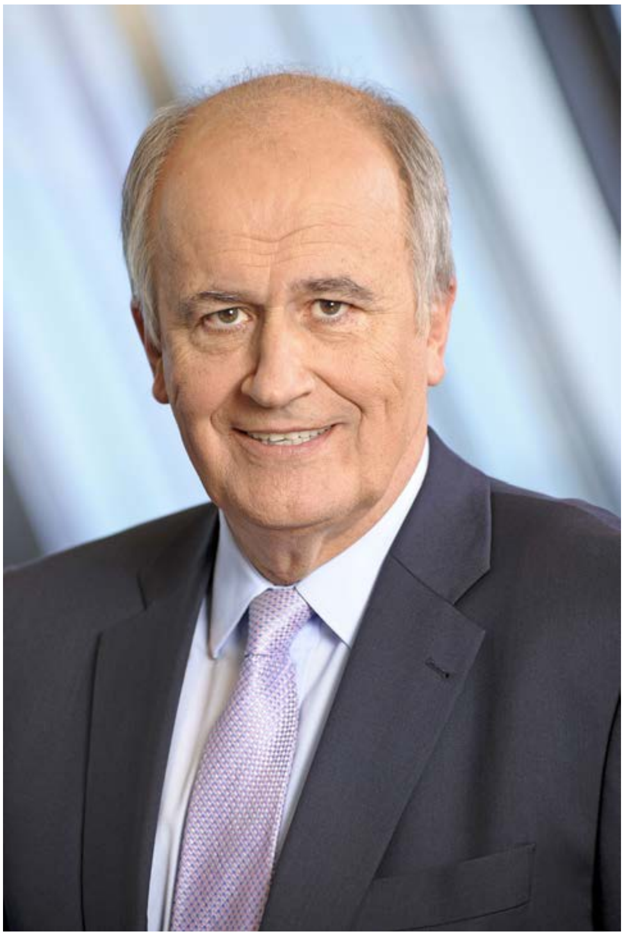
The adaptation of operations to market conditions and customer demand is essential for positive operating results. We continuously improve service quality and operational efficiency, and our main goal is to further increase customer satisfaction. All employees of our local group are determined to develop and maintain a comprehensive range of high-quality financial services. I would like to thank the management and all employees for their dedication to achieve the above goals. Finally, I would also like to thank all our clients and business partners and express my confidence that we will continue to work together successfully.

Michael Georg Müller
Chief Executive Officer

Report of the Supervisory Board

Ladies and Gentlemen,

At the beginning of 2014, Raiffeisen Bank International carried out a capital increase with gross proceeds of 2.78 billion. RZB participated in the capital increase, in addition to numerous institutional and private investors, and remained the majority shareholder of RBI. The capital increase enabled RBI to fully repay the participation capital held by the Republic of Austria and private investors and significantly improve its common equity tier 1 ratio (on a Basel III fully-loaded basis). The rest of the year was mainly impacted by the geopolitical and financial situation in Ukraine and Russia, which led to higher loan loss provisions, as did defaults of individual large customers in Asia. Significant one-off charges were also booked during the year, the largest item thereof being goodwill impairments. Further one-off effects included the write-down of deferred tax assets and costs resulting from legislation changes in Hungary. These factors contributed to the 493 million consolidated loss incurred in 2014, which was the first negative result in RBI's history. Apart from the costs caused by the Hungarian legislation, these one-offs had no impact on fully-loaded tier 1 common equity, and without them RBI would have reported a significantly positive net profit.



In February 2015, RBI resolved to take a number of steps to increase its capital buffer. The measures are intended to facilitate an improvement in the common equity tier 1 ratio (fully loaded) to 12 per cent by the end of 2017, compared to 10 per cent at the end of 2014. The planned steps include the sale or rescaling of units as well as reductions in total risk-weighted assets (RWA) in select markets, in particular in those which generate low returns, have high capital consumption or are of limited strategic fit. The implementation of these measures will result in an aggregate gross RWA reduction of approximately 16 billion by the end of 2017 (total RWA as at 31 December 2014: 68.7 billion). This reduction is expected to be partially offset by growth in other business areas.

As far as Raiffeisenbank Austria d.d. Zagreb is concerned, I am glad to state that our results reflect the successful adjustment of operations to the demanding market conditions. The sixth consecutive year of economic recession reduced customer demand for loans. Furthermore, our customers' greater risk aversion resulted in a decline in interest income, although this was offset by an increase in income from services. Our success in the sale of services was driven by implementing a process of streamlining operations during the period under review. Business processes were improved, and the efficiency of distribution channels was enhanced, as was the innovation of services in line with our customers' needs.

In a highly competitive market, timely streamlining was implemented in accordance with the highest operating standards of the RBI Group. By applying best practice through the transfer of experience, knowledge and skills within the group, synergies were generated. Operational support is thus continuously improving, and rising operational and regulatory demands can be met more easily.

Our risk management approach was confirmed by the asset quality review, which was carried out by a joint team of Austrian and Croatian regulators as part of the Comprehensive Assessment and Stress Test led by the European Central Bank. The results of the asset quality review had no impact on the capital of Raiffeisenbank Austria and the local group.

The local Group's profit after tax of HRK 364 million represents a 23 per cent increase compared to the previous year. The greatest contribution to this increase was made by risk charges, which could be reduced by 17 per cent. Thus, our conservative approach to risk management, adapted in response to challenging market conditions, is paying off.

I would like to take this opportunity to thank all employees of Raiffeisenbank Austria for their hard work and constant efforts to serve our customers and bring benefits to the entire Raiffeisen Group.

On behalf of the Supervisory Board,

Karl Sevelda
Chairman of the Supervisory Board

Macroeconomic environment

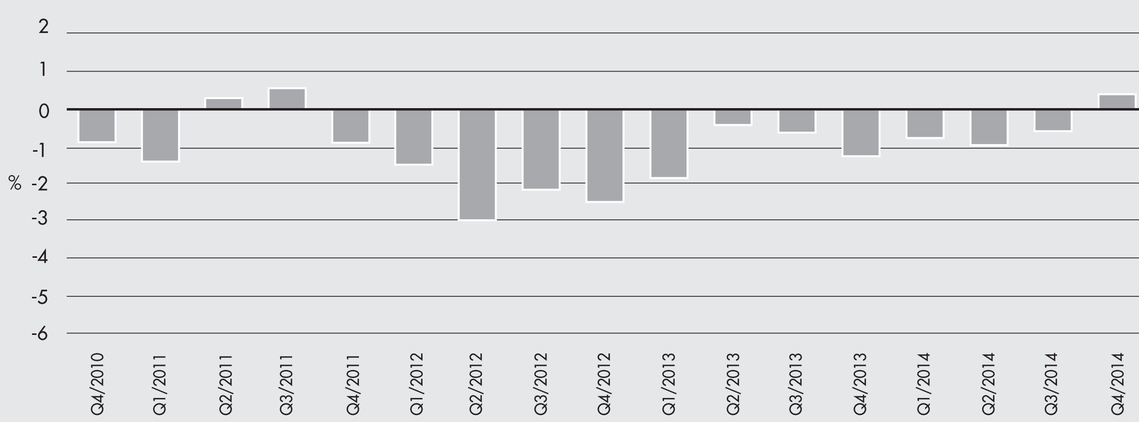
Economic review

In 2014 the global economy saw growth in the US economy (+2.4 per cent), relatively high growth rates in emerging market countries, and a slowdown in the Chinese economy, while the Eurozone achieved modest positive growth of 0.9 per cent from 2013. After an unexpected decline in economic activity in the first quarter, the American economy quickly recovered in the second part of the year, primarily influenced by a recovery in labor market indicators and the continuing trend of low benchmark interest rates. Due to weak fundamentals in comparison with the US and various central bank policies and deflationary pressures in the Eurozone, the US dollar strengthened against the euro. Meanwhile, the EU economy stagnated for the greater part of the year and ended with neutral and/or low growth rates, with relatively low inflation and a continuing trend of deleveraging in the household sector (due to adverse trends in the labor market). Certainly the most significant event of 2014 was the fall in the global crude oil price, which lost 50 per cent of its value in the second half of the year. Combined with the steep fall in the oil price strengthening deflationary pressures throughout Europe and the US, it had a particularly adverse effect on Russia whose currency depreciated sharply. The geopolitical conflicts that started in the Ukraine certainly left their mark on 2014, and consequently affected economic relations between the EU and Russia which, combined with the development of the Greek financial crisis, resulted in strong depreciatory pressures on the single European currency with regard to the US dollar. Positive growth rates, higher on average than in the rest of Europe, were posted in the countries of Central and Eastern Europe, with the exceptions of Serbia, Croatia, and Ukraine. Economic growth in these countries is largely based on domestic demand, both in the form of consumer consumption and private investment. Inflation fell to record low levels in most CEE countries. The economic activity of most of Croatia's trading partners in the Eurozone (particularly Germany) recorded solid results in the labor market and increased demand, which played a key role in the enhanced performance of Croatian exports during 2014. Meanwhile, Croatia's main external trading partners outside the Eurozone saw weak economic growth (Bosnia and Herzegovina recorded real GDP growth of 0.5 per cent while in the final quarter Serbia experienced the largest annual GDP decline in the region of -1.8 per cent). It is interesting to note that since Croatia joined the EU its trade deficit with EU countries has deepened, while on the other hand its foreign trade relations with CEFTA countries (primarily Bosnia and Herzegovina and Serbia) have strengthened.

Macroeconomic indicators

In 2014 the Croatian economy recorded a real GDP decline of 0.4 per cent having lost cumulatively over 12 per cent in real terms compared to the pre-crisis period. The largest negative contribution to the decline in real GDP last year was made by the import of goods, which recorded an annual real growth rate of 5.6 per cent. In addition to the import of goods, all components of domestic demand also negatively contributed to GDP in 2014. Affected by long-term weaknesses in the labor market, personal consumption continued its negative annual rates for the third consecutive year recording a decline of 0.7 per cent, while real public consumption was 1.9 per cent lower than 2013, resulting from demands for a stronger consolidation of public finances as part of the EDP procedure. Gross fixed capital formation

Gross domestic product, real annual changes (%)



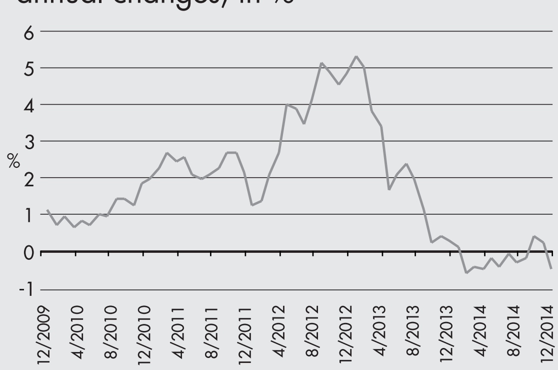
Source: CBS, Raiffeisen RESEARCH

also recorded a negative rate of annual change for the sixth consecutive year (-3.6 per cent). On the other hand, last year saw relatively strong growth in exports of goods and services (+7.3 per cent), as a result of growth in foreign demand, the positive effects of EU accession, and the significant impact of methodological differences resulting from Croatia's entry into the EU.

Looking at GDP by the production approach, last year the decline in the construction sector, which recorded a negative growth rate for the sixth consecutive year (-6.7 per cent) made the largest contribution to the real decline in gross value added. Meanwhile, the manufacturing industry recorded real growth in gross value added of 3.4 per cent in 2014 (after five consecutive years of decline) thus making the most significant positive contribution to the change in overall gross value added in 2014.

After a period of relatively stable crude oil prices with continuous gradual growth since 2010, the second half of 2014 somewhat unexpectedly saw a significant fall in price. The average crude oil price in December 2014 was over 40 per cent lower than the average price recorded in June 2014. Strong deflationary pressures consequently arose in 2014 (especially in the food and energy sectors), and inflation for the year, as measured by the consumer price index, was negative at -0.2 per cent. The producer price index on the domestic market also recorded a negative rate of change of -2.7 per cent annually, largely supported by imported deflationary pressures and weak domestic demand.

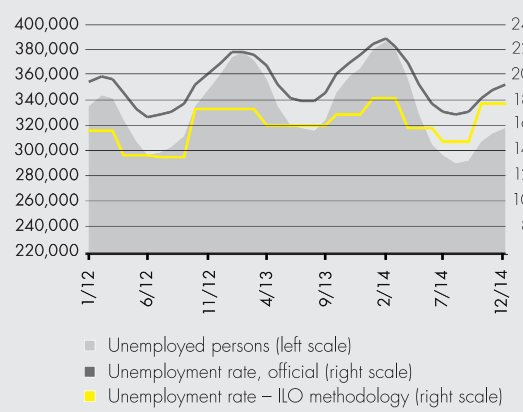
Consumer Price Index (inflation rate), annual changes, in %



Source: CBS, Raiffeisen RESEARCH

The sixth consecutive year of economic contraction also adversely affected (un)employment trends in 2014. The average number of unemployed in 2014 was 328,000, 4.9 per cent less than in 2013. However, at the same time the average number of people in employment in 2014 was 1.342 million almost 16,000 fewer than in 2013 (-1.1 per cent). Meanwhile, the average number of the active population in 2014 was 1.670 million, 32,481 fewer than in 2013 (-1.9 per cent). The relatively higher annual fall in unemployment compared to the fall in the workforce resulted in a slightly lower average unemployment rate of 19.6 per cent in 2014 (0.7 percentage points less than in 2013). It is worth mentioning that the average number of removals from the register of unemployed in 2014 exceeded 30,000 (9 per cent more than in 2013) of which the number of removals not related to new employment on average rose by 18.4 per cent compared to 2013. Also, according to the internationally comparable ILO methodology, in 2014 Croatia maintained its low level of employment (around 43 per cent) and extremely high unemployment rate of over 17 per cent, significantly higher than comparable countries in the region (Slovakia, Bulgaria, Slovenia and the Czech Republic had unemployment rates of 13.2 per cent, 11.4 per cent, 9.7 per cent and 6.1 per cent respectively).

Number of unemployed and registered unemployment rate



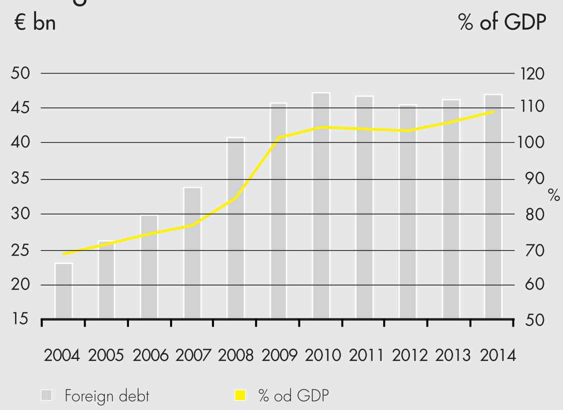
Source: CBS, CES, Raiffeisen RESEARCH

External relations

For the second consecutive year, Croatia finished with a surplus in the balance of payments on its current account. This was 280 million, or 0.7 per cent of GDP in 2014, thus halting the trend of improving the current account balance that has continued since 2009. The decline in the surplus (of over 20 per cent) was mainly the consequence of a worsening primary income account resulting from increases in the profits of companies and banks in foreign ownership.

On the other hand, the interest costs of foreign financing increased, primarily due to state borrowing, while a fall was recorded in other sectors. Comparatively strong growth in expenditure on the secondary income account (33 per cent) at the same time slight decline (0.5 per cent) led to the fall in the surplus (-24 per cent). These trends were largely as a consequence of weaker absorption of EU funds in comparison with the payments Croatia made to the EU budget. In the goods and services sub-account it was encouraging to note the surplus on the services account, which last year reached its highest nominal value since 2000 amounting to 7.3 billion. This result was primarily due to the increase in income from tourism, but also due to a decline in the deficit in the exchange of goods, resulting from higher growth rates in exports over imports (9.1 per cent versus 3.7 per cent).

Foreign debt



Source: CNB, Raiffeisen RESEARCH

The lack of domestic demand and continued deleveraging of certain sectors in the economy were reflected in the amount of gross foreign debt, which reached 46.7 billion, or 108.4 per cent of GDP at the end of 2014. Compared to 2013, foreign debt increased by a little over 700 million (1.5 per cent), which is also partly the result of high cross-currency changes in 2014. Namely, the US dollar strengthened against the euro on foreign exchange markets (over 11.5 per cent compared to the end of 2013), which had a significant impact on the nominal amount of debt. This is especially the case with general government foreign debt, taking into consideration the value of government bonds issued on the US market. Although five of the total of six emissions had currency protection from exchange risk built in (hedging), this is shown separately in the statistics, and the nominal statement of debt is greater than the actual balance. Therefore, if we exclude the effects of the above exchange-rate differences, gross foreign debt declined by HRK 0.3 billion in 2014. The largest contribution to this was made by credit institutions, which continued to deleverage in 2014 for the third consecutive year. At the same time the general government's share of foreign debt rose (to 33 per cent of total foreign debt) and by the end of the year amounted to 15.4 billion (+8.2 per cent).

Excluding the effect of so-called round-tripping, the total amount of foreign direct investment in Croatia in 2014 was 1.41 billion, 647 million higher than in 2013. Thus, after the high double-digit annual decline recorded in 2013 (-31 per cent), relatively significant growth in foreign direct investment was achieved in 2014 (+84 per cent) although this was mainly the result of the extremely low base in 2013 when the amount of foreign direct investment fell to a level of 766 million. Considering the sectoral structure of foreign direct investment last year, it can be seen that it mostly originates from financial intermediaries, then from investment in property and property business, from investing in hotels and restaurants, and from retailing.
The average EUR/HRK exchange-rate over the whole of 2014 was 7.63 kunas to the euro, or 0.8 per cent higher than in 2013. This is also the highest level of the currency since 2000, and is a consequence of the lack of inflows of foreign capital due to the adverse trends in the economy along with the existing demand for euros. At the same time, the fundamentally justified weakening of the kuna was somewhat milder due to last year's increase in the export of goods. As in previous years, the volatility of the EUR/HRK exchange rate was relatively low, with some mild seasonal variations during the tourism high season, with just a single currency intervention by the Croatian National Bank (HNB).

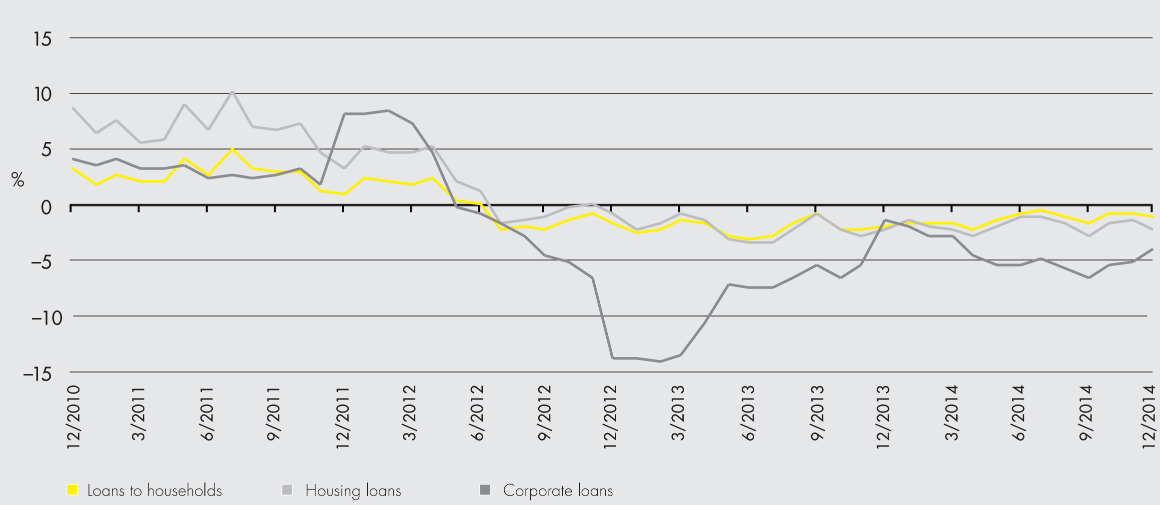
Fiscal and monetary movements

Last year saw many important events in the area of public finances. In January 2014, Croatia formally entered the excessive deficit procedure. At the recommendation of the European Commission, the Council of the EU adopted recommendations seeking from Croatia a resolution of its excessive budget deficit in accordance with EDP procedures. The Commission demanded a reduction in the general government deficit to a level below 3 per cent of GDP by 2016, and to start reducing public debt to below 60 per cent of GDP two years later. Reacting to the Council's recommendations, in April the Government passed the first revision of the state budget for 2014. Since this did not satisfy the criteria of the level of necessary consolidation measures (2.3 per cent of GDP) the Government later prepared an additional packet of fiscal measures (0.4 per cent of GDP). However, the most significant fiscal effects resulted from measures on the income side of the budget. Thus, from 1 April 2014 insured persons whose rights are defined by separate regulations were allowed to transfer funds from Pillar II to Pillar I of the pension system, including a one-off transfer of funds amounting to over HRK 3 billion. Of the many measures on the income side it is also worth mentioning the decision to increase the rate of contributions for health care from 13 per cent to 15 per cent, representing a significant fiscal impact of 0.49 per cent of GDP. In addition to the reduction measures on the expenditure side of the budget (characterized by refraining from large capital projects while maintaining the rigid structure of public expenditure), the first National Reform and Convergence Programme was presented to the European Commission in April. Then, in June 2014, the European Commission gave a positive assessment of the measures carried out by the Croatian Government in the context of which the deficit criteria for 2014 were expected to be met. However, contrary to the Government's projections, there was no positive economic growth again in 2014; negative trends on the labor market continued, the absorption capacity for withdrawing financing from EU funds fell short, and meanwhile there were significant requirements to finance extraordinary expenditure (such as repairing flood damage in Slavonia). As well as the significant financial impact of one-off measures on the income side of the budget (which also additionally reduced domestic competitiveness via higher labor costs and the reduced investment capacity of public corporations), at the end of last year it was necessary to revise the state budget for the second time in the same fiscal year. Income from aid fell significantly short, mainly due to poor withdrawal of EU funding. Social expenditure (of which over HRK 36.5 billion relates to pensions alone) grew, and the constantly high level of due liabilities of the public health care sector resulted in an uncontrolled increase in the fiscal deficit in 2014 which was unable to meet EDP target of -4.6 per cent of GDP. According to the new internationally comparable methodology, the consolidated general government deficit in 2014 was HRK 18,844 billion, or -5.7 per cent of GDP (0.3 per cent higher than 2013). Treatment of the above one-off transfers of social contributions had the greatest impact on the general government deficit, as the HŽ Cargo debt assumption based on the third guarantee call in amount of HRK 1 billion. The Croatian Bank for Reconstruction and Development (HBOR) and State Agency for Deposit Insurance and Bank Resolution (DAB) were also included in the consolidated general government coverage, which ultimately had a positive impact on the reported fiscal deficit, but the reclassification of these institutions into the general government coverage sector impacted on the significant increase in public debt (by 4.4 per cent of GDP). Public debt at the end of 2014 thus climbed to HRK 279.6 million, or 85 per cent of GDP. Since public debt data was also revised for the previous period from 2011 to 2013, it is possible to make a statistically correct comparison, in which it can be seen that the increase in public debt in 2014 was almost 5 per cent in comparison with 2013. The strong increase in borrowings mainly results from the accumulation of budget deficits, reflecting delayed structural reforms of the public sector, rapidly increasing social expenditure, and extremely high interest payments (over HRK 11 billion in 2014). Of the positive developments in fiscal policy in 2014 it is worth mentioning that, in cooperation with the World Bank, an expenditure review was completed, which developed all significant guidelines of fiscal consolidation.

In 2014 there was again no recovery of the loan activities of banks as a result of high risk aversion and low level of consumer and business optimism. The continuation of an expansive monetary policy was mainly eased by the absence of inflationary pressures with a stable HRK/EUR exchange rate. The period of comparatively high liquidity also continued, and average daily excess liquidity in 2014 amounted to HRK 6.4 billion. Consequently, interest rates on the interbank market also remained at relatively low levels, favoring short-term borrowings (which particularly helped government short-term borrowings). Namely, at the end of 2014 the balance of total loans was 2.3 per cent lower than at the end of 2013, with a reduction of the balance of loans to households and non-financial corporations. Thus, at the end of 2014 the central government's share of loans amount 18.5 per cent of total lonas, (0.2 per cent higher than at the end of 2013), while corporations' share loans fell to 32.9 per cent (0.5 per cent lower than at the end of 2013). At the end of 2014 total loans to households amounted to HRK 126.5 billion (0.8 per cent lower than at the end of 2013), and recorded declines on an annual level throughout all 12 months. In November last year the HNB made the ratio of mandatory reserves the same for all foreign currency sources (thus reducing the mandatory foreign currency reserves of banks held on account at the HNB by 80 million). Although last year the HNB conducted a net purchase of HRK 0.8 billion of treasury bills from banks achieving positive growth in loans to corporations, investment to non-financial corporations fell on an annual level. High liquidity on the foreign capital market led to weaker demand for loans from domestic banks, which additionally impacted on the overall loan contraction. As the desired effect of expansive monetary measures failed to materialize, it is clear that they alone were insufficient for stimulating a stronger development cycle, hindered as they were by long-term unresolved structural weaknesses. The ratio of non-performing loans to total loans rose to 17 per cent at the end of 2014, 1.3 per cent higher than 2013. The ratio of non-performing corporate loans was significantly higher than household loans (30.5 per cent vs 12 per cent).

2014 was also significant for the October results of the asset quality review performed for the four largest domestic banks in accordance with the common European methodology. The results showed that after asset reclassification, the capital adequacy coefficient was 20 per cent higher than the highest level of capitalization among new EU members. The resilience of the banking system was further confirmed by the so-called "stress test" in six European banking groups that own Croatian banks, in which no significant weaknesses were identified.

Loans of the banking system, annual changes (%)



Source: CNB, Raiffeisen RESEARCH

Summary of macroeconomic indicators for the period from 2010 to 2014

	2014.	2013.	2012.	2011.	2010.
GDP & Production					
Gross Domestic Product, % (constant prices)	-0,4	-1,1	-2,2	-0,3	-7,4
GDP at current prices (EUR millions)	43.045	43.516	43.959	44.737	45.022
GDP per capita at current prices (EUR)	10.138	10.213	10.280	10.426	10.479
Retail trade, % real annual changes	0,4	-0,6	-4,1	0,6	-2,1
Industrial production, % annual changes	1,2	-1,8	-5,5	-1,2	-1,4
Prices, Employment and Budget					
Consumer Prices, %, eop	-0,5	0,3	4,7	2,1	1,8
%, avg	-0,2	2,2	3,4	2,3	1,1
Producer Prices, %, eop	-3,4	-2,6	6,9	5,8	5,7
%, avg	-2,7	0,5	7,0	6,4	4,3
Unemployment rate (official rate, avg)	19,7	20,3	19,1	18,0	17,4
Unemployment rate (ILO, avg)	17,3	17,4	15,9	13,7	11,6
Average net wage, in HRK	5.534	5.515	5.478	5.411	5.343
General Government Balance, % of GDP[1]	-5,7	-5,4	-5,3	-7,5	-6,0
Public debt, HRK billion [1]	279,6	266,1	228,8	211,9	173,1
Public debt, % of GDP [1]	85,0	80,6	69,2	63,7	52,8
Balance of Payment and External Debt					
Good's and Services Exports, EUR million	19.938	18.762	18.316	18.111	17.007
% change	6,30	2,4	1,1	6,5	9,2
Good's and Services Imports, EUR million	19.037	18.540	18.093	18.293	17.153
% change	2,7	2,5	-1,1	6,6	-0,5
Current Account Balance, % of GDP	0,7	0,8	-0,1	-0,8	-1,1
Official International Reserves, EUR million, eop	12.688	12.908	11.236	11.195	10.660
Official International Reserves, in terms of months of imports of goods and services, eop	8,0	8,4	7,5	7,3	7,5
Foreign Direct Investment, EUR million [2]	1.413	766	1.112	1.010	1.685
Tourism – nightstays, % change	2,7	3,3	4,0	7,0	2,6
External debt, EUR billion	46,7	46,0	45,3	46,4	46,9
External debt, as % of GDP	108,4	105,6	103,0	103,7	104,2
External debt, as % export of goods and services	234,0	245,0	247,3	256,2	275,8
Monetary and Financial Data					
Exchange rate, eop, USD/HRK	6,3	5,55	5,73	5,82	5,57
avg, USD/HRK	5,75	5,71	5,85	5,34	5,50
Exchange rate, eop, EUR/HRK	7,66	7,62	7,55	7,53	7,39
avg, EUR/HRK	7,63	7,57	7,52	7,43	7,29
Money (M1), HRK billion, eop	63,5	58,2	52,0	51,5	48,0
% change	9,2	11,9	1,0	7,3	1,7
Broadest money (M4), HRK billion, eop	287,6	279,8	270,3	261,0	249,1
% change	2,8	3,5	3,6	4,8	2,0
Credits, HRK billion	237,9	244,3	247,4	259,4	247,7
% change	-2,6	-1,3	-4,6	4,7	5,6
ZIBOR 3m, %, avg	1,0	1,5	3,4	3,2	2,4
Treasury bills rate 12m, %, avg	1,9	2,5	3,9	3,9	4,0

1 According to the ESA 2010 methodology
2 Excluding round-tripping
eop – end of period, avg – period average
Source: Croatian National Bank, Ministry of Finance, Croatian Bureau of Statistics, Raiffeisen RESEARCH

2014 Business developments

Officers of the Bank

The Bank's operations are controlled by the Supervisory Board and the Management Board. The officers of the Bank serving during the 2014 year, were as follows:

Members of the Supervisory Board

Karl Sevelda (Chariman from 3rd September 2014)
Peter Lennkh (Deputy Chairman, Chairman until 3rd October 2014)
Razvan Munteanu (Deputy Chairman until 2nd October 2014)
Lovorka Penavić (Member)
Peter Bazil (Member until 26th September 2014)
Peter Jacenko (Member)
Ferencz Berszan (Member from 26th September 2014)

Management Board

Zdenko Adrović
Chairman until 30th June 2014

Michael Georg Müller
Chairman from 1st July 2014

Mario Žižek
Deputy Chairman

Vesna Ciganek-Vuković
Member

Jasna Širola
Member

Zoran Košćak
Member

Marko Jurjević
Member from 10th September 2014

Chief Executives

Vesna Muratović	Financial Institution and Cash Management
Ivan Žižić	Treasury and Investment Banking
Ivan Jandrić	Financial Products
Dubravko Lukač	Credit Risk Management
Ivan Vidaković	Private Individuals Sales Network
Robert Kuzmanić	Accounting and Tax Finance
Vesna Valić	IT
Zoran Vučićević	Legal
Irena Bašić-Štefanić	Human Resources
Gordana Šaban	Internal Audit
Boris Vuksan	Financial Control
Vesna Ćebetarević	Operation Services
Srđan Šverko	Large and International Corporate Customer
Toni Jurčić	SME and Mid Market Sales Network
Ines Knapić	Collection and Workout
Liana Keserić	CRM and Digital Channels
Ivica Jerkić	Transaction Services

Vision

Raiffeisenbank Austria d.d. Zagreb 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 mission of Raiffeisenbank Austria 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, Raiffeisenbank Austria 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 Raiffeisenbank Austria will become their first and best choice.

Organisational procceses

Since its establishment in 1994, Raiffeisenbank Austria 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.

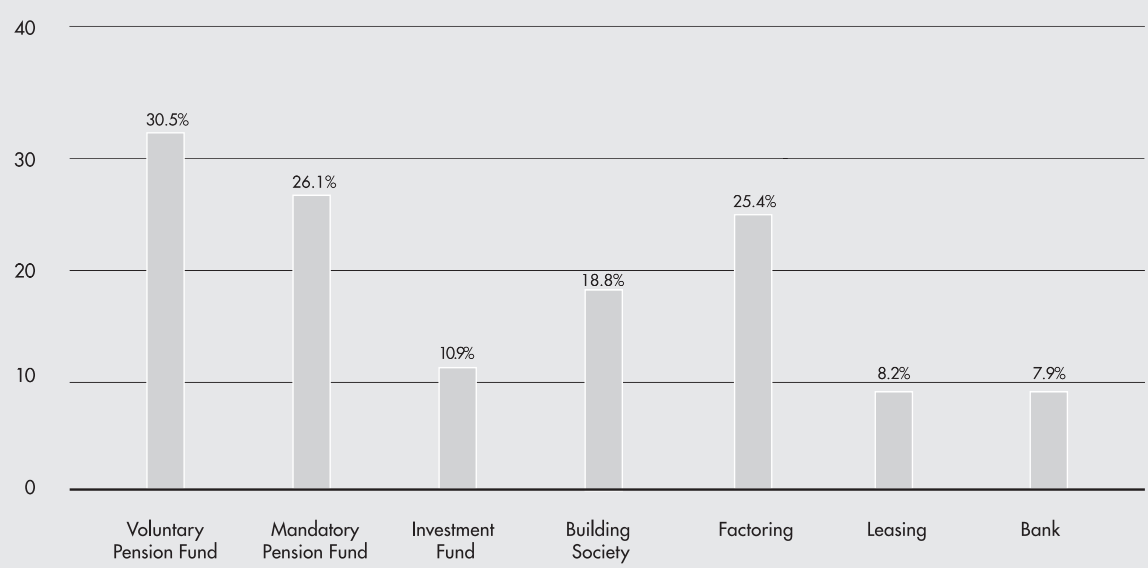
Since 2010, Raiffeisenbank Austria has implemented Lean – the globally recognised corporate culture of business process improvement, which enables achieving maximum service excellence and value for clients while also increasing internal efficiency at the same time. A dynamic organisational development, along with a continuous product and service quality assessment, team work and staff motivation are only a few of the activities implemented by Raiffeisenbank Austria 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 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 through organic growth, initially by increasing sales of banking products and services, and then by setting up subsidiary corporations specializing in other types of financial services. In the local Group gathered around Raiffeisenbank Austria, which is the fourth largest 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. The takeover of Raiffeisen Štedionica d.d. in June 2014 completed the process of building the local Group.

In the period leading to the incorporation of the Croatian banking system into the European banking union, in which all European banks operate under common rules and a single supervisor, Raiffeisenbank Austria operated in accordance with the rules of the local regulators for supervising the operations of credit institutions (the Croatian National Bank) and for supervising financial services (the Croatian Financial Services Regulatory Agency). All members of the local Group are registered in Croatia and operate according to Croatian regulations.

Market share of Raiffeisen Group members



The position of the Raiffeisen Group in Croatia is determined by its membership of an international financial group. The founder of Raiffeisenbank Austria is Raiffeisen Bank International, 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 allows the transfer of experience from many years of operations in developed financial markets and developing markets. Positive synergy effects are created when introducing more advanced operational support and in setting high quality standards when working with customers, thus contributing to the wealth and innovation of the product range.

The local Raiffeisen Group's operations are conducted on the Croatian market. As is the case with trends on the financial market, the operational results on which the local Group depend fluctuate in the real economy. With the continuation of the long-term economic recession, operating conditions on the Croatian financial market in 2014 were characterized by deflationary pressures and an increased supply of foreign capital. The private sector's strong aversion to taking on debt was prevalent, as was consumer and investor pessimism. Weakened demand for loans allowed the maintenance of continuous high systemic liquidity, and increased corporate borrowing abroad. Interest rates on the money market fell to their lowest levels under the pressure of excess liquidity, and deflationary pressures from abroad were transferred to the domestic market. The average rate of fluctuation in the prices of goods and services was negative.

The state sector had high financing requirements for the current deficit and repayment of due liabilities of both the state and of state-owned companies. The state increased its activities on foreign financial markets, while borrowing on the domestic capital market and from banks stabilized in the second half. Increased liquidity on foreign and domestic financial markets eased the financing of the state's requirements. The interest rate payable by the state when refinancing due obligations is significantly lower than that payable in earlier years when the sovereign rating was of investment grade. Although public debt has grown at a faster pace, the costs of financing the state are stable due to the lower interest rates. With weak demand for loans in the private sector, the state remains a desirable borrower for the banks.

Fluctuations in the exchange rate of the kuna against its benchmark currency (the euro) were stable, with the usual seasonal pressures. The exchange rate floated in a narrow band of 1.7 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. Growth in the supply of capital on foreign markets enabled a fall in the Croatian risk premium, although Croatia's sovereign credit rating remains at non-investment level. The growth in customer deposits in banks and weak demand for loans allowed the financial sector to be less dependent on foreign sources of finance. The banks repaid foreign borrowings, and there was a reduced effect of the country's risk premium on the movement of the price of capital in the financial system.

After five consecutive years of a decline in business activities in the corporate sector, last year saw growth in industrial production and higher exports of goods and services. However, these positive developments were not transferred to corporate demand for loans and financial services. The implementation of numerous pre-bankruptcy settlements had a strong effect on pessimism in the corporate sector. In these processes insolvent corporations are financially sanitized at the expense of creditors, including banks and numerous successful corporations. Uncertain collection of claims from corporations in pre-bankruptcy processes resulted in successful corporations increasing liquidity reserves. Corporations thus increased their deposits at banks and reduced their loan debt. An increase aversion to investment reduced demand for long-term forms of finance. These negative factors were felt in leasing operations, while demand for factoring services was stable. A high degree of uncertainty in collecting on loans from companies slowed the process of adjusting the interest rates on loans, despite the favorable conditions on the financial market and a reduction in overall demand for loans.

In the household sector the demand for loans and inclination for saving depend on trends in real earnings and the expected value of household assets. The tendency of households to borrow remained at a low level. The fall in property values had a negative effect on the demand for loans. The process of legalizing illegally constructed property offered an escape to the market for buildings that had been previously built or extended without the required permits or fee payments. Legal deficiencies were resolved in the legalization process, but for payment of significantly lower fees than in the regular procedure. Thus the total costs of building legalized property are lower in comparison to property built under the regular procedure, thus enabling the sale of legalized property at lower prices. Average prices on the property market were reduced due to the massive supply of legalized properties. This directly reduced the value of households' assets, which increased the fear of borrowing.

Demand on the property market did not rise despite the fall in property prices. The aversion to borrowing was also affected by adverse trends in employment and income from labor. The long-term decline in aggregate income from labor was caused by a decline in the overall number of people in work, and stagnation of average real salaries, which had an adverse effect on expectations in the household sector. The real burden of repaying loans was increased by deflationary processes and appreciation of the currency to which most principal amounts of loans are linked. This additionally reduced the creditworthiness of borrowers. Demand for loans thus remained at a weakened level.

The repayment of loans in the household sector also worsened due to processes by which borrowers are attempting to retroactively reduce the amount of their debt via legal action. In July 2014 a final court judgment was adopted in the class action brought against the banks by users of loans linked to the Swiss franc. The court ruled that the indexation of the amount of debt according to the exchange rate of the kuna to the Swiss franc was valid, but disputed the validity of contracts with regard to unilaterally variable interest rates. Both parties in the case were unhappy with the outcome and appealed to the Supreme Court for the judgment to be revised.

Regulatory decisions with regard to consumer loans also had an adverse effect on debt repayments. With the goal of protecting citizens repaying loans linked to the Swiss franc, a regulation set an administrative interest rate that is 30 per cent lower than the average of the contracted interest rates for those loans. The administrative interest rate came into force in January 2014, and relates to mortgages linked to the Swiss franc. There is no time limit to how long it will be in force, but a condition was set that must be fulfilled for this provision to apply. The condition is that the market exchange rate of the franc to the kuna may not fall below the level of 20 per cent higher than the exchange rate used for repayment of the loan.

In January 2015 a new intervention into the contractual relations between banks and their customers followed. After the franc suddenly appreciated against the kuna on January 15, 2015 an administrative order was made determining the HRK/CHF exchange rate at the level of the historic exchange rate on the day before the appreciation. The administrative exchange rate of the franc must be used by banks in calculating the liabilities of borrowers on due repayment installments of loans linked to the franc for a period of twelve months. This means that, for a limited period, amounts payable on loans with a currency clause become a kuna claim of the banks, with the writing-off of part of the claim equal to the difference between the administrative and market exchange rate.

Raiffeisenbank Austria's loan policy is focused on clients with high credit scores, or whose risk exposure is largely mitigated by good-quality collateral. Last year, market conditions were not suitable for loan policy goals to be achieved. The risk of lending to corporations has not been reduced despite positive developments such as the growth of industrial production and trade. In the household sector the rise in unemployment, the stagnation in real wages, and strengthening of the Swiss franc against the kuna led to increased loan arrears. The quality of the loan portfolio of households is significantly better than of corporations, but adverse economic trends also increase the risk surrounding household loan repayments.

The banking system is significantly exposed to Croatian sovereign risk. Factors of high sovereign risk in banks' assets not only include the direct or indirect borrowing of the state on the domestic financial market, but also the monetary regulations by which the central bank maintains financial stability. 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 2014, 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.

Bank operations

Raiffeisenbank Austria's assets declined 5 per cent in 2014, totaling HRK 31,419 million at the end of the year. The decline in total assets resulted from a decrease in loans to customers of HRK 3,055 million, and an increase of HRK 1,611 million in investments in securities. Loans to customers mainly declined in the final quarter, when some corporate customers took advantage of the favorable supply of loan capital on foreign financial markets. As companies took up loans abroad, they repaid loans in Croatia. The additional liquidity in Raiffeisenbank Austria resulting from the repayment of customer loans was partly used to increase investments in securities, or the portfolio of property for resale. The remainder of this liquidity was used to reduce liabilities on borrowings.

Total loans to customers at the end of the year amounted to HRK 19,035 million. There was a decline in loans of 20 per cent in the corporate sector, while loans in the household sector dropped only slightly. The decline in loans in the corporate sector amounted to HRK 2,609 million. Loans with a currency clause accounted for 95 per cent of this decline, and the ratio of loans with a currency clause to total corporate loans fell to 65 per cent.

Over the last 15 years Raiffeisenbank Austria has developed its business cooperation with international and domestic development institutions that are motivated by the same goals it seeks to promote. Raiffeisenbank Austria focuses on small and medium enterprises, as these are the generators of competitiveness and employment, and it is on this type of end user that the development institutions' lines are directed. In 2014 the Raiffeisen Group contracted over 300 million (HRK 2,300 million) of loans for the SME sector, for purposes ranging from working capital to financing complex projects involving energy efficiency and renewable energy sources. Such lines are characterized by longer time periods (up to 12 years for the SME sector), more favorable conditions than those pertaining to the market (a minimum of 0.5 per cent lower interest rates), and the technical assistance offered by development banks along with the possibility of obtaining grants for projects involving energy efficiency and renewable energy sources. On the domestic scene, Raiffeisenbank Austria works closely in implementing local development programs, as well as on a national level with institutions promoting corporate development and private initiatives. Of particular note is its cooperation with HBOR since 2001. In 2014 Raiffeisenbank Austria attracted approximately HRK 160 million via HBOR's financing programs. HBOR's financing programs cover a wide range of purposes and acceptable users, thus including all participants in the real sector and parts of the public sector, with the purposes also varying from working capital to major infrastructure and environmental protection projects.

The demand for loans in other customer sectors remained weak. In the household sector the demand for loans in the domestic currency rose. Kuna-denominated loans to households increased last year by 5 per cent, and loans with a currency clause declined by 6 per cent. The ratio of kuna-denominated loans rose to 45 per cent of total loans in the household sector. The negative experiences of borrowers with loans linked to the Swiss franc heightened awareness of exposure to currency risks while repaying long-term loans. Customers also sought protection from interest rate risk as well as from currency risk. Demand for fixed interest rate loans increased, but the difference in the level of interest rates steered some customers towards choosing loans with variable interest rates.

The excess liquidity arising from the reduction in loans to customers was invested in securities. Total investments in securities rose by 39 per cent last year. Low volatility on domestic capital markets limited the opportunities for generating trading profits, but the continual decline of yields on debt investments allowed profits to be made on revaluing portfolios valued at market prices.

Increased liquidity resulted in a reduction in secondary sources of funding. Last year borrowings fell by 40 per cent, and bank deposits by 44 per cent. This reduction in secondary sources was partly offset by taking on subordinated debt amounting to HRK 464 million, so that the overall reduction amounted to HRK 1,415 million. Overall, the ratio of secondary to total liabilities declined to 12 per cent. The trend of a changing structure of funding sources, which began after the global financial crisis broke out, thus continued.

Raiffeisenbank Austria optimized the structure of sources of funding by changing the returns offered on deposits. Last year, customer deposits rose by HRK 784 million. Corporate deposits rose by 13 per cent, and household deposits declined by 2 per cent. The decline in household deposits resulted from repeated reductions in interest rates during the process of optimizing sources. Despite the subsequent outflow, household deposits amounted to HRK 13,758 million at the end of the year, and their ratio rose slightly to 52 per cent of total liabilities.

Equity capital of HRK 4,827 million was 10 per cent lower than at the beginning of the year. The reduction in equity capital was offset by issuing supplementary capital in the form of subordinated debt amounting to HRK 464 million. Following the reduction of equity capital and issue of supplementary capital, and the reduction of customer loans, the capital adequacy ratio of Raiffeisenbank Austria rose to 21 per cent.

Bank financial highlights for the 2010 – 2014 period

Bank HRK millions	2014	2013	2012	2011	2010
From Balance sheet at 31 December					
Total assets	31,419	33,005	35,553	38,307	40,422
Shareholders' equity	4,827	5,343	5,429	5,632	5,671
Customer accounts	22,698	21,914	22,878	23,565	22,817
Loans to customers	19,035	22,090	22,824	25,688	25,437
From Income statement for the year ended 31 December					
Operating income	1,604	1,614	1,685	1,722	1,803
Operating expenses	853	835	853	931	920
Profit before tax	364	327	432	383	450
Net profit for the year	294	276	364	327	376
Ratios	%	%	%	%	%
Return on average shareholders' funds	6.48	5.09	6.48	6.17	7.12
Return on average assets	0.91	0.81	0.98	0.83	0.94
Capital adequacy ratio (in accordance with the Croatian National Bank methodology)	21,33	18,73	18,30	17,41	17,84
	HRK	HRK	HRK	HRK	HRK
Earnings per share	81	76	101	90	104

Course EUR/HRK, HNB eop	7,66142	7,63764	7,54562	7,53042	7,38517
Course EUR/HRK, HNB avg	7,63001	7,57355	7,51734	7,43420	7,28623

Profit after tax was HRK 294 million, an increase of 7 per cent over the previous year. The majority of income was interest income, with a share of 66 per cent. Fee income followed with a share of 19 per cent, while the share of other income was 15 per cent. Total operating income was HRK 1,604 million, approximately the same level as the previous year.

Net interest income was 5 per cent lower on an annual basis due to the decline in overall loans, fall in interest rates on loans and transfer to debt instruments. Net commission income showed an increase of 11 per cent. 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, trading profits rose by 14 per cent.

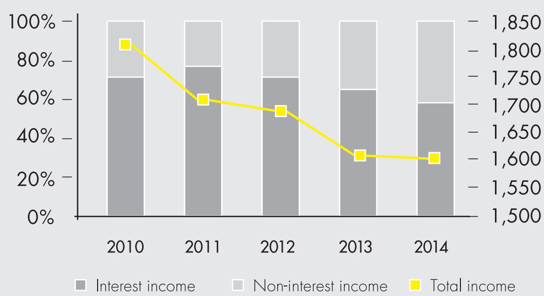
Total operating expenses were HRK 853 million, 2 per cent higher than the previous year. Personnel expenses and depreciation of fixed assets were reduced, but operating expenses and deposit insurance costs rose. Net income before impairment charges to assets and liabilities was HRK 751 million, 4 per cent lower than the previous year. Impairment losses were reduced by 14 per cent. Due to the lower impairment losses, profit before tax increased by 11 per cent compared to the previous year.

Risk provisioning expenses were reduced as a result of increased debt collection activities, as well as by realizing forfeited collateral. A comprehensive process has been developed of monitoring, early warning and collection of debts in the early, late and enforced debt collection phases. However, due to the continuation of adverse trends in the economy, the rise of non-performing loans was not halted. Their share of total loans rose to 17 per cent.

Against the backdrop of the crisis, there were fewer opportunities to increase operating income, and development was thus focused on improving productivity and security standards as well as on technical advancement and the management of business processes. Available professional, organizational and technological resources are focused on increasing service quality and reducing unit costs per transaction. Investment in technology and the development of business processes forms the basis for the Bank's innovative range, as does the development of financial services that are responsive to customer demand.

At the end of 2014 Raiffeisenbank Austria's business network comprised 70 branches, and sales channels were complemented by 419 ATMs and over 9,000 contracted card-accepting locations. Despite increasing competition, Raiffeisenbank Austria maintained its position 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
(increase in HRK million and structure)



Changes in market conditions led to a change in focus of activities from expanding the loan portfolio to improving risk management and increasing productivity. In this period of economic recession there is less demand for loans and other financial services. Development resources are therefore directed at improving processes, as well as on developing innovative channels for selling standardized products and services. The use of resources for product development in Raiffeisenbank Austria is constantly adjusted to customer demand so as to maintain the best possible 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 commercial bank. Since 1999 it has developed its local Group of subsidiary legal entities. The local Group's developmental goal is to offer its customers a comprehensive financial service.

In June 2014 Raiffeisenbank Austria acquired Raiffeisen Stambena Štedionica. A change in the regulation of pension funds allowed both mandatory and voluntary pension funds to be managed by a single management company. Thus, a merger of the two pension fund management companies has been implemented since October 2014. As of the end of 2014 the local Group comprised the following:

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

At the end of 2014, Group assets totaled HRK 35,887 million. This was a decline in assets of 1 per cent on an annual basis. The decline in assets was partly offset by the acquisition of Raiffeisen Stambena Štedionica, with assets of HRK 1,464 million. Within the asset structure, loans to customers declined by HRK 2,032 million, while investment in securities increased by HRK 2,144 million. Other assets declined by HRK 377 million.

Leasing assets declined by 4 per cent to HRK 1,575 million, while factoring assets increased by 5 per cent to HRK 2,026 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, and a reduction in demand for long-term funding for equipment and vehicles. The greater demand for factoring services allowed Raiffeisen Factoring to achieve HRK 112 million income, an increase of 14 per cent over the previous year. Raiffeisen Leasing achieved overall income of HRK 171 million, a decline of 4 per cent.

The Raiffeisen mandatory and voluntary pension funds significantly increased their assets. At the end of 2014 total assets in the Raiffeisen pension funds amounted to HRK 21,162 million. Of the assets under management by the pension company, 96 per cent are the assets of three mandatory pension funds, while the remainder are the assets in one open-end and five closed-end voluntary pension funds. There were two significant changes in the system of mandatory pension saving in 2014. The first was the introduction of two new pension funds. Alongside the existing fund with a balanced investment policy (Fund B), a fund with an aggressive investment approach was introduced aimed at members starting their pension investment (Fund A), as well as a fund with a conservative policy designed for members approaching the end of their pension saving (Fund C). The second change was the regulation removing employees in the accelerated retirement scheme from the system of mandatory pension saving. Despite this regulation removing some members, by the end of the year the Raiffeisen pension funds had 581,000 members. The growth of assets under management of 16 per cent was based on payments in of contributions by fund members, and the return generated by the funds. In 2014, fund members paid in contributions totaling HRK 1,578 million.

Investment fund assets grew to HRK 1,433 million, or by 10 per cent. Money market funds dominate the structure of investment funds. The attractiveness of investing in money market funds declined due to reduced yields on short-term government debt instruments and historically low interest rates on the money market. The development of the savings and investment product range maintained customer interest, and assets under management grew.

There were no state subsidies for housing savings in 2014. This reduced the attractiveness of Raiffeisen Stambena Štedionica's product range, resulting in a reduction of assets of 7 per cent. The abolishment of state subsidies prevented the complete achievement of positive synergy effects following the acquisition of Raiffeisen Stambena Štedionica by Raiffeisenbank Austria. However, state subsidies for housing savings are being reinstated in 2015. Subsidies that are dependent on market conditions are being introduced. This has allowed greater synergy through the development and sale of combined savings and loan products.

Group financial hightlights for the 2010 – 2014 period

Group HRK millions	2014	2013	2012	2011	2010
From Balance sheet at 31 December					
Total assets	35,887	36,152	38,468	41,029	43,009
Shareholders' equity	5,052	5,467	5,531	5,743	5,815
Customer accounts	23,527	21,672	22,840	23,454	22,415
Loans to customers	21,780	23,844	24,513	27,119	26,556
From Income statement for the year ended 31 December					
Operating income	2,135	2,084	2,053	2,115	2,457
Operating expenses	1,263	1,208	1,222	1,321	1,475
Profit before tax	465	384	424	387	530
Net profit for the year	364	295	339	305	430
Ratios	%	%	%	%	%
Return on average shareholders' funds	6.94	5.85	6.18	5.52	7.87
Return on average assets	1.01	0.79	0.85	0.72	1.00
Capital adequacy ratio (in accordance with the Croatian National Bank methodology)	18.87	17.66	17.11	16.73	16.70
	HRK	HRK	HRK	HRK	HRK
Earnings per share	100	85	93	83	117

Course EUR/HRK, HNB eop	7,66142	7,63764	7,54562	7,53042	7,38517
Course EUR/HRK, HNB avg	7,63001	7,57355	7,51734	7,43420	7,28623

Within the local Group's sources of funding, borrowings and deposits from banks declined, while deposits from customers increased. The main part of the Group's secondary sources of funding relates to borrowings from related financial institutions. By the end of the year, borrowings totaled HRK 5,345 million, and deposits from banks accounted for a further HRK 302 million. The ratio of secondary sources to the local Group's total liabilities was reduced to 20 per cent, and the share of customer deposits rose to 77 per cent. The reduction of the dependence on related institutions

for sources of funding increased the importance of primary sources in order to maintain the stability of operations and positive results in changeable market conditions. Household deposits rose by HRK 1,034 million as a result of the acquisition of Raiffeisen Stambena Štedionica, and corporate deposits by HRK 821 million.
At the end of 2014 the local Group's capital was HRK 5,052 million. The reduction of equity capital of HRK 415 million was offset by supplementary capital of HRK 464 million, so the capital adequacy ratio rose to 19 per cent. Total customer deposits rose by 8 per cent, amounting to HRK 23,527 million. Due to the inclusion of housing savings the ratio of household deposits to total liabilities rose to 49 per cent.

The Group's profits after tax were HRK 364 million, an increase of HRK 69 million over the previous year. The consolidated share of profits of the non-banking members was 19 per cent of the Group's total profits, while the share of Raiffeisenbank Austria was a high 81 per cent. Within the Group Raiffeisen Factoring and Raiffeisen Pension Company, significant profits were made.

Net interest income amounted to HRK 1,182 million, a decline of 2 per cent from the previous year. The level of interest expense for secondary sources of funding depends on movements in the financial markets. Secondary sources are mainly obtained with a variable interest rate, so fluctuations in the price of money on the financial markets are reflected in interest expenses in real time. Fluctuations in market interest rates are transferred to contractual interest rates on household deposits with a time delay depending on the term of the deposit, since household deposits are mainly contracted with a fixed interest rate.

Income from fees and commissions totaled HRK 388 million, an increase of HRK 11 million compared to the previous year. Fee income was the main source of income of Group members managing pension and investment funds. The increase in these funds' assets led to a widening of the calculation basis for fund management fees, and thus an increase in fee income.

Other non-interest income was HRK 565 million, 6 per cent higher than the previous period. A profit of HRK 194 million was achieved on trading income. The increase in trading profits 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 168 million, and from gross premium income from pension insurance contracts, amounting to HRK 163 million. Other income fell by HRK 10 million.

The local Group's total income was HRK 2,135 million, HRK 51 million higher than the previous year. The Group's operating expenses were HRK 1,263 million, 5 per cent higher than the previous year. Two thirds of the increase in expenses resulted from including the operating expenses of Raiffeisen Stambena Štedionica, and one third from increasing the technical reserves of pension insurance. Operating expenses reduced the overall income of the Group by 59 per cent.

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 2014, the loss from impairment charges to loans and liabilities amounted to HRK 407 million, HRK 85 million less than in the previous year. The Group's net operational income declined 47 per cent as a result of impairment charges to loans and liabilities, while in the previous year this category of income fell by 56 per cent. After deduction of operating costs and loan impairment charges, profit before tax amounted to 22 per cent of total local Group income.

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RBI at a glance

Raiffeisen Bank International at a glance

A leading bank in CEE as well as Austria

Raiffeisen Bank International AG regards Central and Eastern Europe (including Austria) as its home market. For over 25 years, RBI has been operating in Central and Eastern Europe (CEE), where today it maintains a closely knit network of subsidiary banks, leasing companies and numerous specialized financial service providers. As a universal bank, RBI ranks among the top five banks in several countries. This role is supported by the Raiffeisen brand, which is one of the most widely recognized brands in the region. RBI has positioned itself in CEE as a fully integrated corporate and retail banking group with a comprehensive product offering. At the end of 2014, around 52,000 RBI staff served approximately 14.8 million customers in around 2,900 business outlets in CEE.

In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers, but also international customers and major multinational clients operating in CEE. All in all, RBI employs about 55,000 staff and has total assets of approximately 122 billion.

Long-term success story

Raiffeisen Zentralbank Österreich AG (RZB) was founded in 1927 as "Genossenschaftliche Zentralbank". RZB founded its first subsidiary bank in Central and Eastern Europe already back in 1987. Since then, further subsidiaries have been established. From 2000 onward, Raiffeisen's expansion into CEE countries has mainly been achieved by acquiring existing banks. These were subsequently combined into a holding company that operated under the name Raiffeisen International from 2003. 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 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. As at year-end 2014, RZB held approximately 60.7 per cent of RBI's stock, with the remaining shares in free float.

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 separate 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 judgments 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 given to General assembly for acceptance.

The separate and consolidated financial statements set out on pages 39 to 158 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 authorized by the Management Board on 13 April 2015 for issue to the Supervisory Board and are signed below to signify this.

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

Michael Georg Müller
President of the Management Board

Vesna Ciganek-Vuković
Member of the Management Board

Marko Jurjević
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 Boar

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Independent Auditor's Report

To the Shareholders of Raiffeisenbank Austria d.d. Zagreb:

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these separate and consolidated 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Independent Auditor's Report (continued)

Opinion

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and of the Group as at 31 December 2014, their financial performance and cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.

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 separate and consolidated financial statements on pages 159 to 169, which comprise the separate and consolidated balance sheet as at 31 December 2014, separate and consolidated profit and loss account, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flow for the year then ended, together with reconciliation with the primary separate and consolidated financial statements. These forms and the accompanying reconciliation to the separate and consolidated financial information are the responsibility of the Bank's management and, do not represent components of the separate and consolidated financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 39 to 158, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the separate and consolidated financial statements.

Deloitte d.o.o.

Branislav Vrtačnik, President of the Management Board and certified auditor

Zagreb, 13 April 2015

Consolidated statement of financial position as of 31 December 2014

HRK millions	Notes	Group 2014	Group 2013
Assets			
Cash and amounts due from banks	5	1,834	1,812
Obligatory reserve with the Croatian National Bank	6	1,963	2,033
Financial assets at fair value through profit or loss	7	2,895	3,610
Placements with and loans to other banks	8	1,428	1,622
Financial assets available for sale	9	3,328	85
Loans and advances to customers	10	21,780	23,812
Financial investments held to maturity	11	411	795
Property, plant and equipment	13	1,517	1,554
Intangible assets	14	194	192
Deferred tax assets	15	156	217
Other assets	16	381	420
Total assets		**35,887**	**36,152**

The accounting policies and other notes on pages 51 to 158 form an integral part of these financial statements.

Consolidated statement of financial position as of 31 December 2014 (continued)

HRK millions	Notes	Group 2014	Group 2013
Liabilities			
Financial liabilities at fair value through profit or loss	17	250	651
Deposits from banks	18	302	543
Deposits from companies and other similar entities	19	8,474	7,653
Deposits from individuals	20	15,053	14,019
Borrowings	21	5,345	6,923
Provisions for liabilities and charges	22	182	172
Other liabilities	23	700	662
Subordinated liabilities	24	464	–
Total liabilities		**30,770**	**30,623**
Equity			
Share capital	34	3,621	3,621
Share premium	35	12	12
Capital reserve		1	1
Legal reserve	35	178	178
Fair value reserve	35	17	10
Retained earnings		1,223	1,645
Total equity attributable to equity holders of the parent		**5,052**	**5,467**
Non-controlling interest	37	65	62
Total equity		**5,117**	**5,529**
Total liabilities and equity		**35,887**	**36,152**

The accounting policies and other notes on pages 51 to 158 form an integral part of these financial statements.

Consolidated statement of total comprehensive income for the year ended 31 December 2014

HRK millions	Notes	Group 2014	Group 2013
Interest income	25	1,732	1,856
Interest expense	26	(550)	(653)
Net interest income		**1,182**	**1,203**
Fee and commission income	27	628	579
Fee and commission expense	28	(240)	(229)
Net fee and commission income		**388**	**350**
Net trading income	29	194	150
Other operating income	30	371	381
Dealing and other income		**565**	**531**
Operating income		**2,135**	**2,084**
Operating expenses	31	(1,263)	(1,208)
Impairment losses on loans and advances to customers and other assets	32	(397)	(461)
Charge of impairment losses on provisions for liabilities and charges	22	(10)	(31)
Profit before tax		**465**	**384**
Income tax expense	33	(101)	(89)
Profit for the year		**364**	**295**
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss			
Net revaluation gain/(loss) on available for sale financial instruments		7	(3)
Other comprehensive income/(loss) for the year, net of tax		**7**	**(3)**
Total comprehensive income for the year		**371**	**292**
Profit attributable to:			
– Equity holders of the parent		361	309
– Non-controlling interest	37	3	(14)
Earnings per share attributable to the equity holders of the parent	38	**100**	**85**

The accounting policies and other notes on pages 51 to 158 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2014

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 income 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**
Other comprehensive income for the year, net of tax	–	–	–	–	7	–	7	–	7
Income – acquisition and merger	–	–	–	–	–	22	22	–	22
Profit for the year	–	–	–	–	–	361	361	3	364
Dividend paid for 2013	–	–	–	–	–	(805)	(805)	–	(805)
At 31 December 2014	**3,621**	**12**	**1**	**178**	**17**	**1,223**	**5,052**	**65**	**5,117**

The accounting policies and other notes on pages 51 to 158 form an integral part of these financial statements.

Consolidated statement of cash flow for the year ended 31 December 2014

HRK millions	Notes	Group 2014	Group 2013
Cash flows from operating activities			
Profit before tax		465	384
Adjustments for:			
– Amortization and depreciation	31	200	220
– Foreign exchange differences	29	74	(133)
– Net (losses)/gains on available-for-sale instruments		(17)	17
– Impairment losses	5,7,8,10,11,16,22,32	406	492
– Net interest income on trading and non-trading financial instruments	25,26	(1,183)	(1,203)
– Income from acqusition		22	–
– Loss carried forward from merger of Kam Nekretnine		–	(7)
Changes in operating assets and liabilities			
Net decrease in financial assets at fair value through profit or loss		891	784
Net decrease/(increase) in placements with banks, with original maturity more than three months		304	(116)
Net decrease in obligatory reserve with the Croatian National bank		76	459
Net decrease in loans and advances to customers		3,314	2,001
Net decrease in other assets		137	122
Net decrease in financial investments held to maturity		423	38
Net decrease in financial liabilities at fair value through profit or loss		(454)	(264)
Net decrease in deposits from banks		(243)	(43)
Net increase/(decrease) in deposits from companies and other similar entities		709	(669)
Net increase/(decrease) in deposits from individuals		553	(972)
Net increase/(decrease) in other liabilities		26	(112)
Net cash from operating activities before tax		**5,703**	**998**
Income tax paid		(80)	(124)
Net cash from operating activities		**5,623**	**874**

The accounting policies and other notes on pages 51 to 158 form an integral part of these financial statements.

Consolidated statement of cash flow for the year ended 31 December 2014 (continued)

HRK millions	Notes	Group 2014	Group 2013
Cash flows from investing activities			
Interest received from non-trading financial instruments		(74)	(74)
Purchase of available for sale instruments		(3,184)	–
Purchase of property, plant and equipment and intangible assets		(450)	(507)
Proceeds from disposal of property, plant and equipment and intangible assets		285	198
Net cash used in investing activities		**(3,423)**	**(383)**
Cash flows from financing activities			
Increase in borrowings	21	3,477	4,695
Decrease in borrowings	21	(5,198)	(5,674)
Increase in subordinated liabilities		437	–
Dividend paid		(805)	(367)
Net cash used in financing activities		**(2,089)**	**(1,346)**
Effects of foreign exchange differences on cash and cash equivalents		18	12
Net increase/(decrease) in cash and cash equivalents		**129**	**(843)**
Cash and cash equivalents at beginning of the year	39	**2,701**	**3,544**
Cash and cash equivalents at end of the year	39	**2,830**	**2,701**

The accounting policies and other notes on pages 51 to 158 form an integral part of these financial statements.

Separate statement of financial position as of 31 December 2014

HRK millions	Notes	Bank 2014	Bank 2013
Assets			
Cash and amounts due from banks	5	1,834	1,775
Obligatory reserve with the Croatian National Bank	6	1,963	2,033
Financial assets at fair value through profit or loss	7	2,669	3,518
Placements with and loans to other banks	8	1,461	1,453
Financial assets available for sale	9	3,083	6
Loans and advances to customers	10	19,035	22,090
Financial investments held to maturity	11	–	617
Investments in subsidiaries and associates	12	366	301
Property, plant and equipment	13	428	443
Intangible assets	14	186	190
Deferred tax assets	15	146	209
Other assets	16	248	370
Total assets		**31,419**	**33,005**

The accounting policies and other notes on pages 51 to 158 form an integral part of these financial statements.

Separate statement of financial position as of 31 December 2014 (continued)

HRK millions	Notes	Bank 2014	Bank 2013
Liabilities			
Financial liabilities at fair value through profit or loss	17	250	652
Deposits from banks	18	304	543
Deposits from companies and other similar entities	19	8,940	7,895
Deposits from individuals	20	13,758	14,019
Borrowings	21	2,451	4,091
Provisions for liabilities and charges	22	170	159
Other liabilities	23	255	303
Subordinated liabilities	24	464	–
Total liabilities		**26,592**	**27,662**
Equity			
Share capital	34	3,621	3,621
Share premium	35	12	12
Capital reserve		1	1
Legal reserve	35	173	173
Fair value reserve	35	(3)	2
Retained earnings		1,023	1,534
Total equity		**4,827**	**5,343**
Total liabilities and equity		**31,419**	**33,005**

The accounting policies and other notes on pages 51 to 158 form an integral part of these financial statements.

Separate statement of total comprehensive income for the year ended 31 December 2014

HRK millions	Notes	Bank 2014	Bank 2013
Interest income	25	1,517	1,715
Interest expense	26	(459)	(599)
Net interest income		**1,058**	**1,116**
Fee and commission income	27	513	475
Fee and commission expense	28	(204)	(196)
Net fee and commission income		**309**	**279**
Net trading income	29	153	134
Other operating income	30	84	85
Dealing and other income		**237**	**219**
Operating income		**1,604**	**1,614**
Operating expenses	31	(853)	(835)
Impairment losses on loans and advances to customers and other assets	32	(376)	(421)
Charge of provisions for liabilities and charges	22	(11)	(31)
Profit before tax		**364**	**327**
Income tax expense	33	(70)	(51)
Profit for the year		**294**	**276**
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss			
Net change in fair value on available for sale financial instruments		(5)	1
Other comprehensive (loss)/income for the year, net of tax		**(5)**	**1**
Total comprehensive income for the year		**289**	**277**
Earnings per share attributable to the equity holders of the parent	38	**81**	**76**

The accounting policies and other notes on pages 51 to 158 form an integral part of these financial statements.

Separate statement of changes in equity for the year ended 31 December 2014

HRK millions	Share capital	Share premium	Capital reserve	Legal reserve	Fair value reserve	Retained earnings	Total
At 1 January 2013	3,621	12	1	173	1	1,621	5,429
Other comprehensive income for the year, net of tax	–	–	–	–	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**
Other comprehensive income for the year	–	–	–	–	(5)	–	(5)
Profit for the year	–	–	–	–	–	294	294
Dividend paid for 2013	–	–	–	–	–	(805)	(805)
At 31 December 2014	**3,621**	**12**	**1**	**173**	**(3)**	**1,023**	**4,827**

The accounting policies and other notes on pages 51 to 158 form an integral part of these financial statements.

Separate statement of cash flow for the year ended 31 December 2014

HRK millions	Notes	Bank 2014	Bank 2013
Cash flows from operating activities			
Profit before tax		364	327
Adjustments for:			
– Amortization and depreciation	31	74	87
– Foreign exchange differences	29	105	(115)
– Impairment losses	5,7,8,10,11,16,22,32	384	452
– Net losses on available for sale instruments		(12)	–
– Net interest income on trading and non-trading financial instruments	25,26	(891)	(1,116)
– Dividend income from investment in subsidiaries		(53)	(56)
Changes in operating assets and liabilities			
Net decrease in financial assets at fair value through profit or loss		1,018	830
Net decrease/(increase) in placements with banks, with original maturity more than three months		194	(112)
Net decrease obligatory reserve with the Croatian National bank		76	459
Net decrease in loans and advances to customers		4,138	1,936
Net decrease in financial investment held to maturity		631	33
Net decrease in other assets		145	10
Net decrease in financial liabilities at fair value through profit or loss		(472)	(264)
Net decrease in deposits from banks		(243)	(43)
Net increase/(decrease) in deposits from companies and other similar entities		908	(467)
Net decrease in deposits from individuals		(787)	(973)
Net decrease other liabilities		(49)	(179)
Net cash from operating activities before tax		**5,530**	**809**

The accounting policies and other notes on pages 51 to 158 form an integral part of these financial statements.

Separate statement of cash flow for the year ended 31 December 2014 (continued)

HRK millions	Notes	Bank 2014	Bank 2013
Income tax paid		(51)	(80)
Net cash from operating activities		**5,479**	**729**
Cash flows from investing activities			
Interest received from non-trading financial instruments		4	–
Investment in subsidiaries		(65)	(90)
Purchase of available-for-sale financial instruments		(3,047)	–
Dividend received		53	56
Purchase of property, plant and equipment and intangible assets		(61)	(69)
Net cash from investing activities		**(3,116)**	**(103)**
Cash flows from financing activities			
Increase of borrowings	21	1,265	2,275
Repayment of borrowings	21	(3,023)	(3,518)
Increase in subordinated liabilities		437	–
Dividend paid		(805)	(363)
Net cash used in financing activities		**(2,126)**	**(1,606)**
Effects of foreign exchange differences on cash and cash equivalents		18	12
Net increase/(decrease) in cash and cash equivalents		**255**	**(968)**
Cash and cash equivalents at beginning of the year	39	**2,556**	**3,524**
Cash and cash equivalents at end of the year	39	**2,811**	**2,556**

The accounting policies and other notes on pages 51 to 158 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".

Composition of the Group (note 12):
Raiffeisenbank Austria d.d. Zagreb
Raiffeisen stambena štedionica d.d.
Raiffeisen Leasing d.o.o.
Raiffeisen mirovinsko društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.
Raiffeisen Consulting d.o.o.
Raiffeisein mirovinsko osiguravajuće društvo d.d.
Raiffeisen Factoring d.o.o.
Raiffeisen Invest d.o.o.
Raiffeisen Bonus d.o.o.

These financial statements were authorized by the Management Board on 13 April 2015 for issue to the Supervisory Board.

The principal accounting policies applied in the preparation of these financial statements are summarized 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 2014.

1. General information (continued)

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 Group has made portfolio based provisions of HRK 358 million (2013: HRK 361 million) carried in the statement of financial position in compliance with these regulations, and has recognised income of HRK 18 million (2013: HRK 8 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 67 million (2013: HRK 71 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.

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 controlled by the Bank (disclosed in Note 12). The separate financial statements of the Bank are also presented.

Control is achieved when a reporting entity has power over the investees and if is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

b) Subsidiaries

The Group's subsidiaries are those entities which it directly or indirectly controls. Control over an entity is evidenced by the Group's ability to exercise its power in order to affect any variable returns that the Group is exposed to through its involvement with the entity.

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 post-acquisition 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.

1. General information (continued)

Basis of consolidation (continued)

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.

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 2014, 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 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),

1. General information (continued)

Standards and Interpretations effective in the current period (continued)

- 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).

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:

- 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, adopted in EU on 17 December 2014 ((amendments are to be applied for annual periods beginning on or after 1 January 2015),

- 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, adopted in EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),

- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions, adopted in EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

- IFRIC 21 "Levies", adopted in EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

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

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 for annual periods beginning on or after 1 January 2018),

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016),

- IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning or after 1 January 2017),

- Amendments to IFRS 10 "Consolidated Financial Statements„ and IAS 28 "Investment in Associates and Joint Ventures" – Sale or Contribution of Assets between and Investor and its Associate of Joint Venture, (effective for annual periods beginning or after 1 January 2016),

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 28 "Investment in Associates and Joint Ventures" – Applying the Consolidation Exception , (effective for annual periods beginning or after 1 January 2016),

- Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" (effective for annual periods beginning or after 1 January 2016),

- Amendments to IAS 1 "Presentation of Financial Statements" Disclosure Initiative (effective for annual periods beginning or after 1 January 2016),

1. General information (continued)

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

- Amendments to IAS 16 "Property, Plant and Equipment„ and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortisation, (effective for annual periods beginning or after 1 January 2016),

- Amendments to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements, (effective for annual periods beginning or after 1 January 2016),

- Amendments to various standards "Improvements to IFRSs (cycle 2012-2014) resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording, (amendments are to be applied for annual periods beginning on or after 1 January 2016).

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 2014 was HRK 7.661471 to EUR 1 (2013: HRK 7.637643); HRK 6.302107 to USD 1 (2013: HRK 5.549000) and HRK 6.368108 to CHF 1 (2013: HRK 6.231758).

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.

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. Interest expense also includes deposit insurance costs. 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.

2. Significant accounting policies (continued)

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.

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.

If a Bank or the Group sells a held-to-maturity investment other than in insignificant amounts or as a consequence of a non-recurring, isolated event beyond its control that could not be reasonably anticipated, all of its other held-to-maturity investments must be reclassified as available-for-sale for the current financial reporting years.

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.

2. Significant accounting policies (continued)

Financial instruments: reclassification

Financial instruments at fair value through profit and loss

- Derivative financial instruments may not be reclassified out of this category while it is held or issued
- Any financial instrument designated into this category on initial recognition may not be reclassified out of this category
- May reclassify instruments that would have met the definition of loans and receivables out of this category to loans and receivables if the entity has the intention and ability to hold for the foreseeable future or until maturity. Any gain or loss already recognised in profit or loss is not reversed. The fair value on date of reclassification becomes the new cost or amortised cost
- May reclassify instruments to held to maturity or available for sale in rare circumstances
- May not reclassify a financial instrument into the fair value through profit or loss category after initial recognition.

Held to maturity instruments

- If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity it shall be reclassified as available for sale and remeasured to fair value
- Difference between its carrying amount and fair value shall be recognized in equity.

Available for sale instruments

- If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as available for sale it can be reclassified as held to maturity
- May reclassify instruments that would have met the definition of loans and receivables out of this category to loans and receivables if the entity has the intention and ability to hold for the foreseeable future or until maturity
- Financial asset is reclassified at its fair value on the date of reclassification and this fair value becomes a new amortized cost.

Financial instruments: recognition and de-recognition

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 de-recognises 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.

The Group de-recognises 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.

2. Significant accounting policies (continued)

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 51. 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.

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.

2. Significant accounting policies (continued)

Impairment of financial assets (continued)

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, 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 judgments 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.

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.

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.

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2. Significant accounting policies (continued)

Specific financial instruments (continued)

Hedge accounting

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for and further described in the below sections.

Fair value hedge

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

The change in the fair value of a hedge instrument is recognized in statement of comprehensive income, together with the change in the fair value of a hedge item related to risk being hedged.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

Since that day any adjustment of a carrying amount of a hedge item referring to the changes of a fair value related to risk being hedged is amortized through profit and loss.

If the hedged item is derecognize, the unamortized fair value is recognized immediately in profit and loss.

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.

2. Significant accounting policies (continued)

Specific financial instruments (continued)

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.

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.

2. Significant accounting policies (continued)

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.

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:

	2014	2013
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. 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.

Inventories

Inventories held for sale relate to repossessed assets from finance lease. According to the new regulatory requirements of Croatian financial services supervisory agency (HANFA) Company accounts for the repossessed assets as inventories, according to IAS 2.

Repossessed assets-storage on stock are formerly leased assets under operating lease that are repossessed from client due to failure to fulfil obligations from contract or are returned by the client. They are valued at lower of cost or recoverable amount. The value of these assets is reviewed each month and impaired if recoverable amount is lower than carrying value.

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:

	2014	2013
Leasehold improvements	1 – 20 years	1 – 20 years
Software	5 – 8 years	5 – 8 years

2. Significant accounting policies (continued)

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 reclassified asset under construction and 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.

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.

2. Significant accounting policies (continued)

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 and jubilee awards 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 payments

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

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.

2. Significant accounting policies (continued)

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 judgments made in determining the most appropriate methodology for estimating the fair value of financial instruments carried at fair value, and other significant judgments 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 2014	Group 2013	Bank 2014	Bank 2013
Summary of impairment losses for customers					
Impairment losses on balance sheet exposure	5,6,7,8,10,11,16	2,785	2,471	2,653	2,375
Provision for off-balance-sheet exposure	22	116	107	116	107
		2,901	2,578	2,769	2,482

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)

Financial assets carried at amortised cost (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	2014 Total	Corporate	Retail	2013 Total
Group						
Gross value of exposure (in HRK millions)	2,746	1,216	3,962	2,665	1,180	3,845
Impairment rate (in %)	64	64	64	57	58	57
Bank						
Gross value of exposure (in HRK millions)	2,615	1,189	3,804	2,485	1,180	3,665
Impairment rate (in %)	64	65	64	57	58	58

Each additional increase of one percentage point in the impairment rate on the gross portfolio of specifically identified impaired loans at 31 December 2014 would lead to the recognition of an additional impairment loss of HRK 39.6 million (2013: HRK 38.4 million) at the Bank level and an additional impairment loss of HRK 38.01 million (2013: HRK 36.6 million) at the Group level.

The amount of impairment losses at 31 December 2014 estimated on a portfolio basis amounted to HRK 322 million (2013: HRK 361 million) of the relevant on-and off-balance-sheet exposure. The total of these portfolio based impairment losses amounted to 1.1% (2013: 1.1%) of loans and advances to customers and to 1% (2013: 1%) on off-balance-sheet exposure, in both cases net of amounts individually assessed as impaired.

3. Significant accounting estimates and judgements (continued)

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 2014, the carrying amount of treasury bills classified as financial assets at fair value through profit or loss was HRK 1,002 million (2013: HRK 1,147 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. The effects of actuarial calculations are presented through other comprehensive income and equity.

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.

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.

3. Significant accounting estimates and judgements (continued)

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 actuarial tables (NN 17/13) and of technical interest rates at 2.5%-3% per annum.

Deferred taxation

Deferred taxes are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profit.

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.

Group 2014 HRK millions	Corporate	Retail	Treasury	Asset management	Shared services	Unallocated	Total
Net interest income	414	562	155	24	27	–	1,182
Net fee and commission income	177	114	1	92	4	–	388
Dealing and other income	288	30	55	182	10	–	565
Operating income	**879**	**706**	**211**	**298**	**41**	**–**	**2,135**
Operating expenses	(489)	(460)	(42)	(226)	(46)	–	(1,263)
Impairment losses on loans and advances to customers and other assets	(279)	(104)	(13)	–	(1)	–	(397)
Provisions for liabilities and charges	(5)	(5)	–	–	–	–	(10)
Operating expenses	**(773)**	**(569)**	**(55)**	**(226)**	**(47)**	**–**	**(1,670)**
Profit before tax	**106**	**137**	**156**	**72**	**(6)**	**–**	**465**
Income tax expense	–	–	–	–	–	(101)	(101)
Profit for the year	**106**	**137**	**156**	**72**	**(6)**	**(101)**	**364**
Segment assets	9,404	10,528	11,510	510	1,412	–	33,364
Unallocated assets	–	–	–	–	–	2,523	2,523
Total assets	**9,404**	**10,528**	**11,510**	**510**	**1,412**	**2,523**	**35,887**
Segment liabilities	11,485	13,956	3,464	389	1,478	–	30,772
Unallocated equity	–	–	–	–	–	5,115	5,115
Total equity and liabilities	**11,485**	**13,956**	**3,464**	**389**	**1,478**	**5,115**	**35,887**

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)

Bank 2014 HRK millions	Corporate	Retail	Treasury	Unallocated	Total
Net interest income	341	562	155	–	1,058
Net fee and commission income	194	114	1	–	309
Dealing and other income	99	30	108	–	237
Operating income	**634**	**706**	**264**	**–**	**1,604**
Operating expenses	(351)	(460)	(42)	–	(853)
Impairment losses on loans and advances to customers and other assets	(259)	(104)	(13)	–	(376)
Provisions for liabilities and charges	(6)	(5)	–	–	(11)
Operating expenses	**(616)**	**(569)**	**(55)**	**–**	**(1,240)**
Profit before tax	**18**	**137**	**209**	**–**	**364**
Income tax expense	–	–	–	(70)	(70)
Profit for the year	**18**	**137**	**209**	**(70)**	**294**
Segment assets	7,966	10,528	11,510	–	30,004
Unallocated assets	–	–	–	1,415	1,415
Total assets	**7,966**	**10,528**	**11,510**	**1,415**	**31,419**
Segment liabilities	9,171	13,956	3,464	–	26,591
Unallocated equity	–	–	–	4,828	4,828
Total equity and liabilities	**9,171**	**13,956**	**3,464**	**4,828**	**31,419**

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**

5. Cash and amounts due from banks

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Cash in hand	571	621	571	621
Items in the course of collection	1	1	1	1
Gyro account with the Croatian National Bank	1,213	1,012	1,213	1,012
Current accounts with other banks				
– With parent bank	8	90	8	53
– With other Raiffeisen Bank International AG (the RBI) Group banks	2	2	2	2
– With other banks	53	99	53	99
	1,848	1,825	1,848	1,788
Impairment losses	(14)	(13)	(14)	(13)
	1,834	1,812	1,834	1,775

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

				Unidentified losses
At 1 January	13	15	13	15
Net charge through statement of profit or loss	1	(2)	1	(2)
At 31 December	14	13	14	13

6. Obligatory reserve with the Croatian National Bank

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2103
Obligatory reserve in domestic currency	1,718	1,748	1,718	1,748
Obligatory reserve in foreign currency	267	308	267	308
	1,985	**2,056**	**1,985**	**2,056**
Impairment losses	(22)	(23)	(22)	(23)
	1,963	**2,033**	**1,963**	**2,033**

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

				Unidentified losses
At 1 January	**23**	**26**	**23**	**26**
Net charge through statement of profit or loss	(1)	(3)	(1)	(3)
At 31 December	**22**	**23**	**22**	**23**

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

The HRK obligatory reserve requirement at 31 December 2014 represented 12% of the relevant HRK sources of funds – deposits, borrowings and other financial liabilities (2013: 12%). At least 70% (2013: 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% (2013: 70%) of the total requirement in a special obligatory reserve deposit account with the CNB.

The foreign currency obligatory reserve requirement at 31 December 2014 represented 12% (2013: 12%) of both foreign currency personal and corporate deposits and foreign currency borrowings.

At 31 December 2014 60% (2013: 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% (2013: 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 2014	Group 2013	Bank 2014	Bank 2013
Trading instruments				
Debt securities:				
– Domestic government bonds, listed	511	550	511	550
– Foreign government bonds, listed	512	275	512	275
– Treasury bills issued by the Ministry of Finance	529	667	529	667
– Treasury bills issued by the foreign government, quoted	–	267	–	267
– Bonds issued by banks, listed	197	856	197	856
– Securities issued by companies, listed	36	–	36	–
	1,785	2,615	1,785	2,615
Equtiy instruments, listed	9	9	9	9
Positive fair value of OTC derivative instruments	88	55	100	62
Gain on unsettled OTC foreign exchange spot transactions	–	1	–	1
	88	56	100	63
Accrued interest	16	22	16	22
Total trading instruments	1,898	2,702	1,910	2,709
Financial assets designated at fair value through profit or loss				
Debt securities:				
– Domestic government bonds, listed	224	92	–	–
– Bonds issued by banks, listed	18	12	18	12
– Securities issued by companies, listed	267	334	266	333
– Treasury bills issued by the Ministry of Finance	472	461	472	461
	981	899	756	806
Investments in investment funds managed by related and third parties	11	4	–	–
Accrued interest	5	15	3	13
Total financial assets designated at fair value through profit or loss	997	918	759	819
Impairment losses	–	(10)	–	(10)
Total	2,895	3,610	2,669	3,518

The fair value of securities included in trading instruments pledged as collateral for repo transactions amounted at the year end to HRK 527 millions of trading instruments (2013: HRK 76 million), and HRK 345 millions of financial assets designated at fair value through profit and loss (2013: null).

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

a) Movement in impairment losses

Identified losses

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
At 1 January	–	3	–	3
Net charge through statement of profit or loss	(10)	–	(10)	–
At 31 January	–	10	–	10

As of 31 December in trading instruments are included bonds issued by Republic of Croatia with the maturity from the end of 2015 to 2024 and with interest rate from 3.88% to 6.50%, Treasury bills of the Croatian Ministry of Finance with maturity in first half of 2015, and with yield to maturity up to 1%; foreign goverment bonds consist of extremly high and high quality liquid asset (Republic of Austria, France, Germany and Poland), with maturity from 2015 till 2020, and with interest rate from 0.25% to 3.9%.

Bank hold also debt securities from Europen Investment bank with maturity in 2016 and 2022 and with interest rate 0.58% to 0.13%.

At the end of 2013, trading instruments include issues from Republic of Croatia, bonds denominated in HRK and EUR denominated listed at stock exchange. These bonds have maturities from 2015 to 2024, and with interest rate from 4.25% to 6.25%. Treasury bills issued by Ministry of Finance and by France governement are maturing during 2014 and 2015 with average yield to maturity for Croatian issues in HRK 1.93%, EUR denominated 1.49% and for French issues 0.517%.

Trading book positions also contains bond positions issued by European governments (France, German, Poland) with maturity from 2015 till 2016 and interest rate from 0.23% to 3.36%. Bonds issued by foreign banks are listed on stock exchange, in majority have floating interest rates and have maturity until 2015. Also, in Foreign banks issuses are bonds issued by European investmen Bank with variable coupon, last interest rate were from 0.2% to 0.73% and with maturity from 2016 to 2022.

Financial assets designated at fair value through profit and loss consist also of Treasury bills issued by Ministry of Finance with maturity in first quarter 2015 and bonds issued by Republic of Croatia with maturity from end of 2015 till 2024 with interest rate between 5.25% to 6.7%. Group also holds securities issued by local corporates with maturity from 2015 till 2022, with interest rate from 4.25% to 9.88% (HEP, Agrokor, Hrvatska pošta) and financial institutions (Erstebank d.d.) with maturity in 2017.

In Financial asset designated at fair value through profit and loss Group was holding in 2013 bonds issued by Republic of Croatia with coupon 5.25% to 6.75%, and with maturity from 2015 till 2024 and Treasury bills issued by Ministry of finance with average yield to maturity 1.85%.

Issues from financial institutions consist of local Erste bank issue, and corporate issues consist of local issuers like Agrokor, HEP, Hrvatska pošta and others.

8. Placements with and loans to other banks

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Loans	118	353	170	353
Deposits	962	920	942	751
Treasury bills with the Croatian National Bank	370	370	370	370
	1,450	1,643	1,482	1,474
Impairment losses	(22)	(21)	(21)	(21)
	1,428	1,622	1,461	1,453

Group deposits in the year 2013 include a guarantee deposit of HRK 60 million placed by Raiffeisen mirovinsko društvo za upravljanje obveznim i dobrovoljnim 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.

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

a) Movement in impairment losses for placements and loans to other banks

Group			2014			2013
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	5	16	21	4	21	25
Net charge to income statement	–	1	1	–	(5)	(5)
Net foreign exchange gain	–	–	–	1	–	1
At 31 December	5	17	22	5	16	21

Bank			2014			2013
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	5	16	21	4	21	25
Net charge to income statement	–	–	–	–	(5)	(5)
Net foreign exchange gain	–	–	–	1	–	1
At 31 December	5	16	21	5	16	21

9. Financial assets available for sale

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Debt securities:				
– Domestic government bonds, listed on stock exchange	829	69	608	–
– Securities issued by companies, listed on stock exchange	4	8	–	–
– Bonds issued by banks, listed	341	–	341	–
– Foreign government bonds, listed	1,708	–	1,708	
Treasury bills issued by the Ministry of Finance	15	–	–	–
Treasury bills issued by the foreign government, quoted	398	–	398	–
Equity securities, not listed on stock exchange	6	6	6	6
Accrued interest	27	2	22	–
	3,328	85	3,083	6

As of 31 December Bank invest in available for sale portfolio in Republic of Croatia bonds issues in EUR and EUR with value clause, maturity between 2016 and 2022 and with interest rate from 4.75% to 6.5%. Group also have Croatian treasury bill with maturity February 2015 and with yield to maturity 1.21%.

Group also invest high liquid assets issued by Republic of Austria, Republic of France, Netherlands (both, bonds and treasury bills) with maturity from 2015 till 2020 and with interest rate 0% to 3.63%. Group invest in issues by financial institutions including European Investment bank with maturity from 2017 till 2024, with interest rate from 0.07% and 0.335%.

In 2013 Group hold small portion in available for sale portfolio (as issues by local government and local corporate issuers).

10. Loans and advances to customers

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Loans to companies and similar entities				
– Denominated in domestic currency	3,646	3,682	3,580	3,703
– Denominated in or linked to foreign currency	7,927	10,261	6,626	9,112
Loans to individuals				
– Denominated in domestic currency	5,171	4,812	5,062	4,812
– Denominated in or linked to foreign currency	6,902	6,665	6,244	6,665
Finance lease receivables, denominated in or linked to foreign currency	708	663	–	–
– Accrued interest	177	195	149	176
– Less deferred income	(118)	(135)	(112)	(133)
	24,413	**26,143**	**21,549**	**24,335**
Impairment losses	(2,633)	(2,331)	(2,514)	(2,245)
	21,780	**23,812**	**19,035**	**22,090**

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 92 thousands (2013: HRK 3 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			2014			2013
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	2,109	222	2,331	1,762	213	1,975
Increase in impairment losses	443	(19)	424	498	9	507
Amounts recovered during the year	(48)	–	(48)	(49)	–	(49)
Net charge to income statement	395	(19)	376	449	9	458
Net foreign exchange gain	5	–	5	2	–	2
Write offs	(94)	–	(94)	(104)	–	(104)
Provision – new member of the Group	5	10	15	–	–	–
At 31 December	2,420	213	2,633	2,109	222	2,331
Hereof Bank	2,326	188	2,514	2,025	220	2,245
Hereof Raiffeisen Leasing d.o.o.	82	1	83	79	2	81
Hereof Raiffeisen stambena štedionica d.d.	7	9	16	–	–	–
Hereof other members of Group	5	15	20	5	–	5
	2,420	213	2,633	2,109	222	2,331

Bank			2014			2013
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	2,025	220	2,245	1,716	210	1,926
Increase in impairment losses	419	(32)	387	443	10	453
Amounts recovered during the year	(31)	–	(31)	(35)	–	(35)
Net charge to income statement	388	(32)	356	408	10	418
Net foreign exchange gain	4	–	4	2	–	2
Write offs	(91)	–	(91)	(101)	–	(101)
At 31 December	2,326	188	2,514	2,025	220	2,245

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 2014	Group 2013
Gross investment in finance leases	782	740
– Less deferred income	(2)	(2)
– Unearned finance income	(73)	(75)
Net investment in finance leases	**708**	**663**
Less impairment losses	(81)	(80)
Net investment in finance leases	**627**	**583**
Gross investment in finance leases, with remaining maturities		
Less than one year	343	359
More than one and less than five years	404	337
More than five years	35	44
	782	**740**

11. Financial investments held to maturity

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Debt securities				
– Government bonds, listed on stock exchange	343	780	–	611
– Corporate bonds, listed on stock exchange	3	8	–	–
Treasury bills issued by the Ministry of Finance	62	–	–	–
– Accrued interest	7	16	–	13
	415	804	–	624
Impairment losses	(4)	(9)	–	(7)
	411	795	–	617

Group position in hold to maturity portfolio as of 31 December 2014 consist mainly form debt securities issued by Republic of Croatia i.e. bonds with maturity from 2015 till 2022 with interest rate form 4.25% to 6.75%. In hold to Maturity Group also hold issues form Croatian bank from reconstruction and development maturity 2017 with interest rate 5%.

The amount of HRK 62 million government bonds represent the guarantee deposit in accordance with the Law on Mandatory and Voluntary Pension Funds.

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

Group			2014			2013
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	2	7	9	2	6	8
Net charge through statement of profit or loss	–	(8)	(8)	–	1	1
Provision – new member of the Group	–	3	3	–	–	–
At 31 December	2	2	4	2	7	9

Bank	2014	2013
HRK millions	Unidentified losses	Unidentified losses
At 1 January	7	6
Net charge through statement of profit or loss	(7)	1
At 31 December	–	7

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 2014 and 31 December 2013:

	Nature of business	2014 %	Ownership 2013 %	2014 HRK millions	Investments 2013 HRK millions
Investment in subsidiaries					
Direct holding					
Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.d.	Pension fund management	–	100	–	110
Raiffeisen mirovinsko društvo za upravljanje dobrovoljnim mirovinskim fondovima d.o.o.	Pension fund management	–	100	–	34
Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	Pension fund management	100	100	144	–
Raiffeisen stambena štedionica d.d.	Saving bank	100	–	56	–
Raiffeisen Consulting d.o.o.	Financial and consulting services	100	100	105	105
Raiffeisen Leasing d.o.o.	Leasing	50	50	15	15
Raiffeisen mirovinsko osiguravajuće društvo d.d.	Pension insurance	100	100	23	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	–	–
				366	**301**

12. Investments in subsidiaries and associates (continued)

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. The remaining 50% of Raiffeisen leasing d.o.o. is held by affiliates of RBI, the Banks's ultimate parent company.

During the year 2014 there have been considerable changes in the structure of the Group:

- Acquisition of Raiffeisen stambena štedionica d.d. Under the agreement concluded on 2nd June 2014, between Raiffeisen Bausparkasse Gmbh and the Bank when the Bank became the owner of 18,000 shares which repesent the 100% shareholding in Raiffeisen stambena štedionica d.d. Acqusition was done according to the net book value and there was neither goodwil nor badwill.

- Capital increase for Raiffeisen mirovinsko osiguravajuće društvo d.d. according to the Law on pension insurance companies

- Merging of Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondovima and Raiffeisen mirovinsko društvo za upravljanje dobrovoljnim mirovinskom fondovima d.o.o. into Raiffeisen društvo za upravljanje obveznim i dobrovljnim mirovinskom fondovima d.d.

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 2014 HRK millions	Land and buildings	Equipment	Office furniture	Assets under operating leases	Assets under construction	Total
Gross carrying amount						
1 January 2014	878	442	79	1,080	11	2,490
Additions	–	–	–	6	403	409
Acquisition of RSŠ	–	10	2	–	–	12
Disposals	–	(20)	(2)	(393)	–	(415)
Transfer to the non-current asset held for sale	–	–	–	–	(5)	(5)
Transfers	3	24	1	377	(405)	–
At 31 December 2014	**881**	**456**	**80**	**1,070**	**4**	**2,491**
Accumulated depreciation and impairment losses						
1 January 2014	210	372	77	277	–	936
Charge for the year	15	28	1	114	–	158
Acquisition of RSŠ	–	9	1	–	–	10
Disposals	–	(20)	(2)	(108)	–	(130)
At 31 December 2014	**225**	**389**	**77**	**283**	**–**	**974**
Carrying amount						
At 1 January 2014	**668**	**70**	**2**	**803**	**11**	**1,554**
At 31 December 2014	**656**	**67**	**3**	**787**	**4**	**1,517**

There were no capitalized borrowing costs related to the acquisition of property, plant and equipment during the year (2013: nil).

A building with the carrying amount of approximately HRK 228 million (2013: HRK 233 million) 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 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	–	–	–	–	206	206
Acquisition of KAM nekretnine	312	–	–	–	–	312
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
Acquisition of KAM nekretnine	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

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 2014 is as follows:

HRK millions	Group 2014	Group 2013
Up to one year	156	152
More than one and less than five years	320	303
Over five years	328	348
	804	803

13. Property, plant and equipment (continued)

Operating lease receivables, unearned future income

HRK millions	Group 2014	Group 2013
Up to one year	149	153
More than one and less than five years	338	327
Over five years	83	130
	570	610
Less future income charges	(189)	(217)
	381	393

Bank 2014 HRK millions	Land and buildings	Equipment	Office furniture	Assets under construction	Total
Gross carrying amount					
1 January 2014	464	426	75	10	975
Additions	–	–	–	26	26
Disposals	–	(18)	(2)	–	(20)
Transfers	2	23	1	(26)	–
Transfer to the non-current asset held for sale	–	–	–	(5)	(5)
At 31 December 2014	466	431	74	5	976
Accumulated depreciation					
1 January 2014	98	362	72	–	532
Charge for the year	8	26	1	–	35
Disposals	–	(17)	(2)	–	(19)
At 31 December 2014	106	371	71	–	548
Carrying amount					
At 1 January 2014	366	64	3	10	443
At 31 December 2014	360	60	3	5	428

Assets under construction comprise equipment and office furniture at cost of HRK 5 million (2013: HRK 4 million), which are being prepared for use by the Bank. In 2013 assets under construction comprise also buildings at cost of HRK 6 million.

There were no capitalized borrowing costs related to the acquisition of property, plant and equipment during the year (2013:nil).

13. Property, plant and equipment (continued)

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**

14. Intangible assets

Group 2014 HRK millions	Leasehold improvement	Software	Assets under construction	Total
Gross carrying amount				
1 January 2014	209	483	1	693
Additions	–	35	37	72
Disposals	–	(1)	–	(1)
Transfers	8	28	(36)	–
At 31 December 2014	**217**	**545**	**2**	**764**
Accumulated amortisation				
1 January 2014	138	363	–	501
Charge for the year	12	30	–	42
Charge for additions	–	28	–	28
Disposals	–	(1)	–	(1)
At 31 December 2014	**150**	**420**	**–**	**570**
Carrying amount				
At 1 January 2014	**71**	**120**	**1**	**192**
At 31 December 2014	**67**	**125**	**2**	**194**

Assets under construction comprise software in the process of installation in the amount of HRK 2 million (2013: HRK 1 million).

14. Intangible assets (continued)

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**

Bank 2014 HRK millions	Leasehold improvement	Software	Assets under construction	Total
Gross carrying amount				
1 January 2014	199	472	2	673
Additions	–	–	35	35
Disposals	–	(1)	–	(1)
Transfers	7	27	(34)	–
At 31 December 2014	**206**	**498**	**3**	**707**
Accumulated amortisation				
1 January 2014	129	354	–	483
Charge for the year	11	28	–	39
Disposal	–	(1)	–	(1)
At 31 December 2014	**140**	**381**	**–**	**521**
Carrying amount				
At 1 January 2014	**70**	**118**	**2**	**190**
At 31 December 2014	**66**	**117**	**3**	**186**

Assets under construction comprise software in the process of installation in the amount of HRK 2 million (2013: HRK 2 million) and leasehold improvements HRK 1 million (2013: null).

14. Intangible assets (continued)

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

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		Net credit/(charge) through other comprehensive income
HRK millions	2014	2013	2014	2014	2014	2013	2014
Property, plant and equipment	–	–	(3)	(3)	–	1	–
Deferred fee and commission expense	–	–	(2)	(2)	–	2	–
Benefits of tax losses recognised	22	7	–	–	16	7	–
Deferred fee and commission income	30	30	–	–	(5)	–	–
Unrealised losses on financial instruments with fair value through profit and loss	90	173	–	–	(82)	(29)	–
Other provisions	20	12	–	–	9	3	–
Deferred tax assets/(liabilities)	**162**	**222**	**(5)**	**(5)**	**(62)**	**(16)**	**–**
Unrealised losses for available for sale financial instruments	(1)	–	–	–	–	–	(1)
Set off	(5)	(5)	5	5	–	–	–
Net deferred tax assets	**156**	**217**	**–**	**–**	**–**	**–**	**–**

Bank	Assets		Liabilities		Net credit/(charge) through statement of profit or loss		Net credit/(charge) through other comprehensive income
HRK millions	2014	2013	2014	2013	2014	2013	2014
Deferred fee and commission expense	–	–	(1)	(1)	–	2	–
Deferred fee and commission income	23	28	–	–	(5)	2	–
Unrealised losses on financial instruments with fair value through profit and loss	87	173	–	–	(86)	(29)	–
Tax losses recognized	18	–	–	–	18		
Other provisions	18	9	–	–	9	3	–
Deferred tax assets/(liabilities)	**146**	**210**	**(1)**	**(1)**	**(64)**	**(22)**	**–**
Unrealised gains/losses for available for sale financial instruments	1	–	–	–	–	–	1
Set off	(1)	(1)	1	1	–	–	–
Net deferred tax assets	**146**	**209**	**–**	**–**	**–**	**–**	**–**

16. Other assets

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Accrued fee and commission receivables	45	31	22	21
Deferred fee and commission expenses	2	15	–	14
Non-current asset held for sale	109	143	85	120
Prepayments	82	69	78	79
Receivables from credit and debit card business	27	32	27	32
Receivables in respect of operating leases	10	12	–	–
Government housing savings subsidies receivable	8	–	–	–
Inventories	62	32	–	–
Repurchase of domestic currency cash	37	37	37	37
Current tax asset	39	32	43	52
Other receivables and other assets	50	81	38	71
	471	484	330	426
Impairment losses	(90)	(64)	(82)	(56)
– Hereof Bank	(82)	(56)	(82)	(56)
– Hereof Leasing	(7)	(8)	–	–
– Hereof other members of the Group	(1)	–	–	–
	381	420	248	370

Movement in impairment losses

Group			2014			2013
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	54	10	64	45	12	57
Increase in impairment losses	26	4	30	13	–	13
Decrease in impairment losses	(2)	–	(2)	(2)	(2)	(4)
Net charge/(release) to statement	24	4	28	11	(2)	9
Write offs	(2)	–	(2)	(2)	–	(2)
At 31 December	76	14	90	54	10	64

16. Other assets (continued)

Movement in impairment losses (continued)

Bank			2014			2013
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	**46**	**10**	**56**	**36**	**12**	**48**
Increase in impairment losses	25	4	29	13	–	13
Decrease in impairment losses	(2)	–	(2)	(2)	(2)	(4)
Net charge/(release) to statement	23	4	27	11	(2)	9
Write offs	(1)	–	(1)	(1)	–	(1)
At 31 December	**68**	**14**	**82**	**46**	**10**	**56**

Fair value hierarchy of non-current asset held for sale

			2014			2013
HRK millions	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Group Buildings	–	–	109	–	–	143
Bank Buildings	–	–	85	–	–	120

In the current year buildings in the amount of HRK 109 million (2013: HRK 143 million) are classified as held for sale. These buildings comprise of business offices, residential houses and apartments, all appraised by certified appraisers from Raiffeisen Consulting, based on which recording was performed.

17. Financial liabilities at fair value through profit or loss

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Trading instruments				
Negative fair value of OTC derivative instruments	241	645	241	646
Loss on unsettled OTC foreign exchange spot transactions	–	1	–	1
Negative fair values of derivative financial instruments in fair value hedges	6	–	6	–
Accrued interest	3	5	3	5
	250	**651**	**250**	**652**

18. Deposits from banks

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Current accounts and demand deposits				
– From ultimate parent bank	70	3	70	3
– From RBI Group banks other than ultimate parent bank	5	37	7	37
– From other banks	184	108	184	108
Time deposits				
– From other RBI group banks	–	1	–	1
– From other banks	43	394	43	394
	302	**543**	**304**	**543**

19. Deposits from companies and other similar entities

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Current accounts and demand deposits	6,983	6,244	7,432	6,480
Time deposits	1,482	1,396	1,499	1,402
Accrued interest	9	13	9	13
	8,474	**7,653**	**8,940**	**7,895**

20. Deposits from individuals

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Current accounts and demand deposits	3,193	2,601	2,920	2,601
Time deposits	11,751	11,285	10,729	11,285
Accrued interest	109	133	109	133
	15,053	**14,019**	**13,758**	**14,019**

21. Borrowings

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
From ultimate parent bank	2,568	4,218	171	1,939
From other banks	2,395	2,611	1,903	2,063
From companies and other financial institutions	379	73	379	73
Accrued interest	5	25	2	21
Less deferred income	(2)	(4)	(4)	(5)
	5,345	**6,923**	**2,451**	**4,091**

Movements of outstanding borrowings

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
At 1 January	6,923	7,682	4,091	5,204
New borrowings	3,477	4,868	1,265	2,391
Repayment of borrowings	(5,069)	(5,674)	(2,907)	(3,518)
Foreign exchange differences	14	47	2	14
At 31 December	**5,345**	**6,923**	**2,451**	**4,091**

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 in the year 2013 which the Bank has not separated and which has been valued using the valuation model prescribed by the 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 2014	172	35	72	2	4	59
Provision reversed during the year	(74)	(31)	(42)	–	–	(1)
Provision charged during the year	84	36	46	–	1	1
At 31 December 2014	182	40	76	2	5	59

In July 2013 based on a claim brought by a consumer rights protection association, the Zagreb Commercial Court issued a judgment against several Croatian banking subsidiaries of European banks, including Raiffeisenbank Austria d.d., finding that the banks violated Croatian consumer protection laws and the Croatian civil code in connection with Swiss franc-linked loans to retail customers between 2004 and 2008.

According to the judgment, the banks used dishonest and unfair business practices and illegal contractual clauses in linking the loans' principal amounts to Swiss francs and by providing for variable interest rates that may be unilaterally reset by the respective banks without sufficiently informing customers of all parameters. The judgment requires the banks to offer affected customers to amend their loan agreements to adjust the principal amount of the respective loan linked to Swiss franc to the Croatian kuna at the exchange rate applicable of the respective disbursement date and to reset the respective interest rate on the loans to the rate in effect at the time the loan was extended, which interest rate shall prevail until new transparent interest rate reset mechanisms are in place.

Raiffeisenbank Austria d.d. and all other defendants have appealed the court decision on procedural and substantive grounds. In July 2014, the final decision of the High Commercial Court of Croatia was issued. The judgment was upheld in part, namely regarding contractual clauses in consumer loans providing for variable interest rates that may be unilaterally reset by the respective banks without sufficiently informing customers of all parameters. In relation to the clauses in linking consumer loan's principal amounts to Swiss francs the claim was rejected by the court. The court ruling is of declaratory nature and does not address the practices of individual banks. Based on this declaratory ruling, customers of Raiffeisenbank Austria d.d. who have consumer loans providing for variable interest rates and who had previously made payments on loans covered by the judgment could sue for repayment of overpaid interest, subject to a five year statute of limitations.

In such individual law suits Raiffeisenbank Austria d.d. intends to prove that any change in such variable interest rates was based on fair and profound grounds. The court ruling affects the current outstanding loans as well as loans redeemed in the period of five years preceding the date of the ruling. If all borrowers under the loans covered by the judgment were to reclaim successfully in application of the terms of the judgment, the potential negative impact on Raiffeisenbank Austria d.d., and therefore on the Issuer, could be significant. In any case, the potential negative impact would finally depend on the actual number of claims to be launched by customers based on the final ruling. Moreover, both, the consumer rights protection association as well as the banks, including Raiffeisenbank Austria d.d. filed in August 2014, a motion to revise with the Supreme Court of Croatia. However such motion has no suspensive effect on the high Commercial Court's ruling.

22. Provisions for liabilities and charges (continued)

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

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 2014	159	35	72	2	2	48
Provision reversed during the year	(73)	(31)	(42)	–	–	–
Provision charged during the year	84	36	46	–	1	1
At 31 December 2014	170	40	76	2	3	49

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

23. Other liabilities

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Technical reserves for pension insurance	354	280	–	–
Liabilities in respect of credit and debit card business	73	76	73	76
Liabilities to employees	72	71	61	63
Liabilities to suppliers	58	71	51	68
Deferred fee and commission income	28	21	8	11
Prepaid loans and advances collected from individuals	20	15	13	15
Government housing savings subsidies	8	–	–	–
Accrued fees	1	1	–	–
Liabilities for unsettled purchased debt securities	–	3	–	–
Other liabilities	86	124	49	70
	700	**662**	**255**	**303**

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 2014.

Other liabilities of the Group and the Bank mainly relates to the liabilities for repurchase of HRK 11 million (2013: HRK 20 million) and for liabilities for advances received for insurance premiums in the amount of HRK 22 million (2013: HRK 20 million).

24. Subordinated liabilities

The Bank has signed a subordinated loan agreement with RBI amounting to EUR 60 million as of 31 January 2014. The Bank use the subordinated loan to increase its Tier 2 Capital. Repayment of the loan will be in one amount on 20 February 2021. Interest agreed consists of 3M EURIBOR and a margin of 6.56 per cent.

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Subordinated loan	460	–	460	–
Accrued interest	4	–	4	–
	464	**–**	**464**	**–**

25. Interest income

a) Interest income – analysis by product

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Financial assets at fair value through profit or loss	106	142	96	139
Derivative financial instruments	28	48	32	50
Financial assets available for sale	37	6	23	–
Placements with banks	4	10	4	8
Loans and advances to customers and similar entities	675	746	550	628
Loans and advances to individuals	858	860	808	857
Financial instruments held to maturity	24	44	4	33
	1,732	1,856	1,517	1,715

b) Interest income – analysis by source

HRK millions	Group 2014	Group 2013	Bank 2104	Bank 2013
Companies	612	664	490	547
Individuals	858	860	808	857
State and public sector	229	274	186	255
Banks and other financial institutions	30	56	30	54
Other organizations	3	2	3	2
	1,732	1,856	1,517	1,715

26. Interest expense

a) Interest expense – analysis by product

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Derivative financial instruments	52	70	53	70
Here of on derivative financial instruments in fair value hedges	1	–	1	–
Deposits from banks	1	3	2	3
Deposits from companies and other similar entities	39	62	40	64
Deposits from individuals	301	345	262	346
Borrowings	129	173	74	116
Subordinated liabilities	27	–	27	–
	550	653	459	599

b) Interest income – analysis by source

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Companies	39	63	40	65
Individuals	301	345	262	346
State and public sector	1	1	1	1
Banks and other financial institutions	208	242	155	185
Other organizations	1	2	1	2
	550	653	459	599

27. Fee and commission income

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Domestic payment transactions	103	97	105	97
Investment management, custody and consultancy fees	147	143	29	26
Credit cards	165	140	165	140
Foreign payment transactions	72	63	71	63
Recharge of credit insurance costs (Note 28)	19	22	19	22
Guarantees and letter of credits	40	43	40	43
Loans and accounts administration fee	44	32	36	32
Other fees and commission income	38	39	48	52
	628	579	513	475

28. Fee and commission expense

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Credit card related charges	129	111	129	111
Domestic payment transactions	23	21	22	21
Rechargeable credit insurance costs (Note 27)	26	28	26	28
Agency expenses (REGOS, HANFA)	23	22	–	–
Other fees and commission expense	39	37	27	36
	240	**229**	**204**	**196**

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

29. Net trading income/(expense)

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Gains less losses from trading financial instruments				
Debt securities	22	(14)	22	(14)
Treasury bills	(4)	(5)	(4)	(5)
Equity securities	1	(2)	1	(2)
Derivative financial instruments	115	(3)	121	(8)
	134	**(24)**	**140**	**(29)**
Gains less losses from financial assets designated at fair value through profit or loss				
Realised gain/(loss) on disposal of:				
– Debt securities	7	4	5	3
– Treasury bills	(1)	(2)	(1)	(2)
Unrealised loss on:				
– Debt securities	14	(45)	(1)	(40)
– Treasury bills	(4)	(5)	(4)	(5)
	16	**(48)**	**(1)**	**(44)**
Gains less losses arising from available for sale assets	12	–	12	–
Gains less losses arising from dealing in foreign currencies	106	89	107	92
Gains less losses arising from revaluation of monetary assets and liabilities, other than dealing securities				
– Exchange loss on foreign currency assets and liabilities	(178)	(14)	(172)	19
– Exchange gain on valuation clause assets and liabilities	104	147	67	96
	44	**222**	**14**	**207**
	194	**150**	**153**	**134**

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

30. Other operating income

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Rental income from operating leases	168	185	–	–
Service contract revenue	2	7	–	–
Gross written premium on pension insurance contracts	163	148	–	–
Dividend income from investments in subsidiaries	–	–	53	56
Other income	38	41	31	29
	371	**381**	**84**	**85**

31. Operating expenses

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Personnel expenses	426	412	364	366
Depreciation	158	175	35	43
IT expenses	99	111	90	100
Increase in technical reserve for pension insurance	76	59	–	–
Office space expenses	71	84	88	96
Legal, advisory and consulting expenses	48	39	39	30
Deposit insurance	46	40	42	40
Amortisation	42	45	39	44
Communication expenses	39	41	36	37
Advertising, PR and promotional expenses	35	31	30	22
Loss on disposal of assets under operating lease	2	6	–	–
Service contract expenses	–	3	–	–
Other administrative expenses	221	162	90	57
	1,263	**1,208**	**853**	**835**

Personnel expenses of the Group include HRK 66 million (2013: HRK 66 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 2,329 employees at 31 December 2014 (2013: 2,274 employees).

Personnel expenses of the Bank include HRK 57 million (2013: HRK 58 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 1,907 employees at 31 December 2014 (2013: 2,086 employees).

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

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Cash and amounts due from banks	1	(2)	1	(2)
Obligatory reserve with the Croatian National Bank	(1)	(3)	(1)	(3)
Placements with and loans to other banks	1	(5)	–	(5)
Financial assets at fair value through PL	–	3	–	3
Loans and advances to customers	376	458	356	418
Financial investments held to maturity	(8)	1	(7)	1
Other assets	28	9	27	9
	397	**461**	**376**	**421**
Hereof:				
Identified losses	**419**	**465**	**411**	**423**
Unidentified losses	**(22)**	**(4)**	**(35)**	**(2)**

33. Income tax expense

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Recognised in statement of comprehensive income				
– Current tax expense	(39)	(73)	(6)	(29)
– Deferred taxes	(62)	(16)	(64)	(22)
Income tax expense	**(101)**	**(89)**	**(70)**	**(51)**
Reconciliation of income tax expense				
Profit before tax	**465**	**384**	**364**	**327**
Income tax at 20%	(93)	(77)	(73)	(65)
Adjustment of income tax from the previous year in current year	6	3	6	3
Non-deductible expenses	(2)	(19)	(2)	(2)
Tax incentives and tax exempt income	12	1	14	13
Effects of previously unrecognised deferred tax benefit from tax losses available for future periods	(13)	3	(15)	–
Income tax expense	**(101)**	**(89)**	**(70)**	**(51)**
Effective income tax rate	**21.70%**	**23.21%**	**19.23%**	**19.88%**

33. Income tax expense (continued)

Unrecognised deferred tax assets

As at 31 December 2014, the Bank has HRK 89 million gross tax losses (2013: 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 2014 were as follows:

Group HRK millions	Gross tax losses 2014	Tax benefit 2014	Gross tax losses 2013	Tax benefit 2013
31 December 2014	–	–	6	1
31 December 2015	120	20	10	2
31 December 2016	19	2	12	2
31 December 2017	32	–	–	–
31 December 2018	1	–	–	–
	172	22	28	5

34. Share capital

Group and Bank HRK millions	2014 Total of ordinary shares	2013 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 shareholder at the year-end was as follows:

	2014 Ordinary Shares %	2013 Ordinary Shares %
Raiffeisen SEE Region Holding Gmbh	100	100
	100	100

35. 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.

36. Proposed dividends

Dividends payable are not accounted for until they have been ratified at the General Meeting of Shareholders.
At a meeting to be held on 20 April 2015, a dividend of HRK 81.18 per ordinary share (2013: HRK 95.3 per ordinary share), totaling HRK 294 million (2013: HRK 345 million) is to be proposed.

On 20 February 2014 the dividend in the amount of HRK 460 million (HRK 126.90 per ordinary share) was paid to our shareholder. The decision for payment was made on the General Assembly meeting held on 14 February 2014. Additionaly, on 25 April 2014 the dividend in the amount of HRK 345 million (HRK 95.30 per ordinary share) was paid to our shareholder. The decision for payment was made on the General Assembly meeting held on 17 April 2014. In the year 2014 total amount paid to the shareholder was HRK 805 million.

During 2014 some of the Group`s companies declared payment of HRK 53 million of dividends from retained earnings (2013: HRK 56 million), which was approved by the CNB.

37. Non-controlling interest

HRK millions	Group 2014	Group 2013
At 1 January	62	80
Share of retained profit/(loss) for the year	3	(14)
Distribution of dividend	–	(4)
At 31 December	**65**	**62**

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

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Net profit for the year attributable to equity holders of the parent net of proposed dividend on preference shares	361	309	294	276
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	**100**	**85**	**81**	**76**

39. Cash and cash equivalents

HRK millions	Notes	Group 2014	Group 2013	Bank 2014	Bank 2013
Cash in hand	5	571	621	571	621
Items in the course of collection	5	1	1	1	1
Gyro account with the Croatian National Bank	5	1,213	1,012	1,213	1,012
Current accounts with other banks	5	63	191	63	154
Placements with and loans to other banks with original maturity up to three months		1,007	897	988	789
Less impairment losses		(25)	(21)	(25)	(21)
		2,830	**2,701**	**2,811**	**2,556**

40. 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 2014	Group 2013	Bank 2014	Bank 2013
Gyro account with the Croatian National Bank	5	1,213	1,012	1,213	1,012
Deposits with the Croatian National Bank	8	370	370	370	370
Obligatory reserve with the Croatian National Bank	6	1,985	2,056	1,985	2,056
Government bonds, direct exposure	7, 9, 11	1,907	1,540	1,136	1,183
Treasury bills issued by the Ministry of Finance	7, 9,11	1,078	1,128	1,001	1,128
Loans and advances to customers		2,302	2,445	2,106	2,445
Impairment losses		(64)	(61)	(62)	(61)
Deposits from the Republic of Croatia		(96)	(89)	(96)	(89)
		8,695	8,401	7,653	8,044

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 2014	Group 2013	Bank 2014	Bank 2013
Loans to customers guaranteed by the State	848	1,981	656	1,981
Guarantees, letters of credit and undrawn lending facilities	6	95	6	95
	854	2,076	662	2,076

The total net direct and indirect on and off-balance-sheet exposure to Croatian state risk represents 22% of the total assets and off-balance-sheet exposure of the Group (2013: 24%) and 21% of the total assets and off-balance-sheet exposure of the Bank (2013: 25%).

41. 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 HRK millions	Fair value of underlying assets	Carrying amount of corresponding liabilities	Repurchase date	Repurchase price
2014				
Securities at fair value through profit or loss	450	427	January – April 2015	431
Financial investments held to maturity	345	336	January – April 2015	337
2013				
Securities at fair value through profit or loss	76	73	January 2014	74
Financial investments held to maturity	429	405	January 2014	405

Bank HRK millions	Fair value of underlying assets	Carrying amount of corresponding liabilities	Repurchase date	Repurchase price
2014				
Securities at fair value through profit or loss	527	503	January – April 2015	507
Financial investments held to maturity	345	336	January – April 2015	337
2013				
Securities at fair value through profit or loss	76	73	January 2014	74
Financial investments held to maturity	429	405	January 2014	405

41. Repurchase and resale agreements

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				
2014	140	155	January – February 2015	142
2013	130	149	January 2014	130

42. Commitments and contingent liabilities

The aggregate amounts of outstanding guarantees, letters of credit and undrawn loan commitments at 31 December 2014 were:

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Guarantees	3,053	3,418	3,117	3,495
Letters of credit	124	70	124	70
Undrawn loan commitments	4,531	3,890	4,413	3,723
	7,708	**7,378**	**7,654**	**7,288**

At 31 December 2014, 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 76 million (2013: HRK 72 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.

43. 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 2014, the total assets under custody held by the Group on behalf of customers were HRK 6,287 million (2013: HRK 5,194 million).

In addition, at 31 December 2014, total assets of investment and pension funds under Group management amounted to HRK 22,294 million (2013: HRK 19,587 million).

During 2014 the Group made income in the amount of HRK 128 million (2013: HRK 113 million) of fees on trust activities provided to companies, banks and individuals, and management of investment and pension funds.

43. Assets and liabilities managed on behalf of third parties (continued)

As at 31 December 2014 the Group and the Bank managed loans on behalf of third parties as follows:

HRK millions	2014	2013
Assets		
– Loans to companies	164	13
Total assets	**164**	**13**
Liabilities	–	(4)
– Financial institutions	164	13
Total liabilities	**164**	**13**

44. 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	Notional amount, remaining life					Fair values	
2014 HRK millions	Up to 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total	Assets	Liabilities
– Forward foreing exchange contracts – OTC							
– CHF	137	232	–	–	369	–	2
– EUR	3,441	1,602	314	–	5,357	–	–
– USD	605	5	–	–	610	3	7
– Other fx	9	6	–	–	15	2	5
– HRK	1,527	594	87	–	2,208	66	7
– Forward rate agreement	–	2,006	1,274	–	3,280	–	2
– Cross currency swap – OTC	198	899	884	72	2,053	2	150
– Interest rate swap – OTC	60	960	495	426	1,941	15	65
– Futures	329	–	–	–	329	–	3
	6,306	**6,304**	**3,054**	**498**	**16,162**	**88**	**241**
Unsettled foreign currency spot transactions – OTC	1,426	–	–	–	1,426	–	–

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

Group 2013 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	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

At the Group and the Bank level unsettled foreign currency spot transactions are denominated in EUR in the amount of HRK 603 million (2013: HRK 519 million), in USD in the amount of HRK 25 million (2013: HRK 144 million) in other currencies in the amount of HRK 23 million (2013: HRK 31 million) and in HRK in the amount of HRK 775 million (2013: HRK 636 million).

Bank 2014 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	137	232	–	–	369	–	2
– EUR	3,610	1,602	314	–	5,526	–	–
– USD	605	5	–	–	610	3	6
– Other fx	9	6	–	–	15	2	5
– HRK	1,569	594	87	–	2,250	66	7
– Forward rate agreement	–	2,006	1,274	–	3,280	–	2
– Cross currency swap – OTC	198	899	884	72	2,053	3	150
– Interest rate swap – OTC	63	973	542	518	2,096	26	66
– Futures	329	–	–	–	329	–	3
	6,520	6,317	3,101	590	16,528	100	241
Unsettled foreign currency spot transactions – OTC	1,426	–	–	–	1,426	–	–

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

Bank 2013 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	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

Fair value hedging HRK millions	Average fixed interest rate 2014 %	2013 %	Notional amount 2014 %	2013 %	Fair value 2014 %	2013 %
Hedge item – loans to customers	7.32	–	106	–	6	–
Hedging instrument – Interest rate swap 1 to 5 years	1.2275	–	106	–	(6)	–

For the year ended hedge effectiveness ratio is 100%.

44. 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	2014	2013
Pay fixed swaps – notional amount	1,320	2,434
Pay variable swaps – notional amount	727	1,102
Average pay fixed rate	1.71%	1.96%
Average receive variable rate	0.06%	0.21%
Average pay variable rate	0.08%	0.22%
Average receive fixed rate	1.77%	1.96%

Bank HRK millions	2014	2013
Pay fixed swaps – notional amount	1,328	2,444
Pay variable swaps – notional amount	873	1,261
Average pay fixed rate	1.84%	2.05%
Average receive variable rate	0.06%	0.22%
Average pay variable rate	0.07%	0.21%
Average receive fixed rate	1.86%	2.01%

45. 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 2014 and 2013, arising from transactions with related parties were as follows:

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Statement of comprehensive income				
Interest, fee and commission income				
– Raiffeisen Leasing d.o.o.	–	–	22	24
– Raiffeisen stambena štedionica d.d.	–	–	3	–
– Raiffeisen Consulting d.o.o.	–	–	6	4
– Raiffeisen mirovinsko društvo za upravljanje dobrovoljnim mirovinskim fondovima d.o.o.	–	–	–	1
– Raiffeisen mirovinsko osiguravajuće društvo d.d.	–	–	1	1
– Raiffeisen Factoring d.o.o.	–	–	8	12
– Raiffeisen Invest d.o.o.	–	–	4	4
– RBI	17	25	17	25
– RBI Group	–	2	–	2
Total	**17**	**27**	**61**	**73**
Interest, fee and commission expense				
– Raiffeisen Leasing d.o.o.	–	–	(1)	(1)
– Raiffeisen Consulting d.o.o.	–	–	–	(1)
– Raiffeisen mirovinsko društvo za upravljanje dobrovoljnim mirovinskim fondovima d.o.o.	–	–	–	(1)
– Raiffeisen mirovinsko osiguravajuće društvo d.d.	–	–	(1)	(1)
– RBI	(167)	(172)	(120)	(140)
– RBI Group	(13)	(29)	(12)	(14)
Total	**(180)**	**(201)**	**(134)**	**(158)**
Dealing and other income				
– Raiffeisen Leasing d.o.o.	–	–	1	6
– Raiffeisen stambena štedionica d.d.	–	–	1	–
– Raiffeisen mirovinsko društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	–	–	47	–
– Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.d.	–	–	–	36
– Raiffeisen mirovinsko osiguravajuće društvo d.d.	–	–	8	–
– Raiffeisen Invest d.o.o.	–	–	1	1
– Raiffeisen Consulting d.o.o.	–	–	6	(5)
– Raiffeisen Factoring d.o.o.	–	–	4	22
– RBI	44	95	44	95
Total	**44**	**95**	**112**	**155**

45. Related party transactions (continued)

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Operating expenses				
– Raiffeisen Leasing d.o.o.	–	–	(8)	(8)
– Raiffeisen Consulting d.o.o.	–	–	(17)	(12)
– Raiffeisen Factoring d.o.o.	–	–	(2)	(5)
– RBI	(36)	(38)	(36)	(38)
– RBI Group	(1)	(1)	(1)	(1)
Total	(37)	(39)	(64)	(64)
Assets Current accounts and placements with banks				
– Raiffeisen stambena štedionica d.d.	–	–	52	–
– RBI	17	53	17	53
– RBI Group	3	5	3	5
Total	20	58	72	58
Loans to customers				
– Raiffeisen Consulting d.o.o.	–	–	63	33
– Raiffeisen Leasing d.o.o.	–	–	372	387
– Raiffeisen Factoring d.o.o.	–	–	–	160
Total	–	–	435	580
Accrued income and other assets				
– Raiffeisen Leasing d.o.o.	–	–	12	8
– Raiffeisen Consulting d.o.o.	–	–	12	6
– Raiffeisen Invest d.o.o.	–	–	–	1
– Raiffeisen Factoring d.o.o.	–	–	4	2
– RBI	16	4	16	4
Total	16	4	44	21

45. Related party transactions (continued)

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Liabilities				
Deposits				
– Raiffeisen Leasing d.o.o.	–	–	28	15
– Raiffeisen stambena štedionica d.d.			2	-
– Raiffeisen Consulting d.o.o.	–	–	1	1
– Raiffeisen mirovinsko društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	–	–	70	–
– Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.d.	–	–	–	28
– Raiffeisen mirovinsko društvo za upravljanje dobrovoljnim mirovinskim fondovima d.o.o.	–	–	–	38
– Raiffeisen mirovinsko osiguravajuće društvo d.d.	–	–	40	38
– Raiffeisen Factoring d.o.o.	–	–	396	198
– Raiffeisen Invest d.o.o.	–	–	9	8
– RBI	70	2	70	2
– RBI Group	5	49	5	49
Total	75	51	621	377
Borrowings and subordinated liabilities				
– Raiffeisen stambena štedionica d.d.	–	–	76	–
– RBI	3,032	4,239	634	1,958
– RBI Group	–	76	–	–
Total	3,032	4,315	710	1,958
Accruals and other liabilities				
– Raiffeisen Leasing d.o.o.	–	–	1	–
– RBI	236	13	236	13
– RBI Group	8	1	8	1
Total	244	14	245	14
Off balance sheet exposure				
Derivative instruments				
– Raiffeisen Leasing d.o.o.	–	–	49	85
– Raiffeisen Consulting d.o.o.	–	–	315	316
– RBI	11,367	10,426	11,367	10,426
– RBI Group	16	8	16	8
Total	11,383	10,434	11,747	10,835

45. Related party transactions (continued)

2014 HRK millions	Exposure	Liabilities	Income	Expense
Group **Key management personnel**				
Short-term benefits (bonuses, salaries and fees)	–	20	–	41
Long-term benefits	–	–	–	11
Loans and advances	42	–	2	–
Deposits	–	17	–	–
Total	**42**	**37**	**2**	**52**
Bank **Key management personnel**				
Short-term benefits (bonuses, salaries and fees)	–	15	–	16
Long-term benefits	–	–	–	9
Loans and advances	12	–	1	–
Deposits	–	8	–	–
Total	**12**	**23**	**1**	**25**

2013 HRK millions	Exposure	Liabilities	Income	Expense
Group **Key management personnel**				
Short-term benefits (bonuses, salaries and fees)	–	21	–	47
Long-term benefits	–	–	–	9
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	–	22
Long-term benefits	–	–	–	7
Loans and advances	20	–	1	–
Deposits	–	9	–	–
Total	**20**	**26**	**1**	**29**

46. 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 Work-out Department.

According to local methodology (HNB) for those placements Bank uses following classification into the appropriate risk groups:
A group – placements that are fully recoverable
B group – placements that are partially recoverable
1) subgroup B-1 – value adjustment at least 1% but not higher than 30% of each placement
2) subgroup B-2 – value adjustment more than 30%, but not higher than 70% of each placement
3) subgroup B-3 – value adjustment more than 70% but less than 100% of each placement
C group – placements that are fully unrecoverable – 100% value adjustment

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.

46. Risk management (continued)

Credit risk (continued)

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.

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	2014 Group	2013 Group	2014 Bank	2013 Bank
Cash and current accounts with banks	5	1,276	1,203	1,276	1,166
Obligatory reserve with the Croatian National Bank	6	1,985	2,056	1,985	2,056
Placements with, and loans and advances to banks	8	1,450	1,643	1,482	1,474
Loans and advances to customers	10				
– Corporate		12,387	14,728	10,289	12,920
– Retail (individuals)		12,026	11,415	11,260	11,415
Financial assets available for sale	9	3,328	85	3,083	6
Financial investments held to maturity	11	415	804	–	624
Income tax receivables	16	39	32	43	52
Other assets	16	177	209	79	113
		33,083	32,175	29,497	29,826

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

HRK millions	Notes	2014 Group	2013 Group	2014 Bank	2013 Bank
Guarantees	42	3,053	3,418	3,117	3,495
Credit and other liabilities	42	4,655	3,960	4,537	3,793
		7,708	7,378	7,654	7,288

46. Risk management (continued)

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	2014 Group Off-balance sheet items	Assets	2013 Group Off-balance sheet items	Assets	2014 Bank Off-balance sheet items	Assets	2013 Bank Off-balance sheet items
Geographic region:								
Croatia	29,376	7,684	30,956	7,325	25,796	7,630	28,609	7,235
Rest of EU	3,080	20	1,005	49	3,080	20	1,005	49
Non EU	254	–	129	–	254	–	129	–
Other	373	4	83	4	373	4	83	4
Total	33,083	7,708	32,173	7,378	29,503	7,654	29,826	7,288

Concentration of credit risk by industry:

	Group 2014 %	Group 2013 %	Bank 2014 %	Bank 2013 %
Individuals	33	31	33	33
Financial services	13	13	15	15
Trade	10	13	10	11
Central and local government	11	6	10	6
Construction	7	10	7	10
Food and drink industry	4	6	4	5
Non-metal industry	6	5	6	5
Electronics	3	3	3	3
Wood and paper industry	1	1	1	1
Craft and services	8	9	8	9
Other business activities	4	3	3	2
Total loans and advances to customers	100	100	100	100

46. Risk management (continued)

Credit risk (continued)

Concentration of assets related to risk groups (balance sheet and off-balance sheet exposure)

Group's rating HRK millions	2014 Group Gross exposure to customers	2014 Group Impairment allowance	2013 Group Gross exposure to customers	2013 Group Impairment allowance	2014 Bank Gross exposure to customers	2014 Bank Impairment allowance	2013 Bank Gross exposure to customers	2013 Bank Impairment allowance
A	36,829	371	35,705	363	33,354	331	33,449	361
B1	735	124	1,032	171	721	123	999	167
B2	1,374	742	1,319	678	1,310	706	1,221	645
B3	1,046	857	827	688	1,020	857	823	677
C	807	807	668	668	752	752	622	622
Total	40,791	2,901	39,551	2,568	37,157	2,769	37,114	2,472

Collateral held and other credit enhancements

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Banks	118	334	118	334
Sovereigns	82	916	4	913
Corporate customers – Large	4,797	5,885	4,463	5,340
Corporate customers – SMB	428	586	374	529
Retail – private individuals	4,316	4,677	4,113	4,666
Retail – micro SME	273	824	197	204
Total	10,014	13,222	9,269	11,986

Ageing past due but not impaired

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Up to 30 days	7,443	10,144	6,743	8,372
Up to 31 – 90 days	754	560	753	542
Up to 91 – 180 days	6	157	6	156
Up to 181 – 365 days	4	84	3	115
Over 365 days	1	105	1	113
	8,208	11,050	7,506	9,298

46. Risk management (continued)

Credit risk (continued)

HRK millions	Group 2014	Group 2013	Bank 2014	Bank 2013
Loans and advances to customers	**20,740**	**22,818**	**18,059**	**21,181**
Neither past due not impaired	12,532	11,768	10,553	11,883
Past due not impaired	8,208	11,050	7,506	9,298
Hereof loans to companies and similar entities	**9,844**	**12,533**	**7,898**	**10,896**
Hereof neither past due not impaired	6,328	5,475	4,349	5,590
Hereof past due not impaired	3,516	7,058	3,549	5,306
Hereof loans and advances to individuals	**10,896**	**10,285**	**10,161**	**10,285**
Hereof neither past due not impaired	6,204	6,293	6,204	6,293
Hereof past due not impaired	4,692	3,992	3,957	3,992

Liquidity risk

Important role which 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 on total and on currency level, 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. 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 indicator, including holding of sufficiently large e liquidity buffer, stress tests based on different scenarios, and liquidity contingency plan).
All these measures, assessments and analyses are discussed regularly in the Asset/Liability Committee.

The Group aligns its business activities in line with the EBA and local regulation concerning liquidity risk and in line with the internal or the RBI Group acts concerning the management of liquidity reserve.

Short term liquidity gap is also analysed through liquidity surplus and the ratio of expected (modeled) cash inflows and counterbalancing capacity to cash outflows and selected maturities are shown on cumulative basis. Analyses include all balance and off balance sheet positions.

			2013			2014
In EUR million	7days	30days	1year	7days	30days	1year
Liquidity gap	364	369	460	285	403	488
Liquidity ratio	167%	134%	118%	152%	139%	115%

46. Risk management (continued)

Liquidity risk (continued)

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.
The Group also conducts liquidity stress-tests analysis on daily level in order to determine the necessary liquidity buffer.

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.

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.

		2014		2013
	Retail (%)	Corporate (%)	Retail (%)	Corporate (%)
31 December	50.20%	22.56%	47.32%	18.08%
Average	49.12%	19.01%	46.19%	17.79%
Minimum	47.21%	16.54%	44.13%	16.20%
Maximum	50.20%	22.56%	48.12%	19.47%

46. Risk management (continued)

Maturity analysis

The remaining contractual maturity of the Group's assets and liabilities as at 31 December 2014 and 31 December 2013 is presented in the tables below:

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

Group 2014 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	1,834	–	–	–	–	1,834
Obligatory reserve with the Croatian National Bank	1,963	–	–	–	–	1,963
Financial assets at fair value through profit or loss	1,861	1	1,033	–	–	2,895
Placements with and loans to other banks	976	–	18	434	–	1,428
Financial assets available for sale	25	12	8	353	2,930	3,328
Loans and advances to customers	2,842	1,394	4,359	7,530	5,655	21,780
Financial investments held to maturity	70	2	60	43	236	411
Property, plant and equipment	–	–	–	–	1,517	1,517
Intangible assets	–	–	–	–	194	194
Deferred tax assets	–	–	–	156	–	156
Other assets	131	19	49	122	60	381
Total assets	**9,702**	**1,428**	**5,527**	**8,638**	**10,592**	**35,887**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	250	–	–	–	–	250
Deposits from banks	284	18	–	–	–	302
Deposits from companies and other similar entities	7,451	296	499	191	37	8,474
Deposits from individuals	4,843	2,367	5,954	1,810	79	15,053
Borrowings	852	934	1,629	1,590	340	5,345
Provisions for liabilities and charges	–	–	45	135	2	182
Other liabilities	314	5	39	60	282	700
Subordinated liabilities	–	–	4	–	460	464
Equity attributable to the equity holders of the parent	–	–	–	–	5,052	5,052
Non-controlling interest	–	–	–	–	65	65
Total equity and liabilities	**13,994**	**3,620**	**8,170**	**3,786**	**6,317**	**35,887**
Maturity gap	**(4,292)**	**(2,192)**	**(2,643)**	**4,852**	**4,275**	**–**
Maturity gap (2013)	**(2,787)**	**(2,666)**	**(2,029)**	**6,203**	**1,279**	**–**

46. Risk management (continued)

Maturity analysis (continued)

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	5,623	23,812
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	35	420
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**	**6,268**	**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. Risk management (continued)

Maturity analysis (continued)

The remaining contractual maturity of the Bank's assets and liabilities as at 31 December 2014 and 31 December 2013 is presented in the tables below:

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

Bank 2014 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	1,834	–	–	–	–	1,834
Obligatory reserve with the Croatian National Bank	1,963	–	–	–	–	1,963
Financial assets at fair value through profit or loss	1,874	1	794	–	–	2,669
Placements with and loans to other banks	976	–	–	449	36	1,461
Financial assets available for sale	9	8	4	291	2,771	3,083
Loans and advances to customers	2,485	832	3,371	6,749	5,598	19,035
Investment in subsidiaries	–	–	–	–	366	366
Property, plant and equipment	–	–	–	–	428	428
Intangible assets	–	–	–	–	186	186
Deferred tax assets	–	–	–	146	–	146
Other assets	101	1	47	97	2	248
Total assets	**9,242**	**842**	**4,216**	**7,732**	**9,387**	**31,419**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	250	–	–	–	–	250
Deposits from banks	286	18	–	–	–	304
Deposits from companies and other similar entities	7,899	309	568	140	24	8,940
Deposits from individuals	4,546	2,320	5,723	1,090	79	13,758
Borrowings	507	265	510	831	338	2,451
Provisions for liabilities and charges	–	–	43	125	2	170
Other liabilities	217	3	24	11	–	255
Subordinated liabilities	–	–	4	–	460	464
Equity	–	–	294	–	4,533	4,827
Total liabilities and equity	**13,705**	**2,915**	**7,166**	**2,197**	**5,436**	**31,419**
Maturity gap	**(4,463)**	**(2,073)**	**(2,950)**	**5,535**	**3,951**	**–**
Maturity gap (2013)	**(3,070)**	**(2,274)**	**(2,340)**	**6,517**	**1,167**	**–**

46. Risk management (continued)

Maturity analysis (continued)

Bank 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	1,775	–	–	–	–	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. Risk management (continued)

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 the most important instrument 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. The 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, etc.)

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.

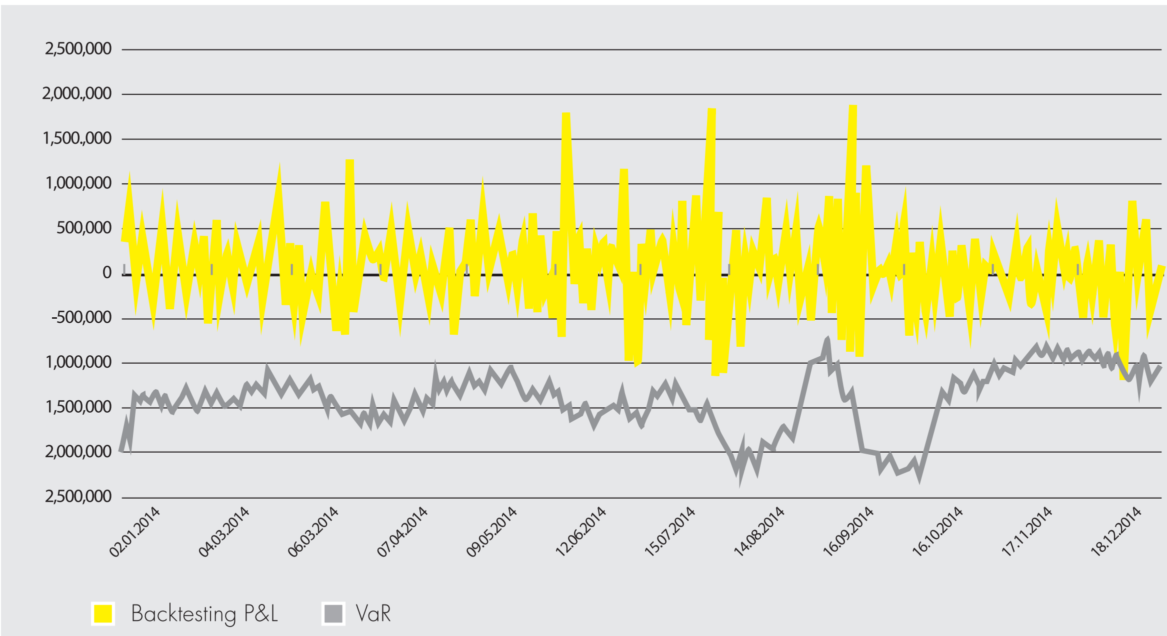
This limit supports traders' discipline in measuring proprietary trading positions and severely limiting losses rather than allowing them to accumulate.

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 2013	December 2014	Average	Min	Max
Interest rate risk					
– Trading book	3.7	2.0	2.5	1.1	4.5
– Banking book	12.3	5.1	8.6	4.2	15.5
Currency risk	0.5	0.3	0.6	0.1	1.6
Credit Spread Risk	3.1	4.5	3.5	2.2	7.1
Price risk	0.4	0.3	0.3	0.1	0.4
Total VaR	14.0	8.1	10.7	5.5	17.4

46. Risk management (continued)

Market risk (continued)



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 2014 one backtesting breach was recorded.

a) 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.

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;

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 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 2014 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.

46. Risk management (continued)

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

The Group and th Bank have a significant proportion of interest-earning assets and interest-bearing liabilities in foreign currency.

Group 2014 HRK millions	Non-interest bearing	Less than 1 month	1 – 3 months	3 – 12 months	Over 12 months	Total	Fixed inerest rates
Assets							
Cash and amounts due from banks	1,834	–	–	–	–	1,834	–
Obligatory reserve with the Croatian National Bank	1,963	–	–	–	–	1,963	–
Financial assets at fair value through profit or loss	130	1,785	472	309	199	2,895	2,233
Placements with and loans to other banks	482	862	18	–	66	1,428	946
Financial assets available for sale	110	15	915	662	1,626	3,328	2,185
Loans and advances to customers	44	16,291	525	556	4,364	21,780	5,236
Financial investments held to maturity	7	66	–	4	334	411	404
Property, plant and equipment	1,517	–	–	–	–	1,517	–
Intangible assets	194	–	–	–	–	194	–
Deferred tax assets	156	–	–	–	–	156	–
Other assets	381	–	–	–	–	381	–
Total assets	**6,818**	**19,019**	**1,930**	**1,531**	**6,589**	**35,887**	**11,004**
Liabilities and equity							
Financial liabilities at fair value through profit or loss	250	–	–	–	–	250	–
Deposits from banks	259	26	17	–	–	302	43
Deposits from companies and other similar entities	6,482	1,055	291	478	168	8,474	1,406
Deposits from individuals	109	3,999	2,638	6,359	1,948	15,053	11,277
Borrowings	3	2,685	1,180	809	668	5,345	1,474
Provisions for liabilities and charges	182	–	–	–	–	182	–
Other liabilities	700	–	–	–	–	700	–
Subordinated liability	4	–	–	460	–	464	–
Equity attributable to the equity holders of the parent	5,052	–	–	–	–	5,052	–
Non-controlling interest	65	–	–	–	–	65	–
Total liabilities and equity	**13,106**	**7,765**	**4,126**	**8,106**	**2,784**	**35,887**	**14,200**
Interest rate gap	**(6,288)**	**11,254**	**(2,196)**	**(6,575)**	**3,805**	**–**	**(3,196)**
Interest rate gap (2013)	**(2,278)**	**3,641**	**(2,547)**	**(464)**	**1,648**	**–**	**(9,728)**

46. Risk management (continued)

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

Group 2013 HRK millions	Non-interest bearing	Less than 1 month	1 – 3 months	3 – 12 months	Over 12 months	Total	Fixed inerest 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	2,087	23,812	3,585
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	420	–	–	–	–	420	–
Total assets	**6,619**	**23,424**	**1,335**	**2,144**	**2,630**	**36,152**	**8,170**
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	**(2,278)**	**3,641**	**(2,547)**	**(464)**	**1,648**	**–**	**(9,728)**
Interest rate gap (2012)	**(2,143)**	**10,522**	**(5,058)**	**(5,176)**	**1,855**	**–**	**(10,277)**

46. Risk management (continued)

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

Bank 2014 HRK millions	Non-interest bearing	Less than 1 month	1 – 3 months	3 – 12 months	Over 12 months	Total	Fixed inerest rates
Assets							
Cash and amounts due from banks	1,834	–	–	–	–	1,834	–
Obligatory reserve with the Croatian National Bank	1,963	–	–	–	–	1,963	–
Financial assets at fair value through profit or loss	128	1,785	472	284	–	2,669	2,210
Placements with and loans to other banks	481	862	–	–	118	1,461	980
Financial assets available for sale	105	–	915	658	1,405	3,083	1,942
Loans and advances to customers	43	14,308	129	506	4,049	19,035	4,848
Investment in subsidiaries	366	–	–	–	–	366	–
Property, plant and equipment	428	–	–	–	–	428	–
Intangible assets	186	–	–	–	–	186	–
Deferred tax assets	146	–	–	–	–	146	–
Other assets	248	–	–	–	–	248	–
Total assets	**5,928**	**16,955**	**1,516**	**1,448**	**5,572**	**31,419**	**9,980**
Liabilities and equity							
Financial liabilities at fair value through profit or loss	250	–	–	–	–	250	–
Deposits from banks	260	26	18	–	–	304	43
Deposits from companies and other similar entities	6,501	1,407	308	556	168	8,940	1,501
Deposits from individuals	109	3,702	2,591	6,128	1,228	13,758	9,982
Borrowings	3	701	441	649	657	2,451	1,521
Provisions for liabilities and charges	170	–	–	–	–	170	–
Other liabilities	255	–	–	–	–	255	–
Subordinated liabilities	4	–	–	460	–	464	–
Equity	4,827	–	–	–	–	4,827	–
Total liabilities and equity	**12,379**	**5,836**	**3,358**	**7,793**	**2,053**	**31,419**	**13,047**
Interest rate gap	**(6,451)**	**11,119**	**(1,842)**	**(6,345)**	**3,519**	**–**	**(3,067)**
Interest rate gap (2013)	**(2,179)**	**18,405**	**(2,463)**	**(348)**	**1,760**	**–**	**(9,972)**

46. Risk management (continued)

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 inerest 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)	**(2,425)**	**10,122**	**(5,290)**	**(4,714)**	**2,307**	**–**	**(9,856)**

46. Risk management (continued)

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 2014 HRK millions	Less than 1 month %	1-3 months %	3-12 months %	Over 12 months %
Assets				
Financial assets at fair value through profit or loss	2.23	1.06	6.09	6.13
Placements with and loans to other banks	(0.04)	1.40	–	–
Financial assets available for sale	–	–	0.10	3.29
Loans and advances to customers	7.19	5.22	5.78	5.55
Financial investments held to maturity	–	–	–	2.42
Liabilities				
Deposits from banks	0.45	0.05	–	–
Deposits from companies and other similar entities	0.27	1.09	1.61	2.51
Deposits from individuals	0.92	2.01	2.16	2.65
Borrowings	1.28	1.52	0.92	2.55
Subordinated liabilities	–	–	6.85	–

Group 2013 HRK millions	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

46. Risk management (continued)

Bank 2014 HRK millions	Less than 1 month %	1-3 months %	3-12 months %	Over 12 months %
Assets				
Financial assets at fair value through profit or loss	2.23	1.06	6.13	–
Placements with and loans to other banks	(0.04)	–	–	3.32
Financial assets available for sale	7.42	5.55	5.74	5.50
Loans and advances to customers	–	1.15	0.06	2.84
Liabilities				
Deposits from banks	0.45	0.05	–	–
Deposits from companies and other similar entities	0.20	1.10	1.56	2.51
Deposits from individuals	0.76	1.99	2.13	2.42
Borrowings	0.78	1.27	1.03	2.50
Subordinated liabilities	–	–	6.85	–

Bank 2013 HRK millions	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

46. Risk management (continued)

Interest rate risk(continued)

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 2014 and 2013:

BPV/Currency	EUR	USD	HRK
31 December 2014	**7,019.7**	**–**	**(10,614.5)**
Average	(7,575.1)	(131.8)	(14,518.1)
Minimum	(21,362.8)	(1,883.3)	(21,362.8)
Maximum	11,099.4	821.9	(9,538.0)

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

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 2014 and 2013:

BPV/Currency	HRK	EUR	USD	CHF
31 December 2014	(41,294.2)	(62,395.4)	(8,464.5)	(24,965.8)
Average	(47,514.3)	(39,870.1)	(3,237.3)	(33,049.5)
Minimum	(82,179.7)	(68,900.5)	(11,833.1)	(53,132.5)
Maximum	(32,129.2)	(12,501.5)	77.1	(24,937.9)

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

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.

46. Risk management (continued)

Interest rate risk in banking book (continued)

	31 December 2014	31 December 2013
CHF	228,530	77,870
EUR	55,710	33,277
HRK	66,829	82,006
Other	(7,283)	(10,805)
Total	**343,786**	**182,348**
%	7.2%	3.9%

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 92 thousands million (2013: HRK 7 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.

46. Risk management (continued)

Currency analysis

Group 2014 HRK millions	EUR	EUR linked	CHF	CHF linked	Other foreign currencies	Total foreign currencies	Domestic currency	Total currencies
Assets								
Cash and amounts due from banks	58	–	20	–	59	137	1,697	1,834
Obligatory reserve with the Croatian National Bank	264	–	–	–	–	264	1,699	1,963
Financial assets at fair value through profit or loss	1,602	436	3	–	146	2,187	708	2,895
Placements with and loans to other banks	757	18	–	–	170	945	483	1,428
Financial assets available for sale	2,134	541	–	–	343	3,018	310	3,328
Loans and advances to customers	2,970	10,119	74	1,918	46	15,127	6,653	21,780
Financial investments held to maturity	11	247	–	–	–	258	153	411
Property, plant and equipment	–	–	–	–	–	–	1,517	1,517
Intangible assets	–	–	–	–	–	–	194	194
Deferred tax assets	–	–	–	–	–	–	156	156
Other assets	8	9	–	–	21	38	343	381
Total assets	**7,804**	**11,370**	**97**	**1,918**	**785**	**21,974**	**13,913**	**35,887**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	76	–	144	–	11	231	19	250
Deposits from banks	63	–	5	–	15	83	219	302
Deposits from companies and other similar entities	2,167	79	20	–	577	2,843	5,631	8,474
Deposits from individuals	9,763	1,212	302	–	1,348	12,625	2,428	15,053
Borrowings	3,533	722	–	–	–	4,255	1,090	5,345
Provisions for liabilities and charges	30	1	–	–	3	34	148	182
Other liabilities	29	12	–	–	–	41	659	700
Subordinated liability	464	–	–	–	–	464	–	464
Total equity attributable to the equity holders of the parent	–	–	–	–	–	–	5,052	5,052
Non-controlling interest	–	–	–	–	–	–	65	65
Total equity and liabilities	**16,125**	**2,026**	**471**	**–**	**1,954**	**20,576**	**15,311**	**35,887**
Currency gap	**(8,321)**	**9,344**	**(374)**	**1,918**	**(1,169)**	**1,398**	**(1,398)**	**–**
Currency gap (2013)	**(8,193)**	**10,386**	**(700)**	**2,098**	**(1,288)**	**2,303**	**(2,303)**	**–**

46. Risk management (continued)

Currency analysis (continued)

Group 2013 HRK millions	EUR	EUR linked	CHF	CHF linked	Other foreign currencies	Total foreign currencies	Domestic currency	Total currencies
Assets								
Cash and amounts due from banks	158	–	36	–	75	269	1,543	1,812
Obligatory reserve with the Croatian National Bank	305	–	–	–	–	305	1,728	2,033
Financial assets at fair value through profit or loss	2,149	483	48	–	92	2,772	838	3,610
Placements with and loans to other banks	770	–	–	–	56	826	796	1,622
Financial assets available for sale	14	59	–	–	–	73	12	85
Loans and advances to customers	4,643	10,284	78	2,098	113	17,216	6,596	23,812
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	1	–	1	14	406	420
Total assets	**8,057**	**11,550**	**163**	**2,098**	**337**	**22,205**	**13,947**	**36,152**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	65	–	528	–	11	604	47	651
Deposits from banks	158	–	–	–	6	164	379	543
Deposits from companies and other similar entities	1,570	84	7	–	328	1,989	5,664	7,653
Deposits from individuals	10,279	8	327	–	1,274	11,888	2,131	14,019
Borrowings	4,120	783	–	–	–	4,903	2,020	6,923
Provisions for liabilities and charges	26	1	–	–	2	29	143	172
Other liabilities	32	287	1	–	5	325	337	662
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**	**863**	**–**	**1,625**	**19,902**	**16,250**	**36,152**
Currency gap	**(8,193)**	**10,386**	**(700)**	**2,098**	**(1,288)**	**2,303**	**(2,303)**	**–**
Currency gap (2012)	**(9,989)**	**10,640**	**(1,015)**	**2,528**	**(1,560)**	**604**	**(604)**	**–**

46. Risk management (continued)

Currency analysis (continued)

Bank 2014 HRK millions	EUR	EUR linked	CHF	CHF linked	Other foreign currencies	Total foreign currencies	Domestic currency	Total currencies
Assets								
Cash and amounts due from banks	58	–	20	–	59	137	1,697	1,834
Obligatory reserve with the Croatian National Bank	264	–	–	–	–	264	1,699	1,963
Financial assets at fair value through profit or loss	1,614	242	3	–	146	2,005	664	2,668
Placements with and loans to other banks	772	–	–	–	170	942	519	1,462
Financial assets available for sale	2,119	318	–	–	343	2,780	303	3,083
Loans and advances to customers	2,970	7,554	74	1,918	44	12,560	6,475	19,035
Investment in subsidiaries	–	–	–	–	–	–	366	366
Property, plant and equipment	–	–	–	–	–	–	428	428
Intangible assets	–	–	–	–	–	–	186	186
Deferred tax assets	–	–	–	–	–	–	146	146
Other assets	8	–	–	–	1	9	239	248
Total assets	**7,805**	**8,114**	**97**	**1,918**	**763**	**18,697**	**12,722**	**31,419**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	76	–	144	–	11	231	19	250
Deposits from banks	63	–	5	–	15	83	221	304
Deposits from companies and other similar entities	2,519	–	20	–	577	3,116	5,824	8,940
Deposits from individuals	9,763	6	302	–	1,348	11,419	2,339	13,758
Borrowings	564	721	–	–	–	1,286	1,166	2,451
Provisions for liabilities and charges	30	1	–	–	3	34	136	170
Other liabilities	29	6	–	–	–	35	220	255
Subordinated liability	464	–	–	–	–	464	–	464
Equity	–	–	–	–	–	–	4,827	4,827
Total liabilities and equity	**13,508**	**734**	**471**	**–**	**1,954**	**16,667**	**14,752**	**31,419**
Currency gap	**(5,703)**	**7,380**	**(374)**	**1,918**	**(1,191)**	**2,030**	**(2,030)**	**–**
Currency gap (2013)	**(5,525)**	**8,641**	**(700)**	**2,098**	**(1,320)**	**3,194**	**(3,194)**	**–**

46. Risk management (continued)

Currency analysis (continued)

Bank 2013 HRK millions	EUR	EUR linked	CHF	CHF linked	Other foreign currencies	Total foreign currencies	Domestic currency	Total currencies
Assets								
Cash and amounts due from banks	121	–	36	–	75	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	48	–	92	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	78	2,098	80	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	–	1	–	1	22	348	370
Total assets	**8,029**	**9,442**	**163**	**2,098**	**304**	**20,036**	**12,969**	**33,005**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	66	–	528	–	11	605	47	652
Deposits from banks	158	–	–	–	6	164	379	543
Deposits from companies and other similar entities	1,706	–	7	–	328	2,041	5,854	7,895
Deposits from individuals	10,279	9	327	–	1,274	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	1	–	4	44	259	303
Equity	–	–	–	–	–	–	5,343	5,343
Total liabilities and equity	**13,554**	**801**	**863**	**–**	**1,624**	**16,842**	**16,163**	**33,005**
Currency gap	**(5,525)**	**8,641**	**(700)**	**2,098**	**(1,320)**	**3,194**	**(3,194)**	**–**
Currency gap (2012)	**(7,467)**	**9,034**	**(993)**	**2,528**	**(1,623)**	**1,479**	**(1,479)**	**–**

46. 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.

46. 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.

47. 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.

47. 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 2014 and 2013:

Group HRK millions	Carrying amount	Fair value	2014 Unrecognised estimated gains/(losses)	Carrying amount	Fair value	2013 Unrecognised estimated gains/(losses)
Cash and amounts due from banks	1,834	1,834	–	1,812	1,812	–
Obligatory reserve with the Croatian National Bank	1,963	1,963	–	2,033	2,033	–
Financial assets at fair value through profit or loss	2,895	2,895	–	3,610	3,610	–
Placements with and loans to other banks	1,428	1,422	(6)	1,622	1,573	(49)
Financial assets available for sale	3,328	3,328	–	85	85	–
Loans and advances to customers	21,780	21,741	(39)	23,812	23,802	(10)
Financial investments held to maturity	411	478	67	795	792	(3)
Financial liabilities at fair value through profit or loss	(250)	(250)	–	(651)	(651)	–
Deposits from banks	(302)	(302)	–	(543)	(543)	–
Deposits from companies and other similar entities	(8,474)	(8,451)	23	(7,653)	(7,644)	9
Deposits from individuals	(15,053)	(14,937)	116	(14,019)	(13,992)	27
Borrowings	(5,345)	(5,316)	29	(6,923)	(6,882)	41
Subordinated liabilities	(464)	(464)	–	–	–	–
Total			**190**			**15**

47. Fair value of financial instruments (continued)

Bank			2014			2013
HRK millions	Carrying amount	Fair value	Unrecognised estimated gains/(losses)	Carrying amount	Fair value	Unrecognised estimated gains/(losses)
Cash and amounts – due from banks	1,834	1,834	–	1,775	1,775	–
Obligatory reserve with the Croatian National Bank	1,963	1,963	–	2,033	2,033	–
Financial assets at fair value through profit or loss	2,669	2,669	–	3,518	3,518	–
Placements with and loans to other banks	1,461	1,455	(6)	1,453	1,404	(49)
Financial assets available for sale	3,083	3,083	–	6	6	–
Loans and advances to customers	19,035	19,167	132	22,090	22,092	2
Financial investments held-to-maturity	–	–	–	617	616	(1)
Financial liabilities at fair value through profit or loss	(250)	(250)	–	(652)	(652)	–
Deposits from banks	(304)	(304)	–	(543)	(543)	–
Deposits from companies and other similar entities	(8,940)	(8,917)	23	(7,895)	(7,886)	9
Deposits from individuals	(13,758)	(13,728)	30	(14,019)	(13,992)	27
Borrowings	(2,451)	(2,422)	29	(4,091)	(4,050)	41
Subordinated liabilities	(464)	(464)	–	–	–	–
Total			208			29

47. 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				2014				2013
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	1,562	223	–	1,785	1,948	667	–	2,615
– Equity instruments	7	–	2	9	7	–	2	9
– Derivative financial assets	–	88	–	88	–	55	–	55
Financial assets designated at fair value through profit or loss								
– Debt securities	852	126	3	981	251	644	4	899
– Investments in investments fund managed	11	–	–	11	4	–	–	4
Financial assets available for sale								
– Debt securities	3,291	4	–	3,295	72	6		78
– Equity securities	–	1	5	6	–	1	5	6
Total	5,723	442	10	6,175	2,282	1,373	11	3,666
Financial liabilities at fair value through profit or loss								
– Derivative financial liabilities	–	(247)	–	(247)	–	(645)	–	(645)
Total	–	(247)	–	(247)	–	(645)	–	(645)

47. Fair value of financial instruments (continued)

Bank				2014				2013
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	1,562	223	–	1,785	1,948	667	–	2,615
– Equity instruments	7	–	2	9	7	–	2	9
– Derivative financial assets	–	100	–	100	–	62	–	62
Financial assets designated at fair value through profit or loss								
– Debt securities	627	126	3	756	158	644	4	806
Financial assets available for sale								
– Debt securities	3,055	–	–	3,055	–	–	–	–
– Equity securities	–	1	5	6	–	1	5	6
Total	5,251	450	10	5,711	2,113	1,374	11	3,498
Financial liabilities at fair value through profit or loss								
– Derivative financial liabilities	–	(247)	–	(247)	–	(646)	–	(646)
Total	–	(247)	–	(247)	–	(646)	–	(646)

47. 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
At 1 January 2013	**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**	**–**
Disposals in financial year	–	(1)	–	–
At 31 December 2014	**2**	**3**	**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
At 1 January 2013	**5**	**49**	**4**
Unrealised gain and loss in profit or loss	–	(31)	–
Gains and losses in other comprehensive income	–	–	1
Disposals in the financial year	(3)	(15)	–
Transfer into Level 3	–	1	–
At 31 December 2013	**2**	**4**	**5**
Disposals in the financial year	–	(1)	–
At 31 December 2014	**2**	**3**	**5**

47. Fair value of financial instruments (continued)

Group		Fair value 2014	Fair value 2013	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 73 million Liabilities HRK 171 million	Assets HRK 36 million Liabilities HRK 583 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 15 million Liabilities HRK 70 million	Assets HRK 18 million Liabilities HRK 63 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 1,247 million Liabilities –	Assets HRK 917 million Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Domestic and foreign government bonds	Assets – 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 foreign governmnet	Assets – Liabilities –	Assets HRK 267 million Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Bonds issued by banks	Assets HRK 197 million Liabilities –	Assets HRK 856 million Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Securities issued by companies	Assets HRK 156 million Liabilities –	Assets HRK 159 million Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Securities issued by companies	Assets HRK 144 million Liabilities -	Assets HRK 171 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 3 million Liabilities –	Assets HRK 4 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.

47. Fair value of financial instruments (continued)

Group		Fair value 2014	Fair value 2013	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 18 million Liabilities –	Assets HRK 12 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 Ministry of Finance	Assets HRK 1,001 million Liabilities –	Assets HRK 1,128 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 7 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 2 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 11 million Liabilities –	Assets HRK 4 million 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 HRK 1 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
	Equity securities	Assets HRK 5 million Liabilities –	Assets HRK 5 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.
	Domestic and foreign government bonds	Assets HRK 2,537 million Liabilities –	Assets HRK 72 million Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Securities issued by companies	Assets HRK 4 million Liabilities –	Assets HRK 5 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 5 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.
	Bonds issued by banks	Assets HRK 341million Liabilities –	Assets – Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Treasury bills issued by foreign government	Assets HRK 398 million Liabilities –	Assets – Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Treasury bills issued by Ministry of Finance	Assets HRK 15 million Liabilities –	Assets – Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable

47. Fair value of financial instruments (continued)

Bank		Fair value 2014	Fair value 2013	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 74 million Liabilities HRK 170 million	Assets HRK 37 million Liabilities HRK 583 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 26 million Liabilities HRK 71 million	Assets HRK 25 million Liabilities HRK 63 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 1,023 million Liabilities –	Assets HRK 825 million Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Treasury bills issued by foreign government	Assets – Liabilities –	Assets HRK 267 million Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Bonds issued by banks	Assets HRK 197 million Liabilities –	Assets HRK 856 million iabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Securities issued by companies	Assets HRK 155 million Liabilities –	Assets HRK 158 million Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Securities issued by companies	Assets HRK 144 million Liabilities –	Assets HRK 171 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 3 million Liabilities –	Assets HRK 4 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 18 million Liabilities –	Assets HRK 12 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 Ministry of Finance	Assets HRK 1,001 million Liabilities –	ssets HRK 1,128 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

47. Fair value of financial instruments (continued)

Bank		Fair value 2014	Fair value 2013	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 7 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 2 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) Financial assets available for sale (note 9)	Domestic and foreign government bonds	Assets HRK 2,316 million Liabilities –	Assets – Liabilities –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Bonds issued by banks	Assets HRK 341million Liabilities –	Assets – Liabilities –		Quoted bid prices in an active market	Not applicable	Not applicable
	Treasury bills issued by foreign government	Assets HRK 398million Liabilities –	Assets – Liabilities –		Quoted bid prices in an active market	Not applicable	Not applicable
	Equity securities	Assets HRK 1 million Liabilities –	Assets HRK 1 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
	Equity securities	Assets HRK 5 million Liabilities –	Assets HRK 5 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.

48. Capital management

From 1st January 2014 credit institutions are obliged to calculate and report prudential requirements according to Capital Requirements Regulation (EU) No 575/2013 ("CRR"), Directive 2013/36/EU (CRD IV"), technical standards and other relevant regulations prescribed by European Authority ("EBA") and local regulator CNB.

The Group's and the Bank's regulatory capital requirements are based of Basel III for the year 2014 and Basel II for the year 2013.

Group, in accordance with the regulatory requirements of CNB and EBA regulations, comprises Raiffeisenbank Austria and its subsidiaries that form group of credit institutions. Scope of prudential consolidation has changed and comparatives was not restated. For the purpose of regulatory capital calculation, in the year 2014 the Group consist of: Raiffeisenbank Austria d.d, Raiffeisen stambena štedionica d.d., Raiffeisen leasing d.o.o., Raiffeisen consulting d.o.o., Raiffeisen factoring d.o.o., Raiffeisen Invest d.o.o. and Raiffeisen bonus d.o.o. For the year 2013 the Group additionaly comprised Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.d. and Raiffeisen mirovinsko društvo za upravljanje dobrovoljnim mirovinskim fondovima d.o.o..

Regualtory capital consist of Common Equity Tier 1 ("CET1") capital and Tier 2 ("T2") capital. CET1 include ordinariy shares and related share premium, retained earnings, reserves, deductions for intangible assets, unrealised fair value losses on financial instruments designated at available for sale portfolio and value adjustment for prudent valuations. T2 capital includes qualifying subordinated liabilities.

Prescribed minimal capital ratios (Article 92 CRR) are:

- Common Equity Tier 1 capital ratio of 4.5% of the total risk exposure amount
- Tier 1 capital ratio of 6% of the total risk exposure amount
- Total capital ratio of 8% of the total risk exposure amount.

For the year end 2013 the capital ratio was 12% of the total risk exposure amount.

Additionally in accordance to Article 129 and 133 of CRD IV and article 117 and 130 of CNB Credit institutions Act, the Group and the Bank are obliged to maintain capital buffers:

- Capital conservation buffer of 2.5% of the total risk exposure amount
- Systemic risk buffer in the amount of 3% of the total risk exposure amount.

48. Capital management (continued)

HRK millions	Group 2014 Basel III	Group 2013 Basel II	Bank 2014 Basel III	Bank 2013 Basel II
Regulatory capital				
Tier 1 capital				
Common Equity Tier 1 ("CET1") capital				
Issued share capital	3,621	3,621	3,621	3,621
Share premium	12	12	12	12
Retained earnings (excluding profit for the period)	804	1,262	728	1,188
Net profit for the period	–	31	–	–
Legal, statutory and other reserves	173	178	173	173
Non controlling interest recognition in CET1	65	62	–	–
Deductions, in accordance with the CNB regulations				
Intangible assets	(212)	(98)	(205)	(98)
Value adjustment due to prudent valuations	(6)	–	(6)	–
Unrealised fair value losses on financial instruments designated at available for sale portfolio	(9)	–	(9)	–
Total Common Equity Tier 1 capital / Tier 1 capital	4,448	5,068	4,314	4,896
Tier 2 capital	460	–	460	–
Deductions for investments in banks and financial institutions	(23)	(65)	(23)	(321)
Total Own Funds	4,885	5,003	4,751	4,575
Total risk-weighted assets	25,891	28,324	22,276	24,424
Capital adequancy ratio	18.87%	17.66%	21.33%	18.73%

49. Subsequent events

At the beginning of the year 2015, Swiss National Bank has abondened minimum exchange rate of CHF against EUR, which led to high increase in HRK/CHF exchange rate. In an effort to protect borrowers with the loans related to the CHF exchange rate, the Government has proposed to the Croatian Parliament changes of the Consumer Credit Act and Credit Institutions Act. The result of changes is administrative fixed HRK/CHF exchange rate of 6.39, which should be applied to the calculation of the HRK equivalent of regular repayments for loans indexed to CHF maturing in the year 2015 for private individuals.

Due to repayment obligation in CHF at the market exchange rate and the recognition of the assets by the administrative exchange rate the bank has made a loss of EUR 4.5 million realized in January 2015. This had no impact whatsoever on the financial statements of the Bank and the Group for year 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	2014	2013
Unaudited		
1. Interest income	1,728	1,845
2. (Interest expenses)	(597)	(695)
3. Net interest income	**1,131**	**1,150**
4. Commission and fee income	629	579
5. (Commission and fee expenses)	(201)	(188)
6. Net commission and fee income	**428**	**391**
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	–	–
8. Gain/(loss) from trading activities	239	67
9. Gain/(loss) from embedded derivatives	6	–
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss	14	(48)
11. Gain/(loss) from financial assets available for sale	14	–
12. Gain/(loss) from financial assets held to maturity	9	13
13. Gain/(loss) from hedging transactions	(6)	–
14. Income from investments in subsidiaries, affiliated companies and joint ventures	–	–
15. Income from other equity investments	–	–
16. Gain/(loss) from foreign exchange differences	(69)	134
17. Other income	378	401
18. Other expenses	(59)	(82)
19. General and administrative expenses, depreciation and amortization	(1,209)	(1,163)
20. Net income before value adjustments and provisions for losses	**876**	**863**
21. Expenses from value adjustments and provisions for losses	(411)	(479)
22. Profit/(loss) before tax	**465**	**384**
23. Income tax	(101)	(89)
24. Current year profit/(loss)	**364**	**339**
25. Earnings per share	HRK 100	HRK 85

Appendix to the Income Statement

	2014	2013
Current year profit/(loss)	364	295
Distributable to the parent company shareholders	361	309
Minority participation	3	(14)

Regulatory forms requested by the Croatian National Bank (continued)

Consolidated Balance Sheet

HRK millions	2014	2013
Unaudited		
Assets		
1. Cash and deposits with CNB	4,103	4,026
1.1. Cash	571	622
1.2. Deposits with CNB	3,532	3,404
2. Deposits with banking institutions	982	1,071
3. Treasury bills of Ministry of Finance and treasury bills of CNB	264	438
4. Securities and other financial instruments held for trading	1,617	2,264
5. Securities and other financial instruments available for sale	3,287	83
6. Securities and other financial instruments held to maturity	342	780
7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	983	826
8. Derivative financial assets	94	54
9. Loans to financial institutions	208	457
10. Loans to other clients	21,590	23,619
11. Investments in subsidiaries, affiliated companies and joint ventures	–	–
12. Repossessed assets	83	120
13. Tangible and intangible assets (minus depreciation and amortisation)	1,755	1,798
14. Interests, fees and other assets	589	644
A. Total assets	**35,897**	**36,180**
Liabilities and equity		
1. Borrowings from financial institutions	3,446	3,415
1.1. Short-term borrowings	2,255	411
1.2. Long-term borrowings	1,191	3,004
2. Deposits	23,437	21,904
2.1. Deposits on giro-accounts and current accounts	5,983	5,827
2.2. Savings deposits	3,958	3,069
2.3. Term deposits	13,496	13,008
3. Other borrowings	1,890	3,480
3.1. Short-term borrowings	379	1,200
3.2. Long-term borrowings	1,511	2,280
4. Derivative financial liabilities and other trading financial liabilities	247	645
5. Issued debt securities	–	–
5.1. Issued short-term debt securities	–	–
5.2. Issued long-term debt securities	–	–
6. Issued subordinated instruments	460	–
7. Issued subordinated debt	–	–
8. Interests, fees and other liabilities	1,300	1,207
B. Total liabilities	**30,780**	**30,651**

Regulatory forms requested by the Croatian National Bank (continued)

Consolidated Balance Sheet (continued)

HRK millions	2014	2013
Unaudited		
Equity		
1. Share capital	3,633	3,633
2.Minority participation	65	62
3 Current year gain/loss	361	309
4. Retained earnings/(loss)	862	1,336
5. Legal reserves	178	178
6. Statutory and other capital reserves	1	1
7. Unrealised gain/(loss) from available for sale fair value adjustment	17	10
C. Total equity	**5,117**	**5,529**
D. Total liabilities and equity	**35,897**	**36,180**

Appendix to the Income Statement

	2014	2013
Total equity	5,117	5,529
Equity distributable to parent company shareholders	5,052	5,467
Minority participation	65	62

Regulatory forms requested by the Croatian National Bank (continued)

Consolidated Cash Flow Statement

HRK millions	2014	2013
Operating activities		
1.1. Gain/(loss) before tax	465	384
1.2. Value adjustments and provisions for losses	411	479
1.3. Depreciation and amortization	200	220
1.4. Net unrealised (gain)/loss from financial assets and liabilities at fair value through profit and loss	(433)	123
1.5. Gain/(loss) from tangible assets sale	–	–
1.6. Other (gains)/losses	(1,104)	(1,360)
1. Operating cash flow before operating assets movements	**(461)**	**(154)**
2.1. Deposits with CNB	67	100
2.2. Treasury bills of Ministry of Finance and treasury bills of CNB	174	390
2.3. Deposits with banking institutions and loans to financial institutions	308	171
2.4. Loans to other clients	1,545	449
2.5. Securities and other financial instruments held for trading	634	(744)
2.6. Securities and other financial instruments available for sale	(3,233)	14
2.7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	(157)	815
2.8. Other operating assets	2,178	1.896
2. Net (increase)/decrease in operating assets	**1,516**	**3,091**
Increase/(decrease) in operating liabilities		
3.1. Demand deposits	156	610
3.2. Savings and term deposits	1,450	(1,189)
3.3. Derivative financial liabilities and other trading liabilities	(399)	(380)
3.4. Other liabilities	(459)	(503)
3. Net increase/(decrease) in operating liabilities	**748**	**(2,162)**
4. Net cash flow form operating activities before profit tax paying	**1,803**	**775**
5. Paid profit tax	(80)	(124)
6. Net inflows/(outflows) of cash from operating activities	**1,723**	**651**
Investing activities		
7.1. Receipts from sale/(payments for purchasing) tangible and intangible assets	(165)	(309)
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	446	(9)
7.4. Received dividends	–	–
7.5. Other receipts/(payments) form investment activities	–	24
7. Net cash flow from investing activities	**281**	**(294)**

Regulatory forms requested by the Croatian National Bank (continued)

Consolidated Cash Flow Statement (continued)

HRK millions	2014	2013
Financial activities		
8.1. Net increase/(decrease) in borrowings	(1,548)	(821)
8.2. Net increase/(decrease) in issued debt securities	–	–
8.3. Net increase/(decrease) in subordinated and subordinated debt	460	–
8.4. Receipts from issued share capital	–	–
8.5. (Dividends paid)	(805)	(367)
8.6. Other receipts/(payments) from financial activities	–	–
8. Net cash flow from financial activities	(1,893)	(1,188)
9. Net increase/(decrease) in cash and cash equivalents	111	(831)
10. Effects from foreign exchange rates changes on cash and cash equivalents	18	(12)
11. Net increase/(decrease) in cash and cash equivalents	129	(843)
12. Cash and cash equivalents at the beginning of the year	2,701	3,544
13. Cash and cash equivalents at the end of the year	2,830	2,701

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 2014	**3,633**	**–**	**179**	**1,645**	**–**	**10**	**62**	**5,529**
2. Changes of Accounting policies and error corrections	–	–	–	–	–	–	–	–
3. Restated current year balance	**3,633**	**–**	**179**	**1,645**	**–**	**10**	**62**	**5,529**
4. Sale of financial assets available for sale	–	–	–	–	–	–	–	–
5. Fair value changes of financial assets available for sale	–	–	–	–	–	7	–	7
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	**–**	**–**	**–**	**–**	**–**	**7**	**–**	**7**
9. Current year gain/(loss)	–	–	–	–	361	–	3	364
10. Total income and expenses recognised for the current year	**–**	**–**	**–**	**–**	**361**	**–**	**3**	**364**
11. Increase/(decrease) in share capital	–	–	–	–	–	–	–	–
12. Buying/(sale) of treasury shares	–	–	–	–	–	–	–	–
13. Other changes	–	–	–	22	–	–	–	22
14. Transfer to reserves	–	–	–	–	–	–	–	–
15. Dividends paid	–	–	–	(805)	–	–	–	(805)
16. Distribution of profit	**–**	**–**	**–**	**(783)**	**–**	**–**	**(4)**	**(374)**
17. Balance at 31 December 2014	**3,633**	**–**	**179**	**862**	**361**	**17**	**65**	**5,117**

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 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)

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 2014 and 2013:

HRK millions	2014 Croatian National Bank decision	2014 Accounting Requirements for banks in Croatia	2014 Difference	2013 Croatian National Bank decision	2013 Accounting Requirements for banks in Croatia	2013 Difference
Interest and interest similar income	1,728	1,732	(4)	1,845	1,856	(11)
Interest and interest similar expenses	(597)	(550)	(47)	(695)	(653)	(42)
Net interest income	**1,131**	**1,182**	**(51)**	**1,150**	**1,203**	**(53)**
Commission and fee income	629	628	1	579	579	–
Commission and fee expenses	(201)	(240)	39	(188)	(229)	41
Net commission and fee income	**428**	**388**	**40**	**391**	**350**	**41**
Net trading gain	253	194	59	19	150	(131)
Gain/(loss) from financial assets available for sale	14	–	14	–	–	–
Gain/(loss) from financial investments held to maturity	9	–	9	13	–	13
Income from other equity investments	–	–	–	–	–	–
Net foreign exchange differences	(69)	–	(69)	134	–	134
Other operating income	378	371	7	401	381	20
Total other income	**585**	**565**	**20**	**567**	**531**	**36**
General and administrative expenses, depreciation and amortization	(1,209)	(1,263)	54	(1,163)	(1,208)	45
Expenses from value adjustments and provisions for losses	(411)	(407)	(4)	(479)	(492)	13
Other operating expenses	(59)	–	(59)	(82)	–	(82)
Total other expenses	**(1,679)**	**(1,670)**	**(9)**	**(1,724)**	**(1,700)**	**(24)**
Profit before tax	**465**	**465**	**–**	**384**	**384**	**–**
Income tax	(101)	(101)	–	(89)	(89)	–
Net profit for the year	**364**	**364**	**–**	**295**	**295**	**–**
Earnings per share (in HRK)	**HRK 100**	**HRK 100**	**–**	**HRK 85**	**HRK 85**	**–**

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.

Regulatory forms requested by the Croatian National Bank (continued)

Comparatives for the balance sheet at 31 December 2014 and 31 December 2013

HRK millions	2014 Croatian National Bank decision	2014 Accounting Requirements for banks in Croatia	2014 Difference	2013 Croatian National Bank decision	2013 Accounting Requirements for banks in Croatia	2013 Difference
Assets						
Cash and deposits with CNB	4,103	3,797	306	4,026	3,845	181
Treasury bills of Ministry of Finance and CNB	264	–	264	438	–	438
Financial assets at FVTPL	2,600	2,895	(295)	3,090	3,610	(520)
Financial investments held to maturity	342	411	(69)	780	795	(15)
Placements with and loans to other banks	982	1,428	(446)	1,071	1,622	(551)
Loans and receivables	21,798	21,780	18	24,076	23,844	232
Available for sale financial assets	3,287	3,328	(41)	83	85	(2)
Repossessed assets	83	–	83	120	–	120
PPE and intangible assets	1,755	1,711	44	1,798	1,746	52
Derivative financial assets	94	–	94	54	–	54
Deferred tax assets	–	156	(156)	–	217	(217)
Other assets	589	381	208	644	388	256
Total assets	**35,897**	**35,887**	**10**	**36,180**	**36,152**	**28**
Liabilities						
Due to other banks and deposits from customers	28,773	29,174	(401)	28,799	29,138	(339)
Long-term issued debt securities	–	–	–	–	–	–
Provisions for liabilities and charges	–	182	(182)	–	172	(172)
Derivative financial liabilities and other trading financial liabilities	247	250	(3)	645	651	(6)
Other liabilities	1,300	700	600	1,207	662	545
Total liabilities	**30,320**	**30,306**	**14**	**30,651**	**33,623**	**28**
Subordinated debt	460	464	(4)	–	–	–
Equity						
Share capital	3,633	3,633	–	3,633	3,633	–
Net profit for the year	361	361	–	309	309	–
Retained earnings/(loss carried forward)	862	862	–	1,336	1,336	–
Hedging reserve	–	–	–	–	–	–
Unrealised gain/(loss) from available for sale fair value adjustment	17	17	–	10	10	–
Reserves	179	179	–	179	179	–
Total equity	**5,052**	**5,052**	**–**	**5,467**	**5,467**	**–**
Total liabilities and equity	**35,832**	**35,822**	**10**	**36,118**	**36,090**	**28**

Regulatory forms requested by the Croatian National Bank (continued)

The difference in total assets and total liabilities of HRK 10 million as of 31 December 2014 (2013: HRK 28 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 2014	31 December 2013
1 EUR = HRK 7.661471	1 EUR = HRK 7.637643
1 USD = HRK 6.302107	1 USD = HRK 5.549000

Consolidated statement of financial position as of 31 December 2013

Group	2014 EUR millions	2014 USD millions	2013 EUR millions	2013 USD millions
Assets				
Cash and amounts due from banks	239	291	237	327
Obligatory reserve with the Croatian National Bank	256	311	266	366
Financial assets at fair value through profit or loss	378	459	473	651
Placements with and loans to other banks	187	227	212	292
Financial assets available for sale	434	528	11	15
Loans and advances to customers	2,843	3,456	3,122	4,297
Financial investments held to maturity	54	65	104	143
Property, plant and equipment	198	241	203	280
Intangible assets	25	31	25	35
Deferred tax assets	20	25	29	39
Other assets	50	60	51	70
Total assets	**4,684**	**5,694**	**4,733**	**6,515**

Group	2014 EUR millions	2014 USD millions	2013 EUR millions	2013 USD millions
Liabilities				
Financial liabilities at fair value through profit or loss	32	40	85	117
Deposits from banks	39	48	71	98
Deposits from companies and other similar entities	1,106	1,345	1,002	1,379
Deposits from individuals	1,965	2,388	1,836	2,527
Borrowings	698	848	906	1,248
Provisions for liabilities and charges	24	29	23	31
Other liabilities	91	111	87	119
Subordinated liabilities	61	74	–	–
Total liabilities	**4,016**	**4,883**	**4,010**	**5,519**
Equity				
Share capital	473	575	474	653
Share premium	2	2	2	2
Capital reserve	–	–	–	–
Legal reserve	23	28	23	32
Fair value reserve	2	2	1	2
Retained earnings	160	194	215	296
Total equity attributable to equity holders of the parent	**660**	**801**	**715**	**985**
Non-controlling interest	8	10	8	11
Total equity	**668**	**811**	**723**	**996**
Total liabilities and equity	**4,684**	**5,694**	**4,733**	**6,515**

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

Group	2014 EUR millions	2014 USD millions	2013 EUR millions	2013 USD millions
Interest income	226	275	243	335
Interest expense	(72)	(87)	(86)	(118)
Net interest income	**154**	**188**	**157**	**217**
Fee and commission income	82	100	76	104
Fee and commission expense	(31)	(38)	(30)	(41)
Net fee and commission income	**51**	**62**	**46**	**63**
Net trading income	25	31	20	27
Other operating income	48	59	50	69
Dealing and other income	**73**	**90**	**70**	**96**
Operating income	**278**	**340**	**273**	**376**
Operating expenses	(165)	(201)	(158)	(218)
Impairment losses on loans and advances to customers and other assets	(52)	(63)	(61)	(83)
Charge of impairment losses on provisions for liabilities and charges	(1)	(2)	(4)	(6)
Profit before tax	**60**	**74**	**50**	**69**
Income tax expense	(13)	(16)	(12)	(16)
Profit for the year	**47**	**58**	**38**	**53**
Other comprehensive income				
Net revaluation gain on available for sale financial instruments	1	1	–	1
Other comprehensive income for the year, net of tax	**1**	**1**	**–**	**1**
Total comprehensive income for the year	**48**	**59**	**38**	**54**
Profit attributable to:				
– Equity holders of the parent	47	57	40	56
– Non-controlling interest	–	1	(2)	(2)
Earnings per share attributable to the equity holders of the parent	**EUR 13**	**USD 16**	**EUR 11**	**USD 15**

Unconsolidated statement of financial position as of 31 December 2013

Bank	2014 EUR millions	2014 USD millions	2013 EUR millions	2013 USD millions
Assets				
Cash and amounts due from banks	239	291	232	320
Obligatory reserve with the Croatian National Bank	256	311	266	366
Financial assets at fair value through profit or loss	348	424	461	634
Placements with and loans to other banks	191	232	190	262
Financial assets available for sale	403	489	1	1
Loans and advances to customers	2,485	3,021	2,892	3,981
Financial investments held to maturity	–	–	81	111
Investments in subsidiaries	48	58	39	54
Property, plant and equipment	56	68	58	80
Intangible assets	24	30	25	34
Deferred tax assets	19	23	27	38
Other assets	33	39	49	67
Total assets	**4,102**	**4,986**	**4,321**	**5,948**

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

Bank	2014 EUR millions	2014 USD millions	2013 EUR millions	2013 USD millions
Liabilities				
Financial liabilities at fair value through profit or loss	32	40	85	118
Deposits from banks	40	48	71	98
Deposits from companies and other similar entities	1,167	1,418	1,034	1,423
Deposits from individuals	1,796	2,183	1,835	2,526
Borrowings	320	389	536	737
Provisions for liabilities and charges	22	27	21	29
Other liabilities	33	40	39	55
Subordinated liabilities	61	74	–	–
Total liabilities	**3,471**	**4,219**	**3,621**	**4,986**
Equity				
Share capital	473	575	474	653
Share premium	2	2	2	2
Capital reserve	–	–	–	–
Legal reserve	23	28	23	31
Fair value reserve	–	–	–	–
Retained earnings	133	162	201	276
Total equity	**631**	**767**	**700**	**962**
Total liabilities and equity	**4,102**	**4,986**	**4,321**	**5,948**

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

Bank	2014 EUR millions	2014 USD millions	2013 EUR millions	2013 USD millions
Interest income	198	241	224	309
Interest expense	(60)	(73)	(78)	(108)
Net interest income	**138**	**168**	**146**	**201**
Fee and commission income	67	81	62	86
Fee and commission expense	(27)	(32)	(26)	(35)
Net fee and commission income	**40**	**49**	**36**	**51**
Net trading income/(expense)	20	24	18	24
Other operating income	11	13	11	15
Dealing and other income	**31**	**37**	**29**	**39**
Operating income	**209**	**254**	**211**	**291**
Operating expenses	(111)	(135)	(109)	(150)
Impairment losses on loans and advances to customers and other assets	(49)	(60)	(55)	(76)
Charge of impairment losses on provisions for liabilities and charges	(1)	(2)	(4)	(6)
Profit before tax	**48**	**57**	**43**	**59**
Income tax expense	(9)	(11)	(7)	(9)
Profit for the year	**39**	**46**	**36**	**50**
Other comprehensive income				
Net value 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**	**45**	**36**	**50**
Earnings per share	**EUR 11**	**USD 13**	**EUR 10**	**USD 14**

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